CASH RESOURCES
AUSTRALIA

B A L A N C E

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Invoice Discounting **Bridges the Gap** *for Temp Agencies*

It's a familiar problem for most temporary employment agencies. Your biggest customers are loyal and financially sound, but slow to pay due to corporate red tape or a longer billing cycle. That's no problem - for them. Meanwhile, you've got your own people to pay - employees, suppliers. You need cash and you need it now.

There are many ways to generate cash flow. However, not all may be right for you. If your business is small or new, you may not qualify for a traditional working capital loan. Or you may need cash flow assistance above and beyond such a loan. One alternative is Invoice Discounting from Cash Resources Australia. We can purchase your receivables, giving your business an advance payment up front. It is a mode of financing that can help free businesses from the cash-flow squeeze caused by slow-paying customers. As an end result, a business can generate instant capital and more easily predict and manage its cash flow.

Importantly, an Invoice Discounting plan from Cash Resources Australia is completely confidential. Your customers and suppliers will be unaware of the arrangement, however, your suppliers will notice that you will be paying their accounts sooner.

"Your biggest customers are loyal and financially sound, but slow to pay..."

Companies in the services industry are particularly well-suited to Invoice Discounting as a financing tool. Temporary employment agencies illustrate the process well. Temporary employees placed must get paid on a weekly basis but many of the clients are larger companies that may take longer to pay. Invoice Discounting can help such an agency cover its cash flow.

Despite the benefits of Invoice Discounting, many businesses do not take advantage of this financing tool, either they are unaware of its availability or because of misperceptions as to how it works.

Invoice Discounting has been used by businesses around the world for more than four centuries as a respected way to manage cash flow. For example, nearly all working capital financing in the garment industry is Factoring or Invoice Discounting.

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NEWSLETTER

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Planning to **Succeed**

Michael Gerber (The E-Myth Revisited) implores small enterprise owners to spend more time "working on the business" rather than "working in the business". Why? Because the small/ medium enterprise (SME) owner who is overwhelmed by the day to day running of the business (ie working in the business) needs to take time out to evaluate whether or not the current business strategy is working and to set the direction for the future (working on the business).

...spend more time "working on the business" rather than "working in the business". Why?

Undertaking the business planning process will yield two areas of material benefit for the SME: Firstly, it will produce a road map for the future setting out where the business needs to head and providing points of reference (targets, goals, milestones etc) which the owner can refer to from time to time to ensure that the business is on track and on time to achieve its aims. Secondly, the business planning process as an activity itself allows the owner the opportunity to review current strategies and tactics, and think about where the business needs to be in the future – an activity that in the absence of self imposed discipline would simply be otherwise subordinated to the day to day pressures.

What follows is a simple check-list that can be usefully employed as a guide to the business planning process and as headings in the business plan itself.

1. Statement of Strategic Vision: Every business should have a "Purpose" or "Mission" Statement. This is a simple statement that contains the following elements: a brief definition of the business; what customer needs are to be satisfied and how; who the customers are, and; a brief vision of the future. The exercise of crafting a Strategic Vision may seem trite, but without a definition of the business and a vision of the future, how can you evaluate success and set goals and objectives? The Strategic Vision should be a brief statement of no more than 100 words.

2. Analysis of internal and external situation: "PEST" analysis of the business environment - analysis of political, economic, sociological (demographic and cultural) and technological forces at work and how they will impact on your industry on the 1 year and 5 year time scales.; Porters "Five forces analysis" of the competitive environment - analysis of potential new entrants to the market, the bargaining power of suppliers, buyers, substitute products or services and rivalry among existing players; Major competitor analysis - including analysis of market share, pricing policies, promotion strategies, service policy, sales force strategy and major strengths and weaknesses; Internal analysis - the much loved and trusted SWOT analysis - strengths, weaknesses, opportunities and threats.

3. Objectives: Objectives should fall into two categories - strategic and financial. Strategic objectives might include "market share" and "customer satisfaction levels", whilst financial objectives might include the obvious sales, profit and return on investment targets. Objectives should be set for the short term (one year out) and longer term (three to five years).

THE ACTION PLAN

Strategic Vision

Analysis of internal and external situation

Strategic Objectives

Overall Business Strategy

Functional Area Strategies
- Marketing
- Human Resources
- Operations
- Finance

Performance Measures and Action Plan

4. Overall business strategy: Conventional business wisdom dictates that the SME can adopt one of three "generic" business strategies. They are the strategies of "low cost provider", "differentiation", or "focused/ niche" strategy. A business that tries to straddle these basic strategies will inevitably fail.

For example, a business that tries to offer a highly differentiated product at a low price will go broke. A business that tries to sell a basic product at high cost will not find any customers. The owner of the business must determine the basic strategy in order to avoid falling into these traps.

5. Functional Area Strategies: Strategies should be articulated for each of the key functional areas in business: Marketing, Operations, Human Resources, and Finance.

The marketing plan, apart from stating promotional strategies, should include a definition of target market segments, customer segment profiles and explanations of how the companies product or service will be differentiated from those of competitors and how the company will position itself in the mind of the customer. The four marketing "P's" might be a useful framework to adopt here - product strategy, promotion strategy, place (distribution) strategy and price strategy.

The operations plan outlines how the value promised to customers is to be delivered. It includes outlines of how

Failing to plan is planning to fail - Anon

product/ service quality will be defined and delivered and a description of the basic business model. The human resources plan will outline strategies for recruiting, training, resourcing and retaining the people in the business.

The finance plan is the part of the Business Plan that your accountant loves. It has the numbers - Profit and Loss projections, forecast balance sheet (in order to determine capital requirements going forward), break even analysis and most importantly cash flow analysis. Having developed the main body of the business plan, what remains is to give the owner of the business some tools to aid in the implementation of the plan.

Performance Measures will fall into two categories - financial and non-financial. The financial performance measures will be those included in budgets and forecasts as well as other measures such as "Return on Assets", "Return on Equity" and gross and net "Profit Margins". Non-financial measures will include targets and milestones for the other functional areas and would include measures for the key drivers of business success, such as productivity and market awareness customer satisfaction.

The Action Plan - is simply a "to do list" that should be time bound with specific tasks assigned to the individuals who will be held accountable for completing those tasks.

Two questions remain: When should business planning be undertaken and by who? Business planning should be undertaken thoroughly at least on an annual basis, although strategies must be adhered to on a longer term if they are to yield results. Performance measures should be reviewed constantly to ensure the business is on track.

The activity of business planning itself, whilst ultimately the responsibility of the business owners, should be inclusive of everybody and anybody in the business who will be responsible for its implementation. Key employees will be more committed to a business plan they have helped to formulate than one imposed upon them!

For information on the sources used for this article, email Nicholas Samios at nsamios@cashresources.com.au.

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State Manager NSW

Biography Nicholas Samios

State Manager, NSW

Nicholas is 37 years old and has spent the last 17 years of his working life in the banking and finance industry. Whilst he has worked in many areas of finance including equipment leasing and property lending - from consumers to corporates - his first love is helping to provide working capital finance for small business.

He joined CRA in August 1997 as State Manager – NSW. That office has grown considerably since then thanks largely to the quality of the staff on his team. In 1998 Nicholas Graduated from UTS as a Master of Business Administration. His personal interests include backgammon, golf, parenting and suburban spousehood.

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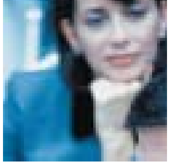
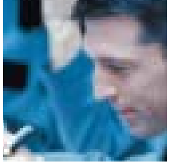
Additionally, every time a restaurant processes a payment by credit card, it is engaging in a process similar to Invoice Discounting, since the credit card processing company advances the restaurant the payment immediately and then collects the money.

Invoice Discounting works like this: Cash Resources purchases your invoices and immediately advances up to 80% of the invoices amount in cash. The remainder of the invoice value is remitted to the client upon collection, minus a small service fee.

Is Invoice Discounting right for you? Traditionally, this mode of financing works best for small to mid-sized companies who don't have a lot of collateral yet or start-ups who haven't developed a relationship with a bank. In the latter case, it can be the temporary financing measure that fills in until a working capital loan is possible. Invoice Discounting also fills a need for rapidly expanding companies who are outgrowing their operating capital.


"A More **Flexible** Alternative"

Ever wondered how most financial lenders determine who gets their money and who doesn't? Banks and mainstream financiers receive substantial numbers of applications and enquiries for loans everyday. The customers and businesses requesting the money have different and isolated needs for these funds that are significant to them as applicants, but not so significant to the lender, who needs a quick and efficient way to determine who will and who won't get the money.

So a ready reckoner or "matrix" was introduced to enable the banks to ascertain quickly who was a good candidate and who would be declined.

To give you an idea of how this works a comparison of CRA criteria versus a possible matrix application is presented below.

The circumstance behind the application for finance is as follows-:

- XYZ Pty Ltd has been in business for 16 months and is a wholesaler of "Specialised Parts".
- Sales have steadily increased over the last 6 months after a tough initial 12 months.
- To meet upcoming sales commitments XYZ Pty Ltd require an immediate capital injection of $100,000.
- The director has property with equity of around $45,000 after home loan.

The director has provided applications to CRA and his bank, the results are as follows-,

To be fair to the bank, this applicant may explain his situation in front of a Manager, however, it is clear this client does not fit the matrix and this system will not bend, or shape itself around individual clients needs.

CRA would see this application as perfect for its business finance facility as the product required will increase sales, therefore placing XYZ Pty Ltd in a stronger position as a company in its own right. CRA are also realistic and understand the first 12 to 24 months are the hardest for a company and in most instances a loss is common. As far as credit history goes, disputes with companies that have been settled or suitably explained and will not prejudice an application with CRA.

What the above business needs is a financier who can provide the flexibility to-:

- Listen to the clients needs and recognise the value of the client's request and understand what the funding will help achieve.
- Acknowledge that this business has established a market for it's product over a short period of time.
- Take the time to verify that credit problems in the past were genuine disputes and not a result of simply not wanting or not being able to pay.
- Appreciate the bigger picture with respect to not only this request, but also the future support this company will require.

Written by: Mark Butler
Business Development Manager, Melbourne

	RESULT	CRA	BANK
Minimum 24 months trading	No	N/A, app proceeds	Application declined
Business must show profits	No	N/A, app proceeds	Application declined
$ for $ mortgage security	No	Negotiable, app proceeds	Application declined
Clear credit history	No	Explained, app proceeds	Application declined
Turnover exceed $5M	No	N/A, app proceeds	Application declined
Industry Suitability	-	N/A, app proceeds	Application declined

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