



Fail to plan, plan to fail

Understandably many businesses have been overtaken by the sheer demands of coping with the present economic climate. However, intelligent forward planning is just as important to coping with any tough and competitive trading environment as is anticipating weekly and monthly issues.

By planning for the future, businesses can focus on how best to boost profit margins and to manage costs. Planning enables the identification of potential problems before they arrive and it can highlight areas where improvements can be made.

Changes ahead

Among other things, the plan should detail aims for the coming year, any possible problems, any changes to the way the business operates, an assessment of the staff and their skill levels, a financial forecast, and areas where investment is needed. In doing so a business will be able to determine its expenditure and calculate its budgets for the next twelve months.

Business budgeting is equally important but should be realistic and based on the income that a business is likely to generate. It should include estimated sales for the period being planned as well as overheads, variable costs, capital costs and, from these, profit margins. Once the budget has been drawn up, it affords the opportunity to investigate whether any of the costs can be reduced or better managed. Any inconsistencies in the budget will highlight possible problem areas and by reviewing the budget on monthly figures can be compared with actual income and expenditure.

The golden rules

British retailers are feeling the heat leaving many exposed to the vagaries of the current economic climate. The economy has been relatively benign, to say the least, for a number of years which has inevitably masked inefficiencies hence the continuing failures.

Businesses fail because they simply run out of cash. Given the consummate ease with which consumers can stop or reduce spending, it is not surprising that cracks can appear quite quickly.

Rules of engagement

There are some simple rules to follow in order to keep a retail business on track. For example, producing regular cash flow forecasts is vital as is setting realistic banking covenants which should reflect the true risk of the business. Indeed, any business breaching banking covenants will rapidly lose the confidence of their bankers.

Discount and flog it

In our experience retailers tend to hold on to old stock without realising that it ties up working capital. 'Discount and flog it' is the key here. It is imperative to regularly check out the competition and adjust the business model should it become appropriate. Finally, stay alert. If there is a problem act on it immediately and work out a possible solution that can be presented to creditors. Businesses rarely trade out of problems as more remedial action is generally needed. If in doubt seek help as banks do not take kindly to nasty shocks.

