

ACTIVE PRACTICE UPDATES

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McCleary & Company Ltd.

Chartered Accountants & Registered Auditors

MAKING BUSINESS SAVINGS DURING A RECESSION

How to make savings during the cost-of-living crisis.

Nobody wants one, but a recession in the UK is looming, with the Bank of England (BoE) and British Chambers of Commerce (BCC) predicting the UK will enter one by the end of 2022.

The monetary policy committee of the BoE wrote:

“The latest rise in gas prices has led to another significant deterioration in the outlook for activity in the United Kingdom, which is now projected to enter recession from the fourth quarter of this year.”

A key aspect of the slowing economy is the worryingly high rate of inflation as measured by the consumer price index, which hit 10.1% in July 2022 and could peak at 14% according to the BCC.

It predicts GDP growth to grow in 2023 at a very low 0.2%, but the BoE expects the economy to continue contracting throughout 2023.

“Growth thereafter is very weak by historical standards”, it said.

HOW DO RECESSIONS IMPACT BUSINESSES?

Recessions can hurt any business in the country, but smaller ones are more likely to suffer, because the majority enjoy less of a financial cushion, market power and leverage within their industry to weather through tough times.

The one the UK faces is being driven by high inflation, which itself is being driven primarily by an explosion in energy prices,

which is biting into the budgets of businesses more than expected.

It's especially bad for industries that spend a big portion of their budget on energy, such as road freight transport and removal services (31%).

Micro businesses, which are defined as businesses with fewer than ten employees, are also especially vulnerable as they spend 20% of their budget on energy on average.

At the same time, consumer confidence has hit an all time low since comparable records began, as the cost-of-living crisis constricts household budgets.

Energy suppliers might see more profits, but businesses selling non-essential goods and services might see less business – ultimately reducing activity and fueling a recession.

Businesses also need to bear interest rates in mind. At the time of writing, the Bank of England base rate of interest is 2.25%. It is not completely certain whether this figure will increase, especially when considering consecutive increases throughout the year in an attempt to curb inflation by making it more expensive to borrow money.

All of this is to say that business owners need to start preparing right away (if they haven't done so already) for the tough times ahead. A recession is more than just a headline buzzword for journalists and economists.

ASSESS YOUR FINANCES HONESTLY

Surgically trimming your business budget is the obvious place to start. The challenge is to be smart about where to cut spending.

Oddly enough, however, cutting back is easier to do during a downturn than during prosperous times, as tough times provide an imperative to change. When survival is the goal, it's easier to make the tough choices. Managers can defy old mindsets and creatively search for solutions, not just the next lifeline.

The challenge is to make your decisions well-defended and evidenced. To make sure they are, review your budget with key members of your financial team, advisers and accountants to get the insight you need to make the right decisions. They may be able to pick up on something you missed if they have all your business information at hand, giving you the confidence to say you're making the right choices, no matter how tough they may be.

This should be a triage of your brand, products and services. Determine which have poor survival prospects, which may suffer in declining sales. Then you can cut loose what isn't working, improve what might and keep doing what does.

ENERGY COSTS

A lot of businesses are and will continue to struggle because of rising energy costs. The Government recently announced an 'energy price guarantee' for households, and an 'energy bill relief scheme' to support businesses. The energy bill relief scheme caps prices to 7.5p per kWh for gas and 21.1p per kWh for electricity, for six months from 1 October 2022.

Businesses can also look to reduce costs in the 'normal' ways – use energy efficient lighting; turn down the heat; turn things off when not in use; be careful with kitchen etiquette (overfilling the kettle costs the UK £68 million a year in energy costs!); use energy efficient tech; avoid energy waste, go paperless and so on.

You've heard these solutions before, but really focussing on them and getting the whole team involved after an energy audit could save you up to 10% on your business bill, according to the UK wing of Électricité de France.

If you are still worried about paying your business energy bills, contact your supplier, as they may be able to work with you to agree on a payment you can more easily afford. It's always worth asking if in doubt.

EMPLOYMENT COSTS

Employees are essential to getting work done. For a lot of business owners, nothing could be done without them.

Employment costs, which for a typical restaurant usually stand at around 30% of revenue, can be expensive. But the solution isn't always to cancel your new hire.

Instead, you can keep your number of full-time hires down by outsourcing certain tasks to third parties. A popular function to outsource is payroll – you need to get it done, but you'll probably find you can save more by outsourcing it than hiring a specialist.

Not only does outsourcing provide better value for money, but

it also reduces the need for a large office with large rent fees and expensive energy bills. You might then be able to move somewhere less expensive, or get rid of the office altogether and move to remote working.

To save on employment costs, start with employee expenses, not employees themselves. You can make savings by ending or reducing the frequency of any free lunches you provide, for instance, or toning down this year's Christmas party.

EMBRACE REMOTE WORKING

After the pandemic, a lot of employers were probably happy to see their staff return to the office, but that fondness doesn't make it any less expensive than remote working.

When there are employees in the office, all those energy costs we've talked about are out in force, so you might want to reconsider your policy.

We're not suggesting you go back to remote working completely, but reevaluate how your working week goes. For instance, is there a day where only one or two employees come into the office, unnecessarily racking up your lighting costs? If so, consider closing the office permanently for that day.

When it comes to remote working, always remember that employees have been proven to be happier and more productive without the watchful eye of their employer.

NEGOTIATE WITH SUPPLIERS AND YOUR LANDLORD

Like your energy costs, what or how you pay your suppliers doesn't have to be set in stone forever. Ultimately, they want to stay in business too and might be struggling. Furthermore, your payments are their income, and they want to keep that coming in, if you're reasonable.

A great way to get a better deal is to buy in bulk. Suppliers, eager to move their stock and keep a positive cashflow, might just agree to a discount for a particularly big order of supplies.

Likewise, if you've been in a building for a while, you may be able to negotiate a better deal with your landlord, particularly if you've been a good tenant and have paid on time every month.

You might be surprised as to what you get and you certainly won't lose anything by trying.

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