

SPECIAL EDITION

SURVIVAL BLUEPRINT

The present economic troubles should by now have generated two questions in the minds of all business owners. Firstly, **how do I survive?** Secondly, how do I use the situation to my advantage? The answer to the first may be found in the following blueprint:

1. **Cash is king**

- Invoice on time – a delay means (i) you're giving away money via unnecessary interest costs and (ii) you send a signal to your customers that you don't need the money that badly, so naturally they're not going to have you at the top of their payment list
- Chase your debtors – the squeaky wheel gets the oil so make sure your squeak is very loud
- Control credit – review your credit check procedures and set sensible limits
- Control your stock – stock is an expensive commodity. You need to reduce holdings where possible but not to the extent that it affects your sales.

2. **Review costs**

- Don't fool yourself into thinking that these problems will all go away in 6 months and that you can survive by simply ignoring them. Divide your costs into essential and discretionary. Essential costs should be minimised where possible. Discretionary costs should be eliminated unless they are part of your strategy to take advantage of the situation.

3. **Review staffing levels**

- Don't be afraid to put staff off. The goodwill shown in keeping someone on who is under-performing can place a significant burden on your business when it's least able to bear it. Of course you cannot lose sight of the need to retain those you want and need in the long term – keep them informed, communication is vital in keeping them focussed on the job and not having them thinking "will I still have a job next week"

4. **Communicate**

- This covers everything from staff to customers to bankers to advisors. The worst thing you can do is keep things to yourself. The more that those around you are informed about what you're doing and what you're thinking the more likely they are to continue to support you.

As sure as night follows day, the current crisis will pass. Here are some tips on what you can do to give your business the best chance of not only surviving but **emerging as a better business**:

1. **Acquisitions**

- Others in your industry may not be able to survive long enough to see this through and this presents opportunities. Talk to your suppliers, talk to your customers and try to get a feel for who may be doing it tough – there will be some bargains to be had.

2. **Marketing**

- Survivors of the last downturn had one common characteristic – they kept up their marketing. When times are tough, customers go looking for bargains. If they're looking to move away from their current supplier, make sure they know that you want their business. Don't try to win them by reducing margins, that's a short term solution, show them that they are important to you and that the service you can provide is superior.

3. **Systems**

- Take the time to review your systems. Internal controls become increasingly important as times get tougher and employees feel the squeeze. Make it as difficult as possible for them to be a victim of temptation.
- Put policies in place for the regular review of supplier prices. Don't allow familiarity to cause you to not push for loyalty discounts, bulk discounts or early settlement discounts.

Don't think that you have to get through this on your own. Pinn Deavin is here, ready and able to help. If you think you need help, or just want confirmation that you're on the right track, please contact your Pinn Deavin advisor on (02) 8525 3700.

BUSINESS REPORT CARD

If things are really grim and you believe that you've gone past the point where the above survival blueprint is relevant, then the prudent course is to closely review some key operational and financial practices that, if present, in combination with other practices, indicate that your company may be at risk of lapsing into insolvency. These include:

- Poor cash flow, or no cash flow forecasts;
- disorganised internal accounting procedures;
- incomplete financial records;
- absence of budgets and corporate plans;
- continuing loss-making activity;
- accumulating debt and excess liabilities over assets;
- default on loan or interest payments;
- increased monitoring and/or involvement of financier;
- outstanding creditors of more than 90 days;
- installment arrangements entered into to repay trade creditors;
- judgment debts received;

- significant unpaid tax and superannuation liabilities;
- difficulties in obtaining finance;
- difficulties in realising current assets (e.g. stock, debtors); and
- loss of key management personnel.

This list is meant as a guide only. If you can relate to one or more of these indicators then you should seriously consider contacting our business recovery team headed by Michael Pinn. Making a phone call doesn't necessarily mean the end of the road, in many cases it is just a matter of getting professional help to get you through a tough time. Better to get help than try to tough it out and risk losing the things that you've worked so hard to achieve.

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