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COMPANIES MUST TAKE URGENT STEPS TO AVOID THREAT FROM RAPID RISE IN BUSINESS FAILURES

10 July 2002: UK companies must take a fresh approach to monitoring their cash flow if they want to avoid becoming another gloomy statistic, according to PKF, as a new report shows the number of business failures soared 8.4 per cent to 22,000 during the first half of 2002, compared to the same period last year.

The survey, by ratings agency Dun & Bradstreet, was reinforced by Experian's Corporate Health Check, which indicates that UK corporate profitability has declined a staggering 40 per cent in the last three years, after falling for a record 12 consecutive quarters.

PKF business recovery expert Ian Schofield said that businesses must take a more stringent look behind their profitability and at their cash flow now if they are to avoid problems in the future. "In this economic climate it is important to anticipate potential problems – the sooner cash flow problems are recognised, the more likely the business will survive. If potential cash flow problems are recognised early enough, an informal turnaround plan may be implemented. As pressures increase, there are formal rescue mechanisms available, so all is not lost," he said.

Ian Schofield said the main causes of financial crisis in a company are loss of market, management failure, bad debts and lack of working capital. He stressed that knowing your business's weaknesses and problems and being prepared to take early action can be the difference between survival and disaster. He recommends the following approach:

- **Preventative measures.** Make sure you are keeping on top of changes that affect your business. Review costs and overheads as well as sales. Prepare regular management accounts, annual projections and cashflow forecasts. Be sure to review the company's actual performance and compare it to the original plan. Directors should meet regularly to formally review progress.

- **Look out for warning signs.** Such as reduced cash balances, increased stock levels but no rise in sales, failure to maintain long-standing relationships with suppliers, extended overdraft facilities, over reliance on one or two key customers and increased borrowings to manage the day to day running of the business.

- **Seek help early.** Changing the make up of the board could be a first step. Drafting in professional advisors encourages an objective view. Avoid knee jerk reactions. A turnaround or profit improvement strategy will often succeed through a clear sales and marketing strategy alongside close cost control. Realigning resources can be better than cost cutting. Ensure stakeholders are kept informed of the situation.

Experian found that 18 of the 24 industries in its study have seen profitability drop over the last year, with engineering, media, information technology and transport seeing profitability down more than half over three years. The slowdown affected most of the UK, with only the West Midlands and Yorkshire experiencing an increase in the first quarter of 2002. However, despite the rise in business failures during the last six months there was some positive news as the figures showed the majority of insolvencies occurred in the earlier part of the year, up only 2 per cent from April to June, compared to a 15.4 per cent increase during the first quarter.

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Further information:

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Notes to editors:

1. PKF is the eighth largest firm of accountants and business advisors in the UK with more than 1,600 partners and staff operating in over 25 offices around the country. Principal services include assurance and advisory; consultancy; corporate finance; corporate recovery and insolvency; forensic; and taxation. The firm has particular expertise in sectors such as charities; technology and e-commerce; hotel and leisure; inward investment; medical; professional partnerships; and public sector. PKF's web site address is www.pkf.co.uk. PKF also offers financial services through its FSA authorised company, PKF Financial Planning Limited.