

Pressures on small firms

The Federation of Small Business (FSB) warns of challenges to smaller businesses

The Federation of Small Business (FSB) has quoted that up to half a million small firms are at risk of going out of business in the coming weeks.

The challenges they quote are highlighted in this update, including the fact that whilst some households will get some relief from the rising energy costs at present there has been no such help for businesses.

Rising costs

Households are not the only group exposed to the pressures of rising costs. Many smaller businesses are facing production costs rising at a faster rate than background inflation. These include the costs of goods affected by supply disruption as well as energy costs and taxation.

Cash reserves

Following the disruption created during the two-year, COVID pandemic, when government introduced a virtual close-down of economic activity, many smaller businesses suffered a reduction in cash reserves.

And the current pressure on costs may prove to be a further drain on cashflow if businesses are unable to increase their prices. Lower profits quickly become trading losses, and trading losses – for extended periods – will deplete cash reserves and quickly turn net assets into net liabilities.

This is a twist of the knife that the FSB is highlighting.

Do not take your eye off the ball

Challenges that we are now facing may be too much for many firms already reeling from the effects of COVID lockdowns.

But there may be ways to mitigate the effects of the current upward pressures on costs. Uppermost, should be the need to examine the challenges in some detail and see what options there are to overcome lack of profits, a downward track in cashflow and the drift into insolvency.

Initially, you should examine your most recent management accounts in some detail and identify those areas where you can take positive action and other areas where this may not be possible. In this way you may unearth options to minimise any damage to your finances.

Then, get into planning mode. Brainstorm ideas that may counter the worst effects of rising costs and that offer strategies for increasing prices of existing goods or services or switching to alternatives that have the potential for higher margins.

We would like to help

One thing we can predict is that everything always changes. However unpleasant current trading conditions may be, there will be a time when these are no longer as significant.

If you find the current conditions difficult to work with, and before you make any decisions to close down your firm, please call. Initially, let us see if we can identify any viable options that will help redress your concerns, and if so, create a plan to implement any changes identified.