

Hitachi Capital **Invoice Finance** Credit crunch cash flow guide.



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To beat the
credit crunch!
Call 0800 1105 005

Cash is the life blood of all business and is the key to survival and growth. In these challenging times it's often used as a key indicator of the health of a business. Many businesses can survive for short periods without profit or sales, but not being able to pay staff salaries or important suppliers can often signal the end of the business.

It's for this reason that it's imperative that all companies, whatever their size, must have effective cash flow. This guide shows you how to beat the recession so you are in brilliant shape to capitalise when the economy picks up.

The simplest and easiest way to start improving your cash flow is to speak to Hitachi Capital Invoice Finance. We can quickly and easily talk you through the steps below and could turn your outstanding invoices into cash within days.

At Hitachi Capital Invoice Finance we are in a unique position to help small and medium sized businesses.

As we are an independent financial company and part of one of the world's largest manufacturing companies, we have that scarce resource of money to lend. We take a long term view and unlike other companies we are still investing and helping our customers prosper. We are independent of other banking relationships, so it will not hinder your main bank account or credit facilities.

We are so confident that you'll be impressed that we will offer you a six month trial. We are one of the only companies to offer this short term test facility.

Always remember cash is king! This straight forward seven point plan will help you effectively manage your cash flow.



1. Produce a cash flow forecast

This allows you to understand the peaks and troughs of the cash in your business. We recommend that you produce a cash flow forecast for 12 months and check this at least quarterly, monthly or weekly.

A cash flow forecast doesn't need to be complicated and can be completed on a simple spreadsheet. We can email a template for you to get started, just call us on **0800 389 0760** or go to www.hitachicapital.co.uk/invoicefinance. The cash flow forecast will highlight any trouble spots.

2. Chase debts

Receiving cash is not an automatic process that always follows delivery or completion of a job or project. It will not just appear in your bank account. It has to be requested, tracked, chased, secured and then banked. You really need to have a stringent process to ensure you turn your business into something that pays the bills every month.

The Bank of England estimates that only one in two companies agree their payment terms in writing. It is good business practice to let customers know when you expect payment, that way you both know where you stand. Be prompt with delivery; ensure everything is as requested and that a delivery note is signed, then chase debts promptly.

3. Extend credit terms

Ask your key suppliers for a discount for prompt payment or longer payment terms, they will probably be happy to help and it is a simple way to provide valuable cash flow.

The Federation of Small Business publishes league tables of the average payment terms of public limited companies and their large private subsidiaries. This helps smaller companies to compare their payment times.

4. Use a factoring company

Factoring is "selling" your sales invoices (accounts receivables) to a factoring company, like Hitachi Capital. This is typically at a discount, around 2% of the invoice value. The advantage is that you get all or part of the cash immediately once the invoice is issued. There are different types of factoring to suit your business needs.

The advance rate is the amount the factoring company advances to you when a sales invoice is raised; this is normally around 85% of the invoice value. The remaining balance (less factoring company interest costs) is paid once your customer pays the invoice.

Call today on

0800 1105 005

Your cash flow forecast should include:

Salary payments

Payments

Rent

Rates

Insurance

Lease payments

Utility bills

Stock payments

Interest on bank loans

Opening bank balance

Closing bank balance



5. Lease rather than buy equipment

Consider leasing fixed assets like equipment, vehicles or buy them using hire purchase. If you own key assets, you may even be able to do a sale and leaseback to a finance company to get an immediate cash injection. We have a sister company that can help you with asset finance, for more information go to www.hitachicapital.co.uk/forbusiness/businessassetfinance

6. Order and carry less stock

Our Japanese parent company and many other Japanese businesses pioneer the 'just in time' (JIT) management system, where stock is delivered just as it is required for the next stage of production. This requires very slick processes and great organisation and will help save you money. It may not be suitable for your business but the principles of JIT could really help your cash flow management.

7. Credit control

Always credit check customers at the start of the trading relationship and review them at regular intervals, especially if they place a large order or request different payment terms. A leading credit information supplier has calculated that more than 90% of companies grant credit without first obtaining a credit reference. This is a simple process and there are several websites you can use to find out the information to gauge the credit worthiness of your customers.

The key ratios to look for are:

- Gearing (average is 50% to 90%; high is above 90% and should make you think twice)
- Net worth (a negative net worth needs to be handled with care)
- Liquidity ratio, acid test, quick ratio (average risk is 0.75 to 1.25; high risk is under 0.75)
- Current ratio (average risk is 1.0 to 1.5 and a high risk is anything below 1.0)
- Debtor day sales outstanding (average is 55 to 85 days; high is over 85 days)
- Creditor day sales outstanding (average is 45 to 60 days; high is over 60 days)

You should also, where possible visit major customer premises, don't just look at their website. It helps you manage fraud and general bad debt risk.

If you would like to chat about how Hitachi Capital Invoice Finance can help manage your cash flow call us on:

0800 1105 005

or visit: www.hitachicapital.co.uk/invoicefinance
or email: invoice.finance@hitachicapital.co.uk
to find out more.

Useful websites:

- Hitachi Capital Invoice Finance
www.hitachicapital.co.uk/invoicefinance
- Hitachi Capital Business Finance
www.hitachicapital.co.uk/forbusiness/businessassetfinance
- Federation of Small Business
www.fsb.org.uk

Top tips to beat the crunch

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2. Chase debts

3. Extend credit terms

4. Use a factoring company

5. Lease rather than buy equipment

6. Order and carry less stock

7. Credit control