

# WP Advisory

*Insights*

The background of the lower half of the image features a complex, semi-transparent overlay of financial data. It includes a candlestick chart on the left, a line graph with a prominent peak in the center, and another candlestick chart on the right. These elements are set against a grid of thin, light-colored lines, creating a technical and analytical aesthetic.

Managing for Results

WP Advisory provides best-in-class management consulting services to middle market companies.

### **Focus**

We are a small team of senior executives focused on helping middle market companies achieve performance goals and realize the maximum value from merger and acquisition activities on the buy and sell side. Our mission is to help you drive synergies, create value, and outperform.

### **Team**

We are a team of executives who come from varied and diverse industries who have led our organizations through acquisitions, divestitures, and corporate transformation.

### **Size**

Our boutique size gives you access to our leadership and the entire team. Our services are highly personalized and built on relationships.

# Managing for Results

**George DiRado**

October 2019

With the unceasing competitiveness of global markets, companies must continually up their game just to stay in the race. Developing a climate of continuous performance improvement is a prerequisite for outperforming the competition. The management system around continuous performance improvement comprises 3 elements: 1) setting challenging goals to take advantage of market opportunities or mitigate competitive threats, 2) developing strategies and actionable initiatives with organizational accountability to deliver expected outcomes, and 3) monitoring progress against goals through a balanced scorecard that captures the full range of business activities.

## Goal Setting

Goal setting is one of the primary means of communicating what is important to the company and aligning company resources to achieve desired outcomes. Goals can be derived from many sources. The performance of the company's competitive peer group across important financial and non-financial benchmarks is a good place to start. Setting goals to outperform the peer group will generally lead to being more competitive in the market. Goals can also be aspirational, tied to expectations of specific outcomes based on significant investments, or address known shortcomings in the business.

Regardless of how goals are derived, they should be clearly defined, quantifiable, time oriented, and fully communicated throughout the organization. While it is tempting to set a large number of organizational goals to address many aspects of a complicated business, we find setting fewer goals where the company can focus the attention of their resources will generally produce more substantial and sustainable outcomes. Setting priorities is a crucial component of senior leaders' goal setting process.

Goals should address key constituencies including customers (satisfaction), employees (engagement and skills enhancement), and investors (financial performance and investor returns). An example of goals that address several of these elements appears below. The top line lists the primary business goals, the Key Performance Indicators (KPIs) below measure performance, that if executed properly, will contribute to the top line goal performance.

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Setting goals to outperform the peer group will generally lead to being more competitive

### Business Performance Goals and Metrics

|                     | Customer Satisfaction          | Growth                          | Operating Performance              | Return on Investment        |
|---------------------|--------------------------------|---------------------------------|------------------------------------|-----------------------------|
| <b>Primary Goal</b> | <b>Customer Retention Rate</b> | <b>Achieve XX% Growth</b>       | <b>\$XX EBITDA</b>                 | <b>XX% ROI</b>              |
| <i>KPIs</i>         | <i>On-time delivery</i>        | <i>Growth on existing sales</i> | <i>Cost / unit of output</i>       | <i>Days of Inventory</i>    |
|                     | <i>Customer Returns</i>        | <i>Sales from new products</i>  | <i>Gross Margin Rates</i>          | <i>Days in AR</i>           |
|                     | <i>Warranty expense</i>        | <i>Sales from new customers</i> | <i>\$ productivity</i>             | <i>Past Due Receivables</i> |
|                     | <i>Stock outs</i>              | <i>M&amp;A Growth</i>           | <i>SG&amp;A Cost rate to sales</i> | <i>Return on CAPEX</i>      |

## Actionable Initiatives

Once a company establishes and prioritizes its goals, the next step is identifying actionable initiatives to achieve the goals that have been set. An actionable initiative defines what (quantifiable desirable outcome), who (individual(s)/ organization(s) tasked to achieve), and when (timeline to accomplish).

We recommend including the key resources in the company to the greatest extent practical in the initiative setting process. This allows the senior leadership to articulate not only the goals, but why these goals were selected and prioritized over others. Extending the initiative process to key resources also expands idea generation by those closest to business activities, and broadly disseminates understanding and ownership of the desired outcomes.

Below is an example of a business initiative summary as part of a business goals and initiatives exercise. The middle section describes the initiatives, their priority, expected outcome, timeline for deliverables, and current status. The left section identifies the primary business goal the initiative supports, while the right side identifies responsibilities. Capturing business initiatives in this manner provides an easy to understand visual of the initiatives that are driving the business goals and gives a sense of the company's capacity to support the initiatives.

We recommend including the key resources in the company to the greatest extent practical in the initiative setting process

### Business Initiatives

| Impact | Initiative            |        |                       |     | Outcome  |  |                  | Responsibilities |       |            |           |                 |            |             |         |                 |                             |
|--------|-----------------------|--------|-----------------------|-----|----------|--|------------------|------------------|-------|------------|-----------|-----------------|------------|-------------|---------|-----------------|-----------------------------|
|        | Customer Satisfaction | Growth | Operating Performance | ROI | Priority | Outcome  | Completion Dated | Status           | Lead  | Sales      | Marketing | Research & Dev. | Operations | Procurement | Finance | Human Resources | Information Tech.           |
| ●      |                       |        |                       |     |          | 1 Introduce product XYZ                                  | \$X Sales        | Q1               | GREEN | Joan Doe   | ○         | ●               | ○          | ○           | ○       | ○               |                             |
|        | ●                     |        |                       |     |          | 2 Drive 15% improvement process department cost / output | \$X/output       | Q2               | GREEN | Alex Smith | ○         | ○               | ●          | ○           | ○       | ○               |                             |
| ●      |                       |        |                       |     |          | 3 Reduce # inventory stockouts by 50%                    | X% Stockout      | Q4               | RED   | Jan O'Neil | ○         |                 | ●          | ○           |         | ○               | Supplier issues             |
|        |                       | ●      |                       |     |          | 4 Improve cycle time across all products by 10%          | Avg. Days        | Q3               | GREEN | Lisa Chou  |           | ○               | ●          | ○           | ○       | ○               |                             |
|        |                       |        | ●                     |     |          | 5 Reduce AR past due by 25%                              | <X% PD           | Q4               | AMBER | John Tyler | ○         |                 |            |             | ●       | ○               | Key account cash flow issue |
|        |                       |        |                       | ●   |          | 6 Upgrade operating system to new release                | Rev X in use     | Q2               | GREEN | Bill Green | ○         |                 | ○          | ○           | ○       | ○               |                             |
|        |                       |        |                       |     |          |  |                  |                  |       | ●          |           |                 |            |             |         |                 | Primary Responsibility      |
|        |                       |        |                       |     |          |  |                  |                  |       | ○          |           |                 |            |             |         |                 | Secondary                   |

Each initiative should have a defined leader who is ultimately responsible for execution of the initiative, as well as the resources that will be required to support execution. The initiative lead should define the scope, activities, schedule, and resources, and identify potential issues and risk mitigation actions. The lead is key in identifying potential road blocks to a successful outcome and identifying work-around actions and providing early communication to senior leadership when help is required.

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The lead is key in identifying potential roadblocks

## Progress Monitoring and a Balanced Scorecard

Senior leadership participating in monitoring the status and outcome of initiatives is critical to driving progress. We have found that senior leadership is often required to remove roadblocks, which often are the result of competing organizational priorities. This participation need not take an inordinate amount of time if reviews are focused on issues and roadblocks. Using a RAG rating or simple stoplight system to highlight issues (green - no significant issues identified, amber - issues identified but resolvable by the team, and red - the initiative is in jeopardy), will help direct senior leadership to the areas that require attention. The Business Initiative Summary identified in the previous section can be used to provide an overview of the status of each initiative.

The real test of success is achieving the top-level business goals. A company may fall short of business goals even if it executes all the business initiatives identified. This could be due to a difference in the actual outcome vs. expected outcome or because other business issues are negatively impacting business performance. Regardless, the company will need to adjust strategies and initiatives to deal with the problem at hand.

The use of a Balanced Scorecard (example below) is a good means of tracking progress towards achieving business goals. Inclusion of supporting KPIs helps illuminate why the organization is achieving or falling short of the business goals. The Balanced Scorecard serves as a feedback loop to senior management, indicating where business priorities need to be adjusted or where additional initiatives need to be taken.

## Balanced Scorecard

|                              | 2019 P    | YTD       | Period | JAN      | FEB      | MAR      |
|------------------------------|-----------|-----------|--------|----------|----------|----------|
| <b>Customer Satisfaction</b> |           |           |        |          |          |          |
| Customer Retention           | 90%       | 90%       | 2019 P | 90%      | 90%      | 90%      |
|                              |           | 90%       | 2019 A | 90%      | 90%      | 90%      |
| On-time Delivery             | 95%       | 95%       | 2019 P | 95%      | 95%      | 95%      |
|                              |           | 97%       | 2019 A | 94%      | 99%      | 98%      |
| Customer Returns             | 24        | 6         | 2019 P | 2        | 2        | 2        |
|                              |           | 3         | 2019 A | 1        | 1        | 1        |
| <b>Growth</b>                |           |           |        |          |          |          |
| Revenue Growth %             | 7.5%      | 5.2%      | 2019 P | 4.5%     | 5.2%     | 5.8%     |
|                              |           | 5.1%      | 2019 A | 4.3%     | 5.3%     | 5.7%     |
| Revenue                      | \$ 42,000 | \$ 10,500 | 2019 P | \$ 3,000 | \$ 3,500 | \$ 4,000 |
|                              |           | \$ 10,350 | 2019 A | \$ 2,850 | \$ 3,600 | \$ 3,900 |
| New Product Sales            | \$ 900    | \$ 225    | 2019 P | \$ 50    | \$ 75    | \$ 100   |
|                              |           | \$ 205    | 2019 A | \$ 30    | \$ 70    | \$ 105   |
| <b>EBITDA</b>                |           |           |        |          |          |          |
| EBITDA                       | \$ 4,260  | \$ 1,065  | 2019 P | \$ 300   | \$ 359   | \$ 407   |
|                              |           | \$ 1,044  | 2019 A | \$ 288   | \$ 363   | \$ 393   |
| Gross Margin %               | 25.0%     | 24.9%     | 2019 P | 24.6%    | 25.2%    | 25.0%    |
|                              |           | 25.0%     | 2019 A | 24.9%    | 25.1%    | 25.1%    |
| Cost/Unit                    | \$ 118    | \$ 121    | 2019 P | \$ 123   | \$ 120   | \$ 121   |
|                              |           | \$ 120    | 2019 A | \$ 120   | \$ 121   | \$ 120   |
| <b>Return on Investment</b>  |           |           |        |          |          |          |
| ROI %                        | 12.0%     | 11.3%     | 2019 P | 11.2%    | 11.3%    | 11.4%    |
|                              |           | 11.1%     | 2019 A | 11.0%    | 11.1%    | 11.3%    |
| Days of Receivable           | 45        | 45        | 2019 P | 45       | 45       | 45       |
|                              |           | 46        | 2019 A | 46       | 47       | 44       |
| Days of Inventory            | 110       | 118       | 2019 P | 120      | 120      | 115      |
|                              |           | 118       | 2019 A | 121      | 118      | 114      |

## Return on Investment

The 3-step process of Managing for Results outlined above may seem like a significant investment in time, however, we have experienced that this investment drives to sustained performance improvement.

By integrating goal setting, business initiatives, and scorecard reporting and driving to all levels of the company, organizations can establish substantially more effective change leadership capabilities and practices to operate the business, taking organizational performance to the next level. ❖

## About the Author

Recently, George served as the CFO for two PE-owned companies: Precision Holdings LLC, a middle market aerospace and power generation manufacturer, and UCI-FRAM Group, a \$2 billion consumer products manufacturer of aftermarket automotive parts.

Previously, George held CFO positions for several of Honeywell's business units and served as Vice President of Finance, leading activities to support acquisitions, integrations, and supply chain excellence.

George is a Certified Public Accountant and holds an MBA in Finance and a BS in Accounting from LaSalle University.



The author can be reached at: [g.dirado@wp-advisory.com](mailto:g.dirado@wp-advisory.com).

For more information about our services please visit [www.wp-advisory.com](http://www.wp-advisory.com) or contact:

Andrew Yue, Managing Director  
WP Advisory  
+1 (866) 200-2550  
245 Park Avenue, 39<sup>th</sup> Floor  
New York, NY 10167

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