BALANCE

CASH RESOURCES
AUSTRALIA

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# Adelaide **Printing Company**

## *Changes to Cash Resources*

When the Financial Controller joined an Adelaide based printer two years ago, the company was already factoring with another company.

**"...the service provided by Cash Resources was brilliant."**

"We were experiencing all sorts of problems," he explained. "Firstly, they were interstate and were always unavailable when we needed to talk to them. They were slow preparing reconciliation statements which left us looking pretty stupid in the eyes of our customers. Even our customers were getting annoyed."

"As a result the company had to find an alternative facility. It was important that we found someone in Adelaide, someone who could provide expert advice and provide a confidential service," he said.

The Financial Controller investigated five companies before they finally selected Cash Resources Australia. David Ciccolella was very keen to get to understand our business. "We made it clear that we didn't want to use the facility forever so we wanted to avoid any long term agreements and David was most helpful in explaining our options," the Financial Controller said.

"Compared to the previous factoring company the service provided by Cash Resources was brilliant. We always got through to the person we needed to speak to first go, they always responded to our emails promptly and our reconciliations were always prepared accurately and on time," he said.

In just nine months the facility from Cash Resources has helped the company build its equity base and provided greater financial flexibility.

"The company now does not need Cash Resources services, however, we have left the door ajar should we require their services in the future. On reflection it was the best move we could have made and already I have recommended Cash Resources to a number of business associates," he concluded.

NEWSLETTER

**IN THIS ISSUE**

# **Why** Small Businesses

*Continue to Fail*

It is an unfortunate fact of life that a large percentage of small business startups fail in their infancy stages. In many ways the odds are stacked against small business success.

But why do so many fledgling businesses fail. Over the years business experts have identified a wide variety of reasons. Here are some of the more common reasons for business failures and some hints to avoid them.

### 1. Failure to Plan

Running a business without a properly prepared business plan is like steering a ship without a rudder. You need to create a vision, with quantifiable targets, a strategy on how to achieve them and a contingency plan should things go off the rails.

### 2. Inadequate Cashflow

Many small businessmen think that profitability alone guarantees financial viability. It is important to track when cash comes into and leaves the business. Even the most consistently profitable business will flounder if they pay out before they get paid.

### 3. Procrastination

In any business there is always an abundance of paperwork and day to day tasks. Putting them off will eventually overwhelm you.

### 4. Underestimating your Competitors

In most industries customers loyalty has declined in recent years. Customers will go where they can find the best products at the cheapest price. Constantly monitor your competitors and try to stay one step ahead of them.

### 5. Not listening to customers

Your customers are your life blood. Make sure you listen carefully to their needs and do everything in your power to satisfy those needs.

### 6. Closed Minds

To remain competitive today you need to keep pace with new business techniques, technologies and processes. Your way of doing things may not be relevant today. Constantly seek the advice of experts and keep an open mind to new ways of doing things.

### 7. Hiring Incompetent Employees

Employ only the people who are essential to the operation of your business. When selecting new employees make sure they are suitably trained and able to complete the tasks expected of them.

### 8. Poor and Ineffective Marketing

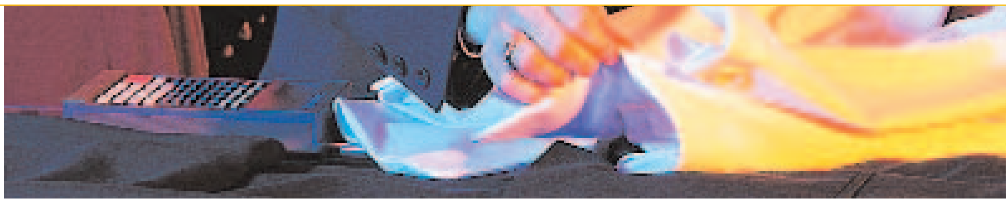
You could have the very best product on the market however if nobody knows about it, then it is destined to failure. If you don't know how to take you own products to market consult an expert.

### 9. Lack of Flexibility

There is nothing more inevitable than change. Change in products, competitors' market perceptions, staff and many other factors. Now opportunities will arise and problems will confront you. Your business must be structured to quickly adapt to change to take advantage of opportunities and deal with problems.

# Invoice Discounting **Saves** Large Peripheral Order

A new specialist computer peripheral device used with retail computers was beginning to sell well. The market had welcomed the product with open arms. Orders, while small were rolling in and the operation was gathering momentum.



Then the first large order came in from a large fashion chain which made the company's owner breathe a sigh of relief until he called their most important components supplier. The supplier was unwilling to extend the credit needed to obtain the components for his newest order and unfortunately they had used all their cash to purchase equipment and set up the business.

The company had been sitting on the order for three weeks as they filled out applications and received polite declines from numerous financial institutions unwilling to advance the money needed for components and additional labour they required to fulfil the order. Unfortunately, the owners had utilised all security in establishing a facility for the original set up.

The owners faced the prospect of
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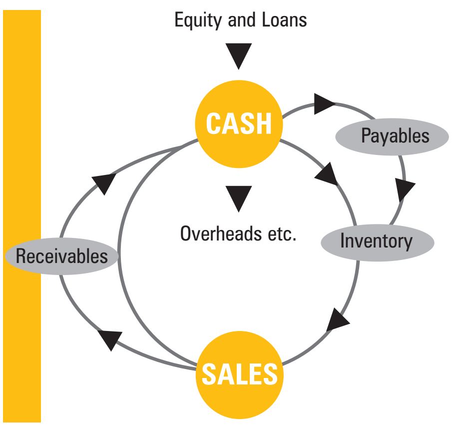
# Keeping the Working Capital Cycle **Turning**

Cashflow is vital to the livelihood of a business. It should be every manager's primary task to help keep it flowing and to use the cashflow to generate profits. If a business is operating profitably, then it should, in theory, generate cash surpluses. If it doesn't generate surpluses, the business will eventually run out of cash and collapse.

The faster a business expands, the more cash it will need for working capital and investment. Good management of working capital will generate cash, will help improve profits and reduce risks. Bear in mind the cost of providing credit to customers and holding stocks can represent a substantial proportion of a firms total profits.

There are two elements in the business cycle that absorb cash – Inventory and Receivables. The main sources of cash are Payables and Equity Loans.

WORKING CAPITAL CYCLE




Each component of working capital (namely inventory, receivables and payables) has two dimensions TIME and MONEY. When it comes to managing working capital – TIME IS MONEY. If you can get money to move faster around the cycle (e.g. collect monies due from debtors more quickly) or reduce the amount of money tied up (e.g. reduce inventory levels relative to sales) the business will generate more cash or it will need to borrow less money to fund working capital. You could reduce the cost of bank interest or you'll have additional free money available to support sales growth or investment. Similarly, if you can negotiate improved terms with suppliers e.g. get longer credit or increased credit limit, you effectively create free finance to help fund future sales.

It can be tempting to pay cash, if available, for fixed assets e.g. computers, plant, vehicles etc. If you do pay cash, remember that is no longer available for working capital. Therefore, if cash is tight, consider other ways of financing capital investment – loans,

equity, leasing etc. Similarly, if you pay dividends or increase drawings, these are cash outflows and like water flowing down a plughole, they remove liquidity from the business.

More businesses fail from lack of cash than for want of profit. However, sometimes there are circumstances beyond your control that will drain your cash reserves. In these instances Cash Resources can provide an Invoice Discounting Solution where we will pay up to 80% of your invoices usually within 48 hours. The balance less fees is paid after you collect payment from your debtor.

| IF YOU.... | THEN.... |
|---|---|
| Collect receivables (debtors) faster | You release cash from the cycle |
| Collect receivables (debtors) slower | Your receivables soak up cash |
| Get better credit (in terms of duration or amount from suppliers) | You increase your cash resources |
| Shift inventory (stocks) faster | You free up cash |
| Move inventory (stocks) slower | You consume more cash |

# Peter Roff - **Profile**

Peter Roff has been Business Development Manager for the Brisbane Office since January 2001.

He has had some 20 years experience in the Queensland market with an extensive career in Business Finance products. Peter's background has given him an understanding of the requirements of small to medium sized enterprises across a diverse range of industries.

Peter's knowledge will be highly valued by new and existing clients who are seeking a close working relationship with their financier to assist with working capital and business growth needs.

# Keeping Those Big Rigs **Moving**

The interstate transport industry has never been tougher. Hot competition has resulted in razor thin margins while the insurance crisis and safety issues have sent fixed overheads soaring.

All this did not deter a Queensland Trucking Company from aggressively chasing new business. They identified a niche untapped market freighting frozen foods from Melbourne to Brisbane. While there were healthy margins in the new business they did have to concede longer than normal trading terms. They already owned the prime movers and refrigerated trailers, however, they needed to fund a new depot and have a number of new staff.

In addition, the two owners had concentrated heavily on securing new business and as a result they had neglected collections of existing debtors. So the company faced a serious cashflow problem.

Their accountant contacted Cash Resources and an Invoice Discounting facility was in place within a week. Cashflow started to improve immediately. According to one of the directors, "We were unaware that such a service existed, however, this facility has set up our business nicely. The original contract has turned out larger than we first anticipated and we are currently purchasing an additional rig and employing more drivers."

"Cash Resources Invoice Discounting allows us to meet our day to day financial commitments with ease. No more juggling of payments," he said.

***"They already owned the prime movers and refrigerated trailers, however, they needed to fund a new depot and have a number of new staff."***

"We still control our debtors ledger. Our customers are totally unaware of the facility and the fees are a small price to pay for financial peace of mind," he added.

## Invoice Discounting Saves Large Peripheral Order

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having to turn their back on the order. They canvassed the idea of an equity partner however time was running out. Fortunately the fashion chain extended the delivery date of the purchase order by two weeks.

Enter Cash Resources Australia. They funded 80% of the company's receivables allowing the company to purchase the components needed to fill the order. The company continues to use accounts receivable financing to finance the growth that followed. Ironically just twelve months later the company's financial performance has attracted approaches from a couple of the financial institutions that had previously declined to extend credit.

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