***Managing working capital: Finished goods***

The next element of working capital is stocks of finished goods. If goods are in the showroom waiting to be sold or in the warehouse waiting to be delivered, they represent cash that’s toed up and isn’t in the bank account.

Look round your showroom, warehouse or factory floor and try and get a sense of the value of the goods waiting to be sold or delivered.

Let’s look at some of the ideas to reduce stocks of finished goods.

**Break the order down**

If we have to manufacture a large order for a customer, can we break it down into smaller lots? That way we can deliver and invoice each lot, rather than waiting for the whole order to be finish.

**Build to order**

Most car manufactures now build to order as much as possible. This means that more cars are coming off the production line to be delivered to customers who are able to pay immediately.

**Sell in advance**

Housebuilding companies try and sell “off plan” so that every house they’re building has a customer waiting to pay for it as soon as it’s finished.

**Plan the logistics**

If the conditions of sale require the goods to be delivered, the transport needs to be in place. If the order requires specialist transport (whether by road rail or sea) this may need to be planned well in advance.

**Negotiate the details**

Make sure the details have been agreed – preferably in your favour! For example, if you’re selling a large complex piece of machinery to a customer on the other side of the world, does it count as a sale when it leaves your factory; when it’s loaded onto the ship; when it’s unloaded; or when it’s finally installed into the customer’s factory?

**Understand what the customer wants**

We may not be able to build to order, but we want to ensure that (whether we build things or buy them in) the goods in our shop or warehouse are what our customers want, and that they’ll sell quickly.

**Putting this into practice**

How much have you got tied up in stocks of finished goods? What does your business need to do to turn it round more quickly? How do you find out in advance what your customers want? How can you be part of this improvement?