Title:
Improving Cash Flow with Invoice Factoring and Purchase Order Financing

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Summary:
Managing cash flow can be a challenge for many businesses. But creative funding options like invoice factoring and purchase order (PO) financing can make the job much easier.

Keywords:
invoice factoring, purchase order financing, factoring company, accounts receivable factoring

Article Body:
Managing cash flow can be a challenge for many businesses. But creative funding options like invoice factoring and purchase order (PO) financing can make the job much easier.

These financial solutions offer convenient, cost-effective and immediate access to working capital. Invoice factoring and purchase order financing are suitable for companies in just about any industry. They can provide financial support to expand, manage business surges or even meet day-to-day operating expenses. And they're ideal if your company is newer and can't obtain a loan.

The Ins and Outs of Invoice Factoring

Invoice factoring is easy to set up and terminate. To qualify, you should have no existing primary liens or claims on your accounts receivable. And you must have creditworthy clients who pay their invoices promptly and in full.

When factoring customer invoices, you can receive quick cash advances often within 24 hours. Your cash advance is based on the overall value of the invoices you provide as collateral. Typically, you can get 80 percent of the invoice value upfront and the remaining value after your client pays the invoice minus a three to five percent factoring fee.

Your customers pay the factoring company directly. And the factoring company takes responsibility including any loss for the collection of their debts. It's important to note that invoice factoring is not a loan, so there are no repayments to make. You are simply using the good credit of your clients to release your own assets to be put back in your own business.

Historically speaking, factoring is a well-established form of business financing that produces cash payments at the time of shipping, delivery and invoicing. Its origin has been traced to the days of the Roman Empire or even earlier, but the U.S. factoring industry dates back only about 200 years to the early nineteenth century. Factoring companies, known as factors, evolved from U.S. selling agents for European textile mills. Currently, about 70 percent of the volume of traditional factors is still in textiles, apparel and related industries that highly value credit guarantees, according to the Commercial Finance Association.

Invoice factoring can provide the working capital your business needs to handle new projects, fill large orders and pay creditors on time or even early. In essence, factoring can keep your cash flow running smoothly while your business grows. This can enable you to stop worrying about finances, and concentrate on productivity and how to profitably expand your business. Factoring also can help you avoid wasting time tracking down accounts receivable or handling bad debts.

Here are some other important factors (no pun intended) about invoice factoring:
- There is no application or set up fee.

- You choose which accounts to finance.

- Invoices eligible up to 30 days from the date of invoice.

- There is no a minimum funding requirement or requirement to factor all invoices.

- The funds wired directly into your bank account.

- Customers send their checks directly to our lockbox.

Cashing in on Purchase Order Financing

PO financing can provide quick cash flow reserves for manufacturers, importers, exporters and distributors. This type of short-term funding is used to finance the purchase or manufacture of specific goods that have been presold by the client to its credit worthy end customer. Funding involves issuing letters of credit or providing funds that allow companies to secure the inventory they need to fulfill customer orders.

With PO financing, working capital financing is protected by a security interest in existing purchase orders and the proceeds of the purchase orders. Normally, the security interest is perfected by the lender taking possession of the inventory or raw materials.

PO financing can pay for the cost of your goods directly to your supplier, freeing up cash for other critical business expenses. This can help your company ensure timely deliveries to customers, grow without increased bank debt or selling equity, and increase market share. To qualify for PO Financing, you must provide financial information about your company, information about your buyer and supplier, and buyer and supplier invoices.

PO financing is available for finished and non-finished goods, although finished goods are generally easier to finance. Finished goods involve transactions where the goods go directly from your supplier to your buyer. You never touch them or take direct possession.

Non-Finished Goods are when you, the seller, take possession of the goods either in a raw state (such as yarn to make blue jeans) or a semi-finished state (partially sewn blue jeans). In either case, you must take possession of the product.

Purchase order financing can help solve a variety of cash flow dilemmas. Here's a prime example: Your suppliers want you to pay cash on deliver (C.O.D.) and your buyers want to pay you net 30 to 60 days. You have no cash flow during manufacturing, while the goods are in transit, and until your invoices are paid.

PO financing may be right for your company if...

- You need additional working capital.

- You lack expertise to handle the financing.

- You need a quick response to an immediate sales need.

- You don't want to incur additional credit risk, be it foreign or domestic.

- You want your buyers and sellers to not know each other.

- You want the opportunity to make additional profit.

Purchase orders can be used for U.S. and foreign buyers and suppliers. Consider this scenario involving a U.S. supplier and U.S. buyer: You're an apparel manufacturer. You've been in business for six years and have a good profit and loss statement and balance sheet. You just received a large order and are maxed out on credit from your suppliers. Your sales price to your buyer is $100,000 and your total cost to produce the goods is $75,000. Your gross margin is 25 percent. The financing company will purchase the goods for you from your supplier, give you 45 days to produce the goods, charge you a 5-percent purchase order fee ($5000, 5 percent of $100,000) and factor your receivables.