Business Corner

Running a Successful Trade Business. Become Debt Free.

June and December are significant months in business. June provides an opportunity to review financial matters, what has happened and what should happen in the future. December is for motivation, a time to introduce new ideas, plan positive growth and look to the future.

In both cases it is important to realise, there is nothing that can be done about the past, except to learn from it. The future can be controlled by management decisions.

In today's competitive market, the tender price needs to be tight, which calls for accuracy rather than lowering the price to buy work. It is important to keep cash flowing through the business, lest it will die. If the price is too low, the project will show a financial loss; and if repeated often enough a shortage of cash will be experienced, the business will struggle and become self destructive.

Businesses that continually increase their bank overdraft, credit card limits or line of credit on their homes, need to understand that times may never get better. History shows that tendering is as competitive today as it was in the eighties and nineties. Government debt is much higher, which makes it even more difficult. Therefore managers need to be smarter. The financial formula has to be correct. This topic will be addressed in the next issue, **'Understanding Mark-ups'.**

The first task in debt reduction is to accurately assess the true debt level of the company. The exercise should only include debt that falls in the following categories and not regular monthly running costs, such as workshop or office leases, insurances and similar overhead costs. Use a MS Excel Spreadsheet, and list all the company debts in three separate groups.

a) Current liabilities
b) Machinery and equipment leases
c) Long term liabilities

Current liabilities are trade suppliers that must be paid. Only include the overdue amount which the company is having difficulty paying. Not the regular monthly turnover.

Based on the estimator's ability to measure the quantities accurately, the cost of materials and labour should be covered. It is more likely that a shortfall in cashflow will occur due to insufficient mark-up that is required to cover overheads.

Cars, machinery and equipment must be viewed as assets, with an expectation of gaining a return on the investment. If the machinery and equipment is sitting idle without potential to return a profit in the short to medium term, serious consideration should be given to selling it and paying out the lease. Of course, if the lease is not completely paid out, logic would suggest keeping the machine is a better business decision. In which case more effort must be made to seek work and at least cover the monthly costs until work is plentiful. There is no point in selling an asset and still having the debt.

Long term assets, such as real estate, land and buildings need to be assessed separately. If they are cash flow positive, they stay in the business. As well as contributing to the cashflow, they have the benefit of increasing in value. On the other hand, if the balance sheet indicates negative cash flow, such an asset needs to be sold and any profit from the sale used as working capital. This way the business is protected and can buy back into the market when the time is right.

Good business managers have the courage to make tough decisions that protects the business and the employees, as well as the shareholders.

It is as simple as reviewing the three groups, decide what stays and what goes. Value the real debt in the business and compare it with a realistic cash flow plan. Debt can only be reduced from profits, if the company continues to trade at a loss or cash flow negative, then being a debt free business will remain a dream.

Don't try to reduce debt quickly, set a two to three year plan, and as it progresses review it on monthly basis. If a large debt is owed to a supplier, call a meeting and explain the debt reduction plan and reach an agreement as their support is vital.

Stop thinking the bank manager is there to help; they get paid to keep businesses in debt. Building trade companies sell materials and labour, a bank sells money and makes a profit from it. Stop being their slave and make them work for you. People accumulate wealth by borrowing money from banks, such business people ensure the return on their investment is greater than the cost to borrow. It is a dangerous business practice to borrow money to continually prop up an existing debt.

Next month's Business Corner, will address where the money comes from to reduce such debt. 'Understanding Mark-ups'

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