



## ACT EARLY TO IMPROVE THE FAULTERING CLIENTS CHANCES

This article appeared in the 29<sup>th</sup> edition of the Cash Resources Australia's newsletter "Balance" and has been repeated with the permission of Nick Samios State Manager-NSW for Cash Resources Australia.

"Last week I met with the owner of a business who had a large cash flow crisis indeed. He owes his bank around \$1,700,000—a number that exceeds the value of his securities by at least \$300,000. His securities include his home, plus stock and debtors in the business. His problems became serious when he approached his bank for an additional \$200,000 to land a shipment of stock. His bankers, having taken the opportunity to review his business and their risk position, responded by calling up his loans (to be fair to the bank, this is a very simple version of a slightly more complicated story). He had 7 days to refinance (pay them out in full). Or else. They were likely to appoint receivers and he is likely to end up personally bankrupt.

The bank (one of the majors) is upset because their lending ratios are way out of kilter (loan to asset value). Further the business has been growing very rapidly, but it is yet to hit monthly "break even volumes" with consistency – so its other financial ratios (profitability, gearing, debt servicing etc) raised red flags on the banks financial analysis software.

How could this crisis have been avoided? According to Stuart Slatter, the business crisis has four stages of development. A look at these will help answer the question.

**Stage 1** is "the hidden crisis". Early warning signs are simply not detected due to poor administration and record keeping, and poor management processes. Business advisors need to help their clients establish systems that ensure that the clients accounting system produces meaningful information (reports etc) and that this information is regularly reviewed with a critical eye.

**Stage 2** is "crisis denial". This is where crisis symptoms are explained away. "It's because of low/high Australian dollar", "it's the economy", "all

our competitors are having the same problem", "it's anything/anyone we can blame but ourselves".

Hockey-stick forecasts are made (the ones forecasting a slight dip before a huge turnaround). This is where the advisor needs a solid relationship with the client built on honesty and trust so that the advisor can hold up the mirror to the client and make the client see the true situation and the true causes of the problem. A tip here is that if you ever catch yourself or your client blaming externalities for poor performance, the client is/you are probably "in denial".

**Stage 3** is "disintegration begins". The business starts to fall apart and too little is done too late. Drastic action is required here, more than just the papering over of cracks. Often a refinance is called for to raise additional capital, but it should always be used to fund a well thought out turnaround action plan, not simply to delay the inevitable.

**Stage 4** is "organisational collapse". The administrator/receiver is appointed, and only a formal restructure will breathe life back into the business – but only after creditors have been compromised and the personal wealth of the owners (usually) seriously diminished.

What does this mean for the business owner I met last week? My guess is that the crisis was "hidden" during the early stage of rapid expansion and he has been "in denial" for some time.

I love the old saying "the difficult we do immediately, but the impossible takes a little longer". But the only response I had for referring broker in this case I am afraid was "if only he had come to me sooner!" Often (in concert with brokers and advisors) we are able to perform miracles, but this one was beyond help.

Small business owners have heavy emotional investments in their businesses, which is why they often overlook the early stages of crisis. It is up to their advisors to be courageous and point out the early symptoms as they arise."

As ever we welcome all your enquiries.



# NEWS WITH CLOUT

Offering Corporate & Personal Solvency Solutions

January 2008

---

**Apart from Formal Insolvency Services at Clouts we also Offer:-**

Orchestrating Informal Arrangements with Creditors

Monitoring Businesses in Workout Situations

Conducting Negotiations with Secured & Unsecured Creditors

Business Risk Minimisation Reviews

Forensic Accounting Assignments

Business Valuations

Internal Control Reviews

Small Business Courses

***Official Website***

**[www.cloutassociates.com.au](http://www.cloutassociates.com.au)**

***Contact Details***

Tel: 02 6652 3288

Fax: 02 6651 9393

Email: [admin@cloutassociates.com.au](mailto:admin@cloutassociates.com.au)

***Clout & Associates Senior Representatives***

Morgan Chubb

Email: [mjchubb@cloutassociates.com.au](mailto:mjchubb@cloutassociates.com.au)

David Morgan

Email: [dmorgan@cloutassociates.com.au](mailto:dmorgan@cloutassociates.com.au)