

REVIVE. REBUILD. SUCCEED.

Your essential guide
to business rescue



INTRODUCTION

Big or small. Every business faces financial challenges. It can be hard to see a way forward if you don't have a clear idea of where you're starting from - or where you're going to.

We originally created this guide for companies looking at possible insolvency. But it can be a helpful exercise if you're looking to change up how you do things, to help you become more agile and prepare for whatever the future might hold.

The easy to follow, step-by-step guide will enable you to uncover the bigger picture of where your business currently stands, giving you valuable insight into what's working for you and what might not be.

Equipped with this knowledge, you'll be able to make vital decisions about the future of your business - and how to get there in the most productive way possible.

If you have any imminent financial challenges, we can help you deal with them as part of business rescue process. Call us on 01908 754666 or email enquiries@ftsrecovery.co.uk

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STEP 1: WHICH PARTS OF YOUR BUSINESS ARE ESSENTIAL?

The first thing to do is to decide which aspects of your business you need and which you could maybe do without. This will help you see where your business is now - Point A - and what to keep or let go of in order to evolve into a more successful business - Point B.

This is a process we've been through with thousands of clients to save their businesses. So we know this can be tough to do. But try to remove the emotion from your decisions. Remember: this could be the key to your business' future.

Now...open your mind and imagine every part of your business packed into a cardboard box.

Stock, brand, money owed to creditors, accrued statutory employee costs... everything needs to be in there.

As you unpack the box, you'll need to decide which of these three categories each part of your business falls into:

1. Essential obligations
2. Contractual obligations
3. Optional obligations

We've included an explanation of each category on the next page. For now, leave you and your employees to the side and we'll come back to them later.

Essential obligations

These are the parts that you must have for your business to function. This could be your premises, a fleet of vehicles or equipment. It's also your VAT payments to HMRC and anything legal, health and safety or license related. If you're a digital business, it might be your online shop and storage facility. Marketing will most likely fall into this category too.

Contractual obligations

You might lease a physical premises but work mostly from home or with clients, or you've closed your premises already but are still paying rent. That lease would go into this category. Any goods or services you're contracted to provide go here too.

Optional obligations

The upkeep of a website - if it's not your main root to market - is a good example of an optional obligation. It's a 'nice to have'. Under this category also comes moral obligations. As an example, paying a creditor on time and in full.

Now you have your Point A - you know where you are with each part of your business. The next step is to hypothetically change parts of your business to see what the outcome would be.



STEP 2: WHAT IF?

Now that you have your business divided into three categories, you need to look at it from all angles. Start with the essential obligations and work down to the optional.

For each part of the business, you need to decide whether it's a positive or negative for your business. If it's a burden, what can you do to make it a lighter one?

Think about:

- Its cost. You need exact amounts here so find them out before you start
- Its contracts. What terms and conditions are in each one?
- Its liquidity. How easily can it be turned into cash?
- Its value. Could it be used in another way to create income?

Get creative with your answers here. The idea of this step is to get you thinking 'outside of the cardboard box' to discover possibilities where there initially seems to be none.

We've said it before but we'll say it again: try to remove sentimentality from your reasoning and think about what needs to be done for your business.

Turn over for some examples to show you this process in action...

Premises

Even if this is essential to your business, you can still look at options for changing your premises or using it in a different way.

After you've found out your total cost for the lease, including any extra charges, look at your terms. Is there a break clause that allows you to terminate your lease and look for somewhere more affordable? This might allow you to downsize and use a hot-desking model, with employees mainly working from home.

You might not think of a let premises as a liquid asset but there could be a way to generate income from it. Could you sub-let all or part of the space and earn an extra income from it? Or rent it out as an event space when you're not using it?

Services

If your business offers a specialist service, are you contracted to provide the service yourself or are you able to take on more work and outsource it? The difference between the rate you're charged by a contractor and the fee you charge the work out at will be an extra income for you with minimal admin.

You might even be able to expand or vary the services you offer to attract new customers. Think about all the possibilities, no matter how different they are to your current offering.

Stock

Unsold stock can be a burden. You might be out of pocket from having to buy it upfront and losing money monthly or annually on storage costs.

As a sunk cost (a cost that has already been incurred and cannot be recovered) it could be better for you to sell the stock and get some cash back. This will hopefully mean you can cancel or downsize the storage and put at least some money back into your business.

Debts to creditors

Whether the money you owe is an imminent issue or an upcoming one, if you can't afford the payments then you need to look at how to make the situation more manageable.

If your debt is to HMRC and you have good credit with them, they are usually willing to accept a reasonable payment solution. This will buy you time to put into place the changes your business needs. Your other creditors might also be open to negotiating informal terms that give you some breathing space.

Next you need to consider how best to meet the shortfall. Are you able to reduce your invoice payment terms to collect money from customers sooner, for example?

Employees

If you have a long-established business, this might be a tricky area to look at. Please try to be as objective as you can.

The first thing to consider is the cost to the business. What is the overall cost of keeping all of your employees? This includes any benefits or taxes paid on their behalf.

Juxtapose this with the cost of making one or more of them redundant. Can you even afford to make them redundant? Next to that, put the cost of investing in training weaker members of the team and the resulting benefit of this (to put it bluntly, is it worth it?).

By the end of this difficult but necessary exercise, you'll have a clearer picture of the role your employees play in your business' future.

You

It's time to get personal. Bringing your business out of its current challenges may require different skills to those you needed when you first started out. What do you bring to the table? Think laterally and consider every aspect of you - not just the parts you currently use in your business. Look at your skills, contacts, knowledge, expertise and personal goodwill. How can these be used in shaping your business' future.

Once you know what you want to change and how things can change in your business, you'll be able to create a number of scenarios to see if your ideal Point B is viable. Step 3 is crucial to this.



STEP 3: CASH-FLOW FORECASTING

This is a step that cannot be missed. Your cash-flow forecast will show you different scenarios for your business' future. Point B will be your ideal outcome. But this forecast will also give you back-up plans, Points C, D, E and so on.

The set of assumptions you put into your forecast will be based on the thinking you've done in Step 2. If you reduce one expense what's the impact on your total balance? Or if you change the terms of your invoices how does that change your income?

As you start to see the outcome of each change, you'll build a better understanding of what has to happen in your business to get to the situation you're most comfortable with - Point B.

We have a detailed guide to creating a cash-flow forecast in the **downloadable guides** section of our website.



STEP 4: TAKE ACTION

Your business might slide easily into its new form. Or it might require a little more time and periods of ‘making do’. Think practically about the processes your business will need to go through as it transitions from Point A to Point B. Begin to construct an action plan to understand what will need to happen to make the changes in your business.

Don’t be worried if, as you begin to take action, things don’t quite go to plan. You can foresee many things but unexpected events could mean that Point B is no longer the best outcome for you and you have to switch to Point E instead. You’ll already have planned for these scenarios in your cash- flow forecast.

To give yourself the best chance of success going forward, good financial management is essential. Keep your forecast updated so you’re better placed to respond to change and more comfortable doing so.

If you’d like some help working through this guide, or dealing with any of your other business challenges, call us on [01908 754666](tel:01908754666) or email enquiries@ftsrecovery.co.uk

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