

Christmas: A famine or feast for your business

The Christmas Season has a different impact on different businesses. For some, it's the busiest time of the year, for others the quietest. This month, we look at the strategies to help you survive regardless of whether your business is in famine or expecting a feast.

The Christmas Famine

For many businesses, the Christmas and New Year holiday season and the lead up to it means a slowdown with a lean or non-existent trading period. While your trading period is hibernating you still have bills to pay and the New Year will bring its own challenges. Here are some of the key issues to think about:

Staff management

Staffing is a major cost for many businesses and can run as high as 70% of expenditure. It's essential that you review your staff rosters and only have the staff available who are absolutely necessary to manage anticipated trading levels. Encourage staff to take their holidays over this period so that they are available during peak trading periods. You can't assume that it will be obvious to everyone who works in the business that a slow trading period equals less staff required. Many team members will have an expectation of continuity if you have not said anything.

Stock management

Keep your cash as liquid as possible and don't tie it up unnecessarily in stock. Drive down stock in the lead up to Christmas and only order the bare minimum to meet your requirements over the holiday season. But don't forget to plan for your New Year requirements to ensure that your suppliers have the stock you need available when you need it in the New Year.

Don't believe your lead indicators

The cash in your bank account is a lead indicator for many SMEs. At this time of year and in the lead up to Christmas your bank account is probably looking fairly healthy but your cash position can be deceptive. It's easy to make the mistake of looking at the cash in your bank account and thinking all is well. Your current cash position is bolstered by lower stock requirements and the money flowing in from debtors as accounts are finalised and closed off before the end of the year. You still need to fund the Christmas period with limited sales, staffing and potentially a blow out in debtor levels as your customer base feel the post Christmas cash flow crunch. Be prepared and take a good look at the cash you require over the slow down period and what you will need to reinvigorate the business in the New Year before you make any significant sales.

Don't forget about your GST

Ensure that you put aside the cash necessary for your BAS payment in February 2006 for sales made this year. It is too easy to get caught out by the expectation that you will make the payment from sales achieved in the New Year.

To open or not to open

Take a look at your trading figures over the holiday period for the last few years. If you stayed open for the convenience of only a few customers you really need to think about whether it's worth it. Even if you are the one personally who is making sure you are open for business, don't devalue your time.

Marketing

The Christmas period creates a challenge for businesses going through a slow trading period. It creates a gap in your marketing program and can have a major impact on how quickly you can reinvigorate sales in the New Year. Marketing for the New Year is something you need to start now. Consider a brief marketing campaign at the end of November or early December to bring in advance orders and help your customers plan for their New Year requirements. Then, reinforce the campaign with a second round in late January when everyone is ready to get back to work. If you leave your marketing until late January, it's likely that you will not see the impact for a few months. Can you really wait until March to start seeing the impact of your marketing spend?

The Christmas feast

Even during periods of strong trading your business can be put at risk as cash flow tightens and your costs increase.

Stock management

In order to have your stock on the shelves when you need it, you need to purchase it two months before the start of the sales period. Your suppliers generally give you 30 day credit terms. Even allowing for this, you are likely to have your money tied up in the stock about 45 days after you have paid your suppliers. And, if for any reason you don't sell all of the purchased stock then you will be funding it for a longer time period.

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Cash flow

Your cash flow is likely to be tight with a lag between increased expenditure on your variable costs such as stock and staffing levels and what you recoup in revenue from increased sales.

This next round of tax reporting and payments is also likely to elevate any cash flow problems. Christmas and the associated end of year costs are quickly followed by the first round of quarterly BAS. Then comes the slower trading period for many over January. Just as the year really gets underway, February sees the second round of quarterly payments in the month traditionally the worst cash flow month of the year for many businesses. It will be important to plan your cash flow over this period to ensure that you are not caught short.

If you see your account customers slowing the payment process you will need to get on top of this as soon as possible. Most businesses are likely to pay their tax obligation before they pay you.

The discount trap

As cash flow tightens, discounting is often used as a strategy to bring forward sales revenue.

Come Boxing Day, it's hard to find a shop window not swathed in bright red sale signs. While seeing sales revenue reach its annual peak is heart warming, many businesses would be better off with fewer sales and lesser discounts.

For most businesses, it is important not to be competing on price alone. You need to look for broader marketing strategies to keep your customers coming through the door and the cash flowing. Businesses that compete on price alone can look good in the short term but you really need to know what the impact is on your profits and whether you can sustain it.

A business with a 30% gross profit margin that offers a 25% discount requires a 500% increase in sales volume just to maintain its same position. In almost all cases that's just not going to happen. The result generally is the business will be trading below its breakeven point and generating losses. Most SMEs simply can't survive for any period of time trading at a loss.

Marketing

Everyone loves to see high sales volumes. But not all products are equal as different products and services will make a different contribution to the bottom line. Ensure that your marketing gives you the greatest impact for the dollars spent by focussing on those that make the greatest profit contribution.

If your most popular products (and by default those that bring your customers to you) are those that contribute the least, take a look at your in store displays, methods of packaging products together and special offers to see if you can increase your overall profitability by using the popular products as a lead generator for achieving a greater spend per individual sale.

For assistance with planning to maximise your profits and limit your risk during a trading famine or feast, talk to us today.

Warning on SMSF Trust Deeds

The Trust Deed of a Self Managed Super Fund is an important document as it governs the operation of the super fund. It's important to have your Trust Deed reviewed to make sure that it remains up to date with the latest legislative changes. If you haven't reviewed your Deed recently, your Deed is unlikely to accommodate beneficial changes such as the ability to split your superannuation with your spouse or the ability to start drawing down your super at age 55 while still working.

Quote of the month

If I had to sum up in a word what makes a good manager, I'd say decisiveness. You can use the fanciest computers to gather the numbers, but in the end you have to set a timetable and act.

Lee Iacocca

