



Quantum Profit Gram #5

Until 2007, working capital loans were easy to obtain and renew. Then the global credit bubble popped, and banks changed the rules. After many banks became insolvent, they were forced to roll outstanding debt over at a higher expense, passing along this added cost to borrowers. Borrowers can now expect:

- lower credit limits and in some cases non-renewals on their credit line
- increased costs for fees and interest

There is no more aggressive bidding to win profitless-at-best sales growth with the hope of earning “growth rebates” at year end. “Volume is vanity” grows debt, while “profit is sanity” pays down debt. With revenues down 20 – 40% and excess capacity in nearly every channel, you must instead generate your own free cash flow to:

- better service and keep your bank line, and/or
- build cash reserves to finance new working capital needed for winning refugee accounts from heavily-indebted, imploding competitors still pushing for volume.

The bottom line: you have to improve your skills in managing pre-tax Return on Total Assets (ROTA). ROTA is a universal financial productivity ratio that measures how productive are with asset dollars, whether the dollars belong to shareholders, suppliers or banks. Branch managers are assessed and paid on improvement in a modified version of ROTA called ROCA, or “Return on Controllable Assets”, which is the branch profit divided by the average investment in inventory and receivables.

If your ROTA is lower than the interest rate on your borrowing, you have negative leverage and net profit will decline. If, however, you have a ROTA north of 15%, you have strong positive leverage that will boost your return on equity and produce cash flow to reduce debt or finance new sales.

What micro-elements of your business need better management in order to increase your ROTA?

If you rank all of your customers by their own approximate ROTAs, you’ll find a range from the top accounts (cash cows) all the way down to those that both lose money and require semi-dead, special-stock inventory (cash hogs).

To get started, ask these questions:

- How can I create a customer-ROTA ranking report?
- What specific measures can I apply to different sub-sets of customers to improve their ROTAs?
- How can I realign incentives to support changes for better customer ROTAs?
- How can I track our progress?

WayPoint Analytics is an instant, low-cost solution to help answer these questions and get you started on a High-ROTA Management program and get clear of the bank.

QUANTUM
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MANAGEMENT

**High-ROTA
Management
is Key**



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