Carter Clark
Financial Recovery

Briefing Sheet

Trading Out

Is trading out an option?

When a business suffers from a temporary problem, but is not vitally threatened, the natural instinct is to carry on trading until the problem is resolved. This is a possibility so long as creditors do not force the issue by turning their demands for payment into formal proceedings. Taking early steps to ensure that anyone who could exacerbate the problem is supportive will mean that energies can be devoted to overcoming the problem.

Trading out approach

A key element is honesty. Being honest with employees, creditors and customers is the second step: for owners/managers to be honest with themselves – about the nature and the degree of the problem – is an essential first step. There is no point in trying to trade out if sensible projections suggest that the business has no future. If an inaccurate picture is given to company stakeholders, and it is then necessary to revise it, credibility will be lost and problems will grow.

A number of questions need to be asked:

- Is the business viable in the long term?
- Is working capital available to fund ongoing and new orders?
- Can the current problem be solved by injection of funds?
- Have costs been minimised and are they covered by sales volumes?
- Can increased demand be supported by necessary funding and production?
- Will staff, suppliers and customers stay loyal?
- Is the management prepared to battle through?
- Would business closure, sale or restructuring offer a better outcome?

If the answers indicate that there is a future for the company in its current form, there are options in terms of managing to trade out. An informal deal is perhaps the simplest. This involves calling key creditors, explaining the position and offering payment over a period that the business can afford. Despite the description ‘informal’ the process must be supported by sound cashflow projections based on achievable outcomes. Promises must be kept.

A more ‘formal’ approach involves appointing an expert in business recovery who will take up the position of trusted intermediary. The expert will need to see that the situation is recoverable and that the appointment is not simply a means of keeping creditors at arms length. The guidance such a person can offer will allow those managing the business to concentrate their energies where they are needed.

Executive summary

There are few businesses that do not suffer occasionally from cashflow or similar problems. Too often the instinctive business owner or managers response is to keep their heads down and work through it. While such action might be the best way of getting over a short-term problem, it cannot be done without acknowledging that any business owes an obligation to a variety of interests. Staff, suppliers, funders and customers all have a stake in the business and it is dangerous to keep them in the dark when difficulties occur.

Communicating the nature and likely duration of any problem to stakeholders aims to bring them onside but also helps define the degree of problem faced: having to provide a convincing picture to an outsider can help ensure that those at the heart of the business are assessing the problem accurately.

Have a question?

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In either case early action is essential: responding only when there are legal actions under way is both costly and time-consuming and means starting from a weakened position. Always document plans and actions, and keep a log of all calls and copies of all correspondence in case of dispute over any terms agreed.

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