HOW DO MARKETING AND PR COMPANIES ACTUALLY FUND THE GROWTH IN THEIR BUSINESSES?

The economy is on the way up, and spending by companies on marketing and PR is up again too. Good news for company directors and owners in this field, but how are they funding the growth in their businesses?

According to the 2015 Barometer compiled by Bristol Media, a group for businesses in the creative sector in Bristol and Bath, 62% of those surveyed have seen turnover up in the last 12 months. 72% are also expecting to see profits up at the end of their financial year, with one in five looking at a 20% jump. The report comments that that this profitable growth looks to be more balanced, and hence sustainable, which is good news for business owners and their staff.

However, the report is more sanguine about the way this growth is being funded. It makes some dry remarks about the government's efforts to increase bank lending to small businesses, observing that only 12% of those surveyed used bank funding to support their business. An overwhelming 77% said their main source of finance was self-funding by the owner directors of the company. While some of this may be by choice the report says that the high percentage suggests that it is "not all entirely voluntary".

While self-funding is easily the most common form of funding for small businesses generally, especially given the recent stance of banks, it does of course have an impact on both the company and the directors themselves. And while choosing to leave cash in the business is one thing, having to put it back in is quite another.

When cash is scarce, taking advantage of opportunities to grow can be constrained by the resources available at the time, particularly if the new work is for larger accounts. Mel Beeby-Clarke and Lis Anderson set up marketing communications consultancy Ambitious in 2013. The Bristol-based firm has grown rapidly over the last two years, taking on prestigious new clients like the famous shoe company C & J Clark.

Like all start-ups there have been moments, as Mel says: "Winning larger roles is obviously great, but sometimes resourcing new work can be a bit of a stretch, especially when you want to really shine in front of your new client." One way to deal with this has been the growth of freelancing. Working with trusted people but on a flexible basis can work well for both parties, and allows revenue and costs to be better matched and timed.

For other firms, the day-to-day challenge is to manage cash proactively as part of the engagement with each client. Chris Connell is the Finance Director at London-based bespoke app developer Conjure. He works hard to match billings to the projects being done: “We work with our clients on a long term basis, so a lot of what we do for them is covered by stage payments. With clients like Samsung and Triumph Motorcycles this approach has helped us to grow our business steadily over the last few years while consistently delivering high quality.”

But what to do when there is just a straightforward need for cash, like covering the gap between paying staff and contractors and getting paid by clients? And more so when larger clients impose longer payment terms? One answer is the growing market for single invoice finance.

As John Holden, founder and CEO of Tinderbox Working Capital, explains: “PR and marketing firms and indeed many other media businesses are often working for much larger businesses, and while their own balance sheets and hence creditworthiness may be modest, their clients are blue chip.

“By using their invoices to these clients as a platform to raise money, they can bring forward the payment of what is essentially their own money. It can then be put to use in the business: matching monthly revenue to costs, funding new business generation and take-on, etc. Taking out the peaks and troughs from monthly cashflow may also mean that the business needs a smaller cash cushion of its own, allowing directors to manage the amount of self-funding they have to do. “

Single invoice finance has been a relatively recent funding option in the UK, but has grown rapidly over the past 5-7 years and is now estimated to have reached £500m a year in advances made to UK businesses. Its flexibility and pay-as-you-go pricing model has made it popular, especially in sectors where smaller firms are often working for large corporates.

So while the business climate is positive and revenues continue to grow, maybe this time the owners of marketing and other creative businesses won’t have to carry all the burden of financing their growth, and can enjoy some more of the rewards for their efforts.

For more information on how to use single invoice finance in your business go to www.tinderboxworkingcapital.com