

Title:

Stimulate Company Growth Using Accounts Receivable Factoring

Word Count:

615

Summary:

Accounts receivable factoring is the sale of part or all of a debt that someone owes to your company. When companies purchase a debt through accounts receivable factoring, they pay for your invoice at a discount. They then collect the debt directly from the company who owes you money.

Accounts receivable factoring is distinct from using your accounts receivable as loan collateral because you are outright selling some or all of your receivable to a factor, such as a bank o...

Keywords:

Factoring Services, Invoice Factoring, Invoice Discounting, Factoring, Accounts Receivable Factoring

Article Body:

Accounts receivable factoring is the sale of part or all of a debt that someone owes to your company. When companies purchase a debt through accounts receivable factoring, they pay for your invoice at a discount. They then collect the debt directly from the company who owes you money.

Accounts receivable factoring is distinct from using your accounts receivable as loan collateral because you are outright selling some or all of your receivable to a factor, such as a bank or insurance company, at a discount. You don't collect the debt owed to you from that account anymore, but you also don't have to worry about loan repayments. Accounts receivable factoring makes up about a third of all financing secured by American companies using accounts receivable and inventory as collateral; it's not an uncommon practice. And accounts receivable factoring can help you get large orders that you otherwise wouldn't be able to manage.

Consider the following scenario: you have ten thousand dollars in cash on hand, most of which is currently earmarked for payroll or debt payment. As a relatively new company, you don't have credit enough to use your accounts receivable as collateral for a loan. A large new account becomes available, and you bid on it and win. The problem is, you only have a workforce of fifteen

people, and the new contract requires you to staff it with twenty people, purchase several new computers, and find space for the new staff to work out of. And you must do this immediately.

Your ten thousand dollars isn't enough to do this, and you can't get a loan. But you can engage in accounts receivable factoring, sell your current receivables at a small discount, and have the cash immediately on hand to hire the staff, rent the space, and purchase your necessary equipment.

Another possibility - you have a large amount owed to you as in accounts receivable, but one company is paying much too slowly, despite the penalties for late payment. You can sell your not-past-due accounts receivable to an accounts receivable factoring agent in order to maintain your cash flow, and with penalties for late payment applied to the other company, you will probably break even.

#### Using Accounts Receivable Factoring Wisely

When you sell part of or all of an account to an accounts receivable factoring company, try to get a personal recommendation for the company from a trusted associate: another company's officer, a trusted friend, a bank, etc. If you can't, at the very least ensure your accounts receivable factoring agreement states exact conditions, charges, and procedures for the purchase of your accounts receivable.

And don't use accounts receivable factoring just as a way to get ready cash. Accounts receivable factoring can help you determine whether your payment terms are overly generous, whether the companies to whom you're extending credit are credit worthy, and whether your collections arrangements are adequate for your business. When you speak to the agent arranging your accounts receivable factoring, be it a broker or the actual funder, ask about these things. Accounts receivable factoring companies are interested in long-term ongoing relationships with companies, and will be happy to help you ensure your procedures and information concerning accounts receivable are adequate for your needs.

You should never use accounts receivable factoring for debts you suspect won't ever be paid. Again, you want to develop long-term relationships with accounts receivable factoring companies; they can help your company grow for a long time into the future. But if you sell them accounts they can't collect on, you can be certain they won't work with you again, and they may share that information with other accounts receivable factoring companies as well.