Carter Clark
Financial Recovery

Briefing Sheet

Warning signs for businesses

There are many different potential warning signs that a company is not performing as required. Often they are seen by Directors, managers and owners but ignored in the hope that trading will improve and the evidence of failure will start to disappear. When outside interests start to take action against the company it is too late to think about whether those warning signs should have been taken more seriously.

Warnings can affect various aspects of company operation, as indicated below:

- Financial – overdraft always at its limit, cheques returned, bank refusing to extend facilities (or attempting to reduce them) and looking for greater security, failing to pay VAT and PAYE on time.
- Creditors – inability to pay full amounts or on time, final demand letters, threats of legal action, constant calls from creditors, inability to get new credit or to order new stocks.
- Debts – increased time before debtors pay and increasing credit being taken by customers, debts concentrated in a few customers, lack of knowledge of factoring activity status, invoices disallowed by factors and clawbacks when debtors do not pay/ dispute invoices.
- Information – lack of current information on turnover, margins, sales v. costs, etc.
- Management – no current business plan, no management/board meetings, too much time spent attending to problems, company's accounts/annual not filed in time, internal political issues causing difficulties, high staff and management turnover.
- External pressures – the bank wants to introduce investigating accountants, visits from Sheriffs or bailiffs, tax/VAT collectors pressing.

A Director/manager/owner of a business that is not performing is often someone who is depressed on Monday, relieved when Friday arrives, tries to avoid opening mail, is always 'out' when suppliers or the bank call, and is constantly looking at new ways of introducing additional funds. These characteristics do not only paint a picture of what is happening now: they also predict what will soon start to happen – legal action taken by third parties keen to force a resolution to the problems that affect them.

Addressing the situation, preferably with the assistance of a professional in company turnaround, will start to relieve the burden and open up the possibility of returning to a work pattern where the focus is on the business and not on the problems it faces.

Executive summary

Companies rarely – if ever – get into financial trouble quickly. More often, the problems they face slowly grow but are ignored in the hope that things will get better. Addressing potential problems early is far better for future prospects than holding on in hope.

Spot the warning signs and action can be taken. Ignore them and action might be forced by others.

Have a question?

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