Comment: Getting your house in order

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With the economy looking up, travel companies need to ensure they are primed to take advantage of the upturn argues Martin Alcock.

When Sir Mervyn King delivered his upbeatish economic forecast this week, he confirmed what business leaders in the travel sector have been saying for a while now - that a recovery is finally in sight. Ultimately, economic growth is a confidence trick, so such positive chat from The Bank of England and prominent business leaders may well pedal a virtuous circle of resurgence.

So what does recovery really mean for the travel sector? Well it goes without saying that more confident punters, unshackled from the fear of unemployment, with disposable cash in their pocket are good for travel bookings but its more than that.

A resurgent Thomas Cook yesterday announced a substantial debt refinancing package, simultaneously freeing up cash and deleveraging their flabby balance sheet. Pushing maturity dates out to 2020 has given the management team a clear mandate to go ahead and implement their much talked about new strategy. The new equity and debt facilities were secured on the back of healthier trading results, but more importantly they show a renewed appetite for the travel sector amongst banks and investors.

Whilst billion pound refinancings are of little relevance to the vast majority of travel companies, a positive effect should trickle down through the sector which is great news for the mid-tier. The traditional exit route of flogging your business to Cooks or TUI closed some years ago, and since then owners have sat on their hands, hoarding cash and concentrating on steering through the difficult times. This pent up exit demand seems to have been unleashed in the last few months as Private Equity houses and other potential investors make covetous eyes at the juicy cash flow profiles which are the envy of many a sector.

There was good news too for those looking to borrow. At the excellent Barclays Travel Forum this week, we heard from the MD of Barclays Corporate that banks were more than willing to lend, and that more than 80% of credit applications were being approved, but what was lacking was the risk appetite from owners and management themselves. The implication was clear: Barclays wanted to lend but couldn't give it away.

So whether you're looking to sell out or raise funds for expansion, how can you surf on top of this wave of recovery and avoid getting left behind or wiped out in the froth? The winners will be the best run businesses who have stayed lean and continued to invest.

- Management information needs to be tip top, with enough granularity to understand the critical drivers of performance.
- Business plans and budgets should be clear, with a firm handle on cash flow and enough contingencies to cover the unexpected.
- Regulatory certainty is a must: no sensible investor will take a punt with a regulatory Sword of Damocles hanging overhead.

Its not too late to get your house in order, and by acting now you can put yourself on the front foot.

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