Signs that indicate your business is headed for trouble

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As a turnaround and restructuring professional, I'm often asked how you can tell when a company is headed for trouble. The cold reality of turnaround consulting is that by the time I'm called in to help, the company is usually already in deep trouble. Management didn't hear or didn't respond to the warning bells when they sounded, and my job is to develop the most appropriate plan to get the company back on its feet.

Nonetheless, in my work at restructuring and salvaging troubled businesses, I've seen and heard a lot about what goes wrong inside companies before they're placed on life support. I believe my observations will be helpful to the owners and management of struggling businesses, and even to creditors and other stakeholders, provided that they're willing to look closely, and honestly, at their own operation before it becomes too late.

I don't have a lot of time – how can I quickly get a feel for what is going on?

Numbers can tell a lot about a company, but if you don't have time for a detailed financial analysis, look first at procedures related to the company's financial management. Does it use standard accounting procedures to accurately record information and protect against embezzlement? Does it track cash flow on a daily, weekly and monthly basis? Does the company have timely reporting procedures, closing the books no more than 10 days after the end of each month? Does management track "non-financial" indicators, such as customer satisfaction and operations, on a monthly basis? Does the company have a financial plan that includes forecasts of its balance sheet, income statement and cash-flow statement? Does the company forecast future working capital needs and begin looking for capital before it's actually needed? The answer to all these questions should be "yes." A "no" indicates a potentially serious problem.

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Next, look at the company's operational management, marketing and sales. Does the company have a clearly defined mission, goal statement and business strategy? Do employees know and understand that mission and strategy? Does the company have training programs for key staff? Does the company know its target market and customers? Does the company know its competitors' strengths and weaknesses? Is the company looking for new markets and distribution channels? Does the company track the number of its new customers? Does the company track the customers it loses, and understand why they were lost? Again, if the company is running well, the answer to all these questions should be "yes." If the answer to any of these questions is "no," the company could well be headed for trouble because it lacks identifiable goals, doesn't understand its market and customers and isn't paying attention to its competition.

There are a lot of reasons why businesses fail – and many of them are avoidable. Here are a few, provided by the Wharton Small Business Development Center at the University of Pennsylvania:

- Thinking they're smarter than the competition.
- Trying to beat bigger competitors on price.
- Not seeking, or listening to, outside advisors.
- Not paying attention to how your competition is changing.
- Relying too heavily on one or two customers.

While we're talking about warning signs that a business might be in trouble, I should mention that there are many practices adopted by well-managed companies to help them stay ahead of the curve. Some of the most important are:

- Develop a flexible business plan, and review it as your market changes.
- Build stronger relationships with your customers and your suppliers. It's always easier to keep your current customers than to find new ones. You'll get even more cooperation from your suppliers when you let them know they're essential to your success.
- Watch your competition – its quality, pricing and services. Stay ahead – and make clear the reasons your company is better than, and different from, the competition.
- Plan expansions and diversifications carefully. Be certain that your employees can handle the demands that growth brings, and that you've got the cash to finance the expansion.

Even the best of companies sometimes hit bumps in the road. But one way to avoid them is for the owners and management team to make a thorough and honest assessment of their financial and operational practices – at least on a yearly basis.

It is far better to identify potential trouble spots before problems get out of hand than to deal with the prospect of restructuring, bankruptcy or liquidation because the early warning signs were ignored.

5 things to remember

When all else fails remember these 5 things:

Cash, Cash Cash: Generate it, track it and save it. It is King!

Your #1 asset is not on your balance sheet: It's your employees. Educate them, nurture them, put them in position to succeed. If that doesn't work, replace them.

Run your business as if it were for sale: Strong balance sheets and ROE are what builds value. Why wait until you want (or have) to sell? Focus on this now!

Visit your customers: Remember the airline commercial a few years back where the CEO handed out tickets to everyone, including himself, to re-connect with its customers? Check your schedule, if you are not in front of customers 25 percent of your time, you are risking the relationship.

Get outside opinions: Recruit a strong, talented advisory board, or join a group such as www.teconline.com.

Challenge the group to challenge you.