

SAMA 2008

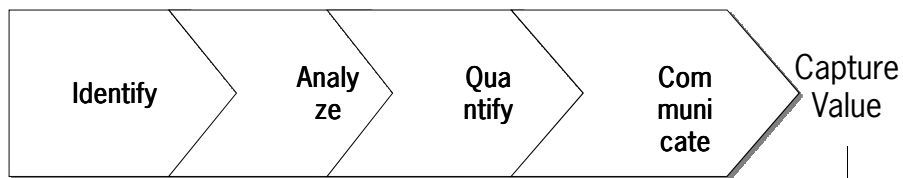
Financial Savvy for Strategic Account Managers

Global Partners Inc.

Defining, Measuring and Capturing Financial Value for Key Accounts and Suppliers' Shareholders

Paul Hesselschwerdt
President

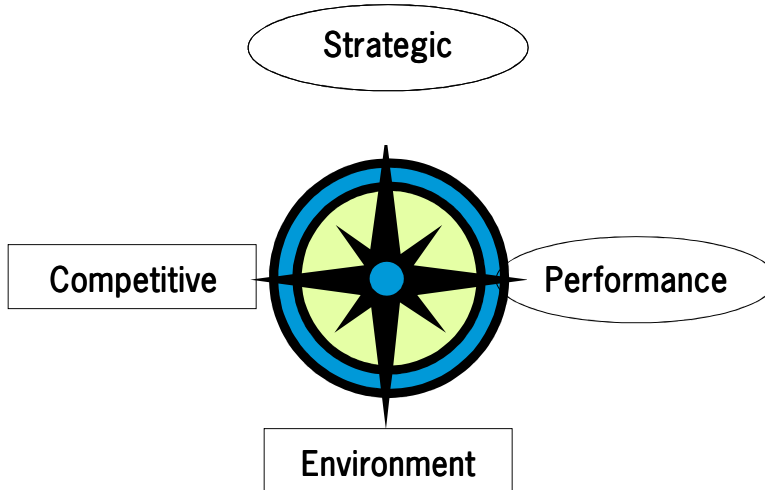
Capturing Financial Value



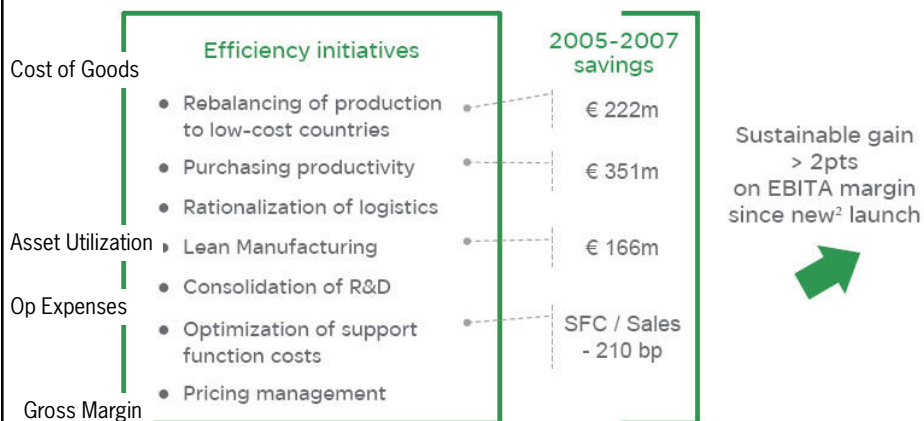
Sources	Key Steps	Approach
<ul style="list-style-type: none">• Strategy• Performance• Competition• Environment	<ul style="list-style-type: none">• Financial Results• Identify 'Owner'• Define Cause and Effect• Establish Credible Estimates and validate with customer	<ul style="list-style-type: none">• Right Person• Right Pitch• Hypothesis - Implication – Discovery – Validation
Learning and Documentation		

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Identify Financial Value Creation Opportunities – 4 Sources



Linking Strategic Initiatives to Financials – Case A



Linking Strategic Initiatives to Financials – Case B

Winning in Healthcare	Execute exceptionally well to capture <u>high-growth</u> opportunities in our current business sectors and <u>build entirely new businesses</u> in Healthcare.
Revenue Growth	
Capitalizing on Convergence	<u>Innovations</u> lie at the convergence of products and technologies and in convergence around patient-centric solutions...we are uniquely positioned to capitalize on both.
Market Share	
Accelerating Growth in Emerging Markets	The most <u>significant growth</u> over the next several years will come from the BRIC (Brazil, Russia, India, China) countries...We will develop products and marketing strategies tuned to local cultures.
New Revenue	
Developing Leadership and Talent	Key among our <u>growth priorities</u> is development of a strong base of leadership and talent. We simply cannot achieve the first 3 priorities without the right leadership and talent to drive them.

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Benchmarking Performance - Example

DATA INPUTS/SELECTED COMPANIES	Benchmark A	Benchmark B	Benchmark C
RETURN ON EQUITY (ROE)	23.2%	18.6%	20.2%
Net Income After Interest and Taxes	2,638	876	415
Shareholders Equity	\$ 11,360	\$ 4,717	\$ 2,054
PROFIT MARGIN	18.5%	13.8%	14.2%
Net Income After Taxes	2,638	876	415
Net Sales	\$ 14,255	\$ 6,359	\$ 2,913
ASSET UTILIZATION	1.02	0.36	1.16
Net Sales	\$ 14,255	\$ 6,359	\$ 2,913
Total Assets	\$ 13,930	\$ 17,739	\$ 2,503
ASSETS/EQUITY LEVERAGE	1.2	3.8	1.2
Total Assets	\$ 13,930	\$ 17,739	\$ 2,503
Shareholders Equity	\$ 11,360	\$ 4,717	\$ 2,054
RETURN ON NET ASSETS (RONA)	22.3%	21.3%	25.9%
Operating Income	\$ 2,172	\$ 1,007	\$ 474
Net Assets	\$ 9,726	\$ 4,723	\$ 1,832
ACCOUNTS RECEIVABLE DAYS SALES OUTSTANDING	45	36	16
Accounts Receivables	\$ 1,774	\$ 635	\$ 124
Sales/365 (Average Daily Sales)	\$ 39	\$ 17	\$ 8
INVENTORY TURNS	4.9	2.7	8.5
Cost of Goods Sold	\$ 6,996	\$ 3,225	\$ 1,450
Inventories	\$ 1,437	\$ 1,188	\$ 170

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...Translated into Actionable Financial Value Measures

"We are striving to move towards the upper part of our optimal RONA range." CEO of a major technology company in message to employees

Four Axis to Impact RONA:

1. Sales Growth
2. Product Portfolio Management
3. Optimized Manufacturing Structure
4. Fixed Asset Reduction

Translates into:

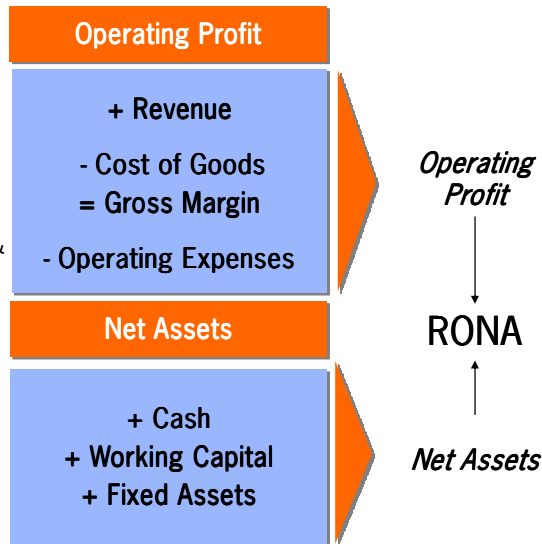
1. Increase Revenue in Volume and Value
2. Introduce innovative new products to increase market share and average prices
3. Reduce cost of goods sold
4. Improve Asset Utilization

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Identify Financial Priorities...

6 Savvy Questions

1. Growing **Revenue** faster than competitors?
2. Achieving **Premium Prices**?
3. Are **Processes** efficient and effective?
4. Are **People** productive & effective?
5. Are **Working Capital** assets and **Cash** at the minimum levels needed to support the business?
6. Is utilization of **Fixed Assets** maximized?



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Enables Drill Down to Operational Indicators

10 Operational Indicators

1. Average Selling Price
2. Volume
3. Market Share
4. Cost of Sales
5. Research & Development
6. Sales & Marketing
7. Administration

8. Working Capital
9. Cash
10. Fixed Assets (Utilization)

6 Savvy Questions

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Operating Profit

+ Revenue
- Cost of Goods
= Gross Margin
- Operating Expenses

Net Assets

+ Cash
+ Working Capital
+ Fixed Assets

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And Drive the Opportunity Assessment

Which Operational Indicator?	CXO Owner(s)
1. Average Selling Price	Marketing, R&D, Sales
2. Volume	Sales, Production
3. Market Share	Marketing, Sales
4. Cost of Sales	Production, Sales
5. Research & Development	R&D, Marketing, Sales
6. Sales & Marketing	Marketing, Sales
7. Administration	Admin, IT, Finance, HR
8. Working Capital	Production, Finance
9. Cash	Finance
10. Fixed Assets	Production, Finance

- Which CXO 'owns' the Operational Indicator?
- How important is it to the customer overall and to the CXO owner?
- How significantly can we impact?
- How clearly can the cause and effect impact be measured?

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Opportunity Assessment - Example

How compensated?
 Personal goals?
 Competing priorities? ↓
 Can we isolate?
 Control group?
 Pilot group? ↓
 Metrics used currently? ↓

Which Operational Indicator?	CXO Owner(s)	Owner(s) for Your Business	Importance	Impact	Measureable	Total
			1=Low, 5=Hi	1=Low, 5=Hi	1=Low, 5=Hi	
1. Average Selling Price	Regional Sales VP		2	3	4	24
	Product Mktg VP	Product Mktg Mgr	5	3	4	60
	R&D VP		2	1	1	2

Do we have a relationship?
 How is our contact linked to the CXO?

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Define Cause and Effect

Targeted Effect on Customer Financials	Enablers/ Causes (More or Better)
1. Average Selling Price; <i>What enables the Customer to increase Prices in order to gain higher margins without sacrificing volume?</i>	Innovation
	Product/ Service Performance
	Sales & Marketing Effectiveness
2. Volume; <i>What enables the Customer to achieve Sales Volume goals & provide product when, where and in amount needed?</i>	All of the above, and...
	Flexible Processes
	Global Distribution
3. Market/Customer Share; <i>What enables the Customer to increase Share of Market or Key Accounts?</i>	All of the above, and...
	Responsiveness to Customers
4. Cost of Sales; <i>What enables the Customer to achieve and maintain optimum Production Costs?</i>	Capacity Utilization
	Design for Manufact.
	Lean Processes

Operating Profit

RONA

Net Assets

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Write the Cause and Effect Statement and Identify Possible Measurements

Targeted Effect on Customer Financials	Enablers/ Causes (More or Better)	Cause and Effect Statement	Measurements
1. Average Selling Price; What enables the Customer to increase Prices in order to gain higher margins without sacrificing volume?	Innovation	- Providing experienced project managers results in increased achievement of innovation project milestones, budgets, Time To market	- On time, on-budget performance - Number of projects in process
	Product/ Service Performance	- The smaller die size available using our wafers enables increased capacity per chip produced in your manufacturing process	- Increased manufacturing yield = reduced CGS
	Sales & Marketing Effectiveness		

Writing Cause and Effect Statements:

1. Start with the high-priority Operational Indicator
2. Answer the Effect question, i.e. What enables the Customer to increase Prices in order to gain higher margins without sacrificing volume?
3. Answers should be expressed as 'More or Better' followed by a process, capability or function;
4. Write a statement describing how your product or service solution contributes to the More or Better enabler;
5. Identify the possible measurements that the customer might use to track achievement of the More or Better enabler.

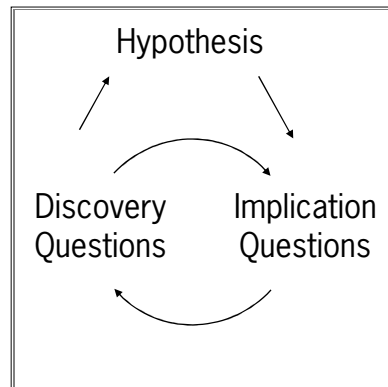
Move the Financial Value-Creation Sale

“My concern is the economic value added for each project.

I have to put in a lot of effort to convert technical benefits into economic benefits to explain to management the reasons for doing projects in a particular way.

The linkage between products and their economic benefits is my major headache.”

Global Partners Client

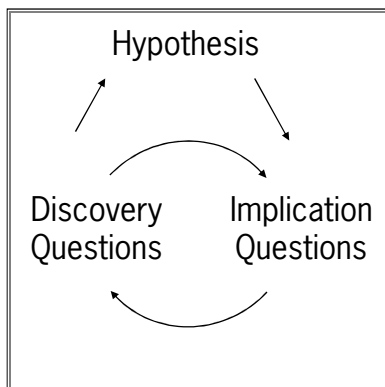


Hypothesis – Implication – Discovery, Example

- (H) "Based on our preliminary analysis we feel that our solution would help improve yield by more than 5%"
- (I) "Each 1% improvement in yield should translate into a similar reduction in costs"
- (D) "What might a yield improvement of 5% mean in terms of costs?"
- (H) "Given a higher yield and better performance, we also think it's possible to raise your Average Selling Price by as much as 10%"
- (I) "Potentially generating 15% more revenue overall"
- (D) "Besides costs, prices and revenue are there other areas where an improvement in yield would affect your business results?"
- (D) "Who could help confirm some of these calculations and implications?"

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Communicating Financial Value



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5 Actions to Get Started on Financial Savvy

1. Create industry benchmark analyses for major accounts/industries and for your own company
2. Team SAMs with financial people from your own organization
3. Require all SAM plans to include a financial value creation opportunity and cause and effect analyses
4. Test and validate these analyses internally and with customers who are willing to provide financial information
5. Start building a library of financial value creation analyses that can be used by SAMs to identify, communicate and capture value for customers and your company.

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Key Points

- Financial Savvy is a crucial skill for Account Managers in today's competitive market
- Identifying, Quantifying, Communicating and Capturing Financial Value can be a significant differentiator
- However, doing so requires tying the supplier's offer clearly to the financial results of the customer
- Even then communicating the value created requires validating estimates of financial value with the right person within the customer
- The same techniques used to identify and quantify financial value created for customers can be used to identify value created or destroyed by customers

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Thank You

Global Partners, Inc.

One Broadway - Cambridge, MA 02142

Office: 1 (617) 4012510

Fax: 1 (617) 4013604

phesselschwerdt@globalpartnersinc.com

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