ATTAINMENT TRAINING

The financial training specialists

Financial training
For non financial staff

Selling and failing? (profit & cashflow)

I'm just starting some research into the financial indicators of company failure.

Every business measures sales. If we're selling successfully, and sales are rising, we won't fail. Right?

Wrong!

Businesses can still be growing right up to the point of failure. In fact some businesses fail soon after winning their biggest ever order.

So the thing to measure is profit. If we're profitable we won't fail. Right?

Wrong again!

About 75% of businesses that go into insolvency are profitable. That's a statistic that often surprises people.

So you're reading this thinking "Our management reports focus on profit and sales – yet they don't make us secure against failure."

So what's the biggest cause of business failure?

Cashflow problems. These are usually triggered by having too much cash tied up in stock, and problems getting customers to pay promptly. That combination is what we call working capital problems. (So next time you hear someone talking about working capital, they're talking about the money that we want to have in our bank rather than in our customers' bank or in the warehouse.)

So are your sales teams aiming to win the sale regardless? Or are they thinking about the profitability of the sale. Or, best of all, are they making profitable sales to customers on good credit terms?

And if the sales team are agreeing good credit terms with customers, are those terms being enforced, or is your business letting customers get away with paying late?

