

Simple Solution – Accounts Receivable Financing



Owning a business can be rewarding on many levels, especially if you have the funding you need to reach your revenue goals. Unfortunately many small- and medium-sized business owners have struggled to manage their finances while being outside the promise of traditional bank loans.



A financing option that has been around for thousands of years may be one of the best alternatives.



Accounts Receivable Financing (sometimes called factoring) is a form of asset based lending and is a legitimate and valuable financing tool for many small- and medium-sized businesses. Accounts receivable financing is a financial transaction in which a company sells their invoices at a discount to a third-party in exchange for immediate cash. A financial institution that offers this type of financing will typically give you as much as 85 to 90% of the value of your invoices or accounts receivable.

There are many benefits to companies that choose to finance their accounts receivable. In addition to avoiding all the paperwork associated in an attempt to obtain traditional financing, accounts receivable financing is easy and, as already mentioned, generally provides instant cash. Below is a list of additional benefits of accounts receivable financing.

RECEIVE AN INFLUX OF WORKING CAPITAL

The primary benefit of accounts receivable financing is that it helps your business get the working capital it needs without taking on new debt or diluting ownership of your company by bringing in new investors. Because today's economic environment is highly competitive, many businesses are under immense pressure to improve operations and undertake cost-cutting measures to remain profitable. These problems are compounded for small businesses because most small businesses are often times understaffed to begin with. As a result, owners of small businesses frequently spend more time on cash flow and customer credit issues rather than on their primary objectives of growing their business, increasing sales, managing marketing campaigns and improving their employee productivity.

Many small businesses experience serious cash flow problems because their cash is tied up in their accounts receivable. For businesses that are growing, the cash flow problems can even become worse because more and more of their capital is not in their bank account, but is on the balance sheet in the form of A/R. Most businesses want to grow and expand, but if appropriate planning is not done, an entire business will feel the squeeze because it is under capitalized. Accounts receivable financing is a solution to free up your capital and have it available when you need it. Your business will be able to invest in areas where it can help you become more profitable, such as payment discounts to taking advantages of promotional prices for inventory or supplies.



IMPROVE CASH FLOW WITHOUT TRADITIONAL BORROWING

You can eliminate long billing cycles and receive cash for your outstanding invoices in as little as 24 hours. Since accounts receivable financing is not a traditional bank loan with a fixed line amount, your business gains the flexibility to match sales and expenses. As your sales grow, you will have more cash available against your invoices to handle the increased expenses. It is the best way to manage a business that has fluctuations.

CAPITALIZE ON SUPPLIER DISCOUNTS

Many suppliers offer discounts if they are paid in a short period of time. By financing your A/R, you accelerate your cash flow allowing you to pay your suppliers earlier and take advantage of supplier discounts or buy in larger quantities.

BUILD OR REPAIR YOUR CREDIT RATING AND CREDIT SCORE

Since accounts receivable financing will give you immediate cash, you can pay your bills on time, or possibly even early, allowing you to build or repair your business's credit rating and most likely your personal credit rating. Improving your credit rating and raising your credit score will give you increased borrowing power when you need it.

SPEND MORE TIME BUILDING YOUR BUSINESS AND LESS TIME COLLECTING MONEY

When you finance your invoices, you have the cash you need to operate your business. As a result, you can spend more time on the things that matter most — sales, quality control, customer service, and operations. Through accounts receivable financing, the issue of collecting will be off your mind.

INCREASE YOUR COMPANY'S SALES BY OFFERING BETTER TERMS TO YOUR CUSTOMERS

If you choose to finance your A/R, you may offer your customers better payment terms to entice them to do more business with you. Additionally, you will be in a position to extend credit terms to larger customers without requiring them to pay COD. Almost every institution that offers accounts receivable financing will check your customers' credit so you can confidently do business with companies that will pay your invoices. Letting the bank or finance company do those checks saves you time and hassle.

SECURE CAPITAL BY LEVERAGING YOUR ASSETS

Because your ability to finance your A/R is based on the credit worthiness of your customers and not you, you can get the cash your business needs by leveraging your outstanding receivables.

A great resource for accounts receivable financing is the International Factoring Association (www.factoring.org). The IFA has over 500 banks and finance companies that can structure a program for your business or your client's business.

