

INVOICE FINANCE MARKET RESEARCH PROGRAMME

FINDINGS

January 2015 - July 2015

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FundInvoice LLP

FundInvoice LLP offer the UK's 1st research based, independent invoice finance advice and quotation search service. We handle the whole of the UK and have access to all the key finance providers.

We have been able to **save money for 4 out of 5 businesses**who had received quotations elsewhere

We were able to find clients an **average cost saving of 35%** of the fees they would pay elsewhere

FundInvoice have been "Finalists" for both the Business MoneyFacts Awards 2015 and the 1066 Business Awards 2015.

We conduct an ongoing market research programme regarding the invoice finance sector. This document summarises our findings from January 2015 to July 2015.

The Secret Hidden Gem Within Business Funding

In a recent survey of invoice finance users, one business described invoice finance as:

"A secret gem hidden under a pile of overdrafts, loans etc.".

In that same survey, 22% of respondents thought that a lack of awareness and promotion of invoice finance had led to low numbers of businesses benefiting from it.

98% Of Users Would Recommend Invoice Finance

This is the most important question for anyone thinking about using invoice finance, factoring or invoice discounting: "What percentage of users would recommend invoice finance?".

We put this question to a randomly selected sample of 100 existing product users, that were using a range of different factoring and invoice discounting companies:

98% of existing invoice finance users said that they would recommend it to other businesses.

Why 2% Won't Recommend It

There were only two businesses, out of a hundred, that said that they would not recommend it. In one case they had an ongoing dispute with the invoice finance company and in the other they felt the price was too high. Interestingly, the business with the pricing concern also told us that they had NOT checked their pricing against the market, within the last 12 months.

Both of these businesses were using a high street bank for their invoice finance, rather than an independent invoice finance company.

Source: Invoice Finance Recommendation & Advertising Survey May 2015 (100 respondents - all existing users)

Quotes From Users Recommending Invoice Finance

These are some of the quotes from users asked if they would recommend invoice finance:

- "Yes definitely"
- "Yes 100%"
- "Yes always do"
- "Yes it helped us to double our turnover"
- "Yes without doubt"
- "Yes those who don't are missing out"
- "Yes improved our cash flow and helped us secure deals"
- "Yes has helped us grow"
- "Yes I think it's the best thing we ever did for our business"
- "Yes absolutely"

Some really positive comments showing just how well invoice finance can work for businesses.

Source: Invoice Finance Recommendation & Advertising Survey May 2015 (100 respondents - all existing users).

How Businesses Find Invoice Finance

In order to understand how businesses find their way to use invoice finance we asked a sample of existing clients to answer this question:

"How did you initially come to use invoice finance?".

This was the overall breakdown of the channels through which they found their way to these products:

- 51% Bank
- 15% Internet
- 15% Accountant
- 12% Broker
- 6% Don't know
- 1% Recommended by a customer

It is clear that the recommendation by the user's bank route is the most common. Often when the bank have been unable to provide an overdraft, as you will see from the comments below.

These are actual users of invoice finance quotes about how they found their way to use factoring or invoice discounting:

- "Accountant recommended it as my bank wouldn't provide an overdraft as it was a new account".
- "Looked online as a colleague recommended it".
- "Looked online for business funding as had been turned down for overdraft as a start-up".
- "Lots of research online, never heard of invoice finance before that".
- "Online search, turned down for overdraft so was looking for alternative ways to raise money".
- "Recommended by a customer".
- "Searched online for small business funding".
- "Bank manager recommended it".
- "Accountant recommended it, so went to our bank".

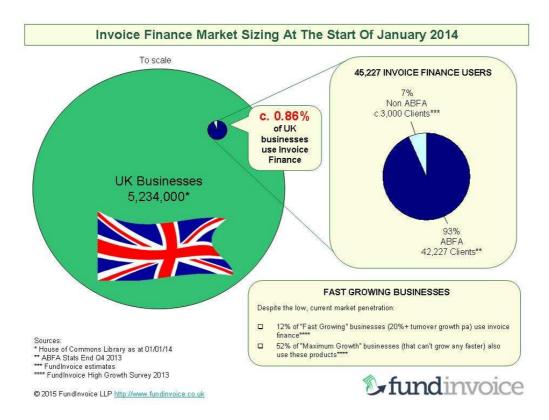
The comments once again evidence how low the awareness of factoring and invoice discounting actually is. Often the process of even looking online appears to have been driven by a more generic search for business funding that has led to the user coming across invoice finance.

It is also sad to see that these flexible funding products are often being offered by the banks as an alternative to overdraft when it cannot be provided, rather than as a primary option in its own right.

Source: Study of 100 Invoice Finance Users February 2015

What Proportion Of Eligible Businesses Use Invoice Finance?

The following diagram details our invoice finance market sizing exercise:



Our estimate is that 0.86% of all businesses use invoice finance. However, not all businesses are likely to be eligible (often termed "factorable" within our sector) for invoice finance.

To approximately gauge that we have an old market sizing research paper that was produced with 2008 figures: Market Sizing 2008 – Invoice
Finance and that showed that in 2008 there were 4.8m businesses in total in the UK. At the time we used a data warehouse company that showed 3.4m records at that point on their database. Of their records we selected all those that were "factorable" trades e.g. recruitment, printing etc. and there were 880,000 factorable businesses in 2008 – 25% of the total number on the business in the warehouse's database at that time.

So for an approximation of the market penetration at the beginning of 2014, if we applied the same 4 times multiple it would give us a market penetration of "factorable" businesses of 3.44% i.e. 0.86% x 4.

(Note: This does not account for retailer finance, which is now offered by at least one the members of the ABFA).

Why More Businesses Don't Use Invoice Finance

We wanted to find out why the take up was so low, therefore we surveyed a randomly selected group of existing invoice finance users and asked them why they thought more UK businesses didn't use invoice finance. These were the responses that they gave:

- 51% Too expensive
- 21% Lack of promotion/awareness or never heard of it
- 8% Used to have/has a negative reputation as a last resort
- 3% Banks are giving it a bad name
- 1% Should promote collections not funding
- 1% Its specialist

Sources: Study of Invoice Finance Users February 2015.

Note: Some respondents may have given multiple answers to this question.

What Clients Say

We asked a sample of 100 randomly selected users: "Why do you think more businesses that need funding don't use invoice finance?".

These are a few of the actual quotes, comments and feedback that existing clients using these products gave, in answer to that question:

- "Because its **not advertised**".
- "Don't know, it works really well and is worth the money for the peace of mind".
- "Not enough out there about it, **never heard of it** until accountant mentioned it and now I couldn't recommended it enough".
- "Haven't a clue although if they are just looking for funding it may work out expensive but as a package to help chase and boost cash flow it works really well and is cost effective, would be lost without it".
- "Probably don't know it exists".
- "Not enough out there about it, needs big campaign to make businesses aware of what it is".
- "We use it for help with collections, the improved cash flow is just a bonus".
- "Not enough info out there, I'd never heard of it".
- "Not promoted enough, we would thoroughly recommend it".
- "Just go down the overdraft route as probably don't know what other options are out there".
- "Don't know, works well, far better than overdraft as it grows with you and you have control over it".

- "The reason we use it is so we have a third party chasing payment and its easy. Maybe if it was sold as that rather than "funding" it would appeal".
- "Not advertised and understood enough".
- "No idea they should!".

This selection of responses show a general appreciation of the product amongst existing users. They also suggest a number of recurring themes:

- Lack of awareness, promotion and advertising.
- Needing to appreciate the overall package of benefits, over and above products such as overdraft.

These are issues that the invoice finance industry could work towards addressing.

Why Clients Pick Particular Invoice Finance Facilities

We have asked actual invoice finance clients, from across the various invoice finance companies: "Why did you pick your current invoice finance facility?".

These are the responses that were received to that question:

- 32% Used my bank
- 16% Help with collections
- 16% Flexible growth funding (related reasons)
- 13% Cash flow (related reasons)
- 8% Price (related reasons)
- 4% Ease of use
- 2% Free up time
- 2% Suited a small business
- 1% Accountant recommended
- 1% Declined for overdraft
- 1% Friendly sales person
- 1% Most suited when looking online
- 1% Online access
- 1% Only provider offering that facility
- 1% Top online
- 1% Don't know

With the major high street banks accounting for such a large percentage of the current invoice finance market, it is perhaps not surprising that the top answer was that the client just "used my bank". It does raise a question over the extent to which users are comparing the range of choices within the market and considering the independent providers that are also available.

The second finding that is of interest is the joint ranking of "help with collections" and "flexible growth funding" within the results. Other feedback from this survey has suggested that the invoice finance industry promotes itself under the banner of "funding" and misses the opportunity to highlight the benefits of the collections and credit control service. There was also a small percentage citing their reason for choosing their facility as being to "free up time". Again this reflects the peripheral benefits of factoring that are often overlooked when only funding is perceived as a benefit. Changing the approach could improves customers perception of value for money.

Source: Invoice Finance Users Survey February 2015 (100 Respondents - percentages represent the percentage of total responses as multiple answers may have been give to a single question).

Reasons Non-Bank Introduced Clients Picked Their IF Facility

We identified that 49% of our sample of existing invoice finance users found their way to the products through a route other than being recommended by their bank. We analysed the reasons they gave for why they picked their invoice finance facility.

Their reasons they gave were as follows:

- 25% Flexible growth funding (related reasons)
- 21% Collections
- 16% Improve cash flow
- 6% Cheapest/best deal
- 5% Cost effective/value for money
- 4% Free up time
- 4% Easy to use
- 4% Best for small businesses
- 3% Cost savings
- 3% Accountant recommended
- 1% Used my bank
- 1% Top online
- 1% Only provider of that facility
- 1% Most suited when looked online
- 1% Hassle free
- 1% Friendly sales person
- 1% Don't know
- 1% Declined for overdraft

It is interesting that only one of this sub-set said that they "used their bank". This particular respondent said that they had been recommended to use invoice finance by their accountant and then choose to use their

bank as their provider. This is a very obvious difference from the segment that were bank introduced.

Source: Study of 100 Invoice Finance Users February 2015 (note: some respondents may have given multiple answers to this question).

47% Haven't Seen Any Invoice Finance UK Advertising Or Adverts

Our survey of UK based invoice finance users found that:

47% said that they had not seen any advertising or adverts, from invoice finance companies, over the course of the last year.

This group is of interest as they are already using factoring or invoice discounting and so are likely to be alert to advertising, more so than businesses that are not already using such products.

Invoice Finance Users Versus Non Users

Another study, back in 2011, of non users found that 80% said they had not seen any advertising from invoice financiers in the last 12 months.

The difference could either be that advertising has increased or that non users are less aware of adverts for these products, than users. Either way, there are still a lot of businesses that are clearly not seeing any advertising for these services, which cannot be helping tackle the widespread issues of lack of awareness and understanding.

Methods Of Advertising

Going back to our recent survey, the 53% of existing users that said that they had seen adverts, in the last year, were then asked about the method of advertising and the name of the invoice finance company. The methods that they described were as follows:

- 84% Email
- 5% Television
- 4% Online
- 4% Radio
- 2% Post
- 2% Not specific

This shows a predominance of email marketing, which is very much direct i.e. it targets a single user rather than many. The usage of general, awareness raising advertising, such as TV ads, was low in our study.

Which Invoice Finance Companies Are Advertising?

We also asked the name of the factoring or invoice discounting companies that they had seen adverts from. 34 of the respondents (that's 64% of those that had seen advertising) were able to name who they had seen promoting their services. The following list of invoice finance companies were mentioned specifically - the percentages are of total responses:

- 51% Several different companies
- 19% Hitachi Capital Invoice Finance
- 14% Lloyds Bank Commercial Finance
- 11% Bibby Financial Services
- 3% HSBC Invoice Finance
- 3% ABN AMRO Commercial Finance

Source: Invoice Finance Recommendation & Advertising Survey May 2015 (100 respondents - all existing users - some may have given multiple answers to questions) and UK Factoring & Invoice Discounting Market Research Summary - Part 1 16th March 2011

78% Of Clients Haven't Had An Invoice Finance Price Check

78% of existing invoice finance clients that we surveyed had not checked their pricing, against the market, within the last year.

Despite this, 71% of those that haven't had a price check said that they wanted their invoice finance facility to be improved by reducing the charges!

Source: Invoice Finance Recommendation & Advertising Survey May 2015 (100 respondents - all existing users)

How To Increase Invoice Finance Client Numbers

As part of our survey of existing invoice finance clients, we asked them to tell us what they thought invoice finance companies could do to increase the number of businesses using factoring and invoice discounting. These are the answers that they gave:

- 44% Reduce the cost
- 36% Promotion and advertising
- 7% Change perceptions, rename or revamp it
- 7% Don't know
- 4% Promote the service not just funding
- 2% Improve the service
- 2% Offer more products

In line with other studies that we have conducted "cost" is clearly an aspect that clients want reduced however, "promotion and advertising" has gained nearly as much support from this sample. These are a few actual quotes from users about how they think the industry could tackle promotion and advertising:

- "Promote it more, TV, radio, banks, magazines, online etc."
- "Big advertising campaign promoting benefits not just funding."
- "Big campaign to get all business aware that it exists."
- "Advertise, change the name as still bit of a stigma attached to "factoring"."
- "Promote the service as well as cash flow/funding benefits."
- "The independents need to promote it as a package . . ."
- "Change the perceptions of many businesses by promoting the full package. . ."

These comments, from actual product users, show support for a large scale campaign to raise awareness of invoice finance and to promote it as a package of benefits e.g. credit control etc., rather than just as a funding product. The findings also suggest support for a revamp of how invoice finance is packaged.

It is also interesting to note the first comment, where the respondent has suggested that "banks" should be doing more to promote invoice finance. This would be a key channel for raising awareness as this same piece of research identified that 51% of the businesses surveyed had found their way to invoice finance via their bank.

Sources: Study of Invoice Finance Users February 2015 Note: Some respondents may have given multiple answers to this question.

How To Improve Your Invoice Finance Facility

Existing users gave us this feedback on how they would like their invoice finance companies to improve their facilities.

These were the improvements they requested:

- 64% Reduce charges
- 16% Nothing

- 8% Improve collections
- 8% Improve online system
- 3% More personal service/more understanding & friendly
- 1% Everything
- 1% Provide confidential

These were some of the actual comments made by respondents to our survey:

- "Nothing at all, really happy with them, have a set monthly fee and all works well".
- "Cuts costs, improve collections and be more understanding and friendly".
- "Improve electronic facility, their IT system is rubbish and have seen others out there that provide a better online facility".
- "Make sure all customers are chased rather than just a handful".
- "Give me more control, confidential facility".
- "Upgrade online facility so I can have 24/7 access and see what's going on. Also chase more efficiently so I don't have to worry about it too".
- "Nothing much only make it cheaper, but not complaining".
- "Better communication and online system to stop overlaps with chasing".
- "Update their online system as a bit out of date compared to others I've heard about".

Once again there are providers within the market place that could solve every one of those issues for the user.

Sources: Study of Invoice Finance Users February 2015

Note: Some respondents may have given multiple answers to questions.

Switching Between Invoice Finance Providers

Looking back at the study of invoice finance users that we completed in March 2014 we have gained some insight into the dynamics of switching between providers.

For the purposes of this analysis, we have defined "bank owned invoice finance companies" as those owned by the big four high street banks i.e. Barclays Bank, HSBC Invoice Finance, Lloyds Bank Commercial Finance and RBS Invoice Finance.

Switching Invoice Finance Companies

In total we spoke to 100 existing invoice finance clients and we found that all of them had switched providers at some stage:

- 89% had switched once.
- 8% had switched twice.
- 4% had switched three times.

The majority of invoice finance users appear to switch providers during their client life (2.14 providers used on average), and the biggest driver of moving provider was to make cost savings (which accounted for 42.4% of the reasons given.

Who Do Clients Move To?

We asked them who they were using now, after switching i.e. who they had moved to:

- 38% had moved to bank owned invoice financiers.
- 62% had moved to independent invoice financiers.

Therefore the majority had moved to an independent.

Of the 38% that were now using a bank owned provider:

- 58% had previously used a bank owned provider.
- 42% had previously used an independent provider.

Of the 62% that were now using an independent provider:

- 37% had previously used a bank owned provider (at some stage).
- 63% had previously used an independent provider (at some stage).

Product Variations

Looking at just those using invoice discounting (54%) there were 57% now using a bank owned provider and 43% using an independent.

Of those using factoring (46%) there were 15% using a bank owned provider and 85% using an independent. This indicates a marked preference for a move to the independent sector, among factoring users.

Conclusions About Switching

The majority of invoice finance users appear to move once during their time using these products. The primary driver of that move is to make cost savings, however there were other reasons given for moving including: changing banks, improving service, seeking more flexibility and a more personal service.

When they change providers:

... the majority, 62%, move to an independent provider.

There appears to be a particular preference, among factoring users, for independent invoice finance companies.

Source: Invoice Finance Clients Survey March 2014 (100 Respondents All Existing Invoice Finance Users)

Overdraft Versus Alternative Finance

The gap between usage of bank overdraft and alternative forms of funding, such as invoice finance, appears to be narrowing according to new research. The recent SME Finance Monitor for Q1 2015, produced by BDRC Continental, looked at 5,000 SME businesses in the UK and found that "36% of SMEs reported using external finance in Q1 2015".

The report went on to say: "29% were using one of the "core forms of finance (loans, overdrafts and/or credit cards) and usage has now stabilised, having previously declined . . . Use of other forms of finance (including leasing and invoice finance) was 16% and more variable over time, The gap in usage between the two forms of finance has narrowed over time".

This result should be viewed in the light of an overall decline in the number saying that they use external finance, from an average of 46% in 2011. However, the fact that they gap between the two types of finance has narrowed, is clearly positive news for the alternative finance sector.

Often forms of alternative finance, such as factoring and invoice discounting, can offer businesses greater flexibility as the level of finance grows in line with growth in the business. This is not normally the case with overdrafts which tend to be for a fixed sum, and loans are normally a decreasing sum as repayments are made. In addition, some of the cost benefits of invoice finance can outweigh the benefits of overdraft. With facilities such as factoring, the inclusion of a fully outsourced credit control service can negate the need to employ credit control staff, or to waste the business owner's time undertaking that function.

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