

So you thought you had 9/11 under control, but then...!

Management issue paper

Few things are more demoralizing than the monthly review of your business financial results in a dramatically adverse business climate. Sales hit new lows and come in well below budget. Prices are under extreme pressure, not helped by the new competitor who just opened up the street – property taxes are up 8% on last year – and the bottom line has a minus sign in front of it for the third month in a row! What are we going to tell the bank?

Human instinct dictates denial. This isn't happening to us; we've worked so hard, we don't deserve this - let's keep it quiet while the accountant looks for the error!

There is no error; you're in a severe downturn and you have to give the bank some numbers by Friday. Worse yet, a payroll is due in two days, you are holding back \$30,000 in cheques for source deductions and GST and you cannot release \$85,000 worth of cheques to suppliers because there is no room left in your line of credit.

You can't decide whom to pay first and one of your biggest suppliers is threatening to put you on C.O.D. if he doesn't get a cheque this afternoon!

What went wrong and what can you do about it? If things really get desperate what options do you have?

It's easy to blame the whole thing on market conditions, but perhaps you could have some taken steps to minimize the effects on your business. Here are a few suggestions - it is never too late to start on these initiatives:

- If you don't have a business plan that contains a realistic budget, cash flow projections and room for contingencies, prepare one; or better yet, engage a professional to prepare one, as soon as possible. Forward planning is critical.
- Have all available information relating to your market at your fingertips and be able to quickly compare your performance with that of your competitors.
- Keep timely and accurate records – another critical step.
- Maintain frequent contact with lenders; lack of information is more alarming to them than timely contact and your commitment to address the issues.
- Do not delay payments for tax withholdings (source deductions) or GST. Arrears of these liabilities attract heavy penalties and interest and frequently result in the government

taking collection action which can further damage your business.

- Look critically at your organization. You must react promptly to changing needs of the marketplace. Quick and decisive steps may be essential, such as cutting staff, streamlining management practices, cutting expenses and non-profitable operations.
- Take a hard look at management/labour relations and make sure you have not only enough staff, but the right staff and mix. Staff morale should be the best it can be.
- All businesses are highly dependent on people, particularly those on the "front line" facing the customers. For example, in a service industry the distinction between a successful operation and a failure may be as simple as the number of smiles staff put on for the customers.
- Don't be fooled into thinking that, because the triggering event was beyond your control, the recovery will come soon and without any effort on your part.
- Change is inevitable and when the market does come back things will be different. There will be new players, new technology, new security issues and new rules of the game - if you just sit and wait, you may be left with no business at all.
- If you are an owner-manager you must question your own management style and practices. It is money well spent to have a knowledgeable, independent professional take a look at the organization, its management and operations. Such an evaluation may also be the comfort required to allow a nervous or reluctant lender to continue its support.

What if...

If the situation becomes seriously desperate, consider what options are available to you.

Many businesses react by starting a desperate search for new financing or investors, yet lenders will seldom lend to a business that is losing money and does not have a recovery plan. They regard this as simply throwing good money after bad. Similarly, equity investors will generally avoid investing in a business that has a history of operating losses, unless there is some clear indication of future growth through other means, such as significant capital appreciation.

First make an honest assessment of the future viability of your business. If the answer is positive, seek help from a qualified professional to develop a recovery plan. Canada's insolvency laws contain mechanisms that can provide a stay of proceedings or "breathing spell" to a troubled business while a recovery plan is worked out to save the business in a restructured or reorganized form.

Initially you should contact your lawyer who will probably recommend retaining an insolvency expert, usually an accountant, who is a licensed Trustee and corporate recovery specialist, to work with you to explore the alternatives and devise a plan.

If you decide you simply cannot carry on business or the pressure from creditors forces you to this decision, you should consult with an insolvency expert, who will

advise you on the various alternatives available to you in the circumstances.

Of course, as in all things, taking steps early can help avoid worst case scenarios. A Grant Thornton corporate recovery adviser would be happy to discuss turnaround options for your business should the need arise.

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