Title:
Factoring Can Be An Ideal Solution For Start-Up And/Or Growing Businesses

Word Count:
396

Summary:
Factoring is one of the oldest methods of business financing in existence. The history of factoring dates back to the days of moneylenders in the middle ages. Factoring has been the working capital facility of choice in Europe for centuries. It has taken on a new life in recent years as a financing method for many businesses in the United States.

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Keywords:
invoice factoring, account receivable factoring, factoring, working capital

Article Body:
Factoring is one of the oldest methods of business financing in existence. The history of factoring dates back to the days of moneylenders in the middle ages. Factoring has been the working capital facility of choice in Europe for centuries. It has taken on a new life in recent years as a financing method for many businesses in the United States.

Factoring is the sale of accounts receivable, as opposed to borrowing against them as you would do with a bank line of credit. By selling your invoices, you generate immediate cash flow instead of having to wait for your customers to pay.

Companies often find themselves in the frustrating position of having sales opportunities which they cannot accept because of the lack of financing to support those sales. Banks normally cannot provide adequate funding for growth due to internal credit policies and external regulatory restraints. Even if a business can qualify, the bank line of credit may be totally inadequate to support the company’s sales growth opportunity.

Primary advantages of factoring versus a bank line of credit:

• Factoring facilities are much easier to implement compared to acquiring a bank line of credit.

• Factors have more flexibility with regard to documentation and credit issues than banks.

• Factoring can be initiated and terminated very efficiently. When making a first-time purchase of invoices from a business, factors typically take one to two weeks to check the credit ratings of the customers and communicate a discount price.

• The business receives payment in cash from the factoring company after delivery and invoicing a customer. Immediate invoice payment eliminates the sale-to-collection business cycle; thus allowing businesses caught in a cash crunch to obtain fast relief. Turnaround on the sale of receivables is only about 24 hours.

• Factoring is a sale of assets (invoices), not a loan. For businesses that either cannot qualify for traditional debt financing or that simply do not want to incur more debt; factoring is good alternative means of funding working capital.

• Factors purchase all rights in the invoices and the seller has secondary liability for any invoices not collected.

The factors undertake debt collection, but the business remains ultimately responsible to repay any portion of the cash price attributable to an account that went uncollected. Factoring can be an effective solution to funding a short term gap in cash flow for the start-up or rapidly growing business.