



Working through the recession

There is now no doubt that the economy in the UK has been badly damaged and the full consequences are not yet apparent. This month's pre-Budget statement as I am writing this piece on 9 December (Bob's deadline day!) has only just been made and the picture it paints is not a good omen for 2010.

The economy must be rebalanced and change is taking place in my view at many levels, not least in people's attitudes and expectations. The changes we are witnessing on a macro economic level are no different to how we at MCR manage individual companies in crisis.

The root causes

At an individual corporate level what is important is to identify the root causes of a company's problems. The symptoms – such as falling sales, loss of key people – give a clue, but for management and turnaround professionals to succeed, action must be aimed at the cause.

It seems to me that what the government has been doing on a macro economic level is what MCR has been doing on an individual level since we started eight years ago.

What any turnaround needs is support from its stakeholders, be they the government on a macro basis or our banks, ABL providers and other creditors on a company-by-company basis.

Basic understanding

Contrary to what the press would say we see stakeholders supporting companies to extraordinary lengths. I do not accept that our banks and ABL providers are not looking at every option to save businesses and livelihoods and I genuinely feel the press often just does not understand the insolvency and turnaround process. We operate in a niche technical area where a story can be told of each corporate failure. No two are the same so generalisation is impossible and to isolate a symptom and not the root cause is entirely wrong in my view.

The tax on bankers bonuses to me is a political gesture preceding a general election year as the actual tax raised estimated at £500m is what us accountants would say is "below scope pass as immaterial". Talented wealth creating people are always paid well and I am sure there will be many ways around, over or under this fence. We do not want our best people leaving the country. What will be next, a tax on having a BlackBerry!

This December is already proving choppy for many in the retail sector. Consumer confidence may be returning to the high street after one of the most challenging periods ever in 2009. Last Christmas confidence fell off a cliff, retail sales crashed and a host of retailers fell into administration. According to the British Retail Consortium UK like-for-like sales fell by 3.3% in December 2008 – the worst Christmas since records began.

The VAT rise to 17.5% is set to hit retailers in January and along with quarterly rent payments to landlords due on Christmas Day. Payments to overseas suppliers in the post Christmas period are often a problem for retailers and there are fears that many more retailers will follow the likes of Woolworth's and MFI.

Looking into 2010 may not be easy but there are some macro economic issues we need to be aware of. On a macro economic level, dusting off my university text books, it could be countries and not just companies that default. There are concerns about a number of sovereign debt countries including Dubai, Greece and others. It is possible that UK sovereign debt could even lose its AAA star rating. This would have a massive impact on the UK economy. Logically the UK has too much debt.

On a micro economic level, since November 2008 HM Revenue & Customs has agreed some 204,000 of so-called time-to-pay arrangements following the launch of the Business Payment Support Service (BPSS) late last year. This scheme was specifically

designed for small businesses and there is no doubt that it is pay-back time. Lenders should expect a far tougher time from HMRC especially as the pre-Budget statement has made it clear that the public finances showed a deficit of £178bn this year. We at MCR have a dedicated tax arrears team led by Steve Clancy that is actively rescheduling HMRC debt in difficult situations. Please call Steve if you have clients that need help.

One thing is for certain: the ABL market is poised for further widespread change as we work through the recession. I personally believe that more troubled businesses than this year will become distressed with traditional lenders and this will create opportunities for ABL's who are liquid and can make funding offers to businesses quickly. We actively promote and support the ABL market at many levels and sincerely hope that 2010 is a good year for all ABL lenders and their teams.

Continued growth

As for MCR, we continue to strengthen and deepen our services, processes and resources to satisfy the existing and anticipated needs of our clients. We, like any successful business, do not believe in standing still and whilst we do not get everything right, we have a number of exciting plans in 2010 to enhance our services to the ABL market.

Finally, on behalf of everyone at MCR, I would like to thank all our clients for their support in 2009 and wish you all a very happy Christmas and prosperous 2010.



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