

Negotiating the financial maze

We meet a trade finance specialist who talks us through the factors which determine a company's ability to secure funds in today's difficult financial climate.



It would be easy to see the problem facing business executives today simply as the unwillingness of bankers to create or extend credit lines, leading to a shortfall in working capital. Agreement with the government notwithstanding, banks will only go so far in meeting customers' needs. Closer examination of the problem reveals a complete spectrum of funding requirements and shows that there are many different types of finance which may need to be drawn upon, each with its cost and availability.

For a broader perspective on trade financing, we turned to an operation which develops what can best be described as bespoke financial solutions. Trade & Export Finance Ltd traces its roots back more than a decade and a half to when its present management team was first called upon to advise commercial clients and financial institutions on the funding of foreign trade.

MD Mark Runiewicz – who is the author of fourteen successive editions of a noted international survey of trade finance – observed that there were in fact at least ten more components of the financial mix than 'working capital' alone. "For their part, most businesses will have great difficulty first in identifying that they have such a spectrum of financial requirements, and then how to source the components. A single financial institution cannot be expected to lead the field in all of these categories."

One important factor, it appears, is a lack of understanding between the potential customer and the institutions involved in each of those 'components'. Probably due to unfamiliarity with the processes involved, companies rarely

make a strong enough business case to the institutions which should be in a position to assist.

As Mr Runiewicz noted, however, the fault is not one-sided. "It is relatively uncommon to find banking executives who have run their own businesses or been part of a successful management team outside their organisation.

"To make an informed decision on a case by case basis requires an understanding both of how the customer's business works and the bank services that need to be optimised to achieve the required result."

Need for integrated solutions

While the high street banks make great play on their business-friendly credentials and dedicated commercial management teams, there is little evidence that they do indeed bring fully integrated solutions to bear on the needs of their customers. All can tick the box for perhaps 70% of the facilities required.

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else they require if indeed they realise they have a problem in those areas.

Relationship managers in the high street banks are perhaps not noted for their willingness to recommend that customers check with other institutions for services they cannot themselves provide. More pertinent is that few of those staff fully understand the specialist nature of key parts of their bank’s business areas - international trade, for example.

Trade & Export Finance would argue that its demonstrable skill is delivering financial solutions by helping businesses find the route through the financial maze.

Mark Runiewicz elaborated: “Part of our role is to provide advice on all aspects of banking and finance. We work closely with more than forty financial institutions – including the leading UK and international banks – to tailor what we see as the optimum package of solutions.

“In many instances we act as the interface between institutions and the customer. It typically starts off with identifying the needs of the customer to produce a menu of solutions. We help ensure that information is presented in a way that allows the financial community to make an accurate assessment of the client.”

Confusing for the entrepreneur

Entrepreneurs who are experts in their chosen area of business often find the world of financial engineering confusing and opaque. Clients approaching Trade & Export Finance cannot see how deals might be structured, or where funding could be obtained. One is reported to have been at a loss to understand how a lack of cash would prevent his business from growing.

As Mark Runiewicz observed, the key is to maintain an order book. “I would advise companies never to turn away an order. But before signing any contract, look at the ways in which it can be financed - and at what cost.

“The business case is then submitted to the most appropriate bank or financial institution, when we assist management in negotiations with the lenders, and support them until the facility is drawn down. We can provide ongoing support to ensure that customers are maximising the benefit of the facility they have obtained.

Financing international trade

That reference to credit insurance highlights the role of TAEFL in financing the international trade requirements of its customers. Runiewicz attempted to de-mystify that process. “International business is no different from domestic trading provided that due care and diligence are observed. The international trade cycle makes use of the same investment funds, overdrafts and other working capital: suppliers purchase raw materials which are turned into manufactured goods, which are sold on.

“Where differences arise is that companies trading internationally often rely on, and have to give, longer periods of credit. Importers prefer to pay for the goods only when they arrive

SMEs need access to a complete portfolio of finance

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| • Working capital | funding orders |
| • Trade finance | advising on getting the right kind of finance for the task |
| • Stock finance | funding stock being held against draw-down |
| • Invoice finance | invoice discounting and factoring of all descriptions |
| • Foreign exchange | securing the best rates for currency |
| • Letters of Credit | drawn on first tier banking institutions |
| • Property finance | mortgages, bridging finance |
| • Development funds | from site acquisition to sale after construction |
| • Logistics | managing process from materials to delivery & payment |
| • Credit insurance | ensuring that sellers are paid for the work done |
| • Freight insurance | ensuring that goods don't fall off the back of a lorry |

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Assistance for exporters

In addition to the enhanced Enterprise Finance Guarantee Scheme (EFG) considered on page 23, the UK Government introduced the Export Finance Guarantee Scheme (ExFG) in March 2011.

It was established to provide assistance to Exporters with a total turnover in excess of £25m. This was followed a month later with a parallel scheme for smaller companies - with a turnover below the £25m threshold for the main ExFG assistance - who could secure some measure of Government support.

Although the banks are promoting the export scheme, only one has taken the initiative and is considering applications on a case by case basis. The view of the banking sector is that the export guarantees are a pilot scheme at this stage and that companies should therefore tread carefully through this particular minefield.

Funding orders

Despite the recession many companies have strong order books but do not have the cash to purchase the raw materials and turn these orders into cash and profits.

Overheads erode working capital without cash circulating to improve the company's liquidity, and there is often scope for reducing those overheads as part of the complete plan for financing the business.

Securing trade finance for clients from institutions would appear to be only one aspect of the relationship that TAEFL forges with its clients. “An accountancy practice described our business more as management consultants who put in place the procedures and risk mitigants that help the client operate more efficiently, while providing the information needed to assist banks and finance houses provide funds.”

The definition of a management consultant as ‘someone who borrows your watch and charges you a fee to tell you the time’ is a cliché, but companies have a right to be cautious about any organisation offering such a broad portfolio of advisory services.

Does integrated approach work?

What evidence can Mark Runiewicz provide that this integrated approach actually works? He cites the importer who is now able to fulfill his order book with a £350k facility: another company exporting to Europe and India has recently obtained a £150k trade finance line. “And a major exporter has received an offer of a funding and a guarantee line of £8 million with a stock finance facility of £2 million.”

It is clear that finance is available if the deal is structured properly, the risks are mitigated and the proposal is presented to banks in a manner that minimises their opportunity to reject the application. §

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Companies have strong order books without the cash to purchase the raw materials and turn these orders into cash and profits. A combination of strategies may be needed to achieve a viable business.