



# BALANCE

A Cash Resources Australia Publication Summer 1998 Edition

## The Logical Approach to Business Growth

**W**e all recognise the computer industry is an extremely volatile industry. Today's technologies are almost obsolete tomorrow. More and more companies are entering the field and forcing prices and margins down.

Spare a thought for the companies involved. How do they remain at the forefront of emerging technologies? How do they maintain profitability in such a competitive environment? How do they fund normal business growth?

Adelaide based computer manufacturer and reseller Binary Logic have taken an innovative approach to their business finance by implementing a factoring plan.

Originally the company was established in 1986 by Brenton and Heather Wight. However, in its formative years it became a real balancing act between generating new business and having the resources to fund it. The nucleus of a good business was there; good products, expertise and broad market acceptance but growth was being stifled by poor cash flow. It became clear that Binary Logic needed a substantial injection of cash to achieve

any worthwhile gains in company growth.

As Brenton Wight explained, "Binary Logic was in a classic situation of over trading. We had no difficulty in achieving sales even in the recessionary times of the late eighties. However, component manufacturers and vendors required prompt payment and although most of our customers were blue chip, it became increasingly difficult to bridge the gap between raising invoices and payment".

"In 1991, we spoke to our bankers who showed very little interest in our plight. During the recessionary times of the late 80's early 90's, many companies in our industry had fallen and the banks now required bricks

and mortar security well in excess of the funds sought. Something we were unable to provide". he added

"At the time, we were referred to Cash Resources Australia who subsequently put forward an alternative proposal factoring/invoice discounting."

Under the proposal Binary Logic would invoice their

customers as usual and copies of these invoices were forwarded to Cash Resources. A Cash Resources cheque for 80% of the invoice value would be returned within

72 hours. As customers paid their accounts this money was in turn paid to Cash Resources. The 20% balance, less fees, is repaid to Binary Logic once the accounts were collected. Binary Logic still controlled their debtors ledger and collections and their

customers were unaware that they are factoring although they made no secret of the fact.

Having additional working capital the directors of Binary Logic then took control of their own destiny. The benefits of factoring were immediate and nothing short of spectacular. For the first three years they achieved better than 100% growth each year which has since averaged out to a solid annual growth rate of 30%.

According to Mr Wight "With greater liquidity we have been able to take advantage of volume and prompt payment discounts that would not be available to many of our competitors. It continues to give us a tremendous competitive advantage."

"Cash Resources has always been anxious to help in any way possible with flexible terms and conditions, even advice on the extension of credit and collection methods." he added.

This year Binary Logic expects to generate over \$4 million in sales from its computer manufacturing, retail and service operations. It now employs over 20 staff and has just launched a new Internet Division.

*"It continues to give us a tremendous competitive advantage."*



# Cash Resources expands into new premises

Since it was founded in 1985, Cash Resources operated from offices at Surrey Hills in Melbourne's Eastern Suburbs.

During that time, the company experienced sustained growth and had outgrown its existing offices and had opened new offices in Brisbane, Adelaide, Perth and Sydney. According to Cash Resources Managing Director, Mr. Alan Kaye, "The Surrey Hills Offices had serviced us well, however, it had become plainly obvious that we

needed to upgrade to larger, more modern accommodation". "We have clients spread all over Melbourne and we felt that to provide a better service to them we needed to be more centrally located", he added.

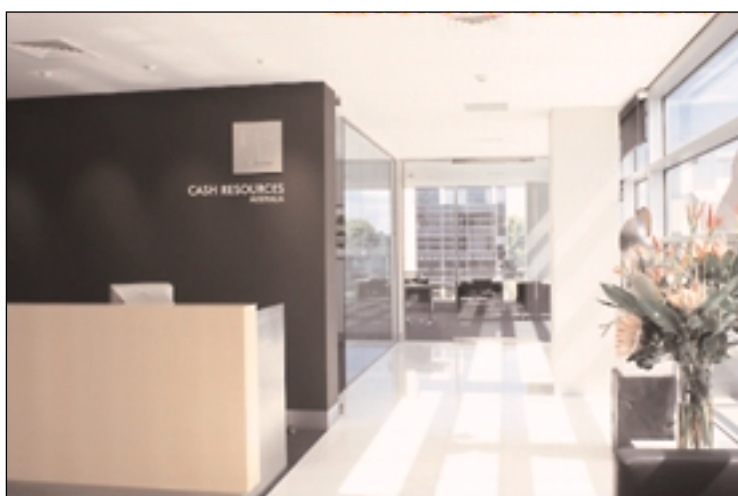
After an extensive search they settled on a 595 sq metre office in a new commercial estate in Church Street, Richmond. An Architect was then commissioned to design the internal layout to meet Cash Resources requirements. The offices feature a main conference room that opens

out onto a spacious, ultra modern reception area. There are two extra smaller meeting rooms to cater for one on one meetings. The balance of the area comprises an open plan format with purpose built file storage facilities. Full length windows provide an abundance of natural light and spectacular views of Melbourne's skyline.

As part of its expansion program, Cash Resources will implement a new networked computer solution. Utilising a Windows NT environment and

specific applications, the system will streamline its cheque processing and reporting capabilities.

Cash Resources will also develop a Website to provide clients and potential clients with information on the services we provide. It is expected that this site will be operational early next year.



## Alan Kaye Appointed Chairman of IFD

Cash Resources Australia Managing Director, Mr Alan Kaye was recently appointed Chairman of the Institute of Factors and Discounters of Australia and New Zealand Inc.

The Institute was formed in 1994 to represent the major providers of the growing Factoring and Discounters Financial Services.

The primary objectives of the Institute are to promote Factoring and Discounting to a broad range of users, potential users, financial advisers, trade associations, professional bodies and government.

In addition the Institute sets and maintains a code of practice for its members.

The council of the Institute, represented by the chief executives of the member companies meets regularly to discuss business.

## BALANCED INFORMATION

Welcome to the first issue of our newsletter, BALANCE. BALANCE is a quarterly publication designed to keep small to medium business, accountants and financial advisers informed with all aspects of factoring and invoice discounting.

It will cover case studies of how companies have benefited from factoring and invoice discounting, how factoring compares with other forms of business finance and credit management tips, as well as general business

finance information. We hope you will find BALANCE informative and we invite your feedback on any issue relating to factoring and discounting. Every effort will be made to publish your contribution in our next issue.

# Try this quick quiz:

**W**hat is the number one item that determines how much working capital (cash) a business needs?

- A. The level of sales
- B. The value of the director's home

You may think this is a trick question, but how would your bank manager answer?

The case study below will help you answer.

Secview Enterprises is an electrical componentry distribution business that had worked with skill and wit to carve out a niche in a very competitive market. As they grew, their cashflow dried up by the growth in their accounts receivable. They were not able to offset trade

debtors with trade creditors. As the business was only small, the overseas suppliers were not willing to extend credit terms and insisted on payment in full before shipping. Secview Enterprises



approached their trading bank for an increase in their overdraft so they could seize the opportunities they had created in the market place. They were rejected out of hand for the simple reason that the equity available in the directors' homes was deemed inadequate.

Secview received a timely brochure in their letterbox from Cash Resources Australia that provided a logical solution to their problem: Invoice Financing.

The levels of sales must surely determine the amount of working capital required by a business. Yet when the small business proprietor approaches a bank for working capital (usually in the form of an overdraft), the level of support offered by the bank

is usually determined by the value of the security. This approach is anything but logical, since the size of the owners home has very little to do with the amount of working capital the business requires.

Invoice Finance (confidential factoring) turns the banks equation around: The amount of working capital made available to the small business under an Invoice Finance Facility from Cash Resources Australia is determined primarily by the levels of book debts the business carries. Since the level of book debts the business carries is directly related to the level of sales and thus the level of working capital required, this approach surely is more logical than that of the traditional overdraft.

## Giftware wholesaler expands business through invoice discounting

**T**hree years ago a Melbourne giftware wholesaler faced a major crisis which had the potential to sink the business.

The company was desperately short of working capital. Borrowing and overdraft capacities were at their limit. Overseas suppliers were offering lucrative opportunities but required short payment terms. Terms that the debtors ledger could not support.

The problem was further compounded by the need to buy out a disgruntled business partner.

Ironically the company's sales had never been stronger. They had worked hard to develop a strong and loyal network of retailers and the buoyant market had created an ideal opportunity for expansion.

However, liquidity was the huge stumbling block and all pleas to the banks fell on deaf ears.

According to the principal of the company, "This was the most frustrating period of my life. We could see business success staring us in the face but we simply could not persuade traditional suppliers

of business finance to support our cause".

"It was at this time we were advised by a business associate to investigate debtor finance", he added.

"After making many enquiries we finally chose Cash Resources Australia, basically because they were able to respond quickly, be flexible in their approach and provide prompt personalised service."

The net result gave the company additional working capital to meet all its current needs. Furthermore, it enhanced the ability of the

company to push harder for sales to those of worthwhile credit because it had the ability to fund the growth.

Prior to using the invoice finance service, turnover was approximately \$800,000 per annum. Three years later this had grown to \$1,850,000 per annum with projections of \$2,200,000 per annum and \$2,700,000 per annum in the coming years.

The company is currently seeking much larger premises to cater for the increased business and the eight additional staff it has employed.

