

Financial training For non financial staff



The financial training specialists

Stocking up (cashflow)

When we went into recession in early 2009 many businesses reacted by running their stock levels down. If customers aren't buying, reducing stocks means the business buys a lot less, and preserves the bank balance. But this exaggerated the early impact of the recession by reducing sales still further.

There is an old axiom that more businesses go out of business coming out of recession than going into recession. So we are still in danger.

Part of this danger is because as the recession comes to an end and we expect an upturn in sales, we begin to increase stock levels to meet the increasing demand. The effect of rising stock levels is increased pressure on the bank account.

If I am selling 1,000 units a week, and I have kept stock levels dangerously low during the recession I may be carrying as little as one week's stock – 1,000 units. At £10/unit this is £10,000.

As the recession starts to draw to an end, and I foresee sales rising back to pre recession levels – say 2,500 units a week – I want to build stock back up to pre recession levels. Let's say this was 3 weeks of sales. Suddenly my stock has risen from £10,000 to £75,000.

Unless managed carefully we either find ourselves within insufficient stock to meet demand, or alternatively, we are breaching the overdraft limits and are in financial trouble.