



# B A L A N C E

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## Cash Resources Jump Starts **Auto Electric Business**



In 1990 when a fresh faced seventeen year old auto electric apprentice commenced work, little did he know that 11 years later he himself would own and operate that very same business.

From the very first day he started the boy worked exceptionally hard, was anxious to learn about all aspects of the business so it was not surprising that the owner in his late 50's took him under his wing. He was affectionately dubbed 'the apprentice' which has stuck with him throughout his career.

***" 'The apprentice' was excited that he had a vision, which included substantial growth."***

The business basically handled all customer auto electric repairs from alternators and starter motors to complete rewiring work. There was some trade work but it represented only a small percentage of total revenue.

It was a good solid rural business that had been in the owner's family for 30 years. Most of the work was cash sales so there were very few cash flow problems.

'The apprentice', under the guidance of his mentor progressed rapidly. Showing his initiative, he embarked on an extensive training program studying new computer engine technologies as well as air conditioning systems. This opened a number of new business opportunities for the owner.

'The apprentice' also persuaded the owner to pursue more trade business. The business started to grow and they soon employed six people. It was about this time that the owner who was fairly set in his ways recognised that

technology was passing him by and he was losing his determination and desire to keep the business going.

With no sons of his own, the owner commenced discussions with 'the apprentice' about purchasing the business and they agreed on a purchase price and a 3 year repayment schedule. 'The apprentice' was excited that he had a vision, which included substantial growth.

He focused on new engine technologies and insisted on extensive training in this area for all his employees. In addition, he had to purchase expensive diagnostic equipment as their reputation grew so did the percentage of trade work.

This is where the problems commenced. He offered the trade 14 day terms but many were paying closer to 45 days. Add to that business repayments and the purchase of equipment his cash flow was somewhat depleted.

'The apprentice' was advised to contact Cash Resources Australia who offered him an invoice discounting solution. Each month the business sends out its trade invoices as normal, but also sends a copy to Cash Resources who pays him up to 80% of the value of the invoices. He collects the payments and sends them to Cash Resources. The balance less fees is returned when all invoices are collected.

"This service has been a saviour for my new business." "It has enabled me to continue to pursue my business plans and as a result it will enable me to duplicate the business in another major regional centre," 'the apprentice' said.

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# Checklist for improving cash flow

## 1. Sales Related:

- Increase sales (particularly those involving cash payments).
- Increase prices especially to slow payers.
- Become more selective when granting credit.
- Seek deposits or multiple stage payments.
- Reduce the amount/time of credit given to customers.



## 2. Costs & Systems:

- Reduce direct and indirect costs and overhead expenses.
- Use the 80/20 rule to manage inventories, receivables and payables.
- Improve systems for billing and collection.

## 3. Credit Management:

- Invoice as soon as work has been done or order fulfilled.
- Generate regular reports on receivable ratios and aging.
- Establish and adhere to sound credit practices - train staff.
- Use more pro-active collection techniques.
- Add late payment charges or fees where possible.

## 4. Purchasing:

- Improve systems for paying suppliers.
- Increase the credit taken from suppliers.
- Negotiate extended credit from suppliers.
- Make prompt payments only when worthwhile discounts apply.

## 5. Inventory:

- Reduce inventory (stock) levels and improve control over WIP.
- Sell off or return obsolete/excess inventory.

## 6. Investment:

- Defer or re-stage all capital expenditure.

## IMPORTANT:

### 7. Financing:

- **Use Invoice Discounting to accelerate receipts from sales.**
- Sell off surplus assets or make them productive.
- Enter into sale and lease-back arrangements for productive assets.
- Use leasing etc. to gain access to the use of productive assets.
- Defer projects which cannot achieve acceptable cash paybacks.
- Defer dividend payments.
- Raise additional equity.
- Convert debt into equity.
- Make medium and short-term cashflow forecasts - update regularly.

# Biography - Allan Howe

## *State Manager Queensland*



Allan Howe heads up Cash Resources office in Queensland. Allan brings to Cash Resources a wealth of experience, gained with a number of lending institutions including Westpac and the Kalgoorlie based Goldfields Credit Union (GCU) in WA.

In his role as CEO at GCU, Allan managed a substantial portfolio of

small business. During the 14 years as CEO of GCU I gained a thorough understanding of issues and pressures facing small businesses.

This experience enables me to add greater value to the services Cash Resources provides to the SME sector in Queensland.

# 10 Symptoms of an impending **business crisis**

## 1. Cash Flow Problems

The business owner might not have a clear report on receivables nor have a process for maximising revenues. There could be delays in paying bills and meeting salary and other expenses in a timely fashion.

## 2. Lack of Profitability

The business owner might not have set profitability goals and/or might not be tracking profits. Or, these mechanisms could be in place, but the business is just not profitable.

## 3. Issues Related to Products and Services

A successful business requires a clear definition of products and services it offers. It is a warning if a business owner cannot clearly define the business, is not monitoring the shifting marketplace demands, and is not offering highly marketable products and services.

## 4. Business Owner has Weak Personal Foundation

A business owner might have personal problems affecting his or her ability to

effectively manage the business.

## 5. Staffing Issues

The staff might exhibit low morale, the company might be losing its best people to competitors, or the overall work environment might not be encouraging high productivity from its employees.

## 6. Customer Issues

It is a warning if the business owner cannot define the ideal customer. Other warnings are lack of effective communication channels with the customers, customer lawsuits, high volume of customer complaints, a lot of product returns, and low customer retention.

## 7. Business Expansions or Alliances that are Creating Problems.

A business might expand too quickly or into the wrong markets. It might form alliances with companies that



are not a good match and will not enhance profitability.

## 8. Lack of Succession Planning

A business might lack succession planning. This is a warning for family owned and non-family owned businesses.

## 9. Lack of Business Vision and/or Mission

The lack of a business vision and/or mission might be evident in lack of teamwork or a weak company culture.

## 10. Lack of Business Growth

The lack of a business plan with clear cut goals could be the source of slow business growth and a strong warning that a turnaround strategy is needed.

## Cash Resources **steps in** when **the bank said no**



When a Perth couple established a contract welding business back in 1997, they recognised they would need access to some form of business finance to enable the business to grow.

Their first point of call was the banks, however, as the owner of the business explained "The banks have a strange way of looking at start up businesses." "If there is any form of risk involved they are reluctant to help you or demand excessive security and fees," she said.

The business undertakes large welding projects for companies like Westfarmers and utilise sub contractors to complete the task. Quite often these projects can take several months to complete and require substantial materials.

"Obviously the subcontractors need to be paid weekly and we have to wait till the end of the project to even invoice the work." "While our customers are good payers, without some form of finance

facility there would be a constant cash deficiency" she said.

When the banks said no, Cash Resources Australia stepped into the breach with an Invoice Discounting facility. "We were attracted to the flexibility of the Cash Resources service." "There were no long term contracts, we could choose how much we require and we only pay for what we use, which is minimal."

"Cash Resources have helped us land a few larger jobs and they have nearly doubled our Invoice Discounting facility without any questions because they know our business". "They supported us in trying to achieve our goal, where the banks wouldn't" she said.

Since 1997 the business has grown significantly. "We couldn't have done it without them (Cash Resources)" she concluded.

# Insolvency or Turnaround

## When should you consult a Turnaround Management Professional?



Turnaround management is the term used for assisting companies with problems. A methodology is used by drawing on tools from a variety of professions, including business accounting, finance and marketing; working to solve

problems that threaten a company's survival, turning the cards to create the foundation to change the course of the business from crippled to a potential leader.

Diagnosing a company's health is not easy. Is there a magic formula to evaluate an organisation? Business analysts globally, are continually challenged with various complex business structures, charged with evaluating

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organisations and then faced with reducing the results to simplistic terms. The mere number of companies who enter an external administration is evidence that in reality, some companies operate blindly. While some companies install and sometimes monitor elaborate management information systems (MIS), some poorly managed companies accept ignorance as part of the business world, provided they can meet a few essentials and next week's wages.

Two problems common in troubled companies are poor information systems and a paralysed management. The biggest challenge for a Turnaround Professional is to produce results quickly. First and foremost is to stop the bleeding.

Conserve sufficient cash to operate the business in the short term, to provide sufficient time to investigate the cause of the damage and design the appropriate turnaround strategy.

The second challenge is to identify any problems within the management team and their knowledge of the business. Getting to the point of pain is delicate. Have any laws been broken and are there any taxes outstanding? Has there been any fraud? Is there any knowledge of potential legal action? Then finally, what is the true cash position?

Quite often, how unhealthy a company actually is, is invisible to management. How much does a company's performance need to improve to be rendered healthy? Consider asking the following in your business:

- Is your business healthy?
- What method do you measure healthy and unhealthy operations?
- Do you have periods of cashflow strain each month?

- Do you delay paying creditors outside normal trading terms.
- Are Taxes paid on time?
- Are you achieving an appropriate return to shareholders?
- Cashflow, accurately?

Should you be unable to answer these questions satisfactorily, then consider consulting a Turnaround Professional to help you chart a new course?

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