



INVOICE FACTORING FOR SMALL BUSINESSES

Do you sell products or services to commercial or government customers? If you do, then you must be very familiar with having to wait 30, 40 or even 60 days to get paid by your clients.

Most large businesses can afford to wait. Unfortunately, few small business owners can afford to wait – and worse – most small business owners do not take into account that they will have to wait to get paid when they first start their businesses.

But what if you can't afford to wait 60 days to get paid? The best solution is to factor your invoices.

Factoring is a financial tool (similar to a line of credit) that eliminates waiting to get paid by your clients. Factoring financing provides you with money for your invoices, usually 24 hours after you submit them. It provides you with the necessary cash to pay rent, expenses and take on new opportunities.

Invoice factoring is an ideal tool for cash intensive businesses such as trucking, staffing, business services, medical offices and IT. It works as follows:

1. You deliver a product or a service and generate an invoice
2. You submit the invoice to your client and send a copy to the factoring company
3. The factoring company advances you up to 85% of your invoice
4. The remaining 15% is held as a reserve to cover charge backs and credits
5. Once your client pays the factor, the transaction is settled and the reserve is rebated (less a small fee)

And how much does factoring cost? It varies on your business volume, how long your clients take to pay and their credit worthiness. Most factors will charge a fee of anywhere between 1% and 2.3% for every 10 days that an invoice is outstanding. However, fees vary and can usually be customized to fit your needs.

The biggest difference between invoice factoring financing and a bank loan is that factoring is easy to obtain. Since the factor is financing your invoices, their biggest concern is that you do business with strong credit worthy businesses. This means that factoring is available to small and new businesses, provided that you have good clients. And as opposed to a bank, a factoring company will not ask you for endless financial reports and three years worth of audited financials.