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HIGH PRICES – HIGH RISK

This month we want to consider the impact higher prices have on the industry, because we feel this summer has seen the cost of fish rise to, and remain at, a consistently high level.

Taking the traditional average-sized fish business, the first difference the owner may see is having to write larger cheques for his market purchases. His bank balance will reduce - or his overdraft increase - in line with this. He may be invited to a meeting with his bank manager.

Will he get custard creams or does he qualify for chocolate digestives?

The second difference will be issuing invoices for greater amounts (although he could continue to sell the fish at last year's prices, even though he isn't a registered charity).

Does he pass on all the increase, or just part of it?

The third difference might be finding his customer takes longer to pay him, as the invoices are higher than before, so it takes an extra weekend's takings to make up the value of the cheque, and we wouldn't want our customer's cash flow being put under pressure, would we?

Time to visit the bank manager again. Sales have increased so surely he's the fish merchant's friend.

Unfortunately, sales figures don't seem to be that important to him, instead he's concentrating on the profit margin, which on the graph he has drawn appears to be a cycle path at the bottom of the alpine range which represents the turnover. Apparently

the higher cost of sales coupled with the interest charges incurred through the additional strain on cash make the business less profitable than it was six months ago.

Never mind the biscuits, not even a cup of coffee this time! Who would have thought it?

You may argue that we have given a distorted view of the trade, because in all likelihood a small business has fewer reserves and cannot weather a cash flow storm.

Consider this: bigger businesses have more overheads; they are more likely to be tied into contracts where a price agreed eight months ago has to be kept for four more months. If you have cash flow difficulties would you rather have five or fifty people on the payroll?

The sad truth is that no fish processor is immune from the fallout of higher prices. Bank managers all over the country will be scrutinising figures and identifying customers who are not profitable. Debt levels will increase (particularly where invoice discounting or factoring is used) adding further strain to cash flow.

The question arising from this is Who Controls the Industry? Is it the men in white overalls and boots or the chaps in suits? The risks are increasing all the time, and now more than ever before it is vital you protect your business. Get in touch with FMCM and arrange credit insurance. You may think you know your customers, but do you know their bank manger?

Bob Craighead, Director