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INSOLVENCY BRIEFING – September 08

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 businesses? The following briefing note contains some pertinent tips for your business clients who may be running into difficulties.

My first key point is Be Aware!

Many businesses will now be asking 'what should I be aware of?' This will depend to a large degree on the nature of the business concerned, but if they sell directly to the general public in, for example, a retail shop or restaurant it is likely that they will have a drop off in turnover. If they sell directly to other businesses they will need to consider whether the trade that they are in is going to be susceptible to a general down turn in the economic cycle and what that will mean to them.

Businesses will also find that some of their customers will be a little slower on paying. This is not something that businesses should 'just take in your stride'. Other businesses will be struggling with the "recession" and your client needs to get on top of the position of their slow paying customers very sharply. Is their business likely to be forced to close or go into Liquidation following the pressures on their business? If so your clients need to protect their position by reducing their credit terms to them, ensuring that their retention of title clauses are adequate etc. Also, they need to think what they will do if they lose that particular part of their own turnover.

They may have to delay price increases and reduce their margins. That will affect their profitability. Can they afford to give any above inflation linked pay rises to their staff or themselves.

Looking at their business' own funding, they will have to be aware that banks are less likely to increase overdrafts, and may even seek to reduce them. If a business has been one that makes just enough profit to satisfy the bank, but is not overall strong, the bank could become quite restrictive in what they lend as they will have fears for their security (e.g. your client's house may be reducing in value as opposed to the borrowing on it), and the cost of borrowing. If so when your client comes to renew their bank loan they may find themselves put under significant pressure. Renewing their bank overdraft will no longer be a straightforward part of their business cycle and you may feel it beneficial to prepare profit forecasts and cash forecasts with them based upon reasonable provable assumptions for them to take when they go to see the bank so that if they seek to be restrictive they can argue their corner more strongly.

If at any stage matters are beginning to become a major problem you must encourage them to 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 earlier advice.

If you have clients that are affected by this and for further advice please contact Anthony Harris on 01865 261100 or email aharris@critchleys.co.uk