PRE
QUATE

Strategic Finance Office (SFO) Case Study

Can an SFO add 6% to your bottom-line by redesigning your costing thinking?

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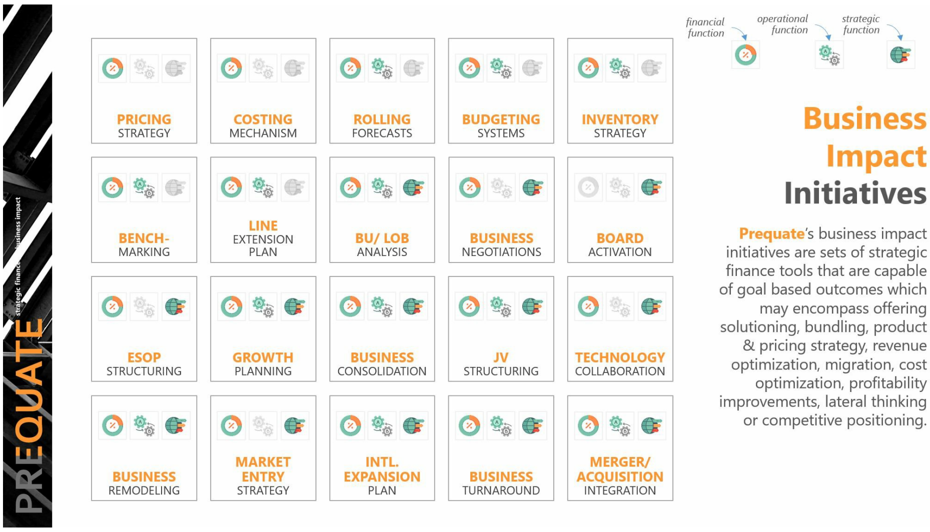
Overview

Silver was operating in a space where it had carved a niche for itself. Over time, it had been able to maintain a competitive edge and also maintain an edge over the competition in the products it manufactured. Prequate was brought in with a view to improve the quality of management reporting. In 3 months of doing an external review of the profitability and benchmarking to competition, it was observed that the company was able to make consistent profits but unable to grow profitability. Measures to reduce the cost of goods sold only had marginal improvements. Further, the finance function ran on a completely people dependent setup. Prequate was entrusted with overhauling the finance function.

** Considering the nature of our work, few names and non-integral specifics have been changed to honor commitments of confidentiality.*



Silver Group

Industry: Manufacturing
Location: India
Size: 100+ employees

Company Bio

Silver* Private Limited ('Silver'), was a 20+ year old manufacturing company. Over the last 4 years, they had been ensuring consistent growth year on year with the addition of new product lines and improving the product quality. Catering to a niche requirement, they faced little to no comepetition on the top 80% of their product lines. They maintained a lean Finance Team of 5 members with a strong Head - Finance who had been with Silver for over 10 years.

> "As Prequate began working with us, we saw things in a whole new way and greatly improve our cost effectiveness and boosted our profitability on every unit we made".
>
> *- Praveen Purohit**
> *Group MD, Silver Group*

What did it mean for Silver?	Drop in material wastage	Drop in sub-contracting costs	Drop in sourcing costs	Drop in profitability reporting time to	in under
	12%	**16%**	**10-12%**	**1 day**	**90** days

The Challenge

A business in a niche segment with a competitive advantage must enjoy exceptional profitability. If a business is unable to achieve that, the company needs to question 2 aspects - it's pricing and the related costing. In an industry where customization is an important part of the solution, it becomes more and more evident of the need to have fundamentally strong functions around these. Silver, had a challenge which seemed unique. Growing top-line. Growing bottom-line. Stagnant PAT margins though there are a number of efforts around efficiency. Without an outlier event (say a new production facility or unprecedented investment in R&D initiatives), there should have been improvements in the absolutes. The company was holding on to a 16-20% EBITDA each year from the last 4 years.

Something was amiss.

Enter Prequate.

The Approach

The first and foremost aspect of any improvement is drawing the rules of measurement. During the course of this understanding, we were able to find:

- Costing of products were being done on benchmarks set up more than 5 years back
- Ad-hoc/ custom requests were being costed on incremental than by drawing up real time data
- Annual cost escalations were being attributed to component brackets and not specific products based on material consumption
- Rules of thumb were the basis for the foundation of the mechanisms (making it extremely subjective and people dependent)
- SKU profitability had never been performed

When all these factors occurred in unison, Silver was able to finally realise that SKUs were not being measured and there was a high likelihood that the sales team's energy was being dragged on to SKUs that weren't making money. Custom requests may have been costing them when they should have been adding to profitability. Not every sale is a good sale.

Our approach was to first understand what was causing the problem and challenge the fundamentals.

- Is there a system in place or is practice being defined as a system? Is the system trained to capture all costs? Is this system able to explain the reason for stagnant profitability?
- Is there adequate information flow for studying profitability at an SKU level?
- On sub-contracting, are costs being allocated in the right manner? Is there a cost of customization defined?

An overhaul was needed.

The Solution

Over the next 90 days, we embarked on a mission to create a scientific method of real-time cost prediction tool, fetching data directly from the accounting team and an automated sales pricing tool.

Step 1 Detailed production study to translate the entire production process of each SKU with reference to its line with real-time linking to capacity utilisation of the line.

Step 2 Detailed operations study to translate all other non-revenue generating activities to the extent possible

Step 3 Creation of a new data warehouse to capture all real-time cost information directly from accounting team and production line information from the factory floor using simple Excel, VBA and RDBMS

Step 4 Creation of real-time Costing Tool, XCost (a Prequate tool) which fetches real-time information from systems, including all material, line and operational costs, including lead times and line utilisations

Step 5 Creation of real-time Pricing Tool, XPrice with in built benchmarks of price sensitivity of product variant, competitive positioning, customization efforts, receivable recovery time and reorder levels of a component

Step 6 Redo of all SOWs & Outgoing Jobwork orders to factor in elements of XPrice in all aspects of the conversation right from RFP to Invoicing.

Step 7 Introduction of new reproting system & benchmarks at each production level of I/O ratios, wastage and consumption of material - at a floor level.

"Identifying that there is a problem to fix is the first big challange for most manufacturing companies. The second step is to find answers. Interestingly, the answer to most problems is within the business itself and is driven by data. Fixing those problems requires thinking like an entreprenuer than just a line manager. Silver's case is a classic case of how tying up small things can have big impacts when they operate together".

- Rakesh Bordia
Director

The Results

The first immediate improvement was the company started seeing the wastage numbers go down significantly.
Within 2 months, the average reorder quantities started reducing as the line managers were careful on the impact it had on their line level profitability.
In 90 days, the company was able to increase their quarterly EBITDA by 6%.

A leaner, happier, more profitable business which learned to make more money using it's competitive edge.

SFO
management^finance
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About Prequate

The Prequate approach works on the foundation that transformation is possible from the tangent between management and finance. Accordingly, Prequate's DNA is made by experience spanning assurance, accounting advisory, taxation, corporate finance & investment banking and entrepreneurship (as most of the team has had an entrepreneurial stint of their own in their career).

Strategic Finance to create ***Business impact*** through execution driven support.

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