

Ten things you need to know about seasonality

In this volume we look at aspects of business that are not highlighted on exam board specifications but give great scope for getting application marks

1 All businesses are seasonal

Even the sales of essentials such as toilet paper are affected by the seasons, for example, stock-building in the weeks before Christmas. In the case of ice cream and seaside hotels, the effects are acute.

Example: at Scoop ice cream parlours, average sales in August were eight times the average sales in January. On a hot August day, sales were limited only by the length of queue outside the shop. Sadly, Scoop did not survive the pandemic.

Advantage: master seasonality and your profitability can flourish, but it is not easy. Many businesses try to fight it rather than go with it.

Disadvantage: fighting seasonality can be a disaster. In Wimbledon, Love Gelato ice cream parlour collapsed after introducing pizza and waffles to boost winter sales. The secret to ice cream success is to make the year's money in the summer.

2 Some are more seasonal than others

Toy shops are very seasonal (50% of the year's sales are made in the 6 weeks to Christmas), as are the sales of swimsuits. But what about sales of sunglasses, strawberries, jumpers, school clothes, haircuts and so on?

Example: in Italy, most seaside hotels close at the end of October and re-open at Easter, accepting the seasonality of their business.

Advantage: seasonal sales give suppliers a chance to sell now, rather than wait for people to make their minds up.

Disadvantage: a misjudgement can be very costly, especially if sales relate to the weather as well as the seasons. Warm days in the run-up to Easter hit chocolate egg sales, and if they're not sold by Easter they have to be discounted heavily to clear the shelves.

3 Types of seasonality

The term seasonality covers two types: predictable and unpredictable. Valentine's Day is always 14 February, but summer is not always July and August — a heatwave in late April can shock retailers.

Example: each year, flower-growers want huge quantities of red roses to deliver to florists on 12 and 13 February, but Wall's may not have enough stock of Magnums for an April heatwave.

Advantage: clarity over the type of seasonality is vital. If it is less predictable and dependent on weather rather than a specific date, the business must think hard about stock levels.

Disadvantage: date-based seasonality creates a cliff-edge for businesses. Red roses or Valentine's cards are close to worthless on 15 February, so over-stocking can be a disaster.

4 Cash flow implications

Bunched-up sales mean bunched-up cash flows.

Example: toy shops must build up stock ahead of Christmas, starting in August. By mid-November they have huge bills to pay but without cash inflows yet. For new companies it is another strain on cash flow.

Advantage: once you have got over the hurdle of stock building, cash can cascade into the business, such as toy shops in December.

Disadvantage: because of the seasonal strain on cash flow firms must have higher overdraft limits than would otherwise be the case, which adds to annual interest payments and therefore fixed costs.

5 HR implications

Strong seasonality makes temporary employment inevitable. Hiring staff just for the pre-Christmas sales peak or, at a theme park, just for the spring and summer puts pressure on recruitment and training.

Example: at Chessington World of Adventures Resort, staff are recruited at Easter, then another batch at the start of the summer holidays. Most are students who may only work there for 1 year. Labour turnover is close to 100%.

Advantage: seasonal jobs keep labour costs down and remove a cash drain on the business in the months it is short of customers or closed.

Disadvantage: the business needs a relatively high number of HR staff for recruitment and training, but also for disciplinary reasons, as temporary staff with unrelated career aspirations may have a poor attitude to work.

6 HR implications: core competence

Long-term competitive advantage relies a lot on the core competence (distinctive capabilities) of staff. Seasonal staffing with high labour turnover makes this hard to achieve.

Example: bookshops can get half their year's sales turnover pre-Christmas, so take on temporary staff, but are careful to have full-time, permanent staff who understand book buying and customer tastes.

Advantage: a strategy to hold a core of experienced staff should ensure no loss of competitive advantage.

Disadvantage: companies that focus too much on minimising labour costs risk losing the knowledge and wisdom needed for long-term success.

7 Changing seasonal factors

For your parents' generation, the big autumn event was Guy Fawkes night (or bonfire night) on 5 November. But over the past 15 years this has been overtaken by the American tradition of Halloween. Companies have had to adjust.

Example: in 2011, Cadbury noticed the rising interest in Halloween by launching the limited edition Screme Egg with its green centre. Today they also do a Ghooost Egg.

Advantage: businesses need to adapt to constant changes in consumer tastes, and will need to be alert to changing seasons and weather patterns due to climate change.

Disadvantage: marketing departments love the challenge of finding new, time-limited products, but there is a risk that profit margins might be hit. For a business such as Cadbury, nothing makes money quite like churning out the same products annually, such as Dairy Milk.

8 Risk of mistaking seasonal for long-term factors

An experienced manager knows the seasonal factors that affect the business. But what of a newcomer? Strong coffee sales in the winter may give way to weak sales in the summer, hitting profitability hard.

Example: Love Gelato first opened in April and enjoyed huge sales and profits through to September. The business owner gave staff contracts until Christmas, then regretted doing so when sales fell more than expected in autumn.

Advantage: every business needs to distinguish short-term from long-term factors, but especially when it is highly seasonal.

Disadvantage: assuming sales will be strong all year can lead a business to invest too much in new equipment or staff training when what is needed is to save the cash made in the months of peak sales.

9 Stock (inventory) management

Stock management today is based on computer algorithms that predict stock needs based on previous years' data. This works unless another factor changes consumer demand.

Example: Charbonnel et Walker chocolates usually sell 4,000 boxes of pink truffles in the 10 days before Valentine's Day. But if a major influencer blogged about these truffles, demand might rise four-fold.

Advantage: competent software should ensure that supermarkets buy the right number of chocolate eggs each Easter, keeping shelves stocked throughout, and with minimal discounting of excess stock after Easter Sunday.

Disadvantage: software-based stock systems can override common sense, for example, cutting chocolate purchases if the pre-Easter weather is unusually hot.

10 Strategy implications: diversifying

Seasonality affects cash flows, which creates business risks (for example, the producer of canned soups with little positive cash flow in the summer). Diversifying away from winter sales would spread the risk.

Example: Heinz produces soups that sell in autumn and winter. It also sells salad cream and mayonnaise that sell mainly in spring/summer. That is brilliant diversification.

Advantage: as with the Heinz example, positive cash flows from soups in the winter come at a time when flows are weak from salad cream, and vice versa.

Disadvantage: as Ansoff says, it is great to have diversified sales, but diversification is hard to achieve when launching new products in new markets.

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