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## FACTORING – ALTERNATIVE SOURCE OF A COMPANY FINANCING

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**ABSTRACT:** Currently companies use factoring as an alternative source of funding, continuously in bigger extent. Article shows the development of factoring market in the world. It analyses shares of respective continents on the world factoring turnover and points to world leaders. It stresses the importance of factoring chains on the factoring market. In the conclusion it summarizes the advantages and disadvantages of factoring for companies.  
**KEYWORDS:** Factoring, domestic factoring, international factoring, receivables

### INTRODUCTION

Currently companies use factoring as an alternative source of funding, continuously in bigger extent. The source of financing is receivables, which occur to the company from the supply of goods or services rendered. The receivables are transferred by assignment to the factoring company and that in addition to their refinancing provides the management and debt collection for the company a different range of complex services, possibly to the take the risk of defaults due to insolvency or unwillingness of individual customers. The use of factoring services is associated with certain costs and charges that a company must pay to the factoring company for services rendered.

### DEVELOPMENT OF FACTORING MARKET IN THE WORLD

The development of factoring occurred in the sixties of last century in the United States, when purchasing of goods “on debt” had been extended. In early seventies factoring penetrated into Europe and around the same time factoring companies started to form into chains with international scope. The growth of the factoring market in the world slowed down as a consequence of the world financial and economic crisis (Figure 1).

Already in 2008 factoring trades in the world recorded a low 2.0% annual growth. A more significant impact of the crisis was manifested in 2009, when the annual factoring turnover decreased in the world by around 3.2%. Revival of the factoring market occurred in 2010. Important role in this revival was played by international trade, through export, which was triggered by rising foreign demand. Overall the world factoring trade in 2010 compared to 2009 increased by 28.4%. A significant share of this growth was domestic factoring, with the annual increase of 25.4% and also international factoring with 49.1% annual growth. The growing trend of factoring industry was also reflected in its increasing percentage share of the value of the world GDP. In 2010 the factoring turnover accounted for 3.5% of the world GDP, while factoring in 1980 accounted for less than 0.5% of the global GDP. In 2011 the factoring business in the world recorded a 22.3% annual growth, of which the domestic factoring annually increased by 24.2% and international factoring by 11.4%. Some countries have even reached their historical highs, as illustrated in Table 1.

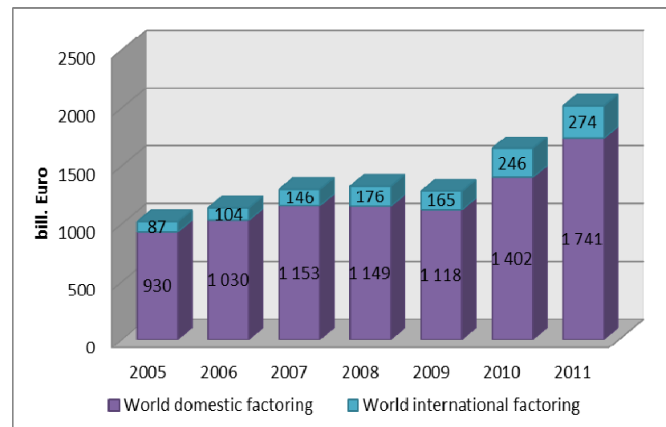


Figure 1. Development of factoring turnover in the world  
Source: own processing according to [2]

The most important share of the world factoring has Europe (Figure 2, 3). In 2011 the volume of factoring trades of European countries accounted for 60.4% of the world factoring turnover. The most important representative of the European factoring market is United Kingdom which in 2011 achieved a turnover of 268.1 billion EUR (Figure 4), whereby after several years of leadership for the global factoring market has moved into second. Among other important European representatives of factoring in the long term belong France, Italy, Germany and Spain (Table 1).

Table 1. TOP 10 countries with the highest factoring turnover in 2011

No.	Country	Continent	Volume of factoring trade (bill. Euro)	Percentage share of country on factoring turnover of	
				continent	world
1.	China	Asia	274.8	54.0	13.6
2.	United Kingdom	Europe	268.1	22.0	13.3
3.	Italy	Europe	175.2	14.4	8.7
4.	France	Europe	174.6	14.3	8.7
5.	Denmark	Europe	157.3	12.9	7.8
6.	Spain	Europe	122.1	10.0	6.1
7.	Japan	Asia	111.2	21.9	5.5
8.	United States	Americas	105.0	50.7	5.2
9.	Taiwan	Asia	79.8	15.7	4.0
10.	Australia	Australasia	57.5	99.0	2.9

Source: own processing according to [2]

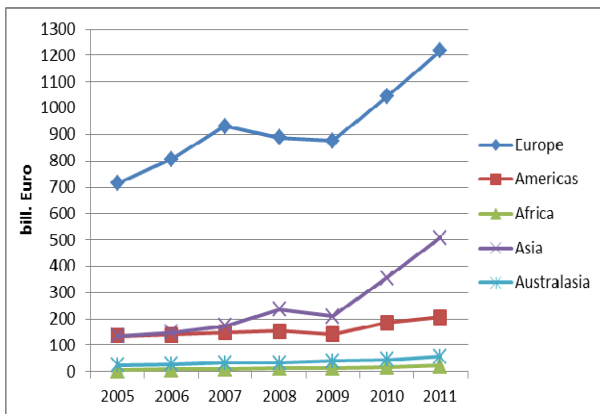


Figure 2. Development of factoring trades by continents

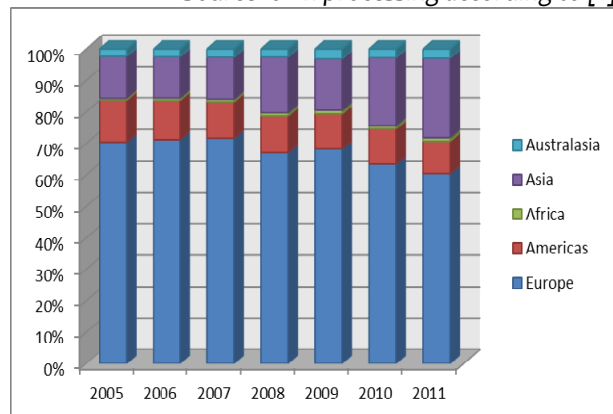


Figure 3. Structure of factoring trades in the world by continents

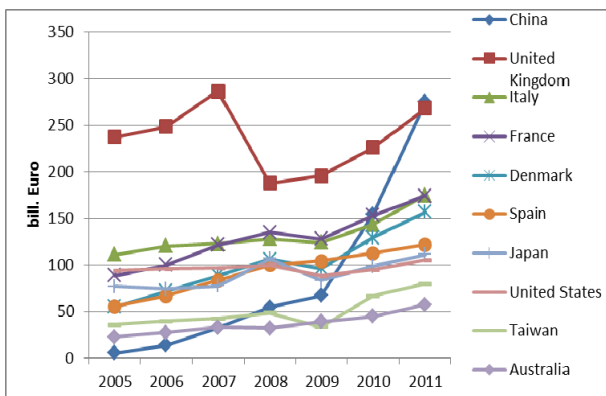


Figure 4. Development of factoring trades of selected countries

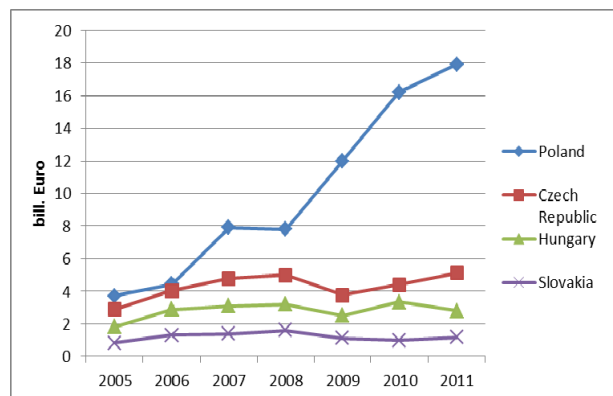


Figure 5. Development of factoring trades in V4 countries

More detail view of the development of factoring trades in the V4 countries is provided in Figure 5. In this group of countries, the largest and also the most dynamic growth in sales is achieved by Poland. Factoring turnover in 2011 compared to 2005 in Poland increased 4.8 times more.

In Asia factoring is developing dynamically. The rapid increase mainly in export factoring is related to the movement and concentration of production from different parts of the world to Asian countries. An example is China, which in seven years, was able to increase their factoring turnover from 5.8 billion EUR to 274.8 billion EUR, and so in 2011, gain leadership in the worldwide factoring market (Figure 4, Table 1). Among other important Asian representatives of factoring are Japan and Taiwan. In 2011, Asian countries reached one-fourth share of the global turnover of factoring, which have strengthened their second position on the global factoring market.

The third position on the factoring market is for long time held by Americas, which in 2011 reached 19.3% share of the global factoring turnover. The largest portion of sales was ensured by the United States (Table 1). An important subject in the American market is also Brazil, which from 2005 to 2011, more than doubled its factoring turnover, namely from 20.1 billion EUR to 45.6 billion EUR.

Australasia and African do not play a significant role in this sector. In 2011 Australasia reached 2.9% share, i.e. 58.1 billion EUR and African continent only 1.1% share, i.e. 23.5 billion EUR of factoring turnover in the world.

## FACTORING CHAINS

On the factoring market still more important position are taken by international factoring chains. Membership in factoring chains allows companies:

- Access to information about the domestic markets of individual member countries.
- Use of standardized data transfers and uniform procedures at the realization of factoring transactions, which simplifies operation and leads to time savings.
- The close link between the factor in supplier's country and the factor in customer's country. There is a significant reduction of commercial risk and simplification of process of especially exports factoring. At the same time a credibility of factor is increased, and not only towards other factoring companies, but also to suppliers and customers.

Factoring chains organization is in two forms, open and closed. For open chains is true that members can become anyone who meets the prescribed criteria, for example, the amount of factoring turnover, the period of activities rendered, capital requirements etc. To the open factoring chains belongs Factors Chain International (FCI) and the International Factors Group (IFG). In closed chains membership can be obtained only by companies that are interconnected through their capital in the chain. An important representative of the closed chain factoring is Heller International Group.

Currently, the largest and most important factoring organization in the world is FCI. It brings together 253 factors from 69 countries. The development of factoring turnover of this chain for years 2005 to 2011 is provided in Figure 6.

It can be seen that the turnover except in 2009 had a growing trend. Year on year decline in 2009, which was triggered by the financial and economic crisis, was 4.1%, i.e. 31 billion EUR. In 2010 there was a revival of world economy, which was confirmed by a notable 22.2% year on year increase of factoring turnover of FCI, with annual growth of domestic and international factoring of 19.7% and 34.3%, respectively. For this international chain year 2011 can be considered as one of the most important throughout its whole history, because it achieved annual growth of factoring trades as many as 24.4%.

FCI members now make up 57.1% of the world's factoring turnover. They provide up to 89.8% of the world's international factoring turnover and nearly 52% of the world's domestic factoring.

## CONCLUSIONS

Based on the above stated facts, it is seen that the awareness of factoring in the world is constantly growing. The main benefits that companies can get by utilization of factoring services can be considered:

- ensuring of flexible trade financing,
- speeding up the collection of receivables thereby it is possible to repay receivables of 80% to 90% before their maturity date, resulting in improved cash flow of the supplier,
- increase the competitiveness on the market as vendors offer more favourable payment terms to customers, i.e. longer maturity periods,
- elimination of the risk of non-payment of receivables for non-recourse factoring from, factoring provides security till 100% of receivables against insolvency or not willingness to payoff customer,
- reduction of costs of obtaining information about the creditworthiness of customers (buyers), reduction of administrative costs associated with the evidence of accounts receivable and administrative simplification, because the factoring company provides a comprehensive service package, which includes also the management of receivables and related services.

On the other hand, factoring also brings some disadvantages:

- the provision of these services involve certain costs and fees, which the vendor will pay to the factoring company for services rendered,
- factoring can not be applied in countries where there is a high risk,
- in case of export factoring the import factor may limit the choice of customers, for example by setting a certain amount of turnover that must be achieved by the customer etc..

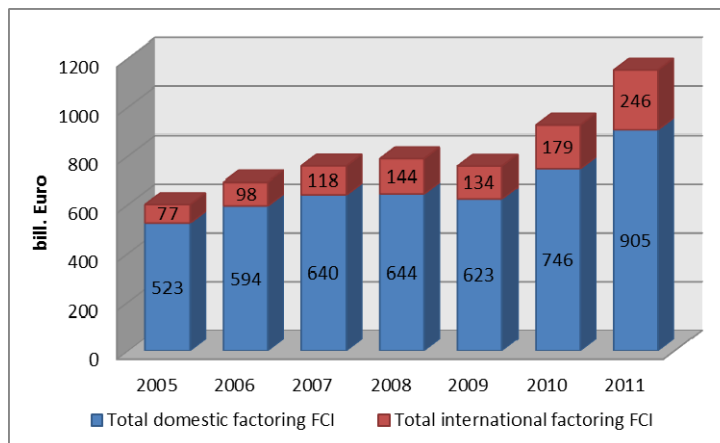


Figure 6. Development of factoring turnover of the chain FCI Source: own processing according to [2]

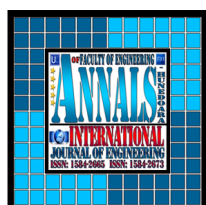
Small, medium or multinational companies utilize every day this alternative method of financing in order to simplify and increase an efficiency of their business, despite these mentioned disadvantages.

#### ACKNOWLEDGEMENT

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