Title:
Invoice Factoring - What Is It And What Are The Benefits?

Word Count:
480

Summary:
Are you a business owner who wants to increase monthly cash flow, working capitol, and improve your credit rating? Then invoice factoring could be right for you.

Invoice factoring is the process by which businesses sell their invoices to a third party, called a “factor.” The factor buys the invoices for about 3 to 5 percent less than the invoice is actually worth. If your business produces any type of invoice, then your business can take advantage of invoice factoring.
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Article Body:
Are you a business owner who wants to increase monthly cash flow, working capitol, and improve your credit rating? Then invoice factoring could be right for you.

Invoice factoring is the process by which businesses sell their invoices to a third party, called a “factor.” The factor buys the invoices for about 3 to 5 percent less than the invoice is actually worth. If your business produces any type of invoice, then your business can take advantage of invoice factoring.

Once the factor purchases the invoice, then the factor owns it, and collects the debt from your client. As the business owner, you get to decide which invoices to factor, based on your customers’ credit and payment history with your business.

Factoring your invoices means your cash flow does not suffer while you wait for your customers to pay. The factor buys the customers’ debt, improving your working capitol and the credit rating of your business.

It works like this: You send an invoice to your customer. Then you inform your invoice factoring company that you have sent the invoice, and in what amount.

Usually, that can be done by e-mail, so it’s quick and easy.

The second step is the factor confirms the invoice with your client. Usually, this is done in such a way that the customer or client does not know that you have sold their invoice to a third party. The factor will identify itself as a billing department or company, rather than an invoice factor, and will simply call or send a letter to confirm the invoice.

Some invoice factoring companies are willing to keep the factoring completely invisible to your customers. And after you develop a history and good relationship with the factor, they will usually stop confirming every single invoice.

Once the factor has confirmed the invoice, they pay your business a percentage of the total amount of the invoice, usually around 70 to 85 percent. This is called the “advance rate,” and it is one of the primary points to look at when selecting a factoring company. When the factor collects the invoice from your customer, you will get the rest of the money you are owed.

Factoring benefits businesses that have poor credit history, no credit history, or limited hard assets. Factoring also helps businesses when they are just starting out, because it can often take time to build up steady cash flow.

Additionally, invoice factoring allows you to increase working capitol without taking liens against your other collateral, so there is little risk to you.

As a business owner you know how frustrating it is when waiting for your customers to pay. Even if your invoices are not past due at all, it can still take weeks to collect the funds you need to put back into your business immediately. Invoice factoring can help your business grow and reduce your own stress level.