

THE IMPROVING PROFITABILITY POCKETBOOK

2nd Edition

By Anne Hawkins and Clive Turner

Drawings by Phil Hailstone

“Provides a straightforward explanation of ‘financial speak’, and will be essential reading for all managers.”

Michael Millward, HR Training & Development Manager, Newbridge Networks Ltd

“An excellent guide for non-financial managers, as well as a reminder to experienced managers of the key measures for improving performance.”

Paul Lester, Group Managing Director, Balfour Beatty Ltd

CONTENTS



HEALTH CHECK Measuring Financial Performance

5



FITNESS PROGRAMME

The Multiplier - How a small change can make a big impact 15

Improving Asset Turn - How to make your money work harder 25

Improving Return on Sales - How to make more whilst spending less 37

Managing Trade-offs - Making sure that you gain more on the swings than you lose on the roundabouts 43



KEEPING IN SHAPE

Investing in Fixed Assets - Capital Expenditure Appraisal 47

Make/Buy Decisions - Do we do this ourselves - or pay someone else to do it for us? 67

Profit-Cost-Volume - Improving business agility 81



BEING REALISTIC

Valuing improvement activities 93



APPENDICES 97

1. Business Financial Model 98

2. Capital Expenditure Appraisal 101

3. Profit-Cost-Volume 106

4. Glossary of Terms 108

IMPROVING ASSET TURN

WORKING CAPITAL



Working Capital is the net amount invested in the business in the financing of:

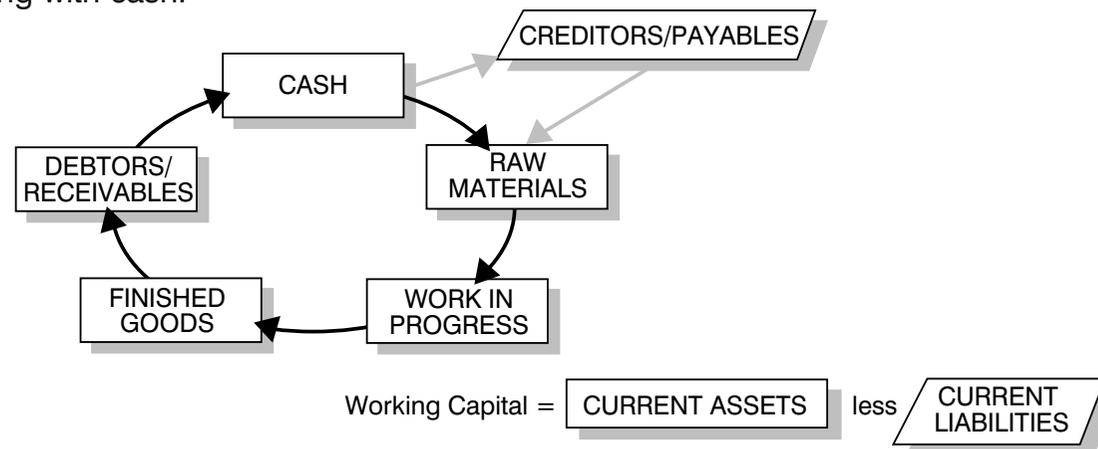
- the flow of materials
- the conversion process into your finished product/service
- the credit required to support the sales
after allowing for external funding through
- the credit given by suppliers.

IMPROVING ASSET TURN

WORKING CAPITAL CYCLE



Working Capital is usefully portrayed as a cycle of money through the business, starting and finishing with cash.



Objective:

Complete the cycle as quickly and as frequently as possible.

Make your Working Capital **WORK!**

IMPROVING ASSET TURN

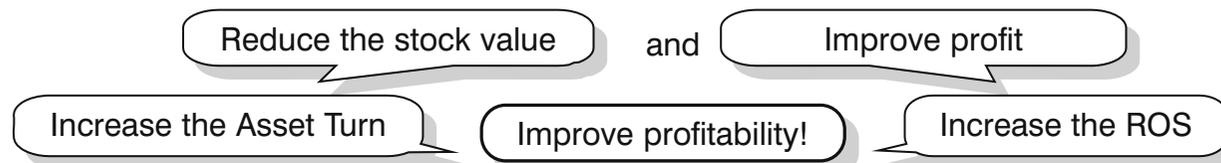
MANAGING STOCK



Do you need all that stock?

- Review stock-holding policies; lead times; product range
- Look for the balance between volume efficiency and the cost of holding stock
- Consider buying in kits/sub-assemblies rather than building your own
- What about consignment stocks?
 - Can you negotiate with your suppliers for them to hold stock for you on your premises? (*Try to*)
 - Do your customers require you to hold your stock on their premises? (*Try not to*)
- Can you move towards JIT? (*Just-in-Time*)

Note: If you can reduce the unit cost of your product/service then this will:



IMPROVING ASSET TURN

MANAGING YOUR DEBTORS



The game is not over when you achieve the sale. **Your** money is still invested in the product/service until the customer **pays**. If your customer doesn't pay, you'll regret ever having taken the business on. You must **complete** the Working Capital cycle.

Review your customer credit policies:

- Do you **have** to offer your customer credit? Remember it is a key part of the order negotiation process.
- How do you assess credit-worthiness?
- How do you control the amount of credit in terms of days and amount allowed?
- How do you monitor payment performance?
- How do you deal with overdues?
- Do you have controls in place to stop further deliveries to customers who haven't paid for the last lot?
- Do you ensure that your invoices are accurate?
- Do you avoid part deliveries?

IMPROVING ASSET TURN

MANAGING YOUR CREDITORS



Remember that it is advantageous to purchase on credit. This reduces the amount of money **you** have to find to run the business, which



reduces
Net Capital Employed



increasing
Asset Turn



improving
ROCE!

However, just not paying your suppliers is short-termist and endangers your future supplies.

Instead look to **manage** creditors:

- Negotiate credit terms as well as price, quality, delivery, etc
- Supplier rationalisation could yield both price and credit term benefits
- Enhance your importance to your suppliers by a 'partnership' approach offering mutual gains

These Working Capital issues are further developed in The Managing Cashflow Pocketbook.

IMPROVING ASSET TURN

EVERYTHING CONTRIBUTES

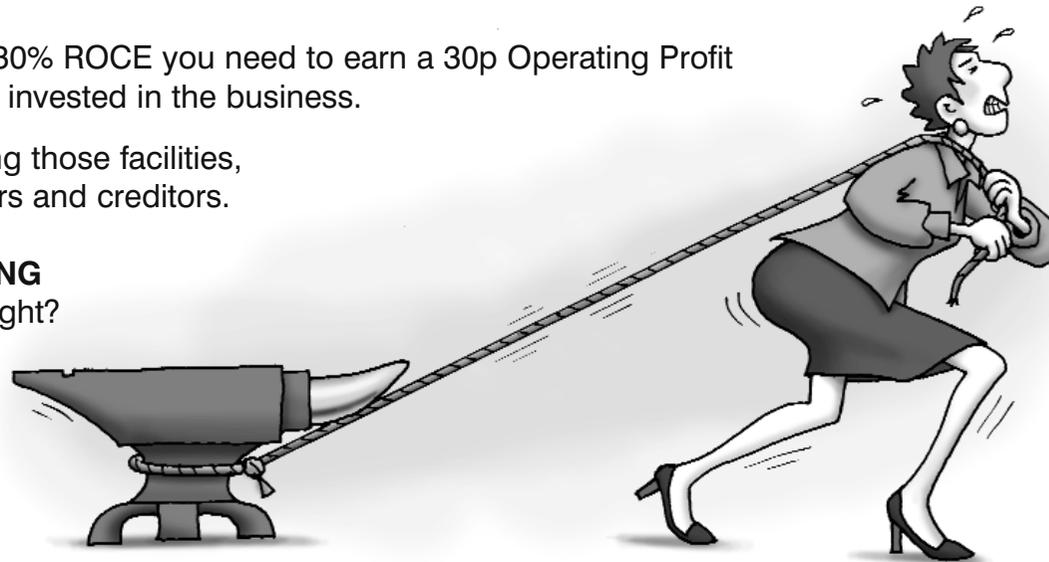


Just think!

To achieve a 30% ROCE you need to earn a 30p Operating Profit on **EVERY** £1 invested in the business.

Keep reviewing those facilities, stocks, debtors and creditors.

Is **EVERYTHING** pulling its weight?



Eliminate surplus investment in Net Capital Employed and improve your profitability.

IMPROVING ASSET TURN

SALES GROWTH



Don't forget you can also improve your Asset Turn by increasing sales without a proportionate increase in your investment.

Drive your assets harder!

- | | |
|-----------------------------|--|
| Win more business | Focus on sales with high unit selling prices
Manage new product introductions |
| Get the price right! | Review prices - especially spares, repairs, small orders, additional charges (eg: carriage) |
| Satisfy the orders! | Eliminate arrears and returns
Deliver on time
Eliminate machine breakdowns and materials shortages |

Objective: Increase sales by improved utilisation of Net Capital Employed.

About the Authors

Anne Hawkins, BA, ACMA is a Management Accountant with a first class honours degree in Business Studies. Anne has progressed from this strong knowledge base to gain senior management accounting experience within consumer and industrial product industries. As a Training Consultant she develops and presents finance programmes to Directors and Managers from all sections of industry.



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