

# TICKING THE 'TO DO' LIST

The global economic downturn has implications for many companies but it's perhaps the SMEs that are going to be affected the most. Sue Prestney looks at why it's imperative to tick all the boxes on your business's 'To Do' list this year.

**L**ate in 2008, the Institute of Chartered Accountants in Australia released a set of guidance notes for small business owners facing the global economic downturn. It

was aimed at SME owners because the downturn causes particular problems for small companies. The notes look at ways SME owners, many of whom don't have the size or the funds of a larger business to be able to absorb the impact, can minimise the effects of the economic downturn. For those who want to survive and prosper over the coming months, there are several key areas you should be looking at.

## 01 CASH FLOW

A business sinks or swims on its cash flow. It is particularly important that small businesses maintain control of their cash flow during difficult times. Try to stay on debtors for payment, in order to keep the cash flow coming in. The best way to ensure this is by keeping in regular contact with your customers and clients and monitor current collections against past payment history. This should alert you to debtors that are experiencing problems. In such a case don't allow debts to mount – a sale is not worth making if you are not going to get paid. Ensure your invoices carry a 'retention of title' clause, so you can at least get the goods back if the debtor fails to pay.

## 02 INVENTORY MANAGEMENT

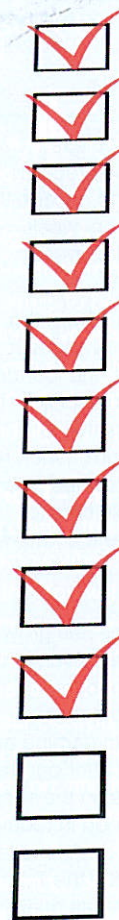
Businesses need to be aware of the implications of having too much stock. Ordering inventory that cannot be sold is a recipe for disaster, especially in a credit squeeze where finance is difficult to get. Maintaining adequate stock management procedures and continually reviewing sales forecasts will assist a small business to ride out the impact of tough economic conditions. Without stock management a small business can become overstocked and unable to pay suppliers. This can result in having to liquidate stock or even the business itself.

## 03 FOREIGN EXCHANGE

With the continued instability of the Australian dollar, foreign exchange movements need to be monitored by those small businesses that import and export their products. It is paramount that importers deal immediately with the increased cost of imported goods now that the Australian dollar has dropped. They should also have an ongoing policy of taking out forward cover to protect them against any sudden future falls in the currency. Small businesses, especially importers, need to maintain control of their profit margins. Few importers have sufficiently high profit margins to absorb the recent 30-per-cent devaluation of the currency, and therefore must quickly increase prices to remain profitable.

## 04 BANKING RELATIONSHIPS

It is important not to hide from your bank in tough economic conditions. Your bank wants assurance and needs to know that you are on top of things. It is vitally



important that your banking deadlines and covenants are met. In this current climate banks do not need any encouragement to withdraw their credit support or increase the margins on their interest rates.

If necessary, seek professional advice. Making the wrong decisions (or no decisions) now could be fatal to your businesses. **W**

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