



# Filling Those Cash Flow Gaps

## as we head towards the festive season

Supply chain issues, cash flow challenges and skills shortages are currently the most reported frustrations from Australian small businesses<sup>1</sup>.

Access to capital can also be a challenge for those businesses that cannot secure finance against fixed assets.

As a result, there has been a huge increase in demand from small business for invoice finance to get cash in the door to pay for goods during supply chain backlogs. One of the majors reported a 22% increase over the last year<sup>1</sup>.

**The cashflow challenge for many small businesses is twofold:**

**1. You are waiting for your invoices to be paid from customers from the sale of products and services.**

**You may experience:**

- payment lag from debtors
- seasonal variations in your sales cycle creating highs and lows with cashflow, or
- lower enquires due to less funds being available from existing clients associated with their own increasing costs of running their business.

**2. You still need to pay:**

- YOUR invoices to suppliers
- Salaries and super
- BAS and GST
- Rent and utilities
- Office consumables
- etc etc etc

The cashflow gap refers to the discrepancy between these two factors: cashflow in and cashflow out of your business.

Not many businesses have working capital to dip into when they need additional funds to purchase new stock and supplies or fund business growth.

According to data released by the Australian Bureau of Statistics (ABS), in March of this year over a third (37%) of all businesses experienced supply chain disruptions in the previous month.

**The survey found the most common supply chain issue facing businesses was:**

- domestic and international delivery delays (88%)
- supply constraints (80%), and
- increased prices including transport costs (75%)<sup>2</sup>.

Businesses provided information on how these disruptions were impacting their supply chains.

Businesses experiencing supply chain disruptions (a)



## Of those businesses with supply chain disruptions <sup>(b)(c)</sup>:

88% reported increased time to receive products from suppliers

80% reported that existing suppliers were unable to provide products

75% reported increased prices e.g. transport costs

50% were unable to source or substitute alternate suppliers for products



(a) Proportions are of all businesses.

(b) Proportions are of businesses experiencing supply chain disruptions.

(c) Businesses could select more than one response option.

## So how do businesses survive during these times of cashflow gaps?

Using Invoice Financing and Trade Financing tools together provides an effective alternative for some businesses.

### What is invoice financing?

This type of finance deals with your cash **inflow**.

**An invoice financing solution** offers you a quick and easy cash solution to immediately cover your outgoings.

It works on the premise of borrowing against the money owed to you by your clients (your outstanding invoices/creditors).

Most invoice financing companies can usually provide you from 70% to 90% of your unpaid invoices within 24 hours of issuance. They take ownership for the collection of funds then take their fee from the remaining amount to be paid to you.

This immediate payment frees up your business capital, allowing you to invest in your business growth plans. Often the potential profitability of this outweighs the cost of the associated fee.

The maximum amount you can achieve through this is 70-90% of your net accounts receivable.

### Our most popular clients of this funding type have businesses in:

- Transportation and freight
- Healthcare
- Oil and gas
- Manufacturing
- Wholesale
- Retail
- Technology companies

### What is trade finance?

Trade finance solutions address the other side of the cash-flow-problem.

This comes in handy when you owe money to suppliers, but don't have the revenue coming in at that time to cover it.

The trade finance company will pay for your order to preserve the supply chain of materials and products into your business and protect your relationships with the suppliers who work with you. Paying suppliers on time ensures you receive your orders on time and maintains your reputation.



Business costs are generally consistent, but sales may vary seasonally. With trade finance, you can keep your business capital working for you, pay your suppliers promptly, and account for your credit as your sales start to increase.

If that capital is invested in ways to improve sales even further, then there could be positive times ahead for your business.

### **Our most popular clients of this funding type have businesses in:**

- Electronics
- Automotive
- Apparel and textile
- Food and beverage
- Gaming and media
- Industrial and mechanical

## **Are you planning for your Christmas stock?**

Invoice and trade finance can be a good combination when heading into the festive season.

While you need to order stock, sometimes months in advance of sales, it can be a tricky balance between your cash inflow and outflow.

### **The catch!**

Suppliers like to be paid prior to shipping products to reduce default risk while their buyers want to ensure their goods are delivered and arrive in good order.

Then you wait for delivery. This can take weeks to months depending on your product. You are then subjected to more delays (weeks, sometimes months) between your order arriving and you making sales to be able to repay the funds. It can take a big hit on your company cash flow.

**Trade finance** solves the problem faced by both parties while providing benefits not typically available through traditional financing and payment arrangements.

### **Trade finance:**

- reduces supplier risk
- increases your purchasing power and efficiencies
- can increase your revenue
- will help diversify your supply chain
- can accelerate business growth, and
- should reduce currency risk

Trade finance bridges the gap between exporter and importer providing for the smooth flow of goods across the globe.

Good cash flow management is essential to the best practice of any small business, however we understand that sometimes you may have just had a bad sales quarter and need a little reprieve.

**Don't try to work it out on your own. Remove the stress by chatting with our finance team to close that cashflow gap.**

Contact us to read  
**'Is It Time To Change  
Your Invoice Strategy?'**



1. <https://www.mpamag.com/au/news/general/supply-chain-backlogs-boost-invoice-finance-demand-nab> 2. <https://www.abs.gov.au/media-centre/media-releases/less-businesses-supply-disruptions>