

Guide to financing your contract recruitment business



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Introduction

From August to October 2023, 33.01 million individuals aged 16 and above were engaged in employment. Over the last quarter, employment saw a rise of 50,000, and there was a notable increase of 234,000 in the preceding year.

As of July 2023, approximately 4.24 million individuals were identified as self-employed workers in the United Kingdom.

With fewer people remaining in the same job for a long period of time, your business sits in the perfect space as a specialist intermediary facilitating new roles.

The freelance boom

Freelance and contract working continues to become a larger part of working practice in the UK, with two-thirds (67%) of businesses experiencing a shift towards a greater proportion of their workforce comprising contingent workers.

As flexible working becomes a staple of the economy, it may present a test to recruitment agencies who haven't yet taken advantage of the gig economy. And for those who already work with contractors, the continuing increase in demand and surge in competition will put a strain on their finances.

The need for stronger cash flow, as well as the added workload that will come with running contractors, will present a challenge.

We've created this guide to help you out, whether you're new to contract recruitment or already delivering it. We've explored the different routes available to you, weighing up the pros and cons of each.

Invoice discounting

Invoice discounting is purely money all other responsibility remains with the agency - (credit control, payroll, etc).

Pros

Able to maintain the responsibility of overseeing and processing back office internally.

Improved cash flow means contractors can be paid and business can grow between invoices being sent and clients paying.

In control of chasing client invoices so are more motivated, as late payments cost interest with factoring companies.

Cash will often be available the day after an invoice is presented to provider.

Cons

Does not provide any back office support, so valuable time will be spent on processing and chasing invoices, processing timesheets, etc.

Not specific to recruitment and, with up to 40% of invoice value being held, you may not be able to pay contractors on time or meet overheads.

Concentration of debt with one client is seen as high risk, so limits are put in place to stop you funding too much with one client.

Implement all-turnover agreements, so you lose the freedom to self-fund some contractors.

Insist on long-term contracts, usually a minimum of 12 months.

Likely have to pay provider an additional sum to credit check clients.

Only be able to advance a maximum of 90% of invoice, with remainder arriving after invoices are settled.

Confidential invoice discounting (CID)

Confidential invoice discounting (CID) is invoice financing that's arranged confidentially, so your clients are unaware you're being advanced capital against sales invoices before payment is received.

Example

Your agency has placed a contractor with one of your clients, and has completed an agreed amount of work.



You raise an invoice for £10,000.



You will have an initial percentage/prepayment percentage agreed with a financier. For this example, the agreed percentage is 75%.



As soon as you have raised the invoice with your client, the financier will advance £7,500 to you (75%).



Client pays invoice amount (£10,000) into an account controlled by the financier. Known as a 'trust account'.



The financier will then pay you the remaining money (£2,500), minus their fees.

Invoice factoring

Invoice factoring is where your agency sells their invoices to a third party at a discount. In addition to providing finance, the financier also performs credit control and collects payment on your agency's behalf.

Pros

Enables cash flow by advancing anywhere between 60-90% of money owed on the sales ledger.

Runs credit checks on clients and, on occasion, may also offer bad debt protection.

Removes some of the back office responsibility by credit checking and invoicing clients.

Cons

Up to 40% of profit is withheld, which restricts cash flow and the headroom needed to grow.

Concentration of client debt is seen as high risk, regardless of how creditworthy the client is.

Implement all-turnover agreements, removing the freedom to self-fund any contractors.

Insist on long-term contracts, usually a minimum of 12 months.

Auditing and bad debt protection will likely cost an additional sum.

Only be able to advance a maximum of 90% of invoice, with remainder arriving after invoices are settled.

Interest is dependent on when invoice is paid, and late paying clients will cost the agency.

Lacking recruitment experience, which may affect relationship with clients and consequently future business.

Multiple fees are payable, including setup fees, transfer fees, overpayment charges, late payment fees and refactoring fees.

Example

You place a contractor on a three month contract. You charge the client £500 per day and pay the contractor £400. Your gross margin is £100.



You invoice monthly (£10,000) and pay the contractor £2000 per week.



To fund the payment, you sell the invoice to a financier who factor it for 90%. This gives you £9,000 into your bank account.



You pay £8,000 to the contractor, leaving you with £1,000 to cover all fixed and variable costs until invoice is settled.



The financier collects the full invoice amount and pays you the remainder of your invoice profit, minus their fees which vary between 3-5% of full invoice value.

Confidential factoring

Confidential factoring is an innovative, hybrid product that offers the best of both worlds – the credit control and the cash advance of a factoring facility, with the confidentiality of invoice discounting. The financier's role is hidden, so the finance and back office appears as part of the agency's offering.

Pros

Typically receive 100% profit within one week of timesheet authorisation.

No manual back office work to perform.

Confidential arrangement.

Cons

Level and quality of the back office support and tech received varies.

Back office is managed on agency's behalf, by the financier.

Additional fees are taken from profit.

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Disclosed factoring with back office

Your agency factors invoices with financier in a disclosed way (i.e. the financier collects money on behalf of the agency in the financiers name.) This is accompanied by a back office function to support, manage and administer the running of contractors.

Pros

Typically receive 100% profit from an invoice within one week of timesheet authorisation.

No manual back office work to perform.

Cons

Level and quality of the back office support and tech received varies.

Back office is managed on agency's behalf, in the financier's name.

Additional fees are taken from profit.

Example

You place a contractor on a three month contract. You charge the client £500 per day and pay the contractor £400. Your gross margin is £100. You invoice monthly (£10,000) and pay the contractor £2000 per week.



To fund the placement, you add the placement details to your online account (contractor, client, pay and charge rate, invoice details).



The financier sends contracts and timesheets.



As soon as timesheet is approved, the financier pays your contractors and your invoice profit, minus fees.



The financier manages credit control for you and collects payment from end-client in your agency's name.

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Self-funding

Using money to fund your placements, without using an external company. Agencies who self-fund are usually in one or more of the following categories:

- They have enough savings to cover all of their overheads.
- They have sufficient finance from their perm placements to support contractors, with enough profit to maintain their cash flow.
- They have agreed strict payment terms with their clients to support their cash flow, so they don't have an interval between paying their contractors and getting paid.
- They only plan on running a couple of contractors, so can handle the cash flow deficit when it happens.

Pros

Less time is spent searching for finance from outside sources.

Complete responsibility and ownership over where money is allocated and any profits that are returned.

Can be used in addition to other forms of financing, making it a flexible form of finance.

Cons

Ability to self-fund may limit growth or the amount of contractors it is possible to run.

Responsibility of handling admin of running contractors is time-consuming and interferes with growing a business and securing more deals.

Risk in self-funding that there are less official safeguards in place.

Additional Charges

Many financiers also have a variety of extra charges and fees. These will sit separately to the initial fee you will be offered, meaning you'll effectively receive less of your invoice profit.

Here's a list of some of the additional charges you'll face:

Setup fee

The initial cost to set up the facility, which can range from £500 up into the thousands.

Service fee

A rolling usage fee, which is usually taken as a fixed percentage of your projected turnover.

Bad debt protection

An additional cost you'll be expected to pay to safeguard the financier, should one of your clients not pay or become insolvent.

Annual review charge

After a year, you'll be charged a continuation fee to keep using the facility, which is typically around 1% of your assigned turnover.

Review limit increase

A charge you will be required to pay, should you wish to extend your limits. There is usually one charge for considering the increase, followed by a second charge to actually increase it.

Legal letters

You'll be charged a fee for any legal correspondence sent to yourself or your clients, as well as for any stationary used to write them (so you're essentially paying for their pens and paper).

Collection fees

Should your agency become insolvent, you will pay an additional cost for the financier to collect on all their invoices in your sales ledger.

Refactoring cost

If an invoice goes unpaid for over the agreed time limit, you'll be expected to pay a higher cost to retrieve the late invoice.

Audit charge

You'll have to pay around £500 for the financier to approve your agency's financial security, with an extra charge required for every client that requests written proof of inspection.

Want to know if we can fund your next placement?

[Click here to find out](#)



A contract placement is worth on average almost £35k, permanent placements average just over £4k

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Introducing Sonovate

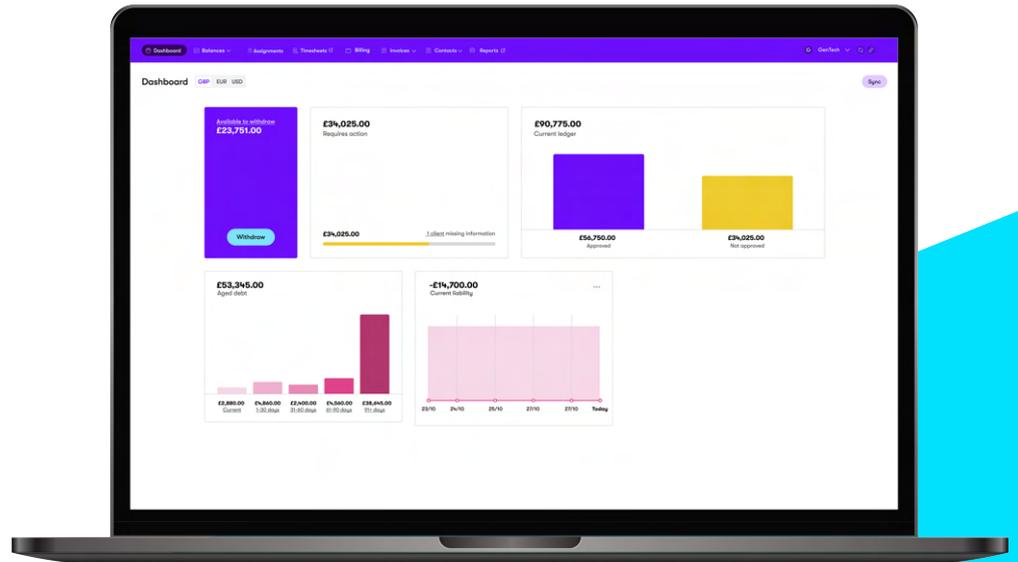
Sonovate helps you get paid, easily and on time

Sonovate provides invoice finance and back-office support to businesses who place contractors.

“

Having been in the industry and truly understanding the pain points involved, Sonovate has massively exceeded our expectations”

Toby Babb
Founder and CEO,
Harrington Starr



Our whole approach is designed to save you time, get admin out the way and focus on the work that grows your business.

- 1 Add a placement
- 2 Confirm timesheets
- 3 We pay candidates and 100% of your invoice profit into your business bank account.

Sonovate in numbers



£4bn+ invoices funded

Over **40,000** contactors paid



Over **3,300** agencies use Sonovate



£240m in securitisation



Winner of multiple industry awards in Fintech and Recruitment



See Sonovate in action

Click here to select a time and date to demo Sonovate

Get Started

 **020 7112 4949**
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