



## Managing Fixed Costs in a Seasonal Business

To manage fixed costs efficiently, small business owners need to think outside the box and consider new ways of leveraging their employees and products.

Seasonal businesses make most of their money in a few short months, yet often pay expenses year-round. Some fixed costs can't be avoided, but advanced planning can help seasonal businesses (like landscapers, restaurant owners, and tourism-based companies) make the most of their off-season. A simple financial analysis can often point out ways to increase revenues or decrease costs.

### Fixed vs. Variable Costs

Fixed costs do not change, regardless of how many customers a company serves. Equipment purchases are viewed as fixed because certain equipment items are required to operate a business, whether it be for one unit or one million units. Insurance and rent related to long-term leases are other examples of fixed costs. Alternately, variable costs fluctuate along with revenues because they are generally not incurred unless sales are made. Costs for materials and utilities may fall under the definition of variable costs. Hourly employee wages are also considered variable, while a salaried employee would be considered a fixed cost.

### Managing Fixed Costs

During slower periods, seasonal businesses may take action to limit both fixed and variable costs. The decision to shut down versus remain open in the off season is one which shouldn't be made lightly. Although rent expense must still be incurred, a shutdown decreases variable costs like supplies and utilities. Reviewing management reports from an online accounting system, such as a prior year income statement, may help small business owners decide whether or not to shut down.

### Staffing Considerations

Finding alternative revenue streams is essential for seasonal businesses wishing to operate year-round. For instance, landscapers may choose to use trucks they've already purchased to offer snow removal services in the winter. In tourist towns, catering to local customers may be the best revenue draw during off season months. Product adaptation is another way to make money. Businesses with holiday-themed merchandise, such as wreaths, could design a spring version or summer version to sell at craft shows or online. Offering discounts is another way to bring in revenues and expand a customer base during slower seasons and take greater advantage of fixed costs.

To maximize profit, seasonal businesses should consider taking action to limit expenses in slower periods or increase their revenue year-round.

**If you have questions or would like more information about seasonal hiring or payroll for your clients, contact your Paychex representative for support.**