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COMMERCIAL BRIEFING · NO. 04

The Leak

The most expensive costs in a small business are the ones that never show up as a cost. This is where your margin quietly leaks away, and how to find it.

A Moor & Co commercial briefing

June 2026 · Commercial advisory for small business owners

POWERED BY 3DMAI

IN SHORT

Every small business watches two numbers closely: what it pays for things, and what it charges for them. The money leaks out in between, and almost never as a line on the accounts. It hides in freight charges, forgotten contracts, returns, supplier dependency and the unpaid hours spent holding everything together. None of it arrives as a bill marked “hidden cost”. It arrives as a margin that is thinner than it should be, for reasons the accounts cannot explain. This briefing maps where the money actually leaks, why it stays out of sight, and how to drag it into the light.

1. The most dangerous costs are the ones you can’t see

A cost you can see is a cost you can manage. The obvious ones get negotiated: the supplier price, the rent, the wages. The dangerous costs are the ones that never present themselves as a cost at all. They are spread thinly across hundreds of transactions, buried inside “cost of sales” or “overheads”, and individually too small to chase. Together they are often the difference between a healthy margin and a marginal one.

The phrase that fits is death by a thousand cuts. No single charge looks worth the effort of hunting down, so none of them gets hunted down, and the total quietly bleeds the business. The owner ends up working harder for a thinner return and assumes that is just how trading is.

2. Where the money actually leaks

The categories are unglamorous, which is exactly why they go unwatched.

- **Freight and customs friction.** For anyone importing, the quoted shipping price is the small part. Demurrage and detention when a container sits too long, broker fees, the wrong commodity code that triggers full duty instead of the preferential rate, the rush-freight to rescue a deadline. A single delayed container can wipe out the margin on the order it was carrying.
- **The contract you forgot to cancel.** Software, leases, service agreements. Many renew automatically, some with a built-in annual price rise, and the cancellation window passes unnoticed. A stack of these, each individually trivial, becomes a standing charge nobody actually decided to keep paying.
- **Stock that sits.** Inventory is not free while it waits. Storage, insurance, obsolescence and the cash tied up in it are commonly reckoned at 20–30% of the stock’s value a year, which is why slow-moving lines lose money even when they eventually sell.
- **Returns and rework.** Every returned item costs more than the refund: inspection, restocking, refurbishment, postage and admin. In some businesses, returns quietly eat the margin on the sales that stuck.

- **Supplier dependency.** A supplier you cannot easily switch is a supplier whose price you cannot really negotiate. Single-source reliance does not show up as a cost until the day it does, as an emergency, at a premium.
- **New compliance costs.** They keep arriving. From October 2025, businesses that produce, import or supply packaging began receiving Extended Producer Responsibility invoices, part of roughly £1.5 billion in recycling costs moving from councils onto producers, with charges rising for harder-to-recycle materials from April 2026. Whether it lands as a direct bill or a supplier surcharge, it is a cost layer that did not exist two years ago.

And underneath all of it sits the largest hidden cost of all: time. Hours spent chasing late payers, reconciling systems that do not talk to each other, re-keying the same data and fixing errors. UK businesses are owed around £26 billion in overdue invoices at any one time, roughly £17,000 for each affected firm, and the typical affected business spends 86 hours a year simply chasing money it is already owed. That is a fortnight of someone's working life, every year, paid for by you.

3. Why they stay hidden

Hidden costs survive because of how a business keeps score. The accounts record what was spent, not why, so a demurrage charge, a needless subscription and an hour of rework all vanish into the same broad totals. No single person owns them, so no single person removes them. And they look like normal trading, the ordinary friction of doing business, rather than the avoidable leaks they often are. The profit and loss account shows the symptom, a margin lower than it feels like it should be, but it never names the cause.

4. The number that lies: your headline margin

Most owners judge the business on its average margin. The average is the most comforting and least useful number you have, because it hides the spread. Load every real cost onto each product, customer and order, the freight, the returns, the payment terms, the time, and a familiar pattern appears: a portion of what you sell makes good money, a portion roughly breaks even, and a portion loses money on every transaction.

The uncomfortable part is what that means in practice. Your best customers are quietly subsidising your worst, and from the top line you cannot tell which is which. You may be working hardest for the orders that cost you the most to fulfil.

> *You do not have a margin. You have a range of margins, and the average is hiding the ones that lose you money on every order.*

5. How to find the leaks

The methods have grand names — cost-to-serve, true landed cost, activity-based costing — but the idea behind all of them is simple: stop judging the business on averages, and start loading every real cost onto the thing that caused it. Four moves do most of the work.

- **True landed cost.** For anything you buy or import, add up everything from the supplier's price to the moment it is on your shelf: duty, freight, broker fees, insurance and the cost of the cash tied up. That is what it actually cost you, and it is usually more than the invoice said.
- **Cost-to-serve, per product and per customer.** Work out the real margin on each, after returns, payment delays and hand-holding. Then act on the losers: reprice, renegotiate, or let them go.
- **A contract and supplier audit.** List every recurring payment and every supplier. Cancel what you do not use, renegotiate what auto-renews, and find a second source for anything you cannot currently switch.
- **Put a number on the admin.** Estimate the hours going into chasing, reconciling and re-keying. Once that time has a cost attached, it becomes worth fixing, usually through better terms, a better process, or a tool that does the donkey work.

6. A practical response

- **Take your biggest customer or highest-volume product** and work out its true cost-to-serve in full.
- **Add up the real landed cost** on your main bought-in or imported line, and compare it to what you assumed.
- **Audit every recurring contract this month,** and cancel or renegotiate at least one.
- **Identify your single biggest supplier dependency** and start finding an alternative before you need one.
- **Measure the hours lost to chasing and reconciling,** and fix the worst offender.

None of this is glamorous, and none of it needs a consultant on a day rate. It needs you to look at the costs the accounts are designed to hide, one at a time, and do something about each. The money is already yours. You are just not keeping it yet.

ABOUT MOOR & CO & 3DMAI

The money is already in your business. We help you stop it leaking out.

Moor & Co is a commercial advisory for small business owners, built by someone who has run, scaled and exited real businesses. Finding the costs hiding in your supply chain is core to what we do, and our procurement and cost-reduction work is offered on a no win, no fee basis: you only pay when we save you money. It is the right way round for hunting hidden costs.

The tools behind it run on **3DMAI**, our commercial intelligence platform for UK SMEs. Its Supplier Radar, Import Landed Cost and portfolio tools show your true cost and your real margin per line, on your own numbers and in plain English, for £19.99 a month. The free tools need no sign-up. If you would rather talk it through first, the discovery call is free and there is no commitment.

Book a free discovery call →
moorandco.co.uk

Try the free tools →
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SOURCES

1. Department for Business and Trade and the Office of the Small Business Commissioner (research by London Economics), *Late Payments Research* (July 2025) — around £26bn owed at any one time, roughly £17,000 per affected business, 86 hours a year chasing.
2. PackUK / DEFRA — Extended Producer Responsibility for packaging: Year 1 (2025/26) base fees, first invoices from October 2025, fees modulated by recyclability from April 2026.

Inventory carrying costs of 20–30% a year, and the cost-to-serve and landed-cost methods described, are widely used management-accounting estimates and approaches rather than firm-specific figures. General guidance only — not financial or legal advice.