



## The Social Business Tool Box

### 7). Balancing the Books for Food Co-ops

#### Balancing the Books

Budgeting, expenditure, gross profit & cash flow.  
Considering the opportunities for income generation.

##### 1. Budgets

Establishing a budget is important in order to understand the need for cash flow, ensure you control expenditure and your income/sales meet your expectations.

- Establish budgets based on expected income & expenditure.
- Without budgeting control, businesses can be taken by surprise and this can affect cash flow and survival.
- Budgets can be established by either using the previous year's expenditure, expected activity, industry examples (other similar projects) or the amount of cash the business has to operate.

##### 2. Identify fixed & variable. Fix as many costs as possible and realistic.

###### • **Stock. Variable**

Stock relates to how much you sell so will vary and impossible to control unless you run a box scheme with a fixed number of customers which will therefore be fixed.

###### • **Salaries. Fixed**

Wages are usually the largest cost for any businesses, often small businesses use staff that are paid an hourly rate and it is common for these costs to increase if not strictly controlled so introducing fixed hours is an effective way to manage this.

###### • **Premises. Fixed**

Rent, rates, telephone & power – usually consistent and don't vary dramatically with sales although power costs have increased considerable over the past few years.

###### • **Vehicle. Fixed**

Insurance, tax, services.

###### • **Fuel. Variable**

Depending on use but an increase in deliveries, i.e. a growth in sales points, could lead to an increase.

###### • **Packaging. Variable**

Bags, etc relate to number of purchases.

##### 3. Gross Profit

- $\text{Sales} - \text{Cost of Sales} = \text{Gross Profit (G.P.)}$ .
- For example; in the case of a fruit and vegetable stall Greenwich Community Food Co-op G.P is the money left after the fruit and vegetable (& bags) have been paid for. It is important to identify G.P for a number of reasons.
- Cost of sales are the main variable cost, other costs should be consistent (\*salaries but not casual relating to sales levels) so it is very important to understand this cost and manage it closely.
- Establish a gross profit as a means to identify business performance, and the sales levels required for a business to break even if all other costs are fixed.

### Box 1. Greenwich Community Food Co-op Sales & Gross Profit

The Greenwich Community Food Co-op (GCFC) has 8 street based markets stalls with sales ranging from £60 to £300 each stall.

Weekly sales	£1300.00 in cash
Cost of sales	<u>£871.00</u> (fruit, vegetables & bags)
Gross profit	£429.00 (33%)
Fixed weekly costs (& fuel)	<u>£1,486.00</u>
(Net loss) funding	£1,057.00

Currently the GCFC receives funding from the Local NHS, and GCDA, a local development agency. Understanding the G.P allows the co-op to know the sales targets it needs to achieve to; ensure it breaks even with current funding, its future funding requirements and growth required to ensure sustainability and freedom from funding.

- 1) If all stalls could achieve sales of £300 total sales would be £2,400, without any increases to fixed costs.
- 2) If another 4 stalls (making 12 stalls) are opened achieving sales of £300 total sales would be £3,600 a week. The reason for suggesting 12 stalls is this can be achieved with current fixed costs.
- 3) If 12 stalls achieve sales of £375 each week then the total weekly sales will be £4,500.

Weekly sales	£4,500.00
Cost of sales	<u>£3,015.00</u>
Gross profit	£1,485.00
Fixed weekly costs (& fuel)	£1,486.00
Net loss/funding	£1.00 (this is the break-even position)





### **Gross Profit Mix**

- Use a mix so that a balance can be made between items with high & low GP to ensure GP consistency. For example in the case of Greenwich Community Food Co-op their G.P on bananas is often much lower than 33% but seasonal vegetables are often higher so a mix is used to achieve 33%. This mixing is often used in catering when hot drinks and soups have much higher G.P's than meat dishes.
- A tip is to maintain a higher price even when the market price drops for a week or two.
- Introduce new markets with higher G.P's – see example below Box 2.

### **Monitor Waste**

- Record all wastage this will impact on your G.P.
- Waste can be minimised through good stock rotation, selling things cheaper as they are getting close to disposal, finding alternative customers for very ripe produce; caterers. Having more than one outlet operating different days of the week so unsold stock is minimised.

### **Stock Control & Theft**

- As above ensure good stock rotation to avoid waste and over ordering. Implement stock control systems to monitor the above and theft.

### **Income**

- Place – location, footfall.
- Price – appropriate for target markets and compares to competitors.
- Promotion – advertising.
- Product/ Sales – diversifying; wholesale, delivery, public sector contracts, caterers, new products (See Example Box 2).
- Maximise your resources; lease out capital equipment that is underused, consultancy, commercial markets, second hand.
- Training & consultancy; Train to Gain/ LSc funding for staff training (retention of staff & volunteers). Consultancy; sell your expertise.
- Commissioning; Local NHS, Local authorities to provide fruit for particular communities, events, programmes.
- Referral – NHS, G.P's.
- Healthy Start Vouchers – registration.

## Box 2. Product Diversification

Greenwich Community Food Co-op's gross profit is lowest on their market stalls (33%), slightly higher on wholesale (35- 40%) and fruit salads (60-65%). This mix will quickly give you an idea on which areas of business to focus on when considering additional activity and growth.

Fruit salad sales	£1,300.00
Cost of sales	<u>£455.00</u>
Gross profit	£825.00 (65%)
Weekly fixed costs*	<u>£1,486.00</u>
Loss/ funding	£641.00

\*Staff costs could be less, as fruit salads preparation and delivery are less labour intensive.

Fruit salad sales	£2,300.00
Cost of sales	<u>£805.00</u>
Gross profit	£1,495.00 (65%)
Weekly fixed costs	<u>£1,486.00</u>
Net profit	£9.00 (this is the break-even position)

This demonstrates that product diversification which allows greater gross profit can achieve financial sustainability at much lower sales.

GCFC receives local NHS funding to operate street based stalls so although they are unlikely to achieve financial sustainability on their stalls they are subsidised to offer this service. If this funding wasn't available it would be worth considering an emphasis on other areas of business; whole sell and fruit salads production.

## Cash flow & Credit

As well as Gross Profit and the understanding of your costs, it is very important to have an up to date and accurate understanding of your cash flow, which is the flow of money in and out of your business. That figure varies rapidly and it is crucial to understand how those flows behave so that the trading of the enterprise can be guaranteed.

If goods are sold on a credit basis, ensure that payments arrive in time. If they don't, cash flow will deteriorate to a level that is incompatible with cash-flow needs.

Sometimes opportunities arise with the possibility for expansion and diversification. Greater volume of sales would normally be associated to greater requirements of cash. Ensure calculations are made in advance to see how much cash is needed. If credit sales (debtors) are introduced ensure that controls are in place and monitor your debtors.

### Box 3. Creditors & Cash Flow

Part of the diversification of Greenwich Community Food Co-op has been to increase deliveries to schools, offices and other organisations. The deliveries are highly productive as the quantities are agreed in advance (no waste or stock movement). The client receives a delivery note with the goods and at the end of that trading day a member of the co-op receives all the delivery notes and transfers them to invoices which are posted the following day. All of the customers pay by cheque or BACS within 14 days according to the credit agreement.

#### Key Points

- Establish budgets.
- Understand your costs.
- Establish overall GP and record waste. Beware of theft.
- Review your 4 P's.
- Identify additional "sales opportunities" (Vouchers).
- Use resources available to everyone (Train to Gain).
- Involve potential stakeholders and commissioning opportunities (PCT's).



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