



Business Performance Advantage Success Story

Managing Key Performance Indicators Increases Profits and Customer Service for Manufacturer

The Challenge

A local manufacturing company needed new equipment; however, with dipping profits and projections which didn't seem attainable, bankers denied the company's request for a loan. Company owners turned to a Business Advantage Performance Management specialist to identify why profits were declining and what they could do about changing the company's situation.

The Results

In less than a year, the firm increased profits by more than \$300,000, secured funding for new equipment and significantly improved customer service.

The Performance Management Solution

After thorough analyses of key performance indicators (KPI) such as realization per machine hour and realization per labor hour for each customer, the Performance Management specialist discovered a critical issue: The company's largest customer represented 40 percent of the business yet produced only a 14 percent margin. The remaining customers returned an average overall margin of 27 percent. Further investigation revealed that the largest customer adversely affected the service level for all other company customers. Company owners were shocked to find that the largest customer presented time demands that made it impossible to deliver on time to other customers.

With this information, the solution was clear. The company would have to transition the large customer to another manufacturer. After six months, the company completely phased out the large customer's business. Strategically, the company went to its second-largest customer and discussed prior delivery and service issues. With a penalty clause for missing a delivery date in place, the customer agreed to give the company another shot. It worked. The customer, which was about to fire the manufacturing company, tripled the amount of business it did with the manufacturer.

Over the next six months, the company, working closely with the Business Performance Management specialist, implemented new processes that directly affected KPIs such as realization per machine hour, realization per labor hour, and on-time delivery. Incentives were put in place for on-time delivery and zero defects.

The results speak for themselves. Bankers, impressed by the phenomenal, rapid results the manufacturer experienced, funded the equipment purchase. The manufacturer now enjoys 100 percent quality and 100 percent on-time delivery. Profits increased 300 percent (putting the company back where it was five or six years earlier). And, because customer service is strong, customer loyalty is at an all time high. The owners are ecstatic about the remarkable shift they experienced in just one year.

CFO

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Our mission is to provide information and strategies to business owners and managers for improvement in the effectiveness of its business management so that key objectives can be realized.

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