

Recession - proof your business

The economic climate is getting tougher. With talk even of a possible recession as the credit crunch kicks in, there is a prospect of higher levels of business failure for the foreseeable future. Businesses need to act now - and cash flow should be one of the key focal points as it is the one area that most businesses can do something to improve.

Money is becoming scarce - as banks become more and more cautious about lending and credit lines dry up, it is now imperative that procedures are in place to carefully monitor cash flow and working capital. An accurate cash flow projection can alert you to trouble well before it strikes, and once money is in the bank, companies are far better equipped to deal with a crisis.

Stock

Carrying too much stock ties up funds in financing the excess, risks obsolescence and costs money to store. Knowing which product lines sell quickest and which are slow moving will get maximum stock turn and profit from minimum cash outlay.

Work in progress

With WIP, time is money. WIP has to be financed for both materials and labour. Without active management, quick cash turn and profit opportunity are lost. If a project is lengthy, agree stage payment plans with your customer - most customers prefer to spread the cost with a series of small payments rather than one large one, so your cash flow will benefit.

Focus on "change orders" - the extras that are additional to the project. Individually they may be small but at the end of the contract they can add up to substantial sums. By then, your customer has forgotten about them and is surprised to be charged or is embarrassed by the amount and disputes them. Bill change orders as they arise and generate more cash as a result.

Debtors

Selling is often the easy part - getting paid is harder and a credit crunch is likely only to exacerbate the situation. Before taking on a new customer, make sure they can pay - credit checks are easy. Also agree your business terms in writing, offer prompt settlement discounts and charge interest on late payment. As the availability of traditional finance from the high street banks diminishes, consider alternative funding such as factoring or invoice discounting.

Institute a clearly defined credit control policy and stick to it. Debt collection starts when the invoice is sent out - your payment terms are a maximum period not a minimum. Customers pay those who chase them far quicker than those who don't.

Creditors

Don't take excessive credit from your suppliers - they supply you with essential services and goods that your business needs to survive. You must know the terms of business for each of your suppliers and if these don't fit with your circumstances, particularly for one-off contracts, then you should negotiate the terms.

Personnel

Be realistic about your staffing requirements. Make sure there is a good business case to support the recruitment of new personnel. Retaining good staff is cheaper than the recruitment and training of new ones.

Expenses paid in advance

It's not just business rates that can be paid in instalments - many costs can be spread to improve cash flow. Examine all your payments in advance and see if there is a payment plan option that suits your business. There may be an interest charge but, with cheap credit drying up, it could be less than you pay for your bank facilities.

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Overheads

Review your overheads. It is often surprising what expenditure is unnecessary or excessive.

Equipment

Review your asset base. Surplus assets should be sold to raise cash.

Consider deferring capital equipment purchases if they are not absolutely necessary. It is good and proper to have a replacement programme, but prioritise essential purchases from those that can be deferred.

Funding

Don't wait until the last minute to review and renew loan facilities. The crisis in the credit market is affecting the availability of cheap money and companies must prepare early if current terms are due to expire.

Take advantage of government funding. If you are considering new projects or ventures, a substantial proportion of the costs of related feasibility studies may possibly be paid from government funds via its representatives such as Business Links.

Work with your bank

Make sure you have a good working relationship with your bank, that your manager understands your business needs, that your financing arrangements are properly structured, that you provide regular and accurate management information and that you don't deliver last minute surprises.

In the current economic climate, such a relationship is vital - if your bank manager doesn't hear from you, he may well come knocking!

In summary

By applying these principles, your business will be better equipped to weather the current gloomy economic climate.

Cash flow management is vital to business health - without cash to pay suppliers and staff and to service loans, a business, even a profitable one, will ultimately fail. Undertaken effectively it will improve profit and turnover. Cash, whether bank notes or in electronic form, will always be king.

We believe the information in this fact sheet to be correct at the time of going to press, but we cannot accept any responsibility for any loss actioned to any person as a result of action or refraining from action as a result of any item herein.

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May 2008