



RISING TO THE CHALLENGE

Financial Metrics That Matter

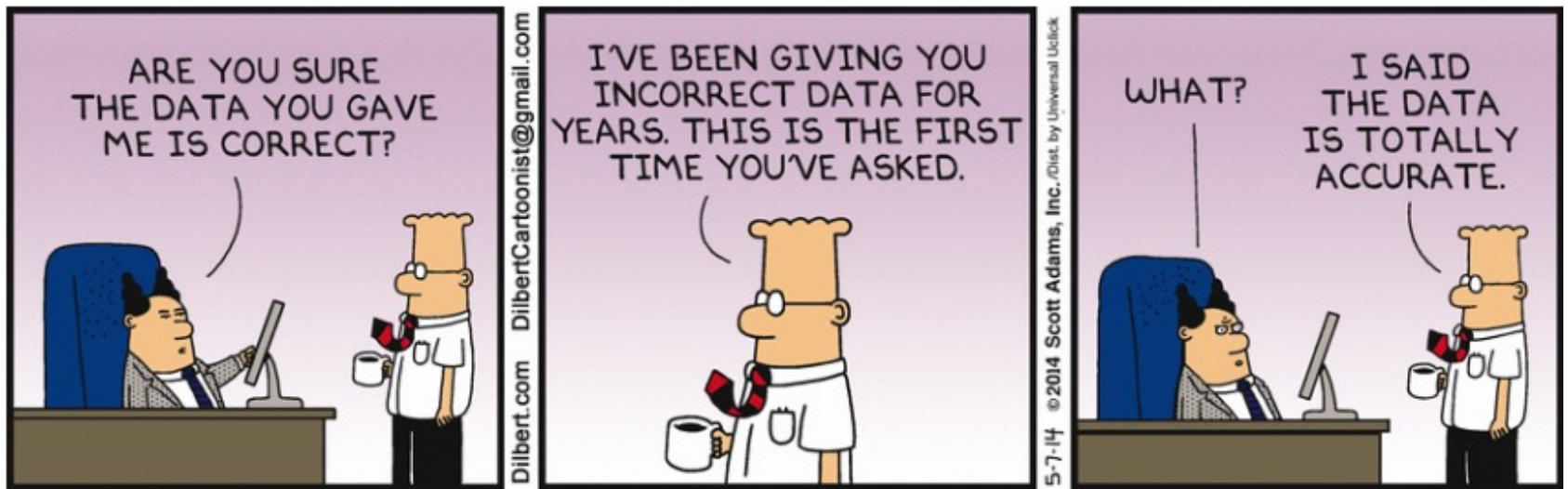
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What are we talking about today?

Metrics =
Measure Something!



But - - Make Sure it Matters - - Not Just a Number



How Do We Know if We Had a Good Month?

00100 - Model Finan/Distrib Co (Mktg)				JD Edwards World Company 00100		Page - 3	
				Simple Income Statement		Date - 4/18/17	
6 Months Ending 06/30/17							
Current Month		Last Year		Year to Date		Last Year To Date	
Actual	%	Actual	%	Actual	%	Actual	% Chng
Revenues							
12,579,424.80	68.1	22,254,329.98	67.5	72,378,232.32	67.9	75,527,295.66	67.2 4.2
5,047,870.05	27.3	9,133,291.10	27.7	28,831,043.09	27.0	31,017,299.94	27.6 7.1
840,064.95	4.6	1,594,048.98	4.8	5,451,295.73	5.1	5,792,234.13	5.2 5.9
18,467,359.80	100.0	32,981,670.06	100.0	06,660,571.14	100.0	12,336,829.73	100.0 5.1
Direct Costs							
14,007,772.88	75.9	26,358,049.26	79.9	81,239,604.14	76.2	87,099,988.40	77.5 6.7
1,210,525.27	6.6	2,068,430.34	6.3	7,019,348.02	6.6	7,263,328.66	6.5 3.4
150,572.93	0.8	515,933.32	1.6	1,743,145.34	1.6	1,853,513.61	1.7 6.0
267,814.20	1.5	485,742.74	1.5	1,535,817.71	1.4	1,652,427.75	1.5 7.1
15,636,685.28	84.7	29,428,155.66	89.2	91,537,915.21	85.8	97,869,258.42	87.1 6.5
2,830,674.52	15.3	3,553,514.40	10.8	15,122,655.93	14.2	14,467,571.31	12.9 4.5
General And Administrative							
Administrative Salaries				11,260.09			
General And Administrative				11,260.09			
309,272.37	1.7	441,263.46	1.3	1,701,089.95	1.6	1,583,155.75	1.4 7.5
51,928.49	0.3			108,460.33	0.1	1,600.38	
437,151.61	2.4	441,263.46	1.3	1,982,047.21	1.9	1,583,155.75	1.4 25.2
2,393,522.91	13.0	3,112,250.94	9.4	13,129,348.63	12.3	12,884,415.56	11.5 1.9
13,870.00	0.1			13,790.00			
12,000.00	0.1			12,000.00			
2,395,392.91	13.0	3,112,250.94	9.4	13,131,138.63	12.3	12,884,415.56	11.5 1.9
Income Taxes							
1,870.00				1,790.00			
2,395,392.91	13.0	3,112,250.94	9.4	13,131,138.63	12.3	12,884,415.56	11.5 1.9

Who really loves to look at this?



Profit and Loss Statement

A Quick Review Before we Jump In

	Total Year Actual	% of Sales
Revenue	\$500,000	100%
Variable Costs		
Direct Material	\$200,000	40%
Direct Labor	\$50,000	10%
Variable Overhead	\$100,000	20%
Total Variable Costs	\$350,000	70%
Contribution Margin	\$150,000	30%
Fixed Costs	\$45,000	9%
Selling, General and Amin. Costs	\$65,000	13%
Net Income	\$40,000	8%
Int., Taxes, Depr., Amort.	\$10,000	2%
EBITDA	\$50,000	10%

- **Revenue Streams** – Products, Service, Distribution
- How are **Direct Materials** different by stream
- Different **Labor** requirements by stream
- **Variable Overhead** - Different machines, supplies, shipping requirements, inspection
- **Fixed Costs** – Building Related: Rent, Utilities, Property Taxes. Can also include fixed labor such as supervisors, maintenance.
- **S,G&A** – Leadership, Support Departments, Office Related, Insurance

What Drives Your Revenue

- **Sales \$ is not a Metric, it's the End Result**
- **Where do you make your money?**
- **What Drives/Predicts Your Sales**
 - Total Units, Pounds, Lineal Ft., Pieces per Hour, Molds per Hour
 - Specific Products – Lead to Ancillary Products
 - Machine Hours – Does one Machine Feed the Process?
 - Labor Hours
 - Rental as a % of Services Provided
 - Sale Price per: Unit, Pound, Ft., Hour
 - New Orders, Backlog Level



What are Your Cost Drivers?

- **Focus on Direct Material, Direct Labor and Overhead First** – The Resources that Support Revenue

- ▣ Cost per Pound - Material
- ▣ Material Cost - % of Sales

- ▣ Labor Cost per Hour / Cost per Ton / % of Sales
- ▣ Man-Hours per Ton
- ▣ Direct Labor Hours vs. Indirect Labor Hours

- ▣ Scrap %
- ▣ Uptime / Downtime %



A Better Way to Understand Performance

	January 2023			February 2023			March 2023			Q1 2023		
	Actual	Plan	Variance	Actual	Plan	Variance	Actual	Plan	Variance	Actual	Plan	Variance
Revenue												
Units Sold	110	100	10	102	100	2	85	100	-15	297	300	-3
Sale Price per Lb.	\$ 1.05	\$ 1.00	\$ 0.05	\$ 0.95	\$ 1.00	\$ (0.05)	\$ 1.02	\$ 1.00	\$ 0.02	\$ 1.02	\$ 1.00	\$ 0.02
New Orders	\$ 200,000	\$ 250,000	(\$50,000)	\$ 265,000	\$ 250,000	\$15,000	\$ 280,000	\$ 250,000	\$30,000	\$ 745,000	\$ 750,000	(\$5,000)
Cost of Goods Sold												
Material % of Sales - Product A	35.5%	35.0%	0.5%	34.5%	35.0%	-0.5%	33.0%	35.0%	-2.0%	34.4%	35.0%	-0.6%
Material % of Sales - Product B	37.0%	38.0%	-1.0%	39.0%	38.0%	1.0%	40.0%	38.0%	2.0%	38.7%	38.0%	0.7%
Direct Labor % of Total Hours	65%	70%	-5%	72%	70%	2%	68%	70%	-2%	68%	70%	-2%
Scrap %	3.0%	3.0%	0.0%	3.4%	3.0%	0.4%	2.5%	3.0%	-0.5%	3.0%	3.0%	0.0%
Uptime %	90%	85%	5%	82%	85%	-3%	85%	85%	0.0%	86%	85%	1.0%

- Review Metrics Monthly, Weekly maybe even daily if you can access the data.
- Understand the Green as well as the Red.
- Over time, you will know what 0.5% of Scrap or a 1.0% change in Material Cost translates to on the P&L.

Metrics that Drive the Required Outcome

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Variable/Contribution Margin – 30% +

Net Income – 5% +

EBITDA – 10% +



Find the Metrics that Truly Predict Your Business Results. Create Leading Indicators that Predict the Lagging Metrics

The Data/Metrics need to speak to the results.

All the data is out there, no where to hide behind false numbers. Creates discussion.

If they are the Right Metrics, you will know your results before acctg. is done closing the month.

How and Why

Work with the right financial professional that can ask the right questions and help develop the metrics that accurately predict the impacts of changes to your business

Use the planned/target metrics to compare your actual results to each month to better understand why you over or under performed to your expectations.

You will have a professional looking plan to facilitate discussions with your lenders leading to easier financing and potentially better rates.

Future years will become easier to plan and month-end results will not be a surprise if you understand the metrics that drive your business.

Thank You for Participating

- Please complete the brief session survey to provide feedback to the presenter(s) and in put to future editions of Manufacturing Matters!



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