

Financial training For non financial staff



The financial training specialists

Expense or investment? (profit and budgeting)

One of my clients is a housebuilder with sales approaching £1bn. They've been growing very rapidly and everyone feels extremely stretched.

“The problem is that the company has doubled in size over 4 years and budgets haven't grown in proportion” said the head of a regional customer care team. “And if we ask for more budget, the answer's ‘No’”.

I probed a bit more, and we concluded she'd been asking the wrong question. “Can I have an extra £1m budget?” prompts a gut response from the directors of “No. Why do you need it?”

The group discussed customer care. It mostly involves dealing with the inevitable minor problems newly built houses experience.

The biggest impact of this work was satisfied customers recommending the housebuilder to their friends. So a substantial number of sales were made to customers who actively sought the company out.

This, of course, reduced the need for marketing expenditure.

It meant houses sold more quickly, reducing the stock of unsold houses, and boosting cashflow by £55m.

Most significantly the proportion of customers actively seeking the company out meant the company could charge more for its houses. One sales manager estimated the average selling price would probably be £10,000 lower if there wasn't this volume of referrals.

That would be £25m less profit!

So perhaps the budget question needs be: “Do you want £25m less profit, and £55m more on the overdraft? No? Here's how we can prevent that. It'll only cost £1m.”

Now the directors are listening!