# Debtor finance â€“ general considerations

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Article published on May 11th 2012 | Finance

Many companies find themselves in the impossibility of further developing their business because they have accounts receivable that they have not cashed in and, therefore, they lack cash. Fortunately for them, nowadays they can resort to several financial techniques in order to receive immediate funding. Thanks to techniques, businesses can continue to develop and to make profitable investments that will translate into future benefits.

In these harsh economic times when it is very difficult to obtain funding and businesses are forced to cut down costs and to put a halt to their investments because of the lack of cash, debtor finance, also known as factoring, has appeared in order to give companies with accounts receivable the possibility of receiving and using the money owed to them without having to wait for a 60 daysâ€™ period. Thus, the main advantage of this service consists in the fact that it enables companies to get the money that they need in order to avoid blockages and to continue to operate at optimum performance parameters.

Individuals and businesses that have no idea about the way factoring works should know that this is actually a financial transaction whereby a business sells its accounts receivable to a third party, known as a factor, at a discount. This way, the business will immediately receive the much needed funding and will thus improve its cash flow, although it will lose a small fraction of the original proceeds, fraction that will be taken by the company. Even if this service involves losing approximately 20% of the initial value of the accounts receivable, many businesses prefer to resort to this financial service for this is a much better and safer option for resolving their cash flows issues immediately than contracting loans.

As already mentioned, debtor finance is a method used by businesses in order to obtain immediate cash, and not a loan. This means that businesses which use this service will not enter into any debts when receiving the cash that they need in order to continue to run their activities. From this perspective, factoring seems to be much more advantageous than a loan which involves entering into debts and having to make monthly payments that might weight heavily and eventually affect the growth and development of a business. Furthermore, the service is an excellent modality of improving cash flow and of managing to maintain good working relations with customers and suppliers.

Many businesses which remain without cash and which thus find themselves in the impossibility of paying their suppliers, of honouring their customersâ€™ orders or of paying their employeesâ€™ salaries perceive debtor finance as a convenient method for getting the money that they need fast and without unnecessary complications. All in all, it seems that this financial solution is here to stay, being used by more and more small and medium companies that want to improve their cash flow without entering into severe debt and without compromising the future of their business.

Article Source:
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Article Keywords:
debtor finance, factoring

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