***Team meetings: How do we contribute to cashflow?***

Most people in business understand profit. If you asked your team how they contribute to the company’s profitability, they’d talk about selling things, and watching what they spend. Yet most businesses that fail are profitable. They fail because of cashflow problems: not enough money in the bank.

And the biggest cause of cashflow problems is working capital: especially inventories and debtors. There’s a whole section in this Finance Vault on working capital.

So a useful team meeting could focus on your team’s impact on working capital and cashflow. It won’t be relevant to all teams, it will be very relevant to some teams. There are four areas to consider.

**Stocks of raw materials**

Raw materials are all the “stuff” we’ve bought in order to make our product. In a service industry this might be limited to paper and toner cartridges; in a manufacturing business it could be steel; components; timber; chemicals; etc. In an aerospace company raw materials could include multi million pound jet engines!

But every pound of raw materials that we hold is a pound less in the bank account.

So the question for your team is “How do we contribute to stocks of raw materials? How much material do we hold, and could we hold less?”

If you could hold less, then the relevant questions are “What would the impact and risks of that be?” and “What would we need to do to make that happen whilst mitigating the risks?”

**Work in progress (WIP)**

This is all the unfinished work we are doing. It might be unfinished because we haven’t yet got to the point of invoicing it (this is typically the problem in a service industry) or we just haven’t finished making it.

But if we haven’t finished it, we can’t sell it, so we haven’t got the money in our bank. If we haven’t invoiced it, the customer can’t pay the invoice.

So the question is “How do we contribute to work in progress?” In a service industry further relevant questions could include “What stops us getting to the point of being able to invoice?” or “why don’t we invoice more promptly once we reach the invoicing milestone?” In a manufacturing industry your discussion might focus more on issues slowing down the production process. In a contracting industry it will be more about the milestones: “What stops us hitting milestones more quickly, and what delays us in invoicing those milestones once we hit them?”

The final question will be about “What do we need to change in order to be able to finish things and invoice them more quickly?”

**Stocks of finished goods**

Finished goods are those we are holding ready to sell. They could be the goods on the shelf in a supermarket that have been bought in to be resold, or things we’ve made (like finished houses on a house building site).

But they all represent cash that is tied up.

So the main question is “How do we contribute to stocks of unsold goods?” Further questions include “How can we help ensure things are sold more quickly, or that we don’t buy or build things that don’t sell?” The question about “What are the risks and the impact of this?” is important too.

The final question is the action question: “What do we need to change to enable us to hold less stock?”

**Debtors**

These are the customers who we have done work for, we’ve invoiced them, but they haven’t paid the bill yet. They might not have paid because we’ve agreed overly long payment terms with them; because we haven’t asked them to pay; or because we’ve made a mistake on the invoice that gives them a valid excuse not to pay.

But if they haven’t paid the bill, they’ve got our money in their bank account!

So the main question is about “How do we contribute to debtors?” Think about this in relation to negotiating terms; asking for payment; and sending out the invoice. It’s unlikely that your team will be involved in all three of these areas.

As in all these sections the final question will be “What do we need to change in order to get paid more quickly.

**Preparing for this team meeting**

Getting some hard financial information will help give an idea of the scope of the problem. Finance can probably give you some numbers about stocks, WIP and debtors.

You’ll have direct control over some of these areas: the sales team will clearly have a big impact on negotiating customer payment terms. But if you keep putting “rush orders” into the factory to keep customers sweet, you’ll be playing havoc with production schedules and therefore impacting stocks and WIP. If you’re in charge of production, then manufacturing issues may cause customers to delay payment.

Ask Credit Control what the main reasons are for late payment. Often it’s because we’ve given the customer a reason to pay late! Find out how promptly we invoice, and whether that’s an issue. Look at stock levels, and ask why they’re not lower. Walk round the factory floor – is it a smooth production process, or does it look like chaos with jobs everywhere? Why? Ask the Finance team what the biggest issue are around working capital. They’ll know the scale of the problem, but they’re not in control of the solution.

Most of all, be open minded! Many people and teams have an adverse impact on working capital without being aware of it. Once you start looking at this area, you’ll probably be surprised at the extent of your team’s impact on working capital.

Finally, in this team discussion, focus on change. What can your team do differently in order to help reduce working capital and improve cashflow?