How Factoring Changes Staffing Agency Profitability

Factoring gets evaluated as a financing decision, and it is one, but the fee it costs doesn't stop being real once the cash-flow problem is solved. It's a direct cost against a specific assignment or account, exactly like burden or a program fee, and belongs in the same profitability calculation, not treated as a below-the-line financing expense that margin numbers conveniently ignore.

The fee is a cost of this assignment, not overhead

It's tempting to treat factoring cost as a general financing line, something that shows up on the P&L but doesn't change how you think about any individual account's profitability. That's a mistake once factoring becomes a routine part of how you fund a specific client's receivables, because that client's real contribution is lower than the headline margin suggests, specifically by the factoring fee that account's invoices generate. Assignment Profitability already has a funding cost input for exactly this reason: a slot to include factoring or financing cost directly in the same economic-contribution calculation as burden and program fees, not as a separate afterthought.

Costing it precisely, not roughly

Factoring Cost computes the actual fee for a specific invoice, including an incremental fee structure if your agreement steps the rate up the longer an invoice stays outstanding rather than charging one flat percentage regardless of days out. That distinction matters for accounts with slower- paying clients specifically: the same nominal factoring rate can cost meaningfully more on a 75-day payer than a 30-day payer if the agreement is structured with incremental tiers, and a flat-rate assumption would understate that account's true funding cost.

Whether factoring is even the right call for this need

See Factoring vs Line of Credit for Staffing Agencies for the full comparison mechanics. The profitability angle worth adding here: a factoring fee that's acceptable in isolation can still make a marginal account genuinely unprofitable once it's subtracted, which is a different and more specific question than "is factoring generally cheaper or more expensive than a line of credit." Run both checks. An account can pass the general financing-cost comparison and still fail on its own account-level profitability once the actual fee for that specific client's payment behavior is applied.

The graduation question, from a profitability angle

Graduate From Factoring is usually framed as a financing-cost comparison, and it is one, but it's worth re-running specifically against your thinnest-margin accounts first, not the book as a whole. An agency's blended factoring cost might not justify switching to a line of credit on average, while a handful of specific low-margin, slow-paying accounts are being materially dragged down by the same fee that barely registers against a healthy-margin, fast-paying account. Graduating selectively, keeping factoring for accounts it works fine for while moving specific accounts to a line of credit, is sometimes the right answer even when a full switch isn't.

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