LMA CONSULTING GROUP Inc.

Transforming People + Process = Profit

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Lessons learned from my Finance Mentor: How to Turn a Profit

My finance mentor definitely signifies "profit through people". I learned more from him about how to make a profit in the years we worked together than my BSBA, MBA (in Finance) and all the training classes over the years combined. He took all the complex terminology, confusing formulas and mumbo-jumbo and turned it into a goldmine for anyone interested in listening/ learning. Since it is increasingly difficult to turn a profit and deliver goals in this economy and with increasing competition the norm, I thought it would be valuable to pass along a few lessons learned.

I've seen many examples of companies and Executives running around in circles to try to solve financial problems, deliver cost savings, and try to find a way to turn a profit or increase profit to the expected goal. Everyone is working very hard and long hours, and yet nothing substantial changes. How do you break out of that cycle? And, of the zillion items you could focus on every day, which ones would make a difference to improving profitability?

First, stop wasting time. Throw out any reports that don't provide significant value. STOP spending all your time on what everyone thinks is most important to saving money/ improving profit and find out what really makes the difference. As an example, I could have spent days and days (and did spend much more time than I should have) defending the status of the most insignificant cost factor for a company I worked for instead of spending that time working on something that would make a difference to the bottom line. Take heart - you're not alone. It is easy to get sidetracked. However, the answer is simple. Find out what the key profit drivers are for your business and focus on those. For example, in the company I referred to above, the popular topic was to focus on labor dollars to look for savings opportunities; however, labor was less than 10% of total cost. Instead, after reviewing a simple analysis of the cost drivers, it was clear that materials were the key at 50% of the total cost. Which should get the majority of my attention? And, cost is just one aspect of the key profit drivers. I've found that many times, the revenue side of the equation is the key to improving profitability. The bottom line of my mentor's secret is to understand and focus on your critical business profit drivers.

Second, ask questions. Probe your financial data. Find out why your profit drivers are trending as they are. Find out what is behind the data. Find out what the return on investment calculation means, what's included, why, etc. Find out how you can affect the results. Make sure you aren't double counting data. It is especially easy to double count savings unless you dig deep into the data - and understand each line of information. My mentor could be quite frustrating in that he would ask 1,000 questions (no exaggeration!) but it soon became clear that his questions uncovered the keys to how to drive a profit. My mentor didn't always know what was important to driving a profit but he knew that the people in the organization did - they just had to think through the business issues (which his questions facilitated).

Third, take action, track progress and adjust. Once you know your key profit drivers and know what types of actions you could take to improve your profit, it's time to take action. I've found that it is common for companies to get stuck in analysis paralysis or to take many actions but all ones, which are insignificant to the profit drivers. It isn't necessarily exciting or fancy but taking action (execution) is critical. Finally, it is critical to track your progress (it doesn't have to be fancy or complex - just track the relevant factors) and adjust as appropriate - continuous improvement.

And, the good news is that none of these actions require sophisticated tools or systems - give it a try today.

Lisa's Tips - Ideas to minimize freight costs in today's economy

1. Partner with customers: Treat your customers as partners and brainstorm freight savings opportunities that would yield a win-win. There are a myriad of possibilities once you have a common goal.

2. Partner with suppliers: Fierce negotiation isn't going to "win the race". Instead, treat your freight carriers as partners. Share goals and expectations. Brainstorm win-win's that will reduce your costs and yet provide a "win" for the carrier (a preferred route, etc).

3. Consider pooling: If you have several customers located in a city or geographic area, you might be able to combine their shipments to the hub and then break the loads and deliver to the individual customers from the hub.

4. Consider milk runs: If you have a few customers that are on a lane (perhaps one customer in Northern California and two others in Portland), see if you can combine their loads into a standard milk run (for example, set it up to deliver customer 1 on Tuesdays, followed by customer 2 and 3 on Wednesdays). This provides a reliable, standard route for the carrier and a typically lower cost, more reliable service for you and your customers.

5. Consider all modes of transportation in combination with customer requirements: why ship over the road if the customer is happy if the load is delivered on time and reliably via a less expensive alternative. Ask questions to find out your customers' priorities.

Recommended Reading

"Raving Fans" by Ken Blanchard and Sheldon Bowles - I consider it a classic on customer service. It is in an easy-to-read, story format, and it contains timeless lessons about what is truly important in customer service. It provides practical advice on how to achieve "raving fan service" for your organization.

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