



Blueprint for Managing Your Business Through an Economic Downturn

The Bermuda Small Business Development Corporation

13 January 2008

Advisory

Important Notice

- This document has been produced by KPMG Advisory Limited, a Bermuda limited liability company which is a subsidiary of KPMG, the Bermuda member firm of KPMG International.
- KPMG International is a Swiss cooperative that serves as a coordinating entity for a network of independent member firms. KPMG International provides no audit or other client services. Such services are provided solely by member firms in their respective geographic areas. KPMG International and its member firms are legally distinct and separate entities. They are not and nothing contained herein shall be construed to place these entities in the relationship of parents, subsidiaries, agents, partners, or joint venturers. No member firm has any authority (actual, apparent, implied or otherwise) to obligate or bind KPMG International or any other member firm in any manner whatsoever.
- The information contained herein is of a general nature; it is not tailored for any specific company. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future.

Overview

- Introduction
- Cash management
- Cost reduction
- Banks – how are they reacting in the current climate?
- Opportunities
- Any questions?

Introduction

Local client types



Retail /
wholesale



Government



Aircraft
shipping



Technology



Hotels &
tourism



Construction



Trusts & legal



Charities

Introduction

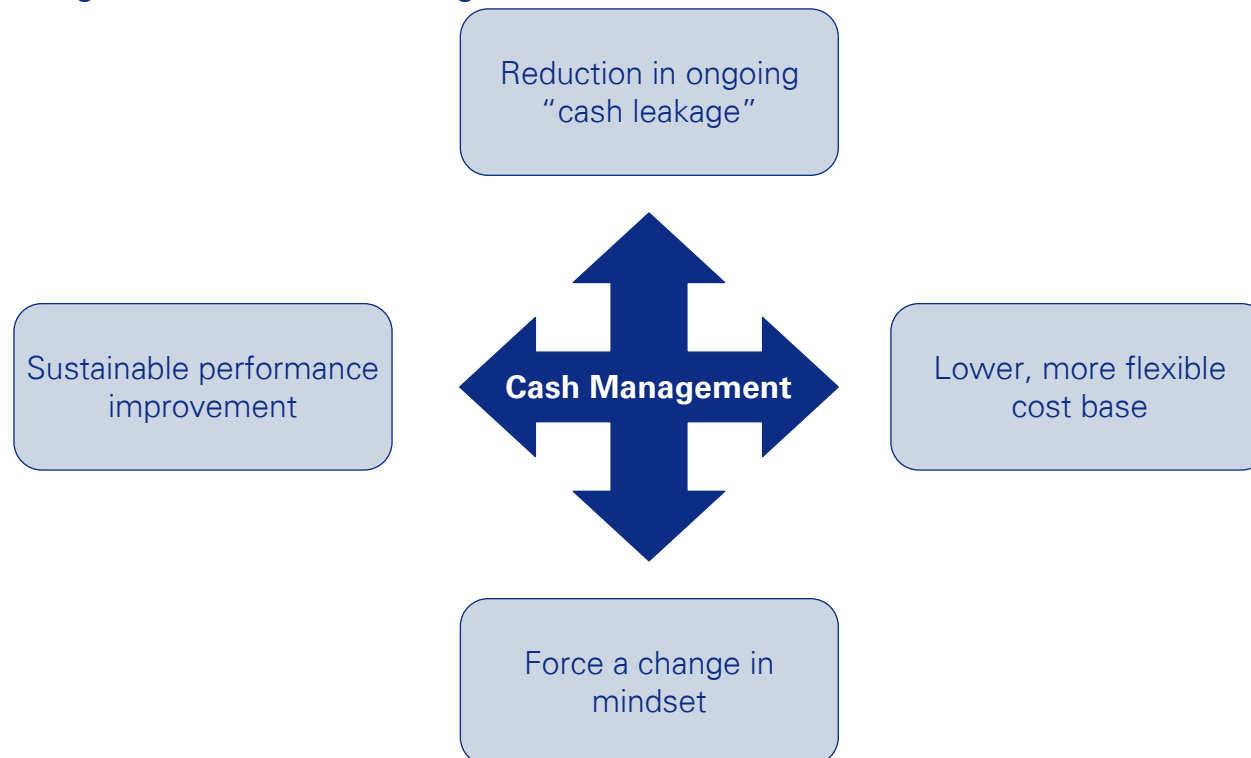
- Cyclical nature of economy
 - Boom – bust cycle
 - Same for big businesses as for small businesses
- Sound business practices do not change
 - Know what is going on
 - With your own business
 - In the local & global economy
 - Manage working capital
 - Cost control
 - Communicate with employees
 - Focus on core products
 - Separate business and personal expenses

Cash Management

Cash management

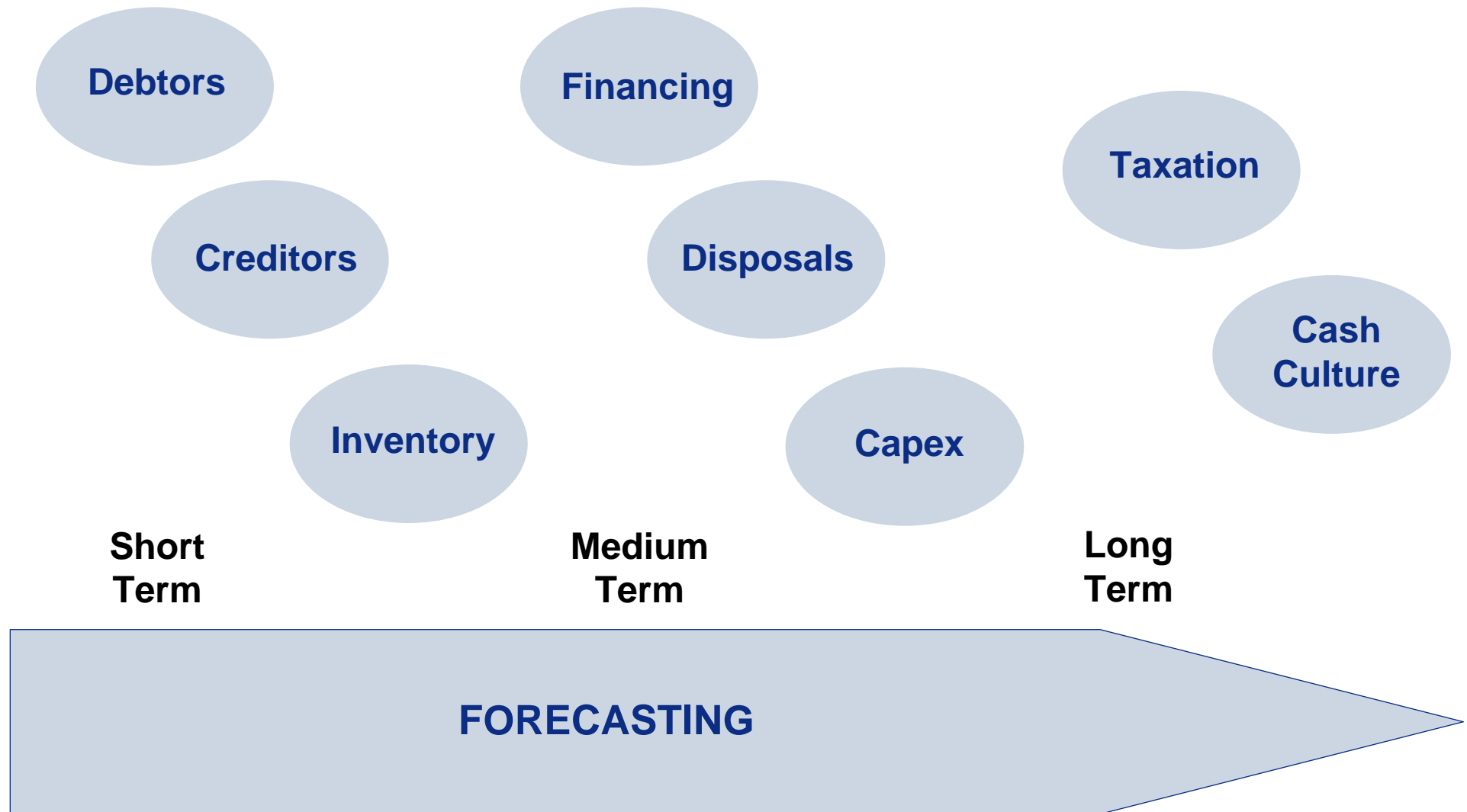
Understanding business cash flows

- Understand business cash flows
 - Develop a set of forecasts, ensuring that projections are not overly aggressive
 - Understand your revenues and what needs to be done to generate a profit
 - Consider expenditure necessary to run the business and minimize expenditures which are not required
 - Allow headroom in your projections
 - Identify and investigate variances occurring between actual and forecasted



Cash management

An approach which yields results



Cash management

Working capital

Debtors



- Tighten collection procedures
 - Timely & accurate billing
 - Deposit monies received immediately
 - Set up standing orders with regular clients
- Encourage early payment
 - Offer discounts
- Keep on top of past due accounts

Creditors



- Pay your bills on time, not earlier!
- Review supplier terms
- Tender contracts
- If you are unable to settle accounts, discuss with the supplier
 - Payment terms/plans

Stock



- Identify the stock levels you actually have and compare to what you really need
- Do not purchase excessive amounts of stock
- Sell slow moving / obsolete stock

Cash Management

Financing and cash realisation

Disposals and Capex

- Sell surplus assets
- Focus on core business areas
- Challenge capex forecasts

Financing structure

- Review facility agreements
- Consider tendering for facilities
- Discuss ways to manage loan repayments such as refinancing, consolidating debt

Other

- Salesmen to be incentivised for sales when cash received and not on turnover
- Staffing – use of temps?

Cost Reduction

Cost reduction

An approach which yields results

Perform a business review

- Identify key business areas based on income and costs
- Split costs between essential & non-essential
- Spend vs business drivers
- Quantify cost saving opportunities

Communicate with employees

- Ask employees to identify costs that can be reduced
- Optimize utilization of employees by retraining and reallocating job duties
- Consider redundancies
 - Careful not to make cuts which could hurt the business in the long term

Manage essential & non-essential spend

- Reconsider any planned capex or acquisitions
- Reduce expenditure deemed to be non integral to the success of the business
- Tender contracts
- Efficiencies in process improvements
- Drive out savings quickly

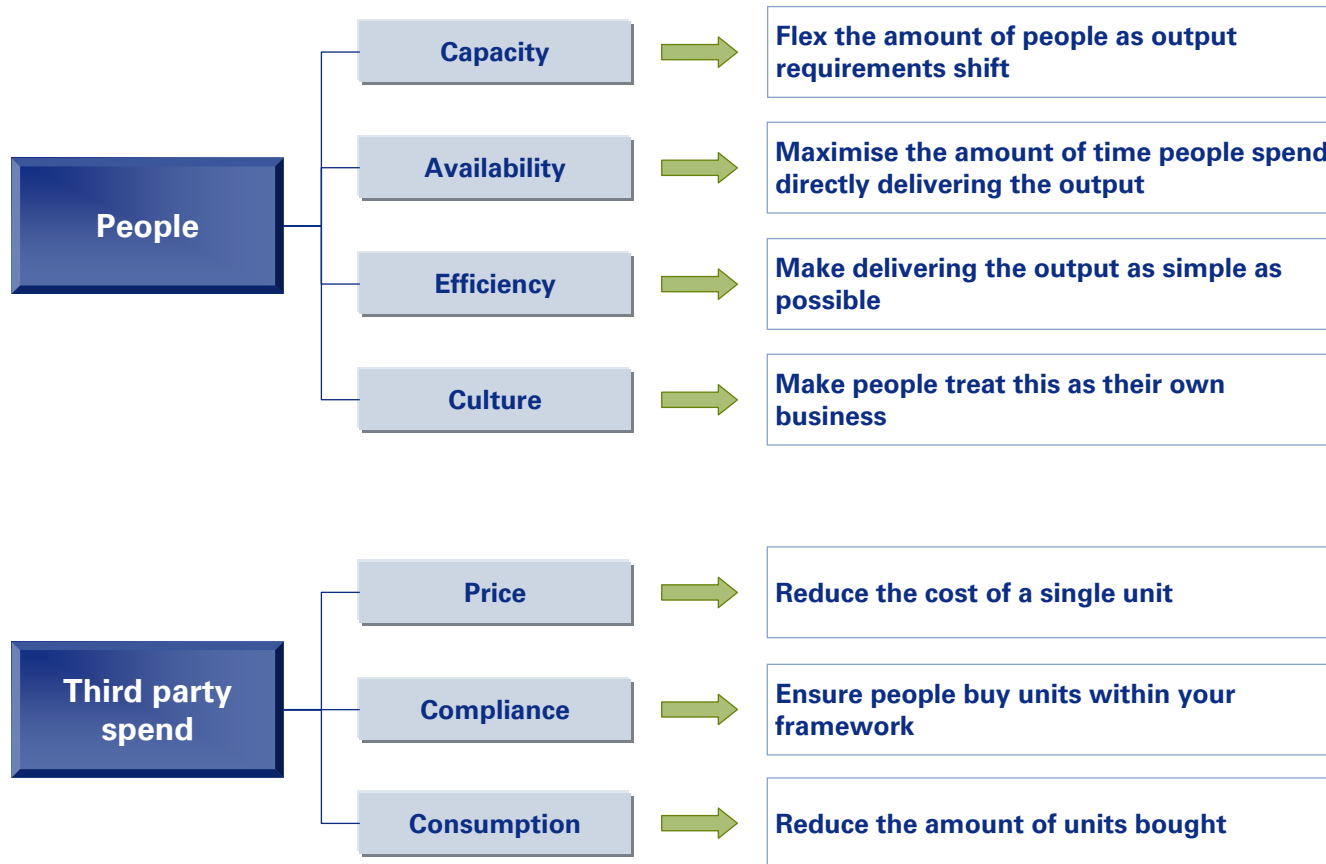
Monitor costs

- Compare actual to budgeted
- Introduce authorization / responsibility levels to monitor spend

Cost reduction

Understand what drives costs

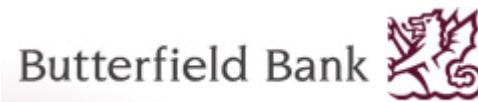
Understanding the cost/output is what allows you to drive value: For example...



Banks

Banks

How are they reacting in the current climate?



Has the economic climate impacted Bank lending?

- Overall the bank's appetite for lending has not changed
- Bank's policies are conservative in nature to reflect a broad range of economic conditions
- Financing proposals assessed on a case by case basis

What are banks looking for from individuals seeking finance?

- Greater focus on business plans, with more reliance placed on financial information. Focus is on:
 - Reasonableness of cash flow projections i.e. how conservative these are
 - Working capital
 - Pipeline business (specifically for developers / contractors / tradesmen)
 - Management
- Bank will be looking more closely at customer relationships, allowing them to understand your business better

Opportunities

Opportunities

Not all doom & gloom...

Gain operating efficiencies



Eliminate competition

Acquisition opportunities

Any questions?



- Steve Woodward
- Director, Audit – Local Business

- Tel: +1 441 294 2675
- Email: stephenwoodward@kpmg.bm



- Allison Black
- Senior Manager, Corporate Finance

- Tel: +1 441 294 2676
- Email: allisonblack@kpmg.bm