

Factoring: liquidity from outstanding receivables in industrial procurement

Factoring is the ongoing sale of outstanding customer receivables to a factoring company, which in return pays out the receivables value immediately, less fees. For industrial companies, factoring is an established liquidity management instrument that offsets supplier credit terms and can improve the balance sheet structure. In a procurement context, the term is frequently encountered in its reverse form as supplier or reverse factoring, in which buyers enable their suppliers to receive faster payment in exchange for longer payment terms for themselves.

Key facts

- In factoring, a company continuously sells outstanding receivables to a factoring company and receives immediate liquidity.
- Typical factoring fees in practice are frequently in the order of around 0.5 to 2 percent of the factored receivables volume, depending on volume, risk of default and scope of services.
- Genuine factoring transactions involving the purchase of receivables can shorten the balance sheet and positively influence key ratios such as the equity ratio or cash flow; the accounting treatment must be examined on a case-by-case basis.
- Reverse factoring (supply chain finance) is the buyer-side variant: the supplier is paid earlier and the buyer uses extended payment terms.
- Whether factoring or, alternatively, trade credit or supplier credit is economically viable can only be determined by comparing interest rates, early payment discounts and the effective interest rate.
- Del credere variants assume the risk of debtor default; genuine factoring without recourse therefore effectively constitutes a sale of receivables.

Definition: factoring

Factoring is the ongoing transfer of receivables from the supply of goods and services to a factoring company (factor). As a rule, the factor immediately pays out up to 90 percent of the receivables value and the remainder once payment has been received from the debtor, less factoring fees and interest. Legally, this typically constitutes a genuine sale of receivables, although the tax and accounting treatment must be examined on a case-by-case basis.

Distinction from loan financing

Unlike a classic loan, factoring is based on real receivables and grows automatically with turnover. It does not replace investment financing, but rather optimises short-term liquidity from current assets. Depending on the contractual arrangement, the factor checks and assumes the risk of default, which is a key difference from the mere pledging of receivables.

Terminology variants in procurement

For buyers, reverse factoring is particularly relevant, also known as supply chain finance or supplier

financing. Here it is not the supplier who initiates the sale of receivables, but the purchasing customer who enables early invoice payment via a financing programme. Procurement can thereby strengthen supplier relationships without advancing its own liquidity.

Methods and approach: factoring variants in practice

Factoring can be differentiated according to several criteria: by scope of services, by assumption of risk and by disclosure to customers. The appropriate variant depends on the receivables structure, the customer base and the company's objectives.

Full factoring and in-house factoring

In full factoring, the factor assumes accounts receivable bookkeeping and debt collection in addition to financing, and frequently also del credere cover. This relieves the burden on administration and IT, but carries the highest fee. In in-house factoring, the company retains accounts receivable bookkeeping internally and uses the factor primarily for financing – an often cheaper variant for companies with stable processes.

True, pseudo and confidential factoring

In true factoring, the factor bears the risk of default (del credere), while in non-recourse-free (pseudo) factoring it remains with the seller. In confidential factoring, customers are not informed of the assignment; in disclosed factoring, they are notified of the assignment and instructed to pay the factor directly. In B2B industrial business, disclosed factoring dominates because it can be handled with greater legal clarity.

Reverse factoring from the buyer's perspective

In reverse factoring, a financing partner pays the supplier's invoice early, often shortly after invoicing, while the buyer only settles the amount at the end of the agreed payment term. The supplier thereby gains planning certainty and can forgo early payment discounts or calculate prices more stably. Although it is not classic factoring by the buyer, it is evaluated jointly by procurement and treasury due to the identical economic logic.

Process and integration into procurement and finance processes

A factoring programme is typically set up by treasury or financial accounting, but directly affects procurement through payment terms, supplier evaluation and receivables management. A well-coordinated process is a prerequisite for economic viability and acceptance.

Typical process flow

After conclusion of the contract with the factor, the seller reports the receivables – frequently electronically via interfaces – and receives pre-financing of typically up to 90 percent. The customer pays the factor directly on the due date, whereupon the factor releases the remaining amount less fees and interest. In reverse factoring programmes, the invoice is instead approved by the buyer before the financing partner pays out.

Interfaces with procurement

Procurement influences factoring significantly through payment terms, blanket order and call-off order structures, and the quality of invoice documentation. Clean order and goods receipt processes are a

precondition, as the factor only finances reliable receivables. In digital supply chain projects, factoring is increasingly integrated into e-invoicing and payment platforms, which reduces processing times.

Supplier selection and stakeholder coordination

Before introducing a programme, the procurement, finance and, if applicable, legal departments should jointly define terms, participation criteria and communication with suppliers. It is important that participation remains voluntary and that no coercive measures such as order coupling are used; otherwise legal and reputational risks arise. Transparent supplier relationship management processes significantly facilitate acceptance.

Key KPIs and evaluation of the factoring programme

Factoring, like any financing decision, can be managed quantitatively. Core figures are costs, utilisation of the receivables volume and effects on working capital and balance sheet ratios.

Cost key figures

The key figure is the factoring fee as a percentage of the factored receivables volume; in practice, typical values frequently range from around 0.5 to 2 percent, strongly dependent on volume, debtor creditworthiness and scope of services. In addition, interest is charged for the pre-financing, oriented towards the respective short-term interest rate. A comparison with the effective interest rate of alternative financing options and with the use of early payment discounts is mandatory.

Liquidity and balance sheet key figures

The effect is reflected in key figures such as Days Sales Outstanding, liquidity ratio and cash conversion cycle. With a genuine sale of receivables, the receivables balance sheet position falls, which improves the equity ratio and total assets; however, whether the assignment qualifies as a sale for accounting purposes must be clarified with auditors on a case-by-case basis. For procurement, the payment behaviour of customers in sales-side factoring and the effective liquidity duration of suppliers in reverse factoring are also relevant.

Procurement-relevant indicators

In reverse factoring, it is worth monitoring supplier satisfaction, the number of participating suppliers and the share of procurement volume in the programme. Supply chain stability – for example measured in terms of reduced missing parts or lower expediting effort – can also be indirectly attributable to improved supplier liquidity and should be taken into account qualitatively.

Risks and controls in factoring

Factoring is a complex product with cost, dependency and reputational risks. Structured control through contracts, process discipline and regular evaluation is necessary.

Cost and dependency risks

The ongoing fees can become considerable at high volumes and, in unfavourable configurations, exceed the benefit from liquidity and *del credere*. Strong dependence on a single factor also makes switching difficult; contract terms, notice periods and exit costs should therefore be negotiated from the outset. With reverse factoring, there is a risk that extended payment terms are effectively assessed as hidden buyer financing – the accounting and reporting treatment must be examined on a case-by-case

basis.

Receivables quality and process risks

The factor only finances receivables that have not already been assigned to third parties and whose claim is undisputed. Disputes arising from complaints or claim management therefore lead to cancellations or withholdings. Precise order processing, documented goods receipts and functioning missing-part and complaints management are thus also prerequisites for stable factoring.

Compliance and reporting obligations

In reverse factoring, capital market participants and auditors are becoming increasingly sensitive to the classification as trade payables or financing. Companies should create transparency about the programme scope and terms and have the current regulatory situation – for example changes in accounting standards – reviewed regularly. Professional advice from tax advisors and auditors is indispensable here.

Current developments: digitalisation and sustainability in factoring

Factoring is being significantly transformed by e-invoicing, platform solutions and sustainability requirements. Buyers and treasury should monitor these trends and incorporate them into programme design.

Digital platforms and e-invoicing

Digital factoring and supply chain finance platforms largely automate receivables reporting, invoice approval and disbursement. The widespread introduction of e-invoicing in the B2B sector accelerates receivables verification and shortens pre-financing times. For industrial suppliers, this lowers the barriers to entry, as smaller volumes can be handled economically.

Factoring and sustainability requirements

Some financing partners link terms to sustainability criteria of the participants, such as ESG ratings or supply chain due diligence. Against the background of regulatory requirements such as the Corporate Sustainability Due Diligence Directive (CSDDD), companies can specifically use supply chain finance as an incentive instrument to support suppliers in making improvements. The design of such linkages must be carefully examined from a legal and ethical standpoint.

Importance for mid-sized suppliers

In the supplier industry with long payment terms and high working capital requirements, factoring is becoming a key source of liquidity alongside credit lines. Increasingly, mid-sized companies are combining factoring with other instruments such as purchase order financing or inventory financing. Procurement can further improve suppliers' planning certainty through reliable call-off orders, binding delivery schedule agreements and high delivery schedule adherence, thereby reducing their financing costs.

Typical metrics

Factoring fee: 0.5–2 % of volume

Typical benchmark; dependent on volume, creditworthiness and scope of services

Pre-financing rate: typically up to 90 %

Share of the receivables value that is paid out immediately

Days Sales Outstanding (DSO): reduction frequently by 30–60 days

Dependent on previous payment terms and programme variant

Supplier participation rate (reverse factoring): > 50 % of strategic volume

Target figure for an established programme, to be defined individually

Practical example

A mid-sized machinery manufacturer with a strongly seasonal order book had high receivables balances and was using its syndicated loan limit almost in full. At the same time, procurement was under pressure to retain critical suppliers with shorter payment terms in order to avoid missing parts and line stops in assembly. The company therefore introduced full factoring for its sales business and simultaneously launched a reverse factoring programme for strategic suppliers.

- Selection of a factor based on fees, scope of del credere cover and interface capability with the existing ERP and e-invoicing landscape
- Definition of participation criteria for suppliers in the reverse factoring programme, starting with the top 20 suppliers by procurement volume
- Coordination of early payment discount and payment terms policy with treasury in order to avoid double financing and contractual conflicts
- Quarterly review of the factoring fee, Days Sales Outstanding, participating supplier volume and reporting to management

Conclusion

Factoring turns outstanding receivables into immediately available liquidity and can visibly improve the balance sheet and cash flow. For buyers, the buyer-side variant, reverse factoring, is particularly relevant: it strengthens supplier liquidity, reduces default risks in the supply chain and can measurably improve supplier relationships. The prerequisites are clean order, invoice and complaints processes as well as a realistic cost assessment against alternatives such as early payment discounts or credit lines. The accounting and legal treatment should always be examined on a case-by-case basis. Anyone who uses factoring strategically and with clean processes gains a robust lever for working capital and supply chain stability.

Frequently asked questions

What does factoring mean in simple terms?

Factoring means that a company sells its outstanding receivables (customer invoices) to a factoring company and immediately receives the majority of the invoice amount. The factor pays out the remaining balance, less fees, once the customer payment has been received. Depending on the contract, the factor also handles accounts receivable bookkeeping, debt collection and the risk of default.

What is the difference between factoring and reverse factoring?

In classic factoring, the supplier sells its receivables to a factor in order to gain liquidity more quickly. In reverse factoring, the buyer initiates a programme under which a financing partner pays the supplier

early, while the buyer only settles the invoice at the end of the extended payment term. Reverse factoring is also referred to as supply chain finance or supplier financing.

What does factoring typically cost?

In practice, the factoring fee is frequently in the order of around 0.5 to 2 percent of the factored receivables volume, with interest charges for the pre-financing added on top. The actual costs depend on the receivables volume, the creditworthiness of the debtors, the scope of services and the contract term. A comparison with alternative forms of financing and with the use of early payment discounts is essential.

Is factoring the same as a loan?

No, legally, true factoring is typically a purchase of receivables and not a loan. The factor acquires the receivables and, depending on the variant, bears the risk of default. In balance sheet terms, a genuine sale of receivables can remove the receivables from the balance sheet and improve key ratios, although an individual assessment by auditors is required.

When is factoring worthwhile for a company?

Factoring is particularly worthwhile when debtor payment terms are long, working capital requirements are high, credit lines are limited, or protection against default through del credere is desired. Industrial suppliers with long payment terms benefit in particular. The decisive factor is that the costs of the factoring fee and interest are lower than the benefit derived from liquidity, risk protection and reduced administrative burden.

What must buyers bear in mind with reverse factoring?

Buyers should keep participation voluntary, communicate terms transparently and never link it to contract award decisions. It should also be noted that extended payment terms may be assessed differently in accounting and regulatory terms; the classification must be examined on a case-by-case basis. Close coordination between procurement, treasury and accounting is a prerequisite for a stable programme.