Creating Cashflow For Outstanding Debts

Businesses are faced with a wide variety of situations as they move through the start-up, growth and maturity stages of their life cycle. These situations have specific funding implications and requirements.

Uniquely, DEBTOR FINANCE can be used in many situations making it a very versatile and viable option for businesses going through change or growth.

How it works

The most common form of debtor financing is invoice discounting where the following occurs:

1. As you deliver your goods and services, you raise invoices outlining the payment amount and terms to the customer.
2. Without the knowledge of the customer, the invoice copies are then sent to the debtor financier.
3. The debtor financier advances up to 80% of the value of accepted invoices generally within 48 hours.
4. You retain control of the relationship with your customer when it comes to accounting and collections, however the customer payment is directed to the debtor financier.
5. After reconciliation of the debtor collections, the debtor financier will forward you the remaining 20% of the invoice less their appropriate fee.

Benefits

- As your business grows, the finance facility grows with it.
- Unlike overdrafts and most other loan facilities, debtor finance does not require real estate security.
- Debtor finance is a self-liquidating facility. In theory you are not taking on additional debt but rather accelerating the payment of your debtors.
- It is fast and efficient with most finance providers providing up to 80% of the debtor amount within 48 hours.
- There is no long term commitment - you can turn the facility on and off on a regular basis.
- Debtor financing can significantly increase your purchasing power to help you grow your business.

A really simple example

To demonstrate how debtor financing can increase your purchasing power let's assume you are a distributor of bicycles being sold on 30 day payment terms.

Without debtor financing

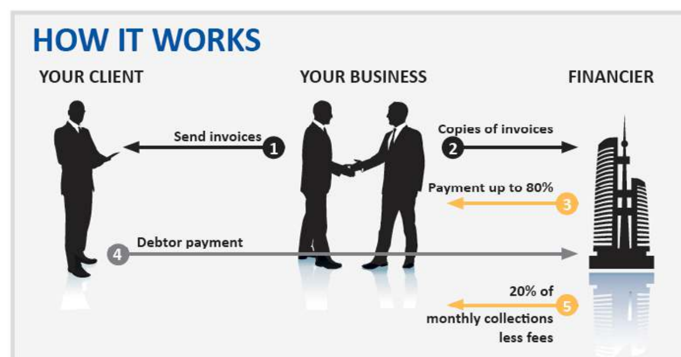
- You buy a bike for $200
- You sell the bike for $500
- You wait 30 days to collect payment before purchasing 2 more bikes

With debtor financing

- You buy a bike for $200
- You sell the bike for $500
- Within 24 hours you receive $400 (80%) from debtor financier
- You immediately buy 2 more bikes
- You sell one of these bikes within the initial 30 days
- Within 24 hours you receive an additional $400 from the financier
- In 30 days you receive the remaining 20% of your initial sale less the applicable fee

And so on…

This demonstrates how debtor finance can free up working capital to accelerate your business growth.



Other debtor financing options

Invoice discounting leaves the responsibility of the collection of your outstanding invoices with clients being unaware of a third party involvement. It is usually chosen by medium to larger SMEs that have an in house accounts receivables individual or team.

The other debtor financing option is invoice factoring where the finance provider purchases the trade debts from a business for a percentage of the value of the debt. As a result the responsibility of collecting the outstanding debts lies with the finance provider and not the business.

This may be beneficial for companies attempting to reduce time spent on collections and potentially help avoid accumulating debtors.

This option is beneficial to smaller SMEs that do not have the luxury of an in house accounts receivables team and allows the owner to run the business without the worry of debt collection.

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