Factoring: the underappreciated but fast source of working capital.

It takes money to make money, as any business owner knows. But many businesses also know what it's like to be turned down by a bank for a loan or line of credit, not get as much as they need, or simply not get the cash quickly enough. It's not just start-ups that run into financing difficulties. Even an established company that is growing rapidly will frequently have financial challenges. To make matters worse, owners of small or early stage businesses have an especially difficult time getting business credit without relying on their own personal credit and assets as guarantees.

One of the solutions to this dilemma is factoring, a lesser-known but often used solution, that gives companies access to capital without losing liquidity or giving up equity. This under-appreciated funding is called a accounts receivables financing, or invoice discount financing or factoring. It can be used for any industry that has business-to-business accounts receivable.

How does it work? You sell your invoices, or accounts receivable, to a factoring company. They immediately advance you a percentage of your invoices to operate and grow your business. When the factor collects from your customer, they send you the balance of your accounts receivable minus an administrative fee.

It's a line of credit based on your sales, not your net worth. Factoring companies do not look at financials in order to provide capital, but rather a company's accounts receivables. With a good factoring company, there are no limits, you can get started with as little as $100,000 in qualified accounts receivable, and you can use their services only when needed.

Factoring is helpful for many types of financing situations, and can be used as:

- A Route To Fund Working Capital Needs Such As Payroll Or Purchasing Inventory When You Experience Cash Constraints Such As Rapid Growth, Seasonality, Delayed Customer Payments And Other Unexpected Events.
- On-Ramp Financing For Early-Stage Companies Considered "Too Young" To Get Traditional Bank Financing And Who Do Not Want To Dilute Equity.
- Bridge Financing When A Bank Is Taking Too Long To Close And The Company Will Lose Orders And The Ability To Keep The Business Afloat In That Time.
- A Means To Finance Turnarounds Or Exit Bankruptcy When Companies Experience Unexpected Downturns In Their Business.
- Express Lane Financing When A Company Is Growing So Rapidly That Banks Cannot Keep Up With It; To Fund Growth And Acquisition, Leveraged Buyouts, And Take Advantage Of Timely Opportunities.
- Entry Financing To Fund U.S. Subsidiaries Of Foreign Companies.

Best of all, factors typically do not cap the amount of money that they lay out as long as the receivables perform, so your line of credit can increase rapidly to keep the pace with company growth.

A good factoring firm will offer a flexible financing program that allows a client to pick and choose which account debtors to sell and which invoices to sell. This allows the client to maintain some control of their business and to keep their costs down if they don't need to finance all their accounts in order to obtain the capital that they seek at any specific time.

Additionally, clients should be certain that the factoring company has had experience in their industry as there are nuances in every industry that are important for a factor to be aware of.

In summary, the advantages of working capital are many: fast access to cash, flexible funding arrangements, credit based on your A/R, no personal guarantees needed, and you retain all the equity you've worked so hard to build.

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