

BUSINESS OWNERS WARNED DON'T TURN TO PLASTIC FOR BREATHING SPACE

Cash-strapped owner managers should beware maxing out their personal credit cards in a bid to stave off financial meltdown, warns Black Country insolvency and business recovery expert John Travers.

Mr Travers, of Stourbridge-based John D Travers & co says that by running up personal debt in lieu of taking drawings, directors' debts can quickly spiral leading to individual insolvency while leaving the problems faced by the business unaddressed.

Mr Travers explains: "In many small firms, owners and partners dictate their own drawings.

"As the flow of cash slows, it can be tempting to take advantage of generous personal credit limits to tide them over rather than take more out of the business and potentially leave suppliers or staff unpaid.

"The reality is that if the business is really haemorrhaging money, it won't be long before the inevitable brick wall looms and the situation has been worsened by the delay.

He says: "It is always advisable to take heed of the warning signs of early financial distress and take realistic and practical action to safeguard the future of the business rather than just hoping for the best."

Mr Travers says that more recently some of the sting has come out of becoming personally insolvent due to changes in legislation and a shift of attitudes. But, he says, that for business people it can still damage reputation and hamper activities.

"The ready availability of plastic at a time when many small firms are starved of working capital is a combustible combination.

"Owner managers need confront the reality of their trading position, and adopt practical and realistic strategies that will help create a platform for the future.

In total, in England and Wales, around £97 billion is owed on credit cards, an average of 8,000 per household. And recent research shows a growing number depending on their cards to fund day-to-day living.

2010 saw a record number of people formally declared insolvent: the latest statistics from the Government's Insolvency Service show that 135,00 people entered either bankruptcy, an individual voluntary arrangement (IVA) or a debt relief order (DRO), 1,000 more than in 2009, 30 per cent higher than in 2008 and four and half times as many than 10 years ago.

Mr Travers comments: "The figures may be affected by the marked shift from creditor-initiated insolvencies to those that are initiated by the debtor, as debtors increasingly seeking to discharge their debt in a responsible and manageable way.

"Further, the reduction in the period of discharge of bankruptcy from three years to one has made this a less punitive route than previously.

"However, all the forecasts point to another record high in terms of personal insolvency in 2011 as the austerity measures bite. Currently, around 10 per cent of personal insolvencies are trade-related, I fear that this, also, is set rise significantly during the coming year."

Mr Travers adds a further warning to business: "Any businesses dealing with individual consumers needs to be sure that they have very tight credit processes in place to offset the increasing risk of customers unable to pay for goods and services already provided."