



Media Release

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Troubled businesses that delay seeking help are costing the Australian economy \$13 billion a year

Australia's economy could get a multi-billion dollar boost if troubled businesses were encouraged to seek early intervention to prevent insolvencies, according to an Australian turnaround expert.

Michael Fingland, managing director of turnaround and profit improvement specialists Vantage Performance, said too many companies waited too long to call in expert help. There are almost 14,000 company insolvencies in Australia each year.

Mr Fingland said the main roadblocks to early intervention included the "stubborn pride" of many company directors combined with a regulatory environment that made some directors too afraid to put their hands up for help.

Vantage Performance was awarded Turnaround of the Year in 2008 and 2009 by the Turnaround Management Association of Australia for its work with troubled companies.

Mr Fingland said if only 50% of businesses fighting cash flow problems had called for help earlier, it could have a \$2 billion annual positive flow-on to the Australian economy.

"The estimated financial impact of the average 13,590 insolvency appointments each year over the past 3 years in Australia is more than \$13 billion annually," he said.

Annual insolvency analysis – sobering statistics

The following is a combination of ASIC data and Vantage Performance analysis:

<i>Average \$ figure of creditors per company</i>	- \$950,000
<i>Average insolvency appointments per annum</i>	- 13,590
<i>Average dividend retrieved</i>	- .05%
<i>Number of creditors impacted per annum</i>	- 680,000 (39% of all registered companies)

"On top of these statistics, there is the enormous flow-on effect of director bankruptcies, loss of government taxes/income, impact on GDP and economic growth, not to mention marriage breakdowns, suicides and other social impact," Mr Fingland said.

Statistics from the US, where turnaround management is a more mature industry, point to a 31% success rate for turnarounds, which provides a better outcome for employees and creditors than if these companies had entered insolvency. *

“Given a 31% success rate for turnarounds, if even 50% of troubled Australian companies sought early intervention, the annual financial impact on the nation could be reduced by \$2 billion and 177,000 fewer companies would be impacted,” Mr Fingland said.

“Early intervention is the key to a successful turnaround and to stopping a business from becoming an insolvency statistic.

“We welcome the current review and mooted reforms by the Federal Government and ASIC, to encourage directors to seek help earlier.”

Turnaround is a relatively new industry in Australia and Mr Fingland said it was common for directors of troubled businesses to lament to him: “If only we met your firm 12 months ago” or “we didn’t even know turnaround companies existed”.

He said turnaround specialists defined turnaround as returning a troubled company to profitability and financial stability whilst avoiding an insolvency administration.

The most common reasons businesses find themselves in trouble include fast growth, poor working capital management, bad management, lack of a clear strategy and loss of a major customer.

“Businesses fail due to a lack of cash not a lack of profit. A large number of directors do not understand the difference between the two,” he said.

Vantage Performance specialise in improving business performance and executing corporate turnarounds. We work with companies going through major growth or change, helping them to improve profit and performance. We also advise underperforming companies or those in financial distress, helping improve cash flow, profitability and value of the business. www.vantageperformance.com.au

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** Crafting Solutions for Troubled Businesses: A Disciplined Approach to Diagnosing and Confronting Management Challenges, by Stephen J. Hopkins and S. Douglas Hopkins*

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