

# MANAGING THROUGH THE CREDIT SQUEEZE



*Len Bell FCA, Group Director of Leisure at Champion, considers the challenges of managing a growing business in the current climate*

The effects of the credit crunch are being felt by businesses large and small. At the time of writing (early October), global leaders are struggling to cope with policy responses and rescue packages; many business leaders believe the worst is yet to come as the credit crunch turns to a credit squeeze.

As far as the parks industry is concerned, there have been reports of bookings being up as the trend towards UK holidays accelerates. However, a large proportion of park owners and managers rely on caravan sales and here the market has become much more competitive. Park home sales are also feeling the effects of the dramatic slowdown in the housing market. To survive and thrive in this environment, park owners and managers need to review their business plan in the light of new economic conditions.

The current business conditions facing park owners and managers are not too dissimilar to those of the last significant downturn in the early nineties. Interest rates and inflation are much lower, but house prices are falling and unemployment rising. However, the financial crisis is still unfolding and the impact on the industry may turn out to be more severe. This year, some parks have had a good season whilst others have felt the effects of the consumer-led slowdown, lack of credit and a falling housing market. Individual park owners and managers will have their own view of the situation, how it is likely to develop and what their response should be. In this article, I have suggested an approach, based on my own experience, having managed a growing park business through the recession of the early nineties and into the twenty-first century.

This approach can be simplified and summarised in terms of three steps:

- review of cash flow,
- review operations,
- get ready to invest.

## Step one - Cash flow and cash management

Most parks owners and managers have a healthy cash flow, however, there are indications that some are running out of cash. Whatever the situation, in the current climate, it is prudent to review projected cash flow and cash management of the business. By cash management, I mean planning ahead and anticipating the likely cash flows and then considering whether any actions need to be taken. In other words, plan not to be short of cash. I have found that putting the spotlight on any part of the business improves performance in that area. If the business is cash rich, go straight to step two - 'Operational Review'.

## Five tips for managing finances through the credit squeeze

- 1 Move cash and bank position monitoring up the agenda** and take time out to consider the cash flow and cash flow planning.
- 2 Review the scope and frequency of cash flow reports and projections.** It is good business practice to establish and record a daily balance on a current account at the bank. But a more powerful management report/tool projects the cash balance in the coming weeks and months. Clearly this activity needs to be proportionate to the size and complexity of the business. For example, many park owners record their receipts and payments on a spreadsheet; this is an excellent record and starting point for projecting next year's pattern and for considering the effect on the bank balance or overdraft. Use last year's pattern of payments and receipts and adjust for next year's plans and contingencies. For example, if pitch redevelopment or major repairs were carried out last year and are not required next year, reflect these savings in the projections. In this simple way, BH&HPA members can start to anticipate cash flows and improve their chances of managing/avoiding shortages.
- 3 Review the working capital** - stock, debtors and creditors. Again this needs to be proportionate to the complexity of the business. The single park owner may plan in terms of receipts and payments (see point two above). If the park has moved on to an accounting system, it will have the benefit of reports or lists showing the current position. For example, a debtors' list will typically show the debt amount and how long it has been outstanding; it is then possible to decide quickly what action to take in each case. The basic aim is to conserve cash by turning stock and debtors into cash more quickly and agreeing a longer credit period with the suppliers.
- 4 If the forecasts are flagging up cash flow problems** - i.e. breach of overdraft limits or bank covenants - seek professional advice at an early stage and prepare an action plan to deal with the contingency. This may include a submission for more funds/facilities.
- 5 If there is a shortage of cash** and there is a growth opportunity that undermines the cash flow plans, turn it down.

If members are experiencing cash flow difficulties and/or require further funding, they should seek professional help before the situation deteriorates.

## Step two - Operational review

Assuming the cash flow is relatively under control and bank funding is reasonably comfortable, move on to an operational review. In a credit squeeze, it is prudent to revisit key areas of the business to question whether the assumptions, policies and practices that were successful in the boom still apply.

### Six tips for managing operations through the credit squeeze

- 1 Review the working capital targets** (see point 3 on previous page). For example, consider the timing of collection of fees and holiday booking receipts - these can have a significant impact on the seasonal cash flow. Review the level of caravan stock - consider the range of stock to ensure the park is not carrying too many lines/models and to ensure that the stock targets and buying plans reflect the current conditions. When it comes to payment terms, consider extended credit plans and sale or return options - talk to suppliers about preferential payment terms.
- 2 Cut the right costs** - indiscriminate cost cutting across the board can harm the business. Be selective and focus on cutting costs that do not impact on sales. Review back office and administration costs - seek professional advice on human resource issues. Consider joining a buying group to increase buying power and reduce prices across a range of products, services and utilities. Make sure utilities are properly metered - measurement of units consumed increases the ability to control these costs. Consider capital expenditure and/or leasing assets to increase efficiency.
- 3 Review the park's product range and pricing structure and business model** - when the market changes, the business needs to be innovative and flexible. This might mean changing the specification and price range of holiday homes, increasing the hire fleet to utilise vacant pitches, introducing sales with sublets or taking seasonal tourers. However, care must be taken not to harm the brand; small changes can make a big difference.
- 4 Focus on sales** - it is very important to keep the sales and marketing team motivated, be realistic but lean towards the optimistic side - keep the team on the lookout for signs of recovery. If the park employs a sales team, make sure that the bonus structure rewards success by setting realistic but optimistic targets. If the business uses agents for bookings, seek feedback to ensure the right product/models for the current market are offered. Make sure that the park is using the best agency. Review the marketing performance of the business against its competitors.
- 5 Provide value for money to existing customers** - take account of the current market conditions when setting pitch fees and pricing facilities - and seek ways of improving customer relations. It is not the time to be creating too many vacant pitches.
- 6 Innovate and improve park facilities** - do not rule out capital expenditure. Park owners and managers have recognised the benefits of improving the park facilities and infrastructure. Continue to appraise projects despite the tightening credit conditions, provided the project is soundly financed this can be a good time to renew or refurbish the leisure club or to introduce a significant 'green' initiative that will both save costs and generate good PR.

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If the business is experiencing real cash flow difficulties i.e. running out of cash or bank facilities or both, then it may be a question of survival and more drastic action may be required. It will be necessary to take a harder look at points 1 to 5 and put 6 on the back burner. Leave no stone unturned and consider restructuring the business - including disposals and redundancies. In this situation, I strongly recommend seeking professional advice immediately.

## Step three - Get ready to invest

Assuming operations have been reviewed and the park owner is fairly comfortable with current operations and trading policies, take some time out to consider the business plan, looking forward for the next, say, three years. Recession can yield interesting opportunities, be ready to take advantage of these. While some businesses cut back, there may be an opportunity to acquire new assets or recruit good sales people or managers.

The business may need further funding to implement future plans. In the current climate, it pays to prepare a well-thought-out application for funding, including a cash flow projection for the next (say) three years. However, not all banks will have the same appetite to fund projects so shop around - seek professional advice at an early stage to help with planning and choice of bank.

Feed the plans back into the cash flow to make sure the business is soundly financed. Repeat steps one, two and three until everyone is happy with the business plan.

## Summary

1. Get a grip on cash flow management.
2. Aim to adjust business costs and working capital to the new level of activity.
3. Stay tuned to customer preferences and align the product and marketing to the current market.
4. Get ready to invest.

The information contained in this article is of a general nature and is not a substitute for professional advice. No action should be taken on the contents without first obtaining suitably qualified professional advice.

*Editor's note: Len Bell is Group Director of Leisure at Champion - len.bell@champion-accountants.co.uk. Between 1988 and 2007 he was main board Director of the Haulfryn Group, first as Finance Director and then as Joint Group Managing Director. He now heads up the newly-formed leisure division at Champion providing a wide range of services to parks including strategic/business plans, cash flow projections and funding applications. ●*