

Accounts Receivable Financing- The Fine Art of Happiness

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Accounts Receivable Financing- The Fine Art of Happiness explores the history of factoring; it offers suggestions, questions and answers to the question of whether or not accounts receivable financing will bring you and your business happiness and success.

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Four thousand years ago, a long time before banks were invented, the concept of accounts receivable financing, or factoring, was invented somewhere in the midst of the Roman Empire. Why did this make merchants happy? Because they would be paid for their merchandise many months before payment for their merchandise was received. With this cash in hand, suppliers, employees and Imperial taxing authorities could be paid. These financing agreements were based on long term relationships and trust.

{bot_wrgoogle}Two hundred years ago accounts receivable financing evolved in the United States of America, primarily for the textile industry, for the same reason: to accelerate growth and profitability by accelerating cash flow. Again, long term relationships and trust were the main basis for these financing arrangements because there was no effective court system to enforce international contracts for the purchase of European fabrics for American factories.

Thirty years ago the concept of accounts receivable financing, or factoring, was considered to be on the fringes of respectable financing for products or services other than textiles. It was considered radical to finance the accounts receivable of relatively high risk businesses. Since then accounts receivable financing has evolved into a multi-billion dollar industry. Long term relationships and trust are still very important because when you utilize accounts receivable financing you are entrusting a commercial finance company with the lifeblood of your business- your cash flow.

Let's make some assumptions. The purpose of life is to be happy. As a business owner, you are happier if your customers pay immediately when they receive your invoice as opposed to many months later. As a business owner, you are happier if you are more profitable when you are selling more goods or services at greater profits.

Accounts receivable financing may be the enabling tool for more capacity, more flexibility, more fluidity, more efficiency, and more sales if you have to give credit terms to your customers and your internal cash flow, or bank financing will not keep up with you need for cash to grow. So you need to ask yourself, are you happy with the status quo? Do you feel like you are stuck because your capital expenditures and operational costs are too high? In the life of your business, do you feel like you are being held back from succeeding- like receiving the "Do not Pass go, do not Collect \$200" card from the game, Monopoly?

Here are some questions to ask yourself regarding overcoming obstacles to your happiness and success: What is your market? Is it local, national and/or international? What are your short term and long term challenges? What is your customer base? What is your company sales and distribution strategy? What is

your strategy for accelerating growth, market presence and penetration? Do you have strong gross margins with additional opportunities to drive operating efficiencies as you business scales upward? Will you realize increasing margins as a result of increasing sales? Query: could your business be expanded exponentially if you had virtually unlimited financing? Is this a reasonable goal and would this make you happy?

You need to evaluate the cost-effectiveness of accounts receivable financing versus the scalability and capability of your own company. Accounts receivable financing may be your solution to the fine art of happiness and your success as a business owner.

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