

Title:

Is Invoice Factoring An Affordable Business Financing Solution?

Word Count:

363

Summary:

Are you looking to finance your business with invoice factoring? Read this article to determine whether factoring will actually help your business.

Keywords:

invoice factoring, factoring, accounts receivable factoring, freight bill factoring, medical factoring

Article Body:

In short, yes. Provided that your company meets certain criteria.

Invoice factoring has been gaining popularity as a tool to finance growing businesses. It is a solution that accelerates payments from slow paying clients, freeing up cash flow and allowing companies to grow. By eliminating the uncertainties of when they'll be paid, business owners can use factoring to stabilize their business and put it on a growth path.

However, factoring is not for everyone. For factoring to work, your business must meet certain criteria:

1. It must be established and have commercial or government (not consumer) sales
2. Your profit margins must be at least 12% or higher
3. Your biggest problem must be that clients are taking too long to pay their invoices

If you fit these criteria, then there is a chance that factoring financing will be a good solution for your business. It may not be as inexpensive as a business loan, but certainly will be significantly more flexible and easier to obtain.

Factoring will help you if:

1. You are turning away orders because you lack the cash flow
2. You risk missing key payments (rent, suppliers, payroll) because of cash flow

Factoring transactions are relatively simple. Once you invoice your client, you

sell your invoice to the factor, who advances you up to 85% (on average) for your invoice. 15% is usually kept as a cushion to handle potential issues with the invoice. You get immediate funds from the advance while the factoring company waits to get paid. Once the client pays the invoice, the factoring company will rebate the 15% less their fee.

Factoring costs can vary depending on your financed volume, credit quality of your clients, payment cycles and industry. Generally speaking, factoring will cost 1.5% to 3.5% per month. However, most factors break their pricing in smaller ten-day increments, making cost more attractive. So a factor that charges 2.7% per month, would actually charge you 0.9% for every ten days the invoice is outstanding.

As you can see, invoice factoring is a reasonable alternative to other financing products, provided that you can meet certain criteria. Qualifying for invoice factoring is very easy, the biggest requirement is that you do business with credit worthy commercial or government clients.