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Receivables Finance

What is receivables finance and is it suitable for my business?

This type of finance comes under a number of different names including; invoice discounting, invoice finance, debtor finance and receivables finance.

\$68 Billion worth of this finance was entered into in the financial year ending 30 June 2008 and it is one of the fastest growing finance products in Australia. Receivables finance has been a mainstream finance product overseas for many years

At Statewide Business we have built detailed knowledge around receivables finance and what it can do for business owners. According to a Senior Relationship Executive within a Big 4 Bank, we are one of very few business finance brokers that truly understand this product and its place within a fast growing business.

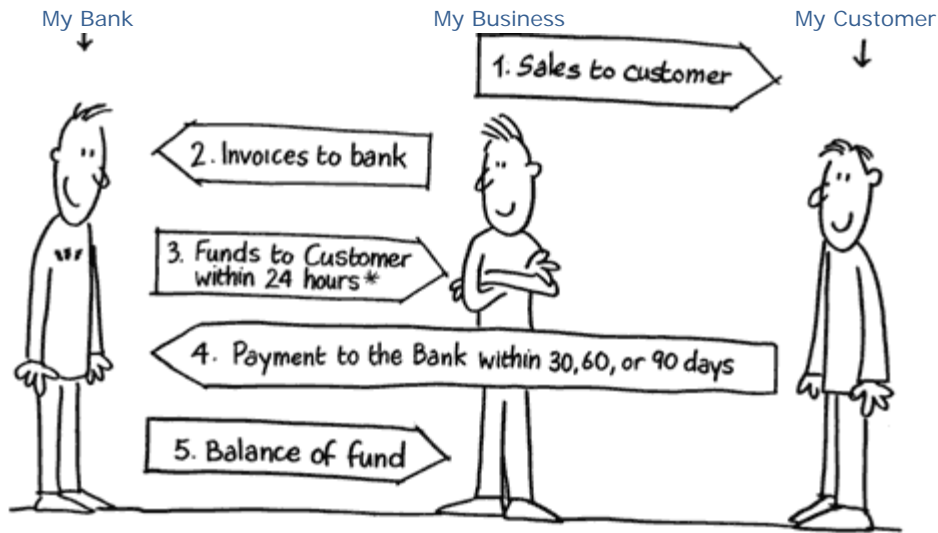
Further to that we not only advise on receivables finance, but have had personal experience with the implementation of receivables finance in one of our associated businesses.

If your business is fast growing and has debtors (receivables), and is finding cash flow an on going problem, also if you have a minimum of \$1 million in annual sales, then receivables finance may well be for you.

In a nutshell you can draw down on 80% of the value of invoices raised to customers within 24 hours, for use within your business. You essentially sell the invoices to the bank and they lend the 80% back to you, this replaces the traditional overdraft or other banking facilities you may have in place.

The customer then pays into a dedicated account which the bank has set up, and the bank then forwards to you the remaining 20% (less interest and charges) It is like having a large overdraft you can use as you wish, and you only pay for what you use, and you are using the receivables as security.

(Below is a diagram by Westpac that shows the money flow of receivables finance)



* Not including weekends, public or bank holidays

More on the nuts and bolts of the facility

You need to be able to provide ongoing monthly reports to the bank, such as balance sheet / profit and loss / debtors (receivables) and creditor's reports. These are reports that all businesses should be producing anyway.

You can collate your invoices as often as you want to, that may be daily, weekly, monthly or what ever suits you best. This report doesn't have to be a full copy of the tax invoice to the customer, but must have the customers name and the individual amount and a grand total at the bottom of the report. You then upload or email this report to the bank and they approve 80% of the total amount of invoices, that are then available to be drawn down upon.

You only draw down on this limit as you need to (again online), as you start paying interest when you draw down the funds. You decide how much you want to draw down and transfer to your working account at any one time.

Your customer pays their account as normal into a dedicated bank account and then the bank will release the remaining 20% of the value of the invoice to you less the agreed charges.

This facility is very easy to use and is confidential to customers. All the customer sees is a change in banking details and that is it. The business owner still does all the normal accounting functions. Receivables finance is no substitute for prudent business practice,

especially getting customers to pay on time! If they are late in paying, that means you are paying interest for longer than necessary. Don't be a bank for your customer that is not your role!!

Costs

Most banks are now in this market, as receivables finance has become a mainstream banking product and the best banks have most of the functions online, which has reduced the costs dramatically over the last few years.

Service charge

- This is as % fee based on the total invoices raised during the year (all invoiced sales are required to be a part of the facility). This may be 0.2% (more or less) depending on your level of sales i.e. for a business with sales of \$5 million the service charge may be \$10K p.a. – there is still some manual work to be done by the bank and this is essentially the fee for providing this service. This is negotiable once the facility has been in operation for awhile. If you are using the facility properly, this service charge should be offset by making use of supplier discounts or by taking advantage of other business opportunities that cash flow restrictions would normally preclude.

Discount charge (interest)

- This is the amount payable on the monies you draw down from the facility and we have found it is very comparable to overdraft interest rates.

Benefits to your business

Where do I start!

- Allows a business to release cash from invoiced sales (receivables) much more quickly
- The service charge can be offset by taking discounts offered by suppliers or by taking part in other business opportunities
- The business can expand more quickly as you are not restricted by the limit of the current overdraft
- Reduces security currently held, as generally the only security required is the receivables ledger (and director guarantees)
- Releases personal security (such as the family home) from the business
- Personal security can be used as security for other wealth creating activities, or just released
- Your business can grow as fast as you like based on it's receivables, you don't need to keep reapplying for a higher overdraft
- You can't really compare this to an overdraft as it is highly unlikely you would get an overdraft limit as high as the receivable finance limit
- Receivables finance can be used to buy out other partners in the business
- Receivables finance can be used to fund other business activities
- You don't need to offer costly settlement discounts to get customers to pay on time
- Receivables finance gives you faster cash flow if you are in a business where you have supplier payments to make well before you receive customer payments
- Receivables finance can improve your buying power
- If you were to acquire another business that also had receivables you may even be able to borrow against those receivables to help fund the acquisition (how goods that!)

Where can Statewide Business Help?

We have access to various banks and finance companies that offer this facility and we will match you with the correct lender. We can also assist with the formulation of cash flows and other strategies to improve your overall business performance.

Please contact our office for more information. (08) 8575 2200

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