Title:
Invoice Factoring - How to Finance your Company Without Debt

Word Count:
561

Summary:
Are you looking for a way to infuse cash into your growing company? Read this article to learn about factoring financing - an easy way to get cash for your business.

Keywords:
invoice factoring, factoring, accounts receivable factoring

Article Body:
There are few bigger challenges for business owners and managers than waiting 30 to 60 days to get paid by their customers. Although large businesses can usually afford it, smaller businesses can’t afford the wait. As a matter of fact, waiting to get paid on their invoices can create cash flow problems that affect the owners ability to meet payroll or pay the company’s bills. This problem can be more frustrating if the business has a number of orders that it cannot fulfill because its cash is tied up in unpaid invoices.

How can invoice factoring help you?

Invoice factoring, also known as accounts receivable factoring, is a financial tool that allows small business owners to capitalize on the power of their slow paying invoices. It allows you to turn your invoices into immediate cash, enabling you to fund your business operations. Although it is not a well-known fact, invoices from strong credit worthy commercial clients are excellent collateral, especially for factoring companies. Although most banks won’t take invoices – factoring companies are more than willing to provide you with financing based on them. This makes it an ideal financing vehicle for small and mid size businesses, as well as knowledge-based companies and employee intensive firms.

How does invoice factoring work?

As opposed to most banks that lend you money against hard collateral, invoice factoring companies buy your invoices outright. The factoring company buys your invoices and provides you with funds immediately, while they wait to get paid by your customers. Factoring is best described with an example:

1. Let’s say that you sell services to Company A and Company B. As soon as you provide the services, you invoice them.

2. At the same time, you send copies of the invoices to the factoring company, who buys them and provides you with an advance payment for them.

3. The factoring company waits to get paid by your customers. Once paid, any remaining funds are remitted to your company.

The invoice factoring process can be repeated every time you invoice, providing you with a flexible line of financing that grows with your business.

How much will an invoice factor advance my business?

Factoring transactions are commonly done as a two-installment sale. The first installment is called the advance and is paid to you as soon as you submit the invoices. Advances can range anywhere from 60% on the low end up to 90% of the gross value of the invoices. The average advance is about 75%.

The remaining installment, called the rebate, is remitted to you once the invoice is paid. Factoring fees are deducted from the rebate.

The cost of invoice factoring

The cost of a factoring transaction is determined by three criteria. First, the credit worthiness of your customers. Second, the length of time that your invoices take to get paid. Lastly, the monthly factored volume.

Your cost, actually called a discount, can be as low as 1.5% or as high as 12% per transaction depending on how you fit the previous criteria.

How can I determine if invoice factoring will help me?

Generally speaking, invoice factoring will help you if you have a business that has reasonable profit margins or is growing quickly. Mid size companies with 20% or more profit margins or large companies with 15% profit margins can usually do well with accounts receivable factoring.