

Beating the recession with tenacity, common sense

Great fortunes have been made out of the most despairing economic times. This message needs to be amplified in today's environment dominated by bleak news.

As Kiwi business owners navigate their way through this financial crisis, it is important to take in this message: Now is the time to bring out the broom if you have not yet done so.

This is the chance to over-turn legacies that hold little value for your business, remove redundant positions, and reposition your expenditure so money is well-spent on items that can help raise return on investments.

Companies are often slow to respond to the need for change when the economic environment is robust. During tough times, companies have few options but to re-evaluate their business and make use of every bit of ingenuity to compete.

Chasing growth

Take a good look at which segment of your market drives your growth. Shake out customers and markets that add little value to your portfolio. Markets that have previously looked unattractive could be ripe for the picking now.

Examine your cost structure. Renegotiate deals with your suppliers, your freight companies, your packaging companies.

Review your pricing. Be especially vigilant on customers who have been slow in payments. Past record is not necessarily a good predictor of future ability to pay.

Another not-to-be-forgotten element is taking stock of your human capital. Remove any dead wood. Recession is also a good time to work on the retention of key personnel so that when good times return, they will not walk out the door.

Manage cashflow

One of the things to be mindful of is ensuring that cashflow continues to remain healthy. Cashflow is the lifeline for all businesses. If you have not considered new ways to manage

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Introducing Phil McIntyre, CFO

cashflow, now is the time to explore.

Imagine how much easier life would be if most of your business sales were in cash. With factoring, a company can get up to 90 per cent of the value of its invoices or receivables immediately by working with a factoring or finance company. At Lock Finance, we have helped many clients with their cashflow needs.

To find out more about our debtor finance and factoring products, visit: www.lockfinance.co.nz or call 0800 ASK LOCK (0800 275 562)



Gerard Van Tilborg
CEO & Director, Lock Finance

Greetings! As we enter into the second half of this business year, there is indication that some parts of the world are seeing "green shoots" in their economies. In mid May, Federal Reserve Chairman Ben Bernanke pronounced America's recession is likely to end this year. Will he be right?

In New Zealand, the official cash rate (OCR) is at historic lows. Recent media reports have highlighted the disconnect between lending rates and the OCR.

What is real is the tight money supply situation. Local financial institutions continue to have their hands tied as the cost of funds remains high, hence there is little room to move rates at the quantum the market wants.

From a business management point of view, this recession will push companies to be creative on their game plan. Business owners will need to stay hawkish over expenses and focus on managing cash

flow. They also need to ramp up new channels of growth. This is the time to keep a close guard over potential bad debts.

Kiwi manufacturers are back to fretting over the relative strength of the NZ dollar as the local currency rose above 0.60c per US dollar. A stronger local currency however augurs well for US-based cost. What is certain is the trading environment remains volatile.

Managing the currency's volatility will continue to be a key preoccupation for trading companies. I suggest you talk to us on ways we can help you manage your trade finance needs.

At Lock Finance, we remain committed to helping you fund viable business ideas and growth. Ask us about our experience (featured in our case studies every quarter) in helping companies find new ways to pursue their growth ambition using our range of products.

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New Zealand Trade Centre

www.exportnewzealand.org.nz
Export Institute of New Zealand

CASE STUDY



Debt financing provides Bizo muscle for growth

Challenge:

To move away from raising money based on traditional bank debt financing.

Situation:

This IT services company needed working capital to support its strong growth. Traditional debt-based financing could not meet its appetite for funds.

Solution:

- Lock Finance worked with Bizo to help it raise cash based on its receivables.
- This company, being a high growth company, was able to fully utilise funds based on the level of its business-generating ability.

A heady pace of growth is what best describes Business Online Limited (Bizo), a company founded five years ago by Wayne Dartnall and Tim Mulcock.

Bizo has seen a phenomenal revenue growth of 100 per cent every year since it started business. This fast pace of growth reflects the rate at which companies are outsourcing their IT and telecommunication needs.

Bizo's services include offering internet services, mail filtering services, computer security and telecommunications services, among others.

Dartnall says traditional lenders were bound by conservative lending criteria and unable to extend further financing to Bizo. This (debt financing) has worked really well as we have been able to leverage on our cashflow to fund our growth.

"The other benefit is we are only paying interest based on what we use of the facility available to us. It is a cost-effective way for us to fund our growth," Dartnall says.

Bizo is successful, he says, because it helps simplify technology solutions for clients. The company, which is on track to continue doubling its revenue this year, is the only Kiwi IT/telecommunication services company to be ranked in the top 100 in the world by MSP Mentor in February this year.

To find out more about Business Online Ltd, visit www.bizoservices.com

To take advantages of opportunities, you first need to do a thorough but rapid assessment of your own vulnerabilities and then move decisively to minimize them

Housing recovery is underway

The housing recovery is underway in line with the predictions in the last commentary. The next positive surprise will be an upturn in consumer spending before year end.

The housing recovery that most economists predicted would not start until 2010 is already underway. REINZ dwelling sales in May were up 43% on last year while section sales were up 41%.

The increase in section sales is particularly important because it tells us about near-term prospects for residential building. On a seasonally adjusted basis the number of consents for residential buildings increased 22% between January and April but larger increases lie ahead.

Increased dwelling sales create more income for the likes of real estate agents and lawyers, but the real kicker to consumer spending comes

on the coattails of an upturn in residential building.

Increased residential building creates more jobs and income in the building industry plus in the host of industries that supply and service the building industry.

The economic multiplier effects of the upturn in residential building will filter through the economy boosting incomes and jobs. This is what has started past upturns in consumer spending and will do so again this year.

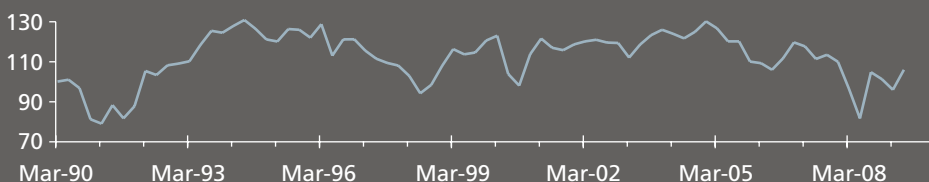
The most optimistic of the 10 forecasters surveyed by NZIER in June is predicting a 15% fall in residential building activity in the 2009/10 March year. The forecasters are assuming away the housing upturn that is already underway so it should be no surprise that they don't expect a recovery in consumer spending until 2010.

Thankfully consumers are smarter than economic forecasters. The Westpac McDermott Miller June quarter survey of consumer confidence rose to 106, the highest reading since December 2007. As the housing recovery unfolds it should boost consumer confidence further.

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 Westpac McDermott Miller survey of consumer confidence. An index over 100 indicates more optimists than pessimists.



Lock's was able to provide factoring facilities that helped Algie expand its business



Phil McIntyre
Chief Financial Officer

I have recently joined Locks as Chief Financial Officer. I have previous industry experience working for or consulting to banks and finance companies, most recently including GE Money, Pacific Retail Finance and MARAC.

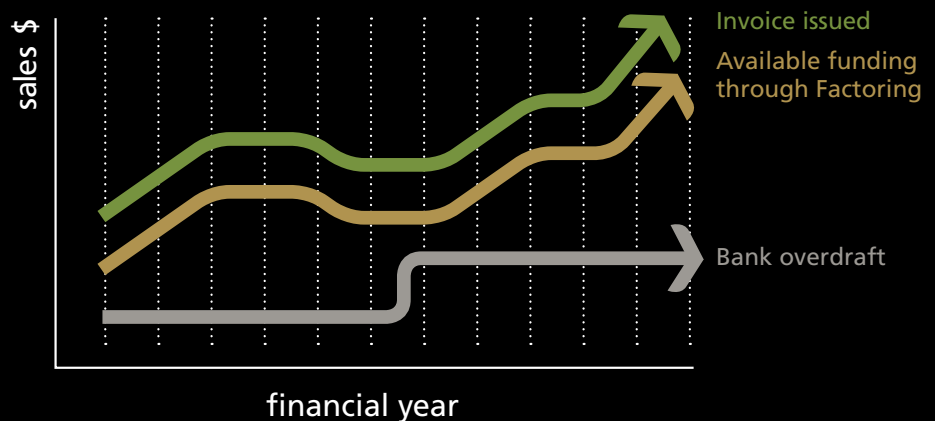
These are interesting economic times, generating a lot of issues and challenges for all of us, including me in this new role. However, we will endeavour to work with you to tide over this rough patch. Lock Finance, as always, will continue to support businesses with a firm prospect.

My first impressions are that Locks has a great team of people who are highly skilled and work hard to understand the issues faced by individual businesses. They have made me feel very welcomed in the last few weeks.

When I'm not in the office, I'll often be found ferrying my children to their various activities, in my shed building or fixing something, and in winter on the slopes of Mt Ruapehu. TradeMe also takes up too much of my time!

Factoring is ideal for developing / fast growing companies and businesses with low levels of equity or company assets.

factoring vs. overdraft



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