

Financial training For non financial staff



The financial training specialists

Profit and cashflow – the relationship (profit & cashflow)

I was working last week with a company that paints metal products of all shapes and sizes – from a 3 inch piece of metal to a set of goalposts.

The Managing Director was describing how he buys paint. It comes in powder form, at about £100 a box. If he buys 5 boxes, it comes down to £80 a box – that's 20% off. Powder is his biggest cost, along with wages, so the 20% discount is quite important. Without the discount there would be almost no profit in the business.

So, a no-brainer: he must take the discount if he is going to make any profit.

Of course, it's no good buying in bulk if he isn't going to use the powder, so he only buys in bulk if he's certain he will use that colour.

Then he showed me his stock room. Boxes and boxes of powder. "But will you use it all?" Yes, he was certain he would.

"What's the value of the powder in here?" I asked. "About £50,000"

"What's your overdraft?"

You've probably guessed. A little over £50,000.

And there's a real problem in business. We buy in bulk to improve profit, but it has a cashflow impact. If the cash is sitting in the stockroom, it isn't in the bank account.

To succeed we need to manage profit and cashflow. How do your day to day decisions affect both sides of finance?