

Financial training For non financial staff



The financial training specialists

Warning signs 6 (Profit)

This blog highlighting early warning of potential financial trouble ahead is about the sales team.

Every sales person knows their products and their customers. That comes with the territory. So if you ask them "Who's our biggest customer?" or "What's our best selling product?" they'll know the answer, probably without having to think.

But we aren't in business to make sales, we're in business to make a profit. Our biggest customers are often the ones with the biggest bulk discounts, which eat into profits.

For example, if it costs us 70 to make something, and we sell it for 100, we make 30 profit. But if we give a 20% bulk discount, we're selling it for 80, and only making 10 profit. The 20% discount cost us 66% of our profit. We have to sell 3 times as much to make the same profit that we'd make at full price.

And if our customers don't pay promptly, we end up with cashflow problems - and poor cashflow is the biggest cause of business failure.

So it can be illuminating to ask "Which customer (or product) do we make most profit from?" It's often not the biggest &

We can also ask "Which customers are the slowest payers?" Guess what? This often is the biggest customers!

So if we focus on the biggest customers, we're being distracted by sales revenue, often at the expense of profits and good cashflow.

There's an old saying: "Sales are vanity, profit is sanity, and cash is reality."