
FACTORING: ENHANCING ACCESS TO FINANCING

**BARBADOS
4-5 NOVEMBER 2009**

CAPACITY BUILDING OBJECTIVES

- **Goals:**
 - **To assess the benefits of factoring**
 - **To become aware of the key issues**
 - **To return home with an action plan**

AGENDA

- **FIRST DAY: TECHNICAL**

- ❑ The role of trade credit
- ❑ Introduction to receivables discounting
- ❑ The nature of Factoring
- ❑ Barbados case study
- ❑ Mechanics of Factoring
- ❑ Regional legal issues
- ❑ Regional tax issues

- **SECOND DAY: BUILDING A PLAN**

- ❑ St. Lucia case study
- ❑ Breakout session 1: Groundwork & role of factoring in increasing sales
- ❑ Breakout session 2: Stakeholder's meetings
- ❑ Breakout session 3: Beginning to craft a plan

THE ROLE OF TRADE CREDIT

A career change...

Unless you receive cash
upon delivery of your
product or service...



...you are a financier.

The “No Trade Credit” Rationale

- **You are not a bank**
- **Hotels, restaurants paid immediately by customers**
 - **Credit card or cash payment**
- **Is this fair?**

Quick survey:

- Are sales lost or inhibited by payment terms?
- What terms do you receive?
- How does it differ by type of buyer (large v small hotel; restaurant v hotel, etc)

Estimates of how much sales effected?

The trade credit paradox

A key part of the customer relationship

**Financing your customers
not your raison d'être**

Generates revenue

Source of risk and write-offs

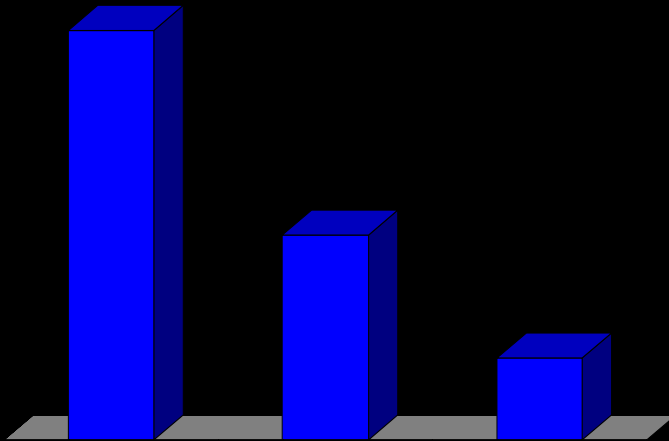
Significant resources devoted to assess and monitor customer credit

Does not help design, produce, deliver product

Attractions of trade credit: Straight-forward, easy, cheap

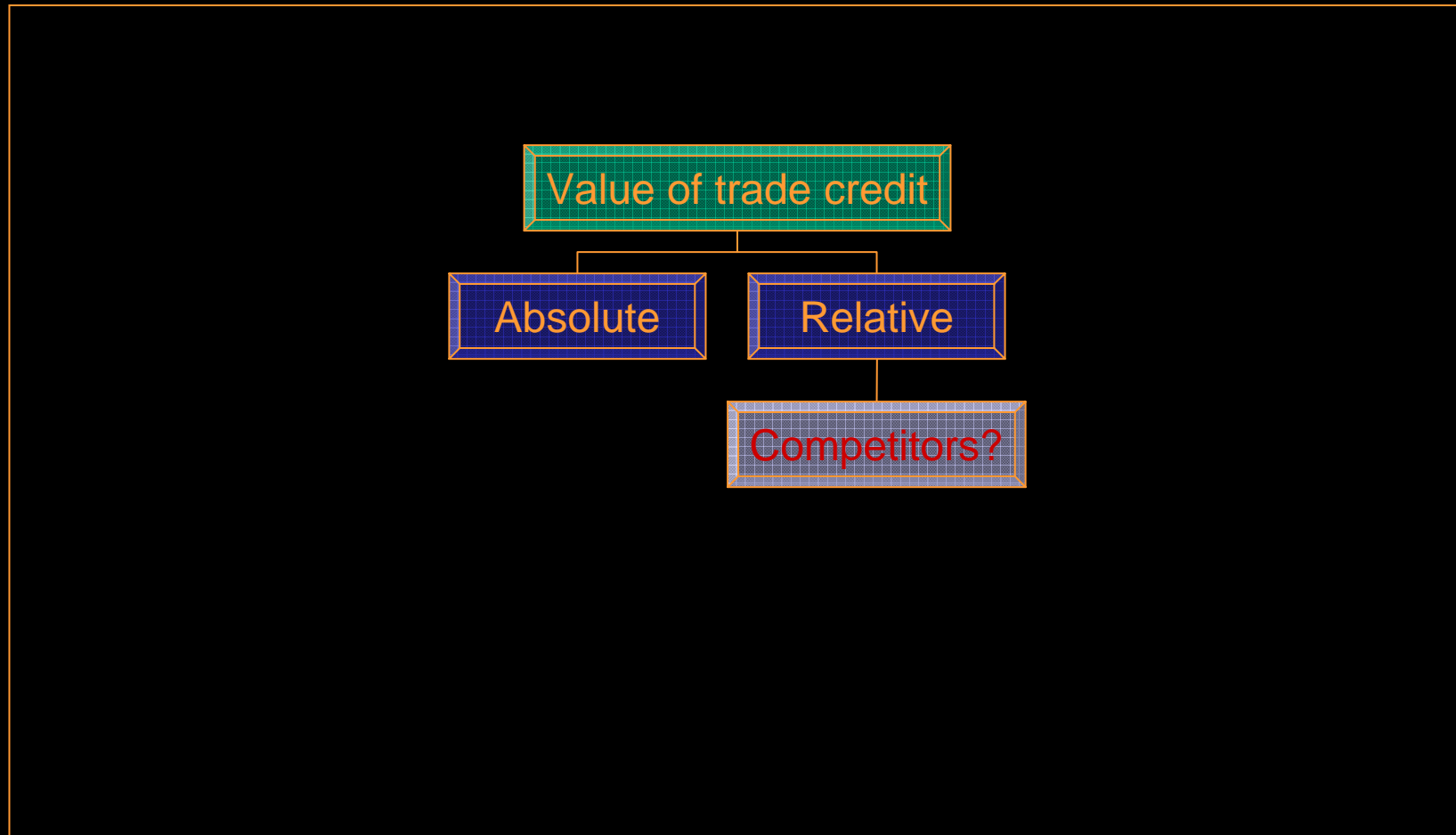
- **Customer avoids drawing down on bank lines**
- **First 30 days typically no interest; often even longer**
- **Can delay payment more easily than with bank**
- **Comes automatically with sale; no need to arrange draw-down of finance**
- **Little documentation**
 - One or two lines in sales contract
 - Invoice
- **Bank loan**
 - Need to negotiate complicated finance agreement
 - Legal costs

Different customers, different needs



- **Small**
 - Limited access to bank lines
 - Rely on suppliers for finance
- **Large**
 - Ready access to capital markets
 - Many options
 - Still demand trade credit
 - **Cash flow & value creation**
 - **Financial policies and goals**
- **Medium**
 - Can be a combination

The value of trade credit is...



Can you fight the attractions of trade credit?

You can't escape it...

- All customers want trade credit
- Real question is how to manage this and profit from it
- Factoring is one possible answer

NESTLE SA

In millions of CHF Notes

2008

Assets

Current assets

Cash and cash equivalents	5 835	
Short-term investments	1 296	
Trade and other receivables	13 442	(40% CA; 13% TA)
Current income tax receivables	889	
Assets held for sale	8	
Inventories	9 342	
Derivative assets	1 609	
Prepayments and accrued income	<u>627</u>	
Total current assets	33 048	

Non-current assets

Property, plant and equipment	21 097	
Investments in associates	7 796	
Deferred tax assets	2 842	
Financial assets	19 386	4 213
Employee benefits assets	60	
Goodwill	30 637	
Intangible assets	<u>6 867</u>	
Total non-current assets	73 167	
Total assets	106 215	

Liabilities (millions of CHF)

2008

Current liabilities

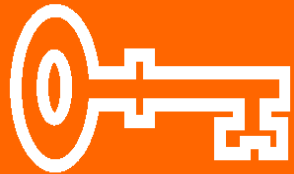
Trade and other payables	12 608
Liabilities directly associated with assets held for sale	—
Financial liabilities	15 383
Current income tax payables	824
Derivative liabilities	1 477
Accruals and deferred income	<u>2 931</u>
Total current liabilities	33 223

Non-current liabilities

Financial liabilities	6 344
Employee benefits liabilities	5 464
Deferred tax liabilities	1 341
Other payables	1 264
Provisions	<u>3 663</u>
Total non-current liabilities	18 076

Total liabilities 51 299

The strategic role of trade credit



Finance often leads the trade
A competitive tool to win and retain business



The point where finance meets marketing and the customer



Cash invested in your customers
A financial portfolio typically 10-30% of Total Assets



Extending trade credit: Strategies

Enhancement/Offensive Strategies	Maintenance/Defensive Strategies
<ul style="list-style-type: none">▪ Generate revenue<ul style="list-style-type: none">– Increase credit for increased sales▪ Enhance partnership▪ Penetrate customer	<ul style="list-style-type: none">▪ Price protection▪ Parry competitor encroachment<ul style="list-style-type: none">– Differentiation– Value “lock in”

Creating Competitive Advantage; Balancing and Exploiting the Trade Credit Paradox

