

Managing Your Business in a Recession – Part 4

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Assets and Capital

Efficiently utilising assets becomes very important when both profits and access to additional capital are scarce. Consider the following when reviewing your business assets and their utilisation.

Tip 1: Sell and lease back premises or vehicles

Reduce debt or increase cash by selling land and buildings and re-leasing from the new owner. Businesses with large vehicle fleets may be able to sell and re-lease, depending upon the age and condition of the vehicle fleet.

Tip 2: Sell non-core assets or divisions

Consider selling or closing some business units. Be warned that poor performing businesses will realise little value in a recessionary market. Sell excess land or assets if not used within the business. This includes non-essential items such as “company” boats!

Tip 3: Debt factoring / invoice discounting

Consider borrowing against the value of accounts receivable, which will provide a one-off boost to cash which can be used fund other working capital requirements.

Currently, trading banks are carefully monitoring their lending portfolios, with a view to identifying poor lending decisions made during the exuberance of the last five years. If your business has breached any banking covenants, be ready to meet with your bankers to explain why. (Note: Covenants are simply a set of pre-agreed performance criteria agreed with your bank when you took out the business loan.) The best way to handle this situation is to:

1. Identify the breach early, through monthly financial reporting processes;
2. Understand the cause of the problem;
3. Create an action plan to remedy the problem, supported by cash flow forecasts; and
4. Meet with your bank to discuss points (1) to (3) above.

It is not advisable to wait until the last minute before discussing cash flow problems with your bank. This can lead to the loss of trust between you and your banker, and in the worst cases, unnecessary reactions from your bank, including the forced sale or liquidation of your business.