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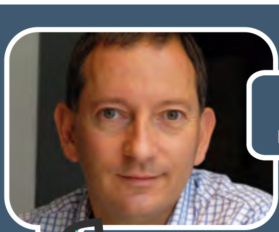


Edited by Adam Bernstein

GETTING BACK TO BUSINESS

DIG YOURSELF OUT OF DEBT

One of the reasons why so many go into business on their own account is that they like the idea of rising (or falling) on merit; that they're generally not constrained by anything other than their own effort.

By Adam Bernstein

But running a business comes with risk – which is why the rewards of being in business are so much greater and why some feel it fair that business owners get to 'use' (not abuse) the tax system since they have so much more to lose. After all, they have no employment protection.

Risk, of course, comes in many forms – changes to the economy, the natural world or, as we've seen, global disasters. All are bigger than any one person or country, and all can bring a normally viable business to its knees no matter how well it plans for the unexpected.

Take stock

But when crisis hits positive cash flow profitability is soon be turned upon its head and debt more than likely will follow. And when this happens, action is needed quickly – delay only makes the problem worse as any failure to pay what is due will lead to any one of a number of consequences. Tax debts may lead to action from HMRC (which recently (re)gained a new power in relation to debt collection); non-payment of other bills could lead to court and bailiff action where assets are seized; and a failure to pay wages will probably end up in the Employment Tribunal.

So, the first thing for a firm in trouble to do is to step back from the fray and take stock of its position so that an informed decision can be taken. It should be said that any manager worth their salt should be able to understand the financial performance of the business on demand. Once the extent of the liabilities is known, action in priority order can be taken.

Look at:

Staff: Workers have a legal right to be paid correctly and on time. Failure here can, as noted, lead to an Employment Tribunal claim for an unlawful deduction of wages. It's possible to seek to renegotiate contracts with a view of lowering pay, but it won't go down well and most certainly won't buy any goodwill.

Suppliers: You'll be relying on your suppliers for the benefit of the doubt – goodwill – and shouldn't squander this unnecessarily. Allied to this utility suppliers and landlords who, very simply, can cut off supply or seek an eviction.

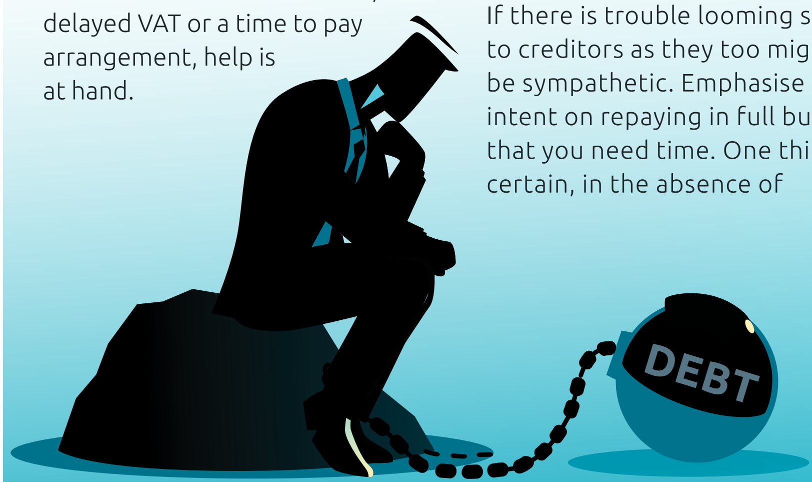
Credit score: Bills that go unpaid beyond terms, without agreement, could see a credit rating given a black mark. The consequence will be that future borrowing (loans or supplies) could be reduced, made more expensive or denied. Missing payments on loans and credit cards can lead to penalties and extra charges and excruciating interest levied.

Personal business liabilities: Sole traders or partnerships are liable for business debts as if they were their own. Limited companies and limited liability partnerships are generally not in this situation unless they've given personal guarantees.

Find solutions

Use your accounts and other available software: Determine the liabilities and put them in priority order with a view to making changes; if you need to make cuts make them quickly before bills become overwhelming. But at the same time, have an eye to the return of normal times – you don't, for example, want to lose good staff or suppliers or disappear from public sight.

Speak to HMRC. The taxman is running a number of programmes to help firms in trouble. Whether it's Coronavirus-related loans, delayed VAT or a time to pay arrangement, help is at hand.



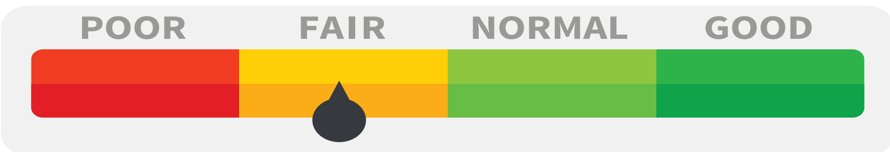
Speak to the bank: Just as householders have done with their mortgages, so do the same with loans the business has. It's entirely possible that the bank will agree to revised terms or a payment holiday with missing payments made up over the balance of the loan. This might come with some additional charges, or possibly a new higher interest rate, but cashflow will be eased.

Speak to creditors: Banks may have a hold over the business assets through charges, but supplier debts can be just as dangerous. If there is trouble looming speak to creditors as they too might be sympathetic. Emphasise the intent on repaying in full but that you need time. One thing is certain, in the absence of information they may jump to the wrong conclusion which may be exacerbated by gossip. Remind them that if no one offers help they may see a 100 percent potential loss.

> **"Remember whether it's a bank, the taxman or a supplier, you must be proactive"**

If you approach them before they approach you it's more likely that you'll see a positive outcome.

Profitability is a function of revenue less cost



So, now that that lockdown appears to be coming to an end, look to increase revenue or lower cost. To get revenue up can you increase sales through price reductions or sale that also moves on 'old' stock? Is there anything that customers want that you're not presently supplying? Ask and find out. Can you network to increase sales through the contacts of another – after all, 'if you don't ask you won't get.'

At the other end of the spectrum, look to see how costs can be reduced. Again, software should be able to highlight where the biggest costs lie.

An obvious target is to reduce floor space where it's no longer needed, possibly by relinquishing buildings or subletting to another where the contract allows.

Next, you may have to (reluctantly) consider redundancies. While the Coronavirus Job. Retention Scheme is helping employers with wage costs, it is only a sticking plaster. Remember though, making redundancies leads to a loss of morale and also – and this is just as important – experience and knowledge could end up working for a rival. But if needs must, this is a fix to consider.

Is it possible to consolidate any borrowing into one new product over a longer term? This may carry setup costs but lower cashflow burdens. Remember that financing costs can be incorporated into the accounts. Naturally, success will depend on your credit score.

Haggle with your suppliers – you could be pleasantly surprised. You may have settled into a long-term relationship where the supplier feels that they don't need to offer any discounts. Politely, but firmly, shake things up a little and ask for discounts while mentioning that you're benchmarking.

Whatever you decide to cut, do so wisely for it's not what you do but how you do it that matters. Consider what happens if you slash your advertising spend – it'll save money now but in the long-term no one will know that the business exists; if you move from premium to budget brands you'll have cheapened your offering; lose staff and those that remain may be unable to cope and could themselves leave.

Inject new cash … somehow

If you're suffering cashflow problems, you'll need to see where you can raise money from. It's a difficult proposition because by definition, you're in a weak position.

You have several options:

Sell assets: If you've anything of value which is not critical consider selling it. Avoid a fire sale, but see what it could bring in. From premises to vehicles and stock, this could be a life saver.

Friends and family: It's not ideal and doesn't come without embarrassment, but borrowing from friends and family is an option worth exploring. However, and this is important, you must be open and honest with those you're approaching. Also, the deal must be formally documented. Ignore this and the fallout will be unbearable. If it works though, the cost will be minimal compared to commercial funding.

Seek new investors: Anyone watching BBC's Dragons' Den will know how this works. A business pitches to investors who in exchange for cash will want an equity stake in the business. But what they'd want when a firm is in trouble will be more than if the approach is made in the good times.

In summary

Debt is an evil necessity in business; few can operate without it and some – even Apple – actively court it as it makes good business sense. But the wrong kind of debt or at too high a level can break a business.

If trouble is brewing use the information you have to hand wisely and don't act in haste only to repent at leisure. Take advice and seek out the opinions of others you trust.