Financial training
For non financial staff

ATTAINMENT TRAINING
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Growing profitably (profit)

I've been doing some analysis of the financial performance of 40 northern UK manufacturing companies.

Between them their sales have grown by about 25% since the recession, and their joint profit has grown from almost nothing to about £1bn. They employ some 40,000 people – this has grown by about 4% since the recession.

Yet there are some startling differences. More than half the companies have grown their sales and their profit (in relation to sales). A handful of the companies have shrunk.

Half a dozen of the companies have grown, but their profits have shrunk.

How does that happen? They've grown, and surely that's the chief indicator of success? And yet – although their sales have grown – a smaller percentage of that (larger) sales figure is being turned into profit.

Most businesses have fixed costs and variable costs. The fixed costs (eg factory rent) can be expected to stay more or less the same as the business grows – at least up to a certain level. On the other hand, the variable costs (eg production materials) will grow as sales grow.

But if the fixed costs stay more or less fixed, more sales should give proportionally more profit. Yet this half dozen companies have proportionally less profit as sales grow.

It may be due to those companies' focus and awareness. Possibly a focus on sales, rather than profitable sales. Or insufficient awareness of the profitability of the product mix.

How do your sales and production people rate in their awareness of profit?