1 2 3 4 5 6

Skilled turnaround professionals can look at your situation from an outside perspective and assess what changes are needed.

Understand your fiduciary duties to creditors

Management and the Board must be aware of their fiduciary duties to all stakeholders in the corporation, including creditors and shareholders. When a corporation has a deteriorating financial situation, or is trading insolvently, creditors will look to hold management and directors responsible where possible.

1 2 3 4 5 6

Get outside help

Sometimes even following all these guidelines isn't enough and it's best to call in an expert to lend a hand. Skilled turnaround professionals can look at your situation from an outside perspective and assess what changes are needed. Working together, you can gain a high level understanding of the issues at hand and your options for dealing with them. But be sure to contact someone as soon as a critical situation is recognised. Waiting too long can mean that the time, money and patience needed to best address the issues at hand will be in short supply.

More information

Phone 1300 138 991 or visit www.bdo.com.au

Dealing with economic turbulence

The economic decline, volatile stock market and credit crunch experience in the US and Europe is steadily making an impact on the Australian economy...

Six steps to stay on track

The litany of economic problems facing businesses is steadily increasing with some markets faring better than others. The economic decline, volatile stock market and credit crunch experience in the US and Europe is steadily making an impact on the Australian economy with a rise in unemployment, decline in consumer sentiment and a bias towards saving rather than consumption.

The economic injection currently being finalised by the Rudd Government is designed to help reverse the consumption cycle. However, maintaining profitability, or in some cases viability and liquidity, under the circumstances, is a difficult challenge for business today.

To help weather the storm during this economic cycle, this publication has been developed as a joint initiative of the Business Restructuring Services group of BDO Consulting and the BDO Consulting Corporate Advisors, LLC of BDO Seidman LLP in the USA and BDO Kendalls Australia. BDO Kendalls acknowledges BDO Seidman as copyright owner.

1 **Monitor cash**

2 **Be proactive: Take fast and decisive action and develop a comprehensive approach**

3 **Prepare targeted and timely reporting**

4 **Know your lender, creditors and stakeholders**

5 **Understand you fiduciary duties to creditors**

6 **Get outside help**

BDO

BDO Kendalls

Viewpoint

Today's business environment calls for fine tuning the entire business...

1 2 3 4 5 6

Monitor Cash

It is possible that a company can still be reporting profits but have trouble meeting its current obligations to both lenders and creditors. Problems may develop as customers become slower to pay or, in some instances, don't pay at all. Problems may not be immediately recognised and could include changes in product/service demands, increasing overhead costs, use of obsolete production methods or increasing competition – some of these are directly attributable to the poor economic climate whilst others may be already existing but more visible in the current economic cycle. Attention should be directed to the following:

- As a starting point, defer and/or eliminate all non-essential expenses and capital projects, where possible
- Further, accelerate receivable collections
- Focus on customers that normally pay on time and have started to slow payments
- Offer discounts to pay now
- Keep on top of even smaller accounts.

Cash must be closely monitored on both a short and long term basis.

1 2 3 4 5 6

Be proactive: Take fast decisive action and develop a comprehensive approach

The administrative and operational cost structure of all companies tend to grow disproportionately in good times, without a corresponding reduction when the economy and business volume slows. In order to maintain liquidity and manage debt, management must quickly determine core needs and shed excess costs. Take a look at the following items:

- Have expenses as a percentage of sales increased?
- Is cost containment a necessity?
- Have margins decreased?
- Are plant or profit centre costs increasing?
- Have corporate overhead or other general and administrative operating costs increased?
- Are expenses significantly out of line with projections, historical results, industry norms?
- Are there unprofitable customers that may need to be shed or contracts renegotiated?
- Are there unprofitable product lines?
- Is inventory management efficient?
- Is it time to consolidate facilities, make the business more scalable through outsourcing of functions, eliminate excesses in operations and headcount, close locations, or sell excess assets?

Consideration of closing unprofitable business lines/segments is daunting and counter intuitive to most entrepreneurs, but it will free up working capital to improve liquidity and/or reduce debt levels. Ultimately, this will reduce strain on the capital structure of the company.

A comprehensive action plan and timeline will include, at a minimum, implementing a cost-reduction program, improving inventory controls, enhancing purchasing procedures, accelerating cash flow and implementing cash retention. Today's business environment calls for fine tuning the entire business and making sure all the components work effectively together to maximise value.

1 2 3 4 5 6

Prepare targeted and timely reporting

Too often, businesses react to information two to three weeks after month-end. Effectively reacting to changes in this turbulent business environment requires timely information for revenue analysis, gross margin management, product line profitability analysis and administrative cost controls. Most data can be collected and reported on a daily basis.

1 2 3 4 5 6

Know your lender, creditors and stakeholders

Enterprise value is usually built up over decades. Declines in enterprise value can be instant. The telling signs are deteriorating revenue and operating profit, impaired operating cash flow, lack of credit facilities and not having enough money to meet all of the business needs. Sometimes the deterioration reflects shortfalls versus expected performance. In most instances, there is a lack of communication or shared expectations between the company and its external stakeholders.

As such, it is extremely important to be aware of who your stakeholders are. Find a lender that understands your business and has a knowledge base in your industry. Keep in constant contact in good times and bad – surprises are never welcome. In addition, a complex debt structure, which may include multiple charge holders, can create hurdles when a company is negotiating a restructure or workout.

We also recommend constant communication with key suppliers. They may be willing to increase payment terms for special circumstances if they are aware in advance. Some industries are very small and many creditors know one another, so your company's financial misfortune may be common knowledge. It is always better that the company's story comes from you.

Effectively reacting to changes in this turbulent business environment requires timely information...