__Financial training__
__For non financial staff__

ATTAINMENT TRAINING

The financial training specialists

Ensuring sales flow though to profit (profit)

I was talking to a client today and they told me one of their biggest headaches was flow-through. By this they meant that sales were increasing, but the increase wasn't flowing through to profit.

There's lots of reasons why this might happen. Perhaps they were giving discounts to win the work. Or winning the low value business but not winning the high value work. Maybe they were simply charging too little.

Perhaps costs were on the way up, and inflation was eating into profit. Or the staff structure was wrong, with too much overtime and temps. "But we're keeping headcount down, and <u>that's</u> good" could be the reasoning behind this. The poor flow-through could indicate efficiency problems. Or the product specification being too high for the price. Or the customer being over-serviced.

Maybe it isn't a production or sales problem at all, but the business overheads growing faster than the business. Or lots of investment meaning that the interest cost has risen (or interest rates have risen).

So there are lots of possible reasons, but the problem still remained that sales were growing faster than profit – and the reverse should be true.

Whenever the financial numbers indicate an issue (whether good or bad), there are always three useful questions to ask:

- what's caused the problem?
- what can we do about it?
- what impact will that have?

In <u>your</u> business how does the growth in sales and profit compare? If they're out of kilter, what do these three questions tell you?