

HOW BUSINESSES FAIL?

The problems of a business may be the result of a number of factors. They may be due to weak management, specific problems, market conditions or poor decisions made. An understanding and acceptance of the problems by management is certainly the starting point for a successful turnaround. *Read on if you have the courage.*

The financial decline of a business will usually occur in stages with different kinds of warning signals:

- **Some Early warning signals**

- Stagnant sales or decrease in sales;
- Bank lines of credit always at or near their maximums;
- Marginal operating profits;
- High level of inventories;
- Sale or refinancing of capital assets to maintain cash flow;
- General lack of liquidity;
- Marginal working capital;
- Increase in the average age of accounts payable and accounts receivable.

- **Some Late warning signals**

- Recurring operating losses;
- Numerous suppliers delivering on COD basis;

- Lenders requesting additional security or guarantees;
- Legal actions taken by creditors;
- Significant arrears in government remittances;
- Demand for repayment by lenders.

We identify failing businesses which have problem symptoms:

- **Financial symptoms**

- Failure to comply with payment arrangements;
- Poor financial indicators such as debt ratio, working capital, cash flows, age of accounts receivable and payable;
- Borrowing to pay current expenses;
- Recurring operating losses;
- Financing capital expenditures with working capital;
- Failure to comply with financing criteria;

- **Organizational symptoms**

- Personal problems of major shareholders or senior officer;
- Shareholder disputes;
- Departure of key employees;
- Non-renewal of product lines;

- Loss of key client;
- Aging management team;
- Nepotism and second generation transition;
- Tense labour relations.

- **Market and environment symptoms**

- Competitive and regulatory environment;
- Saturated or shrinking market;
- Aggressive competitors with competitive advantages such as size, financial resources, etc;
- New Government regulations.

Turnaround plan

A turnaround plan consists of developing corrective measures from weaknesses identified.

ASK FOR HELP FROM A FINANCIAL EXPERT-YOUR CHARTERED ACCOUNTANT.

We develop clear corrective measures and quantify the impact of the measures.

You set up a timetable for implementation.

ACT EARLY.