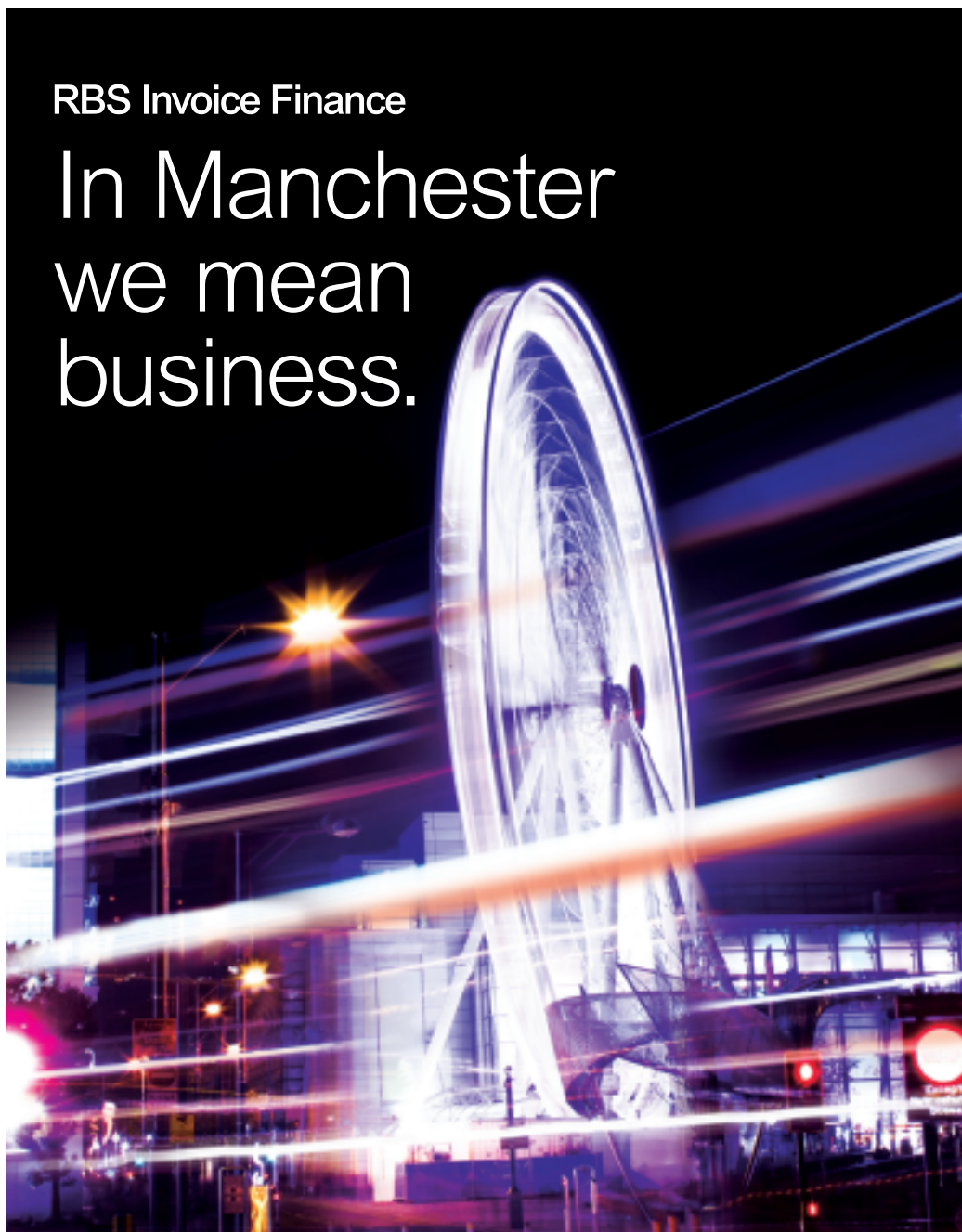


Capital idea for increasing growth

The asset-based lending industry is becoming increasingly popular among businesses as an alternative method of funding growth, writes **Sheryl Moore**

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>> **CLOSED SHOP** Many high street lenders are reducing access to small business loans

In today's turbulent economic times, securing vital expansion capital has never been as tough.

Many businesses, particularly smaller firms, are finding that the traditional lenders such as the high street banks have shut up shop. Despite this, many companies are determined to press on with their ambitious growth plans. Indeed, a recent survey by the Asset Based Finance Association found that even in the face of economic difficulties, 50 per cent of SMEs plan to increase their borrowing during 2008, and 67 per cent are confident they will secure funding to support their plans.

The main reason for this is the growth of the asset-based lending industry which is becoming increasingly popular among businesses as an alternative method of funding growth.

Ian Fitzpatrick, partner at law firm turner parkinson, says the current economic climate has provided

asset based-lenders with a great opportunity to penetrate the market.

He said: "Asset-based finance is bridging the gap more than ever before by providing SMEs with a more flexible funding package based on the value of the business' current assets."

Jason Hiley, corporate partner at accountants PKF, says the credit crunch has seen some lenders pull back from the market but for those still keen to lend, there is a focus on asset-backed deals as less 'cash-flow' funding is available.

He said: "The 'cost' of money is now relatively high, with interest rates often based on LIBOR rather than the base rate. As a result, invoice finance is a good way to ensure that companies only pay interest on the funding they need to draw down."

In recent years a whole range of asset-based lending products have hit the market as the industry gets more sophisticated, but the traditional forms such as invoice discounting and fac-

toring remain very popular.

Sean Powell, head of business development for RBS Invoice Finance, says it has seen a 20 per cent increase in new business enquiries this year.

Invoice finance is now seen as a real alternative to mainstream funding thanks to the simplicity of the product. Cash-flow is critical to every business and without this a business can't pay its workers or purchase raw materials and ultimately cannot function. To avoid this scenario a business needs to keep on top of its cash-flow and this is ultimately where an invoice discounting facility can be used to plug any cash-flow gap.

Sean said: "Invoice finance allows a business to immediately realise the cash benefit of its sales and, given that the level of finance available is directly proportional to sales, funding should automatically increase as a business expands. Invoice discounting is also one of the more flexible ways to raise funds."

Growth spurt for Rochdale company securing flexible finance package...

MANUFACTURER CVR has been stocking up after securing its flexible finance package.

The Rochdale-based firm which manufactures vehicle roofs, panels and doors for commercial vehicle body-builders, was established 30 years ago.

Since undergoing a management buyout in 2002 the company has grown rapidly and has used a £950,000 invoice discounting facility from RBS Invoice Finance to help fund expansion.

One of the most important usages for the facility has been around CVR's stock holding. As the company has grown over the last five years it has undertaken a broader range of

work which has had an impact on the volume and diversity of the stock it needs to hold. CVR, which employs 43 people and turns over £4.3m, says that without the invoice discounting facility it would not have been possible to stock all of the parts and items that are used in the manufacture of their various products.

Companies operating in the manufacturing sector are typical of those using invoice discounting to fund growth, and are often required to incur short term costs such as labour, raw materials and utility bills whilst most of their customers will require at least 30 days or more credit from the date of the invoice. By

setting up an invoice finance facility this gap can be bridged, allowing manufacturers to take on more work immediately, rather than struggling with restricting cash flow problems.

Jim Penney, managing director of CVR, said: "The fact that the invoice discounting facility increases as the company grows is a major plus factor when planning future growth."

"As income keeps pace with the level of business we are not restricted in the amount of work we can take on. Invoice discounting provides us with leverage and means we have cash in place to fund the growth of the businesses as we need to."