Drinking at the Last Chance Saloon...

The Diamond Jubilee is almost upon us. Following hot on its heels is Euro 2012 when we will no doubt all be drowning our sorrows - again. And then there’s the Olympics.

So in a vain attempt to insert some good news into our current review at least the UK brewery, tourism and leisure sectors are probably going to have a profitable few months....

It is almost impossible to predict what the rest of the year has in store for the rest of the UK SME business community though.

What we have noticed in the early part of 2012 is an increasing willingness for key stakeholders to participate in informal business turnaround projects, i.e. where no direct insolvency procedure, such
as administration or liquidation has been utilised. After all the shocks of Fred the Shred and Lehmann Brothers it’s arguable that the banking community, (particularly the tax-payer owned element), are looking for all the decent publicity that they can get when dealing with troublesome clients and want to avoid all the stigma that formal insolvency creates... where possible.

This contention is backed up by some current statistics.

Looking at personal insolvencies, there has been a decrease of 4.7% in individual insolvencies compared to the same period a year ago, and a major drop in the number of bankruptcies, which are down 27.2% on the year. This may well be because people are going into informal Debt Management Plans instead. According to a recent survey by the Association of Business Recovery Professionals (R3), 39% of UK individuals – that’s 18 million adults (!) - are very concerned about their current level of debt. 32% of the respondents thought their financial situation would worsen in the next six months.

Moving on, there are still thousands of ‘zombie’ companies out there whose only chance of being saved depends on their CEO’s winning the Lottery. Many of them are being allowed to hang on by their bankers simply because they can just about afford to service their loans because interest rates are so low. Although in fact, there was a modest increase in corporate insolvencies in the first quarter of 2012 with an increase in liquidations of 0.2% on the previous quarter and 4.3% on the same period last year, it is still clear that insolvency numbers are historically very, very low compared to previous recessions.

Clients and contacts still bemoan the lack of business funding opportunities. Yes, Project Merlin had good intentions in terms of the clearing banks’ commitment to lend to small businesses, (£74.9 billion was apparently lent to small businesses in 2011 against an agreed target lend of £76 billion). But the reality is that there are many deserving SMEs with very good cases backed up with solid
security which are not benefiting from Project Merlin. We have to ask, which businesses are getting this money? On the other hand, too often in our experience business plans supporting a funding application for expansion are simply not robust enough. It’s not just the banks’ fault.

There are still alternative funding solutions available for growing businesses. The invoice discounting and factoring industry continues to be prominent. There are also interesting on-line funding propositions where willing private lenders can obtain good returns direct from grateful business borrowers. Although at the moment the amount of private capital available from these sources is currently pretty limited, we sense this is a space worth watching.

Turning Circle has continued to be closely involved in a wide range of business rescue projects that have preserved jobs. This year for example we have advised a family owned souvenir and publishing business hit in part by the difficulties in managing highly seasonal cash flow; a large tyre recycling plant struck by a huge fire; and a rapidly growing training business where informal debt repayment deals needed to be struck with both an aggressive landlord and HMRC.

The owners and managers of these businesses have all had one thing in common; they are all talented and resourceful; we’ve done our bit to help but it’s clearly evident that no business can genuinely be turned round without that key ingredient – good management.

If you have any clients or business acquaintances that you feel can benefit from our services or if you want to work with us on our various turnaround projects, please do drop us a line. We’d be delighted to hear from you. Enjoy the summer!