

Is Invoice Financing Right for Your Business - 7 Questions To Ask Yourself

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Introduction

Are you considering invoice financing as one of your business finance options? Have you been using overdraft, company credit cards or loans and are looking for a different financing option? If you fall in the above categories then there are seven questions that you must ask yourself before making any decision. These include:

1. Are You Ready to Pay The Extra Fee?

Invoice financing, better known as invoice discounting involves getting financing from an institution against your unpaid invoices. Just like any other form of borrowing, it attracts a certain fee. For invoice discounting, the fee is usually much higher than loans or overdrafts. Therefore, before you decide to use this method, you need to make sure that you have the capacity to pay the extra amount.

If you are not ready for the fees, then you can opt for other direct financing methods which do not attract any interest. These less costly options can include using a regular loan or overdraft.

2. Do You Have Enough Collateral?

Using this method will give the finance company a legal charge over your sales ledger. This way, your business will have less collateral that may be important for other forms of borrowing. In short, you will have fewer options for getting loans. When you have either an opportunity or an urgent need, lack of enough collateral may make it very expensive for you to get the adequate financing in good time. Even if you get some good financing, the process may be more difficult compared to when you have enough collateral.

3. Is Your Company Stable?

This type of financing is sometimes associated with financial distress. It is a well-known fact that perception is a key factor in business. Once people start getting the notion that you are in distress, partners may tend to keep off from your business. It may also be difficult to seal some specific deals. Additionally, some suppliers may just be reluctant to give you any credit terms, therefore reversing the benefits of the invoice financing arrangement in the first place.

Therefore, before getting into an invoice discounting arrangement, ask yourself whether your company is stable. If it is, then you need to decide if it is worth the risk to take on a financing option that may affect the public perception of your company's stability.

4. Do You Need Improved Capital?

On the upside, it is great to receive cash as soon as an invoice is raised. This way your business will have continuous cash flow and the general position of your working capital will also be

improved. After answering all the above questions and you still feel like this is the right option, then you can gladly take advantage of the improved capital position.

5. Do You Need Improved Management Time?

This is yet another advantage of invoice financing. You end up getting more time for management since you save all the time that you would have used to follow up on unpaid accounts. All these tasks are taken up by the finance company once you finish setting up your invoice discounting deal. This extra management time can then be spent focusing on your core business, after which you can end up being more productive and profitable.

6. Are You In For Additional Cash Products?

We have discussed about the fact that a bad perception can affect your business. On the flipside, using invoice discounting also exposes you to additional cash products. This is due to the fact that you receive your cash as soon as your orders are invoiced. You can then easily use the cash to fund future orders, make capital investments and also get access to cash flow loans and trade finance.

7. How Easy is it for You to Exit?

Giving a finance company a legal mandate over your invoice payments is great at first since you will be able to get the cash quickly for use on your running projects. However, a time comes when you would want to exit the plan. It can be very difficult to exit as there are many processes involved that will take a lot of your time and energy.

Conclusion

Just like everything else, invoice financing has its own advantages and disadvantages. There are many brands which have used this option to propel themselves into unimaginable success. On the other hand, there are companies that have failed miserably due to getting into this arrangement without proper consideration. For you to succeed, make sure you properly answer the above questions and get yourself adequately prepared beforehand.

References

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