

## Understanding the Financial Signals that Shape Growth Decisions

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# Part 1: Cashflow & Profit

## Profit vs Cash



### **Distinction Between Profit and Cash**

Profit measures revenues minus expenses on an invoice (accrual) basis, while cash represents real money in the bank

### **Cash Flow Challenges**

You can still experience cash shortages even in periods of strong profits or growth due to timing delays in receivables and payables.

### **Importance of Monitoring**

38 businesses shut their doors every single day because they are not paid on time. Monitoring cash flow alongside profit is critical to avoid business failure and ensure sustainability.

### **Tools for Cash Management**

Cash flow forecasts provide visibility and enable proactive working capital management.

# POLL

## How far ahead do you Forecast your cash flow?

1. I don't forecast
2. I know what's in my bank and what I have to pay this week
3. One month ahead
4. Three months ahead
5. Six months or more ahead



# Cashflow Forecast: Investment Capacity



## Definition of Investment Capacity

Investment capacity is the amount of money a business can afford to allocate to growth without risking financial stability.

## Using the forecast to work out your Investment Capacity

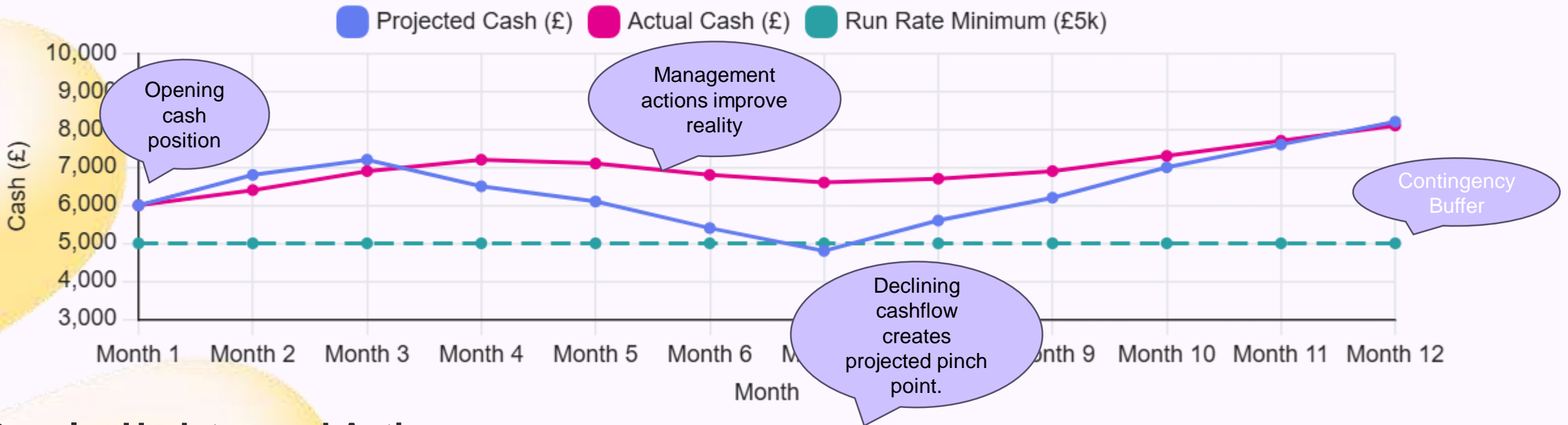
Determining your investment capacity involves reviewing your cash flow forecast, knowing your monthly "run-rate", and deciding how much contingency you want

## Disciplined Money Management

It's important to set cash contingency buffers that relate to your run rate

# 1 year Cash Flow Forecast

12-Month Cash in Bank with Visible Text-Box Annotations



## Regular Updates and Actions

Weekly updates enable businesses to anticipate cash shortfalls and implement corrective measures promptly.

## Risk Mitigation and Investment Confidence

The forecast is an early warning system but also supports informed decisions on investment affordability.

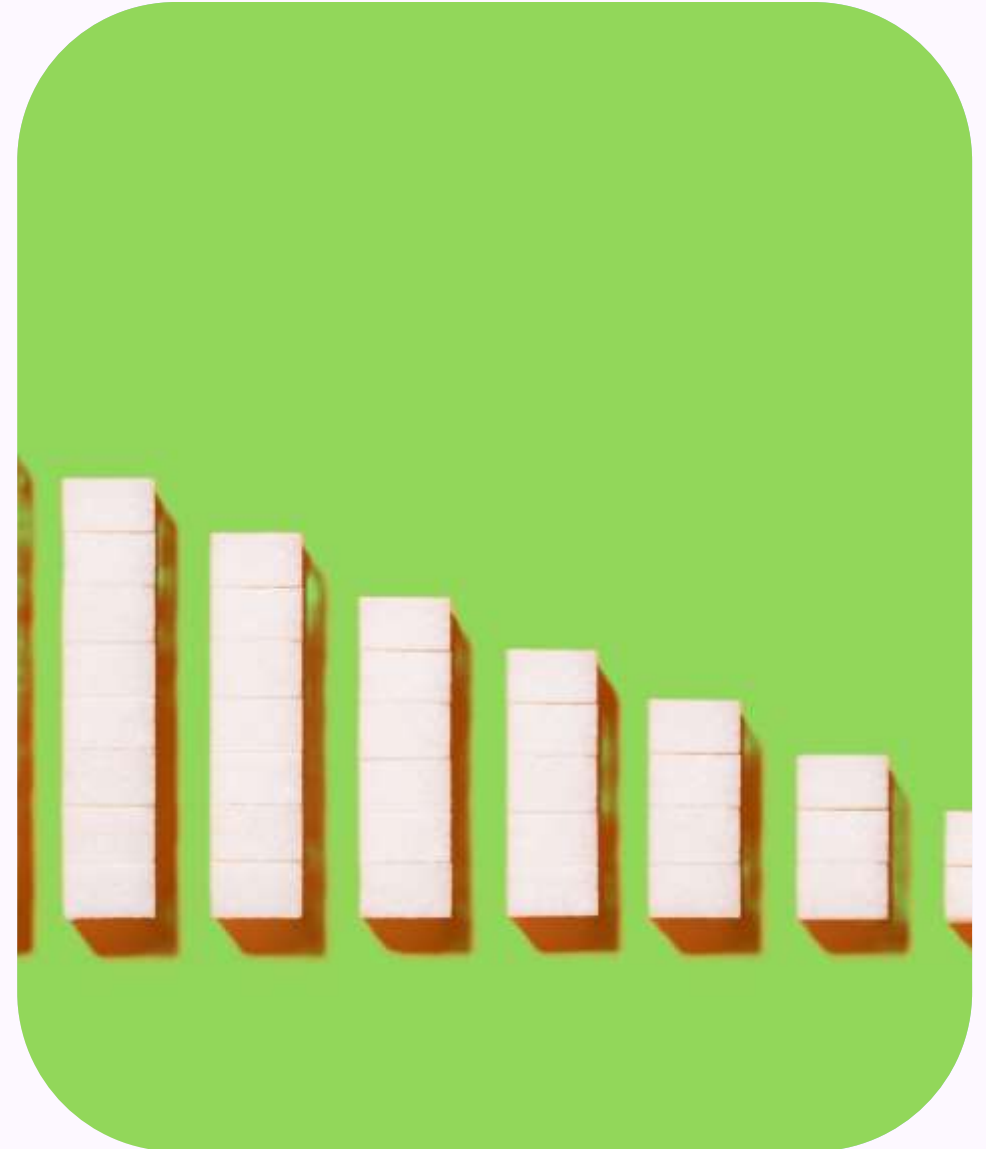
# Part 2: Extracting Key Information from your Financial Statements

## POLL 2

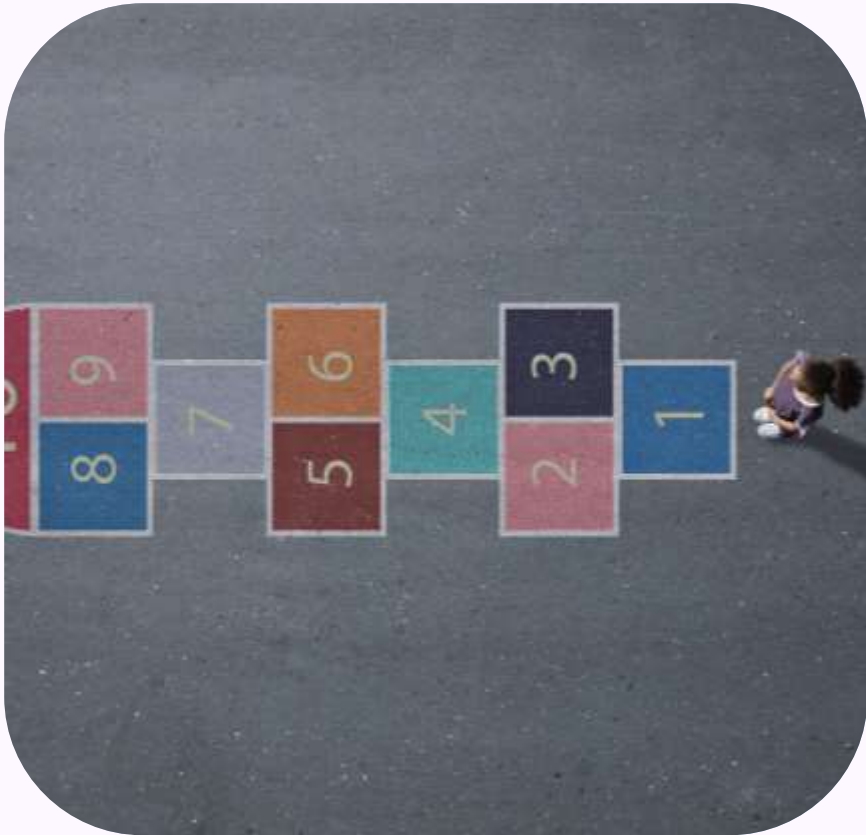
### How well do you know your business finances?

(Tick all that apply)

1. I know my gross profit
2. I know my debtor days
3. I know my break-even point
4. I know my quick or “acid test” ratio
5. I know the lifetime value of my clients



# Profit & Loss Report: Gross Margin



## Definition and Importance

Gross margin shows the difference between the price you charge for a product or service and the cost of producing it.

## Indicator of Profitability

A healthy gross margin indicates efficient cost management and strong pricing power in business operations.

## Strategic Decision Tool

Tracking gross margin trends helps businesses optimise costs and adjust pricing strategies effectively.

## Balance Sheet: Quick Ratio

**Quick Ratio = Debtors +  
Cash  
Current Liabilities**

## What Is the Quick Ratio?

The quick ratio measures a company's ability to immediately meet its short-term obligations using its most liquid assets. The quick ratio is used to evaluate the strength of a company's cash position.

**It should equal >1**

By comparing these quick assets to the company's short-term liabilities, the quick ratio shows whether the company can pay what it owes without selling anything extra, like stock.

# Life-Time Value & Payback

## Understanding Lifetime Value

LTV estimates the total revenue a customer generates during their relationship with the business.

## Payback Period

Payback period measures the time required to recover customer acquisition or investment costs.

## Benefits

Understanding LTV and payback periods is useful in determining whether an investment is viable



## Decision Process: Can you invest and How Much?



### 1. **Decide your Investment Capacity**

- Check your cashflow forecast to see how much **free cash flow** you're generating above your run rate.
- Calculate your **Quick Ratio** to double check your projections against today's reality

### 2. **Calculate your Gross Margin**

### 3. **Calculate your customer LTV**

**Now you have the tools to help you make that investment decision**

# Part 3: Practical examples of how to use data to make investment decisions

## **Investment Decision Group Task: Scenario A:**

**A train station coffee shop wants to leaflet 5,000  
addresses in the neighbourhood**

Investment Capacity = **£2,000**

Average purchases per customer (LTV):

**2 coffees per week**

**50 weeks**

**@ gross margin of £2.50 per cup**

**How many new customers does the shop need to breakeven on the  
campaign?**

# Scenario A: Answer

One-off campaign cost: **£2,000**

Average purchases per customer:

**2 coffees per week for 50 weeks @ gross margin of £2.50 per cup**

**Each new customer is worth £250 per annum (LTV =  $2 \times 2.50 \times 50 =$   
£250)**

**Break-Even Point  $2000 / 250 = 8$  new customers**

## Investment Decision Group Task:

### Scenario B:

**A manufacturer wants a new machine to reduce costs**

Investment Capacity = **£20,000**

Current gross margin = 25%

Gross Margin with new machine = 40%

5 customers buy the product that this machine makes

Average purchases per customer (LTV): **£12,000 per annum**

**Is it worth investing in the machine?**

# Investment Decision Group Task:

## Scenario B: Answer

One-off development cost: **£20,000**

Current gross profit @ 25%

$$12000 \times 25\% = 3000 \times 5 = 15,000$$

With the new machine @ 40%

$$12000 \times 40\% = 4800 \times 5 = 24,000$$

$$***Payback contribution per annum = 24000 - 15000 = 9000***$$

$$***Break Even Point = 20,000/9,000 = 2.2 years***$$

# Part 4: The Numbers to Watch

# Balance Sheet: Key Ratios



## Importance of Ratios

Regular ratio analysis helps benchmark performance and identify financial risks and areas for improvement.

## Efficiency Ratios

Efficiency ratios such as inventory turnover assess how well a company uses its assets to generate revenue.

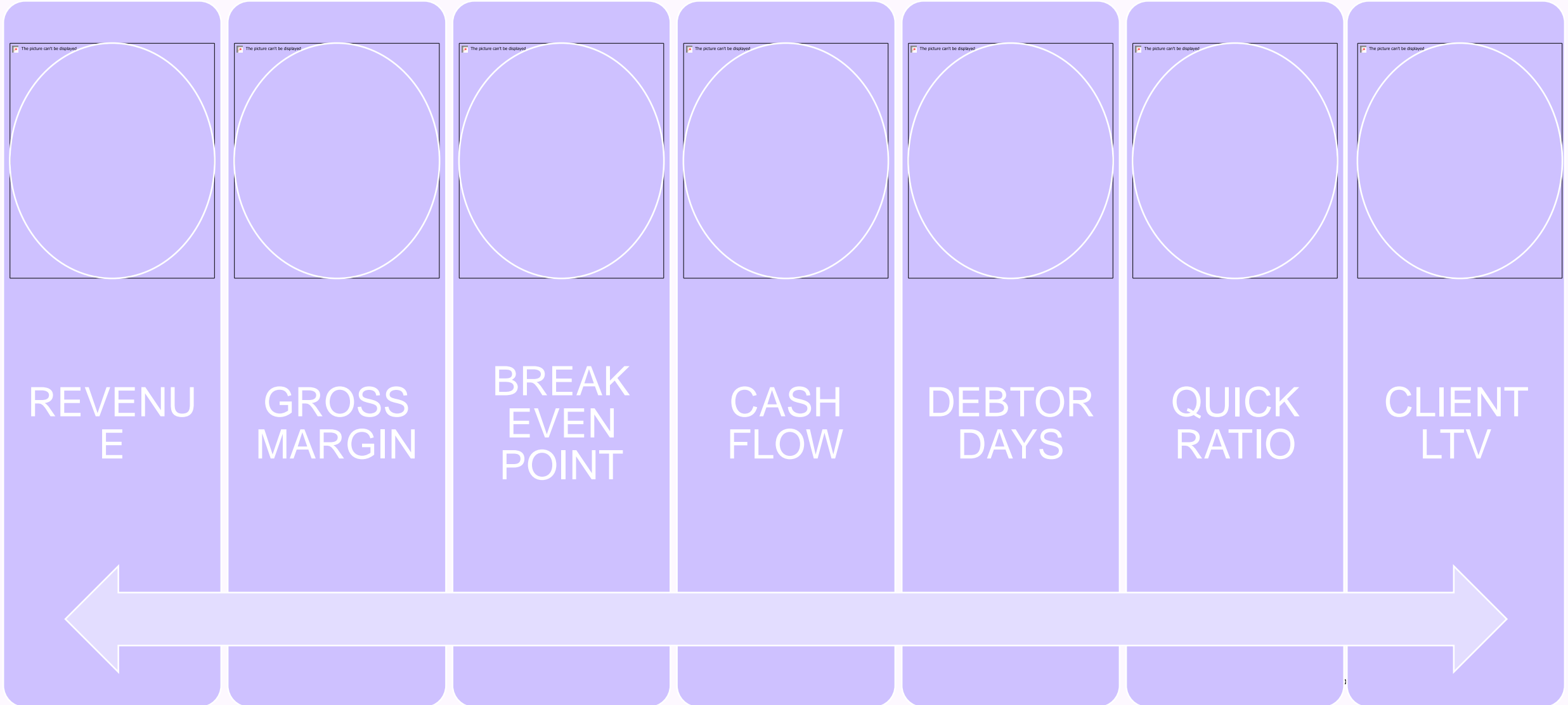
## Profitability Ratios

Profitability ratios indicate overall financial health by measuring returns on assets and net profit margins.

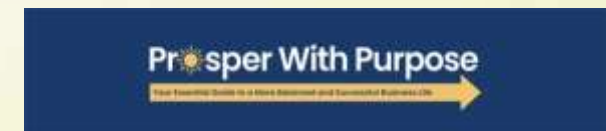
## Debtor / Creditor Days

These ratios show how quickly you get paid on average and how quickly you pay your suppliers. Ideally, they will be in balance so that you're not paying out before you get paid.

# The 7 Numbers Every Leader Should Know



Thank you  
any Questions?



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Join us at our next webinar...

Turn disconnected data into clearer  
business decisions

thurs 24th 2026

13:00 - 14:00 (GMT)



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