Keeping Your Business Healthy - *Recognise the Warning Signs*

The slippery slope towards insolvency is fairly well signposted no matter what size a business is. However, it's probably fair to say that if you are a sole trader, you'll have a sneaking suspicion fairly early on in the slide. After all, you should know what's coming in and what needs to go out on a daily basis. And if the latter is disproportionately higher than the former, it's time to take a step back and review the business.

As companies become more complex, with layers of reporting lines, it's not always as easy for the owners to keep track of the various ailments that signal financial difficulty. If the first you know of a problem is when the bailiffs start dragging stock out of your warehouse then you have clearly not been asking enough questions.

Start with the bank

Bank statements are not just for filing. A glance over them will quickly show if your borrowing facility is consistently straining at its limit. Worse still, if cheques are bouncing then the cashflow forecasts are not as robust as they should be.

For a business owner, the bank should provide the biggest warning if things are really dire. If it refuses to increase facilities, or wants additional security for existing ones, it's clear that your monthly management accounts haven't given them much confidence to throw more money in your direction. It's a sad but often true fact that bank managers spend more time reading a set of management accounts than the owners of the business that has produced them.

The final word on bank warning signs involves investigating accountants. If you are cordially invited to accept a team of them into your business to carry out a review then take heed. If the bank is seriously concerned about the future of your business then so should you be.

Statutory stuff

When the going gets tough, the most often ignored creditor is the government, or to put it more precisely, the government's collector of taxes. VAT and PAYE obligations are nearly always the first to be ignored when a business needs cash just to keep trading and the extent of the arrears is a good gauge as to how bad the situation is. Furthermore, if you've

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managed to secure a re-payment plan but subsequently fail to comply with the terms, you're not just sliding down the slope; you're approaching it with an alpine skier's mentality.

Company law also requires businesses to file annual accounts within a set period and fines are issued for non-compliance. If you are on the receiving end of one of these then it's an unnecessary expense and sends out a clear message. Either your accounting function is in disarray or you'd rather the rest of the world didn't see the figures.

Get on the shop floor

The engine room of a business can often reveal some unwanted facts. If this hive of activity is not quite as active as you'd hoped then there is usually a good reason, especially if you've recently taken some decent orders. If 'goods out' are kicking their heels you need to know why and the answer will probably take you back to the accounts department.

Unhappy suppliers will halt production, and if the purchase ledger files are full of red final demands your creditors are certainly not smiling. Whilst you're in there be sure to have a good look at the aged purchase ledger report. Not only will it highlight the reason for their change of mood but will tell you if the business is robbing Peter to pay Paul. A sure sign that supplier accounts are on stop is when your purchasing department seeks credit from a number of new suppliers for the same product.

A bridge too far?

So, we've seen some of the warning signs that always appear when a struggling business looks for ways to bridge a cashflow gap. The fact that it needs to bridge a gap is a warning in itself that all is not well on the other side of the accounts department.

A business that cannot collect its debts is a serious lost cause because until a sale is paid for there is no tangible profit in the transaction. And if your aged debtor report weighs rather heavily towards the right hand columns you may as well give the stuff away. Poorly turning debt is a sure signal that the cash will soon run out.

Happy families

The saying an "efficient ship is a happy ship" goes for all walks of life and is particularly relevant in the workplace. Gauging the mood of staff is often a very good way of gauging the state of the business and if morale is low there must be a reason for it.

When money is tight staff will be constantly fending off angry suppliers who want paying and customers asking why their order is delayed. Fire fighting on a daily basis is another sure sign that a business is struggling to meet its obligations.

Face the facts

Recognising the warning signs early and seeking professional help will give your business a better chance of turning things around. Ignore them at your peril!

For reliable, positive and impartial advice about your business challenges, contact Mike Grieshaber.

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