



JOHN COWARD

# THE ART OF SURVIVAL

## *An eye on the danger signs in business*

**More than half of all small businesses fail soon after launching. Some survive a little longer. In this article John Coward helps you find the clues which might spell doom.**

The entrepreneur with a good technology who sets up a business often fails due to poor financial management. In fact, it's the major reason why 65 per cent of small businesses fail in the first seven years.

The scenario is something like this: The technology is good, so all goes well. But the business is undercapitalised, so it's necessary to borrow to finance production. Sales go through the roof, but costs go up to match. The result: our entrepreneur can't get ahead — and worse, he can't understand why.

### **Proper management**

As small businesses face a more difficult economic climate, greater complexities and paperwork due to changes in tax and other government regulations, the problem of lack of proper management assumes more and more importance.

What are the danger signs that a creditor concerned about a customer's business looks for?

- Payments delayed from 30 to 60 days and beyond.
- Paying rounded amounts indicating part-payment of

debts because the full amounts cannot be met.

- Not paying tax regularly.
- The chief executive is never available and doesn't return your phone calls — in other words, he's hiding.

For the business person who is heading for trouble, the early warning signs are:

- Chronic liquidity problems, like writing cheques but not posting them because they'll bust the overdraft.
- Never enough stock to meet production line needs.
- Constantly increasing borrowings or the overdraft limit to cover costs.

The important thing for a business person in this position to do, is to look at the monthly balance sheet. This should show the early warning signs. With the good business programmes available for computers this is not difficult. Each month's costs should be offset against the month's income.

It's more important to interpret trends in a business than look at the position at any one time. This is where the owner needs to see a financial adviser. Too many entrepreneurs go on borrowing making the situation go from bad to worse

So how does a business go about pulling itself out of this ever-deepening hole?

Look at your resources and analyse the contribution each activity makes. If, for example, the return a product makes towards recovery of fixed costs is below the cost of production it may be appropriate for the product to be discarded.

### **Not the answer**

Borrowing more may not be the answer. A better solution may be to look at the structure of the business and reorganise, cut out unprofitable activities and concentrate on areas which are contributing. It may be that the company itself cannot be saved, but the resources it has, the people, the plant, the product, can be re-directed to better use.

It may be possible to put in place long-term finance instead of just pushing up the overdraft every time there is a crisis.

One of the big problems for small business in Australia is

the lack of suitable venture capital for emerging businesses, such as is available in the US and UK. However, there are various sources of venture capital that can be approached and this area has been covered in previous articles.

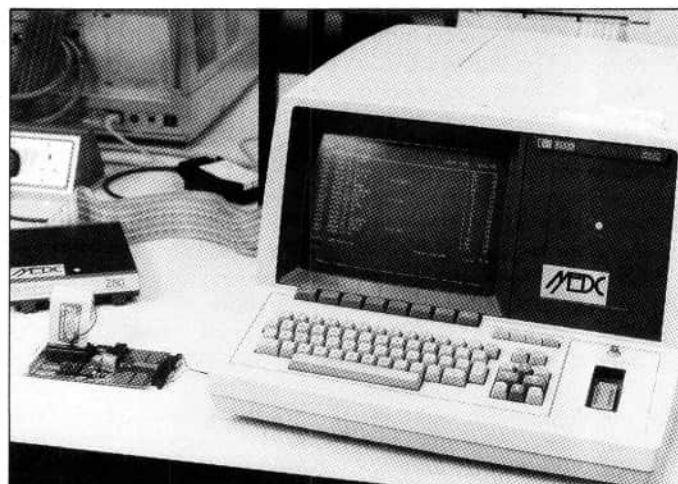
What about one of the constant complaints of small business — the slow payers? The key is to decide how much you need the customer — and if you are prepared to finance the relationship. You may be better off discarding it.

Proper credit control systems, along with checks on monthly cash flow, are an important part of a system of financial management that is essential to a well-run business.

Basically, the message is: don't wait until the worst happens. Put in proper financial controls from the beginning.

**eti**

*John Coward is the National Technology Partner of Coopers & Lybrand, management Consultants.*



**Regular monitoring of outstanding debts constitutes a must for survival in any business, large or small.**