

*We can  
help*



## Wake up to profit reality

For better or for worse, beliefs often drive actions, but when those beliefs persist long enough, they can fall out of sync with the broader world and be at total odds with reality.

### Held beyond reproach

Many business disciplines are held beyond reproach such as revenues are good but costs are bad, give the customer what they want and do not interfere when things are running smoothly. Could it be that those beliefs are well past their sell by date and could be undermining profitability and success?

### Identifying product profitability

There is a general assumption that more revenues equal additional profits but that is missing the point. Part of the problem is that traditional accounting categories are far too broad to truly identify which accounts and products are profitable and which are not.

### Developing the strategy

What would be helpful to all businesses is to develop a strategy which estimates the profitability of every order line for every customer using transactions over a quarter. It does not have to be an exact science but it will identify a prime profit trend. Businesses can then set about protecting and cultivating those lines of business. We have all grown up in an age of mass markets where businesses attempt to get more and more volume in order to create lower costs through economies of scale.

### Mass globalisation

Today there is an explosion of information, real-time visibility, and different pricing for different products which equates to companies being faced with a world of mass customisation and mass globalisation with increasingly complex relationships thrown in for good measure.

### Great management techniques

The whole essence of great management is to create a foundation with the right information, the right priorities and the right processes. It is just a different way of managing and improving overall performance.

# SURVIVAL

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## Irrational decision-making

By predetermination, often humankind has limited rationality when it comes to decision making often relying on gut feeling.

However, when problems become complex then a whole new set of issues arise.

### Leading to conclusions

Systematic thinking is required but what often happens is that people do not start by framing a problem before collecting information that will lead to their conclusions.

So, how is this relevant when it comes to applying business analytics to improve company performance?

The answer is that we are all far less rational in our decision-making than standard economic theory assumes.

### Predictable

Irrational behaviour is neither random nor senseless but rather more systematic and predictable. Therefore, wouldn't economics make a whole lot more sense if it were based on how people actually behave?

**That simple concept is the  
basis of behavioural  
economics.**

## Directors, beware the risks of taking dividends

Over the years there has been a surge in the number of small and medium sized businesses incorporating for tax reasons. One of the main reasons for doing so was to draw profits out thus avoiding National Insurance. However, should a business get itself into financial difficulties, there is a serious downside.

For example, if a company goes into liquidation, it is highly likely that these dividends will have to be repaid because dividends may only be paid out of distributable reserves (accumulated profits). The payment of a dividend not out of reserves is illegal and a breach of the Companies Act and there is no time limit on the Liquidator for clawing this money back.

### No defence

There have been numerous cases where, after going into liquidation, it has become apparent that the directors/shareholders have been taking salaries as dividends. However, one of the first acts of the Liquidator is to write to the directors/shareholders requesting this money back which comes as a nasty shock for the directors involved who have no actual defence of their actions.

### Potential risks

Directors need to be aware of the potential risks of taking dividends when their company is having financial problems. They need to keep up to date with their annual accounts and management accounts and ensure that dividends are still appropriate. In many cases they would be better off taking salary rather than dividends because of these risks.

## Piggy bank mentality

There seems little doubt that many directors have got used to a certain lifestyle which the failing fortunes of their businesses can no longer fund. For some owner-managers it seems easier to break the rules and take an illegal loan from their business than to curb their spending.

### Temptation

The temptation by directors and owners of businesses to pay themselves abnormally large dividends may well have triggered the spate of illegal dividends. Directors need to be careful not to treat their business as a personal piggy bank. These special dividends would be considered illegal if the business did not have the accumulated profits to cover the dividend payment.

### Revenue concerns

HM Revenue & Customs are now so concerned that illegal dividends mean that businesses are not paying their tax debts that they are requesting insolvency practitioners to specifically look for this problem. As the Treasury coffers are depleted, HM Revenue & Customs are taking a keener interest in the effectiveness of Insolvency Practitioners and their pursuit of illegally withdrawn funds. HMRC will expect all IPs to rigorously investigate directors who have transgressed with a view to a full recovery. HMRC will even replace IPs who are not robust enough in their investigations of failed companies.



## Nightmare on Admin Street

There are concerns that the government appears to be dragging its feet on its commitment to reduce business regulation.

The amount of time that company directors spend each week dealing with regulatory compliance, let alone the costs involved, is astronomical.

Businesses should be spending time on growth, development and creating new jobs instead of getting embroiled in unnecessary red tape that is if the government is serious in its bid to grow the private sector in order to offset redundancies in the public sector.

Significant deregulation of employment law is urgently needed as excessive bureaucracy does not benefit anybody least of all the unemployed.

## Double-dip remains a threat

Well, it appears that the double-dip scenario remains a strong possibility. Naturally, there is a sizeable throng of pessimists ramping this up despite the number of encouraging signs.

Consumer demand remains moderate and many are reducing their debts as a priority so remain more cautious.

The housing market may well remain weak for some time to come. The VAT rise was widely perceived to be the single most threat to the economy but there is no sign that has happened or is likely to happen. Indeed, there is evidence that a large proportion of retailers are swallowing the additional VAT.

However, of much greater significance is the price rises in food, fuel and raw materials. Once there is more confidence in the economy businesses will pass on these cost rises with few perceived repercussions.



## The swags in the bag

It is essential that businesses are aware of the seriousness with which the authorities regard money laundering. Money laundering conjures up images of swag being furtively exchanged in dimly lit back rooms of pawn shops for a fistful of diamonds or a bag of gold sovereigns. However, this over-glamorisation is very far from the truth.

### Threat

Money laundering is a massive criminal industry that remains a huge threat to the UK economy and is the pivot upon which most other crimes revolve.

### Untraceable

Money laundering is the process by which 'dirty' money from the proceeds of criminal conduct is cleaned so it appears legitimate. Equally, it varies in its level of sophistication from simply taking a suitcase of cash to a country, less interested in the source of the wealth, to using many layers and locations of the international banking system thus making the source untraceable. A more common and simpler form may involve putting cash through bank accounts of friends or their businesses. One of the most unfair aspects of a money laundering prosecution is that the defendants are often not serious criminals but simply people caught up in an investigation because of their closeness to other people in the case.

## The continuing war against fraud

Over 60 per cent of businesses in the UK are losing as much as 5 per cent of their turnover a year to fraud. When times are hard as they currently are, no business can sustain losses of that magnitude.

It might be a timely reminder to consider these statistics:

- Over £40 million is lost every day to fraud in the UK.
- 80% of corporate fraud involves the collusion of an employee.
- 90% of fraudulent employees have been with their employer for over a year.
- 20% of fraudulent employees have been with their employer for over 10 years.

Prevention is better than cure might be an old adage but an apt one. All too often businesses only take action against fraud after they have discovered they have become a victim. It is far better not to become a victim in the first place.

## Businesses owe billions

A recent survey has indicated that struggling businesses exposed to swingeing public sector spending cuts were experiencing a significant financial downturn. Sectors that are most reliant on government spending strategies and consumer spending are really struggling. There seems little doubt that business failures will increase significantly during the rest of this year.

### Safeguarding your business

Borrowing over long periods can help place a business on a firm foundation, but it can also expose it to risks if interest rates rise to levels that seriously affect its profitability. Many businesses are counting their blessings that interest rates remain at an all time low. Consequently, they are able to service their loan debt. Had interest rates remained at levels seen only eighteen months or so ago many businesses with significant levels of debt would not now be trading. For those businesses with high levels of borrowing, what steps can be taken to protect their future? Well, there are some alternatives. For example, moving to fixed rate or capping the interest rate as a form of insurance with an up-front premium. They involve a degree of risk which should be assessed very carefully before action is taken.

# Dunion's Dispatches

## A warm welcome to James Delicata

After leaving full time education in 1995, James spent six years working as a manager in the leisure industry, before returning to full time education and graduating in Law in 2005. James then entered the world of Insolvency and spent 6 years at BN Jackson Norton where he gained wide experience in all personal and corporate insolvency procedures. At Dunion & Co James will continue to manage a wide range of appointments as well as assisting Diane with the growth and continued development of the business.

## INTRODUCING THE DUNION TEAM



Diane Dunion, LL.B (Hons) MABRP, MIPA  
Director & Licensed Insolvency Practitioner  
Email: [diane@dunionandco.com](mailto:diane@dunionandco.com)



Laura Prescott, LL.B (Hons) MIPA  
Manager  
Email: [laura@dunionandco.com](mailto:laura@dunionandco.com)



Ben Gray, LL.B (Hons)  
Insolvency Administrator  
Email: [ben@dunionandco.com](mailto:ben@dunionandco.com)



Dominic Latham  
Insolvency Administrator  
Email: [dominic@dunionandco.com](mailto:dominic@dunionandco.com)



James Delicata, LL.B (Hons)  
Senior Insolvency Administrator  
Email: [james@dunionandco.com](mailto:james@dunionandco.com)

**BBC  
STOKE**

## Over 55's struggling with unsecured debt

In a recent interview with Breakfast with Pete Morgan, Diane Dunion talked about the rising problem of the older generation finding itself with massive debt problems. The over-55s, in particular, are contending with falling incomes, low levels of savings and rising debts. Many have unsecured borrowing products, such as credit cards or personal loans. The typical monthly income for people in this age group has fallen from £1,294 in June 2011 to £1,216 in September 2011. There has also been a 12% drop in savings over the last three months, with the average over-55 now having just £10,468 set aside for a rainy day. While there is a limited amount that the long-term retired can do to improve their finances, these figures highlight the importance of a lifetime approach to retirement planning. Taking out a private pension, building up a respectable savings pot and paying down debt are all simple steps that people can take to ensure they don't face these problems in retirement Diane added.

Dunion & Co. is an independent firm of licensed insolvency practitioners and business advisers which offers strategic services designed to meet the needs of both individuals and small to medium sized businesses. Our team provides a confidential and hands-on approach to our clients.

## CORPORATE SOLUTIONS

- ➔ Administration
- ➔ Company Voluntary Arrangements
- ➔ Liquidation

## INDIVIDUAL SOLUTIONS

- ➔ Individual Voluntary Arrangements
- ➔ Debt Relief Orders
- ➔ Debt Management Plans
- ➔ Bankruptcy

We bring a modern, pragmatic and commercial approach to all our assignments and aim to provide high-quality solutions in a timely, efficient and effective manner.



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LICENSED INSOLVENCY PRACTITIONERS  
& Business Advisers

Genesis Centre  
North Staffs Business Park  
Stoke-on-Trent  
Staffordshire ST6 4BF

Tel: 01782 366040

E-mail: [enquiries@dunionandco.com](mailto:enquiries@dunionandco.com)

Website: [www.dunionandco.com](http://www.dunionandco.com)

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Registered Office: Genesis Centre, 18 Innovation Way, Stoke on Trent, Staffordshire ST6 4BF.

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