

how invoice finance can solve your cash flow issues

Invoice finance (otherwise known as receivables finance) is one of Australia's fastest growing finance areas according to Greg Woszczalski, Executive Director of 180 Corporate, speaking at the recent Australian Accountants and Lawyers Conference in Aspen. It can be an excellent solution if your business is suffering from cash flow issues.

Cash flow is a major problem for companies contracted to slow payers such as big business and government groups, who slow down even more in harder times. To survive such periods, SME's need to find alternative sources of income to keep their cash flowing.

Traditionally, SME's manage slow cash flow periods by using an overdraft facility, which generally requires real property security. By contrast, the new invoice finance products are genuine trade facilities secured by invoices instead of property.

The costs are similar to having an overdraft, but invoice finance is more accessible for most SME's and has the advantage of enabling the accounts receivables function to be outsourced. Invoice finance is also scalable so it expands and contracts with the business better than an overdraft.

How invoice finance works

Invoice finance is basically a line of credit against your business-to-business debts. You gain access to up to 90% of your invoice amount as soon as you raise the invoice - so the bigger your invoice, the bigger your line of credit.

A good invoice finance service should provide you with daily management reports on collections and perform all your collection calls and follow up calls for you. This eliminates the costs of permanent staff while supporting your business by keeping cash readily available.

Invoice finance comes with two main costs - the interest on the money you borrow and your administration fee, which will range between 0-2% of your turnover. Your turnover will dictate the rates.

Ten years ago, invoice finance was a niche product in Australia. Today, it is viewed as a mainstream funding alternative and is being offered as part of broader financial packages such as trade and inventory finance products.

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