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The new invoice financing: Online players BlueVine, Fundbox and C2FO are transforming the market

Eyal Lifshitz cut his teeth at Greylock Partners doing venture capital deals in Israel and Europe. But as he started thinking about his father's experience as owner of a physical therapy clinic struggling with cash flow while he waited for payments from health insurance and Medicaid, he found his career go a different direction. "He told me those pay cycles were just killing him," Lifshitz says.

Lifshitz started researching factoring—the business in which cash-strapped businesses sell their invoices to a third party at a discount—and came up with an idea for doing invoice finance online. In March 2014, he launched BlueVine with the aim of bringing factoring into the modern, digital era. Today, the Palo Alto, Calif.-based company, which is backed by 83North (formerly Greylock IL), Lightspeed Ventures and others, has funded between \$50 million and \$100 million in invoices. "Invoice factoring has existed since Babylon," Lifshitz says, "and it is an area that has not been innovated at all."

If you've never used a factoring company, you're probably only vaguely aware of their existence as a way to get capital off receivables, and if you have used one you may well be unhappy with that experience. Factoring gets a bad rap, and the liquidity it provides can be costly.

But the market is changing fast. Just as the convergence of technology and money has created a land rush of alternative finance players offering loans and cash advances, so too have companies sprung up in this long-overlooked area of providing capital off of unpaid invoices. San Francisco-based Fundbox, which launched in April 2014 to offer working capital to business with unpaid invoices, just announced that it added Amazon CEO Jeff Bezos and early Twitter-investor Spark Capital to an investor lineup that includes Khosla Ventures and Blumberg Capital. And **C2FO**, in Kansas City, has created a marketplace to bring together big companies willing to pay their suppliers' invoices earlier for a discount with those businesses that need the cash.

Jeff Bezos, chief executive officer of Amazon.com, just invested in Fundbox, an online invoice finance company. Fundbox and other online players like BlueVine and C2FO are transforming the age-old business of getting capital off receivables.

While each of these companies takes a somewhat different approach to providing capital based off of invoices, for cash-pressed small businesses they're all attacking the same problem. In the United States, these invoices represent a \$72 trillion market, according to Fundbox Chief Executive Eyal Shinar. "The vast majority of those are not being paid on time, so that's a big problem to solve," he says. In fact, according a U.S. Bank study, 82% of business failures are due to poor cash management.

Go back a minute to understand how traditional factoring works. The business that needs the cash will sell its invoices to a factor at a discount. Historically, it requires a lot of paperwork to set up, and the factoring companies typically want a contract, for six months or a year, to sell all of your invoices to them or at a minimum those from the customer you're looking to get financing from. And you can't keep the deal a secret since the factoring company tells your customer so they can get paid.

BlueVine's model has the most in common with this traditional one, but it's moved the factoring experience online and made it simpler. Small business owners can set up an account with just a few pages of information, some uploaded bank statements and a connection to their accounting software. To get paid, they just log on and press a button saying that's what they want. BlueVine can usually approve the first payment within a day, and after that can generally do so in less than an hour.

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2015 C2FO In the news

Author: Amy Feldman, Forbes Contributor



One advantage of BlueVine over a traditional factor: You can choose which invoices you want paid early, and once you have enough cash you can simply ignore the site. Another: BlueVine sets up a post office box for you, so you don't have to let your customers know you're getting cash off their invoice.

The downside: Even though it's online, the financing – like that from Kabbage or OnDeck – still isn't cheap. Rates range from 0.4% a week to 1% a week, depending on the borrower's creditworthiness, the strength of the debtors and the size of the credit line. Translated to an APR, the financing can run 20% to 50%, which sounds like (and is) a lot, but it's likely less costly than getting a daily cash advance, where rates can go above 50%. "Everything here is expensive," Lifshitz says. "But factoring is closer to credit card rates where lots of alternative lenders have higher rates."

Signing up for Fundbox is equally simple: You go the website and create an account, then click connect to get your accounting information, and within a few hours Fundbox will approve you (or not) as a customer. Then you can access a dashboard, and choose any of your invoices to receive funding. As with BlueVine, you choose which invoices you want paid and how much you need. The difference is that you – rather than your customer – repay Fundbox. "Fundbox is not a factoring company," Shinar says. "We do not purchase the invoice. We don't go after your customers. We don't require you to create a new bank account."

The cost depends on both your credit risk and the invoice's risk. On a \$1,500 invoice, for example, you might pay \$76 to \$106 in advance fees and transaction fees, with repayment spread across 12 weekly payments (and no penalty for paying early).

C2FO, founded in 2008, is a somewhat different beast that addresses the same issue: It's created an online marketplace where companies with cash on their balance sheets willing to pay invoices early can come together with their suppliers who need that cash. Buyers on the platform include Costco, Amazon, Walgreens and Nordstrom, and many other large companies. "These alternative lenders are coming in with third-party capital to try to take up some of the slack in the lack of traditional lending by banks," says John Kill, C2FO's senior vice president and chief financial officer. "We think there are better and more efficient ways to do it. Their rates are never going to be able to compete with ours."

While pricing is set by the marketplace, rather than by C2FO, Kill says, "we're typically seeing APRs, not discounts, in the 4% to 6% range." So, for example, a business owner might want to accelerate a 60-day invoice to 30-days at a 50 basis point discount.

While some business owners may feel uncomfortable asking their buyers to accelerate payment for a discount, Kill notes that these arrangements are already happening offline. In fact, with payment terms getting longer and longer, some of those static discounts – such as 2% off to get paid in 120 days instead of 160 – are, as he puts it, "just ridiculous."

As with BlueVine and Fundbox, you can use C2FO when you need, and ignore it when you don't. The big difference is its marketplace structure: You decide how much working capital you need and what discount you're willing to accept on an invoice to get it, and then see if you get offers or not. "We ask them to put in an offer lower than the traditional cost of financing," Kill says. "If you have a line of credit at 8%, you can come in and ask for 7%."

For those who like bidding on eBay or trading stocks, that may be an appeal to the marketplace structure, and it does seem to result in far better pricing. The downside: You can only use the platform for invoices with buyers that are on it, and may not like the idea of accepting a discount from your customer and the precedent that could set.

As the alternative finance field gets more crowded, it seems likely that invoice financing won't stay its own little area for long. "We're more similar in philosophy to OnDeck and Lending Club and Kabbage than to a traditional factor," says BlueVine's Lifshitz. "I think you will see more players like us, and you'll see some of the leading online lenders going into his space as well. The big guys are very familiar with the space, and it's one of the growth areas."

So, I ask Lifshitz, could you team up with one of them? "Yes," he says. Is that in the works? "I can't comment on that. We know a lot of the guys at those companies. I think there are opportunities to cooperate."



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