

A Practical Financial View of Your Business

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GRDP GLOBAL RELIEF AND
DEVELOPMENT PARTNERS

**“Never express yourself more
clearly than you are able to think.”**

Niels Bohr- Nobel Physicist

About Bruce King

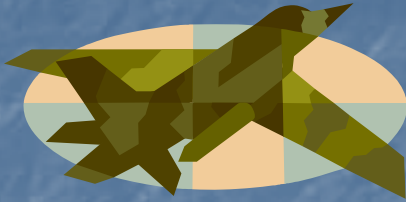
■ Education

- BS Industrial Engineering- Purdue U.
- MBA – Indiana U.
- Masters in Finance – Indiana U.
- Hoosier Fellow (Tobias Leadership Center)

■ Business Experience

- CFO/COO (6 years):
 - Business Strategy Planning and Execution
 - Finance and Accounting
 - Lead Human Resources, Quality Assurance, Production, and Engineering Functions
- Engineering Positions (14 years)
 - Project Management
 - New Product Development
 - Manufacturing/Operations/ Industrial
 - Mechanical / Process / Tooling

Gaining a Higher View



"The Airplane"

Long Term Strategy
Big Picture Decisions



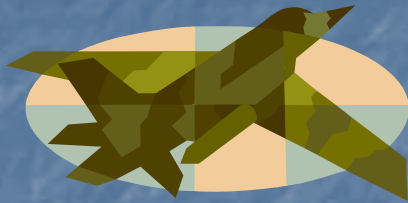
"The Trees"

Tactical and Project
Decisions

"The Weeds"

Daily Operations and
distractions

Gaining a Higher View



Start Here
Look and Listen

(review)

Gain Altitude
-Credible Vision
-Read Instruments
-Explore Opportunities
-Assess Risks

Translate
-Build Instruments
and Systems

Get Hands Dirty
Measure Facts



Exercise A

STEP 1: List three critical requirements that your customers need from you

“Customers” can be:

- End Customers
- Investors and Partners
- Employees
- Suppliers
- The Community

Exercise A

Customer Requirement Examples Bruce's Bicycles



Customer Requirement	Business Core Competency Needed	Performance Measurement
1. Defect-Free Product (Bicycle works well and looks good)		
2. Low price relative to competition		
3. Fast and Friendly repairs		

Exercise A Continued

STEP 1: List three critical requirements that your customers need from you

STEP 2: Identify what your business MUST do well to meet each customer requirement.

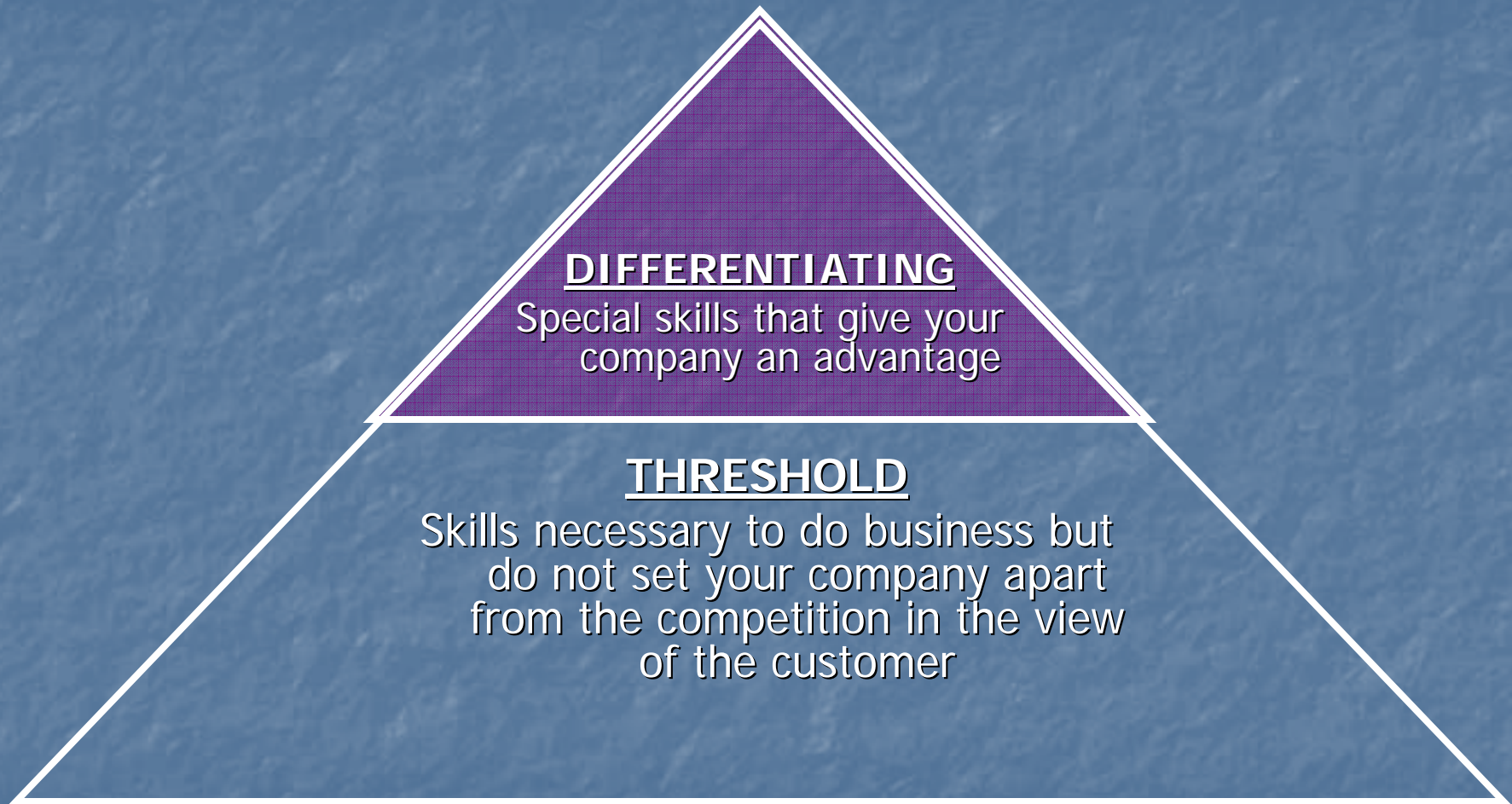
(These are called Core Competencies or Skills)

Exercise A

Core Competency Examples

Customer Requirement	Business Core Competency Needed	Performance Measurement
1. Defect-Free Product (Bicycle works well and looks good)	Production Quality	
2. Low price relative to competition	Cost Control	
3. Fast and Friendly Repairs	Technical Support Quality	

More About Core Competencies (Skills)



For Bruce's Bicycles

DIFFERENTIATING

Production Quality
Cost Control

THRESHOLD

Support Quality
Effective Advertising
Accurate Accounting
Reliable IT Systems
Speed of Delivery

Exercise A Continued

STEP 1: List three critical requirements that your customers need from you

STEP 2: Identify what your business MUST do well to meet each customer requirement.

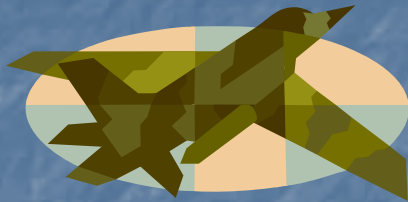
STEP 3: Identify how you measure your company's performance for each.

Exercise A

Examples

Customer Requirement	Business Core Competency Needed	Performance Measurement
1. Defect-Free Product (Bicycle works well and looks good)	Production Quality	1. Training feedback 2. Defect Ratio = Production defects/ parts produced 3. Rework and Scrap Rates 4. Field Failures & Costs
2. Low price relative to competition	Cost Control	1. Expense Ratios 2. Raw Material Costs 3. Efficiency Rates
3. Fast and Friendly repairs	Technical Support Quality	1. Customer complaints 2. Time from call to fix 3. Survey Data (ask customers)

Gaining a Higher View



Start Here
Look and Listen

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Get Hands Dirty
Measure Facts

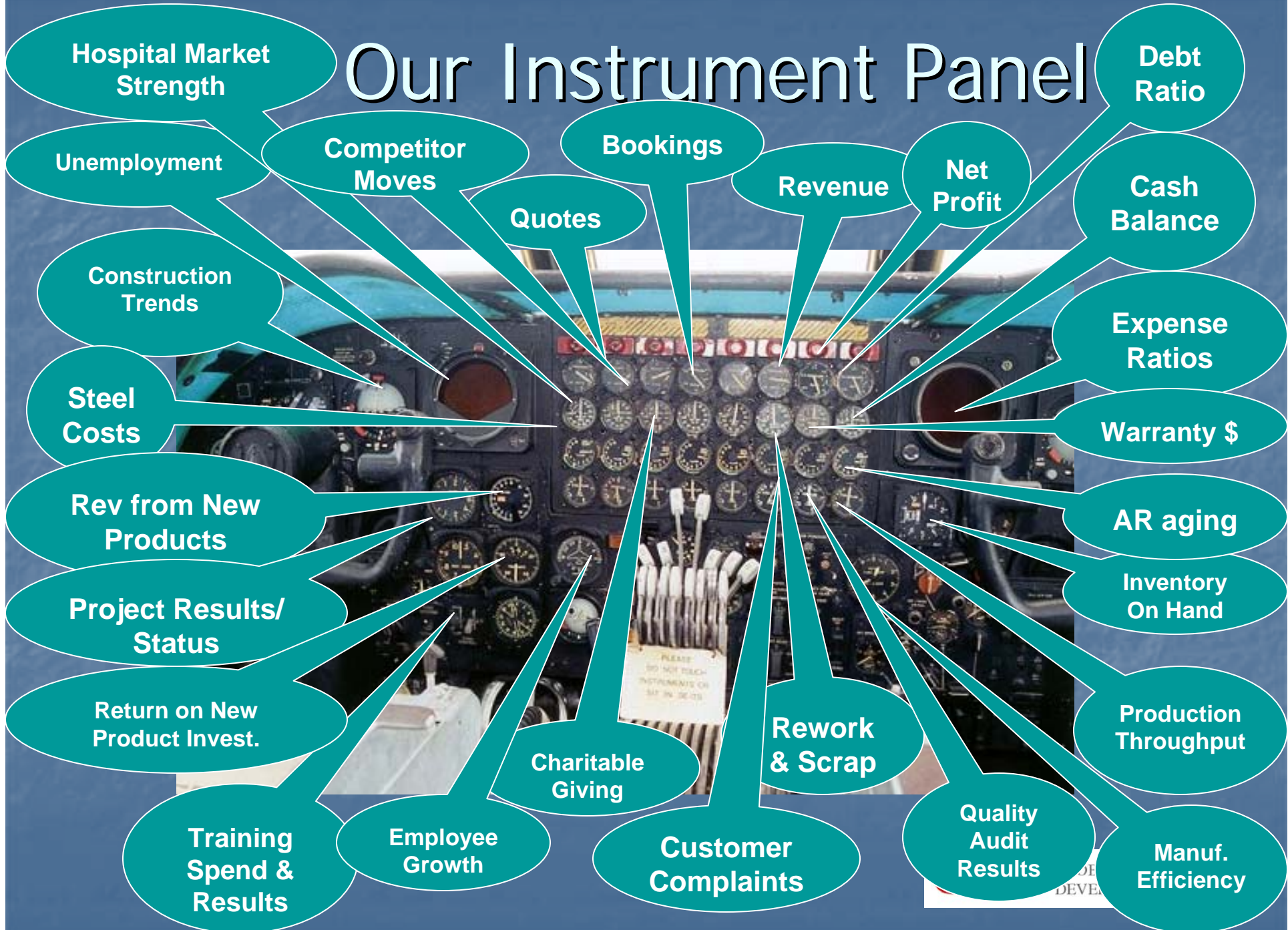
(review)



Creating Your “Instrument Panel”



Our Instrument Panel



Gauge Measurement Examples

- EVA (Economic Value Added)
- Cash Flow
- Net Profit Margin
- New Customer Accounts
- Sales/Gross Profit by Customer
- Sales/Gross Profits by Product
- Op Expense Ratios
- Quality Metrics
- Material Yield (scrap)
- Labor Efficiency
- Throughput Time (speed)
- Cash Balance
- Current Ratio (CA/CL)
- Net Worth
- Debt Ratio
- Times Interest Earned
- Return on Assets
- Return on Equity
- Inventory Ratios
- Working Capital Ratios
- Days Receivables Outstanding

Gaining a Higher View



Management by Fact

- **Facts**
 - Objective Results
 - Measurements and Close Approximations
- **Wild Guesses**
- **Well-founded Assumptions**
 - Inferences based on reason, supporting facts, and experience.

Management By Fact

- Facts
 - Most expensive and slow to acquire
 - Most accurate decision criteria
 - In past or present
- Wild Guesses
 - Free and Fast!
 - Often wrong!
 - Any timeframe (past, present, or future)
- Well Founded Assumptions
 - Relatively inexpensive and medium-fast
 - Usually more accurate than guessing
 - Any Timeframe**

** Be careful with "Predictions" and "Conclusions"

When to Assume...

- Facts and Analysis
 - Critical decisions with high risks
 - When you lack experience
- Guesses
 - The lazy often use Guesses to appear swift and decisive
- Well Founded Assumptions
 - When you can afford to be wrong, especially if you need a fast decision.
 - When you have plenty of experience

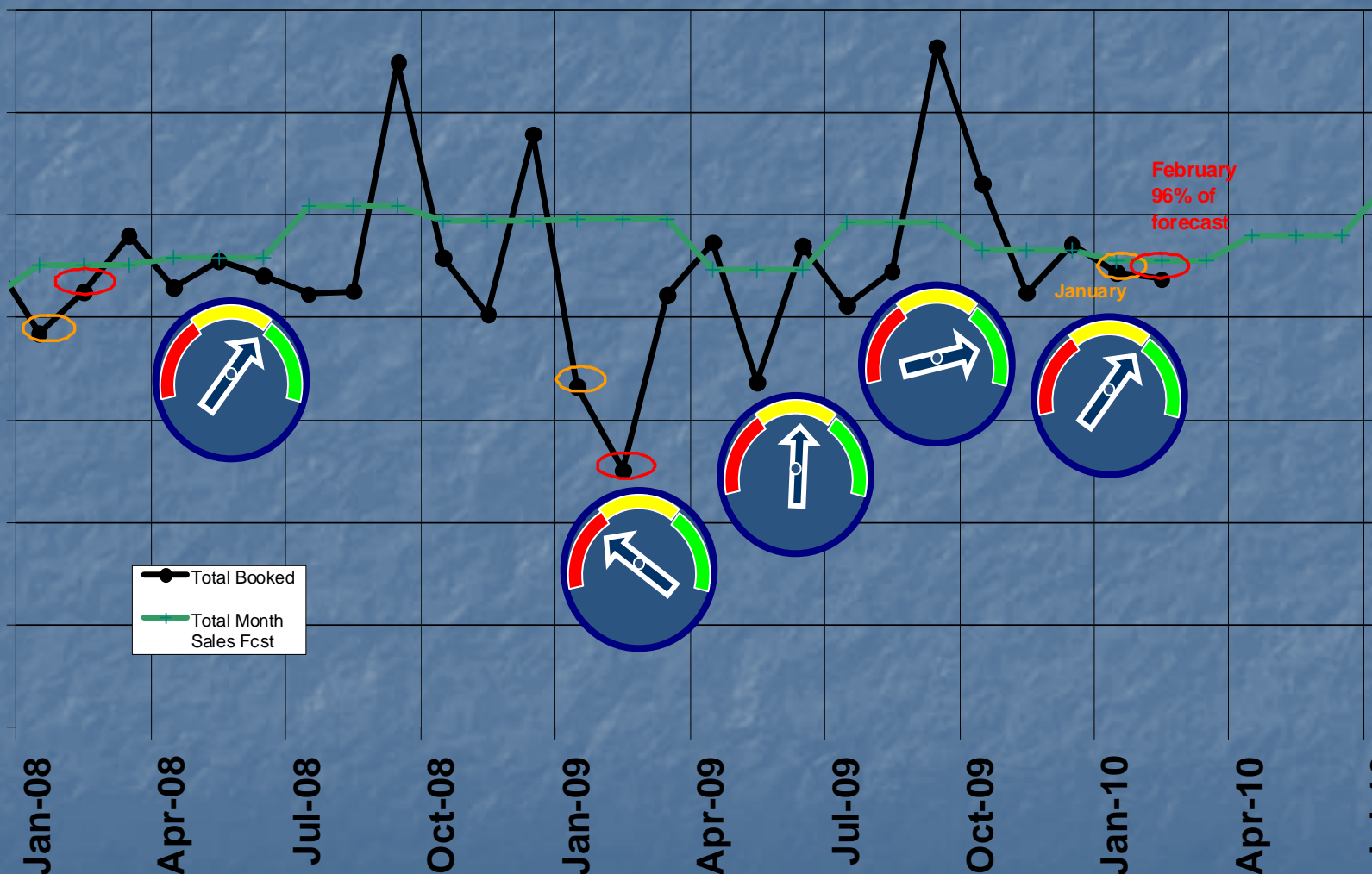
Reading the Gauges

The actual value of the measurement may be less important than how it is changing over time...

- ABRUPT TRENDS:
Have a Keen Sense of the Obvious
- LONG SLOW TRENDS:
Don't become a "boiled frog"!

Reading the Gauges...

BOOKED ORDER TREND



● Total Booked
— Total Month Sales Fcst

Avoid False Causality



Are you like the rooster who thinks the sun comes up every morning because he crows?

Continually ask questions like...

- Did the customer buy your product because of the promotion or just coincidentally after the promotion?
- Did efficiency improve because you hired a new shop leader or just after the hire and for other reasons.

Exercise B

Risks and Threats

- List three things that can go wrong that would put your business at risk.
- Identify how much control you have to prevent each risk.

Pay Attention to the World Outside Your Business

“To a worm in horseradish, the world
is horseradish.”

Yiddish Expression

Caution!

Some of the most important “facts”
are not visible figures...

- The multiplier effect of a happy customer
- The mood of employees and investors
- The effects random chance and variation

I suggest two books by Nassim Taleb

“The Black Swan” and

“Fooled by Randomness”

Risk in Context For Small Business in Rwanda

You are all entrepreneurs!

- You will need to take risks to grow.
- Determine your own taste for risk and your own level of patience.
- Balance long and short views of success, financially and otherwise.

\$\$\$

SALES ARE FUN!



BUT CASH IS KING!





Cash flow depends upon the timing of operating and working capital cycles.

Example of cash cycle:

- Buy inventory (terms with suppliers)
- Build product (payment terms with employees, rent)
- Ship product (shipping terms)
- Collect receivables (what terms do you need to give customers?)

These cycles repeat and overlap each other. The first three steps consume cash. .

Final Exercise

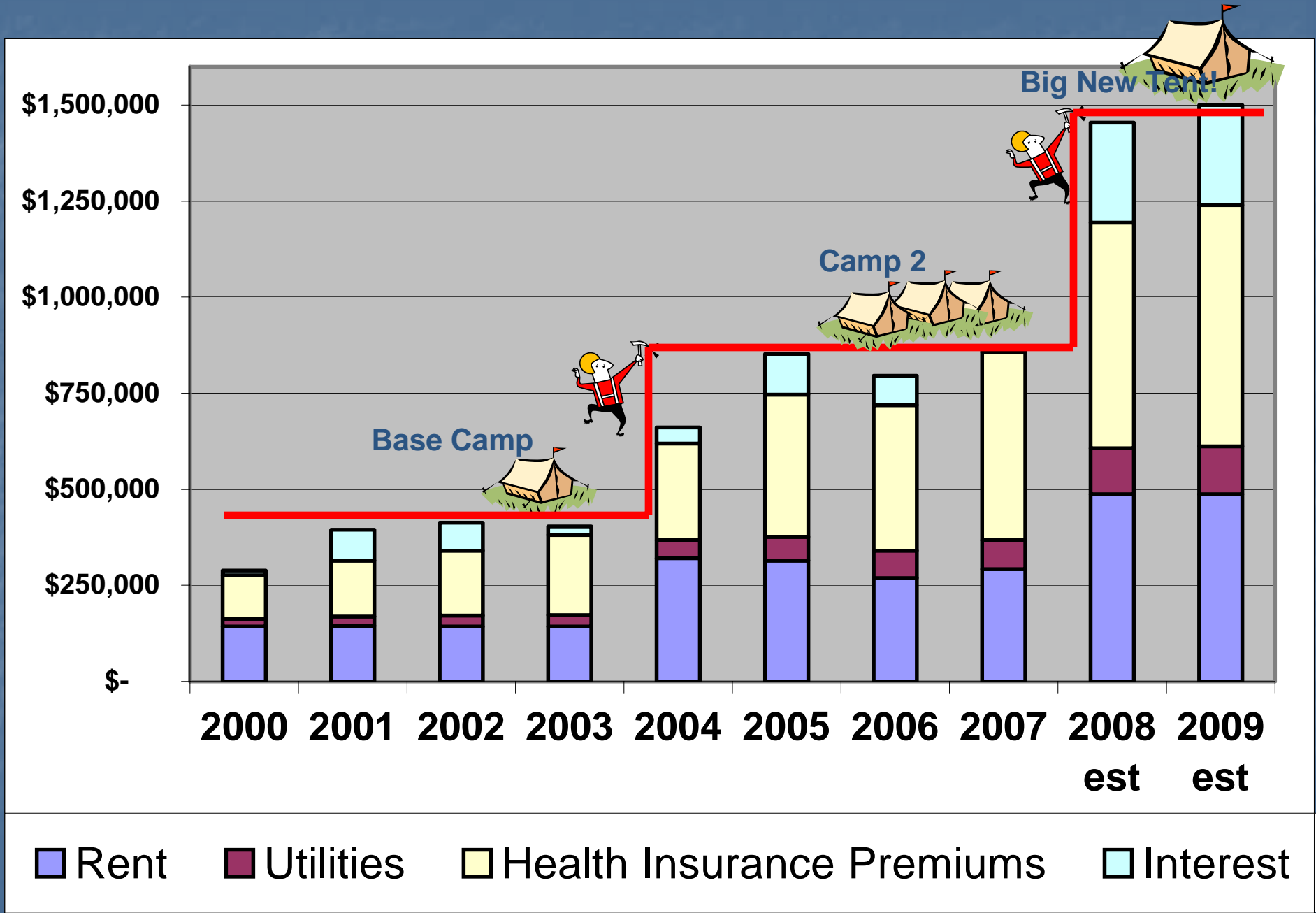
- Write down a large growth opportunity for your business
- How will your business need to change if you get the big opportunity?

Funding Growth

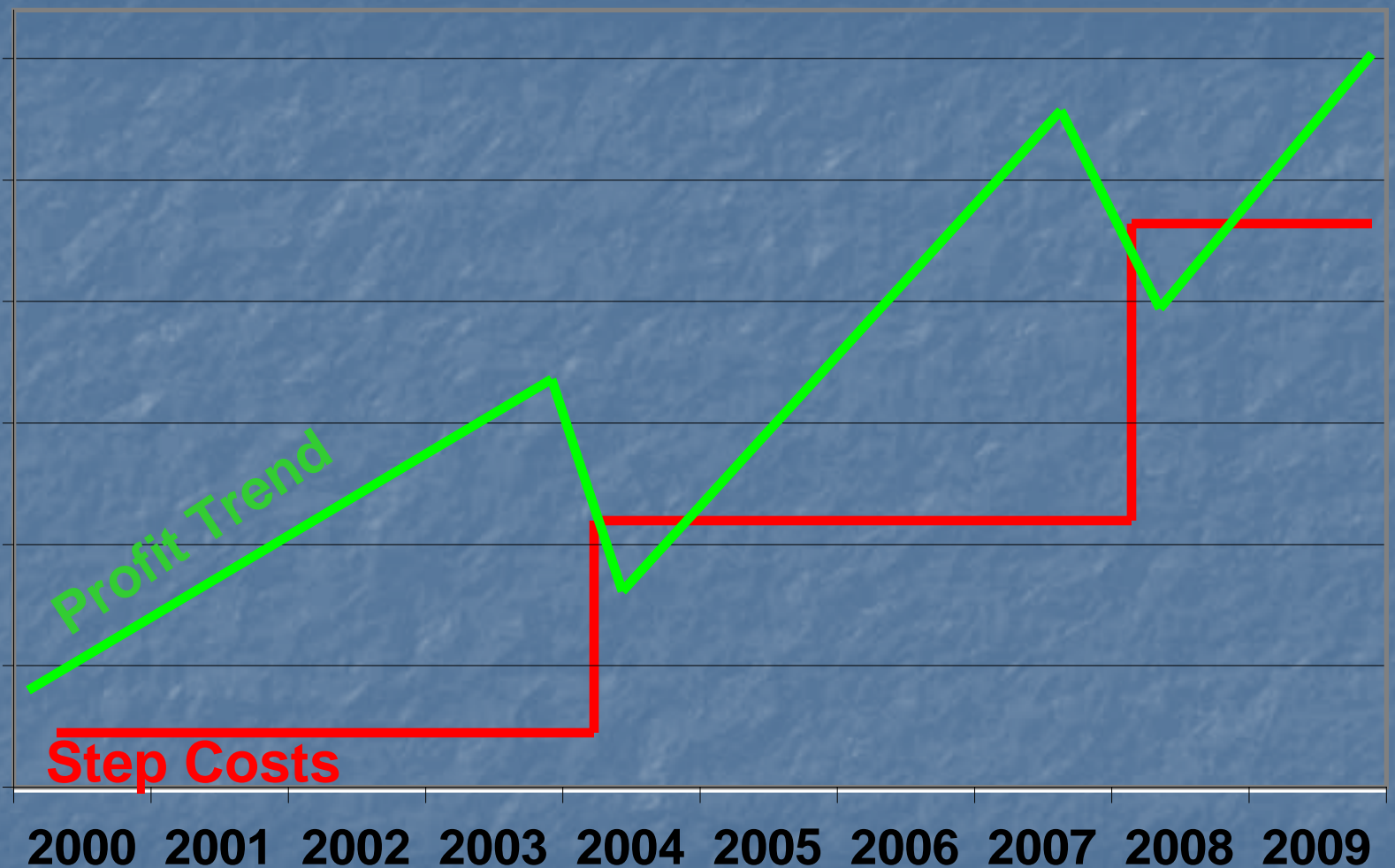
Step costs and when to fund a new shell



Investing for Growth: Climbing the "STEP COSTS"



Investing for Growth: *Step Costs and Profitability*

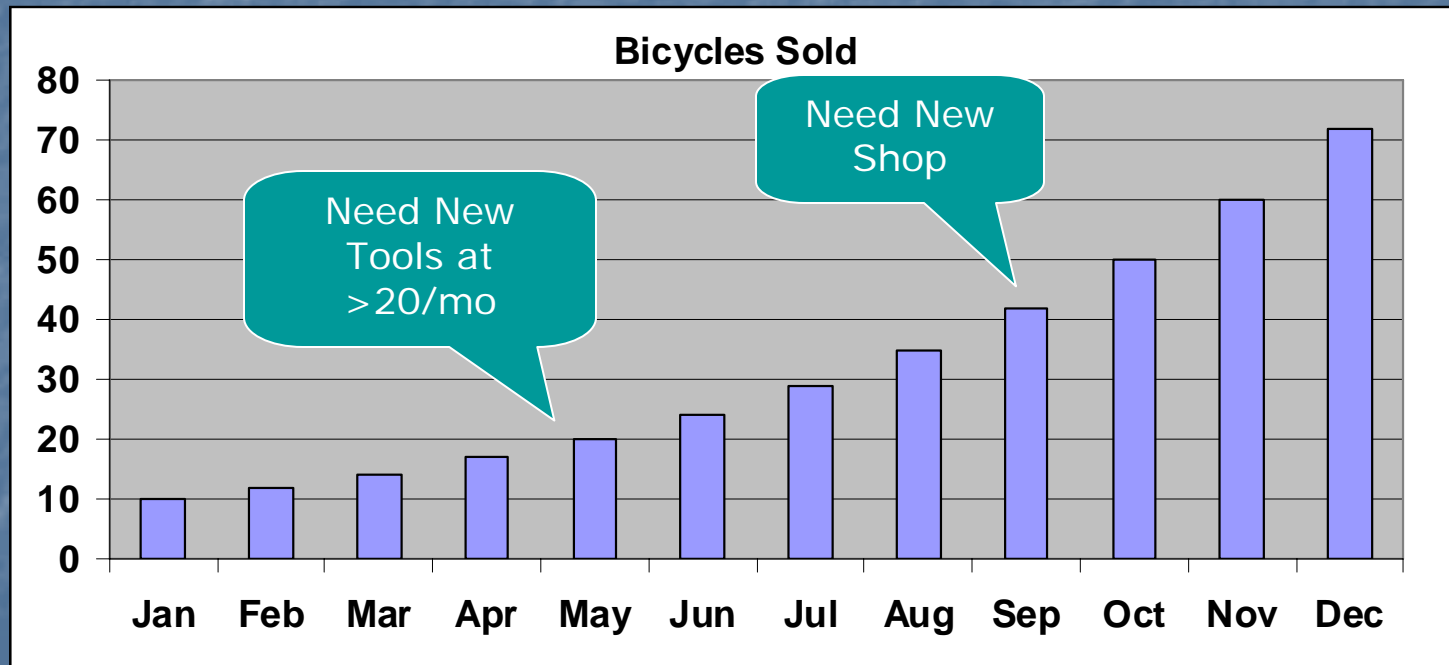


Note that it is expected for profits to dip after investment in step costs.

Investing for Growth: Step Costs and Profitability

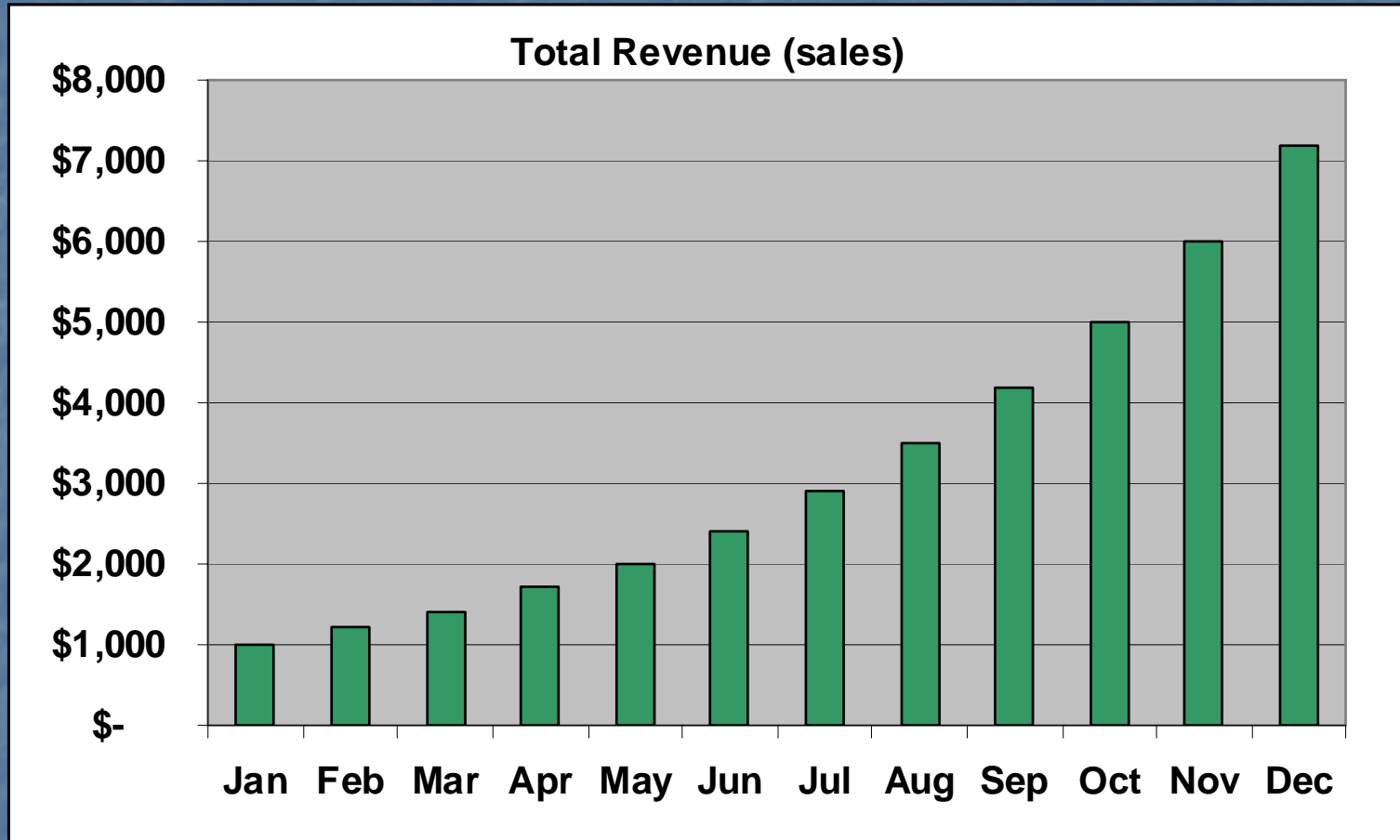
Bruce's Bicycles Example

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Bicycles Sold	10	12	14	17	20	24	29	35	42	50	60	72
Price per Bike	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100
Variable Cost Per Bike	\$ 70	\$ 70	\$ 70	\$ 70	\$ 70	\$ 70	\$ 70	\$ 70	\$ 70	\$ 70	\$ 70	\$ 70
Total Revenue	\$ 1,000	\$ 1,200	\$ 1,400	\$ 1,700	\$ 2,000	\$ 2,400	\$ 2,900	\$ 3,500	\$ 4,200	\$ 5,000	\$ 6,000	\$ 7,200
Total Variable Cost	\$ 700	\$ 840	\$ 980	\$ 1,190	\$ 1,400	\$ 1,680	\$ 2,030	\$ 2,450	\$ 2,940	\$ 3,500	\$ 4,200	\$ 5,040
Total "Fixed" Costs	\$ 400	\$ 400	\$ 400	\$ 400	\$ 800	\$ 800	\$ 800	\$ 800	\$ 1,200	\$ 1,200	\$ 1,200	\$ 1,200
Profit	\$ (100)	\$ (40)	\$ 20	\$ 110	\$ (200)	\$ (80)	\$ 70	\$ 250	\$ 60	\$ 300	\$ 600	\$ 960



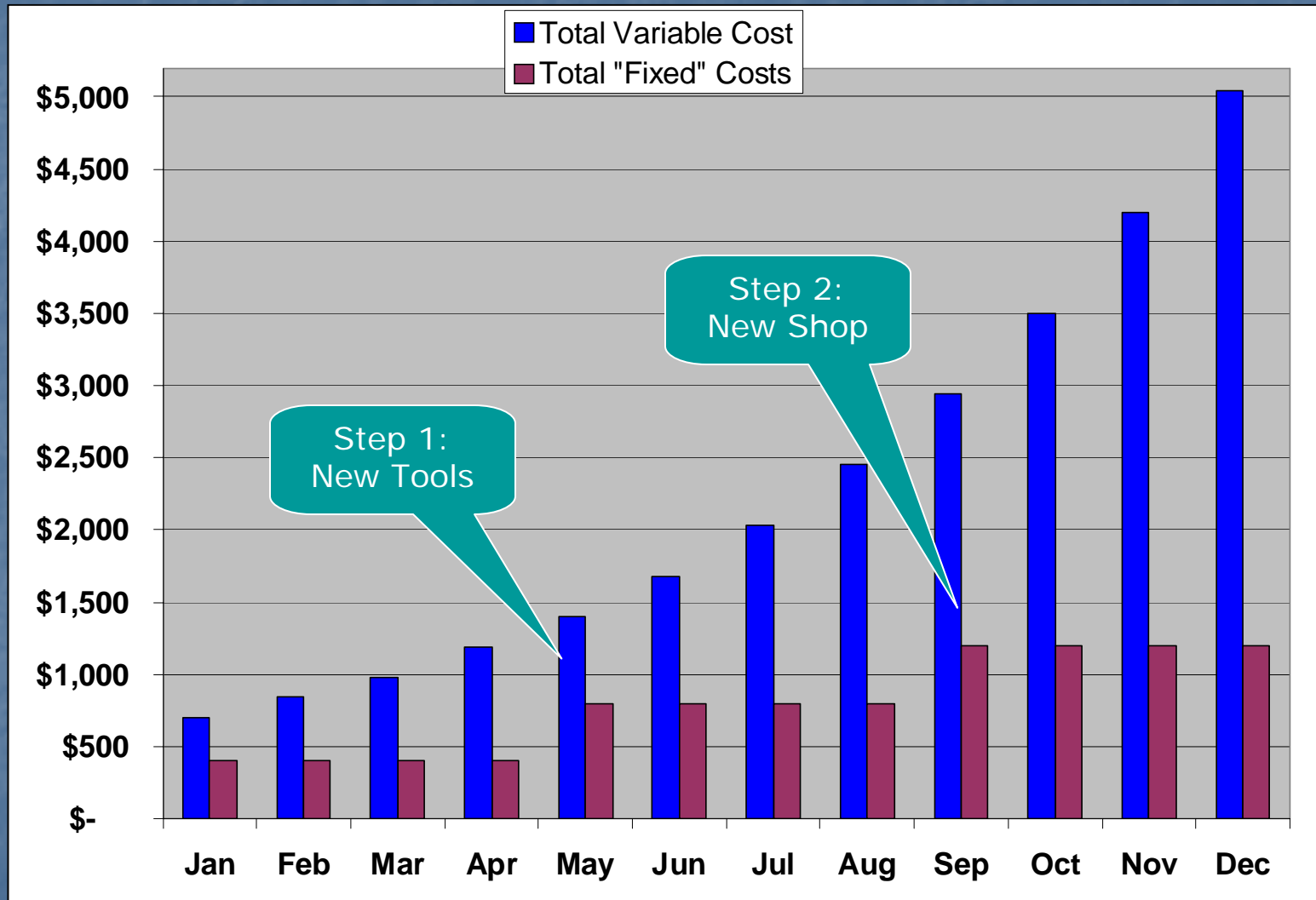
Investing for Growth: *Step Costs and Profitability*

At Bruce's Bikes

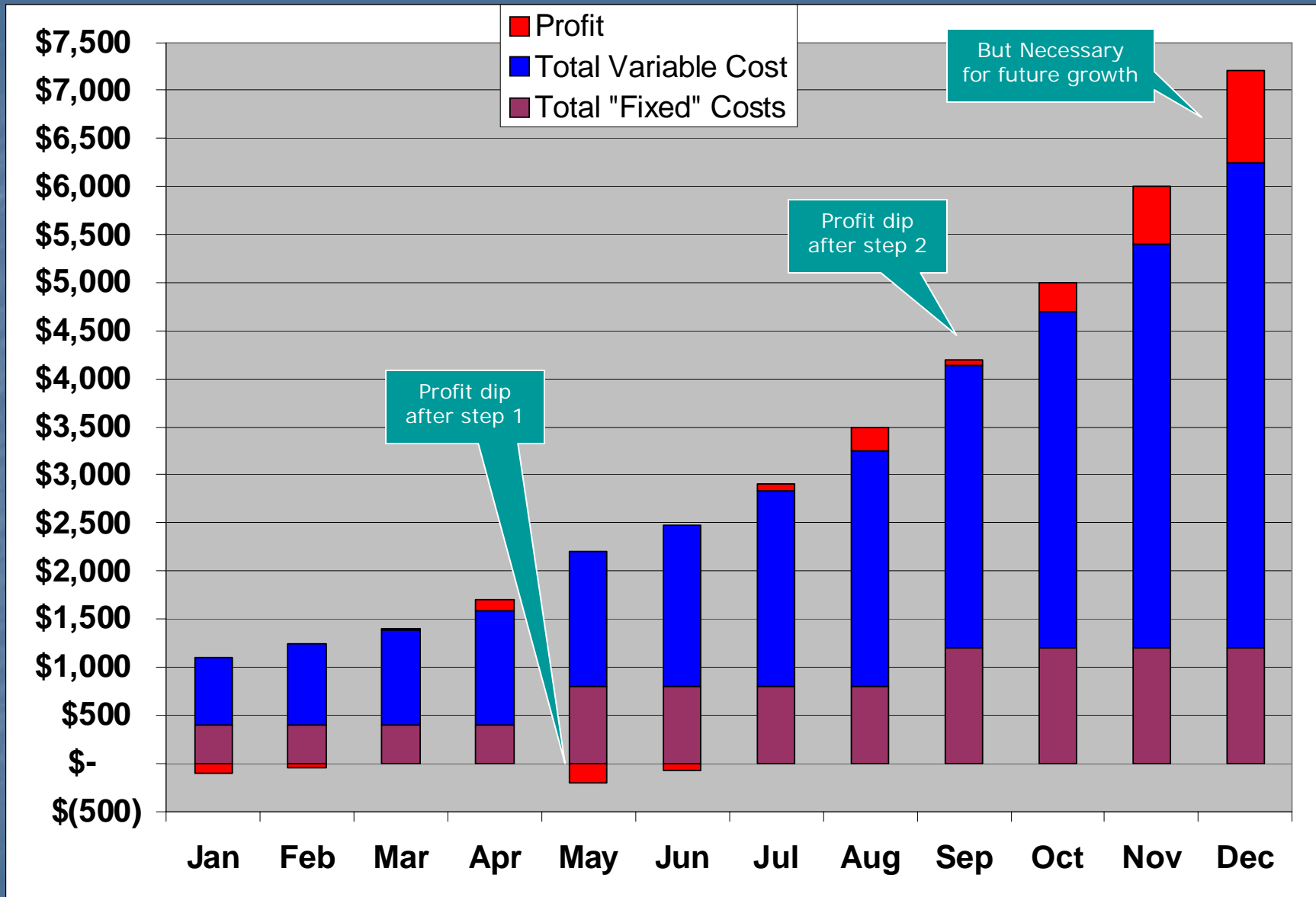


Investing for Growth: Fixed “Step” Costs and Variable Costs

At Bruce’s Bicycles



Investing for Growth: *Step Costs and Profitability*



Investing For Growth

The Takeaway

Don't climb a step (or invest in a new shell) until you're ready!

- Instead, camp at the base until you have a plan
 - ☑ Build cash savings for the climb
 - ☑ Make sure the growth justifies the step
 - ☑ Plan for the possible profit dip as growth catches up to the step cost

Useful Web References

- Valuebasedmanagement.net
- Management and Accounting Web MAAW.info
- American Society for Quality asq.org
- Time Value of Money Calculators tvocalcs.com
- Nassim Taleb Site fooledbyrandomness.com
- [MIT "open courseware" Ocw.mit.edu](http://MIT)