



**Federation of Small Businesses**  
*The UK's Leading Business Organisation*

## **TACKLING THE RECESSION**

### **An informal briefing paper produced by the London Policy Unit of the FSB**

Thanks for the input for this document from many FSB members.

Comments, suggestions for additions or amendments are always welcome.  
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This informal briefing paper does not pretend to play the role of a business advisor – nor does it suggest what business owners should do to help see their businesses through the recession. That is not the role of the FSB.

Its origin lies in the findings of an FSB survey in December 2008 which showed that 50% of business owners admitted that they did not feel they had the advice or information they needed to help steer their business through the recession. This paper provides, therefore, only a possible check-list of some of the questions which business owners might find useful to ask of themselves and of their business. We hope that, as such, it might prove useful

## A FEW KEY QUESTIONS AND ISSUES

It is often said that in any business there are three key indicators of business performance: sales volume, overheads and profit margins.

In a recession, however, it is arguable that even these are less important than cashflow. While the old adage says that “cash is king”, cashflow is perhaps the supreme ruler in Britain in 2009.

### Cashflow

Without cashflow, a business is doomed. The current recession has largely been caused because the traditional channels of cashflow have dried up, and poor cashflow management is proving to be the most common cause of business failure.

Many businesses produce Profit and Loss statements and balance sheets for financial monitoring purposes. They are, of course, useful, but they are only a historical snapshot of what has happened.

Cashflow forecasts are far more important as, used properly, they act as an early-warning system and give you time to plan for sustainable business growth.

Do you keep a cashflow forecast for, perhaps a 12-month period?

Do you review it regularly (– and that means at least monthly)?

Are you being realistic and pragmatic when you do so or might you, like Billy Bunter, be hoping that something will turn up?

Are you looking at possible cashflow peaks and troughs in the months ahead and planning accordingly? This means you might be able to avoid problems arising later on.

Cashflow tips:

- Create and/or revise a cashflow forecast
- Check out your suppliers – can you rely on them?
- If you sell to other businesses – check them out (they’ve probably checked you out!). Running a credit check is quite normal – if they object, it might be a cause for concern.
- Agree terms with customers and suppliers in writing and stick to your side of the deal. Ask for a percentage of the contract to be paid in advance.
- Invoice on time and follow up on late payers immediately. (In most firms with, say, more than fifty staff, the accounts department and the people you sell to are probably different groups – so chasing accounts should not cause you problems with those you directly deal with.)
- Always get 2 or 3 quotes for any goods or services you want.

- If a customer proves to be a bad payer, change the terms or let them go. After all, a customer who does not pay is not a customer at all – merely a thief.
- If someone has a genuine problem with payment, look at being flexible BUT ALWAYS PROTECT YOUR BUSINESS.
- If a customer goes significantly beyond your agreed terms, don't hesitate to invoke your rights – charge interest according to the Late Payment of Commercial Debts Act and enter a claim in the Small Claims Court.
- If your cashflow projection suggests you might need to increase or extend your business loan or overdraft, mention it to your bank in advance. If you show you're on top of your business, you're more likely to find them receptive to your request.
- Are your enquiries increasing or decreasing? Is the percentage which converts to sales increasing or decreasing? Why?
- Is your stock under control? If money is tight, do you want to carry on holding stock which isn't selling? Do you know which items are selling best – and at what margin?
- Do any of the new finance packages apply to your business? Can you access funds under the Enterprise Finance Guarantee<sup>1</sup>? Can you get Extended Loss Relief<sup>2</sup>– you should speak to your tax adviser? Can you use the Business Payment Support Service<sup>3</sup> set up by HMRC – it might help with payment of VAT bills etc.

## Business Plan

In many businesses, somewhere at the bottom of a pile of papers or gathering dust on a shelf is a business plan. If it's more than a few months old, it probably needs updating – after all, the outside world has changed, so your business plan almost certainly needs to as well.

<sup>1</sup> <http://www.fsb.org.uk/frontpage/assets/fsb%20one%20page%20briefing%20-%20enterprise%20finance%20guarantee.pdf>

<sup>2</sup> <http://www.hmrc.gov.uk/pbr2008/loss-relief-583.pdf>

<sup>3</sup> <http://www.hmrc.gov.uk/pbr2008/business-payment.htm>

Revising your plan is, in itself, an excellent way to face, think about and manage change.

If you have no written business plan, there is no better time to create one than NOW.

Wherever possible, your business plan should be created or revised in conjunction with an external expert. You might even be able to get one of the grants available for start-up and young businesses as well as for established businesses, so it can cost very little – and the cost of not doing so could be very great.

If the business plan is needed to help seek finance from external sources like a bank, it is strongly recommended that you seek professional external advice in creating / revising your business plan.

## Sales Volume

In a recession, many businesses are shocked by a drop in their sales volume. Can the drop, as well as the shock, be avoided?

Do you know how your customers are doing? Might they suddenly stop buying from you? Have you heard rumours from your staff or other suppliers to your customers?

Have you too many eggs in one basket? Are you at the mercy of one or two big customers?

Target your efforts on getting additional business from existing customers. In a recession, you are more likely to win new business from an existing customer than from a new prospect? Are they aware of everything you can offer them? Are there new goods or services they might buy from you?

If you lose an existing customer, do you know why? Can you address the reason and win the business back. If not, might it be an indication of a weakness in your business?

Have competitors of yours gone out of business? What action are you taking to supply their former customers? Can you buy their customer lists from the administrators or from the owners themselves? Can you buy their stock more cheaply than from your usual suppliers?

Can you negotiate better terms from your suppliers? Their sales reps who call on you, or other parts of the rumour mill can often give you useful information to negotiate a better deal from them.

Have you considered offering a discount scheme if customers reach pre-agreed sales targets? Has a slow-down in business given you more time to seek out new customers? Are there new, more profitable markets you haven't tapped into? For example, with the current weakness of sterling, are there exporting opportunities you haven't explored?

Is the internet helping your business? Is your website up-to-date, professional, user-friendly and able to bring in new business? Look at your website critically. Does it give the impression of your business that you want to convey? Would you buy from it?

## **Profit margins**

Are you aware of the profit margins from the various goods or services you provide?

Have you worked out what an extra percentage point on your margins does to your bottom line? The results are often very surprising – and easier to achieve than a corresponding increase in sales volume?

Are you focussing on the higher margin parts of your business?

Can you squeeze an extra percent of margin from your suppliers or customers?

## **Overhead costs**

When did you last shop around for the best deals on your phone, heating and lighting bills?

Have you applied for Small Business Rate Relief?

Is your bank giving you the best deal for your finance? Are they offering you other benefits such as accounting software or a credit checking facility? If you are in credit with your bank, do you feel you are calling the shots? If you have an overdraft or a loan with your bank, shop around for a better deal.

Could you negotiate a better deal from your suppliers? Don't forget, they need your business and are probably feeling the pinch, and if you don't ask, you won't get.

Are you holding more stock than you need? When did you last look at shrinkage?

(Incidentally, do you feel confident about your ability to bargain effectively with clients and suppliers? If not, what about going on a Negotiation Skills course? If the people you're dealing with have been on one, you're only creating a level playing field; if they haven't, you're giving yourself a head start).

## **Staffing**

In any business, staffing costs are one of the largest overheads – and often one of the largest headaches.

There is no shortage of organisations (including, for FSB members, the legal helpline) who will advise on how to follow the correct procedure when making staff redundant, but they cannot tell you if it's the right thing for your business.

Given the costs of redundancy and recruitment, is it the right course of action?

Might you do better to seek to reduce the hours, rates of pay or expenses rather than make staff redundant?

Could you move to a four-day week, with training for your staff (possibly subsidised or free) on the fifth day?

Have you discussed staffing issues with your staff? They might have ideas or volunteer ways to help the business? After all, in a small business, there shouldn't be a "then and us" divide – everyone is in the same boat.

## **Outsourcing**

Have you ever considered outsourcing?

Outsourcing part of your business can often make sense – and save you money. You're probably not an expert in every aspect of your business – so it must make sense to employ someone who is – freeing you up to do the things you do best.

It enables you to concentrate on what you're good at. It means finding people who specialise in all the things which need to be done but which don't necessarily need YOU to do them.

Outsourcing does not mean letting go of control. It is simply the effective use of time and money – after all, your time spent doing a task is also costing your business money and time – time which you could be spending more productively and profitably.

What's more, in most cases, outsourcing to a specialist company will work out cheaper than keeping things in-house. And the job will be done more quickly and efficiently because they are doing what they do every day, not trying to fit it in around the other needs of your business.

## **Collaborative working**

Have you considered ways your business could benefit from collaborating with other businesses?

What are the benefits?

You might get new leads and business; reduce operating costs; beat your competition; gain referrals from other businesses; save time; increase your advertising impact; offer new products or services to your customers; gain new information or skills; protect or increase your cash flow.

## **And finally...**

Is your business being run by your head or your heart? You cannot afford to be sentimental. You have to take hard-headed business decisions.