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## Step outside traditional finance routes to beat the downturn, says Simon Carter, Regional Commercial Director at Close Invoice Finance

Despite the threat of a global market slowdown, businesses in the Midlands are feeling surprisingly bullish about their growth prospects, according to new research published by Close Invoice Finance.



**Simon Carter**  
Regional Commercial Director,  
Close Invoice Finance

Our Small Business Finance Barometer reveals that more than half of the local SMEs polled expected their businesses to expand this year. Just six per cent believed that their business would contract or even close down over the next 12 months.

The Barometer also suggests that although one in four small businesses based in the Midlands considers the credit crunch to be the key issue currently facing UK businesses, they don't actually feel that it is likely to impact directly on their growth plans in the near future.

It is encouraging to see that our local businesses are preparing to weather the downturn with such a positive outlook, particularly when government figures are highlighting precisely how tough it is out there. Latest statistics from The Insolvency Service show that the number of companies going into administration jumped by 54 per cent in the first quarter of this year.

Indeed, over 850 companies in England and Wales went into administration in the first three months of 2008, against 557 this time last year. Furthermore, the number of companies that went into voluntary liquidation over this same time period has risen by a quarter since last year to 2,125. ►

The determination of SMEs to keep their expansion plans on track is highly laudable, particularly in the face of such a gloomy economic outlook. However, these combined research figures should serve as a warning.

The possible conclusion from all of these figures is that there could well be a significant gap between the way businesses perceive the likely effects of the credit crunch and the actual toll it is taking, and will take, on the marketplace.

With banks getting tougher on the credit they extend to growing businesses, many SMEs will have to look outside traditional finance routes, not only to keep their growth plans on track, but to fulfil the basic prerequisites of business survival.

Many funding patterns and practices will have to change. According to our figures, around one in five Midlands-based SMEs uses bank loans as their primary source of working capital when they need investment finance. However, with banks reluctant to lend to all but the least risky, this leaves a high proportion of businesses in a very vulnerable position.

By way of contrast, only seven per cent of Midlands SMEs raise capital through invoice financing, which is ironic when you consider how readily available, flexible and cost-effective this fast-growing form of asset-based lending can be.

For those unfamiliar with this method of finance, it can be used to turn invoices into cash. Companies like Close Invoice Finance pay clients straightaway for money that is owed to them by their debtors and offer the option to protect against bad debt.

**...the invoice finance sector is growing fast – it is already valued at £15bn.**

This kind of facility is widely used in a whole host of industry sectors: manufacturing, distribution, logistics, wholesale, transport, recruitment, printing and many more. It affords businesses a greater degree of flexibility and control over their operations via their cash flow.

This flexibility is a crucial tool for expanding companies as it also allows them to grow in line with their sales and not be held back by a stuttering cash flow. The fact that invoice finance is tailored to the assets it is funding enables businesses to grow without giving up valuable equity or having to pledge other assets on security.

It means that businesses no longer have to limit their growth financing to bank overdrafts, loans, venture capital or issuing stock. Asset-based lending, particularly invoice financing, can be a far more suitable alternative.

By way of endorsement, the invoice finance sector is growing fast – it is already valued at £15bn – but there is still far more scope for its use across the region.

In a market where the credit crunch is causing significant financial restrictions, higher loan costs and a dearth of available liquidity, invoice finance can offer SMEs a real competitive advantage and a flexible, non-traditional way to beat the downturn. ●

***Article featured in Birmingham Post – Asset Based Finance Supplement***