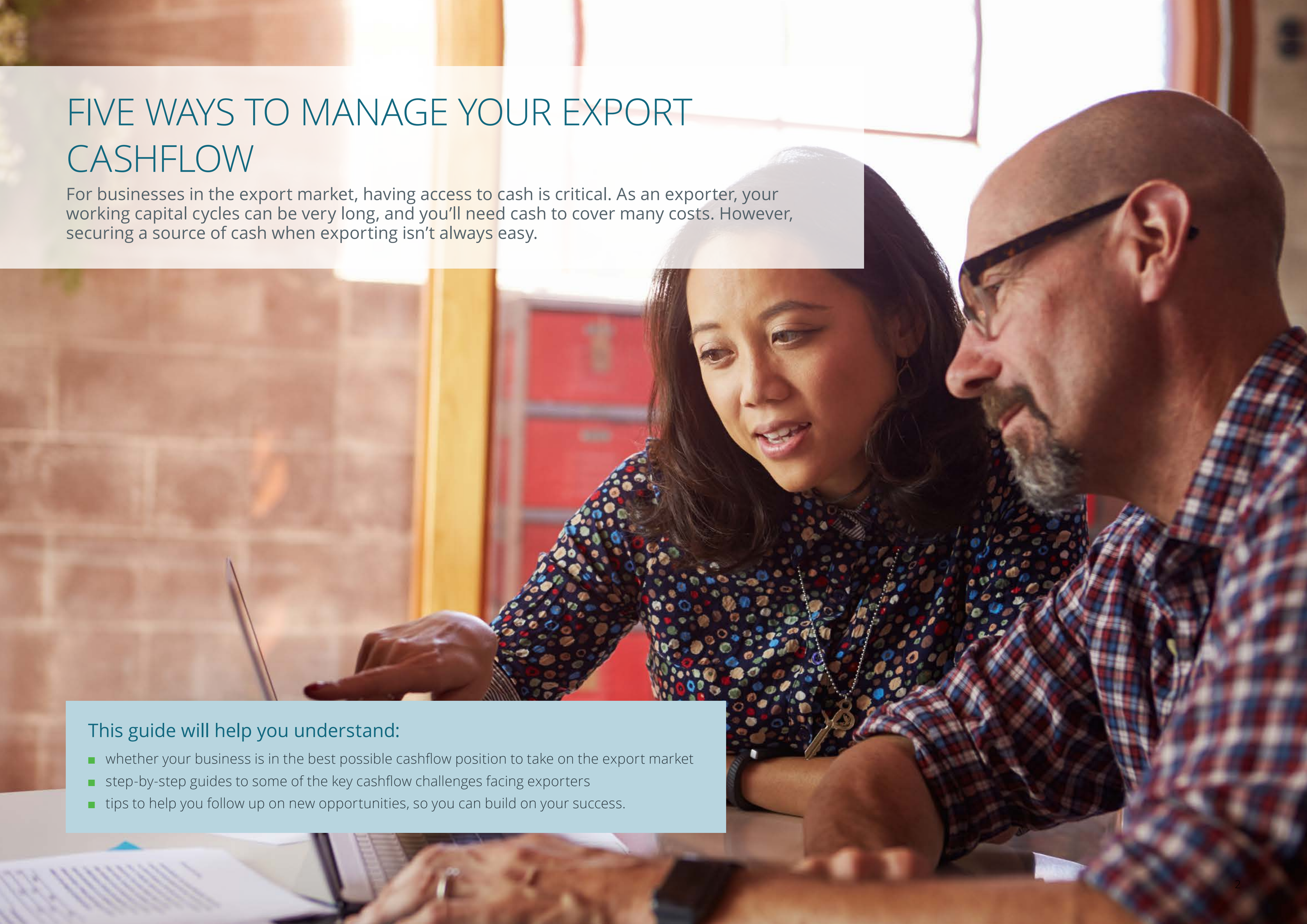
FIVE WAYS TO MANAGE YOUR EXPORT CASHFLOW

export finance australia

FIVE WAYS TO MANAGE YOUR EXPORT CASHFLOW

For businesses in the export market, having access to cash is critical. As an exporter, your working capital cycles can be very long, and you'll need cash to cover many costs. However, securing a source of cash when exporting isn't always easy.



This guide will help you understand:

- whether your business is in the best possible cashflow position to take on the export market
- step-by-step guides to some of the key cashflow challenges facing exporters
- tips to help you follow up on new opportunities, so you can build on your success.

ACHIEVING POSITIVE CASHFLOW: THE CHALLENGES

1. The challenge of accessing cash

Having enough cash to establish yourself in a new export market can be a significant challenge. Finding customers is only one of the factors to establish your export business. You'll also need enough working capital at hand to keep the business moving while you're shipping or waiting for payments.

To minimise cashflow issues, you should consider protecting your business with strong contracts and favourable payment terms. For example, you may choose to ask for an upfront deposit, interim payments and shorter payment periods.

There may be times when you need to rely on external finance to ensure you have access to working capital to keep the business going in between payments.

If you're looking for a loan, the most obvious place to start is at your bank. However, your bank may not always be able to assist: you may not have the level of physical assets needed to use as security against a loan, or perhaps you're exporting to an emerging market with a high-risk profile.

What's more, your earnings profile could be variable. This could discourage banks, who may rely on your historical financial records to build a risk profile for your business.

2. Managing working capital while growing

A growing business is good news, but it can create significant working capital shortfalls.

For instance, an overseas customer may award you a much larger contract than the value of your domestic business. That's great news if you want to grow your company – but it could also mean that you'll need more money to hire extra staff or to order more stock from suppliers to meet increased demand.

What's more, if you're negotiating a contract with an international company, especially one that's larger or more experienced, the terms of payment may be weighted in their favour. So it may be difficult to get an advance payment from your buyer – or you may need to wait for a long time before you receive any payment at all.

To avoid a funding shortfall it's important to understand the financing options available. Bank guarantees and bonds can help to bridge the cashflow gap between paying your suppliers and receiving payment. Or you may need to seek out additional finance such as a line of credit or a short term loan.

3. Managing international payments

Even if you've got a successful track record of managing cashflow while doing business locally, managing international payments comes with its own risks. These may include country or political risks, currency risks, corruption, risk of non-payment and more.

A world of opportunities

Managing the cashflow challenges of exporting can be daunting. On the plus side, being an exporter can open your business up to a world of opportunities. These include:

- A significantly larger pool of customers to promote and sell your goods or services to.
- More diverse markets can help you increase your competitiveness and mitigate risk.
- Increased economies of scale.
- The potential to increase your profits.

The key to exporting successfully is to understand and manage your risks. That way, you'll be able to make the most of the opportunities, and be on the way to becoming cashflow positive.

PREPARING YOUR BUSINESS

Before you start exporting, get a clear understanding of where your domestic business stands. That way, you'll know what resources you have – and identify any funding gaps.

A key thing to consider when exporting is whether you have a viable export market. Your export strategy should align with your overall business plan, outlining your export objectives and action plan, and include your budget, operational model and any partners you may have.

Create a cashflow forecast

A cashflow forecast helps you find out if your business can cover its running costs and identify any periods when you will have more cash going out than coming in. You can then decide if you need finance to cover funding gaps.

Your forecast will help you understand if there's a long wait between paying your suppliers and getting paid. If there is, you will need to work out how long this will continue and how you will fund it.

To create your cashflow forecast, you will need:

- Receipts for any business expenditure.
- Records of any other costs such as wages, paying suppliers, purchasing assets, bank and credit card fees and charges.
- Cash inflows such as income from sales, any loans or grants, personal equity from business owners or shareholders, the sale of assets, royalties and any tax refunds or GST rebates.
- An estimate of your company's peak cashflow deficits.
- If you are taking out more credit, what your potential repayments will be.
- If you already have an export contract, when you expect payment from customers.
- A list of any fixed overheads or existing debt repayments.

Building your business' creditworthiness

All businesses are likely to need credit at some time, especially when securing an export opportunity. A cornerstone of building your business' credit profile is to establish strong financial systems, so it is simpler to get finance when the time comes.

Efficient accounting systems that help you understand your financial position, good relationships with reputable accounting and financial advisers, and a clear, accurate business case will help.

If you're borrowing for export, you will also need to be able to identify cashflow issues that relate specifically to the export part of the busines, keeping them separate from your domestic business.

Establish strong financial systems for your export business

- Ensure you have a robust export strategy that outlines your financial resources, including the sustainability of your export budget.
- Use a good accounting system.
- Build a strong relationship with your business bank by keeping them informed of any developments in your business.
- Choose an accounting firm that has experience working with export businesses.
- If you have a financial adviser, ask them to review your export strategy regularly.

HOW TO MANAGE A NEW EXPORT CONTRACT

Opportunity versus risk

You have your export strategy and cashflow forecast in place, and you've received interest from overseas customers. Congratulations!

By expanding into new markets, you'll have the chance to grow your business and customer base. But as with every opportunity, there are also risks that you'll need to identify and manage.

What are the risks?

Key risks for new exporters include:

Non-payment (credit or non-performance risk)

Your buyer may be unable to pay, or refuses to pay. This risk is greater with a new customer.

Currency risk

The exchange rate could move against you between the time you negotiate the contract and the time your customer pays you in a foreign currency.

Country and transfer risk

A change of government policy could change trade laws or restrict the amount of cash leaving the country, impacting your ability to do business.

Other risks for your business can include:

- operating in a new jurisdiction with laws you don't understand or know about
- dealing with overseas banks that may be unstable
- having your business disrupted by unreliable shipping or delivery schedules, for example, overseas customs holding up your goods or refusing to let them into the country.

Tips for securing payment

- Be very clear what the payment terms are, and how your customer will guarantee payment.
- Ensure your contract clearly outlines what you need to deliver and where. Make sure your lawyer reviews the contract, especially if it's complex or if there's anything you don't fully understand.
- Secure a deposit before your goods are shipped.
- Avoid giving credit to new customers.

UNDERSTANDING THE RISKS

Currency risk

If your cost base is in Australian dollars but your customer receipts are in another currency, you're exposed to currency risk. While a depreciating Australian dollar can benefit you, a stronger Aussie dollar can erode your profitability.

Depending on the size of your contract, you may wish to hedge your currency. For instance, you might stipulate that the contract is in Australian dollars. Or you might put a forward contract in place where you and your trading partner agree to exchange a specified amount of each other's currency.

It's not always necessary or even beneficial to hedge. If you're not sure, talk to your accountant, financial adviser or bank to help you decide what's best for your situation.

Country and transfer risk

Do your homework about the country to which you're exporting and try to understand its business culture.

Make sure you understand government regulations and whether you will need certain licences or approvals before your goods or services can be received. Remember to check the relevant customs regulations, both here in Australia as well as at your export destination, to avoid unnecessary delivery delays.

Where possible, it can be helpful to have people on the ground who understand the market, including how to manage negotiations and payments.

Austrade or your local chamber of commerce can also be a great place to start. Or speak to other businesses who know this market's advantages and pitfalls.

Receiving legal advice on your contracts

It's important to get legal advice on your contracts – even when they seem quite straightforward. A professional perspective can help identify hidden issues you may not be aware of – and help you avoid any costly mistakes.

Make sure you understand your contract and get the appopriate legal advice. There could be issues in certain countries where taking legal action from Australia and trying to enforce a judgment of an Australian Court overseas can range from very difficult to almost impossible.

Managing your contract

- Understand your company's financial position, and make sure you have the resources to deliver on your new contract and your existing business contracts.
- Understand the options you have for getting the finance you need.
- Make sure your finances are up to date and your documentation is ready so you can move quickly if you need to apply for credit.
- Don't accept a contract you won't be able to fulfil, and have a plan B in place in case you reach capacity in your own production. For instance, consider teaming up with another business to help you produce the extra goods or services if you're unable to produce them yourself.

> "Export Finance Australia was very important to our business and became extraordinarily valuable when we had a project that went over a few months. The support allowed us to cashflow our projects and continue to look for new opportunities."

Emma Daines
Group Managing Director
Fin Design + Effects

COVERING A CASHFLOW GAP TO BREAK INTO THE CHINA MARKET

Case study: Fin Design + Effects

Starting out with just five people, boutique design and visual effects business *Fin Design + Effects* (Fin Design) now boasts 65 people across their offices in Sydney and Shanghai.

As the firm grew, they became more interested in Asia. The business set up in Shanghai duplicating their Sydney model into Shanghai. It was then they faced a common challenge of doing business in China – managing cashflow due to very long payment terms. Finding it difficult to secure finance support through the bank, due to the lack of tangible security and being a services-based business, Fin Design needed an alternative solution to deliver multiple contracts in China.

Thanks to the help of Export Finance Australia, which has provided the business with three Small Business Export Loans over the past three years, exports now account for over half of the business revenue. The business is now focused on becoming a global company, with expansion plans in the pipeline.

HOW TO MANAGE THE PAYMENT PROCESS

Late payments can deprive a business of the working capital it needs to operate, so having a strong payment system in place is vital.

This is particularly important for exporters, as overseas payment terms can be much longer than Australian cycles, which can be especially challenging for businesses that already have long working capital cycles.

Lock in terms

Start by clearly outlining your payment process with your customers.

For instance, will you require a part payment before sending any goods, and if so how much? If the contract you're working on will take place over time, do you want a progress payment? How long are your terms from the time your customer receives the goods or services to the time you get paid?

Remember to negotiate your payment terms with your suppliers too. For instance, you can ask them to extend terms of payment, or start the payment terms from once you've received your goods.

Agree on methods

Find out how the buyer intends to make their payment. For instance, will they use a credit card, a bank transfer or another type of transfer system, such as Western Union?

Two common methods of collecting overseas payments include:

Letter of Credit. This is essentially a guarantee from your buyer's bank that they will pay you when the buyer has received your goods, and you have met all the terms and conditions listed in the letter of credit.

Documentary Collection. The bank collects payment for you, by sending the shipping documents and payment instructions to your buyer's bank.

A Letter of Credit is more expensive, but is also more secure than a Documentary Collection. So, it may be best to use it for a new buyer, if you're confident that their bank is creditworthy.

Your bank can advise you on the most appropriate payment system for your situation. You should also understand the regulations governing each payment method, and any additional costs they have, such as international transfer fees.

Stay in control

- Before you sign a contract, have a payment process in place.
- Take your time at the beginning of the contract to establish a good relationship with your customer.
- Make sure you understand the cashflow position of your business and that you have cash forecasts in place, which you can adjust over time as you understand your business better.
- Don't forget to seasonally adjust your projections to ensure your cashflow will remain stable.
- Consider a loan to help cover any gaps in your working capital cycle.

> *"Export Finance Australia's support has been massively important to Epichem. We needed to leave our old premises and move to a new lab, so without Export Finance Australia's support, we wouldn't have had a business."*

Martine Keenan
CEO
Epichem

MEETING CUSTOMER DEMAND

Case study: Epichem

With its expanded laboratory, *Epichem* has grown its workforce to satisfy customer demand.

Founded in 2003, Epichem enables the discovery and development of new drugs, and ensures the quality of those that already exist. The company operates out of a state-of-the-art facility in Western Australia's Technology Park, with customers in over 35 countries, from small pharmaceutical operators to large multinationals.

In 2015 the business had strong growth opportunities – but its laboratories were at full capacity, constraining revenue growth.

We were able to provide a $750,000 Export Contract Loan and additional finance, to help Epichem set up a new laboratory that was twice the size of the original – helping it to meet customer demand.

"The second loan has really enabled us to build up our capabilities and bid for work in a positive manner, rather than being concerned that we are taking on too much. We are now up to 28 people and running four key business areas on the back of having the additional facility from Export Finance Australia," said Martine Keenan, CEO, Epichem.

HOW TO MANAGE GROWTH

Your export business is up and running – and now there are opportunities to take on larger contracts. That's exciting – but before you commit to new customers, be sure that you have a growth plan for your export business.

Planning for growth

While it may be tempting to take on a large contract, without the time or money to ramp up your resources and equipment you could end up unable to meet your orders.

To ensure you can take advantage of the opportunity without over-extending, make sure you plan to have enough people and equipment to deliver on the contract, and work out what your additional working capital requirements may be – and how you intend to fund them.

Sourcing export finance

So where should you go to finance the growth of your export business?

If you decide to borrow money to grow your export business, your first port of call should be your bank.

However, if your business can't meet your bank's lending terms, we may be able to help.

In addition to considering the level of security offered for the loan when you apply, Export Finance Australia will also assess your company's potential capability as part of your application. Export Finance Australia will also examine your export contract, and understand how your company can deliver on it.

Getting ready to grow

- Plan your growth and the resources you will need.
- Talk to your adviser or accountant about the steps you need to take to ensure you're financially ready for growth.
- If you need help with finance, talk to your bank first.
- Consider alternative sources of finance, such as Export Finance Australia, if your bank can't help.

HOW WE CAN HELP

As Australia's export credit agency, we have a proven track record in helping Australian businesses take advantage of new export opportunities through our range of tailored financial solutions.

What does your business need?	How we can help...	What our clients say...
"We need finance to pay for production costs."	**Export Working Capital Guarantee** We provide a guarantee to your bank if your business doesn't have the assets that your bank requires as security to approve further working capital.	"Export Finance Australia's support enabled us to deliver on an important contract that otherwise would have been very difficult." **Saydul Ruman,** *Sole Director,* *Agri Direct Australia*
"We need additional finance to support an increase in export orders."	**Export Line of Credit** We provide a line of credit to support a specific export contract, or multiple export contracts with different buyers.	"Without Export Finance Australia's support, it would be very difficult to grow and deliver on export contracts at the rate that you can as a business. You do the deal, you get these big contracts, but if you can't cashflow it, you're in big trouble." **Justin Reisinger,** *Global Business Development Manager,* *Pixie Ice Cream*
"We need a quick cashflow boost for a new export contract."	**Small Business Export Loan** An unsecured loan of up to $350,000 with an easy online application designed for small business exporters with a turnover of up to $10 million.	"The loan has meant that I've paid all the duties and fees – so it made it possible to ship my order." **Nigel Ludlow,** *Founder,* *Evoi Wines*

> "It's not about the money, it's about expanding the business. Export Finance Australia has been able to help us with this growth and for that, we're forever thankful."

Stephen Rae
Director
Lee Mathews

LEE MATHEWS WORKS THE INTERNATIONAL RUNWAY

Case study: Lee Mathews

Lee Mathews started as small shop in Newport, growing to eight stores across Australia and an online store.

At first, domestic growth was slow, enabling the brand to stay true to its aesthetic and ethical values. But after showcasing its collection at Paris Fashion Week, the business quickly gained traction overseas.

After a significant increase in orders from two of the world's largest international online clothing stores, they approached Export Finance Australia for a Small Business Export Loan, to help them deliver their contracts. They then worked with us to set up a $500,000 line of credit.

With their success continuing, Lee Mathews is now focused on growth, through the expansion of their online sales and in new markets like the US.

HOW TO KEEP THE OPPORTUNITY ALIVE

You've succeeded – now what?

To ensure you can turn short-term success into a sustainable and regular revenue stream, you may need to invest more capital to find and deliver on new opportunities.

This could include setting up a permanent presence in your target markets, or building a network of distributors to ensure greater penetration of the market. Having a local network of trusted business partners, such as accountants and lawyers, can help ensure you can manage your tax liabilities appropriately and comply with local regulations.

As you grow, you may need to consider whether your business structure is well-suited to an international business. Having the right corporate structure can not only streamline your business processes, it can make it easier to expand to new locations and grow.

Managing new opportunities

Once you have a foothold in your target market, you're in a good position to build a growth strategy. Depending on your business, you may find that word of mouth can deliver new opportunities.

If you plan to expand into multiple markets, it's important to work out how easily your current business model can be scaled for growth. Also consider the impact of rapid growth on the domestic business and ensure that you manage for success on both fronts.

How you set up your corporate structure and employee network can have a big impact on your ongoing success. For example, you may choose to set up independent subsidiaries to operate overseas to try and simplify tax and currency impacts on each part of the business, while ensuring they remain separate enough to operate independently.

Consider your information systems or manufacturing processes – are they flexible enough to scale up and adapt to meet international demand? Will you be able to ramp up existing systems and processes?

The right solution will depend on the type of business you have – but consider how you will effectively manage growth.

Build strong relationships

A sustainable overseas business needs reliable relationships. Your clients can act as advocates for your business and your employees represent you around the world.

Working with legal, accounting and foreign exchange professionals who have experience in the markets you deal with can help you to identify and manage potential issues and streamline the business' regulatory and taxation compliance, while making the most of currency conversions.

Business advisers specialising in export businesses can help open doors overseas, and make you aware of new opportunities. And of course, government agencies, such as Export Finance Australia and Austrade, may be able to provide advice and potential financial support for when you need it.

Staying ahead

- Have processes in place to help you cover costs when business is slow.
- Keep on top of your finances and know your financial position at all times.
- Work closely with your bank, which can help you secure finance to cover gaps in working capital (and remember, Export Finance Australia could also help you if your bank can't).
- Stay in close touch with your accountant and financial adviser to make sure your domestic and export business plans evolve with your business.

RESOURCES

There is a wealth of detailed, easy to access information available to help Australian export businesses, it's just a case of knowing where to look.

Export Finance Australia

The Australian Government's export credit agency, providing finance solutions to Australian businesses including tourism operators.

We also provide a number of resources for exporters, including our online *Exporter Journey*, which walks companies through the steps to successful exporting.

Visit *exportfinance.gov.au* or call **1800 093 724**.

Austrade

The Australian Government's trade and investment agency, providing you with practical advice, support and insight into many of the countries to which you're looking to attract visitors from.

Austrade provides information and advice to assist Australian companies to reduce the time, cost and risk associated with growing your international business, as well as Export Market Development Grants (EMDG) to support your export growth.

Visit *austrade.gov.au*

The Department of Foreign Affairs and Trade (DFAT)

DFAT promotes and protects Australia internationally. One of the ways it does this is by helping Australian businesses, in partnership with other agencies like Austrade and Export Finance Australia.

Visit *dfat.gov.au*

The Export Council of Australia

The Export Council of Australia (ECA) provides education and assistance to help Australian companies succeed internationally.

Visit *export.org.au*

Discover how Export Finance Australia could help your business take on the world

As Australia's export credit agency, we offer options by working with your bank to provide supplementary finance, or support when your bank may be unable to help.

To find out more about how we could help your business, go to *exportfinance.gov.au* or call 1800 093 724.

Australian Government

export finance australia

LDS 1072 1119