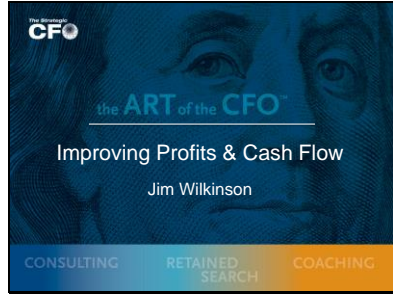


# Improving Profits and Cash Flow

Slide 1



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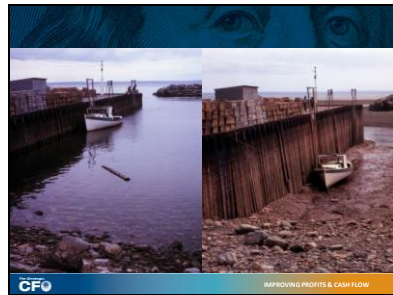
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Slide 2



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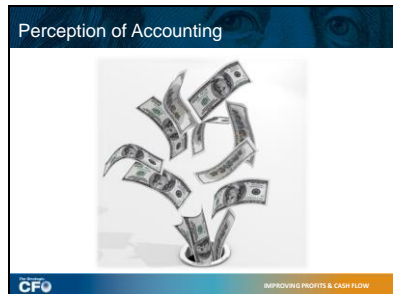
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Slide 3



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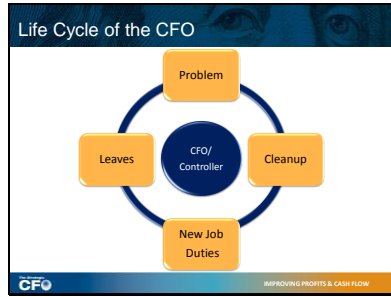
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# Improving Profits and Cash Flow

Slide 4



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Slide 5

**Paradigm Shift**

- See yourself differently
- Be a numbers driver, not a numbers cruncher
- Look out the windshield, not the rearview mirror

A cartoon illustration shows Galileo Galilei pointing a telescope towards the sky. A speech bubble from him says "Galileo discusses his discoveries with the church." The cartoon is signed "© 2008".

The slide has a blue header with the title "Paradigm Shift" and a blue footer with the "CFO" logo and "IMPROVING PROFITS & CASH FLOW".

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Slide 6

**Chief Profitability Officer**

A central graphic shows a black silhouette of a person in a suit with a white question mark inside the head. This silhouette is surrounded by four smaller, realistic headshots of business professionals: a man in a blue suit (top left), a woman in a white shirt (top right), a woman in a black top (bottom left), and a man in a blue suit (bottom right).

The slide has a blue header with the title "Chief Profitability Officer" and a blue footer with the "CFO" logo and "IMPROVING PROFITS & CASH FLOW".

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# Improving Profits and Cash Flow

Slide 10




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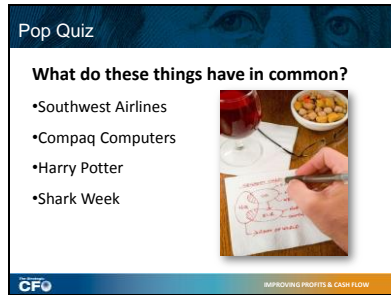
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Slide 11




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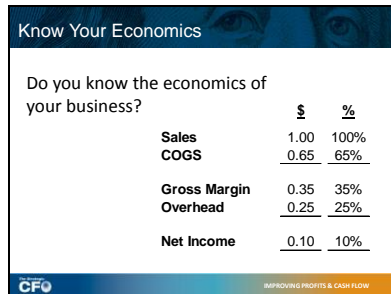
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Slide 12




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# Improving Profits and Cash Flow

Slide 13

**Improving Profitability**

- Cut costs
- Change pricing
- Improve productivity



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Slide 14

**Cutting Costs**

- Organized income statement
- Flux analysis



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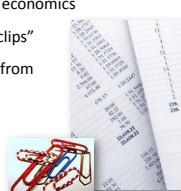
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Slide 15

**Organizing the Income Statement**

- Design should support economics
- Avoid "counting paperclips"
- Break out selling costs from overhead



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# Improving Profits and Cash Flow

Slide 16

**Flux Analysis**

- See trends more clearly taking volume into account
- Locate areas of "slippage"
- Quick hit to improve profitability



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Slide 17

**Flux Analysis - Example**

**Acme Company**  
Flux Analysis - Income Statement

Summary	2005 - 2008				Common Size Income Statement			
	2005	2006	2007	2008	2005	2006	2007	2008
Total Revenue	6,685,248	8,198,194	8,519,894	7,332,150	100.0%	100.0%	100.0%	100.0%
Cost of Goods Sold	4,624,038	6,018,793	6,501,892	5,445,529	72.0%	73.0%	76.1%	74.4%
Gross Margin	1,789,754	2,189,394	2,018,002	1,886,621	27.0%	26.9%	23.9%	25.6%
Selling, General and Admin. Expenses	1,610,897	1,798,377	1,842,833	1,594,790	24.4%	21.9%	21.6%	22.4%
Operating Income	149,777	413,817	195,169	99,831	2.8%	5.8%	2.3%	1.3%
Other Income	-	-	-	-	0.0%	0.0%	0.0%	0.0%
Other Expenses	-	-	-	-	0.0%	0.0%	0.0%	0.0%
Net Income	149,777	413,817	195,169	99,831	2.8%	5.8%	2.3%	1.3%

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Slide 18

**Case Study - Situation**

- Furniture distribution company offering custom installation
- Profits down
- Very low employee turnover



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# Improving Profits and Cash Flow

Slide 19

**Case Study - Challenge**

- Job budgets not communicated
- Wage creep
- Job budgets did not reflect new economics



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Slide 20

**Case Study - Solution**

- Flux analysis showed installation costs up 2%
- Increased installation budget to reflect new economics
- Improved profitability by \$700K



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Slide 21

**Getting Involved in Pricing**

- Understand current pricing methods
- Analyze customers
- Develop/improve pricing model



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# Improving Profits and Cash Flow

Slide 22

Understand Current Pricing

- Cost plus
- Market
- Value



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Slide 23

Analyze Customers

- Sales volume
- Gross margin
- Profitability



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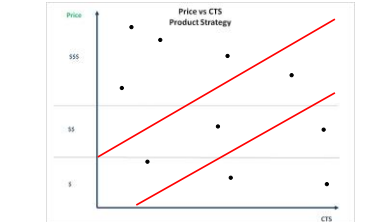
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Slide 24

Price vs CTS



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# Improving Profits and Cash Flow

Slide 25

**Pricing Model**

- Should reinforce targeted economics
- Take to Net Income level



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Slide 26

**Case Study - Situation**

- Oilfield service company
- Breaking debt covenants
- Growing rapidly



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Slide 27

**Case Study - Challenge**

- Cash was tight
- Employees were overworked
- Owners were from a sales background



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# Improving Profits and Cash Flow

Slide 28

**Case Study - Solution**

- Analyzed customers by sales volume
- 40% of customers bought less than \$250 per year
- Instituted a minimum order amount



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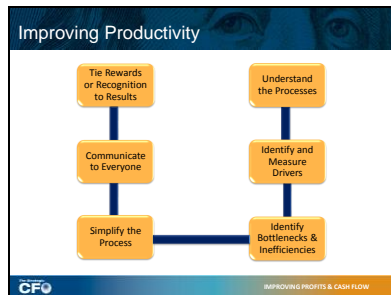
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Slide 29



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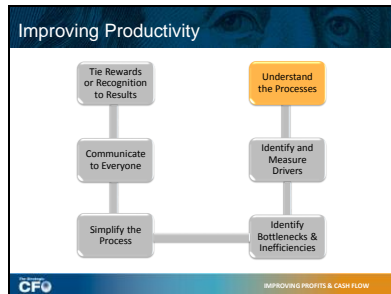
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Slide 30



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# Improving Profits and Cash Flow

Slide 31

**Understand the Processes**

- Productivity = throughput ÷ resource
- Measure throughputs at various stages
- May be an operational measure, not financial



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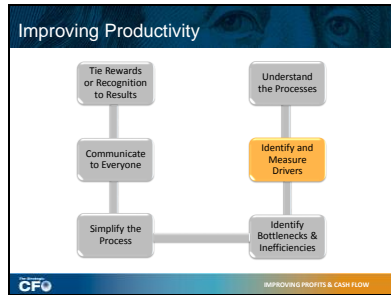
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Slide 32




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Slide 33

**Measuring Productivity**

<b>LIQUIDITY:</b>	
Cash	\$4,089
Accounts Receivable	\$1,687,922
Less: Accounts Payable	(\$1,602,581)
Working Capital	\$249,330
Cash Receipts	\$62,437
Cash Disbursements	\$278,794
<b>PRODUCTIVITY:</b>	
Total Sales	\$107,681
Sales per Employee	\$4,963
Total Units Shipped	1400
Units Shipped per Employee	23
Sales per unit	\$220
# of employees	62
<b>ESTIMATED PROFITABILITY:</b>	
Gross Profit	\$79,997
Overhead	\$70,767
Net Income(Loss)	\$9,230

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# Improving Profits and Cash Flow

Slide 34

**Examples of Throughputs**

- hours worked
- widgets produced
- # of invoices or tickets written
- product shipped

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Slide 35

**Improving Productivity**

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Slide 36

**ID Inefficiencies and Simplify**

- Compare time spent to results achieved
- Question existing habits
- Eliminate wasted effort
- Minimize constraints

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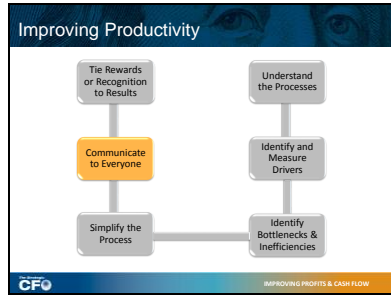
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# Improving Profits and Cash Flow

Slide 37



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Slide 38



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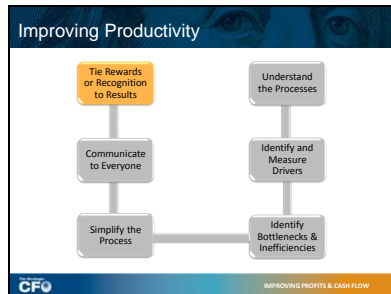
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Slide 39



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# Improving Profits and Cash Flow

Slide 40

**Incentive Comp**

- What gets rewarded gets repeated
- Tied to targeted economics
- Not always monetary



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Slide 41

**Case Study - Situation**

- Rollup of Alarm Companies
- Service technicians working overtime
- Not collecting cash receipts



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Slide 42

**Case Study - Challenge**

- Paying out overtime on a weekly basis
- Losing \$100k per month on service work



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# Improving Profits and Cash Flow

Slide 43

**Case Study - Solution**

- Reworked standard price list
- Paid technicians 28% of cash receipts
- Started making \$200k per month

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Slide 44

**Improving Cash Flow**

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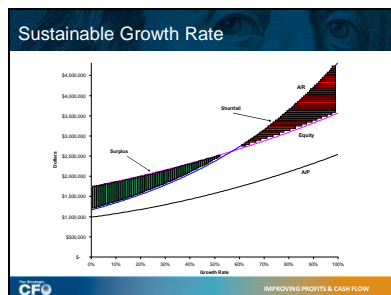
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Slide 45




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# Improving Profits and Cash Flow

Slide 46

### Cash Flow Report

- Prepared daily or weekly
- Shows actual changes in cash
- Forecasts inflows and outflows

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Slide 47

### Cash Conversion Cycle

**Cash Conversion Cycle (CCC)**  
 Days Sales Outstanding (DSO)  
 + Days Inventory Outstanding (DIO)  
 - Days Payables Outstanding (DPO)

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Slide 48

### Improving the CCC

#### Cash Conversion Cycle Impact of Incremental Improvements

Formula	Actual	Change	Days After Change		% Improved	Cash Flow Generated
DSO	60	(7)	53	12%		\$ 958,804
+ DIO	75	(7)	68	9%		\$ 623,288
(DPO)	30	7	37	23%		\$ 623,288
CCC	105	(21)	84	20%		\$ 2,205,380

Cost of Capital 5.25%  
 Profit Generated \$ 115,786

**Company Economics**

Sales \$50,000,000  
 COGS % 65%

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# Improving Profits and Cash Flow

Slide 49

**Improving DSO**

- Invoice customers faster
- Collect payment faster
- Take deposits



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Slide 50

**Improving DIO and DPO**

- Focus on slow-moving or obsolete inventory
- Use just-in-time inventory system
- Stretch payables



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Slide 51

**Case Study - Situation**

- Construction company – subcontractor
- Process payments as worked completed
- Growing market



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# Improving Profits and Cash Flow

Slide 52

**Case Study - Challenge**

- Cash was tight
- Retainage up to one year old
- 3 weeks to prepare progress billings



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Slide 53

**Case Study - Solution**

- Reduced invoicing to one week
- Negotiated payment of 50% of retainage after 6 months if customer signed off



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Slide 54

**Conclusion**

- Today's companies need more than a number cruncher
- You need to add value to stay relevant
- Improving profits and cash flow is how you add value



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# Improving Profits and Cash Flow

Slide 55



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