Welcome to the February 2018 edition of the Funding Solutions Bulletin – our regular round-up of news, views and advice to help you improve your business's cashflow.

We know that cashflow is everything for companies, and this principle underpins everything that PKF Littlejohn's Funding Solutions team does. Please get in touch with us or *visit our website* if you have any questions.

What can we learn from Carillion's collapse?

The collapse of construction giant Carillion has left SMEs millions of pounds out of pocket. What can business owners do to protect themselves next time an important customer runs into trouble? **Angus Dent**, *CEO of peer-to-peer lender Archover, examines the options.*

We're now in the damage assessment phase following Carillion's collapse. Over 30,000 small businesses are thought to be owed money by the firm. Credit insurers have confirmed that they will pay out compensation – but only £30 million, a tiny proportion of the amount owed.

The initial media reaction was shock – 'the giant has fallen'! But none of this should have come as a surprise. Carillion had £1.5 billion worth of outstanding payments and issued three profit warnings in just five months. If those aren't warning signs, nothing is.

The Carillion case is an important reminder that no company is too big to fail. The government seems to have learnt its lesson from the 2008 banking crisis: saving organisations that are the root cause of system failures doesn't solve the problem.

As the saying goes, hindsight is always 20-20. Carillion's position was worse than the industry originally thought. That means that there will be lots of pain in the short-term but stronger, better-run companies will emerge. That's good news for those strong enough to survive in the long-term.

So, what's the lesson for businesses now? Instead of expecting the government to prop up the big boys after they've already collapsed, as individual companies we need to put more emphasis on due diligence before the fact.

Don't just rely on a big company's reputation for reassurance. Look at whether they have a good record of paying their debts. Do they have a strong cashflow? Have your peers had issues with invoicing them? Consider what would happen if a customer were to default. Ensure that you have protection in place, such as credit insurance - when you do, and the credit insurer is reducing the limit, you should review and limit your exposure.

When we trust too much in a company's longevity or size, we're making an understandable but risky mistake. Investments and contracts can go bad but that doesn't mean you can't take steps to protect yourself. Just as Carillion didn't have to accept tough contracts, SMEs shouldn't accept contracts when there's a probability that they won't be paid or where there aren't measures in place, such as credit insurance, to protect them against losses.

Do your research, only accept sound debtors and put protection in place for your cash.

ArchOver is a peer-to-peer lending platform, connecting businesses requiring finance with investors seeking a secure and favourable return. For more information, visit **www.archover.com**

What does Ratesetter's withdrawal mean for borrowers?

Peer-to-peer lender Ratesetter recently made headlines by pulling out of the unsecured lending market. It will now focus on secured lending, backed by either property or assets. What impact will this have on SMEs and growing businesses looking to borrow over the next few months? **Alan MacRae** *looks at the key issues.*

There has been a proliferation of unsecured lending and lenders over the past few years, driven for the most part by so-called 'Fintech' and peer-to-peer lenders, such as Ratesetter. The attraction for borrowers is the fact that the loans are backed by personal guarantees rather than a charge on the business or its assets. In the current environment, a large number of start-up and SME businesses have very little in the way of assets.

The concern, however, has been that this type of funding relies excessively on the underlying value of a business owner's personal property rather than the actual business itself.

Competition in the marketplace has effectively seen a lowering of rates and an extension of loan duration, despite the fact that it is a relatively risky way of lending. It appears that this pressure on rates and duration, together with the ongoing uncertainty surrounding Brexit, is the main reason behind Ratesetter's decision to exit the market.

Less competition is, on the face of it, potentially bad news for SMEs and start-ups looking to borrow. However, there is no reason why one departure should result in a tightening or scarcity of funds per se – although we would argue that continued uncertainty (especially with regard to Brexit) may see further withdrawals from the marketplace, which could then have a direct and sizeable impact on funding to SMEs.

We will continue to monitor the market and let you know of any significant developments. In the meantime, please do not hesitate to get in touch with **Alan MacRae** if you have any questions or concerns on amacrae@pkf-littlejohn.com or +44 (0)20 7516 2265.

Don't write-off your commercial disputes – Escalate them

Trading conditions for many businesses become tougher at the start of the year as supply chains get stressed, contracts are tested, and late or non-payments rise. Yet very few SMEs seek help in resolving the disputes that arise at this particularly challenging time of year. Why is that? And what can they do instead? **Chris Clay** *provides a solution.*

We often see a spike in commercial disputes in the first few months of the year as SMEs and their suppliers attempt to recover from the crucial pre-Christmas trading period.

Pursuing a dispute, however, has traditionally been a time consuming, expensive and risky undertaking – which is why many businesses decide against pursuing a claim and reluctantly write-off what they are owed.

In fact, new research from the Legal Services Board has found that only 24% of small businesses seek professional help to resolve commercial disputes. The vast majority of SMEs either give up on the money that they're owed (and take a corresponding hit on their cashflow) or try to solve the problem themselves (which rarely provides a solution because they tend to have neither the expertise or time to make it a success).

Why do so few businesses seek expert advice? Primarily because they believe that lawyers offer poor value for money: nearly nine of ten respondents think that lawyers don't provide a cost effective means to resolve commercial disputes and only one in four said that they can easily find a suitable legal services provider that they can afford.

These are staggering numbers. They mean that the vast majority of SMEs are unlikely to be able to effectively resolve their disputes – and even those that manage it will probably be unhappy with the process overall. No wonder that so many give up on the money that they're owed.

Our award-winning Escalate dispute resolution process is changing that, providing SMEs with an opportunity to recover cash locked up in disputes. We have recently helped two clients to agree settlements that will recover over £600,000 for them. This is money that was previously written off and that can now become a significant cash injection to help drive the businesses forward.

Escalate removes all financial risk, giving transparency on process and pricing, and ensures that the claimant remains the main beneficiary on settlement.

- No financial risk – you don't pay out unless we reach a successful settlement
- No initial outlay – we pay for all of the up-front costs, such as court fees
- Rapid results – we aim to get your money back in just three months; if we can't settle quickly, we have the financial backing to support you all the way to the High Court
- A fixed fee – providing complete transparency from the start.

We're already helping to unlock over £15 million in cash for businesses involved in a wide range of disputes. If you have a current or historic dispute that is causing you a cashflow issue, please get in touch with **Chris Clay** on cclay@pkf-littlejohn.com or +44 (0)20 7516 2226.

*PKF Littlejohn is not responsible for the content of external websites. The inclusion of a link to an external website from this document should not be understood to be an endorsement of that website

We hope you've found this issue useful. If people from your business would like to receive future issues, please send their details to Julia Krol (jkrol@pkf-littlejohn.com).

Our specialist team is here to help. If you would like advice on any of the issues discussed in this newsletter, please contact one of our Funding Solutions specialists.

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