Ten ways to survive the credit crunch

There is no hiding from the difficult trading conditions that currently exist, but it is not all doom and gloom. After every recession is a period of prosperity and the best companies will come through at the expense of the weaker ones. Here are ten tips to help you be one of the survivors.

1. Cut costs as soon as you can

As sales revenue falls you will have to cut your cost cloth accordingly, so act decisively and make the big decisions straight away. Numerous small adjustments can feel like death by a thousand cuts and could take too long to have the desired effect. Use your business plan to assess where cuts should be made and how deep. Take advantage of any government backed schemes like the redundancy payment loan scheme. When you come out the other side of the recession leaner and meaner you will need key skilled staff to take you forward, so consider if it is wise to lose them all now. Try cutting salary and benefits or the working week to reduce costs but retain the skills, and whilst this may be short term it may buy you enough time until the economic picture improves.

2. Maintain up to date management information

Keep up to date records of every business transaction in order to review performance. It is highly recommended that you produce monthly management accounts **INCLUDING A CASHFLOW**. Make sure they are produced in a timely manner and that you review them immediately, and even more importantly, ensure you understand what they are telling you. Compare them to your annual budget and investigate any major differences.

3. Remain in control

When a company becomes insolvent the directors need to act in the interests of creditors rather than shareholders but ordinarily that does not give creditors the right to dictate terms, and that includes your bank. Choose your own business advisors so you can be confident that they will act in your interests. Often the spectator sees more of the game and the warning signs are often more obvious to a casual observer than they will be to you. When you are in the thick of it, punch drunk from fending off creditors and juggling your budget, you can miss the bigger picture. It is not normal to constantly get chasing phone calls to make payments, cheques bouncing at the bank, being on stop with suppliers, or for the bank to insist on an independent review. If this happens, take matters into your own hands and make some changes.

4. Focus on cashflow

Look at all areas of the business. Consider strengthening credit control procedures and debt chasing, reduce stock levels, and try to negotiate extended credit terms. It is also worth looking at taking advantage of “Time To Pay” agreements with HMRC. Some of these will not be easy as everyone is in the same position and is looking to maximize their own cash position. Don’t forget the old cash clichés as they are even more relevant in a recession, “turnover for vanity, profit for sanity" and "cash is king". When times get tough it is very easy to chase turnover but remember, you only want profitable turnover. You may have under utilised assets within the business that could be sold to raise cash but ensure that this would not damage the business in the future.

5. Prepare or update your business plan

This is essential as all business owners and managers need to understand where they make or lose money and need to look ahead at different scenarios, like what changes would be needed if sales were to drop, say, 25%. Most importantly, more businesses will need this information to optimise cashflow and maintain reasonable headroom within agreed facilities. If a company is looking to secure bank or Business Angel funding, a sound business plan is a prerequisite to even get in the door. A business plan obviously looks forward but if you have a monthly reporting system in place, it can be used to compare against actual performance allowing the business to identify and react to differences much more quickly.

6. Update your trading terms

Many businesses have relatively little experience of their customers becoming insolvent. In a sharp recession this risk will become a more frequent part of doing business and needs to be built into pricing and terms of trade, including provision to charge interest on late payments, termination of contracts, taking early recovery action and claiming a lien or retention of title to goods. Obtain up to date credit reports on major customers. Ensure you have an efficient, computerised credit control process and use it to chase customers before the payment terms are stretched. You may need to take further action if contacting the debtor doesn't result in payment. Consider using a local solicitor to send official looking reminders to debtors, it doesn't cost much and may speed up payment. The normal standard payment period is 30 days, after which you might consider charging late payment interest.

7. Look out for opportunities

For every business that fails there will be customers, key personnel and other assets available to those that survive. Register on IP-Bid.com, the UK's online insolvency market place, to receive email updates and opportunities. In the current climate there will be many companies coming up for sale so update your marketing plan to include market growth by acquisition. This will make you a bigger player in your market and may present an opportunity to buy a competitor cheaply.

8. Inject additional working capital

In the current climate the banks are no longer prepared to take all of the risk in a business so you may have to consider putting some money into the business yourself to pay creditors, especially if your bank has declined additional facilities. You may be able to tap up friends and family, sell some personal assets or release equity in a property but there are a number of potential pitfalls you will need to navigate, so seek specialist advice first.

9. Have a structured survival plan

Battening down the hatches and hoping to survive the recession may not be the best option so you will need to put together a plan to get you through the difficulties. This will prevent knee jerk panic decisions particularly when looking at cost reductions and will also look at how you will maintain and grow your sales at the same time. You can only cut costs so much but if the sales are not there you will still suffer severe cashflow problems.

10. Don't panic

You can be sure that in the current climate you are not alone with your problems and challenges as just about every other company is going through the same. Despite the negative coverage in the media over the last year, the world will not end next week and if you are proactive and actively take steps to get through it you will survive and be better for it. Don't feel a failure if you seek professional help from a competent business advisor. If you need specialist insolvency advice they will tell you. Recent case law has clarified that as long as directors act in accordance with professional advice they should avoid personal liability.

REMEMBER!!

There are usually a number of constructive options available, especially if you take early advice. This may be the first time you have faced being unable to pay creditors but we see this type of situation every day. Even if the company cannot be saved, often the business can. Be positive and you will survive, bury your head and you will become a business failure statistic.