

# **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:

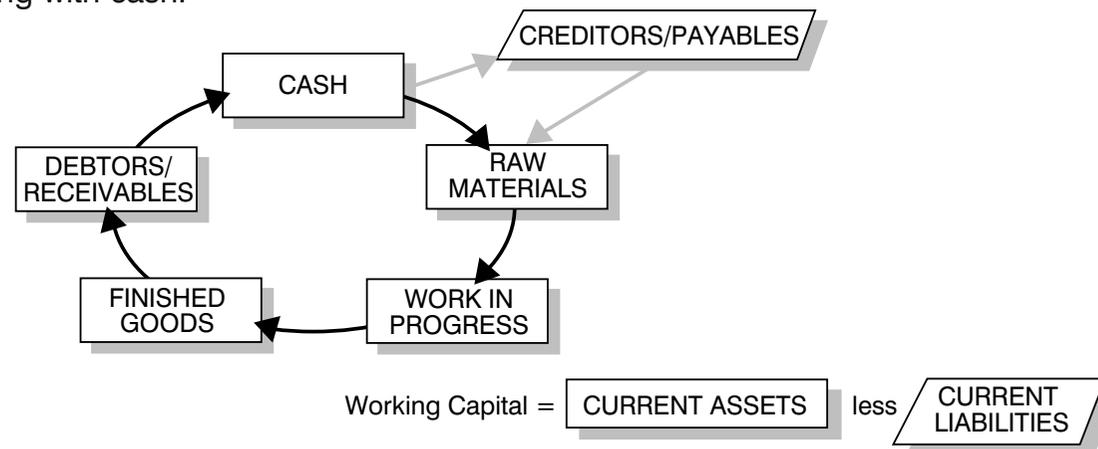
- the flow of materials
- the conversion process into your finished product/service
- the credit required to support the sales  
after allowing for external funding through
- the credit given by suppliers.

## 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

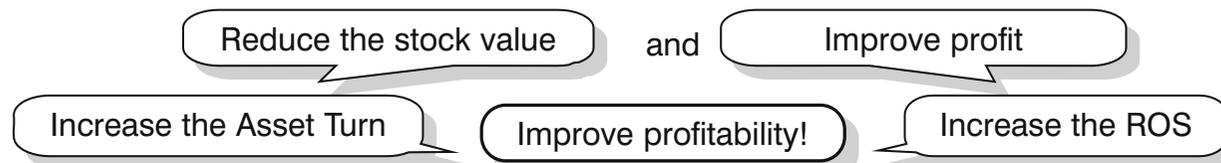
## MANAGING STOCK



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

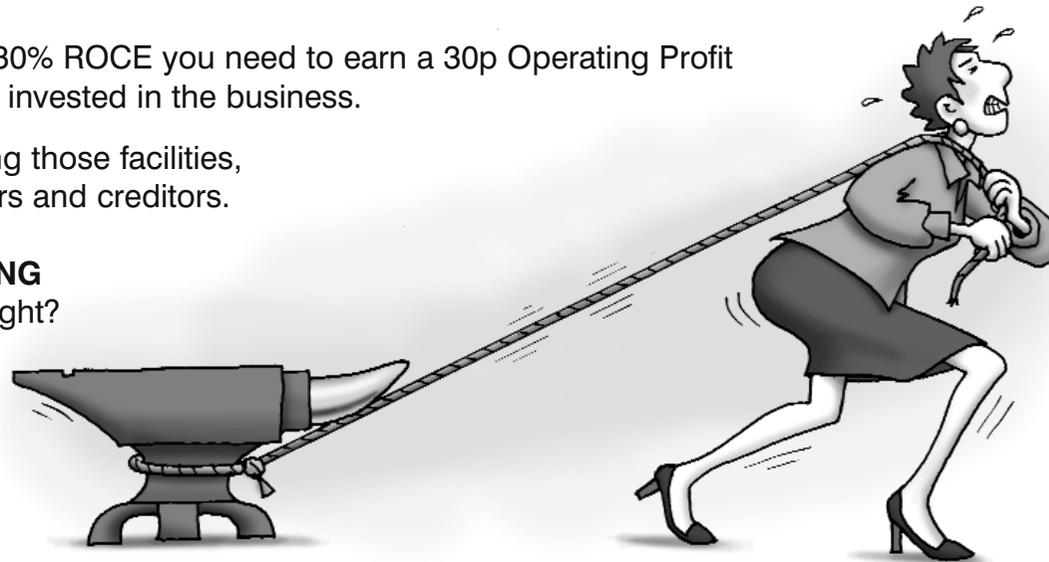


Just think!

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!

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

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

## About the Authors

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