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More Businesses Fail During a Recovery

It may seem strange, but more businesses fail coming out of a recession than during it. The reason is generally connected to cash flow, although there is for lawyers the additional thundering juggernaut of “Tesco Law” approaching.



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External Pressures

Payment flexibility is removed, whether from suppliers or from HMRC. They will now want to be paid in full and on time. Discounts given to “buy” work will start to disappear as order books fill. It becomes more worthwhile to sue for non-payment (several football clubs at the moment are threatened with winding up by HMRC).

Clients of course face exactly the same problems as the firm, so there is a higher risk of insolvent clients. They

may insist on maintaining those discounts you offered in the downturn.

Internal Pressures

Expansion always soaks up cash. You may be able to fill unused capacity in the short term, but any additional headcount will generally mean spending cash some time before you receive anything back. Of course many firms have cut staff during the recession, so have little spare capacity. If staff have taken a pay cut, then they are likely to want that restored.

Other spending may have been deferred, and there comes a time when it can be put off no longer. Emergencies arise. As income improves, VAT payments increase, as will tax payments. Any cash reserves will have been run down.

What do I do?

Celebrate that your firm is still standing with a meal, new shoes or a glass of champagne. Manage your cash flow just as rigorously and remember that it is easier to predict spending than income. Keep in touch with your bank and your accountant. Improve your business skills (get some assistance if you need it).

As a solicitor, know how you are going to deal with the Legal Services Act. If that involves borrowing, then do so, but ensure that you make a proper business decision beforehand.

Most mountain accidents happen on the way down, because people are tired and they start to relax. Do not think that you can relax as the economy picks up.

This note is written as a general guide only, and is not applicable to every firm or circumstance. It should not be relied upon as a substitute for specific business, medical or legal advice.

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