
The question I've stopped being *polite* about.

On why most SMEs stop being honestly measured two years before anyone admits something's wrong — and what bankers see before owners do.

BY PETER JUDGE

I run an operational turnaround firm now, but that's not where any of this started.

My background is on the tools. I came up through construction and the trades, and I've been around SMEs in one capacity or another for most of my working life — as the person doing the work, as the person running the job, and eventually as the person trying to keep a whole business upright when somebody else's was coming apart.

The first proper turnaround I did was somebody else's. That's a decade ago now. Since then I've sat in rooms with owners across Australia, the United States, the UK, Africa, Europe, and the Gulf. Different continents, different regulations, different accents, different problems on the surface.



*Most owners I end up in a room with are not there because their business is bad. They're there because their business **stopped being honestly measured** about two years before anyone admitted something was wrong.*

Mining has a working definition of failure that ought to be nailed to the wall of every SME boardroom.

A project fails if it doesn't deliver what its sanctioned business case assumed. If the feasibility study assumed gold at \$3,000 and the project only turns a profit at \$5,000, the project has failed.

The market bailed it out. The engineering didn't work.

The version of that conversation with SME owners looks exactly the same. Revenue up, margin fine, team tired but delivering. He doesn't feel like a man in trouble. He feels like a man who has turned a corner.

Most of the time, he's wrong.

*A good year is **not** the same
as a good business.*

*A good year can happen to a business that's drifting. A good
business survives a bad year with its dignity and its facility
intact.*

What's drifting is always boring.

- Receivables that crept from 38 days to 47 to 54 without anyone reviewing the ageing.
- Pricing models not refreshed in 14 months, in a market where costs moved a lot.
- Overtime covering for a process nobody got around to fixing.
- Month-end closing on the 20th instead of the 7th — no real-time read on the business.
- Stock creeping up because no-one's counting it.
- A supplier that quietly moved you to pro forma and you haven't told your bank.
- Two customers representing too much of the revenue. Nobody's run the concentration number in a year.



*None of those is dramatic.
Every one of them is a
reading that has drifted.*

*Drift is what kills SMEs.
Not crashes. Drift.*

Your bank is already reading all of this.

I know that sounds paranoid. It isn't. Your relationship manager has a data feed you can't see — bank movements, average balance, drawdown patterns, covenant ratios, the punctuality of what you file, the shape of your debtors and creditors.

They look at that feed against a reference model in their head of what a well-run business your size looks like.

When your readings drift from that model, they notice. They don't phone you. They watch.

By the time a facility is tightened or pulled, the RM has been watching for *quarters*.

The covenant breach is the formality. The thing that gives them the internal authority to act on a judgement they formed months earlier, on evidence you didn't know was being read.

This is the operational reason a turnaround works if the owner starts it in quarter two of the drift, and often doesn't if they start it in quarter four.

By quarter four, the lender is already running the room. Every operating decision gets filtered through a facility conversation nobody at the business is equipped to have.

Most SME failure is not a strategy problem. It's a *discipline* problem.

It's unfashionable to say, because discipline is boring and strategy is flattering. Owners reasonably want to spend time on the interesting question rather than the unglamorous one.

But I've never once walked into a failing business and found the owner got the strategy wrong. Every single time, the routines that protect margin and cash had quietly come off the rails over the previous 18–24 months.

The owner couldn't see it from where he was sitting. Nobody had ever shown him what to look at.

THIS WEEK

Sit down with last year's P&L.

Strip out the revenue uplift that came from the market being hot — the jobs you won because everyone was winning, the pricing power you had because capacity was scarce, the slow-paying customers you tolerated because there were others lined up.

Look at what's left. Receivables ageing. Month-end close date, each of the last twelve months. Overtime line. The last twenty jobs, priced on real cost. Customer concentration.

Finding two or three things now is cheap. Finding them when the market turns — or when the lender phones — is expensive.

EMBEDDED OPERATIONAL TURNAROUNDS

Iron*bridge*.

*For the conversation worth having now —
while the owner can still run the room, before
the lender starts to.*

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