

Autumn 2008

How to beat the credit crunch

You will probably have read all sorts of articles being published in the press on "How to beat the Credit Crunch". Largely these will be dealing with individuals who are over stretched with credit card borrowings and mortgage pressures.

BUT WHAT ABOUT YOUR BUSINESS?

My first key point is **Be Aware!**

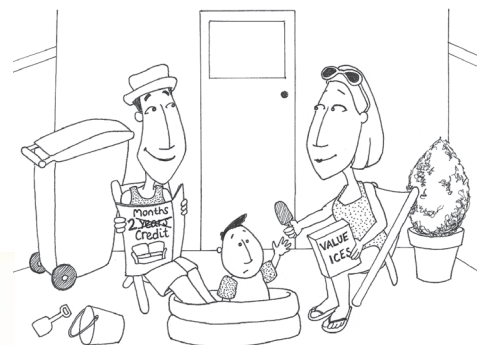
Many of you will be asking, "what should I be aware of?" This will depend on the nature of your business. If you sell directly to the general public in, for example, a retail shop or restaurant, it is likely that you will have had a drop off in turnover. If you sell directly to other businesses you will need to consider whether the trade that you are in is going to be susceptible to a general down-turn in the economic cycle and what that will mean to you.

You will also probably find that some of your customers will be a little slower in paying you. This is not something that you should just "take in your stride". Other businesses will be struggling with

the "recession" and you need to get on top of the position of your slow-paying customers very sharply. Is their business likely to be forced to close or go into liquidation? If so, you need to protect your position by reducing your credit terms to them, ensuring that your retention of title clauses are adequate etc. You also need to think what you will do if you lose that particular part of your own turnover.

You may have to delay price increases and reduce your margins. That will also affect your profitability. Can you afford to give any above-inflation linked pay rises to your staff or, more importantly, yourself?

Looking at your business' own funding, you should be aware that banks are less likely to increase your overdraft facilities, and may even seek to reduce it. If your business has been one that makes just enough profit to satisfy you, but is not strong overall, the bank could become quite restrictive in what they lend to you, as they will have fears for their security (e.g. your house may be reducing in value as opposed to the borrowing on it), and the cost of borrowing. If so, when you come to renew your bank loan you may find yourself put under significant pressure. Renewing your bank overdraft will no longer be a straightforward part of your business cycle and it would be beneficial



"Who needs Barbados? Plus the great thing about holidaying in our own garden is that we can still afford to keep our own garden."

for you to prepare profit forecasts and cash forecasts based upon reasonable provable assumptions to take with you when you go to see the bank so that, if they seek to be restrictive, you can argue your corner more strongly.

If, at any stage, matters are beginning to become a real problem, you must take advice immediately. Specialist advice is essential if a business is to be saved and the earlier that a patient consults the doctor, the easier it is for the medical team to save the patient and reduce radical surgery. Over the years I have advised many businesses, but far too many come to take specialist advice too late. Those that come early enough have a chance of survival and I am pleased to say that there are many people in employment today who would not have been if their employers had not sought early advice.

For businesses the key advice is **Be Aware!** and when you see something negatively affecting your business, make a positive reaction to it and take specialist advice.

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FOR INDIVIDUALS...

If you are a regular reader of Comment you will have seen articles by me encouraging people not to take excessive credit and seek to enjoy themselves on future earnings as opposed to living within their means. This is probably not the time to preach that sermon again except to say "Reduce your Expenditure". You do not **NEED** a foreign holiday each year. If your credit cards are beginning to peak you should just spend your time at home keeping costs to the minimum.

Re-mortgaging is not as easy as it used to be but there are still deals available for those with reasonable equity in their property. If you are beginning to come under pressure, shop around early, but be careful about being locked in for too long to any mortgage deal with a high interest rate. The dearth of mortgages is more for those who are in the "sub-prime category" not people with reasonable equity and reasonable earnings.

For individuals, the way to beat the credit crunch is by cutting your expenditure now, not when your credit cards begin to become "maxed out". You should be thinking ahead and not spending next year's income now.

If you think you may be affected by this, and for immediate intelligent advice contact Anthony Harris on 01865 261100 or email aharris@critchleys.co.uk