

Financial health checks are vital at this time of the year in order to keep creditors at bay. **Peter Yeldon** and **Mark Smillie**, partners at business rescue and insolvency company Middleton Partners, offer some valuable advice to independent retailers on how to minimise problems

Staying afloat

This is the time of year when the financial alarm bells start to ring for many small businesses. While Christmas can be the best time of the year for many independent retail businesses, the New Year can often be the worst time.

In the UK, more companies go out of business in March than at any other time of the year and in many cases this is a direct fall out from Christmas, particularly for companies already facing cashflow problems. Strong sales in December can leave you with a false sense of security over the financial health of your business, but they are often followed by reduced sales during the holiday season and the first part of the New Year.

False security

Many companies do not anticipate this potential 'Christmas trap' and, more crucially, do not react quickly enough come the New Year to resolve potential prob-



lems. This can have a disastrous effect on the financial health of a firm and, in a worst-case scenario, could put a company out of business.

Is cashflow a problem for your business? Below we look at some of the key financial issues facing independent retail businesses and suggest what you should and should not do to help your business.

Typical problems

1. Problem: Your suppliers and other creditors are putting on the pressure to have their bills paid but your cashflow situation means you cannot pay them all right away.

What should you do? Do a thorough cashflow analysis and work out a clear payment schedule.

– Do a realistic cashflow analysis for the next three months. Be very clear which payments have to be made and when.

– Look at your previous years' trading and see what your first quarter sales have been historically. This will help with your financial planning.

– Don't be tempted to just pay the small debts or just the large debts – you never know which

creditor is going to take action against you. Work to a schedule of what is due most urgently, not by the

amount you owe.

– Speak to your creditors. They will normally accept being paid at different times (e.g. on a 60-day instead of a 30-day basis) if you can show that you have a workable cashflow and are on top of this. Do your absolute best not to vary this cashflow.

2. Problem: Your banker has refused to increase your overdraft limit and you need additional capital to keep the business going.

What should you do? Remember that bank finance is not the only

option and there may be other ways forward that you are not aware of.

– If possible, preempt cashflow pressure by speaking to your bank in advance of it becoming an issue. Warn them of the situation and inform them what you are doing to resolve it. They will normally respond more positively if they know you are in control and dealing with the problem.

– Whatever happens, be very careful about using your own personal money as a buffer. Shoveling money into the business will not necessarily result in turning it around and, more importantly, you may not get the money back. The rules of 'preference' mean that just because you put the money in yourself, you cannot then pay yourself back in preference to other creditors if the company is insolvent. In an insolvency situa-



'In the UK, more companies go out of business in March than any other time of year'

Feature Get your finances in order

tion, you could well be asked to personally give back the money that you have used to repay yourself or a related party.

– There are a variety of financing and other options that you may not have considered. You should take advice from an expert.

Frozen assets

3. Problem: Retailers can be under particular threat from winding-up petitions by aggressive creditors who wish to make a stand in the market place.

What should you do? If a creditor is threatening to or has served a winding-up petition you must take immediate action.

– This is a very serious matter and could put you out of business if you do not react quickly.

– Most people are unaware that creditors can make an application for a winding-up petition without having to take a County Court judgment first.

– If the winding-up petition is advertised your bank will normally be aware of it within the first few days and will very probably freeze your bank account, which in most circumstances can effectively finish the business. Even if you pay your creditor prior to them advertising, you still might not be safe as another creditor might have joined the petition.

– Do not think that you can deal with this yourself. You must seek professional advice from someone who will know exactly how to deal with the situation. This could save your business.

– Finally, if someone has served or is about to serve a winding-up petition you should be extremely careful about taking any further credit as this could land you in even more trouble.

– A licensed insolvency practitioner would have a thorough understanding of the various financing options and which is best for your business.

Facing up to failure

4. Problem: You believe that the business will pick up under its own steam if you 'sit it out'.

What should you do? It is painful to admit your business is failing but facing up to this and getting specialist help is the first step to recovery.

– Recognise when the financial situation is out of control. Don't delay in taking steps to avert disaster. You can be certain that the situation will only get worse if you do nothing.

– Don't take advice from friends or business contacts who claim to have been in a similar situation. There is never a 'one size fits all' solution. You wouldn't get medical advice for something serious from someone who has had a different condition and the same applies to financial matters.

5. Problem: You are worried that an insolvency practitioner will



Peter Yeldon and Mark Smillie of Middleton: solutions exist for financial woes

simply close down your business and charge you a lot of money for their advice.

What should you do? It is a common misconception that insolvency practitioners are only interested in closing down businesses. Their primary aim is to save your business, not to destroy it.

– A good firm of licensed insolvency practitioners normally should not charge for an initial meeting and will quickly be able to tell you the best way to help save your business from insolvency.

– Recognise that you are unlikely to have the financial or legal knowledge to solve any problems yourself, but that they will have the expertise and experience to know which solution is best for you and will be aware of all the options, such as a Company Voluntary Arrangement (CVA) or whether the Government's new Enterprise Act might be helpful to your type of business.

Remember, what may appear to be a terminal problem to you is an everyday occurrence with a possible solution to an insolvency practitioner. ■



'Many companies do not anticipate this 'Christmas trap' and do not react quickly enough come the New Year'

Middleton Partners

Middleton Partners advises businesses of all sizes, in the UK and internationally and also sponsors a free, 24-hour company helpline to provide advice on financial and general business matters. The helpline number is 0845 061 6000 or you can visit the website at www.middletonpartners.co.uk.

