



Close Invoice Finance

Part of Close Brothers Group plc

# Keeping the wheels of commerce turning

It was Andy Warhol who said that *'being good in business is the most fascinating kind of art'* and so I wonder what he would have done with a blank canvas given the current economic climate?



Being good in business is predicated on a number of things not least our commercial skills and the ability to manage a particular set of circumstances.

Yet every now and again even the most economically adroit business managers and owners are faced with conditions for which their abilities have no answers and external help is required.

At Close Invoice Finance we believe we are the kind of people who first and foremost understand business and in our comprehension we find a passionate desire to help.

It's why with this first White Paper we want to make it clear to the UK's Transport and Logistics Industry that we 'get it' and are wholly in a position to facilitate the growth and success of many companies who operate within a sector that quite frankly keeps the wheels of the economy moving (no pun intended).

We believe we have a peerless set of products and services that can make a difference to the businesses you run whatever the particular circumstances of your commercial operation. Furthermore if we feel you wouldn't benefit from what we have on offer, we'll let you know, on the basis that we'll tell you what you need to hear and not what you want to hear. We'll place our mutual integrity at the heart of our relationship with you.

This White Paper takes a look at the current challenges facing the industry, placing them in context, basing them on fact and providing solutions.

If you need to know more then please give us a call. Whatever you decide to do, we're here to help. It's as simple as that and art has nothing to do with it!

**David Thomson** | Chief Executive  
Close Invoice Finance

# Challenges facing the UK Transport and Logistics Market 2011/12

In the last three months around 16 per cent of transport and logistics companies across the UK have been turned down for finance by their banks and another 12 per cent were too afraid to ask for fear of being rejected.\*

For an industry which keeps British goods and services moving throughout this country and the rest of the world that's a damning indictment on those who should be able to facilitate their growth.

This assessment is put into more startling context when one considers that 47 per cent of firms in this industry plan to raise finance in the next 12 months and around 53 per cent intend to ask their banks for the money. Clearly many are going to be disappointed but feel they have no one else they can turn to.

Perhaps disappointment is something UK industry and commerce is going to have to accept over the next few years in terms of finding the necessary finance to turn plans and strategy into reality? Surely that's something we can't accept as an economy and a nation?

Despite promise after promise many banks simply are not lending in the way that they have claimed and Project Merlin increasingly looks and feels like an enormous 'trick', which has cast a 'spell' over an economy starved of the cash it needs to maintain the rudimentary processes of daily commercial life never mind grow. Indeed it's a spell of which the aforementioned Merlin might have been quite proud.

The importance of the transport sector to the UK economy should not be underestimated. The British Chambers of Commerce estimated that last year the disruption caused by the snow accumulated transport costs of more than £400m per day. Place that in the context of an economy that lost £1.2bn per day thanks to the cold snap and one can see the transport and logistics industry accounting for a third of the loss.

Yet this industry is viewed as grimy and oily, almost thankless – all bacon butties and steaming mugs of tea between rigorous road trips up and down the length and breadth of Europe.

Maybe we should re-evaluate our perception of things when one considers that the most frustrating thing about instant purchasing online is waiting for the goods to be delivered. The transport and logistics business which invents the ability to 'beam' things into our homes and companies will surely be onto a winner – over to you Captain Kirk.



In 2010, more than £58.8bn was spent online, an increase of 18 per cent on 2009 and with revenues set to rise again in 2011 to £69bn then the demand for moving those goods around the country is only going to rise too. In December 2010 alone more than £6.9bn in goods were purchased online which was a 25 per cent hike on the previous year and represented an extra four million parcels daily for the transport industry to manage.



Royal Mail required an extra 500 lorry drivers last year and 250 additional HGVs at a cost of around £20m, just to cope with demand. With further growth expected this Christmas it all seems like a win-win for the industry and surely we as a nation aren't going to restrict that growth by not providing enough of the right finance?

But of course finance is only one of the challenges facing the transport and logistics industry. Others are queuing up to apply pressure in the next 12 months and causing a bit of a jam when it comes to prioritising commercial strategy.

**First there is winter.** While we might favour a winter wonderland the industry most certainly does not. Severe weather conditions in the run up to Christmas last year cost the Stobart Group an estimated £1.5m and in the first week of December 2010 almost 400 lorries were stranded on the M25 alone. In Scotland delivery times could not be guaranteed with some retailers experiencing backlogs of 14 days and many distribution companies simply were left with stock-filled, instead of empty, warehouses. Yodel had to buy an extra 28000 man-hours above its peak plan in order to try and beat the weather.

The prognosis for this Christmas is more of the same.

**Secondly there is the ever-rising cost of fuel** – enough said, and finally to add insult to industry woes there is **LEZ – London's Low Emission Zone**, which comes into effect on January 3, 2012 and for a range of transport and logistics companies basically means upgrade your vehicles to ensure they meet emission requirements or face a fine if you try and work inside the zone.

With the average cost of upgrading a vehicle running at around £5K those with major fleets face a huge impact on their cash flow and those with small numbers of trucks will incur a disproportionate charge compared to their turnover. Set this beside an unwillingness of banks to lend then it's no wonder 37 per cent of hauliers fear a double-dip recession – if not generally, then certainly for them.

And given that the industry can be broken down into sectors, one of which is the transport of food and fresh goods, then inflation compounds the problem as costs incurred by the retailer, such as a supermarket chain, are simply passed onto the logistics company generating a lower margin.

Furthermore this perfect storm of costs, policies and weather is compounded by late payments with 68 per cent of the industry experiencing pressure on their cash.



## So what's to be done?

Every quarter Close Invoice Finance commissions an independent survey 'The Close Business Barometer' of the UK business community including the transport and logistics industry. It's a snapshot of opinion at the time and provides Close with a reasonably strong feel for what is going on out there in the wider economy and in particular on how it impacts on small businesses the length and breadth of the country.

## Turnover maybe vanity and profit sanity but cash is verity and about the here and now and not some time in the future.

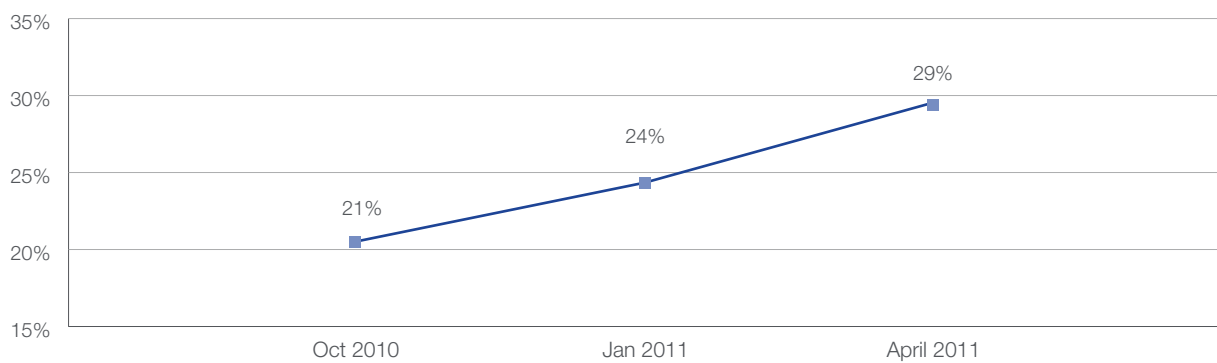
So when we say we understand an industry facing many pressures this year and next, it's because we do and more than that, are in a position to help.

The need to help appears fairly obvious but as you can see from the charts below it's more than that; it's absolutely necessary as many businesses are planning for growth.

One can see that traditional lending in the form of bank loan and overdraft remains the most popular while the desire for using private equity is on the wane.

Naturally as a company providing invoice finance we are pleased to see the steady rise of invoice or asset finance as a choice for the UK's vast SME base but we believe take up of invoice finance could be a lot better and indeed that companies are missing out on not really understanding what it is and how to get it.

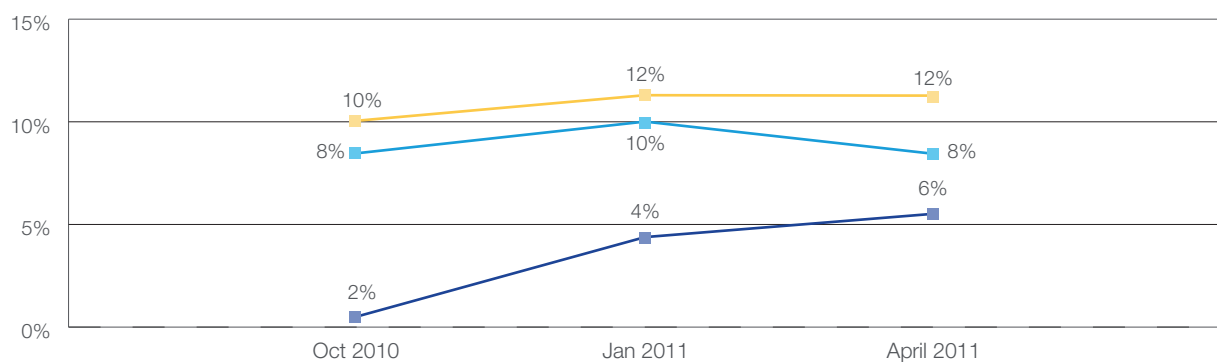
*Does your business plan to raise finance in the next 12 months?*



Source: Lightspeed October 2010 – April 2011

In financing that growth the UK's SMEs are looking to the following sources.

*How do you plan to raise finance in the next 12 months?*



Source: Lightspeed October 2010 – April 2011

## So what is invoice finance?

Increasingly the most successful and entrepreneurial are switching to invoice finance as a way of freeing up the cash they need to drive their business forward.

Invoice financing depends on a lender providing the cash a business needs based on the value of its outstanding invoices. In a nutshell the finance provider bridges the gap between raising an invoice and getting the invoice paid. It can in fact be a much better option than a loan because of its risk approach to lending and flexible nature.

**It's an approach that ties in with government's thinking on business finance as set out in Financing a Private Sector Recovery**, published last year by the Department for Business Innovation & Skills. With SMEs still struggling to access bank finance, many including those in the transport and logistics industry are looking elsewhere for the cash they need to develop their business.

The government paper points out that among the 4.8 million small and medium-sized UK businesses there are many that are struggling to grow because of a funding shortfall of between £2 million and £10 million. It goes on however to predict that invoice financing 'could play a crucial role in securing access to working capital finance during the recovery for many businesses'.

The process is relatively simple and is based on freeing cash from what is usually the company's biggest asset – the money it is owed by its customers.

Funding a client is based upon the health of the business and not a credit rating like an overdraft would be so essentially it's a red-tape free funding facility that aligns itself with the turnover of the business. If you are making sales and are a sound business, this will work for you.

But of course invoice finance is not the only way ahead. For many in the transport and logistics industry facing the economic challenges outlined above other suitable solutions are available including asset finance and indeed the refinancing of assets. Anyone running two or three lorries and facing a LEZ upgrade may well be better advised to refinance the lot and include the cost of the upgrade.

With even the government highlighting the benefits, invoice financing is gaining further popularity. It particularly suits SMEs that make a product or provide a service for which it then raises an invoice. It closes that 60 to 90-day gap between raising the invoice and being paid. It's also designed to provide working capital not buy fixed assets. Invoice finance works well because it can give a company access to more funds than it would otherwise be able to access, often without the need for the personal guarantees that banks tend to require. In terms of expense, invoice finance costs about the same as a bank loan when the various charges and costs are compared.

So if you have a strong company with a good order book this could be the funding option you're looking for, and especially at times of significant challenge like the transport and logistics industry is facing today.

Sources: UK government statistics and reports provided by HMSO, company reports and the quarterly

To find out more about how Close Invoice Finance can help your business please call **0808 159 8590** or visit [www.closeinvoice.co.uk/lez](http://www.closeinvoice.co.uk/lez)

