

NEEDING A NEW PLAN

This new world requires a new strategy, new business and new confidence.

THE NEXT FEW MONTHS could easily be the most challenging for the club industry to respond to. Closing was one issue; opening was another but staying open will be yet another challenge for many clubs, particularly as the world settles. The support offered by JobKeeper has subsidised the cost of doing business, but clubs must be careful not to become dependent on that subsidy.

Other impacts may be that there is a spike of unemployment caused by the failure of other businesses, recently referred to in The Sydney Morning Herald as “zombie companies” marching toward a wall.

The number of companies entering insolvency is currently at an all-time low, below the usual rate by at least 40 per cent, so there is a tsunami of business failure coming. That will affect business negatively and in turn may impact on the traditional demand for the services provided by clubs.

Prior to any person even knowing about COVID-19, temporary closures or JobKeeper, the club industry was already consolidating. In a period when our population as a nation grew from 14 million to 25 million, the number of clubs in our community reduced by more than 500. There are many reasons for this, but the decline in club numbers is not new, and prior to COVID we had forecast that another 400 clubs will close in the next five to 10 years.

We currently are scheduled for the coincidence of deferred gaming duty from the quarters ended February and May, plus the August quarter gaming duty in September. This aggregation of three quarters (unless further deferred) will combine with other deferred payments to create a cashflow crunch for many clubs in September.

This convergence of circumstances will most likely have the effect of accelerating the forecast reduction in club numbers. As directors and managers in the industry you will be involved with having to decide the future of your club.

The range of choices will be:

- Change the nature of the business so that you can rekindle your market relevance, and your operating costs to survive independently
- Look for an amalgamation partner
- Engage a strategy using the principles enshrined in the safe harbour legislation to develop a plan and strategy for the club if solvency is a concern
- Remain apathetic and the club will fail and become insolvent

Many clubs have opened to better than expected revenues, and that is a positive for confidence. It will be some time before real confidence comes back into the market.

Your own circumstances and choices will determine which path you follow. Ultimately, you should follow the path that most assures the future of your club as a venue, and which will maintain assets available for the use of the community. To make informed decisions you need to create and document a plan - and monitor that plan. That plan may be for an amalgamation, particularly if your club is lacking financial resources.

If you are concerned about solvency, here are some indicators that may cause you to suspect that the club may be insolvent:

- Creditors aged beyond normal or agreed trading terms
- Little or no cash reserves
- Outstanding commitments to the ATO, being overdue BAS and PAYG payments
- An excess of current liabilities over current assets
- Finance facilities drawn to or near to their limit
- Poor trading and recurring ongoing losses
- EBITDA to revenue ratios below 5 per cent
- Breaches of banking covenants
- Commentary by auditor about the capacity of the business to continue as a going concern.

Just because one or more of these indicators is present does not mean that your club is insolvent. What it does mean, is that as a director or officer you are on notice to make enquiries and satisfy yourself that you are solvent.

Solvency is demonstrated by the ability to pay your debts as and when they fall due. Having a dynamic forecast can assist you in answering the question of whether you can pay your debts as and when they fall due. ■

i If you need advice on solvency, safe harbour, assistance in creating a plan or a dynamic financial model please contact Greg Russell at greg.russell@russellcorporate.com.au or call 0405 100 463.

