**Media Release**
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## Spotting Corporate Failure at Ten Paces

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So how do you spot a business failure?

My answer to this is simple: "Look for the bad."

In this case, you will find bad management, bad finance reporting, bad products or location, and finally, bad debts.

Now, more than ever, it's vital for business owners to use their common sense and discipline in extending credit to bad companies.

Often, business owners believe they can sidestep bad debts, but that's not likely.

The trick is to minimise your bad debts, and manage your debtor ledger. You also don't want to have a limited number of clients, who if they fail – you fail.

There are many attempts to formulate and predict corporate failure, but from my personal experience in the business recovery area, the warning signs often come down to simple methods and gut 'feel.'

With a second wave of bank-led insolvencies forecast this year, here's our top ten warning signs of companies who may be 'bad debt' prospects or defaulting payers.

**Ten tips on the profile of a bad payer:**

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**

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And as liquidators and administrators, we're often called in to companies, who may be trading insolvent, and yet the directors of the suppliers have been completely unaware of the change in circumstances.

Every disaster can be tracked to inaction or a decision that should have gone the other way.

Most often, it's about inaction.

ASIC and the experts agree that the advance warning signs include a combination of factors, and not just one thing: so it may be the inability to make tax payments on time, but also late payment of super, a lack of working capital, and suppliers being placed outside of normal trading terms and a few more on top

The Waterwheel case, involving John Elliot, identified 14 factors in determining insolvency.

At any one time, these could include: continuing losses; liquidity ratios below one; overdue taxes; a poor relationship with their bank; no access to alternative finance; and an inability to raise equity capital.

It comes back to the cumulative signs.

For that reason, having good paperwork and qualifying who you work for is essential. Be picky about who you do business with.

If in doubt, do an ASIC search on the ABN number to determine what is happening with that business, and its directors.

When times are tough, many companies chase unprofitable work, putting greater pressures on the bottom line.

The inability to adapt to changing business conditions trips up many business owners.

ASIC data shows that 340 companies were wound up or entered administration in NSW in February this year, 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 also reached 481 in NSW in February 2010 - around the same levels of February 2009 at 498.

Banks are scrutinising firms 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".

Meanwhile, 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.

Businesses should remain focused on making money. Debt isn't bad but there's a reason why we call it a business cycle.