

Time to review credit facilities

By

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For many years businesses became hooked on easy credit. On the other hand, lenders agreed loans with gay abandon often totally ignoring the basic principles of lending such as ability to repay, good cash flow or securable assets. Those days are well and truly over with a speedy return to far more conservative principles. It is timely for all businesses to get used to living in a brand new world of restricted credit.

It is important for all small businesses to carefully consider some of the main purposes for which credit is traditionally sought and to decide which, if any, are available or even necessary in the future.

Most business failures are attributed to a breakdown in cash flow and a common knee-jerk reaction has been to seek additional funding. However, lack of cash is a symptom rather than a primary cause of financial problems. It is the cause that needs identifying and quickly rectified.

Supporting a failing business artificially by constantly injecting more and more finance just to keep it afloat, without even addressing the fundamental symptoms, will almost certainly lead to inevitable collapse.

Whereas almost all recent government legislation has been geared towards saving businesses, often it is far too late as most of the constructive procedures become impossible due to often well-meaning but misdirected efforts to shore up the business. It cannot be stressed strongly enough that business owners should always seek professional advice.

One of the more worrying side-effects of the lower availability of credit, currently being experienced by many businesses, has been a far more rigorous approach to debt collection. Now it might well be that the problems almost all businesses have experienced over the past few years plus the derivative effects could be the trigger required to steer businesses away from many of the misguided approaches to cash crises and towards better planned and constructive approaches.

It would be a truism to state that we have all become far too reliant on easy credit over the years. Perhaps if the economic downturn has taught us anything at all it is that the new world of restricted credit may cause some pain but we might move on towards a bright new future where unnecessary business failures become a thing of the past.