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Will invoice finance survive the credit crunch? Of course it will, says Peter Flynn, Commercial Director at Close Invoice Finance

The market popularity of invoice finance is surging. According to latest figures from the Asset Based Finance Association [ABFA], over 40,000 UK companies are now reaping its benefits. This is astonishing when you consider that in the mid-1990s, the corresponding figure stood at less than 10,000.



Peter Flynn
Commercial Director,
Close Invoice Finance

Making business predictions for the immediate future can never be an exact science. Where invoice finance is concerned, it is rendered even more complex by the vast level of global uncertainty currently impacting on our local marketplace.

The only security we have is that the credit crunch will definitely affect the way we do business over the next twelve months. For factoring and invoice discounting professionals there are both pros and cons.

On the plus side, the potential freezing of traditional finance routes makes invoice finance an even more attractive option for many SMEs, who will be obliged to take a critical look at their financing if they are to keep on course with growth targets.

However, many providers may feel pressurised by banks to review the rates they offer to clients and to reconsider their risk strategy – especially if base rates continue to fall relative to the cost of inter-bank borrowing. ►

This will ultimately put some small independents out of business and provide an opportunity for banks and financially secure independents to make strategic acquisitions whilst the market undergoes a period of structural consolidation.

At the same time, the demand for invoice finance will continue to snowball, evidenced by the fact that increasing numbers of Midlands businesses are turning away from the traditional bank overdraft. They are looking to their assets to release cashflow to fund day-to-day business operations and to foster growth.

Asset-based finance, and invoice finance in particular, is starting to enjoy unprecedented levels of popularity. The latest statistics from the Asset Based Finance Association, the trade body for the industry, show that members had advanced over £15 billion to 48,273 companies at the end of the third quarter of last year. Client numbers and sales had grown by 11 per cent since September 2006.

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The majority of this capital has been released against outstanding invoices and reinforces my earlier point that businesses are now focusing very closely on their balance sheets and the debtor book to ameliorate their cashflow.

This high level of demand for invoice finance is something which I wholly expect to continue for the foreseeable future. However, this growth will be bolstered by a move towards more bespoke and creative funding portfolios.

Providers will no longer simply be looking at the value tied up in a company's outstanding invoices, but tangible items such as property, plant and machinery, and stock may also be added to the mix.

This is an area to which we will be giving special focus over coming months. We are certainly taking a critical look at the whole breadth of asset backed lending, which has excellent growth prospects. This is a highly attractive field offering important synergies with our current product portfolio.

However, it is not just proactive providers such as ourselves who are shaping the future of business funding, there is also substantial drive for market development coming from the client end of the market. Clients are definitely becoming more aggressive, and will continue to be so, where funding packages are concerned.

Throughout the coming months there will be a distinct movement by an informed and demanding marketplace towards the more flexible independent invoice financiers who can provide the level of creativity required. Business owners will expect alternative methods of funding as well as a bespoke approach and a careful eye on quality of delivery. ►

Fortunately for us, we are ahead of this trend. Independent research places us consistently above our competitors for client satisfaction in our service offer, with 90 per cent of our customers happy to recommend us. Our achievements have also been recognised by industry opinion formers, winning Business

Moneyfacts magazine's "Best Factoring and Invoice Discounting Provider" accolade an unprecedented four times – 2002, 2006, 2007 and 2008.

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In addition, our first-to-market online invoice discounting solution, IDeal, which we launched in late 2006, has enjoyed an extremely successful roll-out during 2007 and we fully expect this to continue. It is such innovation – IDeal still stands alone in the market – which has allowed us to capture such a large share of SME business.

But with or without innovation, there is no doubt that the next twelve months will be a testing time for most businesses. However, the future for invoice finance is looking positive, and with a strong focus on cash flow management and a careful eye on creative and innovative funding options, the next twelve months could be far more fruitful than any of us may have originally imagined. ●

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