



Top ten tips for staying buoyant when the economy doesn't

By Graham Speck

It seems that almost everyone is talking about an imminent recession but is anyone actually doing anything about it? Since 1992 the UK has experienced the longest period of uninterrupted growth in a hundred years and although some forecasts remain positive, most analysts are predicting this to slow down considerably in 2008 and 2009. Here, I take a look at the significant factors affecting the likelihood of a recession, as well as offering tips for avoiding the pitfalls.

Opinion is split over whether the country will actually head into a full blown recession or whether the levels of growth will just diminish below those recently experienced. The technical definition of a recession is two successive quarters in which the economy actually shrinks. So what could affect the UK's chance of going into recession?

The housing market

Unlike in continental Europe, a large percentage of the UK population own their own house rather than renting and therefore the economy has a strong dependency on the housing market. Potential decreases in house prices, high interest rates and the global credit squeeze will make borrowing more difficult and this could lead to a big fall in consumer spending. The press has already started to report indications of this amongst the big lending institutions.

Global downturn

Previously when the UK was close to a recession, the global economy was strong enough to help avoid it. Currently the global situation is not as strong, with the credit crunch also pushing the US towards a possible recession. As the rapidly growing Indian and Chinese economies buy less than 5% of the UK's exports, their spending will unfortunately not have a significant impact. In an increasingly global economy, the economic climate of large nations such as the US will inevitably impact on the rest of the world.

Rising oil prices

Rapidly increasing fuel and energy prices will lead to pressure on companies' profit margins and potential increases in inflation, therefore limiting the ability of central banks to cut interest rates.

Other factors also include:

- Record levels of consumer borrowing
- High levels of government borrowing
- Decline in the manufacturing sector

Unfortunately fears of a recession can often be a self fulfilling prophecy as hundreds of businesses

cut costs and look to reduce services, creating a knock-on effect to their suppliers and so on. It's important that we don't panic, however much the press focuses on the negatives.

It should be said that whilst the above are key influencers to economic stability, on the other side of the coin the CBI is still predicting growth of 2% for both this year and the next.

So should you be preparing for a recession and what exactly can you do?

Even though the majority of professional advisors recommend that their clients do so, surprisingly it is believed that over 50% of smaller businesses do not have any plans to combat a recession. So, if you are revising or reviewing your plans here are some tips.

1) Have a "Plan B" even if you think a recession would not effect your business. Many successful businesses use scenario planning to help secure the future. Asking "what if?" will help you prepare for how you could combat negative influences.

2) Cash management - it maybe a cliché but, even more than usual, in a recession cash really is king. Borrowing can become harder so strict management of the funds available is a must.

Focus on debt collection and try to ensure large payments do not all have to be paid at the same time.

3) Consider cost cutting. Review all expenses to see if there are areas that may not be essential to the current operations of the business or your ability to take advantage of the upturn when it comes. There will be costs that can be cut back on or where terms can be renegotiated, but this must be done very carefully.



Drastic cuts in areas such as marketing or sales resources may lead to a short-term benefit in cash flow but also to long term problems with turnover. You don't want to be in recession long after your competitors have moved back into growth.

4) Employment is probably most firms' largest cost. Review employment terms and recognise who the key employees are, those who may be willing to accept redundancy and areas where you may be overstaffed.

5) Get your tax advisor to review your current structure and profit/loss forecasts and history to ensure the best possible cash flow including timing of payments and utilisation of losses.

6) Be willing to change the focus of your firm and look for new opportunities that may arise.

7) Critically examine your customer ledger. In most businesses the 80:20 rule holds good. 80% of your profits will come from 20% of your customers and these you will want to retain during the difficult times as the basis of your future business. Conversely, a small proportion of your customers will be generating little or no net profit. Planned withdrawal from these relationships can save resources and potentially increase profitability during a recession.

8) Ensure financial records are kept accurate and up to date. Bankers and suppliers may require management information more frequently.

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9) Don't over-react and cut prices too much, always price properly and do not give profits away. This can sometimes appear to de-value your offering.

10) Continued communication is vital. You need to have the best possible relations with bankers and other providers of finance and to do so it is imperative to keep them up to date with the firm's financial situation. If the worst happens, plan and rehearse difficult conversations with employees, customers, suppliers and bankers.

So, in conclusion, plans should be made to combat recession but even if it is a year full of uncertainties, opportunities will arise for some and successful businesses will be willing and able to adapt.

If you would like to discuss how we could help you plan in the face of economic uncertainty, please contact your normal partner or Graham Speck on **020 7022 0050**.