Shaping Business Outcomes from a CXO Perspective

1. Context

For delivering Business Returns to their investors, Managing Directors, CEOs and CFOs realise the importance of not only raising funds but also ensuring efficient utilisation of these funds irrespective of economic uncertainties and competitive challenges. Investments in Technology and good management practices are necessary but **not** sufficient for this purpose, unless they are put within a Return on Capital Employed (ROCE) framework

To address this need, my firm, Levigran Business Efficiency Solutions, worked with CXOs to create diagnostics-based, customised ROCE frameworks to enable informed decision making on what needs to be done beyond conventional good management practices.

2. Content

Let us consider two organisations, - A & B - whose last two years business results (in $M) are summarised below

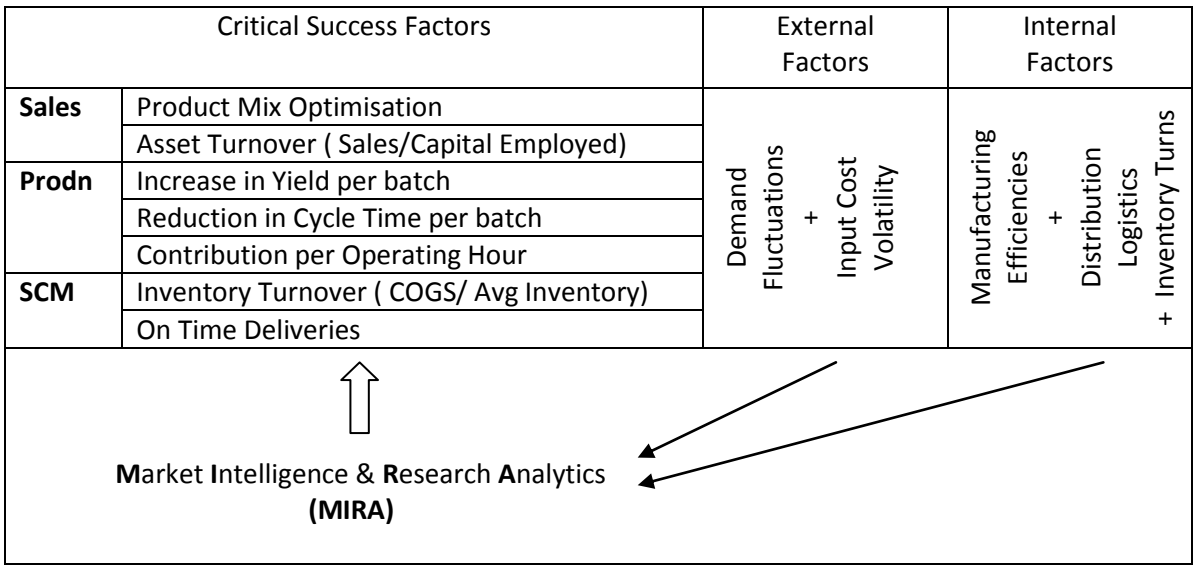
Key Business Metrics		Organisation –A		Organisation -B	
		FY 12	FY 13	FY 12	FY 13
A	Capital Employed	1163	1422	1445	1842
B	Operating Income	453	532	1854	2150
C	Operating Profit	162	207	146	290
D	B /A	0.390	0.374	1.283	1.167
E	C/B	35.8 %	38.9 %	7.9 %	13.5 %
F	D X E	13.9 %	14.6 %	10.1 %	15.7 %

Both organisations have been investing in additional CAPEX to cater to Domestic as well as Export Markets and both plants have been focused on improving Sales and Distribution throughput while reducing Manufacturing costs. Yet these efforts do not seem to have been equally effective in in terms of their **Return on Capital Employed (ROCE)**.

In FY 12, organisation A delivered a higher return of 13.9% as compared to 10.1% of organisation B. However, due to structured changes in synchronisation of Manufacturing capabilities with Distribution Channel efficiencies, Organisation B (15.7%) has overtaken Organisation A (14.6%) in FY 13 . And this is happening in spite of the fact that Organisation A even in FY 13 is delivering OPM % which is nearly 3 times higher than that of Organisation B (i.e. 38.9% against 13.5%).

The point to be noted is that higher OPM does not necessarily translate itself into higher ROCE unless this synchronisation is improved through a holistic approach

3. What Needs to be Done Differently



4. Our Deliverables

Work Elements		Our Deliverables
2.1	Optimising Demand Planning across Regions	Estimating "Pull" from different regions in terms of : • Product Mix • Batch Size and Total Volumes • Variations in Net Sales Realisations • "Should-Be" Margins net of Production +Logistics costs
2.2	Aligning Demand Fulfilment w.r.t. Plant Locations , Product Mix and Unit Costs (Input + Conversion + Distribution)	Optimisation model for fulfilling Demand in a "Least-Total-Cost" mode through an integration of: • Network Planning (i.e. which Plant feeds which Regions for which Products) • Make or Buy decision making framework for Sourcing of inputs, intermediates and/or even end products • Cost (both Fixed and variable) Vs Capability analysis of all Plants for eliminating under-performing plants and investing in strategic plants • Value added component of each item in the product portfolio
2.3	Minimise Cycle Time and Inventory Fluctuations	Measure performance of Demand Fulfilment in terms of : • % On Time Deliveries • % Stockouts • COGS/Average Inventory • Cycle time from Sourcing of Inputs to Cash Realisation
2.4	ROCE Results	Results of Implementation of Optimised Strategy **: ROCE = A x B** where • **A** = Asset Turnover = Sales / Capital Employed • **B** = OPM = Operating Profit /Sales

6. What Made Us Different

Most business outcomes depend on the interaction of a number of factors to ensure predictable performance. What makes us different is the ability to "connect the dots" and optimise the combination of critical underlying factors (as opposed to only a few visible ones) across the value chain.

We leveraged our core competence in operations management and statistical analysis in identifying internal interdependencies, predicting their behaviour and business impact, and implementing risk mitigation strategies on the ground.

Employing Taguchi methods, classification and regression models in the diagnostics stage of the project enabled us to roll out a 3 stage strategy implementation that progressed through the business objectives of Minimizing Maximum Loss to Maximising Minimum Gain.