

Soapbox

Short-term cash crunch: The chance to revitalise a seasoned business

A look at the power of an independent business review.

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In any mature business, there will come a time when an independent review is needed: a robust review of the core business, the operational structures and processes, the quality of reporting, including budgeting, forecasting, and results management, and a general assessment of decision-making processes and delegations. This process naturally examines decisions that may have been made in the past and assesses their continued relevance.

This review may be prompted by the discovery that the business, though well-functioning, needs additional short-term funding to maintain its operational activities. The reason for the short-term funding requirement may appear innocuous, for example, it may arise from a significant payment delay from a debtor or supply chain issues resulting in late delivery of components and so undermine sales.

However, these indicators should be properly scrutinised. They are not usually stand-alone events and may have 'history tails' that could reveal some deep-seated flaws in the business.

Often, the need for funding is simply recorded in the board pack as an operational "speed bump" and the administrative process to secure the funding begins. Depending on the size of the short-term funding required, management turns its attention to setting up meetings with new or current debt originators and redrafting cash flows and forecasts on the assumption that the requisite funding will be secured. The exercise may involve applying for a short-term bridging facility, or requesting a reprieve from a long-term payment plan or a payment holiday on an existing debt facility and including revised payment arrangements with creditors. Management may even consider liquidating a non-core asset to generate some cash flow in the short term.

The cash flow injection over the short term is often not the panacea that management may believe it is. Funding rarely arrives on time or in full and new short-term loan terms are likely to be more onerous than for existing facilities. It is also not uncommon that a request for short-term funding triggers a broader review of all the company's debt facilities and an assessment of its continued ability to repay. The exercise usually involves further costs, including on lawyers, accountants and covenant reviews and, importantly, it distracts management from its operational focus.

The benefits of an independent review

This could be the right time to consider an independent review of the business by competent and experienced restructuring advisors. The need for funding over the short term may well be an operational issue that is part of a legacy system that has not been reviewed or changed over time. The independent business review should provide insights on the business including its pricing, product or service range, the competitor landscape and the economic environment and, more importantly, an objective assessment of how all these issues affect the company's working capital.

The power of an independent review of the business lies in the fact that the restructuring advisors have no allegiance to the management or the board of the business, ensuring that reportbacks are objective and robust. The report often reveals that a problem that initially manifested as a requirement for funding over the short term to 'maintain' the business could be turned into an opportunity to fundamentally restructure the business for growth.

The conscious, deliberate, focused and robust review of the business's operations could be an opportunity to review costs, the staff complement, cut a product line or even exit a market.

In fact, the exercise may move from a "maintain" requirement to a "growth" opportunity, as a change in strategy becomes the focus. The initial requirement for funding over the short term may turn out to be the beginning of a whole new era for the business, if management and the board provide the opportunity for a structural shakedown.

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