CUSTOMER INVOICE FINANCE

Is it the right fit for your business?

addcash
finance for growth

WHO CAN USE CUSTOMER INVOICE FINANCE?

Customer Invoice Finance is a flexible solution for most businesses that operate on extended payment terms. Depending on external market conditions such as the time of year, suppliers and movements in the customer mix, cashflow varies from business to business. Customer Invoice Finance aids the business management by enabling fluidity and growth throughout the business processes, by allowing them to borrow up to 80% of owing accounts receivable.

"There are many variables that come into consideration when assessing suitability for Customer Invoice Finance."

Customer Invoice Finance can be a tricky topic to understand, fortunately AddCash Finance has made it easy by giving six key factors, on the following page which will help determine whether it is right for you.

There are many variables that come into consideration when assessing suitability for Customer Invoice Finance. Providers will typically work through a number of areas some which differ to traditional bank finance.

1. Does the business sell on Account?

Businesses selling on account to other businesses who have an ABN (Australian Business Number) and wait for payment at a later date are suited to Customer Invoice Finance. It is the size of the investment in unpaid invoices that is relevant rather than the speed in which Customers pay.
So a business paid within seven days who is owed a significant sum of money is just as eligible as a business that is paid 60 days from end of month.

Cash businesses such as retail stores, restaurants or cafes, and online businesses who are paid immediately at the point of sale do not qualify, as they do not have unpaid Customer invoices available for finance.

"Unlike an overdraft, Customer Invoice Finance does not rely on property security because the underlying asset being secured is the unpaid Customer Invoices."

2. Asset and Liability position of Owners

Owners who have yet to enter the property market or only recently acquired property and are still working to establish sufficient equity to offer as security for an overdraft can apply for Customer Invoice Finance. Unlike an overdraft, Customer Invoice Finance **does not rely on property security** because the underlying asset being secured is the unpaid Customer Invoices.

3. Business Lifecycle Stage

Businesses at any stage of their lifecycle can apply for Customer Invoice Finance. This includes start-ups who have yet to complete a minimum of two years trading history required by traditional lenders and businesses experiencing a downturn who may have reported trading losses and accumulated substantial debts such as tax arrears.

"Businesses at any stage of their lifecycle can apply for Customer Invoice Finance."

These businesses can enhance their credit profile with that of their Customers because ultimately the finance is being serviced by payments from their Customers. Great for start-ups still to demonstrate consistent performance or businesses who need time to restructure.

Rapidly growing companies are also very suited because the finance scales with their business. An overdraft is typically fixed by the value of equity held in property and Fintech loans are limited in size because they are unsecured and must be repaid over a short period of time. Alternately, as a business invoices Customers for product and services, they can access finance at the same time so Customer Invoice Finance is directly linked to the business.

4. Business Structure

All business structures registered for GST with an ABN are appropriate including sole traders, partnerships, companies and Trust structures.

5. Industry

"There are other industries which are more challenging to assess for Customer Invoice Finance. This is because their products and services require technical expertise, are customised or are supplied over a long period of time."

Common industries that deliver product or provide a completed service and then wait for payment from their Customers are listed below:

- Manufacturing
- Importers
- Wholesale & Distribution
- Labour Hire
- Packaging and Printing
- Transport & Logistics
- Security
- Commercial Cleaning
- Small scale Fabrication and Engineering
- Construction Supply

There are other industries which are more challenging to assess for Customer Invoice Finance. This is because their products and services require technical expertise, are customised or are supplied over a long period of time. Consequently payment is contingent on other events occurring such as:

- Construction - long term projects are funded using Progress Claim invoicing
- Exporting – customers are based overseas and sometimes billed in foreign currency
- Permanent Placement – employee must pass their probation period
- Professionals – Accountants, Solicitors and Consultants
- IT Development – long term development funded by milestone payments

6. Specific Exclusions

There are a number of specific exclusions that businesses should be aware will reduce the amount of finance that can be obtained:

"Customer Invoice Finance is a great alternative to a secured business loan as you do not have to provide property security against the loan."

- Aged invoices that remain unpaid for longer than 90 days
- Customers who are also a supplier to the same business
- Invoices to related businesses, directors, shareholders, or employees
- Consignment and SOR (Sale Or Return)
- Cash sales or COD (Cash On Delivery) payment terms
- Consumers who are not registered businesses with an ABN
- Customers who have poor credit or are insolvent
- Amounts in excess of approved Customer credit limits
- Invoices for deposits or prebilled in advance of product delivery or service
- Disputed invoices

Customer Invoice Finance is a great fit for many businesses and is an alternative to a secured business loan as you do not have to provide property security against the loan. There are, however, some requirements a business needs to meet to be suitable for Customer Invoice Finance.

Further information

If you have gone over the six points mentioned in this eBook and you still aren't quite sure if Customer Invoice Finance is the right option for you or your client, contact the experts at AddCash Finance for a confidential discussion.