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Seek Help Before the Second Wave of Insolvencies

By John Voruis, Partner – Business Recovery & Insolvency, Lawler Partners

Sydney: Many struggling companies could find themselves in administration or wound up as major banks flush with funds clean up their balance sheets before the financial year-end, says a leading insolvency and restructure adviser.

Mr John Vouris, senior partner of accounting and business advisory firm Lawler Partners, said there have been warnings of a second major wave of insolvencies for some time, but many companies are not listening.

"Now that the economic recovery is here, and the banks have funds, they will be looking very closely at why they are supporting firms in financial trouble.

"Banks are scrutinising businesses that lack the appropriate management skills and experience to navigate themselves out of their problems, and have inadequate working capital to fund growth.

"Typically, this group often lack financial controls and accounting information to make strategic decisions".

He said the Australian Tax Office, which softened their approach during the global financial crisis, will also be chasing monies owed because of more pressure to raise revenue.

Mr Vouris said these two factors mean companies will be under pressure to make changes, and will need help to do that.

There is a number of warning bells that companies have to be aware of such as debt overload, taking on 'discounted work', poor paying clients, and ignoring margins and overheads.

"When times are tough, many companies chase unprofitable work, putting greater pressures on the bottomline. The inability to adapt to changing business conditions trips up many business owners", he said.

Mr Vouris said 340 companies in NSW in February this year entered administration or were wound up, compared with Victoria at 218 and Queensland at 161.

"This is hovering at same levels of February 2008 and 2009, which was in the middle to tail-end of the global financial crisis."

Insolvency appointments reached 481 in NSW in February 2010, according to ASIC, around the same levels of February 2009 at 498, Mr Vouris said.

"Many companies have the opportunity to bring in business experts to help them through their difficulties before the banks decide to pull the plug. And with more funds available, the major banks will now make that decision", Vouris said.

Mr Vouris said common causes of business failure (and key insolvency indicators) lie in bad management, a high level of bad debts, poor financial reporting, inappropriate advice, a bad physical location, inadequate products or sub-standard services.

Figures from the National Insurance Credit Brokers show that there are still high bad debts with the building and hardware sectors hit the hardest, followed by advertising and the timber industry.

Lawler has over 12 registered and official liquidators, Trustees and 60 professional staff in business recovery and insolvency with offices in Sydney, Newcastle, Melbourne and Brisbane.

Spotting a Bad Payer: Ten Tips from Lawler's Business Recovery & Insolvency Group

Common signals include:

1. **Broken promises**
2. **'bounced' or dishonoured cheques**
3. **Late payments – outside your trading terms**
4. **Playing suppliers off against each other for credit – preferential treatment for selected creditors.**
5. **Lack of communication and mixed advice on payments**
6. **Pending legal judgements and legal actions – lots of letters from solicitors, warrants and judgements being issued against that company**
7. **Seeking arrangements with creditors – asking for terms, issuing post-dated cheques or partial payments**
8. **Questionable business promotions**
9. **Highly geared business ventures**
10. **Forced disposal of assets**