

FINANCIAL LEADERSHIP WORKSHOP

THE ART OF THE CFO

SESSION TWO - IMPROVING PROFITABILITY



THE ART OF THE CFO

PROFIT IMPROVEMENT



GAP Concept - Shawn Achor



Positive Mindset Worksheet

List 3-5 positive results that have occurred over the past quarter (either personal accomplishments or professional successes).

Why is this positive?

What can you do to have this positive experience again?

What action items do you need to take?

Last Month Achievements

Profit Improvement Discussions

Q. Can a company survive with sales but no profits?

Q. Can a company survive without cash flow?

Q. How do you measure profits?

Q. How do you measure cash flow?

Q. How do you measure both profits and cash flow at the same time?

Profit Improvement Discussions

Q. Deploy into what?

Q. Is EBITDA a perfect measurement?

Q. How do investment bankers typically value a company?

Q. How do commercial bankers use EBITDA?

Q. Which way is better?

Raising prices? Increasing volume? Lowering costs?

Other Users of EBITDA to Evaluate Your Company

- Acquirers – Private Equity
- Investment Banks
- Commercial Banks
- Creditors
- Strategic Buyers*
- Private Equity Groups
- Shareholders
- Analysts

* Highest Multiple

If the only tool you have is a
hammer, then every problem looks
like a nail!

Our Goal

Give You More Tools to Work
With

Improving Profitability

- Cut Costs
 - Change Pricing
- = Improve Productivity



3 Ps of Profitability

Procurement – Anyone Can Cut Costs

Pricing – A Lot of Opportunity

Productivity – Silver Bullet!

Biggest Bang

Raising Price, Increasing Volume, or Lowering Costs?

	Base Case	1% ↓ in Costs	1% ↑ in Volume (no change in price)	1% ↑ in Price (with no loss in vol.)
Sales	100	100	101	101
COGS	70	69.3	70.7	70
GM	30	30.7	30.3	31
SGA	20	20	20	20
Op. Profit	10	10.7	10.3	11
		(7% ↑ Over Base Case)	(3% ↑ Over Base Case)	(10% ↑ Over Base Case)

Note: As long as costs > 50% of sales, a cost decrease is always better than an equivalent volume increase. Vice versa when costs < 50% of sales.

COGS = Cost of Goods Sold | GM = Gross Margin | SGA = Selling, General & Administrative Expenses

Green = Controller | Orange = Entrepreneur | Blue = Strategic

Headcount

How efficient is your employee base?

Review your organization chart.

Always hire rock stars; don't settle for less.

Rock stars usually do the work of more than one average person.

Knowing Your Costs

- Manufacturing Costs
 - Cost of Goods Sold (COGS)
 - Fleet (Is it really efficient? Maintenance?)
 - Variable and Fixed Costs
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How much good analysis is done on costs?

How often are they reviewed?

If you manufacture, how often do you revise the standard costs?

Price

When was the last time you checked your prices?

What is the market doing?

Is there a pricing strategy in your organization? What is it?

Who is in charge and accountable for the pricing strategy?

Real Life Case Studies

Petrochemical Plant:

- Converted manual packaging to automated
- Changed layout of equipment for more volume
- Dropped loss leader products
- Fired “sacred cow” that was a cancer in the organization
- Looked for new vendors after many years of the same thing

Real Life Case Studies

Water Company:

- 20 years of bad habits
- Company equipment used for private use
- Layers of inefficient employees
- 2nd floor for rent, not used in 12 years

Real Life Case Studies

Manufacturing Facility (Industrial Ties):

- Paid \$1 / per day more and increased productivity by 20%
- Scrap steal turned into profit center

Real Life Case Studies

Road Construction Company:

- Fleet efficiency, usage, fuel, leases
- Scrap now generated cash
- Labor force measured by completion of projects and rewarded accordingly
- Cost analysis done on primary material to learn true cost of goods sold, re-priced accordingly

Exercise

Identify what low hanging fruit there is in your business to improve profitability.

Give at least 3 examples.