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A promising prognosis?

Where is the economy heading this year? John Dickinson, partner at Bridge Business Recovery in Bedford, examines the corporate challenges and changes that 2010 may bring for owner-managed businesses

Without a shadow of a doubt 2009 was as tough a year for business as many of us can remember. Faced with a 4.5% decline in GDP, most analysts believe that we will emerge from the recession in 2010, but with modest growth of 1%.

Whilst unemployment rates have remained lower than those of the 1980s and 1990s recessions, and recent statistics indicate that there has been a slowdown in job losses, most of us believe that job prospects will remain tough this year.

Nonetheless, there are some indications that the recovery is underway. One of which is the increasingly active property market, which is showing signs of recovering from a depressed state. In spite of this growth, we are finding it difficult to be upbeat or optimistic about the economy in light of the challenges ahead.

Anecdotally, there is a widely held belief amongst entrepreneurs and professionals that we have stored up serious problems for the future. There are clearly issues that need to be addressed as government borrowing for 2009 stands at an unsustainable £178 billion. Regardless of the hue of the incoming government, many see the election as a pivotal point in the economy, with inevitable fiscal belt-tightening through increased taxes and public spending cuts.

Efforts to boost the money supply through the government's £200 billion quantitative easing programme are working, but the effects are slow to manifest themselves and may come too late for many struggling businesses. In any event, quantitative easing cannot continue indefinitely and the effect on the economy when it is finally withdrawn could be significant.

Adding to these concerns, the reported winding-up orders against Portsmouth, Cardiff City and Notts County Football Clubs to recover unpaid tax liabilities indicate that HMRC has become less generous and is keen to collect deferred tax payments. Whilst this is understandable in terms of the gargantuan budget deficit, it is likely to increase pressure on businesses that are already feeling the pinch

Not a pretty picture, but a recent CBI report has outlined some areas where the credit crunch and recession have proved to be catalysts for change. Firstly, with credit terms likely to remain tough, businesses are looking at alternatives to debt to drive growth, particularly through more locally raised equity finance.



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We have seen a more collaborative approach being taken. Workforces are becoming more collaborative and flexible, with many firms having a smaller core workforce and a larger 'flexiforce'.

In addition, over the past 12 months we have observed the rise of the Company Voluntary Arrangement (CVA) as an alternative to administrations or liquidations. Under a CVA, an insolvent company typically pays a fixed monthly sum into the arrangement for three to five years, which is subsequently distributed to the creditors. This may be an attractive proposition if the alternative is liquidation, where creditors may receive nothing at all.

CVAs have not been widely used since their introduction, and historically have had a high failure rate. But last year, a number of successful high profile cases, such as JJB Sports, Focus DIY and Discover Leisure have demonstrated that the CVA can be an innovative yet viable method for a company to survive.

CVAs are flexible and can be tailored to the specific circumstances of the insolvent company. They also enable owner-managers to retain control of their businesses, leaving the company able to emerge from the process intact. As a result of these advantages over other formal processes, CVA approvals are likely to be more frequent in the year ahead, saving jobs and providing better returns to creditors.

In the past year, we at Bridge Business Recovery have used a range of restructuring services to preserve and restore businesses across a wide range of sectors to positions of financial viability. These services have included acting quickly to effect going concern sales of businesses, facilitating formal agreements between companies and creditors that have enabled the companies to trade out of cash flow difficulties and overseeing and monitoring informal work out scenarios coupled with the implementation of refinancing arrangements and complex capital restructurings.

As always, the earlier advice is sought, the more options will be available to help businesses navigate the downturn and preserve value.

For more guidance on surviving the challenges ahead, contact John Dickinson at Bridge Business Recovery on 01234 330 444.