

The second coming of the GFC?

Much has been made in the media about Australia surviving the global financial crisis (GFC) or Eurogeddon as some of the finance crowd labelled it. On the ground however, the headlines concealed the reality of a patchwork economy where some industries pushed ahead while others were flailing in a sea of weakening consumer confidence, heavy discounting, tight lending conditions, and billowing debt cycles.

Rumours are rife that we're heading for a continued period of global economic turbulence and recession despite improvements in the European sovereign debt financing conditions. So, what does all of this mean for Australia?

Australia's Gross Domestic Product (GDP) is expected to be higher than last year at 3.8% with much of the growth driven by the resources sector and an expectation that China and India will continue to consume our resources despite the high Australian dollar. Mining and mining related sectors account for around 20% of the economy and contribute more than two thirds of Australia's GDP while the rest of the economy that is not benefitting from the resources boom contributes less than a third¹. While there are flow throughs to the rest of the economy, you can understand why it's hard for some sectors to 'feel the joy' of Australia's comparatively resilient growth rates when that growth is so concentrated.

In 2011, Australia added no new jobs for the year despite a decrease in the unemployment rate. Most economists expect unemployment figures to rise this year as employers – many of whom have been hoping conditions will improve - start shedding jobs. As job uncertainty increases, consumer confidence and spending is likely to dip further.

Add to this the fact that February is normally cash flow hell for business with Activity Statements and payments due and you have a very uncertain first quarter. Dunn & Bradstreet released a report in January showing that businesses are neglecting their bills with the number of severely delinquent payments rising by 28% over the Christmas period. The February BAS payments will only compound the problem.

The second international GFC may come but regardless of the mining boom, Australia is in for a turbulent time.

¹ *The Macroeconomic and structural implications of a once in a lifetime boom in the terms of trade* – David Gruen, Department of Treasury, 20 November 2011

How do you know if your business is in strife?

Insolvency specialists will tell you that business failures don't show for months if not years after an economic downturn as business owners struggle to hang on. A business can go broke for many reasons but one consistent factor is the owner's fail to recognise the warning signs and take appropriate action. Here are a few of the key indicators:

- **Budget for the year looked great but actual performance is ugly** – You need an operating and cashflow budget, as one does not necessarily mirror the other. Your budgets need to be rigorous and realistic. Measure performance against budget every quarter (or monthly where things are volatile). Where deterioration occurs, act on it.
- **Increases in fixed costs without an increase in revenues** – Fixed costs have a direct impact on your profitability. If you increase your fixed costs these need to be linked to revenue and profit expectations.
- **Falling gross profit margin** – Your gross profit margin is the difference between your sales minus cost of goods sold. Every dollar you lose in gross profit is a dollar off your bottom line. Watch discounting strategies as they can have a major impact on your gross profit levels.
- **Funding your business with debt rather than equity finance** – if your business is funded on debt it's easy to strip the profits out of your business. Watch your funding mix and review debt regularly.
- **Falling sales** – If sales are falling rather than launch into knee jerk campaigns have a look at what the actual problem is – competition, product mix, market changes etc? Then put in place to manage these strategies. *Continued over*

What is the PPS register?

You might have heard the advertising about the *Personal Property Securities Act* (PPS Act) and the national register that opened on 30 January 2012. But with a title like that it's easy to think that the Act and the register are not something that the majority of us need to worry about. But, if you intend to:

- borrow money against an asset,
- provide goods on consignment or on credit,
- supply goods under a lease arrangement (or enter into a leasing arrangement),
- buy a business, or
- buy personal property (excluding land),

the PPS Act and register will impact on you.

The PPS Act introduced a new way of recognising and enforcing security interests in Australia. A security interest is created when you buy personal property on hire purchase or use personal property as security for a loan or other type of credit transaction.

Not only does the PPS register replace the State based security registration systems but it expands the type of personal property that can be registered as a security interest. For example, if you are buying personal property like a second hand car, you can check the PPS register before purchasing it to see if there are any security interests attached to it. In business, the register will be a way of protecting your interests in a broad range of situations. Boats, machinery, crops, shares, art, intellectual property and contract rights can all be offered as security for a loan and where this occurs, will need to be registered.

While registration is voluntary, it is important to understand that if a security interest is not registered and your customer goes bankrupt or insolvent, you can no longer rely on retaining title to reclaim the goods. If it's not on the PPS register, you may not get your property back in these circumstances. So, you need to weigh up the risks and register any relevant property *before* supplying it.

For many businesses, the first step will be to review your current situation and note your security interests and property subject to a security interest. Then, register any applicable interests and review any existing registrations for accuracy. When you discharge a debt over personal property, you may want to make sure that the register reflects this.

And of course, fees apply to registering an interest, obtaining certificates and searching the register.

You can access the PPS register at <http://www.ppsr.gov.au>.

How do you know if your business is in strife? *Continued...*

- **Delaying payment to creditors** – if sales are ok there could be a number of reasons why cash is tight. Debtor cycles are often a problem that needs to be addressed.
- **Issuing cheques in excess of your banking facilities** – in other words, trying to pay today's bills with tomorrow's cash. High growth businesses often come under pressure but the solution is negotiating with suppliers and the bank rather than hoping for the best.
- **Poor financial reporting** – if you don't recognise a problem is occurring you can't address it.
- **Growing to death** – Growth, like anything else in the business needs to be planned. If it's not planned it's unlikely you can sustain it.
- **Substantial bad debts or dead stock** – customers that won't pay their bills and stock that you can't sell. Credit policies need to be enforced – remember the sale is not complete until the money is in the bank. Managing dead stock is about planning. Make sure you have a tight stock policy in place that is measured and monitored.

If you need assistance with planning, establishing reporting processes, identifying KPIs or just a second pair of eyes, call us today.