

Wrestling with Crocodiles..?



Timing is Everything. Take The Right Action Now!

If you would like to take advantage of the guidance and assistance of an independent advisor who is experienced in advising and working with businesses in financial difficulty, call Financial Distress Solutions now for a confidential discussion. Get the right advice, take the right action at the right time for you and your family's peace of mind.



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....or taming the wild beast

For a business in financial difficulty, timing is everything.



Guidance for Directors of Businesses in Financial Difficulty

The purpose of this publication is to provide some guidance for the directors of small to medium enterprises (SME) that get into financial difficulty, to help them navigate their way through it with the least amount of financial damage to all concerned.

There is a plethora of published guidance available for people wanting to start a business, wanting to sell and market a product or service or wanting to know how to prepare a business plan.

However, there is little guidance available to the directors of SMEs that get into financial difficulty.

The idea for this publication arose from observations we have made in our many years of working with SMEs that have got into financial difficulty.

Our Observations

Most SME operators who get into financial difficulty have not previously been in the position of not being able to pay their bills. The experience is unfamiliar and it is not something they have thought of or planned for. They are often embarrassed at not being able to pay their bills. They do not know what to do. They do not know what to say to creditors who are pressing for payment. They do not know what to do when they have not got enough money to pay the next instalment on their loans.

Most people who get into this situation handle it very poorly and actually make their position worse by the way they handle it. They promise their creditors that they will be paid soon without really knowing whether they will be able to honour that promise.

When those creditors keep phoning because the promised payments were not made, a kind of paralysis sets in where:

- The business operators do not talk to their creditors at all, thus alienating them and reducing the prospect of any further support from them. This also forces creditors to use legal remedies to force payment,
- The operators simply stand still, do nothing whilst the fabric of their business crumbles around them. The personal stress on the operators in this situation is enormous.

How Long Should You Hold On?

All businesses suffer their ups and downs. It would be foolish to shut up shop at the first sign of a downturn in business. It is equally foolish to hold on until the bitter end when one of your creditors winds you up. It's a dilemma! On the one hand, you don't want to sell or close your business because better trading conditions may be just around the corner. On the other hand, you don't want to continue to fund trading losses if there is no realistic prospect of a turnaround in the short-term.

Timing is everything! The right advice and the right action at the right time can make the world of difference to the outcome.

How long should you hold on?
How do you know when it's time to cut your losses?



The Solution

There is a simple 4-step process you can use to help you determine whether you should keep fighting on or whether you should call a tactical retreat. We call it "The Business Decision Tree" and it is represented diagrammatically in the accompanying chart.

Step 1

An independent evaluation of the business is required to determine:

- the current financial position of the business
- the viability of the business i.e. whether the business can be profitable
- the root causes of the difficulties of the business

Step 2

When the root causes of the business problems are determined, it is necessary to make an objective, dispassionate assessment of whether the problems are fixable.

Step 3

If the problems are fixable, you will need a Business Survival Strategy. This is a plan which identifies the conditions which need to be satisfied in order to continue trading and make a profit.

Step 4

If the business problems are not fixable and the business is not capable of being restored to profitable trading, a realisation strategy needs to be developed by which all or part of the business is offered for sale as a going concern.

It is rare that the proprietors of a business have the skill and objectivity necessary to use this process effectively on their own. To use the process effectively, it is recommended that you go through this *Business Decision Tree* process with the guidance and assistance of an independent advisor who is experienced in advising and working with businesses in financial difficulty.

The Cancer of Trading Losses

If the business is losing money and you cannot achieve the conditions necessary for it to make money, and the business is not sold or closed down, each day the business continues to trade, your equity in the business is eroded.

Trading losses are like a cancer eating away at the value of the business assets. If you hold on longer than you should, all of your equity in the business will eventually be eroded by this cancer. If you hold on even longer, the trade creditors and suppliers who deal with your business will lose the money the business owes them and you expose yourself to the possibility of personal liability to those creditors and suppliers.

If you hold on still longer, the cancer of trading losses will eat away at the assets which are available to repay the Bank's debt. In addition to security over the business assets, the Bank will usually have a mortgage over your home to secure repayment of its loan to the business.

If the Bank's debt is not repaid in full from the assets of the business, you will be required to make up the difference from your home.

This is how people lose everything in a business failure. By holding on for too long in the *unjustified* expectation that "things will get better soon."

The Business Decision Tree

The *Business Decision Tree* process works by steering you towards either:

- identifying and fixing the business problems in accordance with a Business Survival Strategy, thus saving the business from failure, or
- timely and orderly sale or closure of the business in a manner which maximises the likelihood of you preserving your home.

If you act at the right time, you will be able to influence the outcome. That is, you can help to steer the process towards a conclusion which results in you being left with your home; whereas if you hold on too long and an unsecured creditor appoints a liquidator or your Bank appoints a Receiver & Manager, you will be caught in a process you have very little influence or control over.

Preserving your home not only keeps a roof over yours and your family's heads, it also preserves an important source of capital if you wish to commence a new business venture at a later date.

It is very difficult to take the decision to sell or close the business, especially if it has been in the family for a long time. But deferring a difficult decision does not make it any easier to take later, just more costly, and usually with less viable options to available to save the business.

