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Practical advice for recession proofing your business

Can SME's stay afloat during a downturn? Of course they can, says Harry Parkinson, Managing Director of Close Invoice Finance in Ireland. His practical guide gives growing businesses tips to emerge fighting fit for the future.

Making business predictions for the immediate future can never be an exact science. The only certainty we have is that the economic downturn will definitely affect the way most SMEs do business in the coming months.

However some practical steps should ensure SMEs are well equipped to deal with the worst the economy can throw at them.

Top tips for dealing with the credit crunch are:

1. Plan for the future

Ensure you regularly review past performance and then make short, mid and long term forecasts based on the health of your order book, debtors and any major planned expenditure plus external factors such as inflation and new business projections.

Flexibility is the key to successful planning so don't shy away from the difficult 'what if' questions. It's exactly this scenario planning which you're going to need when times get tough.

2. Stay in touch

Businesses who don't talk may miss out on valuable support and could miss early warning signs of a client getting into financial difficulties – with disastrous consequences.

We recommend that you keep in regular contact with:

- Your accountant/advisers – They will offer impartial advice on how to manage your business and resolve any issues.
- Your bank/funding providers – By keeping your financier regularly informed of your progress, you are helping to safeguard your funding and maximising your chances of obtaining additional finance. ▶



Harry Parkinson
Managing Director – Ireland,
Close Invoice Finance

- Your clients – Keeping in touch with clients may seem obvious but, under current circumstances, it's important to keep tabs on their payment records and business performance to avoid being stung by bad debt.

3. Be realistic about your growth plans

In our recent survey, the Small Business Finance Barometer, half of SMEs polled in Northern Ireland expected their businesses to expand this year. This optimism is highly laudable, provided SMEs fully comprehend just how tough it is at the moment.

To give you the best chance to succeed, you should:

- Set realistic targets and make sure you have the funding, staff and facilities in place to deliver on these objectives.
- Identify what sets you apart from the competition and play to these strengths when pursuing new business opportunities.
- Keep your clients happy and encourage them to refer new business to you.
- Look at diversifying your offer, without involving excessive capital expenditure.

4. Keep your costs under control

Keep a tight reign on your cost centres and explore any potential routes to cut down on expenditure. To minimise the money you draw from your own business, cut back or eliminate credit card usage.

Look critically at your recruitment policy and don't take on any additional members of staff unless strictly necessary. If you are deluged with work, assess if this is a short or long term issue. Considering the freelance option may prove more cost-effective.

Look at supplier costs and get them to retender if you think you're paying over the odds.

5. Think creatively about funding

Around seven in ten SMEs in Northern Ireland currently use bank loans as their primary source of working capital. However, with banks becoming reluctant to lend to all but the least risky deals, businesses may need to reconsider their funding strategies.

Spread your finances rather than keeping them all with just one provider. This links you to a number of potentially useful funders should you need additional finance. You should also consider new funding routes such as invoice finance which could help you manage your cashflow.

Invoice finance allows businesses to raise funds, by turning invoices into cash. Currently a relatively small percentage of UK SMEs raise capital in this way but in a market where the threat of higher loan costs and a dearth of available liquidity looms large, invoice finance can offer a real competitive advantage and a flexible, non-traditional way to beat the downturn.

For further information on Close Invoice Finance and our portfolio of products, contact us on 0800 220 257 or info@closeinvoice.co.uk. www.closeinvoice.co.uk ●

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