

Newsletter



BALANCE

Fruit Juice Company recovers from Squeeze

Two years ago, a regional fruit juice company really felt the squeeze... the cashflow squeeze that is.

The company had commenced operations five years earlier with a small range of unique flavoured drinks. They had invested in some basic machinery and operated from a small factory employing three staff.

They relied on local distribution through milk bars and convenience stores. As a result, sales were steady, but not spectacular.

Their unique flavour combinations attracted the attention of a national supermarket chain and a deal was struck to provide a test distribution among selected stores.

However, the projected volume of juice, even for the test, would require the company to purchase additional



equipment and hire more staff. They were able to do this through their bank.

Within three months the sales in the 'test' stores were strong and it was decided to roll the product out nationally. It was at this stage that the supermarket asked them to expand the range and to embark on an advertising campaign to broaden awareness of the product.

This required additional funding for research and development, new

packaging and a radio campaign. Fortunately, the bank continued to support them. However, there was such an out flow of funds that it had also depleted their working capital.

According to the Managing Director, "We had an arrangement with the local co-op and some individual growers that they would provide 30 day terms and our local outlets would generally pay within 14 days. However, when we expanded our range, we had to go outside the district to purchase our fruit and the best we could negotiate was 14 day terms."

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Cash Resources helps Western Australian company through GFC

When Western Australian Company 2iC Australia Pty Ltd experienced financial difficulties, as a result of the global financial crisis, they called on Cash Resources to assist them.

2iC Australia Pty Ltd is a research development and manufacturing company of innovative exploration, production and technical products and systems to the mining, construction and geotechnical industries around the world.

The company was founded in 2000 and is based in Canningvale, Western Australia. 2iC Australia also has agencies and service centres in USA, Canada, Chile, Peru, South Africa, Tanzania, Ghana, Ireland, United Kingdom, Finland and Sweden.

Up until late 2008, the company was profitable, had no debt and no overdraft. Then the economic downturn struck.

According to Managing Director, Gavin McLeod, "The global financial crisis hit the mining and exploration industry hard. Virtually overnight our revenues dropped by 45%. We responded by reducing staff levels, however, what was causing us ongoing problems was our debtor payments.



These were being stretched to 60 and sometimes 90 days causing us to have a serious cashflow shortage," he said.

The directors of the company were aware of Invoice Discounting and investigated two other companies before finally choosing Cash Resources. "They were by far the most proactive, professional and cost effective. The advice provided by Ivana Loiacono, Manager of the Cash Resources Western Australia Office, was so helpful," Mr McLeod said.

"We wanted that personal 'hands on' approach and they were more than

willing to provide this. The facility they have provided has been tailored to meet our specific needs," he added.

"As a result of the facility, the company's cashflow issues are being resolved. It now gives us more certainty and allows us to make commitments to creditors."

The business is starting to grow again which would not have been possible without Cash Resources.

"We would recommend Cash Resources to anyone," Mr McLeod concluded.

57 off the stick does the trick

(a new tournament record of 15 Under)

Team Cash Resources Australia won the coveted Annual IFD Golf Day this year at the challenging Terrey Hills Golf Club.

The Cash Resources team blitzed the field of IFD members with a record breaking 15 under par to post a net 50.5 after handicap reduction!

NSW State Manager and golf team captain Nick Samios explains:

"A great team result. Antony de Vries (partner, de Vries Tayeh) hits them long and straight off the tee – he would make the great Tiger nervous, believe me. Colin Finkelde (Broker, Laurentide

Finance) made some magical approach shots – not only putting us on the dance floor from 200 metres plus out, but regularly close enough to the pin to give us birdie and eagle opportunities (we had 11 birdies as well as eagling two of the monster par fives!)

"Cash Resources's very own Steve Kemp also made regular contributions off the tee and on the fairway. As for myself – well every ambrose team needs a high handicapper, just for the handicap!"

Nick says he has locked his team in to five year playing contracts, so any competitors reading this will either need to have large cheque books (for the transfer fees), or wait till 2014 when the boys come off contract!



Cash Resources saves Scaffolding Business

When a Melbourne based businessman purchased a struggling scaffolding business, he got a little more or less than he bargained for. The company supplied and installed scaffolding for building sites. They also supplied portable stands for some smaller sporting events.

The business had been struggling for sometime with the owner in poor health and unable to work. The businessman negotiated what he thought was a bargain, however, he had grossly over estimated the strength of the client base and the state of the equipment. While most of the clients were residential construction companies, they had branched into commercial construction as well.

It was a classic case of dabbling in a number of markets without having

any clear specialisation and diluting their focus.

The previous owner had been chiefly responsible for selling the company's services but this task was neglected when he was away with ill health. As a result, many of the construction customers had moved away because of lack of attention and event organisers had trouble even getting quotes.

The businessman also found that much of the equipment had been neglected and needed to be upgraded. Another

expense that he had not anticipated. As well, Liability Insurance had gone through the roof. The first thing he had to do was rebuild the customer base so he 'poached' a quality manager from a competitive company to assist with this task. They were successful immediately, but additional costs were draining his funds.

With a lot of hard work, the business is once again thriving and not only have they consolidated their customer base, they are now reselling scaffolding and safety equipment.

As a result, his final investment was substantially more than expected which left him with virtually no working capital. Because of the company's poor trading record, the banks would not assist. This left him in a precarious position. Could he find an equity partner or would he have to 'fire sale' the business?

A friend suggested he call Cash Resources who provided him with an Invoice Discounting facility.

As the businessman explained, "The facility enables me to bill my customers and receive up to 80% of the funds usually within 48 hours. This allows me to comfortably meet weekly salary commitments, as well as paying supplier invoices on time."

With a lot of hard work, the business is once again thriving and not only have they consolidated their customer base, they are now reselling scaffolding and safety equipment.



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"At best the supermarket chain was paying 30 days but this often drifted to 45 days and longer. Obviously, this placed enormous pressure on our cashflow and as we had exhausted our security and the bank was unwilling to extend our facility," he said.

The company was struggling to meet its commitments and some suppliers had stopped supply because of the delays in payments.

"The supermarket chain had increased volume but we were at breaking point where we could not survive another month. It was then suggested that we investigate Invoice Discounting."

"We spoke with a number of companies who provided these services, however, one company stood head and shoulders above the rest."

"Cash Resources were so professional with their advice, so flexible with their Invoice Discounting solution and so quick to put it in place."

"It was instant relief to our problems," he said.

Since then the company has grown considerably. They have picked up additional convenience store distribution and sales are consistently increasing across the entire range.

They have moved to a new factory and now employ 27 people.

ANZ shakeup for SME lending

ANZ Bank Ltd is pulling out of the Invoice Discounting market, a method of financing that boomed in 2008, as small businesses had their cashflows squeezed by lower economic activity.

The ANZ decision will affect many middle market businesses that have used Invoice Discounting as an alternative to more traditional forms of bank lending. It may also trigger retrenchments at the bank.

Invoice financing is a product that allows customers to borrow funds up to 80 per cent of the value of outstanding sales invoices. The total turnover involved in Invoice Discounting in Australia in the year to March was \$62.7 billion, up 16 per cent on the previous 12 months, according to the Institute for Factors and Discounting (IFD).

ANZ has tried to downplay the impact of its decision to close its invoice financing business.

A spokeswoman told Business Spectator that less than one per cent of its commercial customers used Invoice Discounting. She said ANZ would be migrating these customers to other alternatives over the next 12 months.

The bank said that some customers were likely to find a more suitable and less administratively burdensome banking product as a result.

"We are notifying our commercial customers of the changes with individual phone calls and we will visit each customer to establish alternative providers or options, which may include commercial bills, overdrafts or term loans," the spokeswoman said.

"The decision to migrate customers from this product follows an internal review in which the bank considered customer demand and current penetration across our customer base."

She said that customers may experience a reduction in the time and costs associated with the regular administration that the invoice finance product requires.

ANZ's withdrawal from the market follows the decision last year by BankWest to pull out of Invoice Discounting. It is believed that in the BankWest case, customers were forced to refinance within a short space of time.

This article appeared on Business Spectator on 12th June 2009.

www.businessspectator.com.au

For further information on Cash Resources' Invoice Discounting facilities, contact your nearest Cash Resources office.

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