



# InFocus: Using Cash Flow for Growth

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Welcome to *ANZ InFocus*, a new publication designed to highlight key topics for medium-sized businesses.

## **How do businesses generate cash to fund growth opportunities?**

The right solution for one business may differ from another's, but the benefits to be had with improving the overall cash flow cycle will bring efficiencies regardless of sector or size.

## **Managing for growth**

When demand for products and services increases, companies traditionally look to their working capital and cash reserves to assist with growth, but this strategy can be risky. Given the significantly reduced (or negative) cash position of many companies as a result of the downturn seen over the last few years, this strategy can also be out of reach, forcing businesses to assess other financing options available. Surprisingly, this can actually be a good thing.

Just using working capital to fund growth opportunities may not always be the best solution, particularly if forecasting is not accurate, as growing companies can quickly run out of 'head room' in existing funding lines. Where this is the case, solutions such as overdraft facilities, revolving credit, trade and asset finance may be a more effective way to manage the cash flow cycle, free up cash in the business, and turn growth opportunities into reality.

## **Do you know where your cash is?**

For most businesses, cash is held in stock, debtors, creditors and the bank. While it is important to know the amount of cash held in each area, it is even more critical to know how long it is held there and whether it is working effectively for your business. This is particularly relevant when working capital is being used to fund growth. Having a good understanding of your cash flow cycle will help you identify areas for improvement, which can lead to more efficient use of cash in your business.

## The importance of understanding the dynamics of your cash flow cycle can be demonstrated in the following example:

Two companies, Indigo Bay Preserves and Sapphire Condiments, are identical in terms of their size, structure and the products they sell. Both companies produce the same quantity of product each year, at the same gross margin and generate the same amount of profit before tax. Where these two companies differ however is in their cash flow management.

Indigo Bay Preserves has established good relationships with its suppliers and distributors, negotiating favourable payment terms (30 days to pay their suppliers and 15 days in which to receive payment from their distributors). Sapphire Condiments on the other hand has simply accepted the payment terms on offer, which means it only has 15 days to pay suppliers and 30 days before it receives payment from distributors.

The result is significant. Indigo Bay Preserves receives payment from its distributors 15 days earlier than Sapphire Condiments and pays its suppliers 15 days later. Together, this results in Indigo Bay Preserves requiring **70% less net working capital** than Sapphire Condiments – a very healthy position to be in when competing in the same market for the same dollar.

This simple example clearly demonstrates how good working capital management can have a considerable impact on cash flow and business performance, positioning a company more favourably when it comes to applying for future funding to take advantage of new growth opportunities.

## We're here to help

ANZ has a number of avenues for businesses to learn about how to manage cash flow cycles and finance more effectively. These include our regular [Biz Hub workshops](#) and tools such as our Cash Flow Viewpoint (which covers case studies as well as the example above). Our Transaction Banking cash flow specialists can also sit down with you and identify where efficiencies may lie within your current business arrangements, and our trade and asset finance specialists can explain where their solutions may be beneficial to your business.

To find out more about any of the above, please contact your Relationship Manager. Alternatively, if you would like to be invited to future workshops on this topic or learn more about how you can fund for growth, please email your name and company details to [CommAgriComms@anz.com](mailto:CommAgriComms@anz.com) to register your interest.

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