Factoring and Invoice Discounting

A Creative Business Finance Guide

by

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Important note

The information set out in this guide is given in good faith for general guidance and no liability can be accepted for loss or expense incurred as a result of relying on statements made in this guide. Readers are advised to discuss their particular circumstances with their professional advisors before making any arrangements.

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Introduction

Case study

The company needed access to more cash to fund production but its bank was unwilling to increase its overdraft limit to the level needed. So the directors asked their accountant for advice.

He introduced them to a factoring and invoice discounting company he knew because the local representative had recently taken him out to lunch and the accountant's view seemed to be that 'all the factoring companies are the same'.

The lender's salesman called on the company and talked about how his firm would advance up to 85% of outstanding debtors. Once the overdraft (which was set by the bank in practice at approximately 50% of last year's level of debtors) was paid off, it seemed as though there would be plenty of cash left over to meet the company's needs. So the directors signed up to an invoice discounting arrangement.

As a direct result of which the company failed a month later.

The reason was simple. The lender would advance 85% against the debtors, but only against what are known as 'qualifying' debtors. In this case the lender's terms included what is called a 'concentration limit' that disallowed debt due from any customers of over 25% of the total value of the ledger.

The problem with this was that the company was a contract manufacturer which only ever did work for two or three customers at any time. So when they came to do their reconciliation at the end of the first month the company found that almost 50% of its debtor book had been disallowed. So the real effective advance was only about 42.5% (85% of the remaining 50%) of the value of its debtor book and not the 85% they had expected.

But why didn't the lender spot this problem when it took the case on?

Well perhaps they did. But the lender wasn't going to lose out from the company's collapse. In fact much the opposite because not only would they able to collect their advance back in from the debts, they would also be able to charge and receive their contractual 'collect out fee' of a further sizable percentage of the ledger.

This (real life) case study captures in one example the reasons for the growing importance of factoring and invoice discounting as a source of funding for small and medium sized businesses at a time when banks are increasingly reluctant to provide overdraft funding. As a result it is increasingly being used to support business growth because it is both:

- more flexible than traditional methods of bank funding such as overdrafts; and
- one that allows a greater level of borrowing to be raised against the assets available as security.

At the same time it also illustrates the dangers of choosing the wrong funding package, or not understanding how it is going to work, and therefore the need for getting the right advice as to which lender and terms are best for you.

Because the sad truth is that the failure of the company in the case study could easily have been avoided by the simple step of introducing the company to factors and invoice discounters with a different policy on concentration.

There are in fact over 50 factors and invoice discounters operating in the UK today, ranging from small specialist independents to large subsidiaries of the main clearing banks. And whatever the above company's accountant thought, they are not all the same.

But because there are over 50 firms, offering everything from just debtor based finance through to full packages of lending against other assets such as stock, plant and machinery, and property; and because this is an area with its own jargon and catches for the unwary; this proves to be a problem in itself for busy owner managers. How on earth do you make a sensible choice as to which is the best for you and your business?

This booklet is designed to help guide you through the maze and to:

- understand what factoring and invoice discounting are, how they work and when they might (or might not) suit your business's needs;
- understand the issues you need to consider in making an informed choice as to which is the best lender for you;
- understand the risks, costs and terms; and
- negotiate the deal that suits you and your business.

Because despite the difficulties and risks, this is also an opportunity for your business.

Factoring and invoice discounting are becoming more important as:

- banks are increasingly promoting them to their own customers as an alterative to traditional overdraft lending as being more cost effective for the banks to manage as well as being less risky; and

- they are becoming increasingly used in transactions such as management buy outs and buy ins (MBOs and MBIs) because of their ability to generate greater levels of cash than overdrafts.

As a result the stigma of factoring is disappearing fast, and with the development of confidential factoring and invoice discounting, arrangements can be avoided altogether.

A wide and evolving market has developed over the last few years. The statistics of the lenders' trade body, the FDA, show that use of this type of finance is growing by about 10% a year, with about £13 billion currently advanced by lenders to 45,000 businesses in the UK as at June 2006, the vast majority of these being SMEs.

The rise of this form of finance is therefore having the effect of giving businesses much more freedom in arranging their funding and a real alternative to the big clearing banks.

So if you have ever wanted to say goodbye to your bank manger then this could be the guide for you.

1 WHAT IS FACTORING AND INVOICE DISCOUNTING?

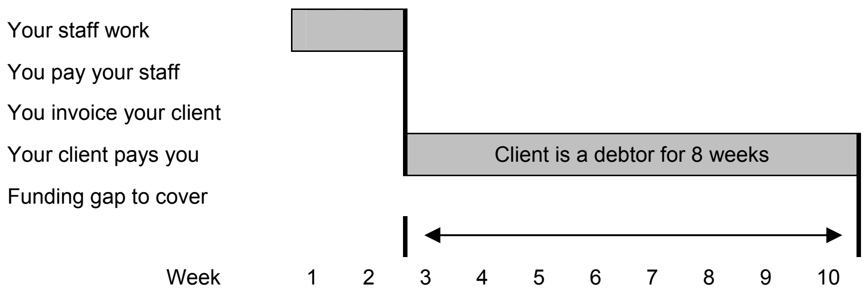
Factoring and invoice discounting are both forms of finance that allow you to raise money directly against your outstanding debtors as a way of covering a ‘funding gap’. The easiest way to illustrate how this funding gap arises, and how these forms of ‘debtor based’ finance can fit in, is by way of looking at a couple of typical business situations in both a service sector and a manufacturing business.

Why your business needs cash – the funding gap

Imagine, for example, that you run an agency supplying temporary workers that you place with a customer for two weeks at a time.

At the end of the fortnight your staff will want to be paid (let’s say they cost £500) and you will be able to raise an invoice to the client for their time (let’s say for £1,000, ignoring VAT). The only problem is that in reality your customer is not going to pay immediately but will typically take say eight weeks to settle your bill.

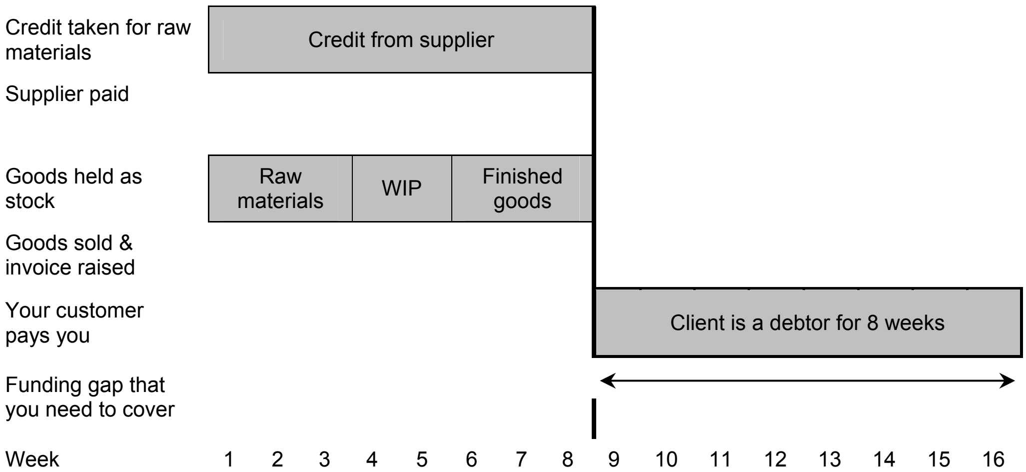
This leaves you with a gap between the time when you have to pay your workers their £500 and the time when you receive the cash from your customers for the job as illustrated below. So this ‘funding gap’ has to be filled from somewhere, either by cash invested by you into the business by way of share capital; or directors’ loans; or by having left profits in the business; or by borrowing.



The same issue would arise if you were running a manufacturing business where you will normally receive a period of credit from your raw material suppliers (let’s say that on average you can take eight weeks to pay).

However, you might hold on average 21 days worth of raw material stocks, 14 days of work in progress and 21 days worth of finished goods stock which means that by the time you actually come to sell the goods that those raw materials have been used to make, you are due to pay your supplier.

But you will suffer from the same problem as the temporary labour agency in that you are likely to be selling on credit so again it will be say eight weeks before you receive the cash in giving you a similar funding gap.



Obviously you can look to manage your 'working capital requirement' to minimise this gap and therefore your funding needs. You can, for example, keep your investment in stocks to the minimum practical level that your business can manage on; while also being as efficient as possible at collecting in payment from your customers to minimise the cash tied up in debtors.

Overtrading and the advantage of flexible funding

Incidentally, looking at your business's finances in this way also shows why having sufficient flexible funding is so vital for growing businesses because it demonstrates how and why access to cash is needed to support any given level of your business's trading. From this you can also hopefully see that if your business's level of trading increases, then the level of funding it will need will increase to match. However most bank facilities are relatively inflexible as they are set at a particular level for a period of say a year, usually based on an assessment of a business's funding requirements and available security at the time they were agreed (which will generally be based on say 50% of your 'current' debtors), and can therefore be difficult to adapt to cover the rapidly changing requirements that occur in a high growth business.

Businesses which expand faster than the level that their access to cash can support, a problem known as 'overtrading', often fail as while they are trading profitably, they simply run out of cash to pay their suppliers.

Because the funding available through debtor based finance is based on your sales and debtors, it is therefore an ideal way for high growth businesses to avoid this problem. As your level of turnover and therefore the value of your outstanding debtors grow, debtor based finance automatically provides you with access to more cash to match.

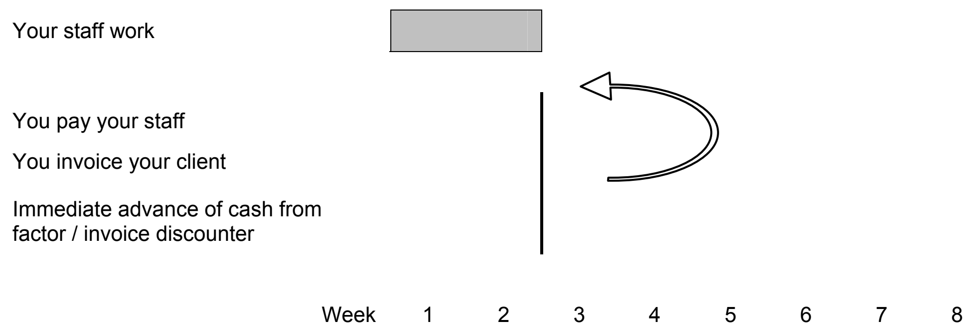
How debtor based funding works

The easiest way to visualise how these forms of finance work is to imagine that as soon as you have made a sale to a customer, you can then immediately 'sell' your unpaid invoices to the lender at their full face value. This lender will then pay you for these in two instalments:

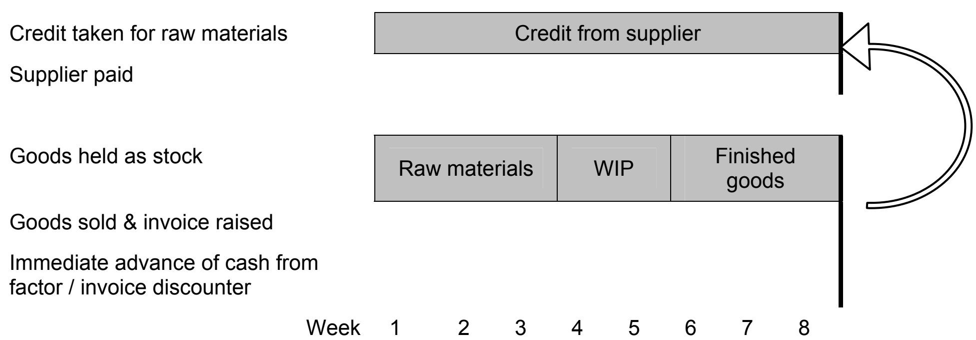
- an initial payment of the majority of the value (known as the 'advance', which is usually between 65% and 85% of the gross invoice value, ie including VAT if applicable);
- with the remaining balance being paid over, less the lender's charges, once your customer has paid the invoice.

The impact of this is to 'short circuit' your business's wait for the receipt of most of the payment from your customers as the lender is providing you with the bulk of payment immediately through the advance as illustrated below.

Temporary labour agency



Manufacturing business



Of course in reality the lender does not actually purchase your debt but will instead take a first fixed charge over them as security for the advance. As a result, your debtors will not be available for your bank to use to secure an overdraft facility. Completion of a factoring or invoice discounting deal therefore usually involves paying off your overdraft out of an initial advance received from the lenders ‘take on’ of your existing debtor book.

While stock finance is discussed later in this guide, it is worth noting at this stage that some invoice discounters will also take finished goods stock into account and can then offer higher levels of advance against invoices (sometimes exceeding 100% of your debtor book).

2 HOW DOES FACTORING AND INVOICE DISCOUNTING WORK?

As with most things in life the reality of this type of funding is in practice more complex as not all debt can be used to raise finance and the levels of advance quoted by lenders can be misleading.

What is factorable debt?

In common with most commercial lending the key factor that determines how much you can borrow is the value of the asset, in this case your debtors, that you can pledge as security.

However not all debt can be factored or discounted. (To avoid unnecessary duplication the generic terms factor and factoring will be used to cover both types of debtor based funding from here on except where there is a specific difference in how they operate.)

Some debt is simply impossible to factor as a lender cannot rely on it as security. This includes:

- Items sold on a sale or return basis, as the customer can always return the goods and cancel the debt on which the lender has already advanced. For a debt to be factorable there must be a clean sale.

- Even so, any debt which exists on a ‘pay when paid’ basis as happens, for example, where a customer may be holding a consignment of stock, will not be factorable as the lender cannot necessarily determine a specific point at which the invoice raised will become due and payable, if indeed it ever does.

- The debt must be due from another business (a business to business or ‘B2B’ sale) as factors are not interested in or set up to collect debts due from consumers (‘B2C’ sales). Factors are also wary of sales to government bodies but some will fund against sales to local authorities or quasi governmental and public sector organisations.

- The other business must be a genuine ‘third-party’ as factors will all discount any intercompany trading within a group.

- To the extent that a debt is due from a business that is also a supplier to the business, the lender faces the risk that the customer will set off (‘contra’) any sums that are due to them as suppliers against the debt due to the business. Any such debts will be excluded from the funding arrangement or a reserve placed on the account which restricts the drawdown available so as to cover this risk for the factor.

Even having excluded the above, some business debts are still difficult to factor due to their nature or circumstances which affect a factor's ability to collect in the debts to repay their lending in the event that the business fails. The main difficulties here come in respect of:

- Contractual debt for the provision of a service over a long period which involves stage payments such as:

    - engineering contracts where a payment of a third with order, a third on delivery, and a third on commissioning is not unusual;

    - construction contracts which may last for many months with a series of stage payments. These are a particular problem as they are normally based on a process of monthly 'applications' which are the builder's estimates of the value of the job completed to date rather than invoices for a definite amount. In construction contracts these 'applications' have to be agreed by the customer's architect or surveyors before the final agreed sum becomes payable, normally within two weeks. The bulk of a construction company's 'debtor' book therefore usually consists of applications which will turn into a debt, but where the value of the debt is uncertain until shortly before it is paid over.

    Contractual debt is always difficult to factor; if the supplier fails part way through delivery of a contract, its customer will normally seek to offset the costs of replacing the supplier and any associated disruption costs (which particularly in the construction industry can be quite creative), against the debt outstanding. As a result there are only a limited number of factors who will provide funding against this type of debt and this is usually at lower levels of advance (say 50% against a more normal level of 75% to 85%, together with a requirement for personal guarantees) as they have less certainty as to both the collectability of any debt and in the case of applications, its actual real value.

- Some contracts, for example for the supply of materials to a manufacturer for use on its production line, may include 'liquidated damage' clauses. They are intended to provide a mechanism whereby the customer can be compensated at an agreed rate for any interruption its production suffers if your business fails to supply it with widgets as agreed. These clauses create problems for factors as in the event your business fails, they give rise to the basis for your customers to offset a claim for these damages against the sums due to you on which a factor has lent.

- Sales which require extensive after sales service or warranties (such as bespoke computer software) may not be fundable, as again the customer may seek to offset a claim relating to the loss of this support or the costs of replacing it against any debt due which the factor would be looking to collect.

- Sales to overseas customers can be a problem as the factor's ability and cost to collect will obviously vary from country to country. Some factors are members of international groups and are therefore able to consider funding ledgers with a relatively high degree of international exposure (of say up to 50%), although even here this will involve an assessment of the spread of the ledger on a region by region or country by country basis. Most of the independent sector is however focused on UK based debt only.

- Sales to a single or very low numbers of customer can lead to a problem with what is known as 'concentration'. To avoid having all their eggs in one (or very few) baskets, factors generally like to see their risk spread across a number of debtors with any individual customer making up no more that 20% to 25% of the borrower's debtor book as in the opening case study. However this is an area where factors differ greatly in their policies and some will fund 'single debtor' clients. Otherwise in these situations the lender may allow temporary overpayments but these will usually come at an additional cost.

Advances

The level of advance that you can expect will vary from lender to lender but in general the banks' factoring arms have a high degree of captive business introduced through their banking colleagues and therefore tend to be more conservative than the independents. As a guide, you might expect a bank-owned factor to advance say 60% to 85% against a normal book, whilst the independent firms may range between 75% to 90%, and will in addition consider providing top up facilities against stock or agreed temporary overpayments of say up to 100% to cover specific items such as a peak requirements at a VAT quarter or exit penalties imposed by another lender.

It is important to realise that these percentage advances should be regarded as the 'nominal' level of advance. All factors will only advance against 'approved' debt which is to say your total debtor book less the debt that has been disallowed as a result of:

- aging, when normally any debt of over 90 days old will be disallowed; and

- reserves placed against the accounts to cover any:
  - supplier contras;
  - balances in excess of agreed concentration limits;
  - intercompany trading; or
  - individual debtors that the lender won't fund for whatever reason, such as overseas debtors.

As a result of this disallowed debt, what really matters is your 'effective' advance, which is to say the funds available that you can actually draw down from the factor (your 'availability'), as a percentage of your total debtor book. As you can see from the potential reserves that will be applied above, this will often be significantly lower than the headline percentage advance you have agreed with the lender.

As discussed below this can be a particular issue if your business gets into difficulty.

How much does it cost?

The costs of debtor based finance will include two main elements:

- A service charge which for factoring typically runs at from 0.5% to 1% of turnover to as high as 3%.

  Factoring tends to be more expensive than invoice discounting as the charges include the cost of providing the credit control service (and where applicable bad debt protection) where both the number of customers and the number of invoices being issued come into the equation for determining the costs. These charges are very visible and one of the reasons why factoring has a reputation for being expensive. However if you are comparing the cost of factoring to other sources of finance you will need to take into account any savings you may be making by outsourcing your credit control function.

  If you are comparing the cost of debtor based finance to the cost of bank overdraft facilities, be sure to take into account any 'management' and 'arrangement' charges that your bank imposes, together with the cost of credit control and insurance.

- Interest costs, which will be quoted at a rate over base and which should therefore be directly comparable with interest rates on other types of lending.

There are however some other costs to take into account which include:

- any initial audit cost;
- a take on fee to cover the administrative costs of setting up the arrangement;
- separate credit insurance costs where the lender may insist that you obtain insurance cover on some or all of your debtors;
- transaction costs such as telegraphic transfer fees (TTs); and if it ever comes to it,
- collect out costs.

What happens if you suffer a bad debt?

Most businesses suffer bad debts from time to time but this raises an obvious problem if you are using debtor based finance as you will already have received an advance in respect of the invoice when it was raised, so how do lenders deal with this situation?

Factoring can be on either:

- a 'recourse' basis, where in the event a customer does not pay the lender, can recover the funds they have advanced to you from your current availability, leaving you exposed to the impact of the bad debt; or
- a 'non-recourse' basis where if a customer fails to pay a debt where there are no grounds for dispute, this is the factor's problem not yours.

Obviously in non-recourse factoring the lender is taking a much greater risk, or will be bearing an expense in insuring the debt which will be reflected in the price of the service.

What you will usually find is the factor will advise you of a credit insured limit for each customer which will be the figure up to which 'non-recourse' applies.

So if you had three customers as below who do not pay, the result would be as shown:

Customer	Debt due	Credit insured limit	Impact of failure to pay on your facility
A	£10,000	£15,000	The factor's 'insurance policy' pays you out for the debt so you suffer no reduction in facility and the factor then pursues recovery in the normal way.
B	£10.000	£5,000	The factor's 'insurance policy' pays you out to cover the first £5,000 so that there is no loss of facility in respect of this, but the factor will claw back the advance made in respect of the further £5,000 in excess of the credit insured limit. The factor will then look to recover the full amount from the debtor and if they do so they will restore the funds to your account.
C	£10,000	£0	The factor will deduct the entirety of the advance made against the £10,000 debt which will reduce the funds available to you.

What happens if your business gets into difficulty?

As with any lender, factors and invoice discounters will take steps to manage their risks if they see that your company is getting into difficulty.

A factor has a direct and disclosed relationship with your debtors. This makes it easy for the lender to verify the debtor balances that are being held as security as well as putting them in a good position to collect in the debt if required. Factoring is therefore seen by lenders as a safer service to offer than invoice discounting. As a result, one step an invoice discounter will look to take if they become concerned, will be to move your account onto a factoring arrangement as a way of giving them a much closer grip on your debtors and their exposure.

Of course, as your facility under debtor based finance is broadly tied to sales volume, if sales fall it follows that the funding available will also fall (which may be just the moment that you need finance the most).

In addition to this 'natural' reduction, both forms of lender will look to actively manage down their exposure if they become concerned. They can do so by taking a more aggressive stance in disallowing debt and by placing either specific or general reserves on your account so that the percentage they have actually advanced against your total book reduces. In some cases the effective advance to a company in difficulty can drop as low as 20% of the total debtor book as a result of this sort of approach by a factor's operations department.

The impact of this approach can be to starve the client business of funds, sometimes to a level which can lead to the strangulation of the business.

In practice factors and invoice discounters can earn good fees out of these types of situations since many charge high rates for forwarding funds by TT, which a business that is short of cash may be forced to pay.

Most invoice discounting and factoring arrangements also have a built-in scale of charges to cover 'collect out' situations where they have to recover their money from a business's debtors following its failure.

In practice this means that a lender's exposure will often be limited by the time a business finally shuts down because they have successfully restricted drawdown. Meanwhile the failure itself then gives the lender scope to recover their collect out charges which can be highly remunerative.

How does factoring and invoice discounting differ?

In both these forms of finance the lender will provide you with funding known as an advance against the value of the cash due into you from your debtors.

As you then forward them new sales invoices and they receive your debtors' payments on a daily basis, the total advance they are prepared to give you will change from day-to-day. Deducting the previous day's outstanding advance from the total advance they are prepared to make today gives you your current availability, which is the amount of cash you can ask the lender to send to you (or 'draw down').

While they both involve borrowing directly against the security value of your debtors, factoring and invoice discounting have a number of differences in how they operate. The most important of these are:

- **Visibility and control**. In factoring, in addition to advancing you money, the lender also takes over management of your sales ledger and credit control and provides you with the service of actively chasing your customers' payments on your behalf. This can in itself be an advantage if your credit control has been poor but you will also have to place a notice on your invoices that the debt has been assigned to the factor and that your customers should pay the factor direct.

  This means however that your customers will quickly become aware that you are factoring as they will see the notice and will be contacted directly by the lender about their bills, so factoring is normally a very public form of financing.

Because this can cause some businesses concern as to how their key customers are handled, in some cases factors will allow a 'CHOCs' arrangement for key accounts (client handles own customers) whereby you retain control of the contact with the customer, while some have also gone on to develop 'confidential factoring' facilities.

Invoice discounting differs from factoring in that you continue to run your own sales ledger and collect in your own debtors. As you are continuing to do the work you obviously retain control of the process and it is therefore also possible to have confidential invoice discounting ('CID') which means that your customers will not be aware of the arrangement.

- **Live and delayed adjustment**. As a factor is advancing you funds against individual invoices and is running your sales ledger, any adjustments to the amount of lending they are prepared to advance, for example as a result of a change in the value of older debt, is made immediately on a day-to-day basis.

  With invoice discounting the lender does not run your ledger and instead normally requires you to provide a monthly reconciliation of the account showing, for example, any change in the level of debt over 90 days that will need to be disallowed. The lender will then use this information to make any adjustments required to the reserves. As a result you can find yourself suffering a significant adjustment to the funds available as a single hit on submitting the reconciliation, rather than having a daily series of smaller movements as in a factoring arrangement. While they may amount to the same value in terms of cash of course, the size of the adjustment on a monthly basis may in practice be more difficult to deal with.

  This difference is likely to disappear over time as one lender has introduced a service which automatically synchronises the lender's records with your accounting system on a daily basis and makes the adjustment required. This therefore avoids the danger of a large 'hit' following a reconciliation and other lenders are likely to follow suit over the next few years.

They also differ in that as the invoice discounter is not directly in contact with your debtors on a day-to-day basis this is perceived as being a riskier form of finance to offer than factoring. Discounters therefore tend to only want to provide facilities to larger businesses, typically with turnovers in excess of £1m and with a positive net worth on the balance sheet.

Some of the key differences between factoring and invoice discounting are summarised below:

	Factoring	**Invoice discounting**
Visibility	Normally public	Normally confidential
Debt collection	Part of the package	You do your own
Adjustments to availability	Live	Monthly on reconciliation
Application	Most businesses with factorable debt	Businesses with turnovers of over £1m and a positive balance sheet

3 WHY USE THIS TYPE OF FINANCE?

Debtor based finance has a number of advantages over traditional overdraft funding arrangements:

	Debtor based finance	Overdrafts
Flexibility	Funding automatically expands directly with your debtor book to match the level of your trading	Facilities tend to be set for periods of up to a year and therefore are slower to respond to an increased requirement for funds to match increased levels of trading
Level of borrowing possible	Can provide a facility of typically 75% to 85% advance against current debtors	Banks will typically provide overdraft facility to the value of 50% of your current debtors
Ability to borrow against finished goods stock	Some invoice discounting facilities will allow an additional level of advance against finished goods stock	Usually none
Credit control services	Yes with factoring	None
Bad debt protection	Can be built in using ‘non-recourse’ arrangements	None

Many of these factors make debtor based funding highly suitable for high growth companies where the access to flexible funding that can grow with the business helps eliminate the risk of overtrading.

Going further, if the key criteria for your business is maximising the level of funding that will be available, then by combining this type of debtor based funding with other ‘non bank’ sources of finance such as specialist commercial mortgages and plant and machinery based funding can allow you to raise significantly more than may be available through traditional high street banking arrangements. As shown in the How Much Can You Borrow Ready Reckoner below.

	Asset values	**Bank**	**Mix of specialist lenders**
Property	£ Estimated open market value	£ 60%	£ 75%
Plant and machinery	£ Estimated second hand value	£ Usually nil although may advance if significant	£ 75% to 100%, less any existing HP or leasing liabilities which will have to be settled
Debtors	£ Debts under 3 months old	£ 50%	£ 75%
Finished goods stock	£	£ Nil	£ Can be used to 'top up' advance against debtors to say 100%
Total		£	£

Debtor based finance does however have a number of perceived disadvantages such as:

- **Stability of funding**. As businesses see that when sales and therefore by implication levels of debtors fall, the funding available through debtor based finance will reduce as well, whereas an overdraft will not be affected in the short term giving you something to rely on.

  There are two problems with this analysis which mean that this is not normally as much of an issue as you might expect.

  Firstly, whilst it is true that levels of funding will track debtors down as well as up, you will also appreciate from what has already been said about the funding gap that your business's requirement for working capital will also tend to reduce as your purchases will also reduce.

Secondly, while an overdraft will not be affected by a very short term reduction in sales, the key here is the phrase short term. Since banks will normally base the level of overdraft they are prepared to provide on say 50% of your debtor book, you may therefore find that your facility suffers a step reduction once the bank has noticed your lower levels of sales and hence debtors.

- **Reputation/stigma**. Factoring has traditionally had a reputation as 'funding of last resort' and businesses have been concerned that their customers may see it as a sign of business distress.

  However this problem is much reduced as more and more businesses are being moved onto debtor based finance by their banks, while the higher funding levels achievable mean that it is now used as a matter of course in MBOs and MBIs to maximise the cash available to the business.

  And of course with confidential invoice discounting this issue is avoided altogether as none of your customers will be made aware of your financing arrangements.

- **Costs**. Factoring is often seen as an expensive form of finance, but as noted above, you have to ensure that you are comparing cost on a like for like basis and including all the costs involved in arranging, for example, bank overdraft finance.

- **Exiting**. Once you have this type of facility in place, it can be extremely difficult to get to a position where you can exit the arrangement.

4 HOW TO CHOOSE A LENDER

This guide is intended to give you a better idea of some of the things to consider when considering factoring or invoice discounting. Obviously you need to decide whether this type of debtor based finance is appropriate for your business in the first place, and if so whether you are better off with factoring or invoice discounting.

If you do want to go ahead, the next problem is in choosing the right lender for your business's needs.

The factoring and invoice discounting market

This has been a rapidly expanding market over the last few years with between 50 and 60 active factors and invoice discounters operating at the time of writing. There are therefore a wide variety of lenders falling into three main categories:

- The main clearing banks' owned and branded firms. These obtain much of their work by their in-house bank referrals although some work hard to produce strong solutions for clients and as a result are successful competitors in the market.
- Large independents, many of which are owned by smaller or foreign owned banks or other financial institutions. These often provide both factoring and invoice discounting facilities as well as now being able to provide packages of structured finance combining any number of asset based elements including property, and plant and machinery loans as well as stock and debtor finance, and who are therefore sometimes known generically as asset based lenders or 'ABLs'.
- Smaller players, generally focused on factoring but who may well have developed particular niches such as construction debt, architects' practices, government debt, or care homes which can require particular expertise in lending.

As the main clearing banks have sought to reduce both their risk in lending and their costs of managing customers accounts, many businesses have found themselves moved on to factoring or invoice discounting by their banks and as a result have transferred over to their bank's in-house firm. There is therefore quite a degree of 'churn' in the market as businesses realise that having lost their requirement for a banking relationship to maintain an overdraft, they are in fact free to seek a better deal elsewhere. This typically involves moving to an independent, which not having a tied stream of enquiries tend to try harder, typically offering better advance rates and more flexibility.

The number of players in the market is therefore an opportunity for your business as it potentially provides you with a large number of lenders willing to compete for your business.

However this degree of choice can also provide a problem in finding the right lender as the number of offerings can be confusing.

What to look out for when choosing a lender

There are a number of issues to consider when choosing a lender, which broadly divide into the following key areas:

Services offered

It may sound obvious but the starting point has to be, does the lender provide the service that you want, either factoring (which these days can include confidential factoring, CHOCs and recourse or non-recourse, arrangements), or invoice discounting which is usually on a confidential basis?

But in addition to this there may be additional services that lenders may supply, the main ones being:

- Will they provide you with an enhanced level of advance against finished goods stock as part of the debtor funding package?

  Many of the factoring and invoice discounting firms will now advance funds against finished goods stock as part of their facility. In practice the advance is made by way of an overpayment against the debtor book, so for example, taking the percentage level of advance up from a nominal 85% to say a nominal 100%, but whatever the value of stock involved, the lender will still regard the debtor book as the core of their security.

  To advance against stock, all lenders will need to become comfortable with the value of their security. This means they will need to undertake a detailed audit of the stock and will require you to run a detailed stock reporting system on a live basis to provide regular reports on quantity, value and movement of stock.

  As the Inland Revenue and HM Customs and Excise (now combined into one organisation, HM Revenue and Customs) have the ability to distrain against stock for outstanding PAYE/NI or VAT balances, while your landlord has similar abilities in respect of rent arrears, the lender will also want a regular statement of your position in respect of Crown debt and rent payments.

In order to be able to realise the stock should they ever need to, the lender may also wish to enter into an access and priority agreement with your landlord.

- Will they provide loans under the DTI's Small Firms Loan Guarantee (SFLG) scheme?

  As most UK commercial borrowings are dependent on the assets available to provide security, this leads to a problem in situations which require a loan but where security is not available. To meet this need, the DTI, in cooperation with a number of participating lenders, operates the Small Firms Loan Guarantee (SFLG) whereby the government will provide the lender with a guarantee against default by the borrower.

  To qualify, your business must be less than five years old with a turnover of less than £5.6m. The government provides the lender with a guarantee for 75% of the loan amount in respect of loans of up to £250,000 and terms of up to 10 years which can be used for most purposes although there are some business sectors which are not eligible.

  The cost to the borrower of this guarantee is a payment to the DTI of a premium of 2% of the outstanding loan, in addition obviously to the lender's own charges and interest.

- Will they provide a 'structured loan' against a package of different assets such as plant and machinery, or property?

  Many lenders have branched out into lending against other classes of asset and may therefore be able to provide you with loans against a variety of different business assets.

Advances

Your facility will be based on a percentage advance against approved invoices so you need to look at the headline rate that you are offered, which in the case of contractual debt may be as low as say 50%.

The actual (effective) advance you receive as a percentage of your total debtors can however be significantly less than this nominal headline percentage as the factor may disallow debts over three months old, sales to suppliers, overseas debts, or may set concentration limits where an individual customer's debts cannot be more than a set percentage of your sales ledger or a credit limit per customer. You therefore need to look at the nature of your debts in the light of the terms offered by the factor and ensure that you will not run into such problems.

As the levels of reserves usually only change monthly in invoice discounting arrangements based on your reconciliation of the account, this can lead to some big swings in your availability.

The lender may also set an overall funding limit on the account in order to avoid becoming overexposed to a client without reviewing the arrangement.

On the upside lenders may allow ‘overpayments’ where they advance more that their normal advance to cover particular circumstances, such as a VAT quarter, so it’s worth asking how flexible they will be (and at what cost).

Charges

You will have to judge how competitive is the cost by comparison with other lenders and so it is usually best to have a small ‘beauty parade’ of say three or so appropriate lenders for your situation to get a feel for what is on offer. Be sure to ensure you understand what services the rate quoted do and do not include. What services are charged as extras?

What minimum charges are built into the offer which means that you will pay for services whether you are using them or not?

Efficiency of factoring collections

Given that the credit control function is part of what you are paying for in a factoring deal and its efficiency is a key determinant of the total cost to you of the deal, make sure you understand what level of service you are buying. Are all debtors to be chased or just a ‘top slice’? How effective is the lender’s chasing? How much time will they spend on your account and how good are they at collecting debts?

Be sure to take references and obtain the lender’s statistics. Ask to meet the operations team who will be handling your account as the sales person you are dealing with now will usually not be involved in the relationship going forwards.

> *Case study*
>
> *A company had 500 clients and a strong credit control culture. When it went into a factoring arrangement the lender allocated one person for half a day per month to chase the debtors.*
>
> *As a result debtor days more than doubled.*

Efficiency of operations

Not all lenders are as efficient as others. For example, some lenders are still not set up to collect data on your sales on a same day basis electronically and rely on you to post/fax a schedule of sales against which you can then draw down, thus building a delay (and uncertainty when the post goes astray) into the process.

Many lenders will provide you with live internet access to your account but incredibly some still do not.

Ease of operation

Think about how easy the arrangement will be to operate. Ask to see copies of the statements that you will receive on your account and ensure that these are fully explained to you so that you understand how to follow them once the arrangement is up and running. Try working out how easy it will be to establish how much cash you will be able to draw down day-to-day, as some statements are almost impossible to follow. Ask what level of training and support will be provided to your staff in getting to grips with how this will work.

Contract terms and notice

You have to ensure that you understand what you are committing to. What is the minimum contract length (usually 12 months) and any notice period thereafter (often another three months). What are the termination provisions and any exit penalties if you need to get out early? What are the lender's collect out charges in the event that the business fails? Be wary of lenders eager to lend into a difficult situation as it is all too easy to make good money out of a failing company in this way.

Other security or personal guarantees ('PGs')

In some cases lenders may seek additional security from other business assets or by way of personal guarantees. What, if anything, is the lender seeking and why? Are any PGs limited in value or set to expire at the end of an initial period?

The following table can act as a checklist for comparing lenders' offers.

Key point lender comparison

		1	2	3
Lender name				
Services				
	Factoring / invoice discounting			
	Recourse / non-recourse			
Funding				
	Advance %			
	Total funding line			
	Overpayments			
	Stock advance			
	Other funding			
Restrictions				
	Export debt			
	Concentration limits			
	Contractual debt			
Charges				
	Service charge			
	Minimums			
	Interest rate			
	Other charges (eg TTs)			
	Collect out charge			
Service levels				
	Training / support offered			
	Internet access to account			
	Email / post submission of invoices			
	Average effective funding advance			
	Average client retention period			
	References available			
Security sought				
	Fixed charge on debts only			
	Full debenture			
	Personal guarantees / other			

How not to choose a lender

Since it is difficult for a business going into factoring for the first time or even looking to switch factors to make a judgement as to the quality of service they are really going to receive, it's understandable that many will fall back on simply seeking the cheapest quote.

This can be a great mistake as the cheapest quote:

- **Is often not the cheapest in the long run due to hidden charges such as TT costs**. Some lenders appear to be in the habit of quoting low rates to customers on the basis that they will make up revenue on such extras. Others try to give more of an 'all in' price, which will tend to be higher but in the long run will give you fewer nasty surprises; so ensure you are comparing like with like. When looking at quotes make sure you know what is and is not included.

- **May reduce the flexibility of the arrangement**. It is also true to say that as with many things in life you get what you pay for and if for example, you negotiate a low rate of charges with your lender, then you cannot expect a high degree of flexibility over advances if for example you are seeking an overpayment.

- **May actually cost you money in interest charges**. If the lender is inefficient at collecting in debts this will result in your borrowing money for longer than you need to, as illustrated below. In this example, a higher sum charged by lender A is compensated for by better services and therefore a lower interest cost from lender B.

	Funder A		**Funder B**
Turnover	£1,000,000		£1,000,000
Service charge	0.85%		0.75%
	£8,500		£7,500
Debtor days	45		65
Average debtor balance	£123,288		£178,082
Funds out at 75%	£92,466		£133,562
Interest rate	5.00%		5.00%
Interest charge	£4,623		£6,678
Total cost	£13,123		£14,178

Most importantly when considering costs, you will need to ensure that you are comparing like with like as for example factoring can be on a recourse or a non-recourse basis which will obviously attract different rates of charges.

Some companies take the approach of spraying a business's requirements across the marketplace on the assumption that in doing so they are testing the market and will thereby find the best deal. However since some lenders are simply not interested in spending their time preparing pitches for comparison with a dozen competitors normally on a purely pricing basis, this can lead to these lenders opting not to quote, particularly where they may operate on an 'all in' pricing basis which will obviously appear less attractive than a 'low balled' price.

It is also worth remembering that any quotes generated at this stage will be based solely on the information submitted to the lenders or website and the actual terms you will receive once the lender has visited and audited may be quite different.

While you undoubtedly need to obtain a number of quotes to test the market, we believe that a better approach is to identify, with expert advice, a targeted shortlist of say three lenders who are likely to provide the service best suited to your needs and then to look at their comparative costs.

You can obtain free advice on which lender or lenders may provide the best solution for your requirements by using the interactive 'find a factor' service on www.creativefactoring.co.uk.

5 USING DEBTOR BASED FINANCE IN PRACTICE

If you have decided to take out debtor based finance and have chosen a funder, you will then need to go through a process to take on and adopt your business practices to obtain the maximum advantage from it.

The ‘audit’ process

The starting point for any lender in setting up a factoring facility is an audit of your debtor book which may be undertaken by their in-house staff or subcontracted out to a firm of accountants. To avoid undertaking unnecessary work, factors will often seek to charge for this audit on the basis that the cost will be refunded if you go ahead with the deal. In doing so, they are often testing how serious you are about proceeding with an invoice discounting or factoring relationship. Some will however take a view on this and may not make a charge assuming that they conclude you are serious.

The information they will normally want to see will include:

1 an aged debtors list as this will show up any problems in the book and any existing concentration issues (so it is worthwhile going through this in advance to ensure any old debts are collected or fully written off in advance so as not to cloud the picture);

2 cashflow forecasts to show the business’s funding requirements going forwards;

3 current/recent financial statements (principally to show the business's current net worth and profitability);

4 a set of the company's order, contractual and invoice and delivery documentation (including details of any liquidated damages clauses, warranties and so on);

5 an aged creditors list (to endure that there are not major potential set offs against creditors or suppliers);

6 a summary of the numbers of invoices raised per month;

7 details of the credit notes issued and bad debt experience over the last 12 months; and

8 details of any 'adverse' suffered by the company such as Crown creditor arrears, missed mortgage payments, CCJs and insolvency proceedings (actual or threatening).

As well as checking for evidence of any of the issues already discussed such as concentration, overseas exposure, and any contractual debt or liquidated damages clauses, the auditors will be looking at the quality of the debtor book for security purposes and in particular:

- **Aging.** Since factors are lending against the security of debts they only want to lend against debts which they are confident will be paid. Where a debt has been outstanding for say three months, almost all factors will conclude that they cannot rely on this debt being paid and will therefore disallow it from their facility. So the auditor will look at the spread of your debtor's aging. Does your book include large older balances which would be disallowed by the factor? If so, why have these arisen and what is the risk that more will arise in future?

  Your accounting system will produce an aged debtors schedule but this can often be produced on the basis of the age of the debt since the invoice was either:

  - issued; or

  - fell due for payment.

  The age limit to which factors will fund can be either 90 days from the point the invoice was issued or from which it fell due, but they generally prefer the first approach as it avoids any risk of a hidden build up of 'old' debt in the ledger or of lending against debt that is not immediately recoverable.

  Case study

  A company was selling off its surplus Christmas stock at the end of February and in order to do so agreed with the customer that the invoice was not payable until the following November. Their invoice discounter was allowing debt up to 90 days after the due date. However this was on the expectation that the company's normal credit terms were 30 days. When the funder realised that some debts were effectively nine months old before they actually fell due for payment this led to a significant increase in the reserves placed against the company's facility and therefore a reduction in the funds available from drawdown.

- **Contras.** In some cases you may be buying from and selling to the same organisation, in which case your customer may have an amount due to them which they may be able to offset against any debt due to you. Factors will therefore disallow debt from their facility in respect of any such potential contras. The auditor will therefore look to match any supplier balances against customer balances on your aged creditor list.

- **Credit notes**. Factors are wary of the risk that your debtor book can be diluted by the raising of credit notes so that they find themselves having advanced against invoices that are no longer there. The auditor will therefore look at your history of raising credit notes, including the numbers raised, values and reasons, so as to assess the risk.

- **Bad debt record**. What has the company's experience been of suffering bad debts? What levels have they run at and for what reasons?

- **Customer strength.** The factor will obviously take an interest in the credit worthiness of your customers as in the event that the factor needs to rely on their security they will be looking to these customers for payment.

- **Terms of trade and paper trail**. The auditor will want to see your terms of business and your documentation from opening accounts and receiving an order, through to dispatching the goods, of obtaining proof of delivery and invoicing, to ensure that you have appropriate agreements in place and systems that they can rely on to support the debts against which they are lending.

- **Customer's tools**. If you hold a customer's tools, you can expect some difficult conversations with auditors as to whether this is a good or bad thing in respect of securing payments from customers. Some take the view that this can give rise to customers having a counterclaim, while others take the view that holding a customer's tools usually helps to ensure the customer pays.

Take on and operation

At an early stage you may receive an 'indicative' offer of finance which will be subject to an audit. Once the audit is completed and the results reviewed, if necessary by the lender's credit committee or underwriters, you will then receive a 'sanctioned offer' which is a formal offer of financing.

The lender should then take you and your staff through the process of 'take on' and how to operate the account, the details of which will obviously vary from lender to lender.

If you have entered into a factoring arrangement you and the lender will normally undertake an exercise in writing to all your customers to notify them of the new funding arrangements and you will be supplied with wording or stickers that have to be applied to all your future invoices.

As an overdraft is usually secured in practice on your debtors it will usually be necessary to repay this borrowing from the initial advance received from the factor as they take over your existing debtor book.

Operation of your new funding will then be a matter of following the lender's procedures for:

- Submitting new invoices raised to the lender to obtain an advance (sometimes referred to as 'notification');
- Drawing down the funds you require from your daily availability;

and in the case of an invoice discounting arrangement:

- Paying debtor money received into the lender's trust account; and
- Preparing your monthly reconciliation of the account on which any movement on reserves will be calculated.

Termination and changing lenders

If you wish to terminate your arrangement you will need to follow the procedures agreed in your contract with regards to giving notice otherwise you may be subject to penalty charges.

If you are seeking to transfer from one factor to another you need to be aware that there is a protocol agreed between the firms and that the new lender will seek an 'inter-factor reference' from the old lender. The particular issues that they will be looking for are any suggestion of either of the two great sins of factoring:

- **Pre-invoicing** – or the 'fresh air invoice'. This is where cash has been raised by a company against an invoice where no goods have in fact been supplied. This is the most obvious fraud that debtor based finance arrangements (and more particularly confidential invoice discounting where the lender is not in contact with your debtors) are open to. Lenders will guard against this by holding regular debtor audits and contacting your customers to verify invoices. Any suggestion in a reference that pre-invoicing has taken place will usually be sufficient to sink a deal.
- **Diversion of cash**. In a factoring arrangement the customer will be instructed to pay debts direct to the factor. On occasions customers

will still make payments to the company direct. Where this happens it is your responsibility to pay the cash over to the factors as otherwise you are still borrowing funds in respect of an invoice which is no longer outstanding. If you do not make such a payment you are actually diverting cash that is due to the lender. Again, invoice discounting arrangements, where you are responsible for collecting in the cash and then paying it into a trust account for the benefit of the lender, are much more open to this form of abuse.

If you are seeking to transfer before the end of your current contract as discussed above, you are likely to be liable for penalties. In these situations there may be a deal that can be negotiated between the incoming and outgoing lenders to mitigate these, or if not the new lender will typically seek to provide some assistance through either an enhanced initial drawdown, or in some cases a sharing of the cost of penalties in order to win your business.

6 WHAT ARE THE ALTERNATIVES?

For a variety of reasons already discussed, factoring and invoice discounting will not be appropriate, or even available, for all businesses or situations. However there are some related services which may be relevant to your business so for completeness these are outlined below.

Block discounting

As forms of debtor based finance, both factoring and invoice discounting are only available where goods or a service have been supplied and can therefore be invoiced. Therefore they cannot be used to raise funds against future contractual income as despite being certain in terms of timing and value, this has yet to become a debt that is actually due and payable.

Where you have a long-term stream of contractual income such as a rental income from property or machinery, then you may however be able to borrow what is in effect an advance against this future income through what is known as block discounting. This is a specialist market where each deal is very much a one-off tailored to the particular nature of the asset and contracts involved so you are likely to need to use an independent finance broker to investigate such funds.

Machinery dealer finance

In some businesses the main asset is stock rather than debtors which gives rise to a problem as lenders are generally reluctant to provide facilities secured against this type of asset. There are some limited exceptions to this, one being for experienced dealers in machinery who can demonstrate a successful track record in spotting and converting opportunities at a good margin.

This type of business generally requires a revolving facility secured against the equipment currently in stock which allows the stock to be sold on and funds to be reused to purchase further items for resale. Since the security involved is an ever-changing level of stock this is an area where banks have often been reluctant to provide appropriate facilities.

As a result independent finance companies can now provide facilities of up to £2.5m in the first instance to fund the buying in of assets to sell on. These can provide flexible funding that can be drawn down as required of up to 100% of the cost of the asset together with duty and VAT. This obviously provides the appropriate solution, but as a specialised product providing funding for areas where the banks are reluctant to do so because of the security risk, the cost of such borrowings tends to be high.

Trade finance

This type of funding then brings us on to trade finance which should be seen as the financing of a particular transaction or series of transactions, rather than as a loan to the business. Trade finance houses act to provide cash to finance a transaction that you have set up and a typical example might involve funding the importation of a container of goods from overseas for resale here.

The funding available ranges from:

- the funder purchasing the goods themselves, arranging and financing transport and customs clearance, only reselling the goods to you immediately before you sell them on to your customer; through to

- the funder guaranteeing payment to the supplier but not actually having to remit funds.

The funder's principal requirement when lending in such situations is the ability to clearly see the route through to the recovery of its funds. They will typically therefore look to:

- fund finished goods (although some will occasionally finance the purchasing of components for assembly prior to sale);

- support transactions with a high gross profit margin;

- see that a significant majority of the goods (sufficient to repay the borrowing) have been pre-sold;

- on terms that do not include any element of sale return;

- to creditworthy customers.

Critically for a trade finance house the success of the specific transaction being funded is what really provides them with their security. Therefore to be able to lend they have to be completely confident that they will be able to recover their money from a successful sale of the goods which can affect their ability to fund. On the other hand, since they are looking at specifics of the transaction and are simply concerned with whether it may or may not be successful they will also be very flexible about the type of transaction to look at and they will not necessarily be concerned:

- if your business is in financial difficulties;

- if the goods are being purchased from the UK or overseas;

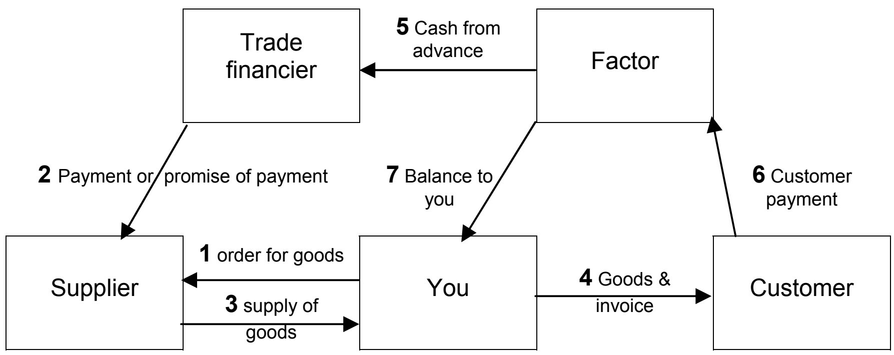
- if the goods are being sold to the UK or overseas; or
- if the goods ever actually land in the UK.

Case study

A trade finance house was happy to fund the purchase of a large quantity of electronic consumer goods for delivery in the autumn, even though the importer had not presold the consignment. This was because the finance company took the view that it could rely on the goods selling in the run up to Christmas.

Advances and rates will be tailored to the specifics of the deal involved and type of financial support required. Some lenders will insist on factoring your debtors as part of such an arrangement so that they can be paid out immediately on sale of the goods and a typical arrangement might therefore look as summarised below:

A simplified trade finance arrangement with a factoring house



Trade creditor funding

In addition to these arrangements some of the trade finance companies discussed below will offer finance by way of supplier undertakings. Crudely this can in effect mean that they use their ability to obtain credit to purchase goods that you need from your suppliers on your behalf, and then sell these on to you at a margin as part of a financing arrangement. This type of facility can be very useful where for example, a business has a large and profitable contract to undertake but it lacks the working capital to finance the required purchases, or where a business is in temporary cashflow difficulty and is therefore unable to obtain credit itself from its suppliers for the goods it needs. Each such arrangement will need to be tailored to the company's particular circumstances and as a tailored solution will be costed accordingly.

Construction contract funding

Some trade finance houses have also set up arrangements so as to be able to fund construction contracts. These arrangements typically require the funder to be written into the contractual arrangements between the client or main contractor and the company undertaking the work. For this reason they can therefore only be set up at the start of the contract.

Letters of credit and loans against imports

Where buying from an overseas supplier you may be asked to provide a letter of credit (or 'LC'). This is essentially a promise by your bank or trade finance house to pay the supplier for the goods upon production of the relevant paperwork, which is normally the documentation showing that the goods have been shipped. There are two main advantages of this to your supplier:

- firstly, they do not have to rely on you for payment but can trust your bank; and
- secondly, they can present the letter of credit to their own bankers as an irrevocable promise to pay for the goods once delivered and use this as security on which to borrow from their own bank in order to manufacture the goods for sale, a process known as discounting an LC.

Where your bank (or other funder) issues a letter of credit this has the same effect as if they had promised to issue a cheque on your behalf. A bank will therefore take this liability (sometimes referred to as 'blocked funds') into account when considering how much overdraft facility to allow you.

So if you would normally have sufficient security to support a £1m overdraft but you have issued letters of credit for £250,000 through your bank, the bank will normally only allow you an overdraft facility of £750,000 so as to maintain their total exposure to your business at under £1m, even although they may not have to pay out on the LCs for some months.

Once the supplier has provided the relevant paperwork and been paid out on the LC this cost will then be deducted from your bank account. Banks will sometimes offer a loan against imports ('LAI') facility for say 120 days which means that from the date of payment of the LC it will be 120 days before the cost plus the LAI interest is deducted from your bank account. This is designed to enable you to sell the goods and recover the cash from your customers in order to be able to meet the payment of the LC.

Obviously, where you are using trade finance your suppliers may wish to be paid using LCs from your trade finance house. If this is the case you need to be very careful as to how much you will be charged.

Case study

The company imported goods from the Far East and provided its suppliers with an LC payable on shipping of the goods (generally on three months terms) which the suppliers then discounted with their own bankers to fund the production of the goods. The company then paid off the LC within 45 days by selling the goods on once they had arrived in the UK and cleared customs. To fund a new line of business requiring £2m of LCs it sought quotations from two trade finance houses for which the charges were:

	Funder A	***Funder B***
Flat charge for funding the transaction	*3%*	*Nil*
Monthly LC interest rate	*1.75%*	*2%*
Calculation of interest charge	*Daily from date that the LC is paid out*	*From moment LC raised, calculated monthly for each month or part month*

Most of the other terms and administrative charges to cover the costs of issuing the required documentation were similar.

The difference in the interest costs the business would face from the two lenders differed markedly however:

	Funder A	***Funder B***
Total interest cost	*Flat fee of 3% + 2.6% (45 days at 1.75% pm) = 5.6% or £112,000*	*3 months since LC raised plus 2 months to cover the 45 day shipment and sale period gives 5 months at 2% per month = 10% or £200,000*

Lender A also came up with a number of suggestions as to how the company could structure the transaction to avoid having to pay any interest such as by issuing the supplier with a longer term LC. This would mean that lender A would not have to pay out for 45 days after shipment, so eliminating the 2.6% interest charge resulting in a 3% charge in comparison to lender B's 10%.

7 KEY POINTS

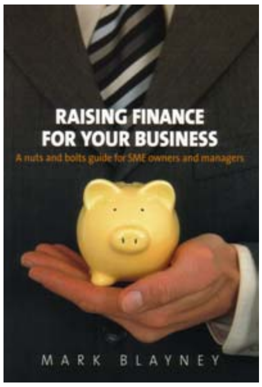
- Factoring and invoice discounting are becoming mainstream parts of business finance as banks shy away from overdraft funding.
- The higher levels of advance that can be obtained from borrowing in this way can enable you to maximise your available funding (particularly when combined with other non bank sources – see the ‘How Much Can You Borrow?’ ready reckoner on page 18).
- As debtor based finance, the level of cash available through factoring or invoice discounting will be directly tied to your trading performance, but not all debt will be fundable.
- Factoring and invoice discounting differ in that factoring provides collection services as well as funding, whilst invoice discounting can be on a confidential basis.
- There is a large market of active invoice discounters and factors which gives you the freedom to choose the funder that suits you. But the choice between different funders can be complex as:
    - you need to understand how the characteristics of your business from the nature of its sales to the location and nature of its customers may affect how much different lenders are willing to advance;
    - the approach of presenting costs can vary widely; and
    - you need to be able to make a judgement as to how efficient a lender will be.
- Stock is generally difficult to finance but it can form part of an invoice discounting or factoring facility by way of an overpayment.
- There are related services that may be appropriate for your business’s circumstances such as block discounting of future streams of income; or trade finance houses which can be used to fund the individual transactions such as the importation of goods for sale.
- A reputable commercial finance broker with a good current knowledge of the marketplace can be useful in helping you to find the best products and lenders for your circumstances..

www.creativefactoring.co.uk
www.creativefinance.co.uk

Before setting up his own independent brokerage, Mark Blayney trained with PricewaterhouseCoopers working with owner managed businesses in London and the South East as well as having secondments overseas and into one of the leading clearing banks.

He is the joint managing director of Creative Business Finance Ltd, one of the country's leading independent 'full service' finance brokers and writes and speaks extensively on business finance and strategy issues.

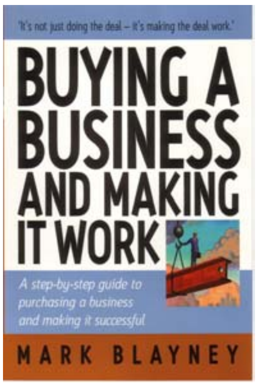
His most recent book is *Raising Finance For Your Business*, a 'nuts and bolts' guide for the owner manager on:



- how and why your business needs finance
- what sources of finance are available
- when to obtain professional advice
- how to decide which types of funding are best suited to your business; and
- how to negotiate the best deal for you and your business.

Raising Finance For Your Business covers a wide range of financing issues from working capital funding to property development, and from raising equity and managing the cash generated within the business through to applying for grants and loans.

Raising Finance For Your Business is published by How To Books Ltd (ISBN 1-84528-127-6) and available from all good bookshops or Amazon.



Also available, *Buying a Business and Making It Work* (ISBN 1-84528-041-5) published by How to Books Ltd.

This book provides a programme of five phases from planning and searching for an appropriate target, through to negotiating the price, completing due diligence, and making a success of the business once you have bought it.

Mark Blayney's other books include *Turning a Business Around* and *Selling your Business for All It's Worth*, also published by How to Books Ltd and available on Amazon. P*roperty Development*, A Creative Business Finance Guide. will be published later this year by bad-press.co.uk (ISBN 0-9544602-3-5)