

Danger Signals of a Business in Trouble

During the bleak days of the Depression, an aggressive politician from New York named Franklin Roosevelt made a bold promise that his administration would put "two chickens in every pot and a car in every garage." As it turned out, this was one of the few times in history when a political exaggeration was actually an economic understatement. Today poultry is so inexpensive that it is the most common meat used in pet food. And the automobile has become such a fixture in the American home that owning just one is a handicap rather than a privilege. In fact, we have such an innate understanding of the internal combustion engine that most of us have a rough idea of how it works and why it sometimes doesn't.

Unfortunately, many business people have not come quite as far since the Depression in their ability to discern what makes a company or organization work and what needs to be done to ensure its survival. There are basically nine "danger signals" that indicate the strength and viability of a business:

- 1. Declining gross income, combined with operating losses.** In most instances, declining sales will not be targeted as a problem until operating losses deplete cash reserves. Normally operating costs will remain high and not be adjusted as sales decline. This creates the operating losses that eat up cash reserves.
- 2. The absence of an operating plan to guide the company.** Most managers do not use a carefully crafted planning procedure to create an on-going validation system. If a planning document exists, it is often shelved and forgotten as day-to-day concerns take precedence over future goals. When this happens, management has little or nothing to measure itself against and is oblivious to hidden dangers.
- 3. Breakdown in communications between upper management and the labor force.** Failure to communicate vertically creates a situation where upper management cannot identify conflicts that exist in the on-going operation of the organization.
- 4. Inadequate cash flow.** The ability to generate cash flow is the key ingredient in a successful business operation. Without adequate cash flow, an organization is doomed to failure. While it is normal for most organizations to have seasonal fluctuations, balancing these adjustments is critical for the survival of any organization.
- 5. Inability to convert accounts receivable to cash promptly.** The slow collection process of accounts receivable can be a danger signal that a poor job of screening accounts and granting credit has taken place.
- 6. Inability to convert inventory to cash promptly.** A slow down in inventory may signal a problem in the quality of products shipped.

7. Cash tied-up in nonproductive assets. Investing heavily in a new office building, equipment and personnel without careful planning can be a nonproductive use of assets and can destroy a company.

8. Amounts owed to vendors. When an organization is unable to meet the payment terms of their vendors, not only does a serious cash-flow situation exist, the future credibility of the company is in doubt. Long-term business success depends on the goodwill a company is able to generate with its creditors.

9. Low employee morale. Most employees truly want their organization to be successful. When a company is without solid direction, morale declines and with it goes productivity.

The natural tendency of most managers is to ignore potential problems until their urgency demands attention. By systematically - preferably on a monthly basis - reviewing the corporate goals and evaluating how successfully these goals are being achieved, management will maintain the fiscal vitality of their company and eliminate the anxiety that comes from last-minute problem solving.

By Dan Lacy