

BUSINESS FINANCING

For many businesses, the recession we are now in is starting to bite. Retail businesses are overstocked and no one wants to buy, or at least sometimes it seems that way. People are dining at home more and not going to restaurants, they are purchasing cheaper gifts or none at all and you as a boss don't want to purchase new furniture or equipment if you don't have to. Least of all as a boss, you are not wanting to hire more staff.

It is tougher for most sectors, perhaps apart from those who are farming related, but their day will come when the dollar goes down and overseas markets prune their buying.

What does this all mean for most of us who own our businesses and are carefully watching the bottom line? Possibly it is more important than ever, that we understand our costs, where it is best to prune and where certain expenditure should be maintained. A big slice of the expenditure cake and a necessary partner too many businesses, is the finance costs and finance vehicle. More than ever, businesses, particularly those small ones, must take time to understand their accounts and keep a weekly or monthly check on progress versus necessary cash flow. Some businesses that we see, don't understand what the minimum turnover necessary to stay breathing is. In good times that is possibly fine in that they will get away with it. In tougher times, unless they have at least a basic understanding, they go broke.

Act sooner rather than later

Now is the time for many businesses to examine their finances, insurances etc to make sure that they have appropriate structures in place to cope with any downturn and also to ensure that their financial costs are kept to a minimum. Usually it is a case of those who act soonest, are best placed to withstand the storm. The market is probably not yet through putting the 'ugh' in ugly. This downturn is nearly global and after a continuous party for about 10 years, we are having to do a bit of a clean up.

The Lemmings of Bankersville

The businesses that will weather the storm best will be those with the lowest debt loads. Also those that have had sound advice from their pro-active accountants – yeh, I know they can be a bit conservative at times – who will have made sure their debt ratios were sustainable. Just because a bank or finance company is willing to give you the money, means it will be good for you. John Keynes, the famed economist said in 1931 “A sound banker, alas, is not one who foresees danger and avoids it, but one who, when he's ruined, is ruined in a conventional and orthodox way along with his fellows, so that no one can really blame him.”

Unfortunately, history is not always the teacher it should be and the same is true today. Witness the number of finance companies falling by the wayside and the number of bank write-offs. Mr Businessman, make sure you are insulated as best you can.

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