Your Knowledge Newsletter

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5 things that will make or break your business's Christmas

The countdown to Christmas is now on and we're in the midst of the headlong rush to get everything done and capitalise on any remaining opportunities before the Christmas lull. Busy period or not, Christmas causes a period of dislocation and volatility for most businesses. This dislocation and volatility mean that it is not 'business as usual' and for many businesses, it is the change that causes the problem.

Most business owners cope well with consistent trading conditions, where trading and business conditions are predictable as are the solutions to issues that arise, but it is a different story during periods of disruption. Here are some things to watch out for:

1. Ho, Ho, No. The trading stock headache.

If business activity spikes over the Christmas period and you sell goods, then there is a temptation to increase stock levels. That makes sense as long as you don't go too far. Too much stock post the Christmas period and you will either be carrying product that is out of season or you will have too much cash tied up in trading stock. Try to work with suppliers who can supply on short notice. Better yet, see if some of your suppliers will supply you on consignment where you only pay them once the stock is sold. It might be better to miss a few sales than carry a trading stock headache into the New Year.

Managing your trading stock is not just about managing cost, consumers will go online if they cannot find what they need in store. Some savvy retailers are capitalising on this with opportunities to purchase online while instore if stock is not available or providing free shipping codes.

2. The discounting trend

Consumers now expect a bargain and can generally find one. The attraction of the Black Friday sales is that stock is generally available. Those waiting for bargains in the week immediately prior to Christmas, can only choose from what's left.

If you choose to discount stock (or the market forces you to), it's essential to know your profit margins to determine what you can afford to give away. A business with a 30% gross profit margin that offers a 25% discount (certainly nothing unusual about that in today's market) needs a 500% increase in sales volume simply to maintain the same position. The result generally is that often businesses trade below their breakeven point and generate losses. So, think carefully about your strategy and what you can sustain.

3. The Christmas cost hangover

Costs tend to go up over Christmas. More staff, leave costs, downtime from non-trading days, as well as increased promotional costs all mean that the cost of doing business increases. Keep an eye on them. It's great to get into the Christmas spirit as long as you don't end up with a New Year hangover.

Many businesses also bring on casual staff. It's essential that you pay staff at the correct rates and meet your Superannuation Guarantee obligations. Under the Retail Award, the rate for adult casuals (21 and over) start at $26.76. There is also a 3 hour shift minimum for all casuals regardless of whether you send them home early. Check the pay calculator to find the correct rates.

4. New Year cash flow crunch

The New Year often leads into a quieter trading and tighter cash flow period. The March quarter tends to be the toughest cash flow quarter of the year. You will need a cash buffer going into the New Year. Don't over commit yourself in the run up to year end and end up in trouble in the New Year.

5. Take a lesson from Scrooge

If you work with account customers, start your debtor follow up now. If your customers are under any cash flow pressures, the Christmas period will only increase that pressure. The creditors who chase hard and early will get paid first. Don't be the last supplier on the list; the bucket may be empty by then.

Christmas is a great time of year. Just don't get caught up in the rush and let things get out of control.

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