

# Business Survival Guide

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Sustaining your business through the good, the bad and the reality



# Managing your business



Managing a business isn't easy, as any impact from the surrounding environments could hit a company's bottom line. Not only do market opportunities, threats and company strengths and weaknesses need to be monitored, businesses need to be dynamic in an ever changing environment.

This means they should be equipped with the right tools to flourish through the good times, maintain operations and margins during bad times and survive when the surrounding environment gets ugly.

One such example of the "ugly" would be during May 2009 when the South African economy slipped into its first recession - technically defined as two consecutive quarters of negative economic growth - in 17 years. This was underpinned by a global credit crunch that was initially triggered by a sub-prime crisis (or bad mortgage lending) in the United States which instilled fear into overseas markets that they had similar bad-lending habits. Emerging markets like South Africa were hit as lending became stricter and international investors pulled out of developing nations to keep funds at home.

While the financial challenges of the global economic downturn had put many businesses under stress, trading in a recession meant that businesses should have moved into survival mode if they wanted to make it through those difficult times while others should have looked at opportunities in the market.

Some management claimed that a good recession should never be wasted.

Since then, sustainability has become the key theme and management has started scrutinising processes and operations. But are all the right questions being asked?

You need a business adviser who understands your business. One who really listens to your concerns and takes the time to ask the difficult questions, questions you might not have thought about. You'll receive objective and practical advice from us, helping you to make the big decisions and to seize appropriate opportunities as they emerge.

# through tough times



We offer the full scale and breadth of services you will need to survive tough times, delivered in a distinctive and personalised way.

- Proactive and partner-led teams, who deliver solutions to your problems, not pre-packaged products and services.
- Integrated delivery of the best advice from across our service lines.
- Specialist services that understand businesses in distress, and can help identify appropriate solutions in difficult circumstances.
- Extensive expertise in the issues facing local businesses, combined with the global reach and resources of Grant Thornton International.
- We offer the full scale and breadth of services you will need to survive this recession, delivered in a distinctive and personalised way.

# The big questions for

No doubt your plans to respond to the upturns and downswings in the economy are very much in progress. Operating in a dynamic environment, certain areas of your business must be reviewed again to ensure that it is sustainable and survives any unexpected surprises.

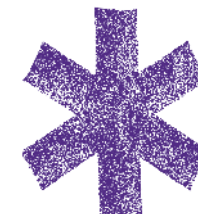
There are a lot of questions that you need to consider, which can be overwhelming. At Grant Thornton, we know that some questions are more important than others and that some questions must be answered today.

This practical guide highlights all the big questions that we think you should be asking of your business. These are the broad themes that you should be considering.

It then outlines potential solutions and how we can help.



# your business



- Q Do you need to refinance your current facilities?
- Q How much cash do you have now and will it run out?
- Q Are your debtor days increasing or are you experiencing high levels of bad debt?
- Q Are you preserving your margins or are they declining?
- Q Have you identified surplus costs? Are there opportunities to improve your operational efficiency?
- Q Are you striking the right balance between reducing staff costs and maintaining incentives?
- Q Are you up to date with recent guidance on financial reporting as well as your fiduciary responsibilities as a director?
- Q What are your key risks and opportunities in your market?
- Q Are you planning M&A activity to improve your competitive position?
- Q Do you have a robust business plan and commercial strategy for the longer term?

# Breaking through the



While times are good, access to finance becomes easier. However, the opposite applies to the troughs in the economy and businesses find it very difficult to raise finance, or renegotiate existing financing structures. Banks increasingly become focused on their existing customers and are carefully evaluating risk versus reward before making any offer of funding. Equally, as more businesses under-perform and are in breach of their terms of finance, banks become more reticent to offer financing deals.

## The challenge

When your bank won't give you the full financing you requested and what they do give will come at a higher cost with complex structuring fees and agreements, you have to become more creative in the way you raise your funds.

You will have to talk to more funders and be quite strategic in who to talk to, presenting your business case and negotiating structures that benefit your business and not cause any further undue stress. Besides this being a rather complex negotiation, it is time consuming too.

## The big questions for your business



- Q Do you need to refinance your current facilities?
- Q Do you need additional funding for short-term restructuring or a longer-term change in business strategy or operations?
- Q Do you need to reassess your financial gearing?

# funding barriers

## How we can help

Although you might find the financing market to be challenging, a wide range of funding solutions are still available. We will take the time to understand your exact funding requirements, the opportunity for funders and the most competitive options. Our approach is wholly integrated as it covers all the critical tax, accounting and market issues.

| We can help with:  | Audit | Business Risk Services | Corporate Finance | Tax |
|--|-------|------------------------|-------------------|-----|
| Conducting an analysis of your funding requirements  |       |                        | ×                 |     |
| Conducting risk assessments and evaluating the adequacy and effectiveness of the systems of internal control   |       | ×                      |                   |     |
| Helping with the preparation and presentation of the financial model for submission to funders, including carrying out robust sensitivity analysis on the most appropriate funding structure, locally and cross-border | ×     |                        | ×                 | ×   |
| Leveraging our relationships with funders to gauge appetite and then benchmark terms and pricing   |       |                        | ×                 |     |
| Managing the due diligence process with funders to allow your management team to continue focusing on the day-to-day running of the business   |       |                        | ×                 |     |
| Introducing you to specialist funders of distressed businesses if required   |       |                        | ×                 |     |

# Cash is the oxygen of

For most businesses, the single largest cash drain is the extent to which they need to carry working capital. Yet many businesses don't recognise the importance of good cash / working capital management. A lack of understanding of what the right level of working capital is for your business can be detrimental to its survival.

## The challenge

Businesses should regularly forecast their short-term cash flow projections, no matter how good or bad the environment is. But is your forecasting process a rigorous one that involves all functions of the business, including the finance, sales, purchasing and operations teams in relation to credit control? If the business is forecast to breach its cash / overdraft facility, what plans do you have in place to manage this? In addition do you have plans in place to control your stock? Increasing levels of stock consume cash and could indicate that your business is making a loss.

## The big questions for your business

- Q Do you know how much cash you need?
- Q Are you accurately forecasting your cash flow?
- Q Are your debtor days increasing or are you experiencing high levels of bad debt?
- Q Are you aware of tax cash flow savings, including allowances, exemptions and VAT payment arrangements?





# your business

## How we can help

There are no easy answers to managing working capital and there certainly isn't a 'one size fits all' solution. However you solve the problem, it is important to do so in a sustainable way. Short-term solutions such as delaying payments to suppliers could be detrimental to the business in the longer term.

| We can help with:   | Audit | Business Risk Services | Corporate Finance | Strategic Solutions | Tax |
|---|-------|------------------------|-------------------|---------------------|-----|
| Optimising your cash operating cycle through implementing and embedding processes that enable you to transact commercially and professionally with your customers and suppliers |       | ×                      | ×                 |                     | ×   |
| Helping you to prepare reliable cash flow forecasts, identifying the key profit and cash flow drivers to confirm the accuracy and reliability of the underlying assumptions     | ×     |                        | ×                 | ×                   |     |
| Conducting an adequacy and effectiveness review over the systems of internal control within the cash management process   |       | ×                      |                   |                     |     |
| Improving your management information on cash reporting   | ×     | ×                      |                   |                     |     |
| Identifying and implementing long-term cash flow improvements which may include sourcing and raising additional funding   | ×     |                        | ×                 |                     |     |
| Aligning tax cash flow planning with your business needs  | ×     |                        |                   |                     | ×   |



# Keeping your

While cash flow and the availability of financing should be front of mind for most businesses, don't forget about profitability. When margins are squeezed, businesses must focus relentlessly on each income and cost line to ensure everything that can be done to protect margins is being done.

## The challenge

Declining margins are usually indicative of price pressure from tighter market conditions. However, you can not rule out that your ever tightening margins are due to a rise in source costs which will have implications on your current strategy as well as your product and market mix. Many businesses hang on to traditional products, services and markets that no longer support the business. It is important to understand how these are impacting on your profitability.



## The big questions for your business

- Q Are you preserving your margins or are they declining?
- Q Do you have relevant, reliable and timely information about sales and margin trends and stock levels to enable you to make informed decisions about your product portfolio?
- Q Can you fix your input prices to improve your terms of trade?
- Q Do you need to dispose of loss-making operations?

# profits healthy

## How we can help

We can assist with the financial scrutiny of your structure and pricing model. We can bring in costing tax and export efficiencies to help protect your margins.

| We can help with:  | Audit | Business Risk Services | Corporate Finance | Wealth Management | Strategic Solutions | Tax |
|--|-------|------------------------|-------------------|-------------------|---------------------|-----|
| Analysing product portfolios, sectors and customers to help you clearly and objectively identify both where your profits come from as well as loss-making products                       | ×     |                        | ×                 |                   | ×                   |     |
| Reviewing pricing strategy in the context of your product portfolio and market position  | ×     |                        | ×                 |                   | ×                   |     |
| Disposing of loss-making operations  |       |                        | ×                 |                   |                     | ×   |
| Assisting with the development of timely and meaningful management information to inform your decisions and help third parties retain confidence in the business                         | ×     | ×                      |                   |                   |                     |     |
| Understanding of the impact of exchange rates, currency flows and transfer pricing policies on your business and developing plans to manage exposure and take advantage of opportunities | ×     | ×                      |                   |                   |                     | ×   |
| Helping to minimise tax bills  |       |                        |                   |                   |                     | ×   |
| Conducting a forensic audit to ensure that no internal issues are causing a change in margin   |       | ×                      |                   |                   |                     |     |
| Reviewing the effectiveness and efficiency of Employee Benefit Programmes  |       | ×                      |                   | ×                 |                     |     |

# Becoming leaner

The effectiveness and efficiency of your operations are fundamental to success. Many perfectly sound strategies have failed because the engine room of the business is deficient in some way. The majority of businesses have already cut their cost base, or are in the process of doing so. But once obvious surplus costs have been shed, significant improvements can still be achieved through more effective utilisation of both human and tangible assets.

## The challenge

Allocating your efforts and resources to activities and processes that do not contribute to your business means that you are investing time and money that you won't be able to recover. This is not sustainable and is highly inefficient. Management may choose to shift some of the focus away from the day-to-day operation of the business during market booms, but during busts execution is vital and there is no margin for error.

## The big questions for your business

- Q Do you have a robust and deliverable business plan which satisfies stakeholders and which meets customers' demands?
- Q How do you ensure that resources are allocated where they will generate maximum return?
- Q Are you facing integration issues following an acquisition?
- Q Have you tested your cost base to ensure all spend is essential?
- Q Do you understand and actively manage the key risks to which your business is exposed?



# and meaner

## How we can help

We can offer strength in depth of operational expertise covering all areas of the business. We will ensure that the operations of your business are thoroughly tested and recommend improvements that will enhance your ability to become a sustainable, efficient business.

| We can help with:  | Audit | Business Risk Services | Corporate Finance | Tax |
|--|-------|------------------------|-------------------|-----|
| Helping you to identify where your businesses core strengths lie and how best you can maximise returns in this area  |       | X                      | X                 |     |
| Analysing resource allocation decisions  | X     | X                      | X                 |     |
| Advising on corporate structure, funding and tax efficiencies  | X     |                        | X                 | X   |
| Assessing the efficiency of your day-to-day operations   | X     | X                      |                   |     |
| Reviewing the adequacy and effectiveness of your systems of internal controls, providing a full assessment of business risk and implementing a risk management programme |       | X                      |                   |     |
| Reviewing the potential for overhead savings as well as reviewing CAPEX expenditure against business requirements  | X     | X                      |                   | X   |
| Evaluating organisational effectiveness to identify hidden barriers to performance   |       | X                      |                   |     |

# Making yourself

A business like yours requires proactive directors who understand their responsibilities and discharge their duties accordingly. It is critical to ensure your compliance is up to date and carried out in an effective manner, combined with full communication to stakeholders and interested parties.

Directors need to act correctly to avoid being exposed to the risks of personal liability, should circumstances overtake the business.

## The challenge

It is more important than ever that your financial statements properly and clearly reflect the specific uncertainties and challenges facing your business. Failure to comply with the relevant standards certainly has negative ramifications for your auditor but could also lead to claims against your company's directors. It is essential that you consider all the risks facing your business including the late payment of taxes and general corporate compliance, and have plans in place to manage or mitigate those risks.

## The big questions for your business

- Q Have you reviewed everything that may be relevant to an assessment of a going concern and are your disclosures specific in relation to the risks and uncertainties the business faces?
- Q Are risk management procedures in place to mitigate your entity's exposure to financial risks, such as liquidity, credit, foreign exchange and interest rate risks?
- Q Are you up to date with your filings and payments in relation to PAYE and VAT? If not, are you in discussion with SARS to remedy the situation?
- Q Do you adequately document your decisions and more importantly, the reasons supporting them?
- Q Given that the depth and length of the recession are uncertain, do you have a plan B and C if conditions do not match the assumptions of plan A?



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## How we can help

We will keep you abreast of the relevant changes to the host of accounting standards to make sure that you remain compliant. We will also ensure that you are familiar with your fiduciary duties as a director as outlined in King III and new Companies Act. In addition, we can frequently offer more cost-effective compliance without any compromise on quality.

| We can help with:  | Audit | Business Risk Services | Corporate Finance | Strategic Solutions | Tax |
|--|-------|------------------------|-------------------|---------------------|-----|
| Advising on the implications of the economic downturn on your financial reporting and ensuring you are compliant with disclosure requirements  | ×     |                        |                   |                     |     |
| For non-audit clients, we can act as a broker between your business and its auditor, helping with the drafting of disclosures, in terms of how best to explain specific uncertainties and risks faced  | ×     |                        |                   |                     |     |
| Reviewing the adequacy of internal controls and re-assess accounting policies to make sure they reflect current conditions   | ×     | ×                      |                   |                     |     |
| Advising businesses on how they should structure their approach to financial risks in relation to transaction flows  |       |                        | ×                 |                     |     |
| Advising your organisation on how to mitigate fraud risk, and if fraud is detected, helping you to respond effectively   | ×     | ×                      |                   |                     |     |
| Completing a health check of your entire tax system and assisting you to identify ways to control cash outflow due to taxation, including management of taxable profit, online filing, VAT cash flow planning and a myriad of more sophisticated planning ideas that may be suitable |       |                        |                   |                     | ×   |
| Assisting with mediation and consultation with SARS for extension and payment terms  |       |                        |                   |                     | ×   |
| Reviewing the adequacy and effectiveness of your corporate governance process and assisting with mitigation of legal risk  |       | ×                      |                   |                     |     |

# Focusing on your

In any economic climate, businesses need a clear strategy combined with focused and relentless management to implement that strategy. Many of the actions that can be done in the short-term, around funding, your cash position and operational improvements, simply create time and space to plan a longer-term strategy. But where do you focus the business? You need a clear understanding of your core capabilities, the strengths of the business and where your opportunities exist. You will also need to consider your long-term financing strategy in light of the new world of funding.

## The challenge

How do you balance your current financial challenges while at the same time shaping your business's performance over the longer-term? What is your strategy to ensure your business is sustainable and profitable beyond the recession?



## The big questions for your business

- Q Have you developed an appropriate funding structure for the next five years?
- Q What are your strengths relative to your competitors?
- Q Do you really understand your sector and what is driving success?
- Q Is there an opportunity for you to grow your sales through new product development or entering new markets?
- Q Have you got the ability to finance an acquisition?



# business future

## How we can help

Grant Thornton's business and commercial advice always takes long-term sustainability into account. Management teams with an external perspective and highly relevant commercial skills will help you on the decisions that need to be taken to ensure long-term survival.

| We can help with:  | Audit | Business Risk Services | Corporate Finance | Wealth Management | Strategic Solutions | Tax |
|--|-------|------------------------|-------------------|-------------------|---------------------|-----|
| Benchmarking your market position against your competition and analysing the changing demands of customers in your markets to help you strengthen your competitive advantage | ×     |                        | ×                 |                   | ×                   |     |
| Helping you to quickly identify and take advantage of strategic acquisition opportunities that exist as a result of today's difficult market conditions                      |       |                        | ×                 |                   |                     | ×   |
| Helping you to focus on your core business and free up capital and management's time through the sale of non-core assets   |       | ×                      | ×                 |                   |                     | ×   |
| Helping you to research, evaluate and finance entry into new markets   |       |                        | ×                 |                   | ×                   | ×   |
| Evaluating options for M&A growth strategies including the efficiencies of acquired pension, provident or healthcare schemes   |       |                        | ×                 | ×                 |                     | ×   |
| Providing you with expertise and market insight in relation to appropriate long-term funding structures  |       |                        | ×                 |                   | ×                   | ×   |
| Ensuring all new structures are tax efficient  |       |                        |                   |                   |                     | ×   |

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