

Title:

How Factoring Companies Can Help Your Business Succeed

Word Count:

767

Summary:

At the root of many successful businesses is an effective cash flow structure that is able to manage accounts receivable and lending against receivables. Cash flow management is vital to the profitability of a business, because commercial enterprises must also pay bills, just like everybody else.

Keywords:

factoring,

Article Body:

At the root of many successful businesses is an effective cash flow structure that is able to manage accounts receivable and lending against receivables. Cash flow management is vital to the profitability of a business, because commercial enterprises must also pay bills, just like everybody else.

A factoring service is designed to simplify accounts receivable management, by making it possible for the business to get a loan against receivables, based on the credit rating of the person who owes the money to the business. This type of service is an option for any business that has been having trouble collecting on unpaid invoices. Factoring companies are used in many industries and for businesses of all sizes, because they can assist in creating an efficient financial processing framework.

Factoring companies are responsible for helping a business convert accounts receivable into cash. A factoring company, sometimes referred to as accounts receivable financing, will help any business manage their financial resources more effectively and efficiently. The goal is for the business to enhance its collections during day-to-day business operations and convert its existing receivable assets into immediate cash flow. These newly available funds can then pay the necessary bills that are generated from running of a business.

It's important to first understand how accounts receivable funding is different from a standard loan obtained from a bank. Accounts receivable funding, or factoring loans, is not a loan in the common sense, but instead a transfer of assets (receivables in this case) to a third-party. While banks can take months

to approve a regular commercial loan, an advance on receivables from the correct agency can help a business convert its own resources to cash within days and provide money for day-to-day operations. The factoring service merely provides the money already owed to the business, in advance of receiving payment from the business' customers. Businesses that take advantage of this kind of service do not have to wade through a bank's red tape in order to receive the cash it needs to keep its bills paid on time.

By working with a receivable finance agency, a business can gain access to a new pool of cash. This is an important part of improving a business' cash flow, and it will help tighten up accounts receivable and invoice management as well.

The process of factoring receivables, with today's leading receivable finance companies, is relatively simple and straightforward. First, a copy of the invoices that is sent to customers is delivered to the factoring service company. Various factoring companies extend different percentages for the value of the invoice, anywhere from 70-90%. The end-customer pays the factoring service the amount of the invoice, instead of paying the business directly. After the customer has paid his or her bill, the factoring company then pays the billing company the remaining balance, minus a discount fee. The process is very similar to accepting credit cards from customers, and it can significantly help put income into the company's bank accounts immediately.

There are many benefits to working with a factoring service. Some business managers make the mistake of thinking that factoring will be too costly, but the truth is that the benefits far outweigh the costs involved. Improving the cash flow of a business can lead to considerable savings over time -- this can include savings on the cost of credit investigations and any cash discounts on purchases. This cash-on-hand can also help the business to stay on solid footing with its own creditors.

Finding the right factoring company can take some time; so reviewing your options is an important first step. Financial services are readily available in the areas of receivable finance, asset-based finance, and purchase order finance. The most common types of businesses that can benefit from funding through a factor company, includes start-up businesses, seasonal businesses, and rapid-growth businesses. Some businesses that have insufficient collateral, are in acquisition situations, or have inadequate cash flow will also benefit from a factoring service.

The factor company can help to manage and collect accounts and ensure that you are paid immediately for all invoices received. Copies of the invoices are all the business needs to get started in a factoring agreement, and it can take as

few as between 3-5 days to set up an account. Initial funding can take between 3-10 days after signing the agreement. In most cases, almost 100% of a company's accounts can be funded, depending on the industry, credit quality of the buyers, and invoice processing procedures. A factoring service can greatly assist in the success of a business, by providing the necessary cash on hand to run the business.