

## *Financial training For non financial staff*



*The financial training specialists*

### **Weather warning (profit)**

With the recent storms we've been keeping a close eye on the Met Office and River Agency websites. The severe weather warnings intrigued me. The Met Office base their weather warnings on the likelihood of the event, and the severity of the impact.

They're good at forecasting the likelihood of the weather event, but the severity of impact needs a detailed understanding of how it affects us. Our house floods (fortunately we have effective flood defences). Our neighbour's house is built on slightly rising ground, and doesn't flood. Our other neighbour built his own house: he built it high enough so the front doorstep is above the flood level.

This matrix of likelihood and severity of impact also relates to business financial planning.

What changes will have the biggest impact on your profit? A change in the volume of business? Changing customer prices? Movement in your costs? What do you need to do to make things happen to your advantage, and how can you prevent them happening to your disadvantage?

And what about your cashflow? What causes your customers to pay more slowly, and how can you prevent that? How can you encourage them to pay more quickly? How much impact on your cashflow does every day's change in customer payment terms have?

All these questions require an understanding of your business; your customers and your suppliers. The severe financial warnings come from those combinations of highly likely events with a severe impact. What are those combinations in your business?