

Jim's Profit Accelerator 50: Two 150 Proof Numbers to Do Business Faster

People who do business faster get more done in less time. “Get More Done” sounds like an input—an activity—but it’s not. Doing more is an activity. Getting more done is getting better results sooner, which has little to do with activity or inputs.

Since most CEO action is information-driven, what if you speed up the information? What if you distill the information like whiskey, pushing it to 150 proof? It’s still whiskey, but it’s got way more punch. Here are two 150 proof numbers:

Daily Shipped on Time (SOT): Let’s expand “shipped” to mean delivery of the services or products that customers pay for. In that sense, everyone ships—physicians, physical therapists, manufacturers, software designers, architects, web designers—you get the idea. “Shipping” is what prompts customers to give you money. Remarkably, over half the firms I’ve evaluated either have no daily measure of shipped on time, or it’s a secret known only to a few senior executives. Instead, everyone measures “sales.” But winners measure “on time” and put the results in front of everyone every day.

In a manufacturing firm where I worked, SOT was the measure that uncovered deep leadership problems in the company. Those nearly invisible problems were only clear when we asked, “What would it take to get SOT where it should be?”

SPEED BUMP: You are paid when you deliver. How can you deliver sooner?

Cash Conversion Cycle, or Cash Gap: This is your cash floodlight. It resolves the weakness of cash forecasting and daily cash reports, which tell you how much cash you have, but don’t point to places to drive improvement. It’s a powerful way to show your team how their actions directly affect cash, the fuel that the business runs on. It moves cash back into your organization and out of the accounting department. Here’s the formula:

$$\text{A/R Days} + \text{Inventory Days} - \text{A/P Days}^*$$

AKT partner John Lauseng: *“It measures the ...time that cash is out the door ...from the time they bought the inventory until they receive payment from the customer.”*

Yes, smaller is better (faster). If it’s getting bigger, start digging inside it.

*The formulas inside the formulas:

- A/R days = $365/\text{Sales}/\text{Total Accounts Receivable } \$$
- Inventory days = $365/\text{Cost of Goods Sold}/\text{Inventory}$

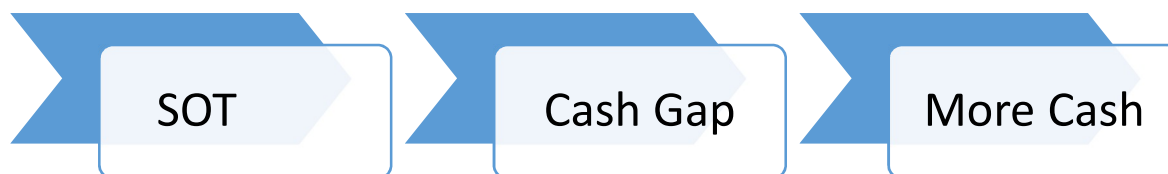
- $A/P \text{ days} = \frac{365}{\text{Cost of Goods Sold} / \text{Total Accounts Payable}} \times \$$

Here are the factors with the direction that pulls cash into your business:

- Accounts receivable \$ (down)
- Cost of goods sold (down)
- Inventory (down)
- Accounts payable \$ (up)
- Sales is a number that your whole team already knows and is pushing
- 365—the number of days in the year is beyond even your control

Bring this alive: Make calculation of the cash gap the responsibility of your top financial person. That person should:

1. Know how to calculate it.
2. Know where to find its parts and the drivers of those numbers.
3. Teach it to everyone on the leadership team.
4. Put it into the most-read reports, weekly and monthly.
5. At least monthly point to the single factor with the most impact on the gap.



SPEED BUMP: Numbers change because behavior changes.

To start, add cash gap to your monthly income statement, and ask this question: “What can we do to move any one of these factors the way we want?” When the digging changes behavior, move to weekly reporting to accelerate cash.

ACCELERANT: Are you asking your folks what they are doing about cash today?

For more information on how you can accelerate revenues and profits in your business, please call or email me.

For more information, visit www.grewco.com.

Jim Grew is an expert in CEO-level strategy and executive leadership whose clients refer to him as the Business Defogger and Accelerator. Jim helps leaders swiftly discover the hidden opportunities within their businesses and exploit them for dramatic results. Nearly three decades of success as a COO and CEO coupled with his experience running nine thriving businesses provide the foundation for his consulting work as president of the Grew Company. He presents regularly to industry groups, mentors business leaders, and shares insights on his blog, BizBursts.com: <http://bizbursts.com/>. He holds BA and MBA degrees from Stanford University.