

# EXIT MANAGEMENT

Is your credit card carrying your business? Are you delaying IRD payments? These are two common signs that a business is struggling and now is the time to find a solution.



**T**he global economic slow-down can seem more personal for some retailers. Christchurch's BikeHQ was liquidated in January after its worst year in more than 20 years of trading. Eastern Hi Fi and 10 Stax stores were also declared insolvent in the same month, and there will inevitably be casualties that avoided the headlines.

Late summer is crunch-time – Christmas sales may have been disappointing, suppliers' bills are overdue, and tax time looms.

If that sounds familiar, retail advisers say it is essential you act quickly. Acting sooner means you have more options and control – and face lower costs and risks. Professional advisers can help you put the problem in perspective and find undiscovered strengths in your business. They can also help you get out of business while keeping your reputation and your home.

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Waiting until your cash flow dries up, or your liabilities exceed your assets, means you face very limited options and increased personal liability. If you

continue trading while insolvent you are risking 'reckless trading' and need legal and financial advice.

While it's good to have friends and supporters, it is crucial that you have a trusted, dispassionate adviser who can look at your business from the outside and give you an objective assessment.

Developing a supportive relationship like this – with an accountant, adviser or other specialist – while you're thriving, means you'll be in a much stronger position if and when business slows down.

## SEEKING ADVICE

The **New Zealand Retailers Association** (NZRA) adviser and *NZRetail* columnist Brian Finlayson has been guiding retailers for more than 10 years. He says business people need good advice and finances right from the start.

"I always advise people that if they are going into a retail business they need about 70-80 per cent of the money upfront before borrowing against the house."

Finlayson also believes retailers need specialist lawyers and accountants – your family lawyer won't be the best choice unless they have strong retail experience. Contact the NZRA if you want to be put in touch with specialist retail accountants, lawyers and other advisers.

**Accountants** are the most frequent source of business advice and are good at providing an objective overview. Some retailers say accountants are backward in coming forward with valuable financial information. Tom Davies, professional support director at the Institute of Chartered Accountants, says it is important to clarify the accountant's role in your business.

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"Accountants can offer a whole range of services from annual statements to taking over invoicing and other office functions. Right at the beginning you need to sit down and the accountant should explain what he or she can provide. The retailer and accountant can determine what services are appropriate, and define them in the engagement letter."

Davies adds that the accountant should be used to help retailers gather and analyse timely financial data. "Get your accountant to help you put in a system that will flick out those figures whenever you need them – and that might be daily in a cash business."

**Banks** are the primary credit source for many businesses and have a stake in long-term growth. "Early and

candid discussions and advice from professionals like your banker, lawyer and accountant will allow you to leverage their experience to achieve the best outcome," says Westpac Business Banking northern manager Steve Jurkovich.

**Retail advisers** can provide a wide overview and help retailers work with banks, accountants and other suppliers.

Advantage Business works with the NZRA and offers members a diagnostic check-up. Director Gerald Delany says Advantage Business looks at the business' life cycle stage – growing, mature, or declining – and uses this as a basis for determining future options. But, it also does the same exercise for the relevant retail sector and for the business owner. The combination of these three life cycles helps determine possible outcomes for change. "If any of these factors are looking good, we can look for ways to save it," says Delany.

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Richard Ellis runs Telmia Retail Consulting and Contracting and has worked for retailers in Britain and

New Zealand. "There are two sides to consider – the emotional side and the cold, hard, financial side. You have to look at those issues quite separately because the emotion can take over. People string out their business longer than they should and get into some serious financial trouble as a result."

Ellis believes all retailers need external support. "Small operations are harder to run, in my experience, because there's no one to delegate to."

While researching this article, *NZRetail* spoke to several business advisers who do not want to be associated with the topic of struggling businesses. Ensure your adviser is prepared to contribute throughout the business life cycle – there's no point wasting time with fair-weather friends.

**Lawyers** are especially important if you decide to enter receivership or liquidation or are looking at insolvency. And, before you get to that stage, talk to your lawyer about reducing the risks to personal assets and your home.

## WHERE TO FROM HERE?

Your options for controlling your future are strongly influenced by the current state of your business.

**Slow-down stage** – your business is producing less profit than budgeted. This is the time to benchmark your business against competitors and to strengthen your relationships and business systems. Strong relationships with suppliers and a trusted adviser will help you operate as efficiently as possible. Well-defined business systems will also help efficiency, and are a desirable asset if you choose to sell.

"Things like operational manuals and systems, customer and supplier lists and other areas will all make your business more valuable," says Steve Jurkovich. Alternatively, the time and planning allows you the best opportunity to manage any outstanding contractual and



If your business is struggling, it is especially important that you take action while your business is still solvent.

financial obligations that may exist in relation to the business."

Gerald Delany says this is an excellent time to revisit your business goals. These inevitably change over time, and it is perfectly acceptable to allow your business to provide a comfortable livelihood without conquering the world. "Some retailers are relieved to get permission to run a stable lifestyle business – it's a valid business type. Don't chase growth if you don't want to."

Benchmarking lets you compare your overheads with those of your competitors. Delany uses the business benchmarking survey run by MYOB and Waikato University. Tom Davies says your accountant can access this, and other benchmarking projects. An accountant or adviser can help to analyse the data, relate it to your business and identify areas for improvement.

You are not alone if your business is slowing down.

"Landlords want space occupied and want the rent coming in. It's the same with suppliers – they need good retailers now. Don't be afraid

to negotiate good terms," Richard Ellis advises.

He warns against being tempted to cut wage costs when retailing becomes more competitive. "The customer has more and more choice and, if they sense your standards of service are slipping, they will go next door."

This is also a good time to reduce your liability to an extended slow-down. "I always advise people not to sign any personal guarantees with suppliers or landlords," says Brian Finlayson.

**Struggling solvent stage** – you are solvent but operating at a loss, or you are delaying paying the IRD or suppliers, or you are relying on your credit card to keep the business afloat.

This is the time to make the serious decision about your future in this business. You have three options: to continue to trade, to sell up, or to liquidate the business. It is important to act quickly because you can rapidly lose control at this crucial stage.

Gerald Delany says IRD payment dates provide a regular check of your cash

flow health. If you're frequently worrying, or delaying tax payments, it's a sign you need to make changes fast.

"The last thing you want to do is get late paying IRD because the penalties and interest can really stack up. Ten thousand dollars can quickly become \$60-70K," says Tom Davies. "Once you become insolvent, your options are very limited."

Good financial reporting is important at this stage. If you operate at a loss for a month you should know about it within days of month-end, and you should talk to advisers or accountants to determine the cause. Weekly or daily results provide a better margin of safety.

If you choose to struggle on, consider appointing your accountant or adviser as an informal administrator. Give them the cheque-book, keep regular contact, and get on with running the business itself. Formal options include voluntary administration, which is a legal process aimed at rescuing companies that are at risk of insolvency or actually insolvent. It is only suitable

for businesses that have a good chance of rehabilitation. Creditors meet and agree a plan for the future. Get professional advice on this option and other alternatives.

Selling up can be a viable option for a loss-making business, and can be attractive if you, as the owner, are burning-out or wanting a new challenge.

Gerald Delany advises tidying up your business inside and out – get the dead flies out of the window and get the admin up to date. Advantage Business prepares a set of investment accounts when it is grooming a client's business for sale. These remove information specific to the current owner, such as drawings and interest payments, because this isn't relevant to a new owner. The result can be surprisingly viable.

Delany recommends selling your business directly to suppliers, competitors, customers, staff or family. Discretion is needed to preserve the value of your brand, and a third party may help here, but Delany believes business brokers are a last option because of their commission.

Brian Finlayson regularly helps retailers prepare businesses for sale and helps to find buyers for the business or for separate assets, like your lease. This service is available to NZRA members.

## LIQUIDATION

Liquidation will cut your losses and can help you preserve your good name and get a fresh start.

"Many hugely successful people have closed just as many businesses as they have opened and this is where protecting your reputation and credit history is critical if you intend to start another business", says Westpac's Steve Jurkich.

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"If you are on a downward track, but still solvent and everyone can be paid, the best thing can be to recognise the inevitable: liquidate, and everyone gets paid out. You could be well-advised to go into liquidation voluntarily if you can see things are not good, while you are still solvent," says chartered accountant and former receiver Tom Davies. "The sad story is that the majority of liquidations are of insolvent companies and usually it's a total wipe-out."

Talk to your lawyer and accountant about the most efficient legal and financial processes.

**Insolvency stage** – your business is insolvent if it cannot pay debts

on the due date or if it has more liabilities than assets.

If you let your business become insolvent you have very restricted options. If unpaid creditors take legal action, you might have no control at all.

Trading while insolvent has serious legal implications and directors who do this can be personally liable for any debts they take on, losing the limited-liability protection provided by a company.

Financial options include refinancing or selling off some assets. Legal options include summary instalment orders, a No Asset Procedure and bankruptcy. See the Ministry of Economic Development's Insolvency and Trustee Service for a summary of these options.

If you are trading while insolvent, it is crucial that you get legal advice immediately – costs can be huge. Lots of advice is available on-line but, seriously, if you are in this position a website isn't going to help. Get professional help if you haven't already.

## ACT NOW

Getting up-to-date financial data, and knowing how to interpret it, will help you keep a close eye on debts and assets in a sluggish market.

The specifics of each business are different and change over time, just as the owners' goals change. The advice you get must fit your business and personal goals, and it is essential that struggling retailers get dispassionate external advice to keep things in proportion.

Building these trusted relationships before the trouble starts will help you keep control of your business – and might help you stay sane as well. ■

By **Martin Craig**, a specialist retail writer, researcher and owner of Splash Communications (splash@actrix.co.nz).

## FOR MORE INFORMATION TRY:

The New Zealand Retailers Association (0800 472 472) or [www.retail.org.nz](http://www.retail.org.nz).

Westpac (0800 177 167).

Advantage Business (0508 238 268).

Insolvency and Trustee Service ([www.insolvency.govt.nz](http://www.insolvency.govt.nz)).

Business Information Network ([www.business.govt.nz](http://www.business.govt.nz)).

Telmia Retail Consulting and Contracting ([www.telmia.co.nz](http://www.telmia.co.nz)).



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