

CASE STUDY FX AND EXPORT FINANCE

FINANCE FOR GROWTH

BACKGROUND

ABC Limited ("ABC") is a dynamic firm employing 20 people in its manufacturing facility in the midlands.

Turnover was €10m in 2010 and the company has a bank overdraft facility of €250k that is almost fully utilised (current balance is €248k overdrawn).

The company generally enjoys average gross margins of c.55% but due to an increase in input commodity costs and overheads has suffered its first ever loss in 2010. The largest customer represents 40% of sales and is based in mainland Europe. All other debtors with the exception of one medium sized UK wholesaler (who accounts for 10% of sales) are based in Ireland.

In January 2011, ABC was forced to make some redundancies and as a result the Credit Controller was let go after 15 years service. Due to various other cost cutting measures at ABC, the Managing Director decided that it would cease renewal of its credit insurance policy due to continued increases in premium.

Under pressure to increase sales, the recently appointed Sales Director has attended a number of international trade shows and has generated a number of strong export sales leads particularly with some well known Brazilian and Chinese based companies.

After receiving a detailed request-for-tender document from a potential Chinese customer in February, the Sales Director submitted a proposal with a price that he feels will be hard to beat but will unfortunately mean a reduction in ABC's normal gross margin of up to 12%.

In April 2011, after some weeks of negotiations between the Sales Director and the Chinese company, ABC received an e-mail to say that it had been successful in its bid and was requested to sign a letter of intent. The overall value of the order is US\$500k for a new and innovative product to be shipped CIF Qingdao, China within 60 days from receipt of order, payment to be received 60 days from date of shipment. ABC was unable to negotiate a booking deposit with the order.

The initial assessment of this new contract estimates an increased Working Capital requirement of approximately E175k.

The Managing Director has called a management meeting with his colleagues at ABC to discuss the implications and actions required following the winning of this order.

What issues should be discussed at ABC's management meeting and what issues should the Finance Director seek to address?