

Budget Misses: Just a Blip or a Harbinger of Trouble to Come?



ODINBROOK
GLOBAL ADVISORS

Typically, financial distress doesn't just suddenly happen. Rather, it builds gradually over time until, eventually, it is clearly observable.

The deviation may be:

- A blip, minor and temporary,
- a serious, yet solvable, problem, or
- it may be the tip of the iceberg of a bigger issue...the beginning of something that ultimately becomes an existential threat.

The challenge is what to do about problems, such as budget misses (miss), that first appear small but have the potential to develop into bigger problems.

How do you identify what category a budget "miss" fits in to?

The short answer is that it's not always possible to make that determination in the moment or in real time.

However, taking no action, which is all too common, automatically puts smaller problems into the "blip" bucket, where they are usually ignored. Ignoring blips doesn't often lead to bliss - rather, it can be a harbinger of a larger miss, or even wind up leading to financial distress.

In situations where a miss may not be just a blip (but not decisively an existential threat), a simple triage process would involve three steps:

1. Make a preliminary assessment of the cause and likelihood of the miss being a recurring or non-recurring event.
2. Assign an individual to be accountable for monitoring, reviewing, and developing mitigation strategies associated with the miss.
3. Develop a follow-up and evaluation plan to confirm or deny the preliminary assessment periodically until resolved.

For most misses, there are four questions to ask:

1. How did we miss this? Evaluate your internal reporting and analytical systems and ascertain if they are sufficient.
2. Is this a defensible miss? Determine if there is an identifiable and logical reason for the miss, and whether the quantum is immediately threatening.
3. Is the miss due to a controllable factor? If so, then try to control it. If not, decide on what can be done to mitigate the impact.
4. When does the miss formally move from blip to problem? This often depends on the cushion in projections and other contextual factors.

Context is important in assessing a potential threat and in answering the four questions above. In general, a small miss is more threatening in situations with high financial leverage, near-term debt maturities, high operating costs, heightened investor scrutiny such as a capital raise or other factors that bring additional uncertainty.

Distress can come from the cumulative effect of less-than anticipated cash flow. The first miss is ignored, then repeats and perhaps is slightly larger. Eventually, the cumulative impact presents a credible threat.

While each business may have unique categories for misses, focusing on their defensibility and implementing a process of assessment, assignment, and follow-up are readily available ways to minimize the likelihood that blips become existential threats.

If you need assistance in determining the extent of your budget misses, we'd be happy to discuss it further with you.

STEVEN STROM

Managing Director at Odinbrook Global Advisors

Investment banker, board member, and expert witness with more than 30 years of experience in advising companies, creditors, and other stakeholders in special situations, business transformation, and financial distress.

Direct: 203.918.4500 | Office: 844.634.6456 | Email: steven@odinbrook.com | www.odinbrook.com

Copyright 2024 by Odinbrook Global Advisors