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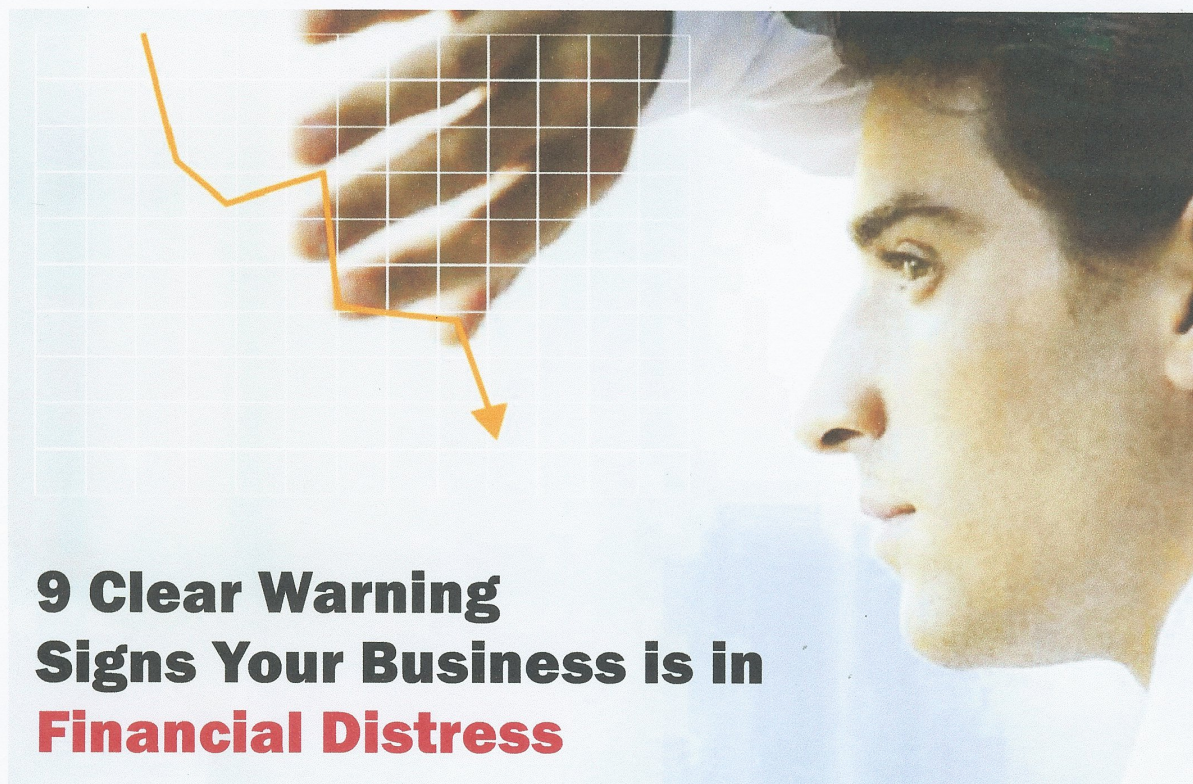
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## 9 Clear Warning Signs Your Business is in Financial Distress

by Rhondalynn Korolak

**It has often been said that “profit is pointless and cash is King”. But do you know why?**

Knowing exactly where you stand financially – your cash position – means that you don’t have to wonder “do I have enough money in the bank to cover my rent and wages this month?” The health and vitality of your business is dependent upon your ability to cover all tax obligations, payments to suppliers and basic operational expenses (i.e. wages, rent etc.) as they come due in your business.

Unfortunately, knowing where you stand is not as simple as merely looking at the balance in your bank account(s) or estimating your cash needs at a point in time in the future. Your bank account will indicate your cash on hand (at a point

in time) but it will not tell you what your cash flow is. Cash and cash flow are not the same thing. Cash flow is about the movement of cash in and out of your business as it operates over a period of time.

The distinction is critical - if your company is profitable yet it maintains a negative cash flow for an extended period of time, eventually it will run out of money and you will not be able to continue to operate. Therefore, “cash flow is King” and knowing your cash flow is critical to staying afloat. You can have the most brilliant product or service, but if you don’t have positive cash flow, your business will go under.

Almost every business will experience financial distress or pressure at some point in time – the key to survival lies in the owner’s ability to diagnose problem areas and take corrective action quickly. This requires careful monitoring and measurement of key financial metrics

which highlight possible areas of financial pain. Despite the importance tracking profitability as well as cash flow, many business owners fail to measure even a handful of key performance indicators each month and often ignore the classic warning signs, which if left unaddressed, could foreshadow the death of their business.

**“ Unfortunately, knowing where you stand is not as simple as merely looking at the balance in your bank account(s) or estimating your cash needs at a point in time in the future. ”**

**Every business that is in distress shows clear symptoms of impaired profitability and cash flow. In fact, there are 9 key warning signs that foretell the end is near and must be acted upon immediately to turn the business around:**

**1)** lack of up-to-date financial information (timely financial statements, management reports) and failure to calculate and forecast cash flow;

**2)** continued erosion of gross profit margins (signifies an inability to control the variable costs of doing business, a reliance on price discounts to entice sales and/or the failure to pass on price increases from suppliers)

The key to avoiding financial distress and failure in your business is of course, early detection. By being aware of the 9 key warning signs, you can focus your attention on what is important in your business, make better decisions and take action that enhances your bottom line and strengthens the long term health and viability of your business.

**3)** uncontrolled growth/expansion (the business has insufficient working capital to finance the increases in receivables, inventory and payables that come from a substantial increase in the volume of business over a short period of time);

**4)** over-reliance on borrowed funds (the company is not able to run on internally generated funds and cannot service the loan plus all of the other fixed costs of doing business)



### About the Author

► [www.imagineeringunlimited.com](http://www.imagineeringunlimited.com)

► [www.imagineeringprofit.com](http://www.imagineeringprofit.com)

**5)** business is experiencing difficulty paying creditors and tax obligations as they become due

**6)** return on assets continues to decline over a period of time indicating the business is making less and less profit for each dollar of assets invested

From humble beginnings and despite formidable obstacles, to success as a leader, writer and entrepreneur, **Rhondalynn Korolak** has learned what it takes to succeed. She is a fully qualified lawyer, chartered accountant, clinical hypnotherapist and Master of NLP. She is the MD of Imagineering Unlimited, the author of "On The Shoulders of Giants" and "Financial Foreplay" and is a leading expert on business acceleration through financial insights, online business and the power of influence. She is a regular contributor to 12 major publications and is featured in/ on CNN (USA), Yahoo (USA), Channel 7, Channel 9, Kachie's Business Builders, 3AW, MYOB, Fast Thinking, Sunday Life, Dynamic Business, Australian Anthill, Australian Retailer, Business Spectator, Cosmopolitan and Working Women.

**7)** high employee turnover and reduced productivity are particularly important indicators because they suggest an inability to maintain staff (intellectual capital) and output at previous levels

**8)** increasing marketing/advertising expenditure (as a percentage of sales) over a prolonged period of time (may indicate that the business is chasing customers and sales at the expense of profitability); and

**9)** a continual need for capital injections/loans because the business is not generating enough operating income internally



**Important:** The contents of this article are the personal views, research and opinions of the author, Rhondalynn Korolak.