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How is the economic climate putting companies under pressure?

Sam Talby The worst pressure for any business is a lack of available cash. Companies need money to sustain themselves, and plenty need financing to stay afloat. The question then becomes: is the business strong enough to warrant an investment?

Karen White Yes, cash flow and how to manage it is crucial.

Jonathan Williams Going into the recession, many companies will have cut costs and reduced their stock levels. That can mean that a business that is slowing down can actually generate cash. But as you come out of recession the opposite situation arises. The moment when you most need cash to invest is at the bottom of the cycle, but it's not always easy to borrow at that point.

Henry Warren Many companies were able to borrow long-term debt as short-term money. That created a real problem that is still unwinding.

Tom Webb Yes, the conditions we have now will lead to a bumpy recovery at best.

Williams Another factor is that at the height of the boom a lot of foreign money was invested in British businesses, but that money has largely disappeared. The banks left standing have to spread the money they have more thinly. One bank said to me that the availability of money to smaller businesses is likely to get further squeezed because some large corporate refinancings are coming up over the next 18 to 24 months. Smaller

With the economy fragile and plenty of companies vulnerable, directors should not be afraid of taking the big decisions to get their business back on track

TIME FOR ACTION

businesses will lose out as the money flows into bigger ones.

Andrew Hughes Yes, many are undercapitalised. But their options to address that are limited. It's a real problem, as they can't reposition themselves to take advantage of opportunities. I can't see the uncertainty ending any time soon.

So what should companies be doing to put themselves in a strong position?

Talby In the last recession there were usually funds available that meant it was possible to structure a way out of any problems quite effectively. But this time that escape avenue is far less likely to be available. Directors have to be cleverer at an earlier stage to avoid more serious problems further down the line.

Warren Yes, early action is the key. Don't start from here is not what you want your adviser to be telling you.

White Many smaller and owner-managed businesses find it hard to take tough decisions, especially about their people. But really there is no room for sentiment.

“Smaller and owner-managed businesses find it hard to take tough decisions. But there really is no room for sentiment.”
Karen White

Williams The trouble is, many don't understand how bad things might get. Politics has played its part in this recession, with lots of actions taken to prop up businesses that would have gone to the wall a long time ago. The tax authorities have held back, banks haven't put in receivers on properties and so on. Low interest rates, too, have helped to sustain the illusion that it's all ok. As the economy gets stronger, there will be more actions taken to call in debt and recover assets. It will trigger another wave of problems and look like another recession.

Hughes Yes, it hasn't been as bad as people expected. But too many have got used to that, perhaps. It's also been a slightly phoney situation.

Does insolvency need rebranding or repositioning so there is less of a stigma attached to accessing this kind of expertise?

Talby One attempt to do that was to call it turnaround. But the word has become contaminated through misuse. Turnaround should be about bringing in professionals to restructure



THE PANEL

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the business and facilitate a change of direction. It should not be used to describe an administration and prepack sale.

Warren A change of direction in any business is hard to bring about. It has to start with the management admitting being wrong at some level.

Talby Yes, an insolvency or turnaround is viewed as shameful in the South West. That needs to change. And smaller businesses need to be more trusting of professionals.

Asset-based finance is available to businesses that might struggle to line up conventional bank debt. Is there much evidence that companies are willing to explore this option on their own terms, before a financing problem arises?

Richard Pepler Very few companies approach Ultimate Finance of their own accord. We have to force the

pace with many companies, many of which come to us via a recommendation from an insolvency practitioner. Many companies can be profitable or potentially profitable but still lack cash. Another problem is that some companies have been chasing turnover but not focused enough on profitability.

Trevor Drury There have been examples of that in the construction industry, with some companies bidding on a negative profit margin just to secure business. It's risky.

What part has politics played in the relatively low level of company failure in 2009 and 2010?

White Political changes have created a lot of uncertainty. Low interest rates have given many companies the breathing space to sit it out, but that period is over.

Hughes Yes, we are into the cuts. It feels like a pivotal moment. A lot will happen this year, I suspect.

Warren Remember, too, that a capitalist system requires recessions now and again to lose the weak companies. If you are allocating capital, you need to know which businesses are strongest: recessions reveal that.

Luke Boxall Yes, you cannot sustain a company on optimism alone. You need a workable strategy and the right expertise.

Jeff Fuge And you need to be happy to source the expertise you need. Getting in professional help is about more than compliance.

Warren Yes, many companies would not dream of employing a finance director. They would just see it as burdensome cost. But a good finance director will create the right capital structure for a business.

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