



Ignite Business Coaching Whitepaper

Insightful Financial Reporting



You and your team see it each time you review the financial results. Revenue is level or declining, and profit margins are shrinking. Customers are demanding more and want to pay less. The credit crunch has made it increasingly difficult to manage short-term working capital needs, let alone business expansion initiatives.

With resources so tight, how do you know the products and services you provide are profitable? In which offering should you invest? Where should you pull back? Balance sheets, income statements and cash flow statements provide a macro-perspective on results. Are they enough for you to steer the business in the right direction? If you had more information, would you be willing to act on it? Do you make your decisions based on what has worked in the past? Simply put, can you afford to run your organization based on the same reports that are published monthly and at a very macro level?

According to a report from CFO.com, the current economic crisis and uncertainty hasn't caused a significant shift in how often we review and rethink profitability measures. A third of all respondents haven't done more homework. In the middle of one of the worst recessions and economic downturns in over 50 years, one-third of companies polled have not changed the way they use financial data. What is going to happen to these organizations? Are they being diligent and doing their homework? Are they developing strategies that promote financial success and customer satisfaction? Will they be here six months or a year from now?

Some companies do create profitability metrics. Typically, they measure business unit profitability, product or service profitability, regional results and even department or function metrics. Why not take this to another level? If you were running a sales force, would you want to know who generates the best return? Start with the sales representative's revenue. From that, subtract the cost of the products sold and credits for returned product. You now know the sales representative's gross profit. From that, subtract wages, free product, commissions, benefits, travel costs, car allowance, cell phone bills and other expenses that can be directly tied back to that person. The result will be the sales representative's direct profit. Lastly, allocate any additional support costs to the sales representative. Subtract them from the direct profit, and what is left represents his or her profitability.

I don't know about you, but I find this information a lot more informative than looking at regional sales profitability. I have used this tool on numerous occasions. Not only does it tell me how someone is doing, but it lets me know who needs help. I can then focus on those who need to improve their results. This is done through training, talking to customers, sharing best practices and establishing metrics to measure performance on a more frequent basis.

Don't limit yourself to the sales representative analysis. If you really want to gain some insight, look at profitability by customer. The customer who accounts for 25 percent of your revenue might only be generating 10 percent of your profit! Would you rather be a \$100MM company generating a 5 percent profit, or a \$75MM company generating a 15 percent return?

Take a look at your distribution channels and suppliers, too. There is always more to a supplier relationship than price, but are you really getting those extra benefits to compensate for the higher price? Have you been doing business with certain suppliers for so long that you have forgotten to nurture a true vendor partnership? Lunches and ego stroking make you feel good, but does it increase the bottom line? Would you rather have your suppliers come in and take your buyers out to lunch or supply you with a bar-coding ordering system that cuts your ordering time in half, saving you tens of thousands of dollars per year?

Stop standing still. Be creative in your view of the organization's results. Talk to vendors, suppliers and your sales people. Partner with the finance team. Yes, they can sometimes be the finance police, but a partnership will create a relationship between you and the money guys. Take this new information and use it to be forward thinking. Develop strategies to maximize your returns and generate the highest levels of customer satisfaction.

Most importantly, don't just review the results and say, "That's interesting." Don't do the analysis unless you are willing to act on the information. You are going to find out that many of your perceptions aren't as accurate as you thought. The sales rep who you thought was generating the most profits just might be at the bottom. The supplier from whom you buy 50 percent of your inventory at a higher price might not be providing enough value-added services to offset it.

Lastly, talk to your customers. Do a "The CEO Wants to Know" survey. Find out how the customer really feels about your team and products.

Get your hands dirty. Dig deeper, study the meaningful results and then implement and execute a plan to generate more success. And afterward, measure the results of that initiative and adjust accordingly. Initially, you might be scared and surprised, but after you execute the plan, you'll sleep a lot better.

About Ignite Business Coaching

Ignite Business Coaching provides leadership development coaching and business consulting services. Coaching clients include financial professionals and teams looking to improve their competitive advantage to provide more value to clients and employees while achieving personal goals. Consulting clients engage Ignite to develop strategic plans, analyze business models, and design or optimize business processes.



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