

Factoring or Invoice Discounting. Which is right for my business?

Before answering the question as to whether to Factor or Invoice Discount I think it is important to define the terms.

First of all in the commercial world, a Factoring Company will offer both services. "Discounting" is short for "Invoice Discounting" and this is where typically the Factoring Company will allow its client to drawdown cash up to a percentage of the invoice. In the case of Confidential Invoice Discounting your customer does not know that you are obtaining cash against the invoice and you collect the debt. In the case of Non-Confidential Invoice Discounting the Factoring Company will collect the debt on your behalf.

Factoring is the "hardest", most expensive form of Invoice Discounting. This is where the Factoring Company buys your debtors and advances you a lump sum of up to 80% of the invoice value. The Factoring Company will do the debt collection for you and typically you will be provided with an online facility to enable you to see how much money you can "draw down" when you have sent the invoices to the Factoring Company.

Let's take a look at the advantages and disadvantages of each service;

FACTORING	INVOICE DISCOUNTING
Is an expensive form of finance.	Still quite expensive, however, cheaper than Factoring.
Frees up cash rapidly from invoices issued	Frees up cash rapidly from invoices issued
Careful credit checks carried out by your Factoring Company which serves as an important second check for you.	Careful credit checks also carried out here.
The debts are collected by the Factoring Company which will result, in theory, saving management time and perhaps the wages of a credit controller.	The collection of debts remains your company's responsibility.
Your customer knows that you have factored your debts which could send a message that your business is struggling; this body of thought tends to sit with more mature individuals!	With Confidential Invoice Discounting this is not the case.
The increased cash flow enables the business to grow and meet the payment of your suppliers more rapidly, this in turn will allow for a greater opportunity to negotiate reductions from suppliers.	This advantage applies equally here.
There is the opportunity to obtain credit insurance with Factoring although the costs can be very heavy. The credit insurance allows for you to not worry about unpaid debtors because they are insured and your cash flow will not be disrupted.	Non-Recourse Invoice Discounting is a more popular form of debtor finance because it removes the worry of bad debts. The cost of the credit insurance policy tends to be lower than for Factoring although the total costs remain very high.

In the previous section, we have looked at the disadvantages of Factoring over Invoice Discounting. A short article on the downside of using either facility is worth exploring;

- Banks particularly like to sell an in-house Factoring Company; it is an extremely profitable form of business for them because it ensures greater control of your debts and “justifies” huge management service charges.
- The quality of the debt collection service has in the past been poor with breakdowns in customer relationships occurring as a result.
- Invoices have been lost, the online drawdown facility has not worked, your customers have been incorrectly traced or the debt collection team has been over zealous.
- Debts have been returned “disallowed” by the Factoring Company to you the customer without any notice which has meant severe cash flow problems.
- The Factoring Company has refused to accept invoices from one of your customers for unjustified reasons.
- You have been doing too much business with one particular customer and the Factoring Company has placed an unworkable limit for this particular customer.
- The costs remain prohibitive and for that reason Factoring or Invoice Discounting should be considered seriously only if really necessary.
- In times of Business stress your company has nowhere else to go because you have tied up your debtors and have lost control over them. Insolvency can follow very quickly.

I hope this article provides an inside track into the Factoring/ Invoice Discounting Service. Should you like to discuss any matter then please do not hesitate to contact;