

Is the business really healthy?

Experience shows that following times of growth, a subsequent reversal in fortune can result in widespread business failures. One way of hoping to avoid this is to make sure that your business is running efficiently and has good cashflow management procedures in place.

Unable to pay debts

In simple terms, a business that is facing difficulties may be unable to meet all its liabilities or pay its debts when they are due. You may be on target to make a profit at the end of the year, but if you cannot pay your tax bill, your bank, or a major trade creditor on time you may be heading towards insolvency.

Look for the signs

According to research, most businesses that become insolvent do so because the management does not know what signs to look for in the early stages.

Some of the signs of impending problems include:

- You are taking longer than forty-five days to collect payments from debtors
- You are extending lines of credit and worsening your exposure to key debtors
- You have an increasing amount of work in progress that is not billed on time
- Your bank balance is steadily reducing
- You have overreached your overdraft facilities
- You seem to have little control over costs
- Long-standing suppliers are not keen to do business with you, or you are widening your range of suppliers simply to obtain more credit
- Your stock levels are rising while sales remain static
- Your business is largely reliant on one or two customers who are not paying as well as they used to
- Your outstanding debtors or potential bad debts seem to have increased suddenly
- You are involved in contract disputes
- You are increasing borrowings just to keep the business running
- You are more than a month behind in payments to HM Revenue & Customs
- You are receiving final demands or writs

This list is by no means exhaustive, but it does give an idea of where to look for signs of impending trouble. You should constantly be on the look out for these signs - because your creditors certainly are!

All is not lost

If you detect any of the above signs, all is not necessarily lost - *provided you take remedial action immediately*. If you do not, and appear not to be in control of the situation, your creditors are likely to force the issue.

These days, the emphasis is much more on attempting to rescue failing businesses rather than enforcing insolvency proceedings. This does not reflect a more charitable attitude on the part of creditors, rather the simple fact that they stand to reclaim more of their investment if the business is rescued rather than wound up.

But rescue is not guaranteed. Whether or not a business can be rescued depends upon many factors - and the single most important is early action. The longer you leave the problem, the more difficult it will be to recover.

We therefore recommend that if you detect just one of the signs mentioned above, you contact us immediately. We can then determine the seriousness of the situation and if necessary help you prepare and implement a turnaround strategy. This would include:

Cash management

To survive long term, you need to survive short term, and this means implementing an aggressive cash management programme to make sure you have enough cash to keep the business going.

Recovery plan

You will need to appoint a turnaround team who will help you prepare and implement a detailed recovery plan

Confidence building

If they are going to support you in your recovery efforts rather than pull the plug on you, your major stakeholders such as banks, suppliers, etc. need to be reassured that you have a viable plan and the necessary support to see it through.

Prevention is the best cure

Of course, the best scenario is to avoid a crisis in the first place, and the best way to do this is to introduce a financial management strategy:

- Prepare and follow a business plan
- Have your accounts audited at least every 12 months
- Use professional management accounts to monitor your business
- Prepare regular performance projections and cashflow forecasts
- Regularly measure actual performance against the projections and forecasts
- Monitor costs as closely as you monitor sales
- Monitor debtors and creditors closely

These are all areas in which we can assist you. Why not contact us today to arrange a complete business health check?