Management

A time for vigilance

Written by Niall Fleming, consultant finance director at Carrowdale

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Risk assessments, patience and constant monitoring are key to Finance Director success in 2009.

This recession is undoubtedly different, at least for some.

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A strong order book, customer demand and a sound business base is no guarantee of survival this time around.

The challenges facing financial directors of even the most secure and successful companies are growing day by day, and the solutions are myriad and interdependent.

Credit Insurance is tightened up, applications are being rejected and re-submissions charged for. Delivery schedules are being arranged to keep within insured limits, with additional guarantees being negotiated.

For many, large orders are now a headache not a bonus.

Exchange rate uncertainty is central, and trying to get a long range view on where Sterling and the Euro are heading is not exactly easy.

So much so that some are left reaching for the crystal ball. Where margins are tight, negotiation is required to ensure that margin isn't lost when buying and selling in different currencies.

And with customers and suppliers understandably unreceptive to even the most reasoned argument, finance teams are providing increasing support to their sales and purchasing colleagues.

Then there is the facilities and covenants area of business finance.

Starting with covenants, vigilance is crucial in this difficult climate, even down to timeliness of reporting. Breaches or transgressions may not result in facilities being withdrawn, but I have come across banks using any excuse to re-price and improve their margins. This is compounded where additional facilities are required, either for acquisitions or investment.

A number of banks are using the need for additional finance as an opportunity to re-price the whole package, so be sure to shop around and consider other financing options.

I have also become aware of the insurance market generally becoming more demanding, requiring more information and insisting on checking the integration of cover through the process.

In a recent example the insurer, having meticulously checked where product liability falls between manufacturer and distributor, proceeded then to check the professional indemnity cover of technical experts contracted to manufacturer and distributor. In previous years this had been a more cursory check, but not now.

It is important to monitor not just customers but also key suppliers. Credit database information is always suspect because of the time lag on submission of financial data, but monitoring account submission dates, joining trade associations and circles, check-listing when visiting sites and exchanging information with internal and external colleagues can reduce the likelihood of being hit by the unexpected.

Speaking frankly, this is the time when every professional advisor, agency and consultancy is out looking for fee income. Finance directors must be vigilant, and particularly alert to the attentions of "restructuring" advisors whose real motivation is to pick up administration fees.

All this takes time. In my view it has never been more important for financial directors and chief executives to sit down regularly and run through the risk profile of the business. We need to ensure that we not only have an eye on potential problems, but that we are also spending adequate time on risk management and planning.

Take heed of the old jibe about financiers masquerading as business prevention officers.

Run the analysis, seek the additional insurance cover, find the payment plan option, and then, if everything looks OK, make sure you give confidence to those in the front line. They need to know that their efforts to find additional or new business are worthwhile. This is not the time to be defensive.

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