

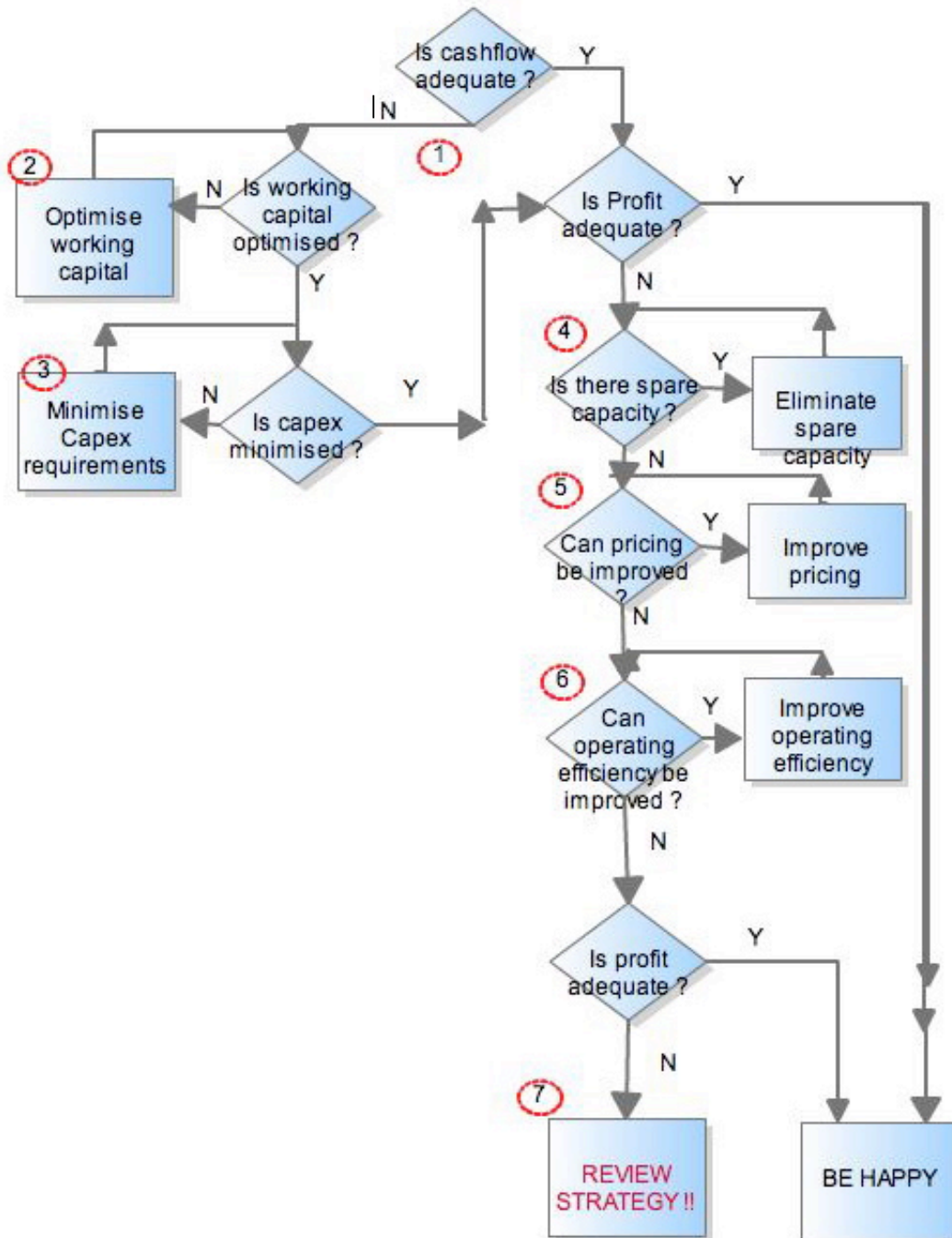


*Akenhurst
Consultants*

IMPROVING PROFIT AND CASHFLOW

**HOW TO ENSURE YOU SOLVE THE RIGHT
PROBLEM**

To improve profitability or cashflow, it helps to start in the right place Here is a decision tree to help you do that. The numbers in the red circles refer to the notes on the next page.



Notes:

1. Start with cashflow rather than profit. If you also have a problem with profit, improving cashflow will buy you time to fix it.
2. Optimising working capital could include actions such as:
 - Improving cash collection;
 - Finding ways to invoice earlier;
 - Operating with lower levels of stock (possibly thanks to rationalisation of the product line);
3. Reducing capital expenditure may be possible with outsourcing – if others in your industry have spare production capacity, why do you need to add more ?
4. The order in which we address the profit problems is very deliberate. The first step is to bring productive capacity in line with demand. You will need to take a view on future levels of demand and what you will do when it rises. Remember, though, that **reducing capacity, for example through redundancies, only works when the problem is excess capacity**. If the problem is that you are fully occupied but not making enough money, for example as a result of pricing problems or cost issues, then cutting costs won't help. In fact it will make things worse.
5. Look at pricing before you look at efficiencies. If there is potential here, results will come faster and more easily than they will from dealing with efficiency.
6. Increasing operational efficiency doesn't just mean cutting waste and raising productivity – look also at cutting unprofitable customers and products. You probably have some of these who will lose you money however efficiently you serve them.
7. Oops. You have optimised working capital, pricing and efficiency as far as you can, but the business still isn't performing. This indicates a strategic problem – part of your business at least is selling the wrong things to the wrong people, competing with the wrong competitors.

Akenhurst Consultants has an extensive stock of further white papers, articles and other information on all the issues above. If you would like more, contact Alastair Dryburgh on +44 20 7812 9674.