

Face up to pressured times

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STRESS-TESTING your business could be the difference between survival and collapse.

The global financial crisis has dramatically increased the speed at which business conditions can change.

Astute business leaders are relying more than ever on risk management strategies to protect their businesses.

Managing director at turnaround specialist Vantage Performance, Michael Fingland, says many companies start to work on the problem after becoming aware of the results of the change.

"By the time they have come up with potential solutions the impact has caused serious damage to earnings, cashflow and the overall viability of the business," he says.

"Regardless of the position your business is in, it's essential to be

Key questions posed in an effective stress test

- 1 What is the new break-even level for the business and how does it change from the previous level?
- 2 What is the impact on revenue if you lost a major customer?
- 3 If customers are demanding lower prices, what is your tipping point and are you prepared to lose customers in order to maintain earnings? What changes will you need to make to your cost base to match the new lower revenue base?
- 4 How is cash flow impacted if debtors take an extra 10 days on average to settle their accounts?
- 5 Could there be a breach of banking covenants and if so, how will you respond to your financiers concerns?
- 6 What changes will you require to your banking facilities and what would be your bank's attitude to an increase in lending, if required?
- 7 Are staff cuts needed and how will you deal with this (4-day work week, pay reductions, retrenchments)?
- 8 Do you have the cash flow to fund redundancies?
- 9 What overheads will you reduce and what capex plans need to go on hold to preserve cash?
- 10 What non-core assets could be sold to reduce debt/provide additional cash flow?
- 11 Are sales or production levels too low to remain viable and is a merger/strategic partnership needed to maintain critical mass? Who would you approach?
- 12 What plans do you have to meet ATO requests?

undertaking detailed financial modelling and 'what if' scenario testing to gauge how various sudden changes in market conditions will affect your

business and more importantly, what initiatives management can deploy to combat these challenges." Mr Fingland says all organisations

should stress-test their business. "It's all about analysing base-case and worst-case revenue, margin and working capital scenarios in the current

climate. Companies across Australia and overseas have engaged in stress-testing to help them decide on a range of initiatives in case market conditions deteriorate any further."

Rigorous stress-testing has enabled organisations such as Brambles and Qantas to move quickly when market conditions suddenly changed.

"When yields slumped more than expected in March 2009, Qantas quickly slashed forecasts and initiated a range of dramatic measures to reduce operational costs," he says. "It is this ability to rapidly respond to change that enables their survival."

Stress-testing enables management to act nimbly when unexpected changes happen, and make prudent, sometimes lifesaving decisions very quickly, Mr Fingland says.

"Those businesses that are able to adapt to change are the ones that will prosper in the future."