Critical Analytics for Profit Management

In the Age of Amazon, executives are turning to deep analytics for a much more sophisticated approach to profit management. Extremely powerful dynamics directly control profits, and these are not visible without the unique capabilities of top-flight analytics systems – specifically, those incorporating a costing engine. The costing engine gives the exclusive ability to calculate metrics based on costs and profits made at the invoice, product, account, and territory levels. In particular, the best cost engine is one that does Quantum Costing, for superior accuracy and much-reduced administration.

With a Quantum Costing engine, companies are posting record profits and growth, utilizing a new class of management metrics.

Reference Guide

$NBC (Net Before Compensation) — The best metric for measuring profit production. It's used to accurately evaluate the profit value of businesses activities. It represents your profit after all expenses except for sales pay. This measure has replaced gross profit because it accounts for operating expenses, indicating true profitability. It goes up when volume goes up, margin goes up or when expenses go down. Unlike gross profit, it really indicates where you're making profit and where you're not. $NBC is $GP minus $CTS.

NBC% (Net Before Compensation Rate) — The most important metric for running a business. It replaces gross margin as a true indicator of profitability for a sale, for a customer, for a territory, or for the whole business. Since it accounts for expenses, it truly indicates the value of transactions. NBC% is $NBC divided by revenue. Industry average for NBC% is 7.2%, meaning the 7.2 cents make it to the NBC profit line from each dollar of revenue. (2008 – 2018)

$G2E (Op Cash to Expenses) — Important indicator of the cash flow production for expenditures made. This is used to ensure activities are producing enough profit opportunity to be valuable and viable. $G2E is calculated as $GP divided by $CTS. Industry average for $P2E is $1.42, meaning that $1.46 in operating cash is generated for each dollar in expenses (excluding sales compensation) was made for each dollar spent in operating expenses ($CTS). (2009 – 2018)

	Rev (revenue)
–	<u>**CoGS** (Cost of Goods Sold)</u>
=	**GP** (gross profit) or operating cash
–	<u>**CTS** (Cost-To-Serve) or operating expenses</u>
=	**NBC** (Net Before Sales Compensation)
–	<u>Sales Compensation</u>
=	**NBT** (Net Before Taxes)

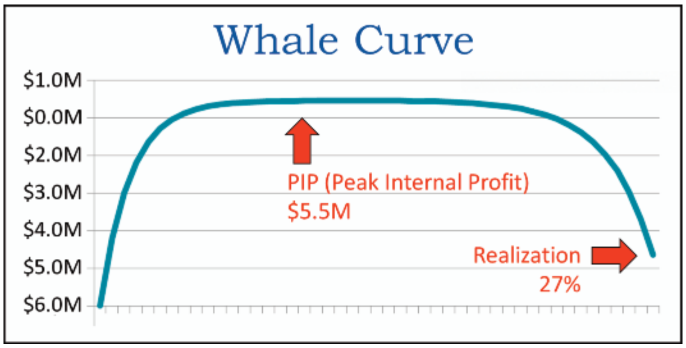
Simplified P&L showing where NBC appears

$P2C (Profit to Sales Compensation) — Measures the return on sales pay. It's useful for comparing the relative return on sales pay across territories, customer types and product lines. $P2C is calculated as $NBC divided by sales compensation dollars. Industry average (2016 – 2018) for $P2E is $3.54, the NBC profit made for each sales compensation dollar spent, where compensation was paid.

$CTS (Cost-to-Serve) — Measure of all expenditures to serve customers and operate the business, except for sales compensation. Excluding the wide variability of sales compensation stabilizes the operating expense component, making it an excellent basis for metrics comparing operational efficiencies between territories, products and operating units.

CTS% (Cost-to-Serve Rate) — Also known as Exp%, indicates the percentage of revenue that is expended in operating (non-sales-compensation) expenses. Industry average for CTS% is 16.2%, meaning that 16.2% of revenue is spent on operating expenses. (2009 – 2018) Using WayPoint and its Quantum Costing capability to pinpoint cost outliers, this number has improved from 18.5% (2013) to 15.6% (2018) raising NBT by 3%.

$PIP (Peak Internal Profit) — The NBC profit attained on money-making sales only. This metric measures the actual profit potential in the business as it exists. For most companies this represents three to five times the bottom line, and is the source of profit gains of 50%, 100% and more. This is the profit companies go after first, because it doesn't require sales increases for significant improvements to the bottom line.



Realization — The percentage of PIP (Peak Internal Profit) actually retained by the company. This is one of the most powerful metrics underlying profit performance, as it reveals the potential profit available in your existing business. Industry average Realization (2009 – 2018) was 35.4%, meaning that industry-wide companies are retaining only 35.4% of the profits they make on their money-making business, losing more than 65% of the profits they've already made to money-losing accounts and activities. (Average Realization for WayPoint clients after 24 months is 50.7%, increasing the amount of profits retained by more than 43%.)

MLP% (Money-Losing Invoice Rate) — Measures the percentage of invoices that lose money. This is one of the most important metrics for improving profits in a company. Improving the ratio of money-making to money-losing invoices closes off significant profit leaks, and drives higher profits and higher profit rates. MLP% is calculated as money-losing invoices divided by total invoices. Industry average for MLP% is 62.8%, meaning that over 62% of invoices lose money. (2016 – 2018)

To implement our cutting-edge analytics system at your company, calls us. We'd be delighted to put WayPoint Analytics and Quantum Costing to work for you.

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