



Financial planning and forecasting in response to Covid-19

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power to change

business in community hands



Robust financial procedures and accurate forecasting are a key factor for any successful business. However, in the wake of the Covid-19 pandemic, financial planning and forecasting have become more important than ever. With the retail and hospitality sectors hit by changing guidelines around operations and safety measures, which all have a knock on effect on profitability, flexibility and the ability to react quickly to changes in your financial position are vital. This factsheet outlines the basics of good financial management practices for community businesses, and additional factors you may need to take into account due to the current situation.

WHAT IS GOOD FINANCIAL MANAGEMENT, AND WHY IS IT IMPORTANT?

Good financial management is rooted in a sound understanding of your financial situation, and the ability to consider how your finances may have changed, for better or worse, compared to your expectations. During the Covid-19 pandemic, additional challenges faced by community businesses need to be taken into account – financial planning and forecasting in current times cannot be based on delivering ‘business as usual’; and performance shouldn’t be compared to business as usual.

Businesses that are profitable can fail because there is insufficient cash available to pay the bills. Businesses that are cash-rich can also fail, because the core business activity is not profitable. Robust financial procedures can help to identify when the business is at risk and allow you to take measures to improve your financial situation. The key principle of good financial management is regular monitoring of cash flow and regular review of performance against budget. In current times, this will need to be even more frequent, and take into account additional costs that many businesses have had to bear due to the Covid-19 pandemic, as well as loss of income you may have experienced. For example, community businesses experiencing a loss of income due to Covid-19 may look at diversifying services to improve profitability and meet the needs of their local community (further information on this can be found in our diversifying services factsheet).



THE BASICS

Firstly, let's address some financial jargon and talk about **profit**. Community businesses are "Not for profit" – but it is important to remember that this is not the same as non-profit making. A community business should be run as a business; any surplus made can be reinvested into the business or the local community. On this basis, your budget should include a transparent surplus or profit target.

Secondly, your community business should also have a **reserves** policy. Reserves are a balance of profit that is held for a specific purpose – your reserves policy should outline how much you will hold in reserve and when your reserves can be used. You may want to build reserves for future expansion or diversification, such as adding an extension to your premises, or purchasing an electric vehicle for deliveries. Your reserves should be sufficient to allow you to have stability to plan for the future – and many community businesses are relying on their reserves this year, due to the challenges of Covid-19 affecting operations.

Finally, in order to manage your finances effectively you need to keep track of your **overheads**. The term 'overheads' refers to all the indirect costs of running a business – but does not include the direct costs of buying stock, for example. When determining how much to charge for a product or service, you need to take overheads into account. Overheads include salaries, utilities, insurance and maintenance. It is important to keep your overheads low, to maximise the opportunity for profit.

Once you understand all of these factors, you will be able to create an accurate **budget**, which outlines the income you expect to make, and the costs you expect to incur, across the year. The more you have thought about the budget, the better your financial management will be. Your budget should reflect the objectives of the business, and its purpose is to enable you to control and manage your financial situation. You should review business performance against budget on a quarterly basis, and bear in mind that your budget may need to change. This year, for example, you may have budgeted a certain amount for staffing; but if staff have had to self-isolate and you have needed to employ additional staff, that will increase your overheads and in turn affect your budget. Don't attempt to achieve a budget that was developed in different circumstances.

In addition, you should develop a **cash flow forecast** which details how much money will come in and out of the business, where it will come from and go to, and when it will happen. The forecast should be prepared as part of the budgeting process, but as the year progresses it is advisable to have a rolling monthly cash flow forecast – and when finances are tough, reforecasting should take place even more frequently, to allow you to advance plan, where you can, and make changes when necessary.



INCREASING PROFIT

During the Covid-19 pandemic, you may find that social distancing measures, changes to opening times, increased overheads (eg. additional staff to cover table service in pubs) or rising wholesale prices mean that your business has become less profitable than in previous years. Good financial management will allow you to take the necessary measures to ensure that these challenges don't put you at risk. You may want to consider some of the below actions, to help to maximise your potential for profit:

- 1. Review your pricing:** Your pricing strategy is the single most important factor that influences the profitability of your business. Establish a pricing strategy to guide day-to-day pricing decisions and provide focus and transparency. Consider your competition and price sensitivity in the local market.

Although many people are reluctant to increase prices, the current economic circumstance does mean there are good reasons for doing so. Many businesses are experiencing increased costs, due to the scarcity of products in the supply chain, and therefore need to make a decision as to whether to pass on those cost increases to your customers, or absorb them. Look at the cost of goods, and review your pricing regularly. If you do decide to increase prices, communicating with your local community is key. Make sure your customers understand why – put posters up, display comparisons with other retailers so customers can see that your prices are not dissimilar to the alternatives, and ensure you respond to customer complaints, explaining the relevant facts.



- 2. Ensure you're effectively controlling stock:** Waste can be a significant factor in reducing your profits – having effective stock controls in place to ensure you're keeping the right amount of stock at the right time can prevent stock loss due to items going past their sell by dates. For shops, make sure you and your staff and volunteers understand the difference between use by dates and best before dates – if something has passed its best before date, selling at a reduced price can help to cover costs (but items past their use by dates must not be sold). For pubs, monitor wet sales and understand which lines are popular, and regularly review your food offering to ensure you're not sourcing ingredients for dishes that are rarely ordered. Review your current stock levels and consider whether changes in demand due to Covid-19 necessitate adjusting your regular stock levels, discontinuing some lines or even introducing new ones.





3. Skill up your staff: Small changes can make a difference to your bottom line. Ensuring your staff and volunteers have a good understanding of what your business is trying to achieve and your profit and sales targets can help them to focus on sales. Provide the right knowledge and training on product lines, promotions and opportunities to up sell. Maintaining the highest levels of customer service, knowing how to make products look and sound attractive and offering a warm and welcoming atmosphere are all small steps that can influence profits.

4. Monitor your sales per hour: Keeping track of income on an hourly basis can help to inform both staffing and stock decisions. For example, if a community shop is experiencing a high volume of sales between 8am and 10am, when school runs are happening or commuters are on their way to work, you may want to have an additional volunteer on duty at this time. Advertising the bakery, takeaway hot drinks and newspapers at this time – perhaps with a promotion – could also help to maximise profits from customers that are visiting the shop for other items by encouraging them to make additional purchases.

5. Introduce promotions: Promotions drive sales because customers perceive value – they think they're getting a good deal. There are many different types of promotion you could consider. Weekday happy hours or morning coffee and pastries are popular amongst community pubs. In shops, linked promotions, for example a discount on cream if you buy a dessert, encourage customers to make additional purchases and save money. For all enterprise types, loyalty cards are great for building a strong foundation of regular customers, and rewarding your customers for their continued support of your community business. At this time of year you could also start to think about seasonal offers.

6. Review your overheads: Good practice in financial management means reviewing your overheads regularly; and in uncertain times like this, reducing costs is a sensible way to protect your business. Make sure you are receiving the best deals on your electricity, gas, telephone and broadband – if you're a Plunkett Foundation member we have a directory of trusted suppliers that may be able to help. Review your bank account and card processing suppliers to make sure charges are as low as possible; make sure you compare different offers and choose the most appropriate for your business.

Financial management is not rocket science! Do it badly and it can derail the business, create unnecessary tension between people and damage the enthusiasm and commitment of customers, stakeholders, suppliers, employees, volunteers and the wider community that are essential for future success. Do it well and you will have the time to focus on developing and growing the business. Be disciplined, review regularly and implement changes early to ensure your business remains on track.





USEFUL LINKS AND FURTHER RESOURCES

- A number of resources to help open and trading community businesses with financial management are available on the Plunkett Foundation website:
<https://plunkett.co.uk/thrive-resources/>
- The NCVO have published a useful guide on contingency planning and the financial implications of Covid-19:
<https://knowhow.ncvo.org.uk/coronavirus/contingency-planning-and-financial-implications#section-1>
- Watch a recording of the recent Co-ops UK webinar on cashflow and business reforecasting:
<https://www.uk.coop/coronavirus/covid19-webinars#finance>
- Stay up-to-date with the latest news on funding opportunities and the Government's Coronavirus Job Support Scheme on our Covid-19 Live page: <https://plunkett.co.uk/covid-19-live/>
- If you are concerned about your finances and need additional support, don't hesitate to contact the Plunkett Foundation who can put you in touch with a business adviser to work with you directly: info@plunkett.co.uk



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