

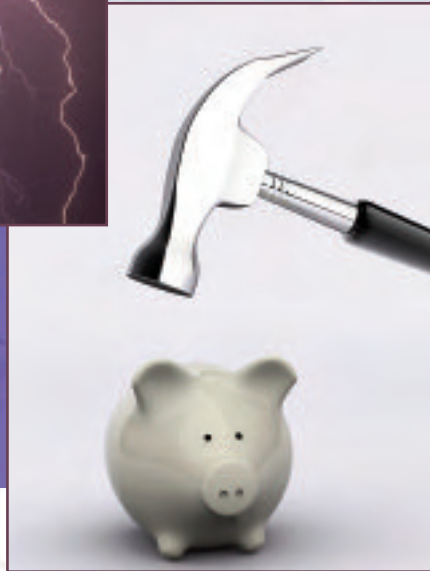
# THE “U” FACTOR:

How to  for the

*Unexpected*

By Chris Mazur

The economy takes a sudden nosedive. Unseasonably cold weather leaves your summer inventory sitting on shelves. A major competitor sets up in your market. Any business can experience unexpected situations like these – and any of these situations may have a sudden and major impact on the viability of your business. You can, however, be prepared to deal with unanticipated challenges. Here’s what planning for the unexpected involves.



Get commitments in writing and communicate regularly with both current and backup lenders so you can tap into these sources quickly should you need them.

### **PROJECT AND MONITOR CASH FLOW**

Lack of cash flow planning is a leading cause of business failure: if you're out of cash, you're out of business.

To ensure this doesn't happen to your company, prepare cash flow projections for the coming two years. Include best- and worst-case scenarios and err on the conservative side when estimating income. Then use these projections to identify and address potential slow cash periods in the future, to evaluate "what if this should happen" scenarios, and to identify areas of the business that may need strengthening. Also, by comparing projections each month with cash flow statements, you can address issues before they escalate into serious problems.

### **BUILD CASH RESERVES AND SECURE BACKUP FINANCING**

If you ever experience a business downturn or customers are unable to pay, a cash reserve could save your operation. To build this reserve, deposit funds every month into an interest-bearing account or low-risk investment vehicle.

Also, review the terms and conditions of any loans, leases or mortgages and ensure they allow a buffer of about 10 percent, which can carry you through a temporary period of difficulty. It may also be helpful to meet with your lenders to determine whether longer-term agreements may be a good idea

or whether there are opportunities to lower interest rates and payments by refinancing loans or mortgages.

As well, expand your financing options by investigating other potential sources of funding, including commercial finance companies and institutional lenders. Consider also whether certain suppliers or customers could be sources of working capital. Get commitments in writing and communicate regularly with both current and backup lenders so you can tap into these sources quickly should you need them.

### **STRENGTHEN CUSTOMER RELATIONSHIPS**

To ensure that your customer relationships can endure possible setbacks, assess the vulnerability of your customer base. Identify opportunities to increase revenue or lower costs among less profitable customers and consider relinquishing those that drain company resources, such as chronic late payers or customers that frequently return products.

Insulate your business from pricing pressures by keeping customers apprised of all the products and services you offer and encouraging them to do more business with you.

Try to lock in valuable customer relationships; assess the status of contracts and reinforce terms and conditions. Where you don't have contracts, consider where you might establish co-operative ventures.

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## The "U" Factor...continued from previous page

### STAY CLOSE TO SUPPLIERS

Since you depend on suppliers to maintain customer relationships, assess your vulnerability in this area as well. Ensure that you aren't dependent on too few suppliers and that you have back-up options. As well, review major areas of expenditure and determine whether suppliers are providing value for money. Are there areas where you can achieve economies of scale? Review contracts to assess opportunities for strengthening agreement terms.

### LOOK FOR RED FLAGS

With these strategies in place, your company should have greater ability to weather business ups and downs. Now it's a matter of vigilance; watching for signs of impending problems so you can deal with them before they spiral into a financial crisis. Following are some common red flags.

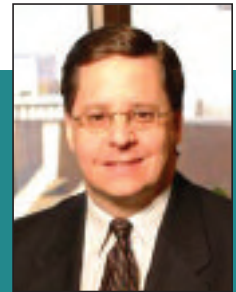
- Sudden inventory build-up or decline in inventory turnover rate
- Significant downturn in turnover rate of accounts receivable
- Rapid rise in debt-to-equity ratio
- Need to stretch payables to preserve cash
- Lender(s) refuses your loan request or reduces/eliminates your operating line
- Suppliers change their terms to COD
- Creditors send warning letters or statements of claim

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These warning signals require quick corrective action. Should problems continue to escalate, consult with a restructuring professional to assess the situation, present options and assist in developing an action plan. Seeking the help of a professional at an early stage gives you more choices – from strengthening the core business, to restructuring operations and/or debt, to sourcing new funds, to informal or formal proposals to creditors.

Unexpected challenges are to be expected in the life of a business. With the right contingency planning, however, you can worry less about the possibility of your business running out of cash and instead, strengthen your company for the future. ❧

*Chris Mazur is a principal with BDO Dunwoody Limited ([www.bdo.ca](http://www.bdo.ca)) who serves the Hamilton, Burlington and Niagara areas. Chris develops constructive financial solutions for underperforming companies. You can reach him at (905) 524-1008 or [cmazur@bdo.ca](mailto:cmazur@bdo.ca).*



## Historic Opening of Red Hill Valley Parkway 50 Years in the Making!



**Mayor Fred Eisenberger and the Honourable Lincoln Alexander** joined former Hamilton Mayors **Jack MacDonald** and **Bob Morrow** in celebrating the November opening of the long-awaited Red Hill Valley Parkway.

**hamilton**