



PLÉSONA

BUSINESS ADVISORS

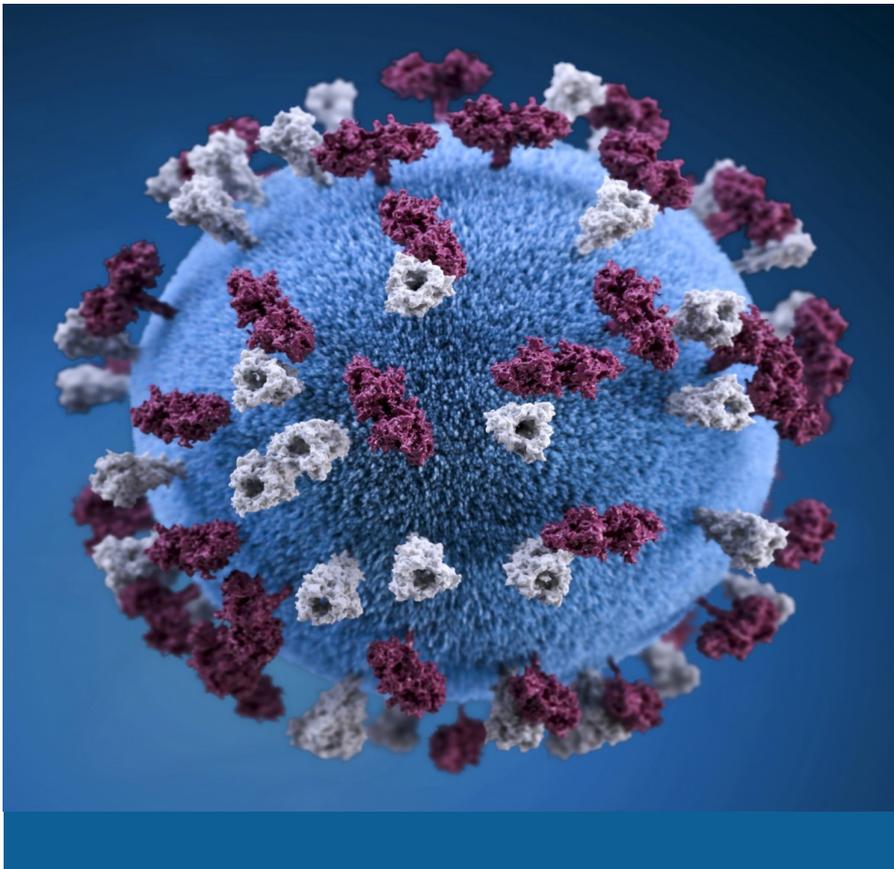
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Plan for the worst, hope for the best

It is often said that a failure to plan is a plan to fail. We all want to believe that the good times will continue into a never-ending positive future, but that is not the real world. The truth is that the fortunes of any business will ebb and flow over time. Planning for good times is easy, but planning for leaner times is always harder. This year has proved to be a harsh lesson for many businesses that failed to plan. Many will say that it was not possible to plan for a once in a century event. That just isn't true. Major banks had this problem during the last recession and as a result, they all have to do regular stress testing with their central banks. The result of that stress testing has been that banks do not have the liquidity problems that existed in the last recession since they have been forced to vastly increase their liquidity buffers. The evidence of that is that almost no major bank in an advanced country has gone bust in 2020. But the same cannot be said for smaller businesses that were living on a more hand to mouth basis. Many of these businesses have disappeared because they failed to build reserves in the good times that would have meant that could survive the bad times. And the key is to plan for cash. For example, it is a common practice for tech start-ups to project how long their cash reserves will last until they are at a stage where they are building revenues from scratch. Most of these start-ups do not fail because they had a bad idea. They fail because they run out of cash. The same is true of small and medium-sized businesses. Everyone wants to believe the optimistic sales projections and that everything will be rosy in the future. But there needs to be an edge of realism that continually questions the possibility that things turn negative. What if I lose my top customer? What if my business is disrupted by a no-deal Brexit? What if there is another shutdown as a result of Covid-19? What if my customers pay me later than promised? What if my supplier lets me down? What if the bank withdraws my overdraft? This might seem like an exercise in negativity, but it is necessary to be prepared for as many outcomes as you can, all of the time. That is why it is essential to have a comprehensive business plan that can be easily updated. That plan will help to forecast problems before they happen. An example is a business we know that sells and services juicing machines primarily to restaurants and cafés. Back in early February they quickly realised that a lockdown was possible that would decimate their business. That prompted their decision to focus all their sales and marketing efforts on retailers instead. While they have still had a rough year, the additional income from retailers has kept the wolf from the door and opened up a new sales channel for the future. The plan allowed them to diversify at an earlier point than if no plan existed and their business had collapsed. So planning needs to be a continuous process which will also help to understand when will be the point to expand the business when times are better. So having a plan will help your business to survive and then prosper.





Getting paid in the Pandemic

Much has been made in the news of businesses that are in trouble and are having problems paying their bills. While it is certainly true that some businesses have had these problems, the majority have not. The payment statistics that we have from major European companies would suggest that 80%-90% of payments have followed the pre-pandemic pattern. There have been some larger companies that threatened later payment or stopping payment altogether. Some of these threats were never carried out as cashflows turned out to be better than expected for most. But there have been unscrupulous businesses that have used Covid as a cover to conserve cash. We know of one organisation that stopped all payments back at the start of the pandemic. This type of behaviour is completely unethical and damaging to suppliers when many are suffering. There are also businesses out there that are being sustained through various government sponsored schemes that may collapse once the free cash is withdrawn. That is why we would caution businesses to pay close attention to the payment patterns of your customers. At the slightest hint of change, you should be making contact to see if there is a problem. Most genuine people will own up to the issue. But beware of those who try to deceive you with a never-ending list of excuses.



SME Covid loans

Governing politicians have been very pleased with themselves regarding the loan support that has been offered to businesses in recent months. The only problem is that most of these schemes have quite a low uptake and the problem is worse for micro-sized businesses. There have been several reasons for this. Many small businesses are traditionally very wary of taking on debt, so even when they are eligible they would rather not apply. Others have done the math and simply do not make enough margin in their business to be able to afford to pay back the loan in what is likely to be a depressed economy. For those who have applied, they have found banks difficult to deal with. For example, one Irish scheme, where the loan is 80% guaranteed by the state, specifies that the lender does not need to obtain personal guarantees from the applicant business. In practice, the Irish banks are routinely asking for personal guarantees. This then deters the small business from proceeding with the application. There have been numerous cases like this that just prove that banks are conservative institutions that are jealously guarding their own risk profile, rather than understanding the commercial opportunity they have been given to grow their loan book at low risk. It will be months afterwards that the politicians figure out what is going wrong and try to fix the problem. By then many of these businesses will have found alternatives that make the original scheme redundant. Closing the door after the horse has bolted.



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