



# *Financial management for community shops*



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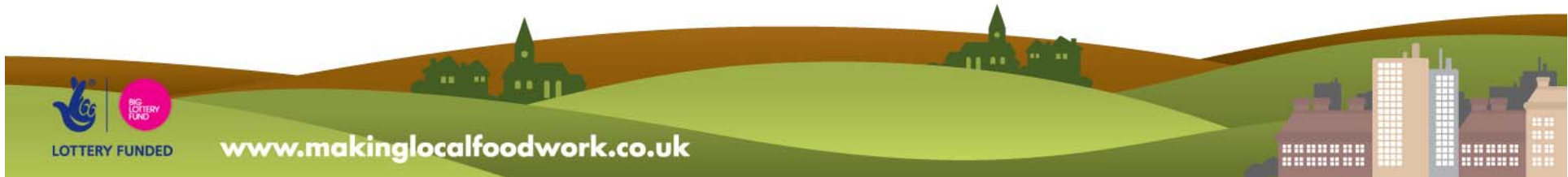
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Making Local Food Work programme

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# Our objectives for this session

- Demystify finance
- Identify common ailments and opportunities
- Provide you with practical advice and tips

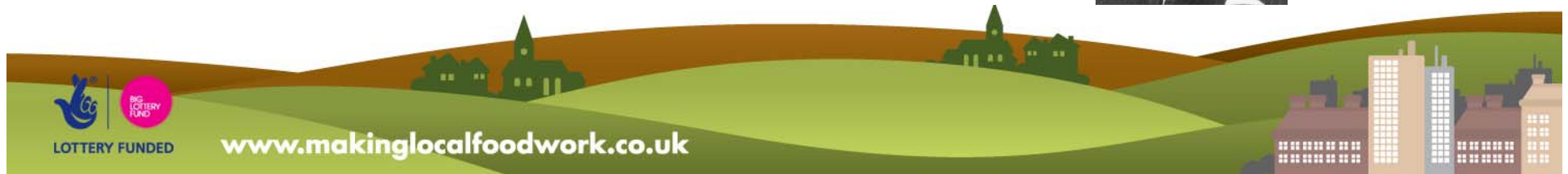


*“Money isn’t everything but it sure keeps you in touch with your children”*

**J. Paul Getty**



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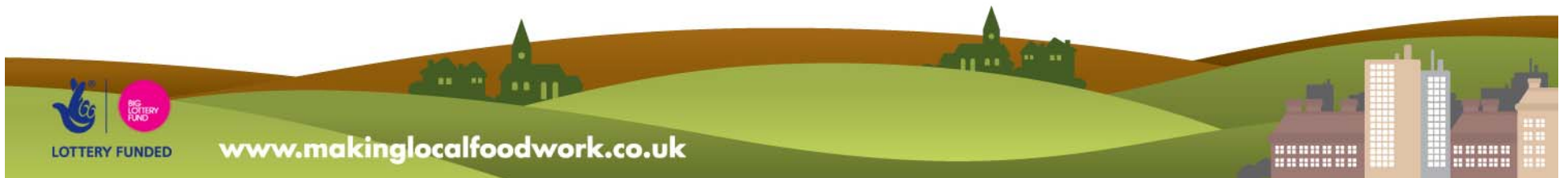


# Why businesses fail

- Trading activity is not making a profit
  - Eventually the money runs out!
- Not enough money to finance the activities
  - Even profitable trading activity cannot take place



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# Why is good financial management and planning necessary?

1. To manage the flow of money in and out of the business effectively and efficiently
2. To manage the day-to-day business and monitor performance against your objectives
3. To provide information for the control and governance of the organisation
4. To meet the obligations as an employer
5. To meet the other legal, tax and reporting obligations



# Key financial reports

## Profit & Loss account

- Shows total revenue generated less total expenses incurred in generating that revenue
- Excludes capital receipts or payments
- Excludes VAT
- Includes a share of asset costs (Depreciation)
- Two distinct calculations of profit:
  - **Gross profit:** All sales (and other) income less the direct costs of buying or making the stock sold
  - **Net profit:** What's left after the other costs (the Overheads) have been deducted from the Gross profit



# How costs behave

- Those that stay the same when changes occur to the volume of activity or product

## Fixed costs

- Those that vary according to the volume of activity or product

## Variable costs



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## Vale Community Store

## Monthly Profit and Loss account

	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Total
<b>Total Sales</b>	10,000	11,000	11,000	11,500	12,000	12,000	12,500	13,000	13,500	14,000	14,500	15,000	<b>150,000</b>
<b>Less Cost of sales</b>	7,500	8,250	8,250	8,625	9,000	9,000	9,375	9,750	10,125	10,500	10,875	11,250	<b>112,500</b>
<b>Gross Profit</b>	<b>2,500</b>	<b>2,750</b>	<b>2,750</b>	<b>2,875</b>	<b>3,000</b>	<b>3,000</b>	<b>3,125</b>	<b>3,250</b>	<b>3,375</b>	<b>3,500</b>	<b>3,625</b>	<b>3,750</b>	<b>37,500</b>
<b>Overheads</b>													
Wages and salaries	1,583	1,583	1,583	1,583	1,583	1,583	1,662	1,662	1,662	1,662	1,662	1,662	<b>19,470</b>
Stationery	20	20	20	20	20	20	20	20	20	20	20	20	<b>240</b>
Telephone	30	30	30	30	30	30	30	30	30	30	30	30	<b>360</b>
Advertising/PR	75	75	75	75	75	75	75	75	75	75	75	75	<b>900</b>
Maintenance	80	80	80	80	80	80	80	80	80	80	80	80	<b>960</b>
Staff Travel	15	15	15	15	15	15	15	15	15	15	15	15	<b>180</b>
Rent & Rates	300	300	300	300	300	300	300	300	300	300	300	300	<b>3,600</b>
Insurance	50	50	50	50	50	50	50	50	50	50	50	50	<b>600</b>
Water, heat & light	50	50	50	50	50	50	50	50	50	50	50	50	<b>600</b>
Loan Interest	25	25	25	25	25	25	25	25	25	25	25	25	<b>300</b>
Credit Card Charges	40	40	40	40	40	40	40	40	40	40	40	40	<b>480</b>
Bank charges	20	20	20	20	20	20	20	20	20	20	20	20	<b>240</b>
Bookkeeping	75	75	75	75	75	75	75	75	75	75	75	75	<b>900</b>
Audit fees	50	50	50	50	50	50	50	50	50	50	50	50	<b>600</b>
<b>Total Overheads</b>	<b>2,413</b>	<b>2,413</b>	<b>2,413</b>	<b>2,413</b>	<b>2,413</b>	<b>2,413</b>	<b>2,492</b>	<b>2,492</b>	<b>2,492</b>	<b>2,492</b>	<b>2,492</b>	<b>2,492</b>	<b>29,430</b>
<b>Profit Before Depreciation</b>	<b>87</b>	<b>337</b>	<b>337</b>	<b>462</b>	<b>587</b>	<b>587</b>	<b>633</b>	<b>758</b>	<b>883</b>	<b>1,008</b>	<b>1,133</b>	<b>1,258</b>	<b>8,070</b>
Depreciation	300	300	300	300	300	300	300	300	300	300	300	300	3,600
<b>Net Profit</b>	<b>-213</b>	<b>37</b>	<b>37</b>	<b>162</b>	<b>287</b>	<b>287</b>	<b>333</b>	<b>458</b>	<b>583</b>	<b>708</b>	<b>833</b>	<b>958</b>	<b>4,470</b>

# Is *Profit* a dirty word!

- What is your mindset?  
*Not for profit, Social profit, More than profit*
- What do you want to do with any surplus?
- Take margin where you can



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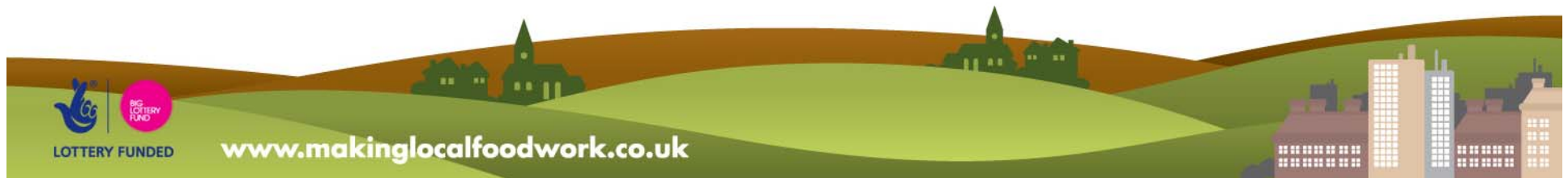


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# Reserves



- Reserves are useful:
  - Essential for a rainy day
  - To build a fund for future investment
- There is no magic formula for the right level of reserves
- Management committee agreement on policy
- Some things to consider:
  - A rush to repay loans may not be prudent
  - Availability of grant funding in the future?



# Key financial reports

## Cash flow forecast

- An analysis of the money that will flow in and out, where it will come from and go to and when it will happen
- Calculations include:
  - All income into the business, including sales revenue (with VAT), loans, grants and any capital invested by stakeholders.
  - All payments including suppliers, overheads and tax (NI, PAYE tax, VAT and Corporation tax)
- Remember that VAT income is not your money!
- Plan for any Corporation tax liability



## Vale Community Store

## Cashflow Forecast

	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Total
<b>Inflows</b>													
Sales receipts (including VAT)	10,200	11,220	11,220	11,730	12,240	12,240	12,750	13,260	13,770	14,280	14,790	15,300	153,000
Loan	0	0	0	0	0	0	0	0	0	0	0	0	0
Grant Funding	0	0	0	0	0	0	0	0	0	0	0	0	0
Donations	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Total Income</b>	<b>10,200</b>	<b>11,220</b>	<b>11,220</b>	<b>11,730</b>	<b>12,240</b>	<b>12,240</b>	<b>12,750</b>	<b>13,260</b>	<b>13,770</b>	<b>14,280</b>	<b>14,790</b>	<b>15,300</b>	<b>153,000</b>
<b>Outflows</b>													
Trade Creditors	7,500	8,250	8,250	8,625	9,000	9,000	9,375	9,750	10,125	10,500	10,875	11,250	112,500
Wages, Salaries & PAYE	1,300	1,300	2,150	1,300	1,300	2,150	1,380	1,380	2,225	1,380	1,380	2,225	19,470
Stationery	144	0	0	0	0	0	144	0	0	0	0	0	288
Telephone	0	108	0	0	108	0	0	108	0	0	108	0	432
Advertising/PR	0	0	0	0	0	0	1,080	0	0	0	0	0	1,080
Maintenance	0	0	0	0	576	0	0	0	0	576	0	0	1,152
Staff Travel	15	15	15	15	15	15	15	15	15	15	15	15	180
Rent & Rates	0	0	900	0	0	900	0	0	900	0	0	900	3,600
Insurance	600	0	0	0	0	0	0	0	0	0	0	0	600
Water, heat & light	150	0	0	150	0	0	150	0	0	150	0	0	600
Credit Card Charges	40	40	40	40	40	40	40	40	40	40	40	40	480
Bank charges	20	20	20	20	20	20	20	20	20	20	20	20	240
Book keeping	75	75	75	75	75	75	75	75	75	75	75	75	900
Audit fees	720	0	0	0	0	0	0	0	0	0	0	0	720
Capital Expenditure	0	0	0	6,000	0	0	0	0	0	0	0	0	6,000
Loan Repayments (incl interest)	225	225	225	225	225	225	225	225	225	225	225	225	2,700
VAT	515	0	0	478	0	0	-404	0	0	630	0	0	1,219
<b>Total payments</b>	<b>11,304</b>	<b>10,033</b>	<b>11,675</b>	<b>16,928</b>	<b>11,359</b>	<b>12,425</b>	<b>12,100</b>	<b>11,613</b>	<b>13,625</b>	<b>13,611</b>	<b>12,738</b>	<b>14,750</b>	<b>152,161</b>
<b>NET MOVEMENT</b>	<b>-1,104</b>	<b>1,187</b>	<b>-455</b>	<b>-5,198</b>	<b>881</b>	<b>-185</b>	<b>650</b>	<b>1,647</b>	<b>145</b>	<b>669</b>	<b>2,052</b>	<b>550</b>	<b>839</b>
Opening Bank/(Overdraft)	5,000	3,896	5,083	4,628	-570	311	126	776	2,423	2,568	3,237	5,289	
<b>Closing Bank/(Overdraft)</b>	<b>3,896</b>	<b>5,083</b>	<b>4,628</b>	<b>-570</b>	<b>311</b>	<b>126</b>	<b>776</b>	<b>2,423</b>	<b>2,568</b>	<b>3,237</b>	<b>5,289</b>	<b>5,839</b>	

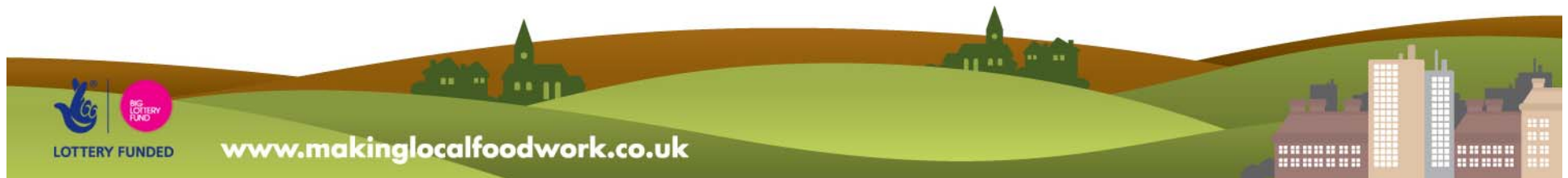
# Managing cash as a priority

## Be proactive

- Keep on top of the figures
- Preserve the cash you've got
- Put procedures and disciplines in place
- Ask for help if you need it!



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# Key financial reports

## Balance sheet

- Sets out the financial position of an organisation at a particular point in time
  - It is a snapshot of the overall worth and robustness
  - Shows the assets and the claims against the business.
- It can provide useful insight
  - e.g. **Liquidity**. The ability of the business to meet its short-term obligations from its liquid (cash or near-cash) assets.



## Vale Community Store Balance Sheet

	31-Oct
<b>Fixed Assets</b>	
Tangible assets (Net book value)	12,500
<b>Current Assets</b>	
Stock	11,250
Debtors	500
Cash at bank and in hand	5,839
	<u>17,589</u>
<b>Current Liabilities</b>	
Trade Creditors	11,500
Other Creditors	1,000
	<u>12,500</u>
<b>Net Current Assets</b>	<b>5,089</b>
<b>Total Assets less Current liabilities</b>	<b>17,589</b>
<b>Long-term liabilities</b>	
Loan	7,119
Lease	4,500
	<u>11,619</u>
<b>Net Assets</b>	<b><u>5,970</u></b>
<b>Capital</b>	
Issued Share Capital	1,000
Reserves	500
Profit & Loss Account	4,470
	<u>5,970</u>



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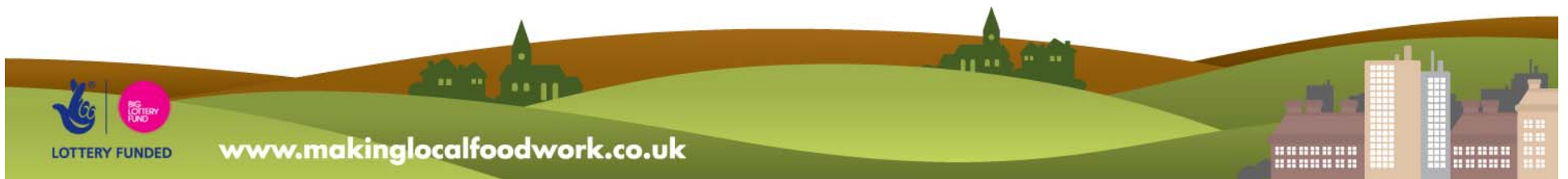
# *Common ailments and opportunities!*

*“My problem lies in reconciling my gross habits with my net income”*

**Errol Flynn**



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# Some topics

- Planning ahead
- Keeping in touch with the figures
- Knowing your costs
- The right price
- Making informed decisions
- What funders want!



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# Planning ahead: your budget



- A **planned outcome** not guesswork!
- The fit with your business plan
- Use it to help monitor and manage finances



# Steps to create a budget

## One approach

1. Start with sales: what, how much, to whom, what price?
2. Work out the cost of growing (or buying) the produce you sell (your Direct costs)
3. Work out your staff and other costs (your Overheads)
4. Think about any investment required and source of funding



# Keeping in touch

- Don't make assumptions!
- Develop trading and market measures relevant to you  
e.g. Comparison with targets, industry benchmarks, Year-on-Year sales, etc
- Look at things regularly and involve others
- Get organised!



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# Get organised

## Policies, procedures and people!

- Put clear procedures and controls in place
- Must be easy to understand and share:
  - Embed activities into the regular routine
  - Give individuals 'ownership' of activities
  - Help volunteers help you (training)
- Make key relationships work e.g. book-keeper, Accountant, Treasurer



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# Management accounts

- A set of financial reports that you consider to be sufficiently accurate to help you:
  - Understand your trading position
  - Make decisions
- There are no rules on what format is used
- Your book-keeper can help
- Could include analysis of Cash flow, difference between actual and budget for sales, costs and margin



## Vale Community Store

## Management accounts: Monthly P&L

	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Forecast Total	Budget Total	Difference %	
	Actual	Actual	Actual	Actual	Actual	Actual										
<b>Total Sales</b>	10,000	10,500	11,000	11,500	11,750	11,750	12,500	13,000	13,500	14,000	14,500	15,000	149,000	150,000	-1,000	-0.7%
<b>Less Cost of sales</b>	7,500	7,875	8,250	8,625	8,813	8,813	9,375	9,750	10,125	10,500	10,875	11,250	111,750	112,500	-750	-0.7%
<b>Gross Profit</b>	<b>2,500</b>	<b>2,625</b>	<b>2,750</b>	<b>2,875</b>	<b>2,938</b>	<b>2,938</b>	<b>3,125</b>	<b>3,250</b>	<b>3,375</b>	<b>3,500</b>	<b>3,625</b>	<b>3,750</b>	<b>37,250</b>	<b>37,500</b>	<b>-250</b>	<b>-0.7%</b>
<b>Overheads</b>																
Wages and salaries	1,583	1,583	1,583	1,583	1,583	1,583	1,662	1,662	1,662	1,662	1,662	1,662	19,470	19,470	0	0.0%
Stationery	20	20	20	20	20	20	20	20	20	20	20	20	240	240	0	0.0%
Telephone	30	30	30	30	30	30	30	30	30	30	30	30	360	360	0	0.0%
Advertising/PR	75	75	75	75	75	75	75	75	75	75	75	75	900	900	0	0.0%
Maintenance	80	80	80	80	80	80	80	80	80	80	80	80	960	960	0	0.0%
Staff Travel	15	15	15	15	15	15	15	15	15	15	15	15	180	180	0	0.0%
Rent & Rates	300	300	300	300	300	300	300	300	300	300	300	300	3,600	3,600	0	0.0%
Insurance	100	100	100	100	100	100	100	100	100	100	100	100	1,200	600	600	50.0%
Water, heat & light	50	50	50	50	50	50	50	50	50	50	50	50	600	600	0	0.0%
Loan Interest	25	25	25	25	25	25	25	25	25	25	25	25	300	300	0	0.0%
Credit Card Charges	40	40	40	40	40	40	40	40	40	40	40	40	480	480	0	0.0%
Bank charges	20	20	20	20	20	20	20	20	20	20	20	20	240	240	0	0.0%
Bookkeeping	75	75	75	75	75	75	75	75	75	75	75	75	900	900	0	0.0%
Audit fees	50	50	50	50	50	50	50	50	50	50	50	50	600	600	0	0.0%
<b>Total Overheads</b>	<b>2,463</b>	<b>2,463</b>	<b>2,463</b>	<b>2,463</b>	<b>2,463</b>	<b>2,463</b>	<b>2,542</b>	<b>2,542</b>	<b>2,542</b>	<b>2,542</b>	<b>2,542</b>	<b>2,542</b>	<b>30,030</b>	<b>29,430</b>	<b>600</b>	<b>2.0%</b>
<b>Profit Before Depreciation</b>	<b>37</b>	<b>162</b>	<b>287</b>	<b>412</b>	<b>475</b>	<b>475</b>	<b>583</b>	<b>708</b>	<b>833</b>	<b>958</b>	<b>1,083</b>	<b>1,208</b>	<b>7,220</b>	<b>8,070</b>	<b>-850</b>	<b>-11.8%</b>
Depreciation	300	300	300	300	300	300	300	300	300	300	300	300	3,600	3,600	0	0.0%
<b>Net Profit</b>	<b>-263</b>	<b>-138</b>	<b>-13</b>	<b>112</b>	<b>175</b>	<b>175</b>	<b>283</b>	<b>408</b>	<b>533</b>	<b>658</b>	<b>783</b>	<b>908</b>	<b>3,620</b>	<b>4,470</b>	<b>-850</b>	<b>-23.5%</b>

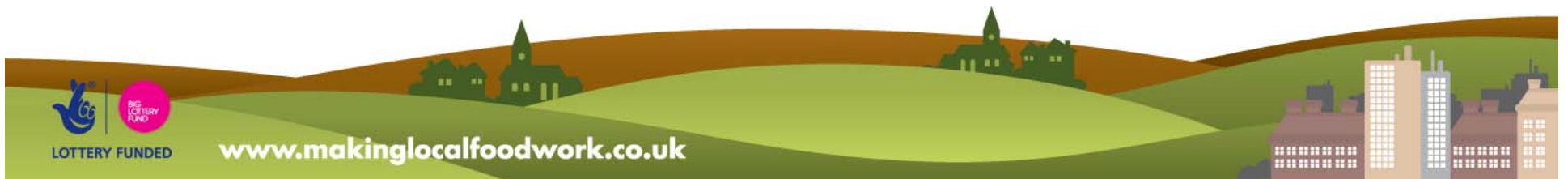


# Knowing your costs

- Your cost to supply?
- Recognising volunteer labour and gifts
- Are there new things you want to do, e.g. marketing?
- Do you want to build a reserve?



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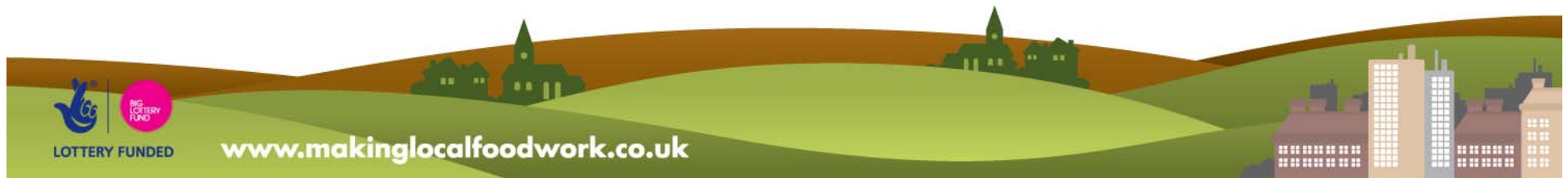
# The right price

## Some things to consider

- What is the role of price in what you do?
- What is your product or service?
- Do you know your costs?
- Price marked packs?
- What is the optimum price for you and your customer?



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# About your customers

## What price will they pay?

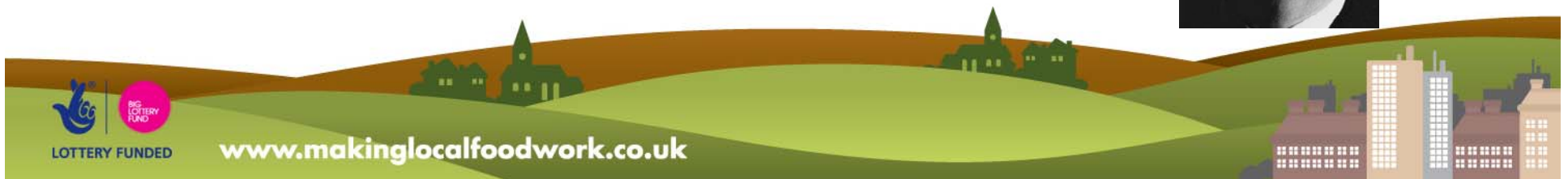
- Who is your target customer?
  - Are there ‘Segments’ of particular interest?
- What is important to them?
- How sensitive are they to price levels and changes?

*“A good film is when the price of the dinner, the theatre admission and the babysitter were worth it”*

**Alfred Hitchcock**



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# Your pricing policy

## Different approaches to setting a price

- Value to the customer
- What the market will bear
- Competitor price
- Cost of supply plus
- Cost of supply



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# Making decisions

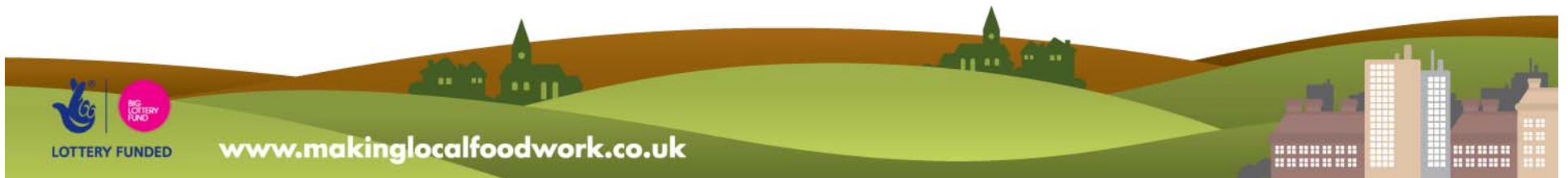
## Breakeven point

- A calculation of the point where the income from sales exactly equals all the costs incurred
- Helpful when making decisions on volume
- The calculation is:

$$\frac{\text{Fixed Costs}}{\text{Selling Price} - \text{variable cost per unit}}$$



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# Making decisions

## Payback period

- A calculation of how long it will take to earn back the money invested in something
- Helpful when choosing what to spend money on when funds are limited
- You will need to know the investment cost and the annual net return expected in the future
- Typically shorter payback periods are desirable
- However, it can be an over-simplistic calculation



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# What funders want!

- A clear idea of your idea and how it will work...and
- Their role in making it happen
- Confidence that the loan will be paid back...or
- That the social outcomes you committed to when you apply for a grant will happen
- Nothing is risk free: managed risk?
- Long term sustainability: the legacy?
- Appraisal of the people as well as the figures
- Cashflow is key: will you have enough money at the key times?



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# Thank you!

*“Whoever said money can't buy happiness simply didn't know where to go shopping.”*

**Bo Derek**



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