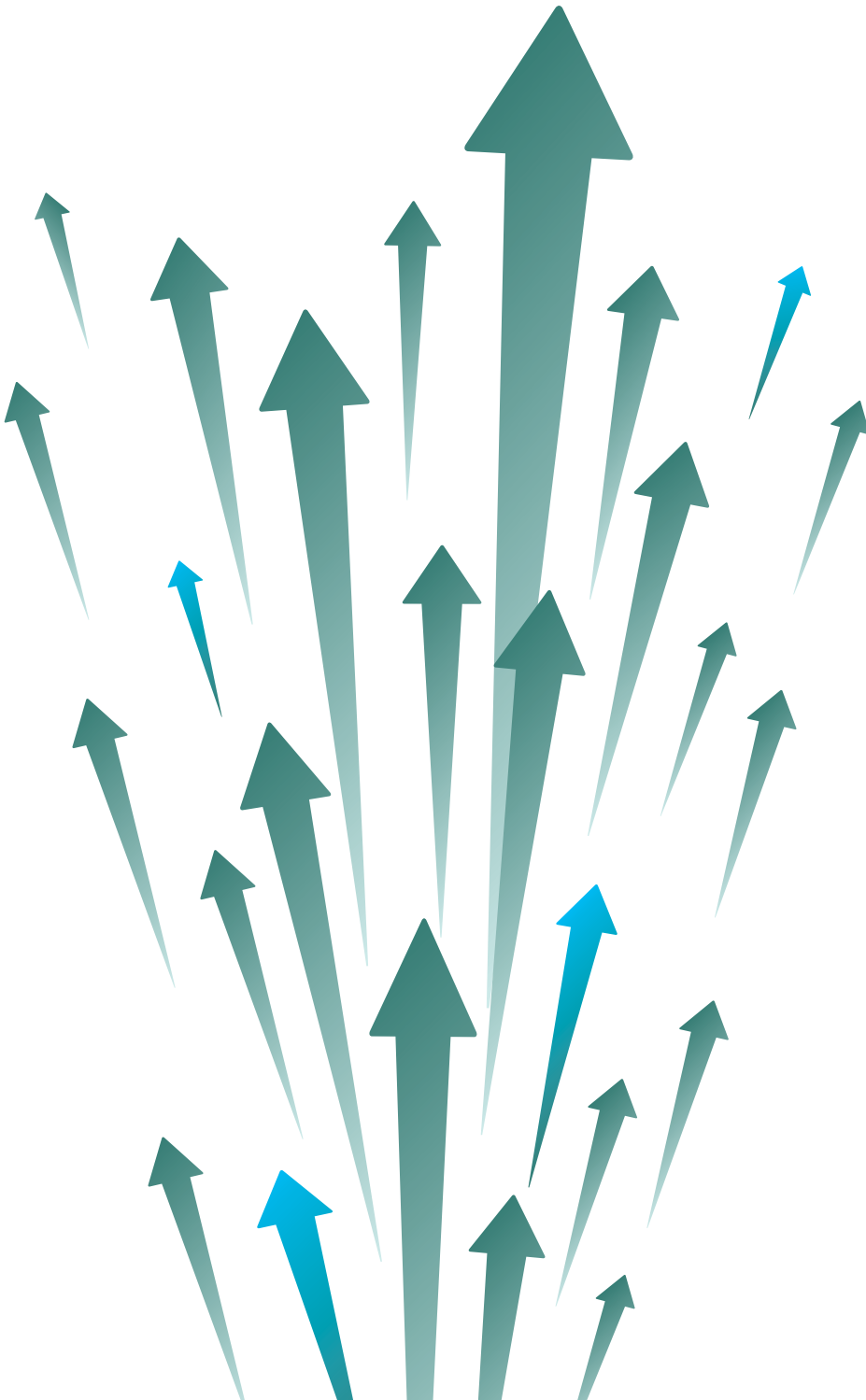


ROAD TO RECOVERY.

EMERGING STRONG FROM THE DOWNTURN.



*TURNING
THE CORNER*

ACCORDING TO THE INSOLVENCY SERVICE, OVER 5,000 COMPANIES IN ENGLAND AND WALES WENT INTO LIQUIDATION DURING THE SECOND QUARTER OF 2009.

WHILST FOR SOME OF THESE, COLLAPSE WAS THE INEVITABLE CONSEQUENCE OF SOARING COSTS, FALLING CONSUMER SPENDING AND THE CREDIT CRUNCH, FOR OTHERS IT COULD HAVE BEEN AVOIDED THROUGH BETTER BUSINESS MANAGEMENT.

Even for those companies who have survived the recession so far, there isn't room for complacency. Whilst it's uncertain when the recovery will come, it's still safe to assume that 2010 will be another tough year.

It's often said that more businesses fail coming out of recession when economic conditions are improving rather than while in recession. Indeed, analysts predict that over 30,000 companies could go into liquidation before the end of next year.

So businesses might want to take steps to make sure they don't fall at the final fence.

The following guide offers practical guidance to business owners and leaders on how to ensure that they emerge from the downturn strong enough to grasp the opportunities recovery will offer.



CASH IS KING.

Root cause analysis carried out by Barclays shows that cashflow (or a lack of it) has been the main reason for businesses failing in this recession. Cash is the life-blood of any business, no matter how large or small. If a business has no cash and no way of getting any, it will have to close down. It's that simple.

Besides being essential for survival, a strong cash position is vital for when sales start to pick up. One of the main reasons businesses fail going into recovery is that they end up with too much cash tied up in working capital and capital expenditure, as a result of better-than-planned sales.

There are four golden rules of cash management that you should follow to avoid ending up 'cash strapped'.

MAKE WORKING CAPITAL WORK.

Working capital can be a major drain or a major generator of cash so it's important to understand how much cash is tied up in the working capital of your business – for example in stock, in money owed to creditors or money owed to you by debtors.

Once you understand the working capital cycle of your business, consider maintaining tight control of the amount of capital tied up in the business by thinking about the following:

- Speed up cash collection by making sure customer invoices are issued on time and that your collection team follows up any unpaid invoices as soon as payment becomes due
- Negotiate better terms with your existing suppliers, so they supply just in time or provide you with more favourable credit terms
- Look at whether there are ways to reduce your stock holding or turn surplus stock into cash. For example, reduce the number of stock lines you hold, and sell old or slow-moving lines at a discount for cash.

DON'T WASTE CASH.

Scrutinise the costs in your monthly accounts, and carry out regular reviews to see if you can reduce costs.

Ways of saving cash could include:

- **Going green** – consider persuading staff to focus on energy efficiency and adopt simple housekeeping measures. Cut unnecessary waste, such as unused phone lines or heating empty premises at night. Reduce the use of first class mail when an email will do. Use IT to replace time-consuming paper-based systems
- **Reducing fixed costs** – freeholds, expensive cars and plush offices are nice to have but they all absorb cash. They will also drop in value significantly in a recession and you may not be able to sell them if you want to
- **Cracking down on expenses** – set an example from the top to encourage staff to support your cost-cutting measures. Ban wasteful luxuries, such as full-fare business class flights, and make it clear that all expenses must be legitimate.
- **Reviewing your supplier base** – this could be for anything from stationery to telecoms, utilities and raw materials. Shop around and be prepared to switch to cheaper suppliers and to negotiate price reductions or discounts for early payment. You could agree long-term contracts or guarantee minimum annual purchase volumes in return for lower prices. Avoid making frequent small orders where possible. These waste time and might mean you lose out on discounts

Start thinking about reinvesting in R&D and innovation as this will stand you in good stead for when the economy recovers. The same applies to keeping talent on board – whilst it might make sense to reduce fixed costs by outsourcing non-core activities, retain key people as they will be vital to the future success of your business.

FOCUS ON PROFIT.

Coming out of recession, a lot of businesses are too heavily focused on growing sales. The problem is that additional sales require more funding, possibly more staff, plant and machines and sometimes additional premises. There's also little point in growing turnover if you're not growing profitability, as you just end up working harder to make the same amount of money.

Rather than just concentrating on sales growth, you should consider:

- **Getting rid of time-wasters** – analyse which activities make money. This could result in some tough decisions as you can't afford to carry 'passengers', i.e. customers who contribute to revenue but not profit
- **Avoiding taking on work just because it comes your way** – take it on only if you'll make a good margin from it
- **Protecting your margins** – make targets profit, rather than turnover, led and introduce pricing criteria to ensure that when jobs are costed, the result will meet the company's profitability target.



FORECAST CASH ACCURATELY.

When the economy enters recovery, you may be able to negotiate good deals on premises, machinery and other assets. It's important that you're able to forecast your cashflow to support any proposals to your bank and other financial stakeholders.

Rules for preparing a short-term cashflow statement:

- Prepare on a receipts and payments basis, not funds flow
- 13 weeks rolling forecast is probably as far as you can realistically forecast in detail
- Prepare on a bank statement basis, i.e. cleared funds, rather than a cash book basis
- Opening position of forecast should be ticked and agreed back to bank balances
- Carefully consider timing of debtor receipts and creditor payments
- Ensure your forecast cash position is aligned to projected management accounts position at month ends
- Make sure your forecast cash position is not distorted by inter-company receipts and payments
- Calculate the headroom or funds available within your borrowing facilities.

Projections should always be realistic and achievable and the possibility and impact of sales slippage should be understood. They should normally be based on past performance adjusted for expected economic conditions.

MAXIMISE MANAGEMENT INFORMATION.

To maintain tight control of costs, to fully understand your cashflow and to analyse which activities and customers are profitable you must have good Management Information (MI).

By MI we mean internal management accounts, which would normally include a profit and loss account, balance sheet and monthly cashflow.

Most businesses should have five to 10 KPIs (Key Performance Indicators) which are produced weekly or even daily in some cases, to monitor the business between production of the full monthly management accounts.

KPIs will vary from business to business, but will typically include some measure of sales, costs and cashflow; the idea is that they provide an early warning of problems so you can make decisions on an informed basis and take action as early as possible.

KPIs are also 'look forward indicators', so if sales start to grow again, KPIs will flag this up. Going into recovery, companies should be monitoring their KPIs more regularly than they might at other times in case they need to react to changes – for example, by increasing capacity to accommodate an upturn in demand.



LOOK UPWARDS AND OUTWARDS.

All of the tools and tips we've mentioned so far are really helpful in ensuring you survive the rest of the recession. That's not to say that once we enter recovery, you can simply abandon them. They're all fundamental to good business management and you should think about building them into the DNA of your organisation, so they become a core part of the way you operate.

So far, the advice in this guide has largely been internally and cost focused. And it's natural that companies become more introspective and cost-conscious during a recession, as they make decisions designed to maximise cashflow and minimise costs.

However, going forwards, business owners may need to consider lifting their heads up and assess areas they might have neglected in their struggle to survive.

Our research has shown that when companies come out of recession, but don't survive long after, it's usually due to one of four causes:

- **People** – they didn't manage to retain key people
- **Customers** – they took action during the downturn which alienated customers
- **Competitors** – they took their eye off the ball in terms of the competition because of being so internally focused
- **Revenue** – businesses overtraded once things started looking up again.

Companies entering recovery need to address these areas before they become a problem.

PROTECT YOUR MOST IMPORTANT ASSETS.

In companies where staff cuts have been made, employee engagement is at an all time low. Worryingly, the employees that business owners least want to lose are the most likely to leave.

Rather than trying to retain good staff by stressing the stability of their jobs, business owners might want to:

- Set accurate employee expectations rather than over-promise stability – if you've already had to let some staff go, assurances of stability will only increase mistrust
- Involve employees more, not less, in job design decisions rather than dictating roles during reorganisations
- Develop individual employee development plans for key staff
- Introduce longer term performance-based incentives
- Maintain pipelines of new talent to mitigate the loss of key staff.

GET CLOSE TO YOUR CUSTOMERS.

Chances are, your customers' needs, priorities and spending behaviour will have changed during the recession. Equally, you will probably have changed your offering in terms of either quality, delivery or pricing to get through the downturn.

Work on rebuilding and reframing your customer relationships by:

- Identifying where you've compromised on quality, delivery or pricing and either change it or work with customers to adjust to the new business model
- Focusing on reducing customer effort rather than focusing on delight in customer service – research has shown that the amount of effort required to carry out a transaction is the biggest factor contributing to customer loyalty
- **Focusing on emotional rather than functional attributes** – while functional attributes do matter, differentiation through emotional attributes has a stronger impact on repurchase. Build emotional connections with your customers through shared values, in other words beliefs shared by you and your customers about a higher purpose, aspiration, or philosophy – for example, the environment.

GET CLOSER TO YOUR COMPETITORS.

Competitor monitoring is not only a defensive measure, it also increases your chances of spotting opportunities in areas where your rivals have taken their eye off the ball.

Increase your competitor intelligence by:

- **Doing some detective work** – find out as much as possible about your competitors: their products/services, who they're working with, how they go about winning business etc. Visit trade conventions and exhibitions, look out for your competitors in the press and probe your suppliers – after all, if they're selling to you, it's likely they're also selling to others like you. Staff who have come to you from competitor organisations can also be a valuable source of intelligence
- **Asking for feedback** – when tendering for projects, whether or not you're successful, find out from the client how they made their choice – was it on price, quality and speed of delivery or previous experience? How did they rank you and how did they rank the competition?



DON'T OVERTRADE.

It's common for businesses to be so glad to start seeing sales rolling in again, that they take any orders that come their way and take on more than they can fulfil or get carried away, recruiting new people and spending money on new equipment to cater for this uplift in demand.

Avoid falling into the overtrading trap by taking on board these tips:

- **Monitor your market** – one flurry of orders doesn't necessarily mean it's going to be plain sailing from now on – there could be still more troughs and flats to come and different markets recover at different rates; talk to accountancy firms, small business forums, the CBI and market analysts to get a feel for what's happening in your market. Don't be lulled into a false sense of security by a false dawn, and be sure recovery is sustainable before spending.
 - **Be selective** – companies whose suppliers have gone out of business may present new business opportunities. It's tempting to take on any business that comes your way, but make sure any new clients are financially stable enough to pay you. Run checks with credit reference companies, ask to see their accounts, ask if there's another supplier who can vouch for them, and if necessary, agree stricter payment terms.
 - **Link capacity to variable, not fixed, costs** – don't rush into investing in new equipment, premises or people as if sales do go down again, you'll be saddled with massive fixed costs. Explore leasing arrangements for equipment, consider sharing premises with other organisations, and consider whether you can outsource or take on contractors for extra people power.
 - **Review your forecasts regularly** – review and adjust your forecasts more often than you would normally. At the end of each month, roll forward your 12-month projections by another month. When forecasting, make assumptions for sales slippage, but also for over-performance.
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IN A NUTSHELL.

- *MANAGE YOUR CASH RELIGIOUSLY, CHALLENGE COSTS AND WASTE, CONCENTRATE ON GROWING PROFIT NOT TURNOVER AND FORECAST YOUR CASHFLOW ACCURATELY*
- *USE INTERNAL MANAGEMENT ACCOUNTS AND KPIS (KEY PERFORMANCE INDICATORS) TO TELL YOU HOW YOUR BUSINESS IS PERFORMING AND TO GAUGE WHICH ACTIVITIES AND CUSTOMERS ARE PROFITABLE*
- *LINK YOUR CAPACITY TO VARIABLE, NOT FIXED, COSTS WHERE POSSIBLE. YOU NEED TO BE ABLE TO REACT QUICKLY WHEN THE ECONOMY RECOVERS BUT DON'T WANT TO BE ENCUMBERED WITH A HUGE FIXED COST BASE WHEN REBUILDING CAPACITY*
- *REVIEW AND ADJUST YOUR FORECASTS MORE REGULARLY THAN YOU WOULD NORMALLY, AND WHEN FORECASTING MAKE ASSUMPTIONS NOT ONLY FOR SALES SLIPPAGE, BUT ALSO FOR OVER-PERFORMANCE*
- *IF, IN FOCUSING ON SURVIVING THE DOWNTURN, YOU'VE TAKEN YOUR EYE OFF THE BALL WITH COMPETITORS, COMPROMISED ON YOUR QUALITY, PRICING OR DELIVERY OR NEGLECTED YOUR STAFF, NOW IS THE TIME TO GET THESE AREAS BACK ON TRACK.*

WHERE TO GO FOR MORE INFORMATION.

If you would like to discuss this further, please contact your local Barclays Corporate Relationship Team, visit www.barclayscorporate.com or call 0800 015 1921*.

This item can be provided in Braille, large print or audio by calling 0800 400 100* (via Text Direct if appropriate). Or order online at www.barclays.co.uk/accessibleservices

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