

Nine warning signs for business

Business owners shouldn't ignore warning signs that could indicate financial problems. The production of monthly accounts and cashflow reports is essential. Just as important is the implementation of a credit control system to deal with late payments promptly. Don't fall behind with payments to major creditors, particularly HMRC, or life may get very difficult. Ensure you keep your staff onside and motivated. You will need them when the business climate improves

It's easy to turn a blind eye to the signs, or fail to notice them day to day, but the more problems you can identify and remove, the more chance your business has of motoring smoothly out of the recession. Below are ten key indicators to help you assess your business performance.

1. There is insufficient up-to-date financial information available about the business

Keep up-to-date records of every business transaction in order to review performance. It is highly recommended that you produce monthly management accounts **INCLUDING A CASHFLOW**. Make sure they are produced in a timely manner and that you review them immediately, and even more importantly, ensure you understand what they are telling you. Compare them to your annual budget and investigate any major differences.

2. Tax payments are falling behind

Contact HMRC immediately you believe you will have cashflow problems as you may be allowed more time to pay or to make ad hoc or monthly payments under their "Time To Pay" plan. Don't wait until you get behind with your payments as they will be far less likely to allow you to defer payments. **Beware:** If you come to the end of an agreed payment plan and still owe HMRC they will start to get come down strongly on you which is understandable as they are not a bank.

3. Customers are late paying you

Make sure you have adequate invoicing procedures and that your payment terms are clear. Ensure this includes a credit control process and use it to chase customers before the payment terms are stretched. You may need to take further action if contacting the debtor doesn't result in payment. Consider using a local solicitor to send official looking reminders to debtors, it doesn't cost much and may speed up payment. Vet new customers using credit checks and keep your ears open in your market, as you may pick up feedback on a debtor from other people who are also owed money i.e. Are they going out of business ?.

4. Overheads are increasing faster than profits

This might be a planned increase due to new premises or extra staff, or it might be unexpected. Monitor overheads, whatever their cause, on a monthly basis and do not let them get out of hand. Set overhead Key Performance Indicators (KPI's) and really

understand what drives costs within the business. Systematically run through your profit and loss account and look at every cost line. Can you reduce a cost or is it possible to eliminate it completely ? Challenge everything and be wary of the answer “this is what we have always done”

5. Suppliers are being paid late and your bank won't extend your facilities

If you have cash flow problems talk to your bank immediately. Put to them a plan of how you are going to get out of your current situation, don't just assume they will continue to back you. Contact suppliers and try to negotiate easier payment terms that you can realistically manage. Keep talking to them or the rumour mill will start and they will think you have gone bust on them. Don't forget that when the economic situation improves you may still want to buy from them so avoid burning bridges.

6. Staff turnover is increasing

High staff turnover is expensive for any business so listen to your employees' ideas and concerns and try to keep them motivated and happy. Get them involved in the decision making process as you will need them to help you get the business back on the straight and narrow, you can't do it all yourself !! Ask them how they can improve areas of their own jobs or where they think costs can be reduced. The more heads that are involved the more ideas and options you end up with.

7. A key customer has been lost

Relying on a few big customers can put your business in jeopardy if one or more go out of business or stop buying from you. Find out why you lost them and learn from it; was it price, service levels or have they gone to a cheaper competitor ? Research the market to identify ways to broaden your customer base.

8. Your bank has started bouncing cheques

It is vital to speak to the bank to find out why and what can be done to resolve the problem. If you have a monthly cashflow reporting system you should use it to ensure there are sufficient funds available to cover the cheques you have written. Remember, bounced cheques incur bank charges at a time when you need all the cash you can get hold of.

9. It is impossible to get out of the office

Everyone needs a holiday to take a break from their business in order to recharge their batteries, particularly small business owners. Don't keep knowledge of the business to yourself. Develop and train others to manage while you are away and your business will be more resilient in times of planned, and unplanned, absence.

REMEMBER !!!

A struggling business is like a sick patient, the quicker you diagnose a problem and start a recovery programme the greater the chance of a successful outcome. Experienced business advisors have already encountered these problems and can help you make the right decisions.