

Financial training For non financial staff



The financial training specialists

How much is in stock? (cashflow)

I was talking to a client this week about working capital. Working capital is the cash tied up in stock and debtors, so isn't in the bank account.

“How much is tied up in stocks of finished goods?” I asked.

The sales manager and the financial controller answered simultaneously “Not enough” and “Too much.”

The problem is that they're both right. From a sales aspect, if we want to meet customer orders with immediate delivery out of stock, we'll always want more in stock. From a finance point of view if it's in stock it isn't in the bank account, so we want as little as possible in stock.

So it's a compromise.

What items do we sell lots of? We want to carry enough of these: we know we'll be asked for them, so we'll only have the cash tied up in stock briefly.

If we can order items with a short lead time, or manufacture them quickly then we don't need to carry many, because we know we can replenish our stock quickly.

The problem comes when we manufacture items in large quantities or buy them in bulk to benefit from bulk discounts, but sell them relatively slowly. Is that line profitable enough to justify a large amount of cash tied up in stock? If not, is it a product we want to be selling?

What do you have in stock? Which lines only move very slowly? What do you need to do about this?