



Forum of Private Business

Surviving the ‘credit crunch’ – how the FPB can help your business

Running a smaller business is difficult enough at the best of times, but the current trading conditions – a result of the so-called ‘credit crunch’ – are testing even the most experienced owners and managers.

For many business people, this will be their first experience of trading in difficult times, but even those of you who were around in the eighties and early nineties should make time to take a critical look at your business and consider what action you need to take now to ensure your business makes it through.

The ‘credit crunch’ has caused many banks to review the criteria on which they are willing to lend. This is having a severe impact on many smaller firms, for whom access to finance is becoming a major concern. Many businesses will find it harder to obtain funds and those that can are likely to be paying much more in charges and interest.

Even if your business does not have any borrowing requirements, the slowdown in the economy is likely to have an impact on your business. Although we are not in a recession, all of the forecasts are predicting a period of slow, or perhaps negative, growth.

At the Forum of Private Business (FPB), our aim is to provide our members with the support they need to survive – through bad trading conditions as well as good. So, we asked some of our advisers for their thoughts on how to manage a business in a downturn and they came up with the tips in this document, which can be applied to any business.

Don't suffer in silence!



Our members have unlimited access to a helpline, available weekdays from 8am to 6pm. We have a knowledgeable team in the office to answer your business queries, supported by a network of specialist advisers.

Whatever your business query, call us on **0845 130 1722**. Alternatively, email us at helpline@fpb.org and we will respond by close of business on the next working day.

eNewsletter and website

Our free weekly eNewsletter keeps you up to date on changes to legislation and brings you hot tips on all things relevant to running a smaller business. If you don't already receive it, sign up via our website at www.fpb.org/eNewsletter or call us on **0845 130 1722**.

When you're next online, make sure you visit www.fpb.org. Our website is updated daily with news, tips, money-saving suggestions and much more. Members even have free access to a selection of templates from our annually updated *Employment Guide*.



Acknowledgements

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Don't over-extend

If you have new projects in the pipeline, you would be well-advised to re-assess them in light of the current economic climate. Extensions to the business usually involve new borrowing, so you should carefully double-check that any lending can be serviced. You may have succeeded in extending successfully in the past; however, we are now operating in different times and a downturn means your business could require significant changes as customers change their buying habits.

If you do need to borrow money, make sure you know about the different types of finance available to you. Over recent years, there has been a noticeable reluctance by most banks to offer a traditional overdraft facility. This trend is sure to gather pace as the credit crunch bites.

Alternative options for finance, including asset-based lending, where the loan is secured against a specific business asset, have been used to fill the void. Also invoice finance and discounting, whereby you can draw down cash from your lender as soon as you make a sale. Not only does this dramatically improve your cash flow, but it also ensures that your funding grows in line with your business.



How the FPB can help ...



The FPB has a long-standing association with Clydesdale and Yorkshire Banks. They will look at providing finance for machinery, vehicles, office equipment and the like and, for our members, will waive the documentation fee, which is usually around £150. This frees up your cash by spreading the cost of major purchases over a longer period. Find out more at www.fpb.org/assetfinance.

It is a good idea to shop around to make sure you are getting the best deal on finance. If you want to do this, or you are having difficulty in finding a suitable finance package, we can pass your details on to the National Association of Commercial Finance Brokers (NACFB), whose members have vast experience in negotiating the best deals for your needs.

Advantages of invoice finance

- Invoice finance is flexible. There are no rigid restrictions with funding levels as the amount borrowed grows in line with your business and its increasing turnover.
- Funding is based on current business performance and not historical financial information.
- The funding can be secured on business assets with limited or no personal security required.
- It does not interfere with your work. You produce your goods and services as normal then issue an invoice to your client. The details are then passed to your invoice finance company who will notify you of the funds that will be available.
- You can access up to 90% of the gross invoice value available to your business within 24 hours of raising the invoice.
- When your client pays the invoice, the remaining percentage of the invoice value is made available to you, minus the costs of the invoice finance service.
- Your invoice finance company can carry out a complete credit control service for you.
- Some services offer confidentiality, so your customers will not be aware that an invoice finance company is involved.
- You can be protected against bad debt that might otherwise have to be written off at an expense to your company.
- The facility can be open ended with no annual renewal required.

To find out more about how the FPB can help with invoice finance, call us on **0845 130 1722**.

Stress test your business

Carry out a 'stress test' on your business. Take a good look at your business and double-check your ability to service existing loans. It is important that you can repay your debts even when profits slide. Ask yourself 'what will happen if ...' questions like: what will happen if my sales decrease by 25%? (if you are a landlord) ... my rental income falls? ... the values of my assets fall off during the downturn? ... my biggest customer doesn't pay me the money it owes to me?

Do not underestimate the depth of a downturn in terms of the impact on customers and the length of time for which it will run. It is crucial to know as much as possible about your customers. For your key customers, check and keep track of their financial positions.

? How the FPB can help ...



The FPB has negotiated for members to monitor changes in key information for up to six businesses, free of charge. If your business sells on credit, use this service to keep tabs on at least your top six customers. Register at www.fpb.org/monitoring.



Members can buy half-price credit reports online. The reports provide you with a comprehensive view of businesses' financial statuses, and give guidance on the level of credit that you should be extending to them. Access this service at www.fpb.org/creditreport.

Look for opportunities

Once you have carried out a stress test, you will no doubt have an increased awareness of the changes taking place because of the downturn. If you are lucky enough to be cash-rich, there will be plenty of opportunities out there to take advantage of. Other businesses will be experiencing short-term issues and there may be opportunities to offer solutions to their problems.

Your customers are more likely to stick with you if you can save them money. Look out for opportunities to cut your own costs and save money. Review operating costs, look for better deals on utilities and so on. Savings can also be made elsewhere; under the Cash Accounting Scheme, you don't have to pay VAT until your customers pay you. You may also be eligible for Small Business Rate Relief (SBRR). And check the rates you are paying are correct; appeal if a mistake has been made.

? How the FPB can help ...



Our partner, Utility Options, offers free advice to members on the best utility deals for their businesses, with an average saving of £1,275. You could save money even if you don't switch suppliers. Go to www.fpb.org/utilities.



Our members can claim a free appraisal of their business rates from ratings specialists, Montagu Evans, who can check your rates bill and may be able to secure a reduction through an appeal. Some members have saved more than £10,000 using this service. Find out more at www.fpb.org/ratesappeal.

Keep an eye on debtors

As the downturn deepens, make sure you add credit control to your list of priorities. Maintaining a healthy cash flow is vital for retaining flexibility for your business. Debtors need to be closely monitored as they are likely to pay their bills later in order to maintain the flexibility of their own businesses. Making sure you are on top of any outstanding bills and are communicating regularly with debtors will mean you are more likely to be paid before your debtors' other suppliers.

? How the FPB can help ...



A good flow of cash is essential for your business at the best of times, but it is even more important when credit is tight. Even the best-run businesses can improve cash flow by applying some basic rules of good credit management. Have a look at our website, where you can download advice and templates from our *Credit Control Guide*. Go to www.fpb.org.



If you are having trouble getting paid, we have a 'no collection, no fee' debt collection service for UK debts. We can also trace debtors that have 'gone missing' and help you to recover your money. These services are provided by our associates, FA Simms & Partners, who also run a free cash-flow advice line for our members, on **0845 618 0212**.

Top tips on credit management

1 Know your customer

- Check the exact name and legal status of your customers
- Use headed paper to verify company information
- Make sure the order is from the same entity
- Use a reference agency to verify details further and check their credit status
- Ask for – and verify – references from other suppliers.

3 Invoice accurately, clearly and promptly

- Send invoices immediately after the goods have been sent or the service completed
- Clearly specify the goods and services to be paid for on the invoice
- Make sure the invoice quotes the relevant order number and any customer references
- Ensure you send the invoice to the right person, at the right address.

2 Agree payment terms before you supply

- Don't assume you will be paid on 30 days or end of month following
- Set out payment terms in writing and try to obtain written acceptance
- Make sure your customer's order does not suggest different terms
- Set out penalties for late payment.

4 Don't be afraid to ask for payment

- For large amounts, call before the due date to make sure everything is OK
- Contact the customer immediately when payment becomes overdue
- Be assertive about what you expect and when
- Make clear the consequences of non-payment
- Follow up on promises to make sure they are met
- Do what you say you are going to do, and do it when you said you would.

Finally, thank customers who pay on time!

Taken from a paper produced by the Institute of Credit Management.

Keep staff motivated

After having closely looked at your business, carried out a stress test and identified any opportunities, you may want to alter the focus of your business. It is important to communicate changes to everyone in the business. Doing this in a meeting ensures that everyone receives the same message.

Retention of staff is vital in order to keep the business running. Recruitment and training mean additional costs, which you do not want to have to deal with at this time. Employees may become less productive as sales slow, so it is vital to keep everyone motivated to enable your business to ride out the downturn.

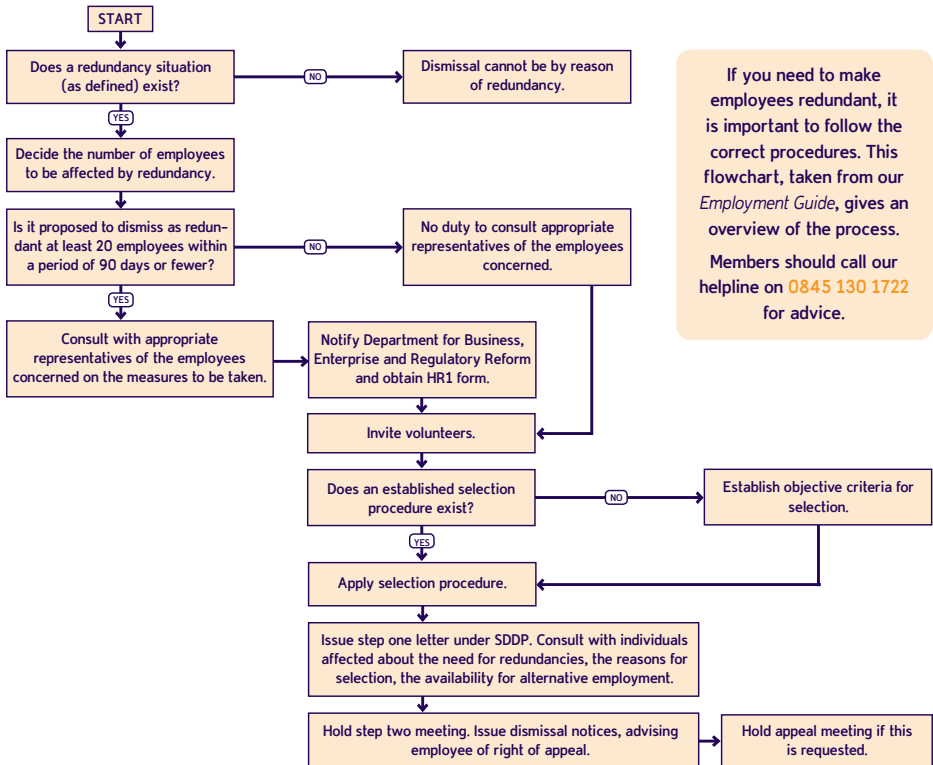


How the FPB can help ...



The success of a business depends on its people, but employment law is becoming ever more complicated. Our annually updated *Employment Guide* offers practical advice for employers on the employee lifecycle, and comes with dozens of templates of letters and other documents. Call us on **0845 130 1722** to find out more or visit www.fpb.org/employmentguide.

Fair redundancy procedure flowchart



If you need to make employees redundant, it is important to follow the correct procedures. This flowchart, taken from our *Employment Guide*, gives an overview of the process. Members should call our helpline on **0845 130 1722** for advice.

Be smart with cash deposits

For those businesses in the enviable position of having surplus funds available, it is important to find a good deposit account for your cash. The credit crunch has forced banks to offer better rates for cash deposits as they are desperate to improve their own liquidity. This means that your current bank may not be giving you the best rate of interest. As such, it is wise to look around for the best rates, but do bear in mind the quality of the institution you are entrusting your cash to.



How the FPB can help ...



The FPB works closely with Clydesdale Bank and Yorkshire Bank, which are owned by the National Australia Group. Clydesdale and Yorkshire have stuck to the sound business principles of a traditional banking model and were well-prepared for the current challenging market conditions. Their UK business does not include any direct sub-prime or self-certified lending. What's more, the deposits they take in from the local marketplace are used to support lending locally. To discuss deposit rates with Clydesdale or Yorkshire Bank, contact Andrea Belle on **07793 758156**, Lara Davies on **07785 528829**, or Glen Sykes on **07785 224969**.

Financial Services Compensation Scheme

The Financial Services Compensation Scheme (FSCS) is the UK's compensation fund for customers of financial services firms. It is an independent body, set up under the *Financial Services and Markets Act 2000* (FSMA), and protects:

- Deposits – £50,000 per person
- Life and general insurance firms – unlimited
- Investment business (on or after 28 August 1988) – £48,000 per person
- Home finance advice and arranging (on or after 31 October 2004) – £48,000 per person
- General insurance policies advice and arranging (on or after 14 January 2005) – unlimited

Protection for businesses

Broadly speaking, businesses are eligible for compensation under the Scheme. Eligibility and the levels of cover are outlined below.

Limited companies

For limited companies, the entity (not each director) is covered for savings of up to £50,000, as long as the business meets two of the following three criteria:

- a turnover of not more than £6.5 million
- a balance sheet total of not more than £3.26 million
- not more than 50 employees.

Partnerships

As with limited companies, it is the entity (that is, the partnership, not the individual partners) that is protected under the Scheme. In this case, for savings up to £50,000, per authorised financial institution.

Sole traders

Sole traders can claim up to £50,000 per authorised financial institution, but this limit covers ALL accounts with the institution, that is, personal AND business.

Note: the above information was correct at the time of printing, but the limits on compensation and criteria for eligibility may since have changed. For up-to-date information and advice, please call the FSCS on **020 7892 7300** or go to www.fscs.org.uk.

How the FPB helps its members to save money



Credit reporting

View company credit reports quickly and easily online.



Business rates appeal

Get a FREE appraisal of your business rates.



Green buying

Save 5% on sustainable business goods and services.



Business insurance

As a member, save 10% on your business insurance.



Invoice finance

Save on invoice finance and discounting facilities.



Utilities

Get the best prices for your electricity and gas.



Business monitoring

Monitor daily changes in key business data.



Practical business guides

Members save over 50% on our easy-to-use guides.



Member helpline

Call our member helpline on weekdays, 8am to 6pm.



D&O insurance

Comprehensive insurance for your directors and officers.



Purchasing

Save on stationery, office supplies, print and more.



Business telecoms

Save money on your business telecoms.



Card processing

Discounted rates for taking payments by card.



Asset finance

Get help with the purchase of your next asset.



Legal expenses insurance

Protect your business with up to £825,000 of cover.



Downloadable HR templates

Members can download our HR templates for FREE.



Mobile card terminals

Do business anywhere in the UK using mobile terminals.



Payroll

Reduce your overheads with our managed payroll service.