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If your business is experiencing significant growth but would benefit from easier access to ready capital, invoice factoring could represent an attractive alternative to taking out a loan or an overdraft. Factoring can be more flexible, and also involves taking a mid-long term look at how to streamline your accounts process, rather than simply taking a lump sum and arranging to pay it off. But how does it work?

The first step is obviously to find a factoring company that you can work with. There are many companies on the market, and the services they offer can vary considerably. Some factoring agencies will only work with companies with a turnover of £200,000 or more, whereas others offer services that are tailored towards working with start-up companies and companies with turnovers of £50,000 or less.

There are also some considerations to take into account to decide if factoring is going to be a good solution for your company. In general, you should service multiple customers – no one debtor should account for more than around 40-60% of your business. On the other hand, if you depend mainly on a large number of relatively small invoices for your income, factoring may not be the most cost-effective option with some providers, so shop around. Factoring is only suitable for business to business companies.

Once you’ve made contact with a factoring agency, the first thing they will usually do is conduct an audit of your books and accounts to establish if your sales ledger is in-line with their criteria. If both parties are happy to move forward, the company will set up an account, allowing you to make customer invoices payable to the factoring agency. You will then receive an agreed proportion – usually 85% - of the value of your invoices up-front. You will receive the balance, minus a service charge, once the factor has received the payment.

There are numerous benefits to this process, most notably allowing you access to ready cash when you need it and reducing the time and resources you spend on debt collection. Factoring also enables you to raise up to 85 per cent or more on your outstanding invoices, whereas an overdraft secured against invoices would only raise up to 50 per cent. You can also negotiate an initial credit line that grows in line with your business, without the need for complex and time-consuming renegotiations. You should also expect regular statements and instant online account information, plus a dedicated account manager who can offer you consistent, well-informed service. To get the best return on your investment, be sure to check for all of these things before signing with a factoring agency.

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a [Invoice factoring](#) allows you to release cash for your business utilising invoices as collateral. Hitachi Capital is a reputable and leading provider of invoice finance solutions. Winner of the Factor and Discounter of the Year award at the CreditToday Awards 11.

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