

Project Dorset Case Study 2014

This is an example of a small project with an SME which needed urgent help. Ickniel created visibility of past and projected future trading and cash flow performance to support the company in its discussions with its lenders

- The bank had appointed advisers and the company needed a well constructed budget/ financial model for the advisers to review
- Ickniel were asked to produce a financial model which could demonstrate the 'dynamics' of the working capital over the year so that management could better understand and explain their cash position
- The team was Shahin Gulamali and Mike Simpson.

The major successes achieved were as follows:

- Financial projections for the 3 months to 30 April 2014
- A budget for the Financial Year 2014/5 with a fully integrated P&L, Balance Sheet and Cash Forecast covering the whole 15 month period
- Stock control analysis resulted in rescheduling stock intake to match trading needs and improve cash flow
- Sensitivity analysis on sales volume and mix showing the effect on cash flow requirements helped management with operational decision making
- Our assistance enabled the company to control and defer it's short term funding need. It was then able to work with it's bankers and their advisers to agree terms for continued financing

- The business imports all its products from China and distributes them through major retail stores and salons in the UK and Europe
- It is an owner managed business run by 2 directors
- Turnover had grown rapidly in recent years to over £5 million in 2013/4. This was expected to increase by 40-65% in the 2014/5 financial year
- Overhead costs including salaries, sales, IT, warehousing and finance charges had also risen as a result
- Working capital tied up in stock had increased significantly

Key issues facing the business at the start of the project

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- Business being funded in an ad hoc way with a number of different sources of finance – overdraft, CID, stock purchase finance, director loans and funding circle loans
- Directors not drawing a salary and unable to repay interest on personal loans taken to fund the business
- No formal budget or business plan
- Short term cash flow forecast which was not robust
- Lenders concerned about the level of cash requirement and the inability of management to demonstrate the needs of the business going forward
- The business was at its invoice financing limit

- The business has a fully integrated budget to work to for 2014/5
- Management have a tool to help them plan their business and manage their rapid growth
- There is visibility of the excessive finance costs the business has been paying and management can use this information to renegotiate it's arrangements
- Management and Lenders have a better understanding of the key drivers of working capital and the critical points in the cash flow