

Wholesalers



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Industry Background

Wholesalers provide a service to both the manufacturing and the retailing sectors.

They will generally buy in bulk from manufacturers and are prepared to sell on to retailing customers in much smaller quantities and at frequent intervals.

In some cases, wholesalers also own retail outlets or form alliances with retailers which then trade under a common symbol. In order to increase their own buying power, wholesaler buying groups have also emerged.

Traditionally the route to the market place followed the manufacturer to wholesaler to retailer/trader to domestic customer pattern. However, developments in the retailing sector over the last thirty years or so has seen a blurring of what were once clearly defined roles.

Recent years have seen a significant increase in the volume of goods, from fruit and vegetables to clothes and electrical products, being obtained from overseas countries. This has led to many wholesalers importing a large range of goods themselves for onward distribution. In response to consumers' concerns to help disadvantaged producers in developing countries, wholesalers may have entered into an importer's agreement with the Fairtrade Labelling Organisation (FLO) to import and distribute Fairtrade products.

In many sectors, the wholesaler's customer base has come to consist primarily of smaller independent businesses which have seen only modest annual increases in the retail value of sales for over 10 years.

The dwindling independent retailer customer base has intensified competition in many wholesaling sectors, as a result of which there has been a move towards larger wholesaling enterprises. Despite this trend the wholesaling sector as a whole still includes very many privately owned businesses; of the 108,000 wholesaling businesses in existence, 48% have an annual turnover below £250,000.

Some Industry specific areas of advice from our experience

VAT: Is the Cash Accounting Scheme of advantage or disadvantage?

Would there be any tax/NI savings to be had by operating the trade from within a limited company but with the premises being owned personally?

Is ownership of the business correctly set up such as to minimise the various taxes and maximise tax reliefs?

What are your future plans? Is there an exit strategy or are the next generation involved? Is there a plan in place to achieve this?

Sales to staff and owners, how are these dealt with and is it treated correctly?

Wills: are they tax efficient particularly as regards the business?

Are profit shares/extraction of profits made in the most tax/NI efficient way?

Are sufficient procedures applied to try and avoid 'shrinkage'?

Can tax efficient wages be legitimately paid and justified to family members?

Is a 'Use of home as office' charge justifiable and claimed?

Are owners and staff arrangements on vehicles maximising tax reliefs etc?



Some Industry specific areas of advice from our experience (cont'd)

Where practical, part time workers can be considerably more cost effective due to employers NI savings compared to full timers.

Is a change of accounting date a good idea?

Are controls over and reconciliation of cash sales adequate to guard against theft and rebuff challenges of completeness from HMRC?

Are any loans (both business and personal) arranged in such a way as to maximise tax relief and minimise costs?



Use of Information Technology

How are you maintaining your books and records?

Are you reconciling cash and bank accounts regularly?

Do you know how much you owe or how much you are owed at any time?

The proper use of IT can provide you with regular and meaningful management information and save time and cost.

Would outsourcing your payroll and pension obligations be of benefit?

Would you welcome us maintaining or training you or your staff to operate a computerised accounting system, providing key financial and management information in a timely and understandable form?

Financial Performance

To improve their financial performance, wholesalers might consider:

- Extending the customer base
- Looking critically at the range of goods stocked. In some cases slow moving lines might be discounted, in others new lines might be introduced, perhaps in a move to cater for a newly emerging niche market, for example stocking Fairtrade and "green" products.
- Ensuring that customer loyalty is retained by constantly looking to improve the service offered and offering loyalty bonuses and incentives
- Making sure that retailer customers are provided with the information they need in order to attract their own customers – survey and questionnaires can help to get feedback
- Offering smaller case sizes so that small retailers can stock a wider range
- Where cash and carry is offered, making sure the shelves are fully stocked at all times, particularly in the early morning when many customers want to stock up
- Improving operating efficiency by closer supervision of goods in and out; introducing more efficient systems to monitor stock rotation and stock control; making sure that delivery routing is well planned, saving both time and fuel wherever possible
- Becoming a member of a wholesaler buying group
- Re-vamping the premises and providing better facilities for cash and carry customers
- Investing in IT
- Ensuring that goods are attractively priced without eroding margins to unsustainable levels
- Introducing a telephone or internet order-taking service for regular customers



Key Performance Indicators

Performance in this sector will generally be expressed in terms of the gross profit percentage rate achieved.

A wholesaler's gross profit rate will be affected by the type and mix of products sold and the relative mark-up on purchased cost.

It is an arithmetical fact that the higher the gross profit percentage that can be achieved the less turnover is needed to cover overheads and a reasonable level of profit.

Ask us how your gross profit percentage compares with the norm for your type of wholesale activity.

Beyond the mark-up on cost of goods purchased some useful key driver analysis information relates to the number of customers and average spend.

Key to a wholesaling business is the margin and ensuring that profitability and sales per customer are known and monitored regularly. Debt management is also a key issue so debtor days is another indicator.

Ask about our own award winning "tax tools" software including "business analyst" based on key driver information.



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Tax Investigations

Approximately 10% of all investigations carried out by HM Revenue & Customs (HMRC) will be selected at random but these random selections will be targeted at trade sectors where tax is thought to be at risk. HMRC's stated aim is to spread the investigation net to cover all sectors, including wholesalers. Additionally, HMRC may have their own program of investigations targeted at this sector because of local knowledge, often the result of information obtained in the course of successful investigations into the same or a related type of business in the area.

When a business is selected for investigation other than at random, the most common reasons are:

- Information provided to HMRC by a third party
- Low and/or fluctuating Gross Profit Rate, or some other inconsistency in the accounts
- Low and/or fluctuating Drawings
- Unexplained introductions of cash into the business
- Technical offences, including failure or late notification of liability

Since HMRC is allowed only one enquiry into a return, added to the above reasons for selection for investigation will be an enquiry into a technical matter (e.g. the capital/revenue repairs argument).

You can pay a small premium to ensure your professional fees are covered in the event of an investigation – be VAT, PAYE or tax affairs generally.