

## IS YOUR BUSINESS IN TROUBLE? SIX SIGNS

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It is the rare business owner who has not at some point in his or her career experienced the clammy hands and elevated blood pressure associated with trying to meet a payroll. But how does one tell when the day-to-day challenges of running a company have given over to the pressures of operating a business that may be in the early stages of failing? Here are three subtle, and three not-so-subtle indicators.

1. **Your debt-to-asset ratio is increasing.** It is not uncommon for businesses to borrow money to finance equipment, buildings and other assets, including inventory. However, if your ratio of debt to total assets is increasing, you may be at risk of becoming over-leveraged. Although acceptable debt levels vary from industry to industry, a ratio of 50% or greater can be an omen of impending trouble.
2. **Your bank won't loan you any more money.** We have all heard the story that banks only lend money to people who don't need it. In reality, most banks are not in the business of making high risk loans. Your banker's reluctance to provide you additional debt is a sign that this outside third party may not think your business is as healthy as you think it is.
3. **Slowing inventory turnover.** If you are in the business of selling products, having inventory on the shelves longer may be a negative indicator.
4. **Net losses.** It's not uncommon for startups to experience losses in the early stages of a venture. A startup company is typically funded from outside resources until it reaches its breakeven point. In the case of later stage businesses, most owners try to minimize net profit for tax purposes by taking advantage of depreciation and other elements of the tax code. But if your business is routinely losing money in real terms, this is a not-so-subtle indication of trouble.

5. **Cash flow problems.** Chronic cash flow shortages can also signal an ailing business. Indicators include average accounts payable agings that exceed 30 days. In this case, you're financing your short term cash flow shortfalls on the backs of your vendors. Another sign of cash flow problems is when the practice of writing checks on the due date and then not mailing them until the bank account is replenished becomes a routine cash management tool. A current ratio, which is the comparison of current assets to current liabilities, of lower than 1 to 1 can also be an indicator of cash flow problems.

6. **You're no longer having fun.** Not everyone has the luxury of waking up in the morning and looking forward to going to work. However, if your business has come to feel like a millstone around your neck, it may be time to reassess your career options.

So, what can you do if you find that your business is not performing as well as it should? Your first reaction might be to try to sell it. However, it's difficult to sell a weak or failing business and it's unlikely you will recoup your investment. A better idea would be to conduct a thorough business analysis of the company and develop a plan of action to turn it around. This may well include enlisting the help of outside professionals who have the skills and experience to help you identify and implement changes that can keep your business from getting deeper in trouble. And then, of course, if your company is too far gone to be salvaged, or you simply no longer have the drive to continue, you may find that committing it to "euthanasia" may be the best medicine for your mental health as well as the health of your checkbook.

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