

Companies fail to tap potential of invoice financing

Funding

By Jonathan Moules

Companies that borrow money against their invoices are choosing to access less than three quarters of the funding available to them, according to new industry figures.

Banks and other lenders made £20.1bn of this funding available to companies last year, but only £14.9bn was drawn down, the Asset-Based Finance Association (ABFA) said.

The numbers show that, at least in some quarters of the economy, companies may have more than enough funding for their purposes, said Kate Sharp, ABFA's chief executive.

"This says to me that they are being cautiously prudent and growing their business using this finance when it is appropriate to do so," she said.

Banks have been heavily marketing such loan facilities to small businesses in the past year. Invoice financing has historically been very popular in sectors such as recruitment, where companies have no assets to borrow against, but it has been rejected by many others because of the high charges.

Anthony Carty, director of Clifton Asset Management, said many business owners are put off by the

service charges, which can amount to 1 per cent of annual turnover and are levied in addition to interest on the debt.

"My view is that people would choose to pay down the debt rather than use more because it is so expensive," he said.

Henry Ejdelbaum, managing director of ASC Finance for Business, said: "Invoice discounting is a fantastic deal for a growing business where you just sell, sell, sell. You get your cash faster, which means you can reinvest it in more stock.

"However, it is not one of the best deals for consolidating businesses."

This view is supported by ABFA's figures, which showed that companies using invoice financing in the last quarter grew their turnover by an average of 12 per cent.

Jon Grace, finance director of Growth Technology, a specialist plant food producer based in Taunton, is one of the supporters of invoice finance, claiming that other forms of funding were not available because the business has no assets to borrow against.

The company has expanded fast, increasing turnover from £1.6m to £6m in three years. "We would not be where we are now without invoice financing," Grace said.