

## **SHACKLETON ENTERPRISES LTD**

All expenditures within this organisation are subject to evaluation and assessment time and time again.

What is the main purpose of this is; *to ensure the quality of what we're distributing is maintained but at the lowest possible costs to the Company.*

It was from looking at the interim cash flow forecast of the BEANY PANDA Venture Project, that a cost effective approach is required if it is to attain and keep a positive cash flow in motion.

What follows, is a list of recommendations detailing how these cost effective methods should be implemented. Also included in this brief report are basic descriptions of sources of finance, which can be applied for in order to finance a few of the recommendations outlined below.

The suitability of finance to the need of the project will also be discussed.

### **RECOMMENDATIONS**

- 1- *Sales* reduce the credit period limit to 60-to-30 days.
- 2- *Purchases* of stock (UNITS) During the months leading up to Christmas sales are expected to rise by 2/3 to 30,000, if we use a LIFO method to rotate stock then, the 20,000 being kept in storage can be utilized saving the business a sum of £20,000.
- 3- *Vehicles* For 1/3 of the initial price of buying a Delivery van and a car to be used by sales representatives (32,000) three Vehicles (1 lorry, 1 Transit, 1 Motor car) leased from a leasing firm. A separate vehicle (1 Transit) is to be purchased on hire purchase, this will become the company's asset following full payments after a working period of 18 –20 months, and the price will be at market. Taking into consideration the all factors
- 4- *Purchase of Warehouse.* This should be carried out in September to ensure that stocks can unsold stock can be housed in the first month of delivery.
- 5- *Insurance* and Road tax plus *running costs* will still be paid on one vehicle the transit, which will be owned by the business following, the last instalment being paid 18 – months from September.

## **ASSESSMENT FOR SOURCES OF FINANCE AND THE SUITABILITY TO BUSINESS NEEDS.**

Even though this project may prove to be profitable, it will still require sufficient working capital to provide the liquidity to pay suppliers and the employees on a day-to-day basis. Currently we have a credit policy that allows for sales to be received on credit giving '*customers*' now turned *trade-debtors* up to 60 days by which time payment is to be received for goods sold. The fact that this debtor owes can sometimes be seen as an investment in the form of securities, which can be readily traded.

### **1.FACTORING**

Factors provide finance against the businesses trade debt in two main ways;

#### **(a) Invoice factoring,**

Advantages of;

- the factor immediately advances up to 80 per cent of the value of the invoices outstanding.
- the task of debt collection is passed to the factor.
- As the monies are received from customers, the factor pays the business the balance of 20 per cent, less a charge.
- Many factors also provide cover for bad debts under 'non-recourse' agreements.

#### **(b) Invoice discounting**

Advantages of;

- an advance of cash against trade debtors,

Disadvantages of;

- responsibility for debt collection remains with the business.
- this arrangement is usually available only for larger and low-risk businesses. WHY?
- the factor loses control over the receipt of monies direct from the business's customers

(Adopted from Source .1A)

Factoring would be an appropriate **source of finance** for fast-growing businesses because; the amount of finance provided will often grow automatically in line with the growth in sales.

The best alternative for Shackleton Enterprises Ltd however, would be to avoid Bad debts and potential late payers, factoring though simple to understand may also a very be expensive alternative.

So the company should by all means avoid having to take this action to retrieve monies owed from debtors. A justifiable way in which this could be achieved is through prudence.

Prudence in a sense that; When dealing with new customers wishing to make credit purchases.

- We could have a set criteria that potential credit customers' have to fulfil. I.e. background checks or credit transaction history checks.

By deploying this method and becoming selective of who we grant credit to,  
A number of positive effects can immediately be identified,

- helps to minimise risks and decrease trade debtors
- increase of cash sales,
- generation of more capital back into the business.

## **2.OVERDRAFT TO ASSIST WITH PAYMENT TO SUPPLIERS AND RUNNING COSTS.**

Advantages of;

- flexibility
- The company can stand to utilise fully this facility with the bank because it act as a *safety net* to help the business to bounce back in the months when sales do not, prove as fruitful as anticipated.
- Interest rate is set by the amount borrowed and the amount of time its borrowed for.

Disadvantages of;

- BANK may require security from company to offer overdraft facility
- HIGH INTEREST RATES are likely to be incurred, when more money is borrowed.
- further increasing bank charges etc. if limits are exceeded with out prior notice to the bank manager.
- overdraft is repayable on demand.

## **3.MORTGAGE FOR PURCHASE OF WAREHOUSE**

Advantages of;

- secured on land and buildings.
- can be used either to finance the purchase of the property
- to provide security for a loan applied to some other purpose.
- The relatively high values for a single transaction can make a commercial mortgage an attractive component of a diversified investment portfolio

Disadvantages of;

- A long-term financing arrangement of typically 10 –30 years.

In addition to the clearing banks, other financial institutions, such as insurance companies and pension funds, are interested in this type of arrangement.

## **4.LONG TERM LOAN TO ASSIST WITH ACQUISITION PLANNED MORTGAGE REPAYMENTS**

Advantages of;

- Long term loans are usually for fixed period.
- Cost is spread evenly over time into affordable repayments

Disadvantages of;

- Often offered to companies with collateral security required .i.e the owners assets.
- The interest rate charged on long –term loans are fixed to the initial amount loaned.
- High risk of losing assets if payments are not maintained.

## **5.HIRE PURCHASE TO ASSIST WITH PAYMENT FOR ONE VEHICLE**

Advantages of;

- Will allow use an asset without having to find the money to pay for it immediately.
- At the end of the HP agreement, ownership of the asset (in this case Vehicle) will be passed on to the business.

Disadvantages of;

- Ownership of asset is retained by finance house during the period of the hire purchase agreement
- term and conditions of agreement to be followed
- The agreement, will place a charge over the asset being financed in case of default.

## **6.OPERATING LEASING**

Advantages of;

- convenience
- maintenance is carried out by lessor
- very reliable, low risk of breakdown
- assets leased may be easily replaceable if damaged at the lessors cost.
- Vehicles may later be bought from lessor at market price.
- Less Tax duty to pay for ownership.

Disadvantages of;

- no ownership of asset after all the payments made over a long period
- restrictions on modification of assets for lessor to maintain resale value
- the asset is security for the finance outstanding and its value could be impaired by anything that alters its standard specification.
- The agreement, will place a charge over the asset being financed in case of default.

### **Sources of finance (HP & Leasing)**

Finance houses that are often subsidiaries of the clearing banks or of equipment suppliers provide both HP and leasing. Examples of these are Lombard Tricity Ltd and Ford Motor Credit Co Ltd.

The Finance house will want to be sure that company profits will be well in excess of the repayments due under the agreement, and that the company has a good payment record on existing finance arrangements.

(Adopted from Source .1A)

## **DEBENTURES**

Advantages of;

- We may borrow money by issuing Debentures
- a long term loan which is transferable on the stock exchange.
- Interest payments are an expense to the company and are allowable against profit.

Disadvantages of;

- A debenture holder is not a shareholder but a creditor
- Worth is often less than its face value by .i.e. 10 % interest equivalent to 10/8 or 1.25%

Large ,publicly quoted organisations may borrow money by issuing Debentures. A debenture is an acknowledgement of a debt made to a company for a rate of interest which specifies the terms of repayment at the end of the period.

It is therefore a long term loan which is transferable on the stock exchange.

A debenture holder is not a shareholder but a creditor. This means that interest payments are an expense to the company and are allowable against profit.

Although holding debentures is much less risky than holding shares, their value in the market place will vary according to the interest rates. For example, a debenture that pays a 10% rate of interest will be worth 10/8 or 1.25% of its face value when interest rates are 8% if rates rise to 15% it would only be worth 10/15 or 0.66% of its face value of the loan falls and vice versa.

## AIM ALTERNATIVE INVESTMENT

### 7.SHARE PLACING

Payment for the 40,000 units of stock in the form of share capital . Share capital with backers receiving money back in small lumps as dividend

The 50,000 initial start up could be used to float our shares on the exchange

Advantages of:

- Prestige Already attached from companies previous dealing in France
- We can raise money for expansion
- Easier to borrow
- Shares more saleable
- Money value easy to determine
- Cheaper than borrowing
- We can issue shares to takeover other companies
- Status

Disadvantages of;

- Outside shareholders
- Market pressure to perform
- Potential takeover if company owns 51% shares