THE ULTIMATE GUIDE TO RECRUITMENT FINANCE

TBOS

www.tbos.com

1 WHY DO RECRUITMENT AGENCIES NEED FINANCE?

Recruitment agencies who only place permanent staff into their clients have very little need for external finance to support their business. However, recruitment agencies who make temporary, contract or interim placements will often find that their candidates need to be paid weekly/monthly whilst their clients are paying them on 30–60-day payment terms which causes a funding gap.

Some agencies are lucky enough to have sufficient cashflow in their business to support the funding required to pay the candidate but the large majority will look for external finance to support these placements.

There are lots of options available to recruitment agencies as the finance companies are happy to lend against timesheet-based invoices as they are virtually guaranteed to be paid.

However, recruitment agencies need to identify the solution that works best for their agency as each solution has various costing models and provide finance in different ways.

"Identify the solution that works best for your agency"

2 WHY DO RECRUITMENT AGENCIES NEED FINANCE?

Day 1	Candidate submits Timesheet to Agency Agency raises invoice to Client on 30 day terms
Day 2	
Day 3	
Day 4	
Day 5	
Day 6	
Day 7	Candidate paid via PAYE/Umbrella/Limited Co. from Agency Bank Account
Day 8	
Day 9	
Day 10	
Day 11	
Day 12	
Day 13	
Day 14	
Day 15	
Day 16	
Day 17	
Day 18	
Day 19	
Day 20	
Day 21	
Day 22	
Day 23	
Day 24	
Day 25	
Day 26	
Day 27	
Day 28	
Day 29	
Day 30	Client Pays Invoice to Agency Bank Account

3 PAY-AND-BILL SOLUTIONS

Pay-And-Bill companies supply recruitment agencies with a solution which provides:

- Invoicing to Clients based on Approved Timesheets
- Payments to the Candidate (PAYE, Umbrella or Limited)
- Immediate distribution of Profits Minus Pay-And-Bill Charges

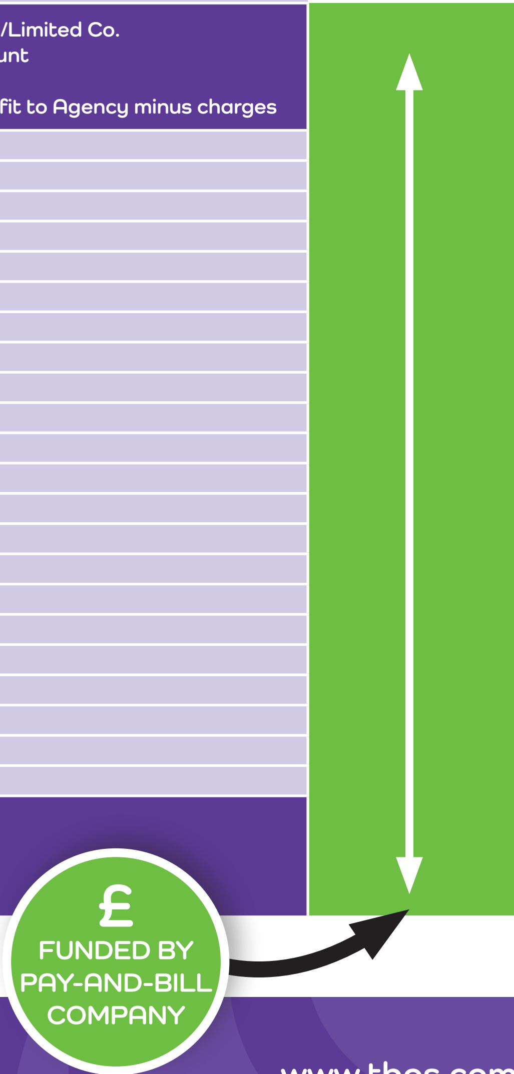
These solutions are often charged based on a percentage of invoice value between 3-5% which will often include bad debt protection (insurance in case the client goes bust).

The advantages are that they are very quick to set up and use, the profit is given immediately instead of when the client makes payment and they work very well for temp placements.

The disadvantages are that they can be very expensive for medium/high level contract/interim placements, their internal processes can be restrictive and the agreements can be hard to get out of once you are signed up to them.

4 PAY-AND-BILL SOLUTIONS

Day 1	Candidate submits Timesheet to Agency Agency raises invoice to Client on 30 day terms
Day 2	
Day 3	
Day 4	
Day 5	
Day 6	
Day 7	Candidate paid via PAYE/Umbrella/Limited Co. Pay-And-Bill Company Bank Account Pay-And-Bill Company release profit to Agency minus charges
Day 8	
Day 9	
Day 10	
Day 11	
Day 12	
Day 13	
Day 14	
Day 15	
Day 16	
Day 17	
Day 18	
Day 19	
Day 20	
Day 21	
Day 22	
Day 23	
Day 24	
Day 25	
Day 26	
Day 27	
Day 28	
Day 29	
Day 30	Client Pays Invoice to Pay-And-Bill Company Bank Account



5 FACTORING VS INVOICE DISCOUNTING

Invoice Finance is another method used to fund contract placements, of which there are two types:

Factoring

This works by the agency notifying each individual invoice raised to their clients for the funds to be advanced against (normally 85-90% of the invoice value). The finance company will credit control the invoices until paid to clear them from the ledger. Once the funds are received the remaining 10-15% is made available for the agency to drawdown.

Invoice Discounting

This solution works by notifying to the finance company the total amount of invoicing raised so that 85-90% of the total invoice value can be advanced. The agency maintains the sales ledger records and credit controls the invoices until paid when the remaining 10-15% is made available. The agency completes an end of month reconciliation to ensure that the sales ledger matches on both systems.

Factoring is often offered to new start recruitment agencies who do not have a robust back office process in place and is more expensive due to the work completed by the finance company. Invoice Discounting is often available to agencies with an experienced back office team who can look after the reconciliation and credit control processes and so is therefore cheaper than factoring.

6 FACTORING VS INVOICE DISCOUNTING

Day 1	Candidate submits Timesheet to Agency Agency raises invoice to Client on 30 day terms Agency uploads Invoice to Invoice Finance Company
Day 2	
Day 3	
Day 4	
Day 5	Agency borrows upto 85-90% of invoice value from Invoice Finance Company to Agency Bank Account
Day 6	
Day 7	Candidate paid via PAYE/Umbrella/Limited Co. from Agency Bank Account
Day 8	
Day 9	
Day 10	
Day 11	
Day 12	
Day 13	
Day 14	
Day 15	
Day 16	
Day 17	
Day 18	
Day 19	
Day 20	
Day 21	
Day 22	
Day 23	
Day 24	
Day 25	
Day 26	
Day 27	
Day 28	
Day 29	
Day 30	Client Pays Invoice to Invoice Finance Company Bank Account Agency receive remaining funds (10-15%) from Invoice Finance Company to Agency Bank Account

£
FUNDED BY INVOICE FINANCE COMPANY

7 WHICH FINANCE SOLUTION IS BEST FOR MY AGENCY?

Each of the 3 finance solutions shown within this guide will help a recruitment agency to bridge the funding gap when managing temporary, contract or interim placements but depending on the costs and the processes followed has their own pro's and con's.

PAY-AND-BILL SOLUTIONS	
ADVANTAGES	DISADVANTAGES
Quick to set-up	Expensive for high value placements
Ideal for temporary placements	Deadlines dictated by another company
Agency receives profit in advance	Loss of identity on placement with client

FACTORING	
ADVANTAGES	DISADVANTAGES
Cheaper solution than Pay-And-Bill	Factoring company chases debtors
Reconciliation work completed by finance company	Charging structure can seem confusing
More control over funding	May have to sign into long term agreement

INVOICE DISCOUNTING	
ADVANTAGES	DISADVANTAGES
Cheapest way to fund placements	Need a strong back office and accounting team
Retain ownership of client relationship	Charging structure can seem confusing
More control over funding	May have to sign into long term agreements

8 INVOICE FINANCE CHARGES EXPLAINED

Invoice Finance facilities are normally charged using two types of fees:

Service Charge
This is an agreed percentage of the full invoice value (including VAT) uploaded to the invoice finance company. The percentage (between 1.75% and 0.2%) is agreed at the beginning of the facility based on the projected turnover of the business, the industry and the credit risk/worthiness of the clients. Normally there will be a monthly minimum service charge which if this is not achieved each month/quarter then the finance company will top this up to the agreed value.

Discount Charge
This is a daily interest rate (between 3.5% and 1.75%) normally above the Bank of England Base Rate or the LIBOR Rate on the amount of funds borrowed on the facility. As funds are advanced, charges are added and clients make payment to the invoice finance company the balance changes daily.

Some invoice finance providers will also provide credit protection with their facilities which will either be within the service charge percentage or charged as a separate fee.

There are other charges to consider such as Set-up fees (fees to set up the facility), Renewal Fees (fees to renew the facility on an annual basis) and bank charges (charges to transfer funds to your business bank account and/or maintain the bank accounts).

9 REQUIREMENTS TO GET FUNDING

Invoice finance is available to all types of recruitment agencies who are placing or looking to place contractors including new start up recruitment agencies. However in order to secure an invoice finance facility you need to provide:

- 12-month projections showing the contract turnover
- List of existing or potential clients who require contractors
- CV/LinkedIn profile of the Directors
- Recent Management Accounts (if you are an existing recruitment agency)
- Documentation of your current HMRC position

The invoice finance company will use these documents to assess the risk of your business and provide you with a quotation. It is advisable to get 2-3 quotes from different providers for you to compare.

Once you have chosen your new provider then the invoice finance company may want to complete an audit of your company books before providing you with a facility.

10 ANNUAL FINANCE REVIEWS

Once your facility is up and running it is important to review this on a 6 monthly basis to ensure that it is meeting your financial needs especially as your client base may change and your business may have grown beyond the initial projections.

At the 12-month review stage it is important to speak to your current provider to see if they feel the charges are still correct. If you have achieved your initial projections or are planning further growth over the next 12 months then you may require a higher funding limit and may be able to reduce your current charges.

It is also a good idea at the 12-month review stage to approach other invoice finance providers to see if the price you are paying is still competitive or if they can provide a better facility for your company.

TBOS

1 Waterside, Station Road,
Harpenden, Herts, AL5 4US

T: 0345 646 0402
E: enquiries@tbos.co.uk
www.tbos.com

Connect with us: