



CAN FACTORING MAKE YOU MONEY?

Simply put, factoring helps businesses meet their cash flow needs by providing immediate cash by using accounts receivable. Many people view factoring as a short-term stopgap to plug the working capital hole that inevitably presents itself in almost every growing business. Although factoring can many times help a business refresh its working capital in the midst of a 'cash crunch', it can actually be a highly profitable long-term strategy. With adequate cash flow, a business has the ability to not only avoid stoppages in business, but to increase customers and sales. Cash flow is the lifeblood of any business and without it, regardless of profitability, a business can cease to exist. Also consider the fact that by factoring, debt is not shown on your financial statements. This reflects strong numbers and if you have the opportunity to sell your company, this can be attractive. Factoring is one of the few forms of financing that can support rapid growth in a business. As the receivables increase, so in turn does the funding, as long as your customers are credit worthy. Therefore, it stands to reason that by reducing working capital requirements, a company can more rapidly reach their long-term growth plans. The net effect is increased sales, increased production, and decreased stress. Factoring is typically more expensive than traditional financing, however, the cost of factoring is usually significantly less than the loss of net profits that would have otherwise been generated by the substantial growth that it supports. Ways to offset the cost of factoring if it applies to your industry is to use the positive cash flow and take early pay discounts from your vendors and also buy in bulk using volume discounts. These savings can be deducted from your factoring cost if not eliminate them completely. If you are turning down business due to the lack of capital, you need to explore the benefits that factoring can provide. It is a form of commercial finance that is very powerful and must not be over looked.

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