Asset-based finance

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Asset based finance is broken down into three specific products:

1. Factoring
2. Invoice discounting
3. Asset-based lending

Factoring

Factoring is the oldest established of the three products and has been going for hundreds and hundred of years. Let's take a scenario where you are a small business and are waiting for your customer to pay e.g. if you are selling glasses to let's say Marks and Spencer for example. If the customer takes 50-60 days to pay, there will be a cash flow gap to fill. If you sell your invoice to a factoring company, the factoring company will give you 80-90% of the value of those invoices immediately, so you can go and buy more glasses to sell to e.g. Tesco. When the customer finally pays the invoice, the factor will pay you the balance of 10-20% less the charges of the factoring.

Invoice discounting

Invoice discounting is very similar to factoring, but is predominantly used by larger companies with a more sophisticated credit control and collection procedure. The process is exactly the same in terms of providing working capital. But in factoring the instruction comes for the financing company to the customer, and the customer is asked to pay them directly. In invoice discounting, the relationship with the financing company remains undisclosed and confidential, and the customer has no knowledge of the relationship between the supplier and the finance provider.

Invoice finance is available to a business as soon as they as soon as they start trading. As soon, in fact, as they have an invoice that they can sell to a finance provider. The problem for a smaller business is that they don't have the history and background to show how well they run the business, how they run the sales ledger, and how profitable they are. So the safer product for an invoice provider to provide for them is factoring. So the safest thing for the provider to offer them is factoring. But it does mean that that product can be provided to any business as soon as they start trading. That factor can assist the business with credit control, collection. And there's a lot to be said for assessing the worth of the customers that you are going to work with.

Many UK Finance members can also provide bad debt cover, so the company can start trading with customers in the knowledge that if that customer fails it won't bring them down.

Invoice discounting becomes more relevant as a business grows, has a track record and becomes more established. We've seen that some small businesses start on factoring, move to invoice discounting, and become household names. They continue to use invoice discounting as it's the most relevant finance for them.

Asset-based lending

Asset based lending is the means by which a business can absolutely maximise its cash position by using all of its assets. Whether it wants to grow, buy a new business or restructure, the asset-based lending provider can look at all the business assets as a package. For example, stock, plant & machinery and even property can be used to maximise the cash the business can access. This can be used in addition to invoice finance to allow the business to achieve its long-term growth objectives.

Providers

Asset-based finance and invoice finance are provided by a range of companies, from the clearing banks to challenger banks, to foreign banks and a range of independents. The products can be offered in the UK and cross-border too. The key thing for us is to look at the debts - the quality of the debts, the customers, the range, spread etc. That's a big focus as that's the main asset against which funding is offered.

Invoice finance is relatively quick to put in place. It can be done in 3-4 days, but typically you are looking at 2-3 weeks, or perhaps a bit longer if you are looking at asset based lending, and all the assets of he business.