

Stock management and cash flow: How to get it right



Paul Meades, MD of accountancy and business development firm Meades & Company, outlines the importance of stock management and its impact on cash flow.

Efficient stock management might seem like a daunting task. Stocking the right lines, managing correct stock levels (be it too much or too little), planning on what to do with items that don't sell, or indeed what new lines to introduce, are all common concerns.

Stock as an investment

Put simply, stock management is as important as running a business bank account and should be treated with the same level of care and attention.

For example, if you reconcile your bank account weekly or monthly, do the same with your stock records. This way you will remain on top of items that you have left in stock and those that require reordering, and when. An efficiently managed stock control system is guaranteed to have a positive impact on your cash flow.

Depending on your type of business it can be important to understand the average number of days you will hold stock for before selling it.

For example, for a restaurant this would probably be no more than two to three days, since the food would go off if stored for longer.

Keeping stock simple

The philosophy of 'the bigger, the range the better' has been disproven time and time again. 'Ramsay's Kitchen Nightmares' is a prime example of poor stock management and its subsequent knock-on effect. Overly complicated menus showed stock levels running out of control. By focusing on quality rather than quantity, Ramsay taught restaurateurs how to implement an efficient stock inventory and how it impacts on both cash flow and the future of their business.

Stay on trend

Your own sales data represents valuable information that can help you understand trends such as seasonal and geographical variances. And it's always useful to conduct research to identify opportunities within your target market.

Taking control of your stock

If you're looking to gain a better understanding of your stock and business data in general, our **accounts software** can help you.

It has a number of tools to help you manage your stock, from viewing stock levels and value, assessing how profitable specific items are, to automatically updating stock levels when you post an invoice.

Sage 50 Accounts has a wide range of reports offering valuable insights into your customers, suppliers and products, so you can identify opportunities to save money and grow.

It also takes the hassle out of managing cash flow, **VAT** and sales; what's more, you can even manage your finances on the move thanks to its **free mobile app** - a great time saver for those who manage their businesses on the run.

How to calculate number of stock days

$$\begin{aligned}
 &\text{How many days of stock you have left} = \left(\frac{\text{Value of your current stock}}{\text{Total cost of purchases (during the period you are analysing)}} \right) \times \text{No. of days in the trading period you are analysing} \\
 &\text{For example:} \\
 &182.5 \text{ days of stock you have left} = \left(\frac{\text{£2000 of current stock}}{\text{Cost of purchases: £4000}} \right) \times 365 \text{ day trading period}
 \end{aligned}$$