



An Introduction to Debtor Finance



For small businesses in Australia and around the world, cash flow remains one of the most persistent barriers to growth and profitability.

With tight margins and limited resources, a small business can struggle if it is not staying on top of its cash flow - a problem often exacerbated by customers not paying their invoices on time. According to Dun & Bradstreet's Q1 2014 Trade Payments Analysis, business-to-business payments in Australia took an average of 56 days during the quarter - the slowest rate in three years. In addition, the Business Expectations Survey from the same company revealed that respondents thought cash flow was likely to be the most influential issue to business operations in Q3 2014.

There are many solutions to plugging gaps in cash flow, of course - but traditional methods such as bank overdrafts and loans are often complex and difficult to secure, especially for small businesses. Debtor finance, which has been increasing in popularity in Australia, may therefore be a more viable option.

What is debtor finance and how can it help?

Also referred to as invoice discounting, factoring, cash flow finance and receivables finance, debtor finance is a way of maintaining your business's cash flow and funding its growth without having to rely on banks or enter debt.

Essentially, debtor finance works by quickly converting one of your business's assets - its accounts receivable - into cash it can instantly use where it is most needed. The process is simple: a company assigns its unpaid invoices to a debtor finance provider, who then advances the majority of the invoice's value (usually around 80 per cent) to the business within 24 hours. Once the financier receives the full amount of the invoice from the debtor, they pay the remainder to the business, minus a small fee.

Unlike overdrafts or loans, debtor finance does not involve borrowing money from an external source - you are simply using the resources you already have. As such, there is much less red tape involved and the financing process is much quicker.



The benefits of debtor finance

Debtor finance has many advantages over other business financing methods:

- *Improve your cash flow*

Cash flow is the lifeblood of all businesses, large and small. Debtor finance ensures you can quickly access the cash you are entitled to from your unpaid invoices so your cash flow doesn't dry up.

- *Fuel business growth*

Simply put, you can't grow your business without cash - how will you pay for new stock, overheads or your employees' wages? With debtor finance, you can make sure you constantly have cash at hand to fund the key growth areas of your company.

- *Limit debt accumulation*

Letting debt build up can be a slippery slope for small businesses to embark on. As you're not taking out a loan of any sort, debtor finance is a great way to access cash in a stress-free manner.

- *A fast and efficient process*

No more waiting around for your loan application to be processed - as long as your invoices are in order, you can get your cash deposited into your account in as little as 24 hours.

- *No bricks and mortar security needed*

Real estate security is not required to get debtor finance, so you can keep your home safely detached from your business

How does debtor finance work?

A step-by-step guide

- 1. Sell your product or service.** The first step, of course, is to complete an action with the client, whether it is by delivering to them a product or service.
- 2. Raise the invoice.** The invoice is sent to both the customer and the debtor finance provider.
- 3. Receive up to 80 per cent of the invoice's value.** Once the invoice has been approved by the financier, you instantly receive up to 80 per cent of its value in cash within 24 hours - cash that you can start using straight away to grow your business.
- 4. Chase the customer.** There are two options here - the client can chase the customer themselves, or enlist the help of the debtor finance provider as an added option.
- 5. You receive the remaining portion of the invoice.** When the invoice amount has been collected, the debtor finance provider transfers the remaining 20 per cent, minus a small fee.



What types of business or industry can benefit most from debtor finance?

Of course, any business that regularly needs a quick injection of cash (read: most businesses) can benefit from debtor finance. However, there are certain industries where this financing method can prove particularly helpful.

For instance, companies that provide products and services to their customers on credit terms will find debtor finance highly beneficial to their operations. These include businesses in the wholesale, distribution and manufacturing industries in particular.

Businesses in the temporary recruitment and labour hire sector have also taken advantage of the flexible, reliable method of obtaining prompt funds through debtor finance. Many startup businesses and those still in their early years are also heavily reliant on debtor finance, as fast growth is a key objective - yet they don't always have the means to fund this. Debtor finance allows them to implement their growth initiatives without being held back by weak cash flow.

Organisations undergoing a major change, such as a restructure, may also find debtor finance helpful. When an organisation is in financial trouble and must restructure to survive, having a steady supply of cash can make a world of difference.

The CashFlow Advantage

So why choose CashFlow Advantage over other debtor finance providers?

The main thing that helps set us apart from banks and other financiers is that we're 100 per cent independently owned and operated. We're not owned by a bank - when you call us, you'll speak directly with someone who genuinely wants to help your business in the most efficient way possible. You'll deal with people, not departments.

That said, we are funded through the help of a bank, which means we can get that cash straight to you when you apply. We also come from a small business background and we fully understand how Australian small businesses work. We place a huge focus on providing a face-to-face, personalised service and being a flexible and easy-to-deal-with company.



CASHFLOWADVANTAGE

1300 557 771
www.cashflowadvantage.com

Suite 408, 2-8 Brookhollow Ave
Baulkham Hills
Norwest Business Park
Bella Vista NSW 2153

Our processes are fast and stress-free: approvals are quick, you don't have to put your home on the line as security and we don't impose minimum terms or exit fees, so you're not tied down to a hefty contract. You don't even have to have a wide range of clients to get funding from us - one will do.

To find out more about how CashFlow Advantage can help your business master its cash flow,

visit www.cashflowadvantage.com.au 

 or give us a call on **1300 557 771** today.