

Pokamestov Ilya
CEO, FACTORing PRO

Ph.D. Economics, Moscow university of economics, statistics and informatic

Lednev Mikhail,
Marketing director, FACTORing PRO
Ph.D. Economics, Moscow financial-industrial academy (MFPA)

Special features of competitive positioning and promotion of factoring company's products

Fast development of Russian factoring market significantly increased number of Russian factors (companies and banks offering factoring services) as well as number of companies which use factoring. Meanwhile competition is becoming more and more severe. Several years ago price competition usually had place but now it is being replaced by non-price factors. Therefore to reach a success on the factoring market, factors started to implement different marketing tools and strategies including competitive positioning.

Author of this article decided to systematize and analyze different approaches to sales and promotion of factoring services in order to offer some implements aiming to increase performance of this process. Author's point of view is based on traditional marketing approaches which could be effectively applied in factoring.

Just a very few of Russian factors have special marketing departments of marketing staff. And even if there are any of them, they are focused generally only on advertising. On the contrary, fast growth of factoring market demands from factors more special marketing activities such as market analysis, new products development, competitive positioning, etc.

As most factoring players in Russia are banks, they often transfer marketing responsibilities to the salespersons. Salespeople usually are not motivated to solve strategic issues such as marketing planning, products development, etc. It causes situation when marketing strategy is not really working.

Meanwhile list of functions to be executed by marketing unit of factoring company is rather wide. Main functions are listed hereinafter:

- market surveying;
- planning of product line;
- competitive activities;
- price formation;

- optimization of sales' channels;
- competitive positioning.

It is clear that sales units will not succeed to fulfill all abovementioned functions. Even if they are involved in issuing them partly, these objects are not in priority. It could be considered that fast growth and wide potential of Russian factoring market make it possible not to use special marketing technologies. However, if we look further into situation we find out that a large number of new players have entered the market recently and this tendency will continue. In this competitive situation it will be difficult for many factors to increase and even to retain its current market share and clients by using only price factor.

For example, «National factoring company» (NFK), a pioneer of Russian factoring market which was market leader for many years despite of its factoring portfolio volume's growth declined its market share from 30% in 2005Y to 12% in 2007Y¹. At the present time all factors should pay attention to quality of its competitive advantages in order to evaluate it and start implementation of concrete measures.

Thus, the author proposes to address attention to the main strategic target for factors. This is the question, which services factors offer to clients. Firstly, each factor has to consider its product line. There are two ways to develop factoring products. Factor could start either with invoice discounting incl. plain financing or try to offer complex factoring service incl. debt management, credit insurance and other services. Most Russian factors offer simply invoice discounting but call it «factoring» to attract clients. It could be good solution for new factors who don't have enough qualified staff and approved factoring technologies. In this case factor could only offer financing, so its positioning and marketing strategy should be in this direction.

Main models of competitive positioning, presented at Russian market, could be divided into 3 groups:

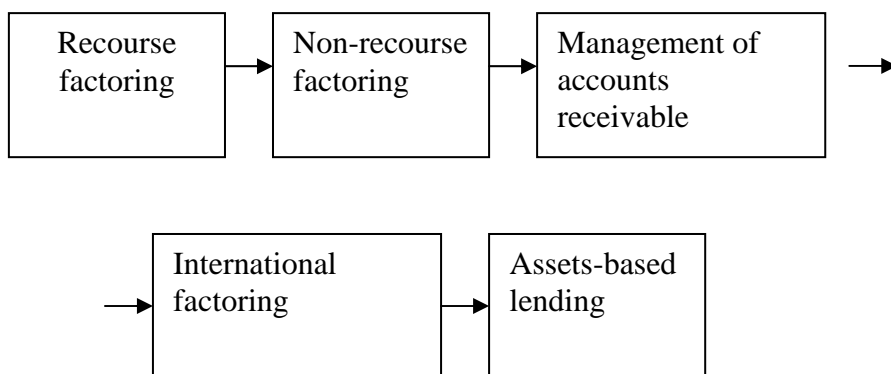
- «conveyor» factoring;
- factoring «boutique»;
- «commercial» factoring.

Factors which belong to the first group («TRUST», «Eurokommerz») offer standardized «packed» products with fixed pricing and conditions. Main client audience for this group is small and medium business. Second group is represented mainly by banks (BSGV, Petrokommerz) focusing on its existing clients. These factors offer low pricing and flexible terms for loyal customers. «Commercial» factoring is focused on large and medium clients. It is characterized by wide range of different services and high level of quality.

¹ «Russian factoring market in 2008Y». Research by rating agency «Expert RA».

The second stage of competitive position's development is to offer some more specific and risky services to clients like protection against credit risks as a part of non-recourse factoring and international factoring. While starting these operations factors should be prepared for transactional and time costs caused by implementation of new risk-management and operations processes. In case of international factoring it will take time to launch cooperation with international factoring associations.

When setting up international factoring it is crucial to choose international partners among factoring associations. Membership in an international factoring community gives opportunity to cooperate with factors from all over the world within two-factor model of international factoring. This model is the most effective because it reduces level of risk for each factor and in the meantime allows offering for client a complex of services. Therefore a tight cooperation between factors is required when using this model. On the other hand, international factoring operations generate a number of troubles for any Russian factor. They derive from structure of Russian export, contradictions in tax and currency law, usage of offshore and «grey» schemes in Russian export and import.



Scheme 1. Development of factoring product line.

The author find it the most reasonable to apply evolution model of development (refer to scheme 1) regarding factoring product line. In this case factor firstly aims to enlarge portfolio of clients providing them with simple service. When factoring software is implemented and risk-management techniques are tested and adopted it is time to expand number of services.

At the highest stage of evolution it is recommended to investigate customers' habits in order to create innovative services. For example, some Russian factors have implemented or plan to set up such services as maturity factoring, asset-based lending.

One more key element of competitive positioning is factors' image. To maintain this indicator at the appropriate level factor should consistently monitor customers preferences and

competitors' activities and also present attractively own services. Factoring company «Eurokommerz» who started to sell «packaged» factoring products was pioneer in this field on Russian factoring market. Clients could choose appropriate tariff plan and buy a package of factoring services related to it. NFK also emphasizes importance of positioning of its products. Each of its factoring products has unique original name (Factoring-Garant, Factoring-Signal, etc.) and dedicated advertising tools.

Leaders of Russian factoring market enthusiastically participate in different conferences and events related to topics of finance and raising funds for business, publish promotional articles and advertisement in economic magazines.

The author tried to define main criteria from customers of factoring point of view:

- reputation, including existing customers' references;
- experience of factoring operations;
- volume of factoring portfolio;
- number of references in press;
- list of additional services;
- time required to start operations;
- availability of special software, especially on-line module;
- price of factoring services;
- quality of web-site.

Evidentially most of abovementioned parameters could be improved internally by factor without significant expenses. To do this factor should only develop and then follow its competent strategy aiming to reach desirable competitive position.

One criteria which could be marked out is factoring software. There are three possible ways in automation of factoring operations:

- create self-made software;
- buy Russian factoring software;
- buy factoring software from foreign IT-company.

It is necessary to emphasize also importance of high-quality web-site maintenance. Nowadays many potential clients search and even chose financial services via Internet. Therefore web-site becomes a channel of feedback with clients if it contains detailed and proper information about factor and its services, on-line application form. Factors have to think about optimization of their web-pages and its upgrade in search systems.

Many Russian factors, especially small and medium ones, focus on Internet as main channel of advertisement and promotion.

One more aspect which is really important to all financial services is a necessity to promote it in business community. Not all Russian business people even understand the essence of factoring. At the same time business now suffers lack of liquidity and look for sources of finance. So factors should enforce promotion actions like publishing of articles, participation in on-line conferences, web forums, exhibitions, cooperation with other financial institutions.

Factors should concentrate on target industries and sectors of economy in order to achieve higher results.

From the question which factoring services to sell we now move to the following key questions «how to sell?» (sales channels) and «to whom sell?» (target clients). To answer these questions correctly it is important to compose a portrait of common client of factoring company. Of course different factors have various requirements for clients but it is possible to make a general conclusion. Here is the typical client.

- company exists for more than 1 year;
- sells goods on credit term;
- delay in payment period is up to 180 days;
- monthly turnover exceeds 3 000 000 rubles;
- number of debtors- from one;
- noncash form of payment;
- no affiliation between client and its debtors.

Then the author proposes to identify main categories of clients using factoring and to define target factoring service for each category.

- distribution (trade) company;
- manufacturing company;
- retail networks;
- subsidiary of foreign company or international company;
- exporter.

Trade companies are most common clients of factors. Most of them supply food staff or consumer goods to large retail networks. This type of companies usually has rather poor financial statements and a few of assets capable to be a good collateral. Regarding such deals factors analyze more precisely and rely upon debtors. Trade companies search for financing and hardly ever could pay high fees for additional services like insurance of credit risks. So they usually use recourse factoring.

Manufacturing companies are often interested in protection against risks, management of accounts receivable (especially in regions) and financing of cash flow shortages caused by overdues. Therefore for this sort of clients factors offer non-recourse factoring, management of

accounts receivable, export factoring. Perspective way of cooperation may be also to establish reverse factoring scheme as most of large manufacturers have plenty of suppliers.

Retail networks are other prospective clients. Factor will get many new clients if he succeeds to enter into reverse factoring agreement with retail network. However, it is important to organize this scheme in a way when it really works. To persuade retail networks to use reverse factoring factor should describe possible advantages properly (extend delay in payment for suppliers, financial support for suppliers, discounts for early payments).

International companies and their Russian subsidiaries usually have cheap funds so they are not interested in financing. They used to cooperate with factors abroad so they intend to find similar services and quality of factoring in Russia. Such clients need credit risk insurance and evaluation of debtors so they demand non-recourse factoring or maturity factoring.

Potential clients could be rated basing of volume of their business. Most Russian factors tend to cooperate with large and medium-sized companies by limiting the volume of accounts receivable to be assigned monthly. On the other hand, some players announced they are focused on small business or they offer special tariffs to it. This kind of strategy is obvious because operations with small clients are very profitable as these clients pay higher commissions.

Finally, we need to study issue of sales channels in factoring. For factoring they are similar as for other financial services:

- direct sales;
- cross-sales (on banking factors);
- agent;
- financial brokers;
- sales via another financial institutions.

Last three channels are potentially the most prospective in Russia as broker's market demonstrates fast growth and even special factoring broker has appeared.

To sum up, the author makes a conclusion that many Russian factors currently tries to manage its competitive position by using various tools of marketing and competitive positioning. However, set of competitive strategies presented on the factoring market is very limited. Moreover, most of factors do not conduct consistent competitive activities but only make separate actions. It is caused by absence of a clear development strategy. As a result, target client segments are not fixed and factoring services are not rated by priority. In order to increase performance factors should pay more attention to its competitive position. When starting factoring business, clear development strategy is to be worked out including plan of competitive positioning.