



The rising costs of business

ONE OF THE MOST COMMON ISSUES FACED BY SMALL BUSINESSES IS KEEPING CONTROL OF THE BUSINESS' FINANCES AND ENSURING THAT THE BUSINESS CONTINUES TO BE PROFITABLE. JOHN CORIAS EXPLAINS.

One of the key areas that the majority of small business owners focus on is their costs of operating the business. Rising costs can often escalate quite quickly and catch business owners by surprise when they do their accounts.

Keeping a lid on rising costs is not a matter that small business owners should attend to on an ad hoc basis. Having a regular ongoing management plan that monitors your regular and one off expenses can stop these expenses from creeping up.

Of course, the adverse is true where many small business owners focus so intently on their costs that they neglect the very reason they started their small business, i.e. creating a product or service that the customer desires and is willing to pay the right price for.

As in all aspects of life, balance is the key. The key for

you in understanding how costs can rise is to break down your costs into three key categories cost of goods sold, fixed costs and variable (or operating) costs.

COST OF GOODS SOLD

Broadly speaking these are the costs that directly relate to producing what you sell. As an example these costs for a restaurant include all of the food and drinks/liquor that go into creating a prepared meal for your customers. For service based entities, where the actual product that you take to market is based on time, then your costs of labour are really your own cost in this area.

Ways that you can take control of your expenses in this area can include:

- Meeting with suppliers on a regular basis to check out possible specials, discounts for early payments & discounts for bulk buying.
- Don't get too comfortable with your current suppliers, always check out alternate suppliers every so often to ensure you are getting the best deals.

- Wastage can often amount to a sizable percentage of your product costs and minimising such wastage via better internal business practices.
- Stock control can also have an impact on costs, as overstocking can lead to products expiring on the shelf, costs of storage & refrigeration etc. can be higher.

FIXED COSTS

Fixed costs essentially relate to expenses the business has in just existing. If the business had no customers and no staff, there would still be costs of being in existence. Keeping such costs at a minimum without affecting the businesses ability to successfully trade will impact on your break-even point. The lower your break-even point is the less sales you need to make to break-even, therefore any "extra" sales that the business makes will generate a better bottom line. Fixed costs to keep in mind:

- Rent is normally your biggest expense and based on standard three or five year leases an expense that can have long term impacts on your business bottom line. Careful research and planning to ascertain the suitability of location, size and future potential of a rented site is a critical business decision that should not be made without proper advice.
- Financing costs of buying your business or equipment for your business need to be paid whether or not the equipment is producing anything. Structuring your finances to suit your business circumstances is not just about getting the lowest interest rate, there are many other factors to consider that your finance broker can advise you on.
- Many small businesses will have a key group of staff that can be considered a fixed cost. Build a strong team that covers the key areas of your business, then tailor the remainder of your workforce around them.
- The number of banking options has never been greater so shop around

before setting up merchant terminals and signing up to any long term contracts. With fees being charged as a percentage of your sales, keeping these fees to a minimum helps to increase the amount of sales you keep in your account.

VARIABLE COSTS

Variable costs are the one area where business owners need to remain vigilant on an ongoing basis. Some examples that you may be able to relate to as a small business owner can include:

- Aside from your cost of goods sold and rent your staffing costs are going to be the one variable expense you have the most control over, and in turn, can vary the most. Keeping on top of staffing requirements and rostering can reduce costs significantly.
- Electricity costs have been in the

headlines of late and we all know that they are rising, and not likely to fall anytime soon. Competition between energy suppliers is a key factor that you as a small business owner need to take advantage of. Aside from that, energy efficient appliances and lights may cost more initially, but save you in the long run.

- Insurance coverage is an essential business expense, but also one that can be highly variable depending on the level of cover needed and the insurance company. Shop around and get fresh quotes every year. Just make sure that your policy covers your essentials so the business can recover from any disasters.
- Franchise fees are a variable expense that can impact significantly on a franchised business. Once the original franchise agreement has been signed, there is not a lot that can be done

in this regard. The lesson here is to conduct proper planning before signing off on a franchise agreement. For the struggling small business owner a balance must be struck between seeking a stronger sales platform and monitoring your business expenses. Focusing on one and neglecting the other is a waste of time, driving increased sales without focusing on the cost of doing so can actually see businesses fall backwards in their financials. The opposite also applies, driving costs down to a bare minimum can lead to an inability to service existing customers, let alone win new customers to your business. It is so often the case, that applying a balanced approach will result in the best outcome overall. You wouldn't focus on doing all the exercise in the world to lose weight if your diet wasn't first modified to match your goals would you? **CH**



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