

Liquidity oxygen in that sinking feeling

By Tom Addyman on Tuesday, November 10, 2009

For thousands of small- and medium-sized enterprises, liquidity is king. It's a great description with immediately recognisable features – the rolling swells of ups and downs, the waves of uncertainty and, most of all, the asset ebbs and cash flows that make a business stay afloat.

The past couple of years have shown us all that no ship is unsinkable and sometimes, the bigger the tonnage the swifter the descent. But, when times are tough, there are distinct advantages to being a big player in a major league. There are a lot of last chances, and if all else fails and you're a really big player, the government can decide you're worth bringing back to life.

For the small and medium enterprises though, the businesses that economies live or die by, there are no such guardian angels to drag them back from this abyss.

One of the greatest dangers to these companies is when liquidity leans more towards solidity.

A vicious circle begins where one or two late payments domino into a web of deadline debts and then fresher, redder spots appear before the eyes. Suddenly everyone is in the same boat. You may know for sure that your goods or services will be paid just not this month. We're all singing from the same hymn sheet that has a chorus along the lines of "I know this guy will pay me by the end of the week and as soon as he does, it will go straight to you. I promise".

Traditional banks are currently extremely reluctant to lend to SMEs, and so the demise of a business can simply be down to a matter of timing.

Late pay from your debtor, late pay to your creditor and the whole thing can crumble. As loyal as your employees and colleagues may feel, how understanding are they going to be when they have not been paid for two months? They have bills too, don't they?

There are now a few more options for these businesses in the UAE that relax the noose of that timing and give a little more room to breathe.

In a number of countries, invoice financing has been a hugely popular and successful way of keeping businesses on the straight and narrow, without going down the massive interest, short-term solution route.

It is an ongoing facility which can provide your business with money against outstanding debt, or perhaps more accurately – and with a distinctly Dickensian feel – invoices awaiting satisfaction. If you can prove that your business really is owed that amount and that it really is going to be paid in the future, you may be able to bridge the time/space continuum and travel back to happier days.

It's perhaps not the right route for every small business for a number of reasons; one of them being that they have to meet some strict eligibility criteria. Sadly, invoice finance is not there to provide a bit of comfort and provide a few assets free of charge for a new start. The fundamentals are the same as any other form of lending: the business has to be robust with an acceptable level of risk. At Gulf Finance, we have invoice finance clients who have come to us with unpaid bills and looked for support for their growth and expansion policies.

We have seen those dues and we have supported those clients. But it doesn't really have to be taken in the context of troubled times all the time. It is a way of raising extra cash that can't otherwise be released. More of a first port of call than a last resort.

Small businesses have to be far more resilient than their bigger competitors in a downturn. Never mind liquidity or fluidity, they have to be the very lubricant that oils the wheels of the economy. One of the most worrying thoughts about a depression/recession/downturn, depending on your geography and judgement, is the fact that the seized up econo-mechanics may take a long, long time to put right.

Let's not forget that those unsinkable boats we talked about are currently lying at the bottom of the ocean, torpedoed by a highly solid and immovable fiscal iceberg. If you change one or some of the circumstances slightly, the outcome is very different. A slower speed, a slight change of course, a more manoeuvrable glacier, calmer seas, a wide-awake lookout... the list goes on. But also, let's not forget that the flotilla of a hundred smaller boats that waved the Titanic farewell would have been able to avoid the disaster. A giant that can't turn isn't a much use, but transfer all the passengers on to a hundred smaller vessels and the result is adaptability, versatility and liquidity. And possibly watery.

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