

21st November 2008

Money's too tight to mention

Remaining rational and solvent in a struggling marketplace

Reading the economic tea leaves this week (or at least those 'promulgated' by the nation's media), you start worrying, or perhaps continue worrying a little more frantically than before.

John Maynard Keynes coined the phrase 'the market can remain irrational longer than you can remain solvent'. Whether dealing with share markets or in matters pertaining to SME business Keynes' idea holds true.

With the best business model, the strongest products and services and a passion for doing business, at the moment, without the cash or capability to hang on, business life is extremely difficult.

I read on an SME website recently that the odds were looking favourable for Alistair Darling the Chancellor to announce that the small business rate of taxation could remain at 21% and the planned uplift to 22% might not take place. The theory is that this measure could help SMEs, but of course, that logic only applies if you make profits. The same article hinted that the cost of this measure might be much less than the £400mn it would have cost a year ago, therefore by deduction fewer companies are heading towards profitable years (obvious really).

Of course the measures that would really help SMEs are less likely to be applied because, unlike the company tax rate reshuffles, they could actually cost the government real cash. Although, one would hope optimistically that the Government's promise of a fiscal stimulus to the economy, will in fact be directed towards the areas that really make a difference.

In our work we meet people from all kinds of business. Those with cash resources and low overhead cost bases are calm, if a little nervous about how this 'downturn' will develop. Those with business models directly affected by the economic decline are genuinely concerned.

Many sectors of the economy have gone from hero to zero in weeks or months, and the suppliers of services in these sectors, who have invested endless energies in building business activities, have seen the market taken away.

And the outcome isn't pleasant. It's time to cut staff, even those who have demonstrated loyalty and excellent service. No money to pay the owners of business means that staff must be let go (or sometime other variant such as shorter working weeks and paid sabbaticals).

Suppliers are facing cash flow constraints as credit days are being lengthened by clients/customers, whilst their own debts are being chased much more proactively by their own creditors.

Lower business levels also strains the cash flow, meaning tomorrow is even less encouraging than today; so all overheads have to be trimmed. It's time to look at office space utilisation. Do you really need three offices or can you slim down to one? Could you perhaps relocate to serviced offices and reduce the fixed proportion of your administration overheads? Do you need all the

leased office equipment if business levels are falling? Can you take more of your business 'online' to reduce operational costs? What kind of Christmas party are you holding and will it be a more subdued affair than last year?

Hundreds of decisions are happening right now across the land. The quicker these decisions are taken the more short term pain for all those involved. But without a few crucial changes how many businesses will be left in a few years?

The outlook might be bleak, but for organisations able to adapt and survive the new economic landscape will be one of opportunity. Many firms will 'go to the wall' but that means fewer competitors and more opportunity for market share for those remaining.

The steps we take now will make us all stronger, and as long as the austerity driven focus on overhead cost control stays with us, as the market picks up, then we have the basis for more robust and profitable businesses in the years to come.

There's a lot of good people out there, doing their best to provide a reliable and high quality service. The decisions about how businesses are managed and operated have to be taken quickly and there will be shock waves around the country as cut backs and strategic changes are implemented. But we (the UK) have capable and talented people, particularly at the SME level. One way or another we will make it through together!!

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