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Going for Global Success with Invoice Finance

Siemens Financial Services

Invoice Finance helps exporting SMEs compete in the global marketplace

Management Summary

- UK small and medium businesses (SMEs) which export their goods or services achieve better business performance than those that concentrate mainly on their domestic markets. A study of UK businesses showed that 67% of those that export experienced revenue growth over a 12 month period.¹ By comparison, 59% of those that concentrate mainly on their domestic market reported revenue growth over the same 12 months.
- Research shows, however, that one of the greatest perceived obstacles to export growth is working capital and cash flow.²
- Invoice finance enables SMEs to have the majority of the value of their invoices advanced immediately.
- Invoice finance can therefore help exporting SMEs mitigate some of the risks associated with dealing with international customers, including associated upfront costs.
- Exporting firms using invoice finance should look for a reliable, experienced financier that will maintain lending levels throughout economic or political change.



Introduction

As business continues to become more globalised, SMEs are looking for financially sustainable ways to evolve operations to an international level. It's no wonder that companies want their slice of the global pie; in most countries of the world, companies that serve international markets are performing better than those that focus on their domestic customers. Organisations with cross-border sales show a clear lead over their domestic market counterparts in terms of revenues, profits, or both.³

It remains a fact, however, that relatively few smaller firms are tapping into export markets and there is huge potential for growth in sales abroad. Evidence highlights that one of the key perceived barriers to entry for SMEs into export markets is access to working capital or cash-flow funding.⁴

In February 2016 it was reported that bank lending to SMEs had grown for the first time since the 2008 recession.⁵ Despite this encouraging outlook, however, it's still widely accepted that it is difficult for SMEs to obtain funding. One study found that 59% of fast growing businesses were unable to access all the funding that they needed.⁶ Some SMEs are therefore looking for other finance options to support their global ambitions. Invoice finance is one method that's rapidly gaining popularity. Members of the Asset Based Finance Association (ABFA) reported that in the quarter ending in December 2016, Export Discounting increased by 30% (compared with the same quarter the previous year).⁷

The benefits of invoice finance for exporters

Essentially, invoice finance works in the same way for businesses trading overseas as those trading domestically. By using invoice finance, when a company invoices their customer, up to 90% of the approved invoice total is immediately advanced by the finance provider, with the remaining 10% paid once their customer settles the balance. This provides the company with essential working capital so it can then invest in expanding its business without having to wait for bills to be paid. For SMEs that export, this cash flow can be particularly attractive as they may be concerned by the perceived complications of working with new customers based in other countries. Initial obstacles can include the length of time involved in securing new business and associated upfront costs which can put a strain on working capital. Invoice finance can therefore provide exporting SMEs with adequate and flexible funding to maximise global opportunities.

A reputable invoice finance provider will also offer debtor protection, which effectively protects the business against the risk of debtors failing to pay. It means that the business is covered should a customer become insolvent, for example, or doesn't pay over a protracted period. It can cover up to 90% of outstanding debt and can include goods not yet invoiced where services have been carried out. Many businesses find debtor protection a comfort, particularly when dealing with new or unfamiliar



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customers and those based outside of the UK.

Working with the right financier also gives exporting SMEs confidence in a changing economic and political landscape. Against the background of Brexit, the outlook for the UK remains uncertain, and accordingly SMEs' confidence,⁸ yet international financiers, such as Siemens Financial Services, with proven experience in global markets will be well-positioned to continue to support customers.

Figures show that a rising number of SMEs are enjoying the benefits of exporting. According to official figures released in September 2016, exports to the EU have risen 9.1% since the referendum, the biggest rise in EU exports since October 2010.⁹ This can be attributed, at least in part, to the fall of the pound directly after the EU referendum result which made UK exporters more globally competitive on price.¹⁰ Essentially, UK manufacturers' products are cheaper for foreign customers to buy and, therefore, exporting companies' products are naturally more price competitive.

Support for export

It was reported that between February and May 2016, the exports of goods from the UK increased by £4.5 billion (6.5%), to £73.3 billion. This increase included a £1.4 billion increase in exports of unspecified goods; a £0.8 billion increase in machinery; a £1.1 billion increase in aircraft (to

a record 3 monthly high of £4.3 billion); and a £0.4 billion increase in cars (to a record 3 monthly high of £7.3 billion).¹¹ Top export destinations included the USA, Germany, the Netherlands and Switzerland.¹² Nevertheless, it is estimated that only 17% (over 50,000) of SMEs currently export, suggesting that there is scope for export volumes from this sector increase.¹³

The importance of the UK growing its exports for the economy is indicated by the significance that the government and other official bodies place on encouraging exports. In the 2016 budget, for example, steps were announced to cut UK Export Finance (UKEF) transaction times in half, as was a £1 billion package to support SMEs through the British Business Bank.¹⁴ The Chancellor also announced increased funding for small businesses in the 2016 budget.¹⁵ The UK's official export credit agency, UK Export Finance (also known as the Export Credits Guarantee Department), offers insurance to UK exporters against the risk of non-payment by overseas buyers.¹⁶ And the UK Trade and Investment (UKTI) London International Trade Team supports SMEs in London to develop their international sales through supplying tailored information about overseas markets; facilitating access to major buyers, governments and supply chains overseas; offering support on market visits and helping them to participate in selected overseas trade fairs.¹⁷

Conclusion

Studies show that exporting UK companies tend to perform better in terms of revenue growth than those focusing only on domestic markets. The government recognises this too, and has implemented a number of measures aimed at encouraging and supporting SMEs targeting customers abroad.

Nevertheless, there are still potential challenges to developing sales abroad, and many SMEs cite barriers including access to working capital. This is where export finance plays its part. Working with a knowledgeable financier with a proven reputation means SMEs can have the value of their invoices to their international customers advanced, giving peace of mind and assisting in important cash flow management. The value of invoice finance to SMEs is shown in its rapidly growing popularity. The increase in funding levels, reported by members of ABFA¹⁸, demonstrates that an increasing number of businesses are realising that invoice finance can be an important enabler of access to the global market. There remains potential, however, for further development of exports within the UK SME arena. The evidence shows that by doing so they are more likely to enjoy higher growth in revenues than SMEs with a purely domestic focus, as well as providing a valuable contribution to the economy.



¹ Mindmetre Research 2015: More than 44,000 business respondents from 100 countries were interviewed via an online survey during July 2015.

² OECD, CFE/SME(2012(6/FINAL), Fostering SMEs Participation in Global Markets: Final Report, 4 July 2013.

³ Mindmetre Research 2015: More than 44,000 business respondents from 100 countries were interviewed via an online survey during July 2015.

⁴ OECD, CFE/SME(2012(6/FINAL), Fostering SMEs Participation in Global Markets: Final Report, 4 July 2013

⁵ Andrew Bounds, SME lending grows for the first time since financial crisis, Financial Times, 2 February 2016.

⁶ Glenn Blackman, How Brokers are Helping SMEs Struggling to Access Finance, GapCap Cashflow Finance Blog, 24 May 2016.

⁷ Asset Based Finance Association (ABFA), Quarterly Statistics to December 2016.

⁸ See for example David Prosser, SME Confidence Slumping Amid Brexit Fears, Forbes, 29 September 2016 and Lawrence White and Elaine Hardcastle, UK's small business confidence unharmed by Brexit vote – survey, Reuters, 8 September 2016.

⁹ The Guardian, 'Construction and export figures fuel hopes UK economy is growing', 9th September 2016.

¹⁰ BBC News, 'Brexit: Who is affected by the falling pound?', 29 June 2016.

¹¹ Office for National Statistics, Statistical bulletin: UK trade: May 2016, Summary of latest UK trade statistics, May 2016.

¹² The Observatory of Economic Complexity (OEC), United Kingdom Country Profile, 2014.

¹³ UPS, European SME Exporting Insights Study Reveals That Exporters Outperform Their Domestic Peers, 5 November 2015.

¹⁴ Government UK, Policy paper: Budget 2016, updated 16 March 2016.

¹⁵ British Business Bank, Budget 2016 announces increased support for British Business Bank programmes to enable up to an additional £1bn of funding for smaller business, 16 March 2016.

¹⁶ Government UK, Government help for exporters, last updated 10 August 2016.

¹⁷ Government UK, UKTI London: helping companies export and grow overseas, Department for International Trade, updated 19 May 2016.

¹⁸ Asset Based Finance Association (ABFA), Quarterly Statistics to December 2016.



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