

Tough Times Ahead



With basket size and customer numbers declining at many retail outlets, Irish retailers need to make tough decisions in the coming months. Here, Ian Lawlor looks at some of the steps that may need to be taken.

may have bought or extended their premises on the back of strong business and property valuations. Some will have to restructure but face a number of challenges in doing so such as:

- Little or no relationship with their bankers, who have no knowledge of the trading history and do not know the people or the business very well.
- Poor quality or out-of-date financial information, despite the fact that basic accounting packages for small businesses can prepare management accounts and cashflow statements very efficiently.
- An inability to demonstrate financially how the company can return to positive cash flow.

Faced with such headaches, independent retailers have to act quickly. They need to review and cut their costs. Payroll, as a percentage of weekly sales, should be closely monitored and the staff rota should be reviewed constantly to ensure maximum productivity. If necessary, part-time or even full-time staff may have to be let go, but not at the expense of customer service.

Utility costs should be analysed and quotes should be sought from alternative suppliers. Other areas of the cost base should also be examined – all costs are not likely to be fixed and there may be opportunities to avoid or defer particular costs. Stock and cash controls need to be highly efficient. Cutting back on wastage and ensuring greater controls over suppliers and at front of shop can also improve margins.

Cash is indeed king. Improving working capital will result in improved cash flow. So collect debtors in a timely manner and don't offer credit terms. Maximise credits from suppliers by negotiating extended credit terms.

Also try to eliminate or postpone direct debits. If you operate through a central billing system with your supplier, seek better deals. Also, negotiate to secure payment of your LTA on a phased basis as opposed to annually in arrears. Investigate whether you can source product from cheaper suppliers which offer equivalent quality

but improved pricing/credit terms.

For retailers saddled with large debts, the option of restructuring that debt should be examined. The example in the table below is based on a typical owner-managed business with an annual turnover of €5 million and with a gross and operating margin of 25% and 3% respectively. The business has a loan of €1.5 million over a 15-year term and a 6% interest

	Before restructuring	After restructuring	
	€ '000	€ '000	
Revenue	5,000	5,000	
Gross Profit	1,250	1,300	
Gross Profit %	25%	26%	
Operating Profit	150	250	
Operating Profit	3%	5%	
Loan repayments/ Servicing of interest	(152)	(90)	
Net Cash inflow/(outflow)	(2)	160	Net cash increase

rate is assumed for the purposes of the example.

Effective management of the company's cost structure, as well as debt restructuring, can impact positively on the cash flow of the business. The example shown assumes that wage and overhead reductions achieve an increase in the operating margin of 2%.

A successful renegotiation with the retailer's bank results in a capital moratorium on the borrowings for a 12-month period. The capital deferral on the banking facility produces an extra additional cash flow of €62,000 a year. In addition, savings of €100,000 per year are achieved through a higher gross margin and overhead reductions. In overall terms, the restructuring has the net result of improving the overall cash position by €162,000.

For any independent retailer concerned about the business, the message is simple – act quickly and decisively and seek advice from a professional adviser with experience of restructuring assignments.

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Two thousand and nine is set to be a tough year for the retail trade, with many businesses having to restructure, or, in some cases, being forced into liquidation. Most vulnerable among independent retailers are those with high costs and high levels of borrowings and without the management skills or experience to respond well to changing marketing conditions and the shifts in consumer buying habits.

Location is a key issue. Retailers whose customers are within easy commuting distance of the border have faced increases in VAT rates while similar businesses in Northern Ireland are passing on reductions in VAT and are also benefiting from the sterling/euro exchange rate. In addition, retailers that are trading either in locations where there is a poor or reducing footfall, or close to branches of Lidl and Aldi, are being hit hard.

The financial issues that independent retailers face include:

- Cashflow management – cash intakes are falling but overheads are growing, particularly payroll and energy costs.
- Debt repayment – they are struggling or failing to make monthly loan repayments.
- Effective working capital management – they have too much cash tied up in stock and debtors.

Many retailers who expanded their businesses in the boom years have high levels of debt and