

The need for early action

As economic pressures grow upon SMEs there is no harm in revisiting some basic steps in turnaround and survival.

Finance directors of all companies, but particularly those that are financially stretched or not meeting targets, are under pressure to get the numbers right. But it is not just the immediate numbers that drive the business. In addition to cash in/cash out, the finance director needs to look at wider issues impacting the effectiveness of the organisation.

Often, finance directors do not know the actual cash position of their business. Looking at quarterly calculations from an EBITDA point of view does not show the peaks and troughs of their cash position, leading to sudden or unforeseen difficulties.

It may seem like a truism, but a business needs a business plan and also an exit strategy which includes disposal of any property assets.

Changes at business level often have an impact on property requirements, which then need careful review. It is important to look at the debts and outgoings and where they can be consolidated or reduced.

It is important to take action early if a business is on the downturn. Clear warning signs include, when:

- The "headroom", or difference between approved funds and current drawdown is less than two months' salary and PAYE payments.
- The company has broken banking covenants.
- Interest cover is less than two times annual or quarterly EBITDA.
- There has been a failed business disposal or a failed renegotiation of loan arrangements.

The main reasons for taking action early are the following:

- The company will have more options. Leases and break clauses for instance, may seem set in stone, but a good property expert can sometimes find ways round an apparently intractable situation.
- It's cheaper.
- There's more chance of success.
- There's less disruption.

- The management and the intervention team can be proactive.
- It can be run to your own timetable.
- Turnaround implementation can take six months or more.

Often, bringing in the right independent consultant provides the benefit of their experience and an independent view; however, the business managers need to remain in control of the process.

It is vital for companies who think they may be entering a difficult stage to seek specialist advice early

How quickly any intervention plan can be implemented depends on when the intervention team is brought in. The key elements to the plan are:

- Adoption – at all levels.
- Prioritisation.
- Mobilisation – a team of experts in-house and externally.
- Control – there needs to be a single internal point of contact.
- Communication – proactive communication with key stakeholders.
- Monitoring – the impact on the business strategically needs to be monitored against milestones and communicated to the stakeholders.

Ultimately, there needs to be a check to see that the actions being taken impact favourably on the overall ability of the business.

Property can often be a drain on cash. A specialist property adviser who understands both property and business and management issues can look at the debts and outgoings and where they can be consolidated or reduced, while still understanding what is essential for the business to function.

Independent advisors, in conjunction with the company's business managers, can:

- Help stabilise the business, by knowing the actual position of the business, in terms of cash, liabilities and income. Produce a robust business plan which looks at the current property portfolio and assesses options for the future, taking into account, for example, lease arrangements.
- Understand where the business failed to deliver and what can be done to achieve the best possible outcome for the business.
- Have effective cash controls, including a detailed knowledge of all cash in/cash out.
- Work with the management team to look at longer-term costs, identifying and mitigating risks.
- Help communicate to stakeholders and undertake strategic consultation where necessary.

It is vital for companies who think they may be entering a difficult stage to seek specialist advice early. This can often make the difference between success and failure.



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