



# B A L A N C E

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## Cash Resources Funds **Spectacular Growth**

Just over three years ago, Sydney Project Marketing Company, Nationwide Realty embarked on an aggressive expansion program.

Nationwide Realty is involved in major residential projects which typically invests substantial financial and human resources today and may not get paid for sometime.

According to Nationwide's CEO, Ashley Donlan, "We felt the best way to achieve growth was to acquire our major competitors. However, this quickly drained our cash reserves and poor cash flow was becoming a serious problem".

"While the banks were supportive, they would only partially meet our needs".

"At the time, we were using a finance broker and he introduced us to Nick Samios and Alan Kaye from Cash Resources".

***"While the banks were supportive, they would only partially meet our needs".***

"They suggested Invoice Discounting where we send out our invoices as normal and then forward copies to Cash Resources. They then return a cheque for 80% of the value of the invoices, usually within 48 hours. As

we collect payments these are then sent to Cash Resources. The 20% is returned less fees, when we collect all our invoices", Mr Donlan said.

"The result has been spectacular growth over the last three years.

The company has acquired four competitors. It's turnover has grown from \$1 million per year to \$8 million. Staff has grown from 4 to 35 with offices in both Sydney and Melbourne".

"We have developed a close working relationship with Cash Resources and they have taken the time to get to know our business", Mr Donlan said.

"They understand the nature of our business, our clients, the relationship we have with our bank and the speed with which they (Cash Resources) respond, is amazing".

"We have grown to a very large business in such a short amount of time and this could not have been achieved without the assistance of Cash Resources", he added.



NEWSLETTER

### IN THIS ISSUE

- Cash Resources Funds Spectacular Growth*
- Invoice Discounting - It's about control of your business*
- CPI + GST = No Cash For Businesses*
- Biography - Denis Clements - State Manager, WA*
- Can an employee be sacked for misusing the employer's e-mail or IT system?*



# Invoice Discounting

*It's about control of your business*

There is a continuing trend surfacing in business where debtors are exercising undue control over the business that supplies the product. Gone are the days when payment terms were a negotiated process where both the buyer and seller come to agreement on supply and terms with the interests of both parties in mind.

A common "negotiation" could now go something like this:

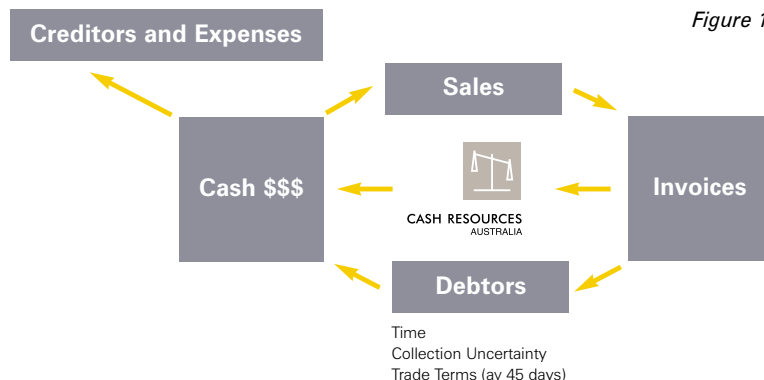
Supplier: *"I can supply my product to you locally at a competitive price. My expectation is that you will pay for the product within our usual 30 day terms from EOM."*

***"You seem happy with our product and our ability to supply. I may have an alternative that would suit both businesses..."***

Client: *"I have another supplier in another state of Australia who will give me a better deal than this. If you want my business, I want 30 day terms from EOM and a 15% discount."*

This client is therefore asking for the supplier to cut their profit margin and provide finance at no cost for 30 days - a situation which is not uncommon in the present market. The decision then, of course, is dependent on the reliance the supplier has on the client. If the

**BUSINESS CASH CYCLE**



business makes up a significant portion of the overall client base, the likelihood is that the supplier will make a decision

business book debts to generate cash can also provide a further negotiation aspect to assist with the example mentioned earlier. This could overcome the very real fact that payment discounts and debtor terms are a huge burden on a business' profitability.

With an Invoice Discounting facility in place the negotiation could continue as:

Supplier: *"You seem happy with our product and our ability to supply. I may have an alternative that would suit both businesses. As a valued client of ours, we can offer you terms of 60 days from EOM (or another term)"*

Client: *"That would provide us with good time to generate sales and secure payment..... "*

Therefore, the business would achieve full cost for their product at a very competitive price. Obviously, it is imperative that you achieve optimum cost effectiveness in all aspects of the business. Using Invoice Discounting, the business can work toward achieving full price for their product and remove the impost of early payment discounts.

We have a national network of experienced teams who can advise you on whether Invoice Discounting can help you.

Written by: Denis Clements, State Manager W.A.  
Cash Resources Australia Pty Ltd, Perth Office



# CPI + GST = No Cash For Businesses

The Consumer Price Index (CPI) for the December quarter came in at 0.3 per cent, and is confirmation of the squeeze on business margins. Whilst the unexpected low CPI result gives rise to possible interest rate cuts, it is a clear indication the economy is slowing.

The CPI result and slowing economy makes it difficult for businesses to raise prices and yet remain competitive. Therefore, businesses have had to absorb rapidly rising operating costs, resulting in drastically reduced margins. Some analysts are suggesting the March and June quarters may turn negative as the economy continues to slow.

It is becoming clear the introduction of GST has had a significant effect on the economy. Surveys indicate business confidence is at its lowest level for some time. The reduced margins are also leaving businesses with little or no cash reserves.

The GST is also effecting the cash flow of businesses. The majority of businesses are unable to convert to the Cash Accounting method, which allows GST to be accounted for when payment

is actually received for a sale. Most businesses must continue with the traditional Accrual Accounting method where GST is accounted for at the time a trade invoice is issued for a sale, irrespective of whether payment has been received or not.

Almost all businesses that transact sales under trade terms are left in the position of having to pay GST for sales they will not receive payment for until after the BAS is due. As most businesses are in this position, and struggling for cash flow, there is a "domino effect" whereby all businesses attempt to hold payment to creditors for as long as possible, in order to preserve sufficient cash to meet GST and other statutory payments.

The result is that normal trading terms of 30 days are being drawn out to 60 days, and even 90 days.

One alternative for a business to raise additional cash, is to increase its' Bank Overdraft. However, many businesses have insufficient equity in freehold property to satisfy the lending margins required by Banks.

Another alternative to generate cash flow, is to unlock the value of unpaid



trade invoices issued to debtors. This can be achieved through an Invoice Discount Finance facility offered by Cash Resources Australia.

By purchasing trade invoices at the time of sale, Cash Resources Australia can advance up to 80% of the value of each invoice promptly, thus providing adequate cash flow to enable a business to meet GST, statutory payments and payments to creditors in a timely manner.

Written by: Alan Turner, Business Finance Manager  
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## Biography - Denis Clements



Denis Clements recently joined Cash Resources Australia as State Manager in Western Australia. He has had nearly 30 years experience in the finance industry with his previous employer Westpac Banking Corporation. The experience gained from financial dealings in the

SME markets across a broad range of industries will be a great benefit to new and existing clients in Perth. Denis also has a passionate interest in rebuilding a stronger working relationship with small to medium size businesses in the Western Australian market.

*State Manager, WA*

# Can an employee be **sacked...**

*for misusing the employer's e-mail or IT system?*



Unacceptable use of the Internet or e-mail by an employee could constitute grounds for misbehaviour in the workplace and therefore a basis for sacking.

Electronic communication at work has revolutionised the way we deal with colleagues and how information is collected and disseminated. On the whole, e-mail and the Internet have been very beneficial to the workplace.

## **Employees must act in the best interests of the employer**

Employees, however, cannot expect to hold carte blanche in respect to their employer's IT system. The IT system should be used for work-related business not as the employee's personal tool for research and storage. An employee fails to act in the best interest of the employer if the employee researches, collects or publishes non-work related material during work-time without the employer's consent.

An interruption to receive the latest joke

doing the electronic rounds is sometimes very welcome; but some employees take offence to receiving trivial nuisance information, offensive jokes or pornographic material.

## **IT policy must be established**

To discourage misuse of its IT system, and to be able to sack an employee for mis-use, employers must establish a policy for IT use. Employers must make employees aware of the policy. The policy should deal with:

- the types of matters that can be the subject of e-mails - particularly e-mails sent to a number of people
- size limits
- trivial matters
- whether non-work related e-mails are permitted in certain circumstances
- the issue of the collection, storage and publication of non-work related material (eg private research, humour and erotic or pornographic material)
- defamatory material
- how seriously the employer regards transgressions of the IT policy, and
- whether transgressions are sackable.

Trivial infringements of an IT policy known to the employee, are probably not proper grounds to sack an employee. However, numerous infringements after fair warning, may constitute grounds. As well, one serious breach of an IT policy, known to the employee, could conceivably form a basis for sacking.

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