Financial training
For non financial staff

ATTAINMENT TRAINING

The financial training specialists

Growing and managing cashflow (cashflow)

I've been looking at business growth, and how well working capital is managed in a sample of 40 UK companies.

Business growth is measured by sales growth. We know sales growth is a good measure of success (as long as increased sales result in increased profits).

Working capital is the cash tied up in stock; work in progress (uncompleted work); debtors (work we haven't been paid for); less creditors (suppliers we haven't paid yet). Working capital represents cash that <u>isn't</u> in the bank account. It's a necessary aspect of business, but it gives us a cashflow headache.

Back to my 40 companies.

The second fastest growing group grew sales by 55% between 2009 and 2014. Fantastic!

But their working capital as a percentage of sales grew from 14% to 21% in the same period.

That means that in 2009 they had £140,000 of working capital for every £1m of sales. That's £140,000 of cash <u>not</u> in the bank.

By 2014 the £1m of sales had grown to £1.55m, and working capital was 21% of this. This meant £325,000 of working capital (21% of £1.55m): an increase of £185,000 over the 2009 amount.

That additional £185,000 needs to come from somewhere. The overdraft? A larger bank loan?

In contrast, the fastest growing group of companies more than doubled sales, but reduced working capital at the same time! Total working capital fell, releasing cash to invest in the new equipment needed for growth.

How well is working capital managed in <u>your</u> business?