



Invoice finance: everything you need to know.



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Introduction

Maintaining a healthy cash flow is as vital as air when it comes to improving your business's operations and fostering growth.

A solution more and more businesses are turning to is invoice finance. Whether you're an SME (Small to Medium Enterprise) aiming to better manage seasonal fluctuations, or a corporation wanting to free up working capital - invoice finance offers a versatile solution to unlock funds trapped in your outstanding invoices.

In this guide, we'll explore the essentials of invoice finance, covering its core principles, the benefits, what to consider, and practical insights on choosing the right invoice finance partner.

If you want to improve your cash flow with our tailored invoice financing solutions now – contact our team today to discuss how we can support your business growth.

[Get in touch today](#)

1

What is invoice finance?

Invoice finance is sometimes referred to as Invoice Factoring, Receivables Finance or Receivables Financing. Invoice finance is a practice where you sell your accounts receivable (invoices) to a third party (finance company) for a small fee. This means that the third party takes ownership of the unpaid invoices for a fee. You get an agreed initial percentage of the invoices as cash straight away and then get a final percentage, when your buyer settles the invoices with the third party. This contrasts with traditional financing methods, which usually involve lengthy loan processes and rigid credit requirements.

Invoice finance eases cash flow stresses over the business year by providing immediate cash based on the value of outstanding invoices.

2

Is invoice discounting the same as invoice finance?

The main difference between invoice financing and invoice discounting is who remains liable for the collection of invoice payment activities. Invoice discounting is a loan secured against your outstanding invoices.

This means you still own your invoices and the management of them e.g. ensuring payment. With invoice financing, the finance company purchases your unpaid invoices and when the agreement is non-recourse, it means the finance company is liable for unpaid invoices.



3

The benefits of invoice finance

Enhanced cash flow

Steady cash flow is the lifeblood of any business. It empowers innovative companies to take advantage of new opportunities that arise from new market shifts.

And with invoice finance, you can inject crucial liquidity into your business, converting unpaid invoices into immediate working capital. Improved cash flow also enables you to maintain operations, pay employees, and invest in new projects without the frustration of waiting on customer payments.

Facilitating growth and expansion

A steady cash flow gives you the ability to pursue growth opportunities, because your business is no longer constrained by the gap between delivering a product or service and receiving payment.

This immediacy allows you to take on larger projects or orders, explore new markets, and invest in research and development without the financial strain that SMEs and enterprise businesses have traditionally endured.

Improving financial resilience

Broader economic uncertainty can impact an SME's financial stability more profoundly than it does with larger enterprises.

Invoice finance offers a buffer against this uncertainty, providing you with a constant source of funds even in the most challenging times.

By converting sales into immediate cash, SME's and enterprise businesses like yours are better equipped to manage economic fluctuations and maintain a steady course through turbulent times.

Increasing operational flexibility

Fast access to funds through invoice finance empowers businesses to become more agile and adaptive.

This flexibility is crucial in today's competitive markets, where an ability to respond quickly to change, customer demands, or unexpected expenses can determine business success.

Empowered by this newfound agility, businesses can make quick decisions and take direct action with confidence.

Improved business relationships

Timely payments are critical in building and maintaining trust with your suppliers and customers.

Invoice finance ensures you have the funds to meet the most stringent deadline commitments.

Demonstrating such reliability strengthens relationships with your buyers and opens doors to new opportunities, as well as better terms with new suppliers and partners.

Navigating the digital landscape

Technological advancements have made invoice finance more accessible and efficient than ever.

Digital platforms enable quick and easy management of invoices, streamlining the process and reducing administrative overheads.

This technological integration means you can easily access financing solutions without unnecessary burdens on your time.

Looking to the future

Invoice finance can have long-term benefits for small to medium enterprises. Beyond immediate financial reassurance, it lays the groundwork for sustainable growth and stability, allowing you to plan for the future, invest in your workforce, and explore new ventures.

Experience the benefits of invoice financing first-hand. Contact our team today to discover how our tailored solutions can provide the flexibility and support your business needs.

[Get in touch today](#)

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What are invoice finance costs?

Invoice finance costs are the fees charged by finance companies for their services.

Businesses work with financing companies to increase their working capital by assigning their accounts receivable (invoices).

In return, they agree to pay a small fee, which is typically charged as a percentage of the value financed by the provider.

Example of invoice finance fees

Seller Ltd is owed **£10,000** by Buyer Ltd after invoicing it for payment with 90-day terms.

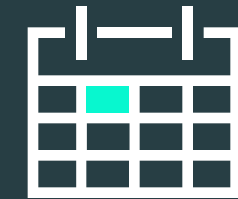
However, Seller Ltd needs cash now, so it submits the invoice to a financing company which agrees to take ownership of the invoice and pay **80%** of the invoice value (£8,000) to Seller Ltd instantly. For this service Seller Ltd agrees to pay a fee to the finance company.

Upon agreement and approvals involving all parties, based on risk, compliance and credit checks, a financing company pays the **£8,000** to Seller Ltd within as little as 48 hours of the relevant signed documents being approved. On top of this, the financing company can also negotiate extended invoice payment terms with Buyer Ltd - helping the buyer with their cash flow.

When Buyer Ltd pays the outstanding **£10,000** invoice amount to the financing company, the financing company transfers the final 20% remaining, minus the pre-agreed fee.

What can impact invoice finance costs?

Various factors impact the fee a finance provider will charge for invoice funding services, including:



Length of finance period

Fees increase as the finance period increases (e.g. from 30 to 90 days).



Relationship with the finance company

Finance companies may offer reduced fees to long-term, trusted customers.



Number of invoices processed

Finance companies may offer discounted fees for businesses that process multiple invoices.



Risk to the finance company

Determined by risk, compliance and credit checks, especially in relation to the company that the invoice was issued.



Type of invoice financing agreement

As this dictates the risk to the finance company (e.g. invoice financing or invoice discounting).

5

Invoice finance costs: key takeaways

Invoice finance costs can seem complicated as they may vary between providers and the exact agreement terms, but each are distinct services. Here are the key points to remember:



Invoice finance fees are typically charged as a percentage fee, calculated based on the total invoice amount and other risk and credit factors.



Invoice discounting and invoice factoring are similar, but distinct services and therefore involve different costs and fees.



Invoice finance services may include additional fees including application, background check, and late and termination fees.

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What to consider when selecting an invoice finance partner

Selecting the right invoice finance partner is crucial. Here at Stenn, we have a proven reputation in the field and offer exemplary customer service.

However, other factors need to be considered:

When assessing potential solutions, look at the following:

- Whether the finance company is prepared to finance businesses engaged in international trade
- How many countries the finance company can operate in
- The simplicity of the approval process. Look for a finance company that uses automation technology to ensure the process is fast and requires little documentation
- Whether the finance company will force you to repay your finance if the buyer defaults
- Financing fees
- How long it takes for the finance company to finance invoices – some will deposit funds within hours, others after weeks (or even months)
- How much of the invoice is advanced. Where some will advance at least 90% of invoice face value, others typically advance 70-80%.

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Why invoice finance is beneficial for small to medium enterprise businesses

Invoice finance provides a powerful solution to a common problem – it will resonate with businesses of any size.

Here's how:

- Instant access to cash. Cash is a particularly urgent commodity when a new business is still finding its feet.
- As invoice finance can advance up to 90% of an invoice's value being deposited in your account in as little as 48 hours, your only concern will be securing enough orders in the first place, whilst the finance company, with a non recourse agreement, assumes responsibility for getting paid for orders.
- Zero collateral required: invoice finance involves selling an invoice to a third-party finance company. Once that sale is made, the deal is done. You incur zero risk in regards to the invoices, particularly with non-recourse based agreements.
- No chasing invoices: Many businesses soon discover that chasing invoices is one of the most stressful aspects of running a successful business. Aside from the time needed to do it, it can lead to difficult conversations with the buyers you rely on

Once you're approved for invoice finance, the finance company takes ownership of the invoice.

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What is the invoice finance approval process?

A typical approval process looks like this, though this does vary depending on the provider:

1

Having chosen a finance company you trust and one that major players also trust in the finance world, you'll create an account on their website.

2

With your account live, you'll be asked to enter your buyer's name to assess the financing limit.

3

Next, you'll upload the invoice that needs to be financed on the platform, together with any shipping document(s), such as a Bill of Lading, Air waybill, CMR documents or CMR consignment note (a document used for the regulation of road freight transport, and serves as an international agreement).

5

You sign the Agreement, and both you and the buyer sign the Notice of Assignment.

4

Assuming your invoice and shipping documents are approved, you will be sent two documents – an Agreement from the provider and a Notice of Assignment for the buyer.

6

Within days, up to 90% of the invoice's face value minus any pre-paid amount is paid directly into your bank account.

The remaining 10% is held in reserve to cover the provider's fees and potential offsets or late payment charges.

7

On the invoice's due date, the buyer pays the invoice to your finance company, who in turn pays you the outstanding money owed minus the provider's fees.

At this point, the provider will decide whether or not to approve the invoice and shipping documents.

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How can invoice finance help businesses under-served by traditional banks?

Here are three ways invoice finance helps under-served SMEs to thrive.

1

Enhances cashflow

The primary advantage of invoice finance for SMEs lies in its ability to boost cash flow. Unlike traditional loans that may take weeks or months to secure, this financial product offers a quick solution to convert unpaid invoices into readily available cash.

This immediacy is crucial for underbanked businesses, which often struggle with the painful gaps created by long payment terms of 90, 120 or even 180 days.

Invoice finance allows SMEs and enterprises to access the cash trapped in invoices in as little as 48 hours of the relevant signed documents being approved providing you with the liquidity needed to procure raw materials, and place large orders to pay taxes or wages.

This enhanced liquidity helps maintain day-to-day operations and allows you to seize growth opportunities that require urgent funding.

2

Provides options over traditional financing

For many underbanked SMEs and enterprise businesses, gaining access to traditional banking facilities can be daunting.

High credit requirements, extensive paperwork, and lengthy approval processes often put these options out of reach. It is here that invoice finance arises as a more accessible alternative, relying on the creditworthiness of your customers rather than your own.

Moreover, invoice finance reduces the reliance on traditional bank loans, which can be markedly beneficial in times of economic uncertainty, when banks tighten their lending criteria.

By leveraging your accounts receivables, you can access the funds you need without risking the collateral typically required by banks.

3

Supports growth and stability

Invoice finance is not just a tool for bridging cash flow gaps; it's also a catalyst for growth.

By providing immediate access to funds, you can take on larger projects or orders without worrying about how you will finance their upfront costs. This ability to accept bigger contracts or expand to new markets can be a game-changer for any SMEs and enterprises looking to scale.

Also, the stability that comes with improved cash flow can be transformative in itself. You can plan with certainty, or look to enhance your product offerings.

Demonstrating effective financial management and a solid foundation for growth, this added stability will also make your business more attractive to future investors and partners.

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Why is invoice finance more beneficial for trade businesses than bank credit?

Data from ECI Partners highlights that trade businesses have found it increasingly difficult to access finance from high-street banks, with two-thirds reporting more difficulty compared to previous years.

This issue is compounded by the fact that even when funding is secured, the cost of debt remains high due to elevated interest rates.

This is where invoice financing is beneficial.

Easier qualification

Across traditional lending formats, securing a loan is becoming tougher than ever. Trade businesses are experiencing a widespread increase in rejected applications across Europe for all loan categories.

SMEs often rely on external financing to fund their operations, expand their businesses, and invest in new projects. But when loan applications are frequently rejected, SMEs face a lack of access to the necessary capital to grow and thrive.

This is particularly concerning for budding SMEs who may have an even tougher time securing a loan due to a limited credit history or a lack of assets. These businesses may be considered too high a risk for traditional finance companies since there is no collateral to offset this risk.

In these instances, invoice financing provides businesses with a more assured way to gain financing when they need it most.

Compared to bank loan applications, applying for invoice financing is straightforward. Banks typically have extensive documentation requirements, including financial statements, business plans, and other supporting documents.

By contrast, invoice financing applications may focus primarily on unpaid invoices, shipping documents and the creditworthiness of the buyer, making the application process much simpler for businesses that are not yet established enough to meet the stringent requirements of a high-street bank.

Improved relationships

By using invoice financing, businesses can offer more flexible payment terms to their customers. Instead of demanding payment upfront, businesses can offer longer repayment terms while still receiving a cash injection from a third-party finance company.

This flexibility can help businesses forge long-lasting relationships with customers and build trust, making it easier to negotiate future deals and encourage repeat business, which is particularly important for international buyer-supplier relationships.

Invoice financing not only helps SMEs foster positive relationships with customers. It also improves relationships between buyers and suppliers. This buyer/supplier relationship is crucial for smooth operations and success of a business, as it facilitates a reliable supply chain, competitive pricing, and favourable terms.

Just as a business prefers to receive payments promptly, so too do its suppliers. With the funds obtained through invoice financing, businesses can meet repayment deadlines on time.

This payment helps build finance company confidence and promotes long-term partnerships between supplying and buying businesses. Additionally, buyers benefit from the assurance of a steady supply of goods and services, contributing to overall business stability and growth.

Faster access to funding

Businesses typically must rely on customers to settle their invoices promptly to ensure steady cash flow. This can take up to 180 days for international suppliers that offer deferred payment options, which may have negative repercussions should businesses need working capital to fulfil their ongoing financial obligations.

Invoice financing services provide SMEs with a solution to this dilemma. By selling outstanding invoices to a third party, businesses can get immediate access to liquid capital without having to wait months for payment from the buyer.

Additionally, businesses can get faster access to funding through simpler and speedy application processes.

As mentioned earlier, bank loan applications can be complicated and long-winded. Waiting to be approved for a business loan can take several weeks or longer, which could put SMEs in a difficult position if there are outstanding urgent bills.

Invoice financing applications typically have a quicker approval process compared to bank loan applications. The expedited process allows businesses to access funds almost instantly, stabilising cash flow and enabling businesses to overcome temporary cash shortages.

Discover why trade businesses are choosing invoice finance over traditional bank credit. Speak with our team today and learn how our tailored invoice financing solutions can drive your business forward.

[Contact us now](#)

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Why is international invoice finance used?

Invoice finance solves several problems common to international trade. Suppliers (exporters) receive an upfront payment when goods are shipped.

But buyers (importers) can still benefit from invoice finance as they can negotiate extended invoice payment terms with the finance company. This allows them to receive, distribute, and sell those goods before paying the invoice.

In the case of invoice finance, the risk of buyers not paying is taken on by the finance company. But you should be mindful of whether the agreement is recourse or non-recourse. Recourse means that the supplier must buy back invoices that the finance company is unable to collect payment on. Non-recourse means that the finance company assumes most of the risk of non-payment.

Invoice finance is widely used in domestic trade deals and is becoming increasingly popular in cross-border trade. Figures from FCI (the global representative body for cross-border factoring) show that:

- International factoring volumes grew by 24.9% from 2021 to 2022.
- North-East Asia, particularly China and Japan, has seen significant growth with export factoring from China increasing by 288% and import factoring from Japan rising by 188%.

Invoice finance is a highly flexible option for exporters and allows them to choose which invoices to finance and when. This flexibility and the ability to mitigate payment risks through non-recourse factoring make it an attractive financial solution for international trade.

Three ideal scenarios for international invoice finance

While many companies rely on invoice finance for everyday cash flow needs, three examples stand out in which international invoice factoring can be especially beneficial. Moreover, invoice finance reduces the reliance on traditional bank loans, which can be markedly beneficial in times of economic uncertainty, when banks tighten their lending criteria.

By leveraging your accounts receivables, you can access the funds you need without risking the collateral typically required by banks.

1

Rapid growth

Fast-growing companies often have capital needs that exceed their bank lines of credit or loans.

For these firms, invoices are assets that can be quickly converted into cash without affecting banking arrangements. Invoice financing is a straightforward way for exporters to get instant working capital for their business needs.

This is especially beneficial for companies operating in sectors with high seasonal demand, like apparel and holiday products.

Seasonality can cause significant fluctuations in a company's cash flow, inventory and profitability, all of which can make a bank decide against lending money. Invoice financing solves this problem by providing instant cash during peak times.

2

Turnaround situations

Companies often find themselves in a 'turnaround' phase, in other words, they're returning to growth after a period of disruption.

Even though some firms in turnaround phases might have ambitious growth plans they may not always have the means to secure a bank loan to finance them.

Invoice finance can be a lifeline in such situations, providing a vital cash supply during recovery periods when other financing options may not be available.

Applications for invoice finance are approved depending on the importer's credit rating, not the exporter's.

3

Trading with countries outside of bank jurisdiction

Since the 2008 financial crisis, banks have been stepping back from international trade activities. The pandemic has also increased the strain on cross-border trade measures.

Lending regulations have become more restrictive, there is costly and time-intensive paperwork to complete, and geopolitical risks have become more volatile.

These issues have contributed to the \$1.7 trillion (USD) trade finance gap which has indirectly affected firms in the middle market. These companies turn to invoice financing when their bank will not support sales to a country it lists as 'ineligible'.

Therefore, invoice finance has become a suitable option for exporters trading globally, especially those located in emerging markets with poor banking facilities.



How to apply for invoice finance with Stenn

You can begin your finance application with just your name and email address and then return to it later with more information, but it will speed things up if you have the following details available:

- Your company information
- Your buyer's company name
- Any invoice(s) you want to finance
- Transport documents, if applicable
- Your company's bank details
- Name of the authorised signatory for your company
- Name of the authorised signatory for your buyer's company

Boost your cash flow with invoice-based finance solutions from Stenn

Here at Stenn, we're a proven provider of trade finance solutions, specialising in revenue-based and invoice-based finance.

We help improve cash flow and reduce risks, offering tailored financing options with dedicated support to meet your needs.

Get in touch today to discuss how our invoice-based finance solutions can fuel your business growth.

→ www.stenn.com/contact

Contact the team today