



B A L A N C E

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Cash Resources Assists **Software Development Company**

From modest beginnings, a Melbourne based computer business grew into a two-division company specialising in the development and marketing of niche software and contract placement of computer programmers into some of Australia's leading companies.

Each division had distinct challenges, but both shared a common need for predictable cash flow to meet operating expenses.

The software division found they faced a lean period of revenue in the research and development stages, then when the product was nearing completion they embarked on an aggressive marketing campaign to create interest

in the products. This required substantial funds.

The contract programming division was formed to generate an interim revenue stream and to help fund the development phase of the software.

“As directors, we were constantly distracted trying to juggle the cash flow.”

This created new problems in that contractors needed to be paid fortnightly, however clients paid 30 days at best and rather than solving the problem it was compounding the situation with the more contractors they placed.

According to the company's Managing Director "It was an extremely frustrating time. Our products seemed to take longer and longer in the development stage and we were placing all the contractors we could recruit. As

directors we were constantly distracted trying to juggle the cash flow".

With an already large facility to partially fund the development stage, their bank was reluctant to assist further, so they turned to Cash Resources for assistance with an invoice discounting package.

"The package has been in place for over two years and our team of contractors has grown threefold. We are generating enough revenue from our contracting division to undertake the development of a suite of products simultaneously. In addition, the facility has enabled us to reduce our debt level with the bank" the Managing Director added.



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The **Importance** of Cash Flow Planning

A properly prepared cash flow plan shows the vital timing of cash coming in and cash going out of your business. Preparing a monthly cash flow forecast provides you with estimates of when the business expects to collect and utilise the cash. A cash flow forecast shows sales much more than estimates or overhead expenses averaged across several months.



Used properly, this will provide you with the means to keep your business decision-making on track and your inventory purchasing in control. It will also serve as an early warning indicator when your expenditures are running out of line or your sales targets are not being met.

As the manager of your cash, you will have enough time to devise remedies for anticipated temporary cash shortfalls and ample opportunity to arrange short term investments for the business' temporary cash flow surpluses.

The completed cash flow forecast will clearly show what additional working capital, if any, the business may need.

Reliable cash flow projections can bring a sense of order and well-being to your business and more calm to your life. The most important tool owners/managers have available to

control the financial aspects of their business is the cash flow worksheet. Computer spreadsheet programs such as Microsoft Excel, can be very useful for cash flow worksheet development.

Step one: Consider your Cash Flow Revenues

Determine a method of estimating your sales each month. New businesses, can use average monthly sales of a similar-sized competitor's operations who are operating in a similar market. This information can be obtained from the relevant industry association. It is recommended that you make adjustments for current industry trends and prevailing economic conditions. Obviously you will need to take into

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account reduced revenue in your start up year. As a guide deduct approximately 50% a month for the initial start-up six months.

With existing operations, comparative revenues from the same month in the previous year make a good base for forecasting sales. For example, if the industry trends indicate growth of 4% for the next year, it will be entirely acceptable for you to show each month's projected sales at 3% higher than your actual sales the previous year.

If you sell products on credit terms or with installment payments, you must be careful to enter only the part of each sale that is collectible in cash. Any amount collected after 30 days will be termed Collections on Accounts Receivable and will be shown in the month in which it will be collected.

Step two: Consider your Cash Flow Payments:

Project each of the various expense categories (that would normally be

shown in your ledger) beginning with a summary for each month of the cash payments to trade suppliers (accounts payable). Again, follow the principle that there should not be any averaging or allocating of these inventory purchases (trade payables).

Each month must show only the cash you expect to pay out that month to your trade suppliers. For example, if you plan to pay your supplier invoices in 30 days, the cash payouts for January's purchases will be shown in February. If you can obtain trade credit for longer terms, then cash outlays will appear two or even three months after the stock purchase has been received and invoiced.

Once total cash collections, total cash payments on goods purchased, and any other expected expenses have been estimated for each individual month of operation, it is necessary to link the cash flow status of each month to the cash flow status and activity of the preceding and succeeding months.

Step Three: Reconciliation of the Cash Revenues to Cash Disbursements

The reconciliation section of the cash flow worksheet begins by showing the balance carried over from the previous months' operations. To this it will add the total of the current month's revenues and subtract the total of the current month's expenditures. This adjusted balance will be carried forward to the first line of the reconciliation portion of the next month to become the base to which the next month's cash flow activity will be added and/or subtracted.

Throwing **New Light** on the Business



A manufacturer and distributor of specialty lighting products in Perth was recently acquired by an entrepreneurial couple. Unfortunately they soon realised the existing lender was unwilling to transfer their line of credit.

Retailers were much slower paying than anticipated, while components manufacturers were ruthless in their credit policies. With most of their finances used to acquire the business they faced a substantial dilemma.

Biography Alan Turner

Business Development Manager, Sydney

Alan Turner is one of Cash Resources team of experienced Managers, and has over 27 years experience in the Banking and Finance industry.

Most importantly, he's spent half that time in both business development and commercial lending roles, assisting small to medium sized enterprises across an extensive range of industries, with their banking and finance needs.

Alan's knowledge and experience has given him an understanding of the requirements of small to medium sized enterprises and places him in a position of being able to assist a wide range of businesses with their cash flow needs.

The business was growing and there was healthy demand for many of the unique products in their range. However they needed vital capital to purchase components and meet the day to day financial commitments.

The new management called on Cash Resources who recommended an Invoice Discounting solution. Under the plan they would invoice retailers on shipment of the products and send copies to Cash Resources. Cash Resources would electronically transfer funds for up to 80% of the invoice value usually within 48 hours. The balance, less Cash Resources moderate fees were available when the invoices were paid by their customers.

"It was so simple. No long term contracts and it was all put in place within 4 days." commented one of the Directors.

"In the short time the facility has been in place, the business has grown enormously. By paying our suppliers on time we have stronger bargaining power which has provided some margin advantages. But most

importantly it has allowed me to concentrate on expanding our sales opportunities" he added.

Tips for Collecting Debts over the Telephone

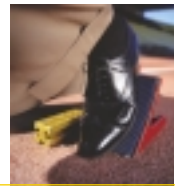


- Look at the type of debtor and debt details before calling – know your target.
- Write down your questions before calling - you will seem focused and in control.
- Try standing up when talking to a debtor - for a feeling of increased control.
- Some say, smile when you're on the phone – ok, if the debtor is not a problem.
- Be assertive and persuasive (not pushy or threatening) - the best way to be.
- Keep an account of the conversation - you will be right, more than wrong.
- Summarise the salient points to the other person – no 'misunderstandings'.
- Believe in what you agree to - compromise is not a failure, to be intimidated is.
- Hang-up last - you will cause negative 'vibes' (true): possibly after a great call.
- Be professional - PROFESSIONALS GET PAID!



Check **ALL** the Finance Alternatives

when starting your Business



When starting your new business, you are faced with a huge array of costs. Some obvious, some that you will not account for. For example you must register your business, you may need to obtain licenses, pay for permits, engage professional services (e.g. legal, accounting, insurance etc.), do leasehold improvements, buy furniture, fixtures and equipment etc. You may require initial retail inventory, office supplies such as business cards, letterhead, envelopes, staples not to mention the more expensive items such as motor vehicles and computer equipment.

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The Importance of Cash Flow Planning

Making the Best Use Of Your Cash Flow

Cash flow plans should constantly be modified as you learn new things about your business and your paying customers. Since you will use this cash flow forecast to regularly compare each month's projected figures with each month's actual performance figures, it will be useful to have a second column for the actual performance figures right alongside each of the planned columns in the cash flow worksheet. As the true strengths and weaknesses of your business unfold before your eyes, actual patterns of cash movement emerge. Look for significant

Once you start operating, you must replenish these retail stocks and pay the day-to-day wages of your employees (i.e. working capital requirements).

Often business is slow in these initial months and revenue is scarce. The problem is further compounded when you offer your product or service on credit and you have to wait for payment. You require finance to fund the day to day business operations (working capital).

When starting out most people will look no further than a bank overdraft to fund working capital. However there are alternatives. Cash Resources offers an invoice discounting solution where you have access of up to 80% of the value of your invoices usually within 48 hours. No long term contracts and most importantly you are not incurring debt.

Importantly, the service is confidential, so your clients will never know about the facility.

Consider the invoice discounting option, and avoid those horrific banking stories we all hear.

discrepancies between the 'planned' and actual figures.

For example, if the business' actual figures are failing to meet your cash revenue projections for three months running, this is an unmistakable sign that it is time to revise the year's projections. It may be necessary to delay the stock replenishment or apply to your financiers to increase the upper limit of your revolving line of credit. Approaching the funder to increase an operating loan should be done well in advance of the date when the additional funds are required. Do not leave you cash flow to chance.

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