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Your Business – Survival is all about Cash

With the number of insolvencies doubling in the last 12 months, businesses need to concentrate on cash management to survive the next 12 months.



It's no surprise that the number of insolvencies has increased but the interesting question is how many could be avoided through earlier intervention particularly when managing cash flow.

It may be easy to be wise after the event but you could speculate that a considerable number of insolvencies could be avoided. During the good times many businesses had good cash flow even in situations where the core business management disciplines were absent. These disciplines include cash flow management which includes accurate and realistic projections, tight cost control and collection of debt.

Commenting, David Gleeson, Corporate Recovery Partner with Russell Brennan Keane says "Many businesses put little away for future development or unexpected difficulties as easy access to cheap credit had become the norm.

Risks weren't recognised as risks and therefore the problems arose when the "Dead Cert" gambles didn't pay off. Many business investment portfolios consisted of little in terms of cash deposits whilst reserves consisted of equities and property investments that are now almost impossible to cash in," said David.

It's all about Cash

Poor cash flow management is a primary cause of business failure. Once cash is gone, your business lifecycle is at its end. A business can only run out of cash once.

Given many customers are taking longer to pay or in many cases not pay at all, this causes acute difficulties for businesses. "In addition to having a strict policy on eliminating all forms of unnecessary expense it is critical that all businesses get very serious about collecting their debts; new customers should be placed on strict credit terms and businesses should have an incentive so customers pay early or even on time by offering discounts. If businesses had adopted these principles earlier I believe many would be in better position to weather this storm," said David.

How do you protect your business?

Suppliers need to be particularly careful before entering into new credit arrangements with customers.

The key points to consider include:

1. **Credit Terms?** For all customers, agree specific payment terms and these can include giving a discount to customers who pay upfront or agree to a regular payment plan e.g., monthly Direct Debit. It should also be made very clear to customers the implications of failure to comply with the agreed credit terms. This could take the form of interest; ceasing further supplies etc.
2. **Up-Front Payment.** Depending on the trade / profession it would be advisable to negotiate an up-front payment prior to supplying the goods or services.
3. **Invoice quickly and regularly.** The sooner settlement is requested after the supply of the goods or services the customer will be more inclined to discharge the sum owing. Smaller regular bills are much easier for customers to cope with than larger more irregular invoices.
4. **Title.** Where possible with tangible goods, retain title or charge on an asset until payment is made in particular in relation to larger transactions. Having Reservation of Title clauses in your terms of business is highly recommended.
5. **Define a Payment Schedule.** If the project is ongoing, the contract should include a due date for each payment, as well as expected deliverables to be completed by each payment date.

Early Diagnosis is Critical

It is critical to seek advice as early as possible in order to give the business the best chance of working through its difficulties. “A client recently made the analogy that a business in difficulty was similar to discovering a serious illness; the earlier you recognise your business has a problem the better,” said David. “Allowing a business to obtain a correct diagnosis facilitates the correct intervention, gives time to put a plan in place to work through the challenges and provides the greatest chance of survival”.

Many businesses wait until it is too late to look for advice and typically we have seen instances where businesses survival options would be greater had action been taken even a month earlier.

Seek early professional advice. “We have encountered many businesses where the situation had gone beyond recovery with the only option unfortunately being to wind up. Earlier intervention could have possibly provided alternative solutions” said David.

In addition reckless trading and fraudulent preference (i.e. preferring one creditor over another) are viewed very seriously, in certain circumstances you could be held personally liable for part or all the debts of a limited company.

Schemes of Arrangement – Do businesses survive?

“Yes businesses survive. We have been involved in several informal schemes recently. In one instance, the options facing the company were stark; to either reach an accommodation with its creditors or to proceed down the liquidation route. An agreement was ultimately reached whereby creditors / suppliers agreed to a partial write down of their existing debt. As a result, the business survived and now continues to provide employment and purchases and pays for goods from its creditors,” said David.

“Recently we have worked with an Irish subsidiary with a foreign owned parent. The parent company went into liquidation but the Irish subsidiary was inherently viable. We put together a rescue plan that involved grant assistance from a Government Agency, private equity and local management participation. The net result was that the company was saved and a significant number of jobs losses were avoided,” continued David.

Understanding what the business owners plans are for the future is critical to your corporate recovery specialist, they need to ask you that question. “Value and quality of service are issues for all businesses now more than ever; with this in mind ensure your corporate recovery provider will work closely with you to ensure the service is tailored to meet your specific needs and budget,” concluded David.

If you have any queries or would like to discuss your business in confidence, please contact David Gleeson (email dgleeson@rbk.ie) Tel 01 6440100 or 090 6480600.

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About Russell Brennan Keane

Russell Brennan Keane is one of Irelands leading business advisory and accountancy firms. With 50 years experience providing professional advisory services to a range of clients in the mid to large corporate market in Ireland, from offices in Dublin, Athlone and Roscommon.

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