Business Reality Check Sheet

The internal analytical examination of the business at this stage is of critical importance. This will help to understand the business, what makes it tick, its strengths and weaknesses and where the opportunities are to increase the business's results.
You need to ensure that the business is capable and viable, and that the core product/service of the business has potential for future growth, expansion and profitability.

The main purpose of this initial evaluation is:

- To evaluate whether the business can survive in the short-term while the strategies is being formulated.
- To establish a realistic overview of the business from an operational and financial perspective.
- To establish the viability of the business for the medium to long term.
- Which options are available to the business, i.e. improve, liquidate, and sell, insolvency.
- What mix of strategies and actions are needed for short-term survival.
- To determine if the owner of the business is willing to be part of the solution?
- Does the owner have the attitude, skill and vision to implement the business?
- How do the various stakeholders perceive the business?
- How severe is the crisis and what stage has it reached?

Things to Consider

As a business owner you need to look at the 'whole picture'. Not only must the business itself be considered, but also the owner. How will the owner's way of thinking and interpretation of the problem at hand affect the business? You need to understand the business, what makes it tick, its strengths and weaknesses and where the opportunities are to increase the business's wealth and get it back on track. Figure out which parts are working and which parts of the business aren't working. By having a clear picture of the particular problems you will be better prepared to cope with and solve the problems.

1. Complete Business Reality Check Sheet. This annalist is a general overview of the business that is done in the beginning of the turnaround process. Sufficient analysis must be done one every area of the business as you go forward in the turnaround process. The evaluation of the business at this stage may take a few minutes.

3. Take the information from your Business Reality Check Sheet and see which areas needs improvement.

3. Determine short-term cash survival whether the business has sufficient cash to see it through the next cycle (3 months), a survival plan where funds are generated internally for quick cash generation is needed:

Viability of the business

While evaluating the business it is important to identify essential and important issues for the business's survival. You should identify the internal strengths and weaknesses, as well as the business's external threats and opportunities.

The main purpose of this initial evaluation is:

- To establish a realistic overview of the business from an operational and financial perspective.
- To establish the viability of the business for the medium to long term, and that the core product/service of the business has potential for future growth, expansion and profitability.
- Which options are available to the business, i.e. turnaround, liquidate, sell, insolvency.
- How severe is the crisis and what stage has it reached?

A viable core business

Good management of the business won't be sufficient if the business doesn't have a viable core product or service, as the competitive position of the business is essential to the decision as to whether a business can be turned around or not. Without a viable core product/service a turnaround in most cases is highly unlikely. Is the product or service near the end of its life cycle? For example, is the business still in the typewriter market, or is the business still pressing out seven singles, how viable or competitive is your product out in the market?

1. Is there a market for your product/service?
If the answer is no, go back to the drawing board. Start over. Because no matter how great you think your product is, if no one needs it/wants it/buys it, you don't have a business.

2. Can you make a profit?
Have you done the number crunching to ensure profitability? If not, go back and work your numbers. Figure out what you need to charge to make your profit on each item or service you sell. See what the competition is charging. Be in line but don't necessarily be the cheapest. Your products may command higher fees (better ingredients, exciting packaging, and snob appeal). Or you may choose to be the low price leader — but you'll need more volume than you would at the high end. In any event, do your homework.

3. Can you survive?
Do you have the resources to see you through until your business starts to show a profit? If not, you may need to keep your day job and do this on a part-time basis initially.
Once you've answered these questions, you're ready to

Short-term cash survival

To evaluate whether the business can survive in the short-term (3 - 6 months), while an improvement strategy is being formulated.

1. Does the business have sufficient cash to see it through for the next few months?

2. Can stock be sold out or returned to suppliers?

3. Can collection from accounts receivable be improved?

4. Can payments to creditors be extended with the correct arrangements?

5. Can possible short-term financing be acquired?

6. Determine whether banks and other vested stakeholders will assist.

Once the short-term cash survival evaluation is complete, you need to decide:

- **What issues need to be attended to immediately?** For example, how can funds be generated immediately within the business?

- **What issues need to be attended to in the short term?** For example, what possible short-term financing is required?

- **What issues will be attended to in the medium to long term?** For example, look for new outlets and markets for the products/services on offer, or develop/improve new products/services.

- **What components of the business should remain the same?** For example, all core profit-generating items to remain. No large projects undertaken in the short-term.

Methods to determine insolvency

There are three methods to determine insolvency

The Cash flow test

- Simply - can the business pay its debts when they fall due for payment? For example if you are not paying the deductions from employees for Income Tax and other across to SARS, then the business could be insolvent.
- If your trade creditors sell to you on say 30 days terms and you regularly pay on 90+ days, then the business could be insolvent.
- If you believe that the partnership or an individual partner has insufficient cash to pay its/their liabilities on time then they must take advice/action.
- Remember an insolvent partner can lead to the insolvency of the partnership.

The Balance sheet test

- Simply - do you owe more than you own as a business or are the business's assets exceeded by its liabilities?
- Do you or another partner owe more than you own personally? If yes, to either, then the partnership could be insolvent.
- It is important to point out that this test should include contingent or future liabilities.
- Many people tell us that on a balance sheet test the business is not insolvent therefore they do not need to act. However under the cash flow test above the business may, of course, still be insolvent.
- In our experience an apparently solvent balance sheet may include items that are overstated, such as stock and work in progress, or debtors that are not really collectable. After deducting these items many balance sheets become insolvent.
- So be prudent - you are legally required to present accounts to show a true and fair picture of the business.

Legal action test

If a creditor has obtained a County Court Judgment against either the partnership or an individual partner, this may demonstrate the businesses or the individual partner's insolvency and the creditor may petition to issue bankruptcy proceedings against the partner of the partnership.

If you believe that any of the above tests are positive for your business, it is vital that you take action to address the insolvent position. However, don't panic, look carefully at all pertinent issues and consider the rest of this website.

Remember, if the business is insolvent you must act to maximise creditor's interests.

INTERNAL ANALIST

The Owner	Very Poor	Poor	Average	Good	Very Good	Excellent
Your ability to cope with current workload:						
Your ability to take time of to enjoy personal interests:						
Your ability to take time of for exercising:						
Your ability to take time of for relaxing:						
Your ability to take time of for annual holidays:						
How motivated and willing are you to improve the business:						
How committed are partners/shareholders to improve the business:						
How ready are you to start with the improving your profits now:						
How well do you know your business Key Success Factors:						
How clear is your vision for the future of your business:						
How familiar are you with business Strengths and Weaknesses:						
How familiar are you with your business Opportunities and Threats:						
You have a well-developed “business plan”:						
You have a well-developed “goal plan” for the future:						
Your existing log term strategy to achieve objectives:						
You have a well-developed strategy to exit the business one day:						

The Team	Very Poor	Poor	Average	Good	Very Good	Excellent
Your team’s current commitment:						
Your team’s loyalty:						
Your team’s job satisfaction:						
Your team’s motivation:						
Your team’s communication:						
Your team’s current productivity and performance:						
Your team's compensation plan:						
Your team’s skills to perform well in their jobs:						
Adequate job descriptions in place:						
Your team’s knowledge of their High Impact Tasks:						
Adequate personal policies in place:						
Your team’s creativity:						
Your team’s ability to cope with workload:						
Your team’s incentive and recognition program:						
Adequate Training and recruitment system in place:						
Developed business chart/organ gram:						

Management	Very Poor	Poor	Average	Good	Very Good	Excellent
Rate your general leadership skills:						
Rate your general business skills:						
Rate your sales skills:						
Rate your marketing skills:						
Rate your financial skills:						
Rate your communication skills:						
Rate your administration skills:						
Rate your management skills:						
Rate your people skills:						

Finance	Very Poor	Poor	Average	Good	Very Good	Excellent
How well and regular is Cash flow projections prepared:						
How well and regular is Budgets prepared:						
How well and regular is Targets prepared:						
How well do you know your business Break-even point:						
Your return on your investment:						
How satisfactory are your income and personal drawings:						
The business financial stability:						
Cash flow adequate to meet ongoing obligations:						
Ability to stick to budget:						
Ability to achieve sales target:						
Adequate Working capital:						
The business profitability:						
Ability to meet debtor’s obligations:						
Current ability for obtaining and repaying a loan:						
Current availability of funds for growth:						
How efficient is accounts receivable managed:						
How efficient is debtor’s accounts managed:						
Adequate credit policies in place:						
Adequate debtor’s approval process in place:						
How efficient is your debt collection process:						
How adequate is your insurance cover:						

Systems	Very Poor	Poor	Average	Good	Very Good	Excellent
How successful is marketing measured and monitored:						
How successful is sales measured and monitored:						
How successful is finances measured and monitored:						
How successful is customer satisfaction measured and monitored:						
How successful is employee satisfaction measured and monitored:						
How successful is Key Success Factors measured and monitored:						
How successful is competitors measured and monitored:						

Information	Very Poor	Poor	Average	Good	Very Good	Excellent
Adequate information on fixed and variable expenses:						
Adequate information on operating expenses:						
Adequate filing and administration systems:						
How accurate is your accounting system:						
How successful is productivity measured and monitored:						
How successful is profit margins measured and monitored:						
How successful is stock measured and monitored:						

Operations	Very Poor	Poor	Average	Good	Very Good	Excellent
How well is business coping with demand:						
How well can business handle additional growth:						
Adequate stock on hand:						
Adequate plant and machinery:						
Business’s location:						
Business’s layout:						
How strong is your service/products Not seasonal related:						
How efficient is your service delivery:						
The quality of your service/products:						
Your knowledge of product and service:						
Efficiency of stock control system:						
Stock on hand aligned with stock required:						
Your relationship with your suppliers:						
How satisfied are you with your suppliers service:						
How satisfied are you with your suppliers price:						

Marketing	Very Poor	Poor	Average	Good	Very Good	Excellent
How competitive are your prices against competitors:						
How competitive are your service against competitors:						
How competitive are your products innovation against competitors:						
How unique are your business compared to competitors:						
How well do you know your competitors:						
How effective are you against your competitors:						
What is the current market growth in your industry:						
What is the potential future market growth:						
How strong is your market share:						
How effective are your strategies to find customers:						

Sales	Very Poor	Poor	Average	Good	Very Good	Excellent
How effective are your sale skills:						
How successful are your sales increasing:						
How successful are your sales Promotion and advertising:						
How effectively are you converting prospects into clients:						
How effectively are you follow up process:						
How well are sales measured and monitored?						
How good are you at Not giving discount to clients:						
How healthy are your profit margins:						
How market related is your prices:						

Customers	Very Poor	Poor	Average	Good	Very Good	Excellent
Customer satisfaction:						
Your customer services:						
The value you offer to customers:						
Making it easy for customers to buy from you:						
How well do you offer warrantees /Guarantees:						
Likelihood of repeat buyers:						
Frequency of exceeding customer expectations:						
The ratio for receiving referrals from existing customers:						