Past and present recessions compared

Philip Davies of LPM Outsourcing

LPM Outsourcing is 21 years old this year so we've been around long enough to remember the last big recession of the early 90s. Apart from the obvious connotations of "coming of age" that our birthday year provides, it is also a chance for us to reflect on the recession we are currently facing, comparing past experiences and the new business opportunities these tough times bring.

One of the most obvious differences between this and the previous recession is the extent of globalisation. In the recession of the early 90s, although there was global trade, the degree of interplay between the world's economies was much smaller. We didn't have the Euro, and individual economies were far more exposed, as we in the UK are with weakened Sterling. And even though the Pound is now a "cheap" currency which should theoretically help exporters, because all the other countries are in recession, too, demand is not being stimulated.

I personally believe we are still at the very early stages of this recession, and expect the global economy to decline a lot further in the next 12 months. This is because the current crisis began with a banking liquidity issue 12 to 15 months ago, and which continues to be a problem. Indeed, just this week, the US has forecast its liquidity problem will re-surface in the coming months, from which we can expect further shocks to arise. Also, the general shortage of credit is accelerating the rate at which general productivity would ordinarily decline during a recession.

In the 90s recession we were suffering from over-valued assets and excessive debt levels, this time around the banks themselves are in trouble, which is adding to the problems facing businesses. It is only in the last 3-6 months that we started to see the impacts of the downturn with high profile administrations like Woolworths, and rising unemployment. A lot has happened these last three months, and this is just the tip of the iceberg. Many more big names will go under, for instance we haven't yet seen the collapse of a construction company,

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which must be imminent.

Another difference between the two recessions is the extent of government intervention. I don't believe in making political statements, and none is implied by my observations, but what is clear is that the government is doing its best to positively stimulate the economy. The VAT cuts were made with the best of intentions, the small business underwriting scheme is very welcome, as are attempts to support graduates and their future employers. Even HMRC has given struggling firms a tax holiday to help ease cash flow issues. Regardless of the ultimate effectiveness of these initiatives, or what their cost implications are, at least someone is trying. Last time around government policy was very different, the economy was left to its own devices, and support was not so readily available.

Turning now to the business landscape in which I operate, there are also distinct differences, both of which present business opportunities. My company provides outsourced back office administration for the leasing and asset finance sector. In the 90s recession, outsourcing wasn't really an option but has since become much more of a trend. Today the old perception that "we'll bring it in-house because it's under our control" is invalid.

Outsourcing will continue to be attractive because of its inherent cost reduction ability. If an outsourcer can demonstrate significant cost savings, i.e. 20 percent upwards, who can argue with that? And coupled with that, I anticipate many more partnerships and mergers within the financial sector, because there are such big economies of scale to be gained from pooling administrative centres. We are predicting that many will opt for a consolidated back office rather than managing two identical operations, and if this is the case, why not also outsource for additional cost benefit?

> "A new opportunity has arisen as a result of lack of financing options"

Another opportunity, which did not arise in the last recession, is through working in partnership with investment funds looking to invest in struggling leasing providers. This is a new opportunity which has arisen as a result of the lack of financing options available. We have seen numerous instances where, because the selling price reflects a big discount, the vendor is reluctant to sell because of the low price, and the purchaser is unable to really appreciate the full value of the book on offer. To complete an accurate valuation requires an intimate knowledge of the sector and it is here that we believe we will be working in partnership with investment groups to conduct this critical aspect of the due diligence process.

Partnerships would also work going forward, with a run out, provided the outsourcing provider is incentivised by the partner to maximise cash flow from the portfolios. Giving a strong incentive to the outsourcer, subject to achieving certain financial targets, ensures both the debt owner and outsourcer have equal objectives to maximise future cash flow.