

Planning to protect your business from a harsh landing

The current turbulent economic business environment will require businessmen to think deeply about how to protect their business. A business plan will become most critical due to tectonic shifts taking place in the operating environment.

Be prepared for this business mantra – change is the only constant trend. An entire supply chain could disappear overnight. Customers who have always paid on time may swiftly run into cash flow problems leaving you with trade debt. Recent media reports highlight the financial dire straits experienced by a few iconic New Zealand companies, due to an over-leveraged balance sheet.

Plan to actively manage the continued shifts in exchange rates.

The Kiwi has dipped from around 0.78c per US dollar from July 2008 to just above 0.57c currently (at the time this newsletter

was written in mid March). The currency markets will continue to stay volatile. How far ahead should you hedge? Which way? These are challenging questions with elusive answers. In seeking to cover your positions, think about how much your margins can be affected when you are used to buying your goods with the Kiwi sitting at above 0.70c, and now making payments with the Kiwi falling to 0.57c.

Plan for changes in your cashflow.

Just because a customer has had a good historical track record does not mean his financial position will not change. Review trade credit terms to protect your future cashflow. If you should run into tight cashflow situations, what do you need to have in place to open up financial lifelines?

Plan for structural changes in the marketplace.

Overnight, you may find a supplier is no longer in business or your sales have trickled.

communicate to decision makers and workers. People respond better knowing what it is they have to do. Most will be aware and have solutions to problems if there is a clear pathway for them to discuss any concerns with you. Focus is the key here.

Too many of us fail to open our eyes to the opportunities offered during tough economic conditions. The thing to be mindful is before you can deal with this downturn, you need to be aware of your business's vulnerabilities and plan for them. The message is to be aware of and not to close your eyes to problems. Deal with them today.

One of the biggest challenges that will hit New Zealand businesses is managing liquidity. We have already seen the early stages of the unraveling of companies that have been over-gearred or over used their balance sheets.

The old rule remains; Cash is King. Have you been looking hard at your company's financial strength? Have you eliminated all the unnecessary costs? (Most don't until it is

Was there an impossible-to-seal deal that now looks decisively possible, as the Kiwi rate is currently more reasonable to encourage more foreign trading?

Plan to find new markets.

One man's misfortune is another man's opportunity. New markets or opportunities are constantly being created amongst the governments announcement to save jobs for the Kiwis. Be an opportunist and look hard for the openings.

Please turn over for more details on writing or revising your business plan section by section.

To find out more about Lock Finance products, visit: www.lockfinance.co.nz or call 0800 ASK LOCK (0800 275 562)

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How a business plan could help your business in times of crisis

Algie Clothing's growth by acquisition

Housing is the most interest sensitive industry

Your business plan section by section

Greetings! The world's economic health has shifted into more challenging territories as we stepped away from a fine New Zealand summer. Within New Zealand, the National government has initiated actions to avert a harsh landing for the economy.

As the US financial debacle continues to unfold, its impact is being felt across the globe. There is no better time to remind ourselves that we need to plan cautiously, but be ready to take advantage of opportunities when it presents itself.

Conservative planning in this market is cutting the "fat whilst preserving the muscle" so that reductions in sales, bad debts and increased costs can be survived. Companies can either panic or learn that even in turbulent times a well-prepared sailor can stay on the charted path.

Structure and Process are the only ways to deal with problems - most particularly in a difficult environment. Try not to be top heavy. By having clearly delineated roles and processes, you will be able to manage and

too late to reap the benefit). How strong is your cashflow? Are you calling your debtors regularly? Work the relationships so you get the early payment, not someone else - don't be shy in asking pleasantly for what you are owed. How can you avert a cashflow crisis? Where can you access capital should you need it? Have you got a good relationship with your financier? Plan, Review, Plan!

How do you implement? Simplicity! You must manage your business by identifying and taking action on key issues. This will allow you to address the "causes" rather than focusing on the "myriad of symptoms" which businesses tend to be distracted by when times are tough.

Now is not the time to panic but to keep your head clear and stay above the water. Lock Finance, as always, continues to support good businesses with a firm prospect. For your financiers to be of any real help, communication is vital. Remember the more we know, the more we can find solutions to help you tide over this rough patch.

CASE STUDY

Algie Clothing's growth by acquisition

Challenge:

Algie Clothing was about to make an acquisition based on the assurance that financial backing would be forthcoming from its traditional funders. A last minute withdrawal of the financial backing threatened Algie's acquisition move.

Situation:

Lock Finance stepped in to fund the acquisition.

Solution:

Lock Finance was able to provide factoring facilities that helped Algie expand its business. Invoice and stock based lending facilities enabled them to match their funding requirements.

Ken Algie is taking on the economic downturn in good stride. Like most businesses, sales are taking longer to turn into actual receipts. But Algie is sharply focused on growing the company's key markets.

The founder of Algie Clothing is expecting turnover – which has doubled in 2007 and 2008 respectively – to continue growing by 30 percent this year. He cites his company's cost-effective manufacturing and being in

the right market segment are factors which are helping him to succeed

Preserving, expanding a business

In July 2008, Algie took the opportunity to buy into troubled 38-year old Tamahine Knitwear. It was a move which helped to expand his own brand as well as preserve the skills and assets.

"Lock has helped us to acquire what has turned out to be a very good business. What has been worthwhile also, is that our funding is based on invoices, so we are not borrowing willy-nilly," Algie says.

He is looking to consolidate Algie Clothing's business – which own brands such as McKenzie Country, Katie Cullen and Jackson Bay, Peak XV, Shearwater – and growing these within his brands over the next 24 months.

To find out more about Algie Clothing, email ken@algieclothing.co.nz



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While looking for opportunities to reduce spending, you'll also want to aggressively manage the top line, cash being crucially important in a recession.

”

David Rhodes
and Daniel Stelter
Harvard Business Review

An upturn in the housing industry

Housing is the most interest sensitive industry and there are signs that the massive cut in interest rates is starting to underwrite an upturn.

The international crisis continues to cast an ominous shadow. Most economists point to a Tsunami heading NZ's way but there is at least one reason to be positive about economic growth prospects in 2009.

In the three months to February the seasonally adjusted number of REINZ dwelling sales was up 11% on the trough level recorded in the three months to November 2008 (see the chart).

Mortgage interest rates are the major driver of cycles in dwelling sales and it normally takes three months for changes in rates to impact. The average fixed mortgage interest rate charged by the major banks peaked at 9.7% in April 2008 and has fallen to 6.1% so in normal circumstances dwelling sales would have started a large increase in around August.

The tightening of lending criteria by banks after the escalation in the crisis in September has until recently killed the recovery. But the worm appears to be turning.

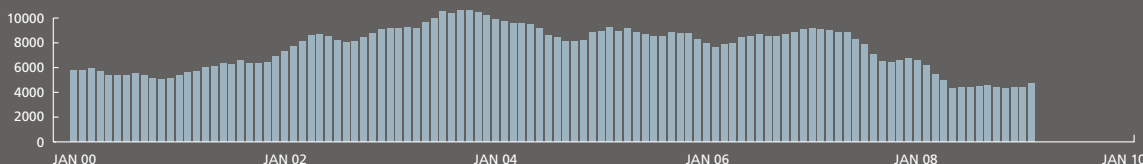
Feedback we have from various sources suggests the stimulus from the massive interest rate cuts is finally starting to work. We also expect smart mortgage lenders to see the current situation as an opportunity to grow market share by relaxing lending criteria. So the biggest surprise over the next few months could be the strength of the upturn in dwelling sales.

And where dwelling sales go the number of consents for new dwellings normally follows around four months later. So an upturn in residential building consents is on the cards for the second half of 2009.

By **Rodney Dickens**

Managing Director & Chief Research Officer
Strategic Risk Analysis Limited

Visit www.sra.co.nz to learn more about SRA Ltd's services.



The chart shows the three month average of the monthly number of dwelling sales reported by REINZ and seasonally adjusted by SRA Limited.

“ New markets or opportunities are always created in economic downturns. Look out for these openings to outmaneuver rivals. ”



ONCE AGAIN LOCK FINANCE HAS BECOME THE PROUD SPONSOR OF THE “LITTLE BLUES RUGBY” FOR THE 2009 SUPER 14 RUGBY SEASON.

You might recall, Lock Finance was the official sponsor the Little Blues for the 2007 and 2008 Super 14 Seasons. It was great to see our young enthusiasts out on the field as part of the pre-match entertainment.

We look forward to continuing to support the development of our young rugby stars for the 2009 season.

Lock Finance is offering an opportunity for your son and his team to go into the draw to win a chance to play as part of the Lock Finance Little Blues Rugby Competition (a curtain raiser to the Blues vs. Crusaders match on the 16th of May). The team must be registered with a rugby club within the Blues franchise region and be in an Under 10 Restricted team or equivalent. The equivalent grades by region are:

Auckland Under 10 Restricted, Northland (J4), or North Harbour (J4). The team must be available to play on Saturday the 16th of May at 6:30pm.

If you would like to enter your son and his team and they are within the specified age/ weight grade, please call Alvina Singh on (09) 375 8527. Last day for entries is 30th April 2009.

LOCK Finance

Your business plan section by section

Overview	Summarise the essence of your business
Business profile	Give an overall description of what your business is and where you want it to go.
Your market	Your assessment of the market you are in, your customers and competitors.
Sales and marketing	Give details of your sales and marketing strategy with details of your product/service, promotion, distribution and pricing.
Management and staff	Show how your business will be managed and staffed and give details of the responsibilities of key staff.
Operational staff	Detail how your business will operate. Include information about premises, equipment, materials, licences, consents, insurance, suppliers and systems.
Finances and forecasting	Give information that shows your business is viable. Profit and loss forecasting, cash flow, capital expenditure and information on how loans and investors will be repaid and when.
Succession planning	Show that you have thought about how your business will work well into the future.

Courtesy of ASB Bank Ltd

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