

INSOLVENCY BRIEFING – March 2009

Beat the credit crunch II

Anthony Harris, Critchleys Business Recovery and Insolvency Partner gives immediate intelligent advice on how to beat the credit crunch

Everyone seems to be writing about the credit crunch these days, journalists do it in every daily newspaper and it is always in the weekend ones. Also many accountants, lawyers and others are putting it in their circulars to clients. So here am I doing the same!

Probably most of you are conscious of the looming recession, and the auditors among you will point out that it was not a recession until 23rd January because only then did we have two quarters of negative growth in GDP announced. That might be technically correct, but it is useless information because we have all seen reduced profit in some of our clients, sometimes losses but certainly significant commercial stresses. The commercial stresses can even include what do we do, where do we invest our profits? Should we look at property, equities, bonds, bank deposit accounts or even just put it under the bed?

How can businesses like ours weather the storm? I say 'ours' because as a partner in a firm of Chartered Accountants, I am not only someone who advises businesses but am a businessman too. I need to ensure that my business is going to be strong enough to weather the storm and I also need to anticipate the issues that will come upon us in the next year or two.

I first got dragged into dealing with struggling businesses in 1973 when I first started to train to become a Chartered Accountant. I have seen that slump, the problems of the early 1980's, the housing crash of the 1990's and its progression across the economy, the dot.com bust and now this. Part of me hopes that this will be the last one I see but as recession increases my workload, I am not always sure!

Experience tells me that well managed businesses have a far higher chance of surviving times of economic stress. Good management is essential and managers must plan for the future, and constantly keep on top of how their business is performing.

For us Chartered Accountants it is too easy to spend our time advising and supporting our clients, but we also need to spend time ensuring that our business is being managed correctly. The same rule applies to all business managers.

But precisely what must one do to survive in these times and what does it mean to be a good manager in a time of recession and economic uncertainty?

- 1). Know where you are. By that I mean that all managers must ensure that they have up-to-date management information available to them at very regular intervals. This does not mean just preparing quarterly management accounts as well as your annual accounts, but actually ensuring that you have monthly accounts prepared within a couple days of the end of the month, an updated review of your cashflow for the months ahead and a review of the variance analysis on your cashflow and management accounts for the previous month.
- 2). Cash is king. Ensure that you invoice as soon as you are able to do so and try to avoid disputes on invoices. For example, if you have extras that need to be invoiced outside a quoted price, put them on a separate invoice so that if questions are raised upon the extras, there is no reason why the main invoice is not paid in full promptly.

- 3). Regular invoicing. Consider raising interim invoices if your work is carried out over a period of time or some of the goods have already been delivered and you are waiting for the last part to come to you for processing or onward delivery.
- 4). Credit Control. In addition to this, ensure that your credit control system is working. Do not wait until an invoice is three months old before you chase it. If your credit terms are fourteen days why not ensure that your customer receives a telephone call on the fourteenth day just to remind them and make sure they are getting on top of things. Statements are a 'must' and these should be followed up if there is a continued delay.
- 5). Control turnover. Don't grab every piece of work that becomes available to you. Not every contract you are offered is profitable, particularly when you bear in mind the payment terms and cost of capital for running the project etc. Turnover is vanity, profit is sanity, but cashflow is reality!
- 6). Consider various different sources of finance. If your business runs on an overdraft, might an invoice discounting system be of more benefit to you as it is not repayable on demand? Should you be using hire purchase to fund acquisitions of new assets that are essential (and I am sure you are only buying essential assets!) rather than a bank loan? Should all your eggs be in one basket?
- 7). KPIs. Assess what are the key points in your business that make you profitable and generate cash e.g. debtor days, production hours, cash collection, invoicing etc. These are called 'Key Performance Indicators' (or KPIs). These should be looked at on a weekly if not daily basis and constantly reviewed to see whether there are significant trends.
- 8). Look at your suppliers. Are you getting the best prices? Are you getting the best payment terms? On the other side of the fence, are you securing yourself in case your customers fail to pay you? What is the quality of your Retention of Title clauses?
- 9). Review your staffing. This can often push you towards difficult decisions but it is better to take these on the chin early, rather than leave them festering. It is always possible that there might be a large contract, or a new big order coming in next month but the economic uncertainty suggests that this is not the case. If you are over staffed, cut back now. In most cases this will mean having to let staff go, but don't lose sight of the possibilities as JCB have done where some staff have taken a 10% pay cut in order to retain their jobs.
- 10). Are you on top of your cash budget? Do you know what funding you will require in three months time, seven months time etc? Ensure that your management information is robust and will stand up to scrutiny. Your financiers (bankers) will appreciate this and are more likely to give you a bit of 'slack' if they know you are on top of your figures and have control.

All the above is part of good management and it is this which will help you and your clients survive in these economic troubled times.

Here at Critchleys we are able to assist you in all these areas so please do talk to us earlier rather than later. We would not want to tread on your feet, but if your clients need that extra input please contact us. We like to work with our professional contacts and help businesses to survive wherever possible as we have the capacity to advise and rescue businesses that are facing very major problems. If the prognosis is 'terminal', we can also advise directors of the best way to sort matters out.

Talk to us so that the stress is not just yours or your client's alone.

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