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Life after Northern Rock

Like many of you the events of the past few weeks in the global and domestic financial markets have caused me to stop and re consider some pretty basic issues. This article, for one, and which I had planned to open with a musing on the relatively benign market conditions being enjoyed by us all in the UK. The distant rumblings of trouble in the US were just that, rumblings of little concern to us here. Admittedly I am no economist but as an accountant and licenced Insolvency Practitioner specialising in restructuring and recovery, I thought I had a fairly good grip on the financial environment.

Well, as we are now seeing, the realities of a global market place are not all that we might have thought. It is arguable that we have had it so good in the past couple of years that we have, dare I say it, become complacent. The global market place might be big and there might be plenty of money to be had, but the world has become smaller in more ways than one. A problem in one corner of the globe can all too soon become our problem. This couldn't have been made more clear than with the collapse of the secondary debt market in the US which literally 'put the frighteners' on lenders who have re trenched. Money has dried up – the so called 'credit crunch' - and the knock on effects have spread already. The first casualty here was Northern Rock which, strapped for cash to fund its new lending, had to turn to the government. The ensuing panic of the depositors very nearly caused the bank to crash and the rest of us could only sit and ponder just how this could have come about and how it would all end. One minute it's all milk and honey, the next, we have a run on a UK bank with talks of 'contagion' spreading to other clearers.

These are uncertain times for us all. One thing we can be sure of is this. The Treasury won't be there to back us up should we find our line of funds being cut. If they won't, who will and how real is the risk?

Your guess is probably as good as mine, but, I'll put my head over the parapet and say – I think money is going to get dearer, long term not just in the immediate aftermath as we are seeing now. We may well have seen the end of cheap borrowing and favourable lending terms within the commercial sector, at least until this crisis is over.

Just as the banks are licking their wounds and trying to tackle the consequences of high risk lending, we, in the business community, need to take stock too and ask ourselves some fairly direct questions about just how high risk we have become:

- Have we been tempted by the lure and availability of cheap borrowing? Yes? Well, those overburdened with debt having taken advantage of cheap borrowing are no doubt facing the future with fear as we move in to uncertain times and the threat of more rate rises, which are happening already and independently of the Bank of England.
- Have we been tempted to undercut by driving and paring down prices to rock bottom to remain competitive? Have we been tempted to increase our market share by relaxing credit control and extending credit on terms we wouldn't have considered before and to customers we wouldn't have considered before? Yes? Well, it's not just our own financial back yard we have to tidy up before the winter sets in. Can we afford to delay dealing with our debtor ledgers and revising any contingency plans we have in place? Can we afford to let our debtor ledger run out of control?

The short answer is, in the wake of Northern Rock and with the high degree of uncertainty about the future financial climate, we need to be pro active. In my experience, uncertainty leads to fear, which leads to panic and which, in so many cases, culminates not in action but in the 'ostrich syndrome', or the "if I don't look it will all go away" approach.

And that is why I am writing this article now. Don't be an Ostrich. It won't go away.

Financial good health is as imperative to the wellbeing of a business as is good health to our lives. And this analogy holds true if things go wrong – catching a cold rarely kills anyone these days! Even the best managed businesses catch a chill from time to time – it doesn't mean the end is nigh. There is always a solution to be found and in most cases the earlier the problems are diagnosed the greater the range of possible outcomes including survival and regeneration of the business.

Ah, this is where he comes in, I hear you say. Perhaps – although I would always say the first thing in cases of financial doubt has to be – get your paperwork in order. If you can't do it find some one who can, and fast. Good and accurate financial records are essential to the healthy management of your business and to any recovery options. Then you can talk and we in the insolvency profession can help, before the rot sets in.