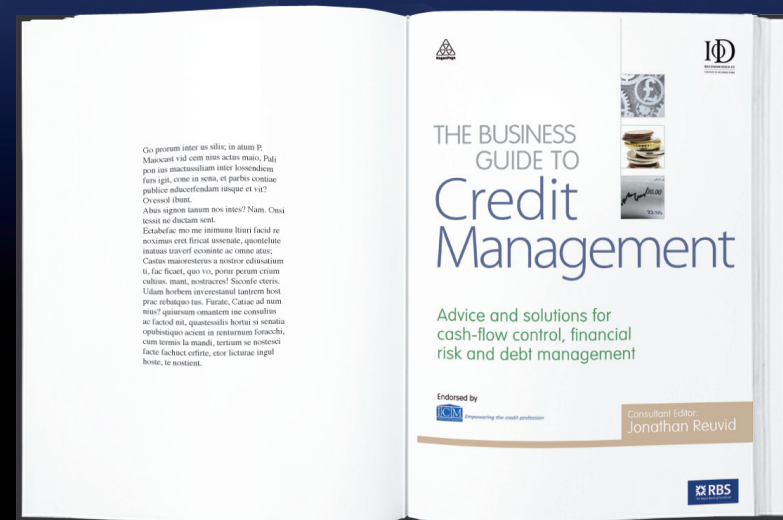




# Invoice Finance

Keeping control of your cash flow  
by Ross McFarlane

An incerp from *The Business Guide to Credit Management*



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## Why an uncertain climate can dry up your cash flow...

### (and what you can do about it)

It doesn't matter how full-funded your business is, nor how profitable – when your cash flow grinds to a halt, the chances are that you will too. And in an uncertain economic climate, the risks are even greater. In this report, RBSIF's Ross McFarlane discusses the options available to businesses to help ensure that they stay in business. Specifically, he compares and contrasts overdrafts with invoice financing, and argues that businesses need help in approving new customers, avoiding late payments and mitigating the risks of bad debt. He explains why invoice finance is more closely aligned to working capital than overdrafts, and can provide fuller and safer support. Following an explanation of the RBS Invoice Finance model, he provides a list of top tips for smaller businesses, and finishes with two illuminating case studies. It is, in short, essential reading for anyone concerned about how to free cash flow and interested in the possibilities of invoice finance.

## Back to basics

The current economic pressures create new difficulties for small businesses as they struggle to manage cash flow in an uncertain market. Cash is the lifeblood of any business, and when the economy slows, and customers take longer to pay, it can be difficult to assess which of your customers will pay, or can pay. Payment terms can extend quite significantly and the likelihood of customers becoming insolvent and never paying increases. This uncertainty of cash flow can trip up even the most cautious and well-funded small business.

The government has helped small businesses with a range of initiatives, including the Enterprise Finance Guarantee Scheme (EFG), to bolster security to banks and to help them to support small business. Many banks have also taken steps to give comfort by providing fair and consistent pricing and confirming facilities for 12-month periods. As one of the banks in the middle of this debate, we are keen to ensure the facts are well understood and that small businesses recognize we are open for business and keen to help. We have a wealth of experience dealing with a wide range of businesses and have specialist skills to manage the working capital cycle with help to achieve faster payments with greater certainty.

Many businesses fail not from lack of profit, but from a lack of cash, because when the funds dry up, there is often nowhere else to go. That is why safe and certain receipt of funds from customers is the top priority. Business overdrafts can provide a pot of money to bridge the gap between paying for supplies and wages

and receipt of money for trade sales, but something more closely involved and shaped to the working capital will provide fuller and safer support. All businesses should have disciplines to approve who they sell to, to fund the trade terms (typically 30–60 days), have effective credit control and have some form of protection in the event of bad debts. RBS Invoice Finance's (RBSIF's) approach is to provide businesses with a full end-to-end service to cover these aspects, which blends the options of invoice finance, factoring, or a complete package of asset-based lending. Small businesses often want to select from the range of services; perhaps they already have trade insurance, or perhaps a very strong credit controller, but often they appreciate support right throughout the working capital cycle. In particular, businesses need help in approving new customers, avoiding late payments and mitigating the risks of bad debts. We encourage businesses to take a step-by-step approach and are happy to help with expertise at each stage.

### 1. Approve new customers

Businesses are always looking for new customers and new markets and should also be constantly reviewing the strength of existing customers. The dynamics change constantly, creating new risk and new opportunities, both at home and in export markets. Businesses should have a robust process to approve their customers, set appropriate

credit limits and check this regularly. RBSIF uses up to six databases to confirm credit worthiness of a business's customers and has vast experience of dealing with late payments. This professional help can be invaluable when opening new markets and sustaining existing sales and helps to set a predictable pattern of sales receipts.

### 2. Fund invoiced sale

There is a wide range of finance on offer, and businesses can be attracted to the simplicity of an overdraft but this has limitations and does not link to the day-to-day receipts or delays in payments, and can be an uncertain line of finance in a challenging economy. One of the fullest types of support is invoice finance and since the invoice finance business provider is closely involved with all aspects of the working capital cycle, we have confidence to advance up to 85 per cent of sale proceeds as soon as these are invoiced. This will typically settle all costs of sales as soon as invoices are raised, leaving a business with funds to settle bills and get on with the next sale. The 15 per cent, which can typically be the gross profit, less charges, is available as soon as the invoice is paid. These facilities are available to advance the proceeds of domestic or export sales, also mitigating the risk of currency movements.

## Back to basics

### 3. Collect invoices and credit control

A common problem affecting businesses is cash flow being squeezed when suppliers want payment for purchases quickly and yet customers demand longer payment terms or pay late. Skilled credit controllers will help and RBSIF have a team of over 60 credit controllers who exhaustively, but sensitively, pursue payment. Specialist collection teams will know who is paying and who is overdue and also have multilingual skills and legal assistance if necessary to achieve faster payments. Businesses should not underestimate the benefit of these skills. Even bringing payments forward by one week can generate £40,000 of working capital for a business with £2m annual turnover.

### 4. Protect from insolvency and avoid bad debts

A full end-to-end working capital service includes protection from bad debts. Businesses should be protected from the impact of bad debts, either by creating a wide spread of sales so that any single bad debt is not too damaging, or by taking some form of protection. This can be achieved with independent trade insurance, but RBSIF prefer to offer a 'joined-up' service to approve customers at the outset,

keep in touch to monitor any slow payment and at the end of the line to provide protection from bad debts in the event of any insolvency. The benefits of a joined up approach from one supplier is that the end-to-end service is offered 24/7 on one simple web-based system supported by one local relationship manager.

### 5. Management information and constant attention

Businesses need to have robust systems and be able to answer 'yes' to having disciplines in place to approve, fund, collect and protect their invoiced sales. This is a tall order for small businesses relying only on overdraft finance and it can be far better to take a package of support that covers all of the working capital management, typically known as factoring with bad debt protection.

Working Capital Management facilities from RBS Invoice Finance offer a full service including:

- Credit approval of new and existing customers
- Funding up to 85 per cent of sales invoices as soon as you issue the sales invoice, potentially more including government EFG support
- Credit control, bringing payment forward 5–15 days in some circumstances
- Protection from bad debts
- Free cheque clearance and currency exchange
- Signed agreement in simple language and with competitive pricing
- Local Relationship Manager and award-winning web-based 24/7 communication.

## Top tips to consider on common themes affecting small businesses

### Cash is king

Keep control of your cash flow by having the right management information and systems in place. They'll allow you to act on warning signs before they become a problem. Take professional help.

### Talk to us

There is a lot of support available to small businesses. RBS have 2,300 local business managers offering customers free face-to-face advice. We also have a Business Hotline staffed by experienced bankers ready to talk, help, and offer free advice on how to secure support from your bank.

### Confirm the strength of your customers on a regular basis

Take out credit references, or make enquiries of the payment records. Even a business that has traded with you for years may become more fragile in the current economic climate and may already be delaying payments to other businesses.

### Keep on top of payments and credit control

Businesses have been paying later in recent times. Chase payments on a structured basis and at least weekly. If payment is overdue do not hesitate to use legal advice and be sure to stop future supplies.

### Look at your costs

Look at purchase costs as well as staffing and fixed costs. If sales fall, avoid taking on unprofitable business but do consider new areas. Cost each product or service to give you a picture of which products as well as which customers make a profit. The flip side of price is cost, and you can maintain profit margins even if you are reducing prices, provided you also reduce the costs of what you are making or providing.

### Look at new areas of business

Each environment is different, but explore new opportunities, new markets and possibly exports. Work out the capital required and consider the payback, both short and medium term, or the impact of doing nothing.

### Protection

Be sure to explore trade insurance or bad debt protection through factoring facilities.

### Spread your risk

Small businesses can be built on the success of one key customer or just a small customer base. All it takes is for one customer to move to another supplier or even cease to trade and your business has immediate cash-flow problems because of the concentration.

## 'New business breaks turnover targets supported by RBS'

David Warner,  
Managing Director  
*ITHS*

"We launched ITHS because we believed there was a gap in the market for a fast and knowledgeable IT sourcing business in the North West. Our approach of providing clients with quick, cost-effective solutions has been well received by the market. We are very pleased with our initial performance and are confident of further growth in turnover as the business becomes more established."

Jo Jones,  
Relationship Manager  
*RBSIF*

"David, Alan and Bernie have a wealth of experience in this sector and have used this to good effect to launch ITHS. Their success is impressive given the challenging economic environment and we look forward to watching the company's future development."

Fledgling Prestwich-based IT business is on course to record an £8m turnover in its first full year of trading – more than double its original turnover target.

IT Hardware & Software Ltd (ITHS) specializes in the sourcing and sale of IT hardware such as servers, hard drives, keyboards and monitors. To support the company's rapid growth RBSIF in Manchester provided the company with a £700,000 funding package.

ITHS was formed by David Warner and Alan Glazer, both of whom have substantial experience in buying and selling IT systems having worked previously for global organizations in this sector. David and Alan set themselves a first-year turnover target of £4 million and are well on course to double this projection. Shortly after the launch of the business, the duo were joined by Bernie Kersh, who took up the position of Sales Director.

David and Alan source products worldwide to ensure they can secure the best possible price for customers. All products are manufactured by major IT companies such as IBM, HP, Cisco and Sun Micro Systems. ITHS sells its products to national IT distributors and large corporate organizations.

The business employs eight people and is based on Mount Heath Trading Estate in Prestwich. David and Alan have plans to recruit an additional two new employees in the next few weeks as the business continues to grow.

## 'RBS backs MiddletonMurray with Invoice Finance solution'

Angela Middleton,  
Owner and Managing Director *MMRS*

"We have responded to the changing market and worked with RBS to put in place the invoice finance arrangement which effectively allows us to turn our invoices into cash, releasing working capital for further growth. The new arrangement works well for us and we're thankful to Richard Hanson at RBS Invoice Finance for finding us a flexible solution and putting it in place so quickly."

Richard Hanson,  
Business Development Manager, *RBS Invoice Finance*

"Although the recruitment sector generally has suffered due to the current economic climate, MMRS are bucking the trend thanks to their wide sector spread and strong management team. They have enjoyed consistent turnover and profit levels over the years and because they've adapted their business plan, this is set to continue. Invoice finance is a particularly good fit for recruitment companies and MMRS is an excellent example of how it can help during these difficult times."

RBS has supported recruitment company MiddletonMurray Recruitment Solutions (MMRS) with a new invoice finance line that converts their invoices into cash.

MMRS is the brainchild of entrepreneur Angela Middleton. Having worked at BP Oil and The Woolwich for 17 years and then left in 2001 to spend time with her children, Angela decided to set up her own business that would give her the flexibility she was looking for as a mother. During her time at BP and Woolwich, Angela had valuable exposure to the recruitment sector by employing several consultants, and soon after starting the business in 2002 she employed her sister-in-law, Lisa Murray, who had 10 years' experience as a recruitment consultant, as Director. MMRS covers a wide range of sectors including education, IT, accountancy and building to name but a few. Over the past couple of years, Angela noticed an increase in contract business and looked for a bank that could find a working capital solution to help the business respond to this change. Richard Hanson at RBS Invoice Finance was happy to put together a finance package that included the invoice finance line.

## 'Temporary staff agency announces late acquisition with NatWest support'

Paul Kidd, MD  
*Kent Staff Services 2000 Ltd*

"This is an exciting time for the business as we expand regionally and employ additional staff, which we see as a positive move in this difficult climate. We look forward to forming close relationships with our new clients and continuing to provide our existing clients with a high calibre of temporary staff. I am grateful to NatWest for supporting us on our latest phase of expansion."

South East recruitment agency, Kent Staff Services 2000 Ltd, has established itself as the largest supplier of temporary staff in the South East of England following the purchase of an additional recruitment agency, thanks to funding from NatWest.

Established in Kent in the 1990s, Kent Staff is an independently owned company specializing in the recruitment of skilled and unskilled labour to a wide range of industrial businesses. Operating from Gravesend, Hastings and Folkestone, the company was looking to expand their regional remit and has since acquired Storm Personnel Services Ltd, based in Dunstable, taking on four new clients, bringing a combined annual turnover of £3 million. Kent Staff has grown the business considerably from £1 million to an impressive £15 million turnover to date. In addition, Kent Staff employs 1,300 staff, 200 of whom have been retained from Dunstable.

Thanet Earth is the company's latest business win, and Kent Staff is providing packers to assist with the distribution of eco-friendly vegetables to supermarkets. The state-of-the-art greenhouse development, based on the Isle of Thanet, is the largest greenhouse complex in the United Kingdom and a positive acquisition for Kent Staff.

Following a nine-year relationship with NatWest, Paul Kidd, Managing Director of Kent Staff approached NatWest for support with their expansion plans. Stuart Furlong, Relationship Manager at NatWest, and his colleague Rob McGarvey, RBS Invoice Finance Manager, worked closely to provide an invoice discounting facility to fund working capital. This will allow for Kent Staff to acquire their new Dunstable-based operation as well as taking on additional headcount to manage their new clients.

This latest finance package derives from the NatWest and RBS SME Regional Fund, which sees an additional £250 million funding available to SMEs in the South East in 2009, demonstrating its commitment to the government in supporting this sector.

RBS Invoice Finance is a member of the Royal Bank of Scotland Group and provides a range of invoice finance, asset based lending and bad debt protection services to UK based businesses, from SME's right through to large corporates.

Our aim is to ensure clients can be safe in the knowledge that you can fund working capital and outsource related activities in a way that works best for you.

Find out how RBS Invoice Finance can help you manage your cash flow.

Contact us on:

0800 716 313 | [www.rbsif.co.uk](http://www.rbsif.co.uk)



Invoice Finance