

Revolutionizing Invoice Factoring making it Online Friendly to Help Small Business Owners



Eyal Lifshitz
CEO

CEOCFO: Mr. Lifshitz, would you tell us about BlueVineCapital?

Mr. Lifshitz: We consider BlueVineCapital as reinventing invoice factoring. Factoring is not a new industry by any means. It has been around for 4000 years since Babylon. We think it is time that somebody came in and reinvented it. It is a product that provides many benefits for small businesses. It is a financing product but it also comes with several friction points. We are trying to bring this to the 21st century, making it an online, friendly, consumerized product, which is really said to make small business owners' lives easier. That is at a high level.

CEOCFO: What has been the traditional dealing with a factoring company and how is your approach different?

Mr. Lifshitz: We are not here to say that the way that it has been done is bad, just slightly outdated. Factoring is a way for small businesses to get advances on outstanding invoices. It is basically a form of financing. One of the issues for small businesses is that after they deliver a product or service, the process is not ending there. There are credit terms, which they usually provide to their customers whether it is Net 30 or Net 60, or so on. Factoring is a way for them to free up that cash trap in their invoices by getting an advance on those invoices. That makes a ton of sense and that is why factoring was invented to begin with. However, the way it has traditionally been done is very paper based, with long processing time. Despite the fact that some of these invoice factoring companies have websites, it is by no means an online type of service. You cannot open an account online. The process on takes a week or so. Even on an ongoing basis, it is not that you can click a button and get paid. The best case is for you to upload digital copies of invoices to portals. In most cases it is sending faxes and in some cases, even original copies of invoices and waiting a day or two to get paid. What we are trying to do is make this a streamlined experience, where it takes two minutes to open an account with us. You can connect your accounting software and your invoices are already synced to the dashboard with BlueVine. All it takes to get paid is pushing a button. Our turnaround is one day for the first time that you come to our website and until you get your first funding. Then on an ongoing basis, many of our clients get their funding almost in real-time. They press a button, get approved and we push money out every 30 minutes. It is that fast.

CEOCFO: What was the challenge in putting together an offering?

Mr. Lifshitz: If you look at what is going on in alternative financing today that has only started recently. Even lending has not been online until a couple years ago. Before that, even lending was a traditional type of service. The alternative financing that existed was not online. Now you see several companies innovating in the space and several public companies that are online lenders. This whole phenomena is not specific to factoring. Factoring is something more difficult beyond lending because it is not just a service that requires cooperation from one party, it is two parties now. In our case, when we fund invoices, we do not get paid by the small business owner, we get paid by their customers. We have a very intelligent way to do that. In our case, we do it in a very discreet way where we give our clients a BlueVine account, a bank account number and PO Box where they can get paid in their own name. We are very discreet in this process. It is a more complicated process than lending; it requires two parties and payment processing. You need to verify the transaction has actually happened. From a logistics and underwriting perspective, it is just more complicated, so it is natural that lending happened before factoring. Now the time is ripe for this to happen because there is a great deal of electronic data that aids our technology based approach for underwriting which we can get through electronic means. The

other part of it is that online has become more and more prevalent for small businesses to do their invoicing. Ten years ago, cloud accounting and invoicing was not nearly as common as it is today. There are many reasons for that but it is becoming more common. If you think about it, if the small business owners are already doing their invoicing online, then why would they not want to get their invoices advanced online?

CEOCFO: *How are small businesses finding you? Are they doing online search or recommendation?*

Mr. Lifshitz: It is a mix. Even though the process and product is an online one, the channels vary. Some of it is online and some people find us through other channels. We post a great deal of content, so some people find us this way. We advertise online and some people find us that way. We are on the Intuit App Center and people find us that way. There are also offline channels such as advisers, accountants and other partners of ours. We are looking to expand our offline channels as well whether it is radio at some point or direct mail.

CEOCFO: *Do you find that your small business customer, although doing invoicing online, have some reluctance to work with a factoring company online?*

Mr. Lifshitz: I think people are getting more comfortable these days online. People do their banking online. People are buying more online. I think we are in line with that general trend. That said, there are people that are concerned about leaving their information with us. There is a level of trust here that needs to be established. As we grow, we establish our presence and part of that is making sure that we do things properly and we are building our brand and credibility. I think part of that is the fact that we have 150 plus reviews; I think that helps strengthen it. We have to reassure our clients. We are dealing with a sensitive area so trust is part of it. We are a startup so it is part of establishing our brand and making sure we are doing everything properly. Yes, sometimes people are reluctant but it is happening less and less because we are growing and people are becoming more and more aware of us.

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CEOCFO: *Where do the regulatory issues come into play?*

Mr. Lifshitz: Factoring is one of those areas that is very greyish. Some states define us as lending and some do not. There are two main types of factoring - full recourse or non-recourse and there are shades in-between. It depends on whom you ask whether we are considered lending or not. Those that are not considered as lending are not regulated. We are in California and we are a full recourse factoring company. We are licensed by the Department of Business Oversight. We have a California finance lender license. Do all factoring companies in California have that? No. Did we need to get that? It is not 100% clear, but we did get it out of an abundance of caution, because we wanted to be 100% legit. It was important for us to begin with. This is about trust and credibility. We have on our website that we are licensed by the Department of Business Oversight and I think that it is important and a good signal that we have been vetted.

CEOCFO: *Do you find that when a business is looking at factoring that they are in a precarious situation and do not pay enough attention to the process?*

Mr. Lifshitz: It varies. There are some people who do not look through the fine print. You should always read the fine print and understand the service you are getting and what it means. We see people that do not fully understand, and we do our best to be detailed and go through the entire process. There are people that it is more important to them and we make an effort to pay attention. There are some people that it does not matter much.

Our service is especially good for new businesses which are unable to get funding from a bank. Even other lenders find it hard to provide new capital when you do not have a lot of history for them to underwrite. The benefit of factoring is you can leverage the credit worthiness of your customers for active capital

CEOCFO: *Are most businesses aware of the alternate reasons for factoring. How do you educate people that may not realize what is available?*

Mr. Lifshitz: In the factoring world, some people jokingly refer to factoring as the "f" word. If you think about this industry, there is a reason why it has a bad reputation. It is sort of like the loan shark industry - whether it is onerous contracts, high penalty fees or bad practices. I would say that it is not the entire industry or even the majority. It is somewhat of a stigma that is stuck with this industry. I think that there are some bad actors and even today we are aware of the bad actors out there that do not think about what type of service or the service level they are providing to small businesses, is not their number-one priority. It is mostly about profit and reducing risk. If it is squeezing a couple more dollars from small businesses they will be happy to do it. I would not characterize the whole industry like that. I would say there are good

actors out there. However, because of the bad ones, there is an image that is stuck with this industry. We are doing our best to educate the market on the contrary, to where they understand that this service can provide a great deal of benefit to small business owners. We also try to help them identify what a good service looks like. On our website, we show small business owners what they should lookout for, so we compare our contract versus some other factoring company contract. We are trying to do our best to educate small businesses and setting an example of how a good service should look and the transparency in terms of service level.

Interview conducted by: Lynn Fosse, Senior Editor, CEOCFO Magazine



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