



SENIC Battlecards

Factoring Receivables

The business is selling successfully but the cash flow pinch is doing just that, and you're starting to wonder whether you have any options left. Well, you might have one more option before you throw in the towel. It's called factoring and it may be a good way to generate cash for your business.

Sooner or later every evolving business finds itself in a cash flow crunch. It simply comes with the territory. For many businesses, factoring receivables provides a way to turn non-liquid assets into instant cash.

Here's how it works: Finance companies may be willing to purchase your business' debtors, giving you cash for a certain percentage upfront with the remainder (minus a fee) to follow as payment is received from your customers. In theory, it's a win/win transaction: Your business gets an instant injection of cash and the finance company earns a fee. However, there are some things to consider:

Eligibility. You might be surprised to learn that factors aren't eager to take on just any outstanding invoice. In order for their business to work, they need to look for receivables that will most likely be paid by the customer. To accomplish this, factors routinely run prospective accounts through a selection process that gauges your customers' credit worthiness as well as the financial position of your

company. If you have a high percentage of bad paying customers then it is unlikely that a factor will be anxious to do business with your business.

Cost to Factor Receivables. Factors aren't charities. They are companies who are in business for the same reason you are - to make money. The way they make money is by charging a fee for their service, which is usually deducted from their final payment to your company. For this reason alone you should view factoring only as a short-term solution rather than a regular outlet for collecting debtors.

Intangibles. Although factoring may be a great way to generate cash quickly, you should be aware of the fact that it comes with some baggage. One of the most important things to consider is the perception it conveys to your customers and others in the industry since failing businesses regularly turn to factoring as a last resort to turn things around. Do healthy businesses sometimes factor receivables, too? Absolutely. Just make sure you've carefully considered how factoring might be perceived before you make your decision.



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Our proven track record in delivering Microsoft Dynamics Great Plains® means we have the experience, expertise and know-how to ensure you get the right solution for your business. Development of solutions for specific business requirements is our key competency – no matter how complex your systems transactions. We provide a full support and training service throughout the lifetime of your system, changing and evolving as your business does.

"My job was repetition. Being the IT manager, I spent most month ends recreating reports every time something changed in the accounts. We had to export to Excel, rework data, manually enter data from the warehouse, and all the time there was the possibility of mistakes. Our month end reporting is now circulated electronically and updated as changes are made."

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