



### Internal Information

**Marketing** needs to know who the target customer is.

- What do they want to buy? This information comes from market research and previous buying experience of existing customers.
- What to advertise to whom and where? How much will it cost? How effective is a promotion campaign? How do we get the maximum PR exposure? Do we hire a PR agency? How much do the sales force cost? How effective is the sales force?
- What are competitors doing? What they are charging for what products? Are they changing their prices? Do we respond? Is there a price war with other rivals?
- What is happening in the environment or industry to affect demand? What are the views and requirements of the business's stakeholders? What is the effect of the weather on sales of fashion or food items? Or school holidays, or special events affecting demand?
- What is happening in the industry? Is there new government or EU regulations affecting my product? There are endless questions. Each answer provides more information!

**Marketing** has information about market and industry trends; competitors, their products and activities; planning and analysis of promotion campaigns.

**Sales** receives and logs customer orders and sales, produces invoices, customer details, records of selling activity.

**Finance** needs to know all incomings and outgoings of the business.

- How many items are sold and when? When does the money come in?
- How many staff is needed for manufacturing or sales? What are their costs?
- What are the costs of raw materials and other production costs? What are the credit terms for all suppliers? What are the credit terms and discounts for customers?
- What is the cash flow forecast for the next quarter? What are the costs for overheads, premises, IT, insurance?

The list is endless! Finance produces sales, purchase and nominal ledgers; credit control; payroll; payments in and out; budgets, projections and accounts; historical financial records. It holds VAT and tax records.



**Personnel** needs to know the level of staffing required.

- What number of staff does the business need? In which functional areas? With what skills and experience? With what training?
- What are the cost and legal implications for taking on new staff? What are the Health and Safety issues of the business?
- What does it cost to recruit new staff at what level? What are the most effective ways of recruiting and training staff? What are the costs of advertising in the local or national newspapers? Should we go to a recruitment agency? What are the costs and benefits?

Administration needs to know the costs of insurance, the premises and related running costs. What is happening in the environment that will affect demand and supply of staff? Personnel holds detailed personnel records for each individual, pension and health scheme details; legal and statutory matter, contracts etc, insurance, external authorities, for example the local council, board meetings and annual general meetings.

**Production** needs to know the detailed specifications for the products and when they are required. It needs to schedule manufacturing, manage distribution and storage, and deal with raw material suppliers.

- What are the logistics of supply of components? What are the ordering and stocking requirements of the retailers and distributors? What are the logistics of distribution?
- What inventory of raw materials and stock of finished products should be held? What are the implications to manufacturing and warehouse space required?

Production and operations have information about stock control, sometimes called inventory control; purchasing; work scheduling; job costing and delivery.

### External Information

**Customers:** they may be end users/consumers, retailers, distributors, individuals or companies or public bodies. They need to know about you and your product; and you need to know about them and their buying behaviour.

**Competitors:** you need to know who your competitors are and what they are doing in the marketplace, what they are selling at what price to whom.

**Suppliers:** they may supply raw materials for manufacturing or products to sell or equipment and supplies to run the business. You need details about them and what they can provide, when and on what credit terms. They need specifications from you about what you want to purchase and when and how you are going to pay.



**Banks and lenders of money:** they will need to know how much, when and what for, and how you are going to pay it back.

**Accountants:** external qualified accountants are required to audit the financial accounts each year; and perhaps to do the actual company accounts and file them with Companies House if you do not have an internal accountant, deal with government Revenue and Customs departments, and prepare annual accounts for the shareholders.

**HM Revenue and Customs:** they need official financial information and details about employees' PAYE and corporation tax; VAT on sales and purchases.

**Insurers:** you need insurance for employees, maybe professional insurance, buildings, stock, loss of profit, litigation for faulty products or services, loss of business if a disaster.

**Lawyers:** they deal with contracts for supplies or sales, subcontracting work, and staff, for example.

**Shareholders:** they need information about dividend payouts and share prices; they may have views about social and ethical responsibility.

**Various outside agencies:** Public Relations, recruitment, advertising, market research and other agencies.

**Local authorities:** they will communicate business rates, planning and environmental issues.

**Government and industry bodies:** there will be rules and regulations about your business, industry trends.

**The public:** the public may have views about the industry, business, products, and ways of operating, global, national or local environment. These will be channeled probably through opinion polls, focus groups, surveys and questionnaires.

### **Information You Need for Making Decisions**

#### **Organisational performance indicators**

**Marketing:** provides details about sales revenue and advertising costs.

**Production:** provides details about production output and costs

**Finance:** provides details about cash flow, the balance sheet, costing, profit margin, profit and loss account and cost analysis.

**Personnel:** provides information about salaries and pensions, levels of staff, absence, training and recruitment costs



## Organisational performance data

### Forecasts and budgets

**Marketing and sales** provide sales forecasts that use:

- Historical data
- Trend analysis
- Market research
- Experience and knowledge of market and customers

They provide expenditure budgets that estimate the marketing and sales expenses forecast for a particular period or product.

**Production:** provides production and manufacturing forecasts.

**Finance:** provides cash flow forecasts, master budgets, break-even charts, and financial ratios. Master budgets or forecast profit and loss account combines all the functional budgets.

### Variance analysis

All budgets can be used to monitor performance within functions and for the business as a whole. Variance analysis compares actual performance with forecast performance. A favourable variance occurs when results are better than expected. An adverse variance occurs when results are worse than expected. One or other does not necessarily mean a good or bad performance. The cost of sales may have gone down showing a favourable variance, but simply because fewer were made and there were less sales expenses. Or the cost of labour may have gone up showing an adverse variance but it may be because there was more output and more sales.

### Financial statements and ratio analysis

Final accounts, such as the **profit and loss account** and the **balance sheet**, are used for:

- Financial control
- Planning
- Accountability

The profit and loss account measures the profitability and financial performance of a business for one year. The net and gross profit figures can be compared with previous years and also compared with competitors. You can pinpoint problem or good areas in the business. There are a number of ratios that are useful indicators:

- **Gross profit ratio**
- **Net profit ratio**
- **Asset utilisation ratio**
- **Return on capital employed**



Solvency, liquidity and gearing can be investigated using the current ratio among other things. And there are a number of other useful ratios such as:

- **Earnings per share**
- **Dividend cover**
- **Dividend yield**