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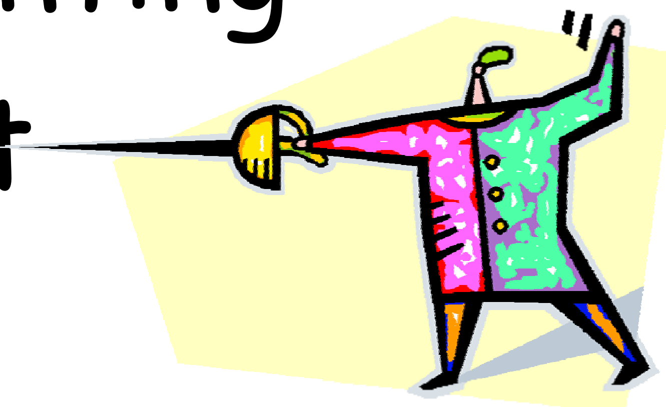

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Using 35 years of experience in auditing, corporate finance, and investment banking, Gary D. Zeune, CPA, provides CPAs, attorneys and executives with hands-on experience in fraud and corporate strategy performance improvement. Mr. Zeune instructs courses for:

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- American Institute of CPAs
- American Management Association
- Institute of Management Accountants
- Entrepreneurship Institute
- Treasury Management Association
- Private classes for numerous companies and accounting firms.

Mr. Zeune has instructed Strategy Formulation and Implementation in the Executive MBA Program and Accounting and Honors Finance at The Ohio State University. He is also a member of the Education Executive Council and is past chairman of the Education Marketing and Public Relations Committees of The Ohio Society of CPAs. His other memberships include: the American Institute of CPAs, and the Regulation of Public Offerings Committee of the Ohio Division of Securities.

Prior to forming his consulting practice in 1986, Mr. Zeune was an Assistant Vice President of Corporate Finance at The Ohio Company, a Columbus, Ohio investment banking firm. He also spent more than five years in Treasury and Finance at Wendy's International, where he was responsible for mergers and acquisitions, financial and SEC reporting, and corporate finance. He was on the audit staff of Ernst & Ernst from 1973 to 1977; and taught accounting at Ohio University from 1970 to 1973, where he received his bachelors in mathematics and masters in accounting, with honors.

ARTICLES AND BOOKS

Mr. Zeune is also widely published. He has published more than 40 professional articles and is the author of *The CEO's Complete Guide to Committing Fraud* and *Outside the Box Performance.* He has been a member of the Editorial Advisory Boards of the *Journal of Working Capital Management* and *The Ohio CPA Journal*.

For Deloitte & Touche, he authored *Financing Business Growth* and has completed the first draft of *The Complete Guide to Buying or Selling a Closely Held Business*, two books in the firm's Entrepreneurial Series. He has authored chapters for two books published by Warren Gorham Lamont, the world's largest financial publisher: *Accessing the Capital Markets* and *Options for Raising Capital*.

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- Nick Wallace committed a $350 million fraud as the President of ESM Government Securities resulting in the collapse of the Ohio Saving & Loan Guarantee Fund, and the bankruptcy of 69 Ohio S&Ls
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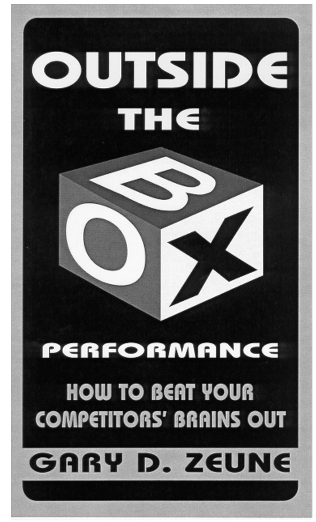

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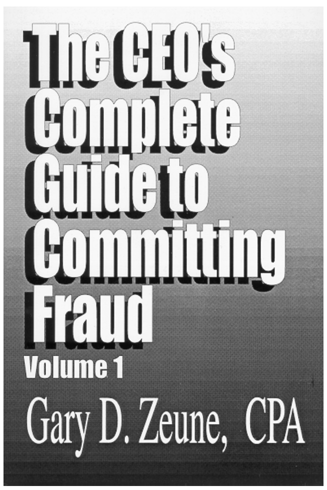

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ACTION STEPS FROM GARY'S CLASS

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Thanks for attending. Don't hesitate to call or email if you have questions. . . .gdz

Measuring Nonfinancial Performance for Competitive Superiority

Gary D. Zeune

Analyses of financial statements do not always reveal all the factors that are involved in determining profitability. Many businesses are finding that nonfinancial performance measures, particularly those which address customer satisfaction, can show a direct causal relationship between business procedures and goals.

How long do you stand in line at a fast food restaurant before you get irritated? Most people would say that they can wait four or five minutes for their food, but they're kidding themselves. If you don't think so, look at your watch the next time you get in line and look again when you have that first thought of "Hurry up . . . get your food and sit down."

Have you had to make a call in the last year using a rotary dial phone? How long does that take? As Tom Peters says, we live in a nanosecond society. The United States Postal Service wasn't fast enough or reliable enough, so we have Federal Express. "Absolutely positively overnight" isn't fast enough, so now we use fax machines, and e-mail.

What business are you in? Write it down on a piece of paper.

That's wrong. Whatever you wrote on the piece of paper is what you "do." The business you are "in" is to solve customer problems. It doesn't make any difference what your expertise is or how many bells and whistles your product or service has. If you don't solve the customers' problems, they won't do business with you.

A personal example. Homeowners in central Ohio are fastidious about their lawns. Many of us have our lawns treated with a fertilizer/weed killer combination. I'll call my lawn care company A-1 Lawn Service. Last spring, A-1 completed the first treatment of my lawn in early April. When I didn't pay the bill, A-1's owner called, and I told him the grass was growing great, but the weeds were growing better. He replied that he guaranteed his work and would treat my yard a second time free of charge.

That was acceptable to me, as I figured his back shop simply forgot the weed killer in the mix. But when I still didn't pay, the owner called again. I told him the weeds still were merrily growing along with my grass, and he replied, "But I fulfilled my guarantee. I sprayed your lawn a second time at no charge." He never understood that his job was to solve my problem of ridding my lawn of tall weeds.

He was focusing on his effort; I focused on the results. I didn't care how much effort it took. His was an internal view of what he did and the effort expended. Mine was an external view of the results.

THE NATURE OF MODERN COMPETITION

The basis of competition changed dramatically in the last 20 years. Response

Gary D. Zeune, Columbus, Ohio specializes in strategic and financial consulting. The article is adapted from his book Outside the Box: How to Beat Your Competitors' Brains Out. *He can be reached at 614-885-0262 or via email at gzfraud@aol.com*

EXECUTIVE SUMMARY

- The competitive weapons in business competition today—response time, quality, and variety—are directly related to level of customer satisfaction.
- In many instances, nonfinancial measures of business performance are the best indicators of customer satisfaction.
- Identifying and measuring business procedures, which can be directly linked to satisfying customers' needs, are found to be valuable competitive tools.
- As a basic formula for competitive success, companies first should identify the factors that influence customer loyalty, and, second, determine the association or correlation between those factors and employee performance and business systems.

time shortened while quality and variety increased exponentially. Time is the new competitive weapon (see Exhibit 1).

Twenty years ago, you could have any two of the three variables of response—time, quality, and variety—but not all three. However, Japanese competitors have shown that it is possible to have all three. In the 1970s, industry leaders were the low cost producers. In the 1980s, quality providers took the lead. In the 1990s, speed to market became paramount, and cost and quality could be traded off as secondary variables.

A 1983 study by McKinsey & Company shows why. Clearly, in our nanosecond economy, a delay in getting the product or service to market is far more detrimental to profits than either a production or development cost overrun (see Exhibit 2). But, we usually don't focus on the damage done by lost profits because that's too difficult to measure.

What will be the basis of competition ten years from now? My bet is on "mass customization," or the ability to customize a standard product on demand. There is growing evidence that simply supplying customers with many choices doesn't earn their loyalty. Customers want it the way they want it. For example, if you want a Motorola pager, a salesperson comes to your office, discusses the various features available, and enters your order on a laptop PC. The order is transmitted by modem to the Florida plant where the unit goes into production in an average of 20 minutes, comes out of production in two hours, and is shipped via overnight service. That's manufacturing on demand. Right now, manufacturing on demand is a competitive advantage. In the next ten years, it will become the minimum capability to play the game of business.

STATE-OF-THE-ART IN PERFORMANCE MEASUREMENT

As financial managers, we're taught to measure corporate performance by the numbers—sales numbers, expense numbers, profit numbers, asset and liability numbers, head count numbers, market share numbers, etc. Unfortunately, this traditional quantitative approach doesn't tell the whole story in today's business environment.

In short, we need some nonfinancial methods to measure business performance that take into account how well the enterprise has satisfied its customers' needs. Only by the implications of poor profit numbers do we measure performance today in meeting customers' needs. But we need a more direct series of measurements that don't depend on accounting reports to tell us that we're meeting our business goals.

By the way, why do we keep inventory? What if I said we keep inventory to compensate for our inefficiencies? Think of the inventory you maintain as the water level in a lake. Your boat (the customer) needs to get from one side of the lake to the other and the water level is low. If it's low enough, the boat will crash on the rocks. Removing the rocks (business inefficiencies) is the key to becoming world-class. Reduce the level of inventory, and the inefficiencies will stick out like the rocks in a shrinking lake.

All of the rocks in Exhibit 3 are self-explanatory, except perhaps, Decision Backlog. One of the best nonfinancial performance measures to use is to track how long it takes to get a decision made in your organization. A recent study of high tech companies reported in *California Management Review* found that the most successful companies make decisions in one-third the time that it takes the average company to make decisions.

But how can management make faster decisions? World-class companies use a fundamentally different process—passing smaller but more frequent batches of information to the next function in the chain, and using two-way communication so errors can be corrected early in the decision-making process (see Exhibit 4).

GE recently estimated that each time an error or defect passes one link in the chain, it costs 10 times more to correct than at the previous level. So an error on the receiving dock that costs 3 cents to correct, costs 30 cents to correct if it gets into inventory, $3 if it gets pulled for production, $30 if it gets into production, and $300 if it makes its way to the customer.

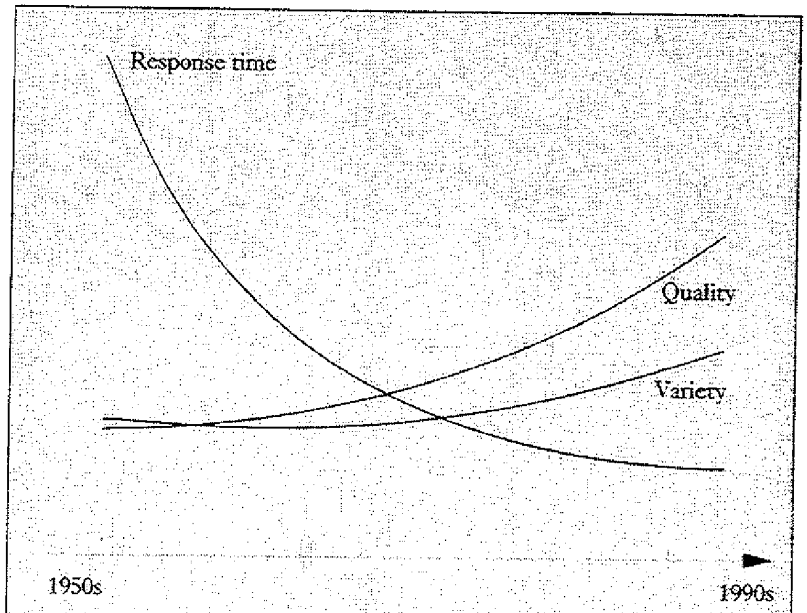
TIE PERFORMANCE MEASUREMENT TO CUSTOMER SATISFACTION

The key is to develop measurements of internal efforts that drive customer satisfaction and increase customer loyalty and company profitability.

Several years ago, a large international company wanted to improve customer service to increase its market share. This firm takes most of its orders over the phone. At the time, the order takers answered 85 percent of incoming calls by the third ring, a rate that was considered exemplary. Conventional wisdom was that each year the company could improve that answer rate by one to two percent. Then someone asked, "What if that isn't what our customers are demanding?"

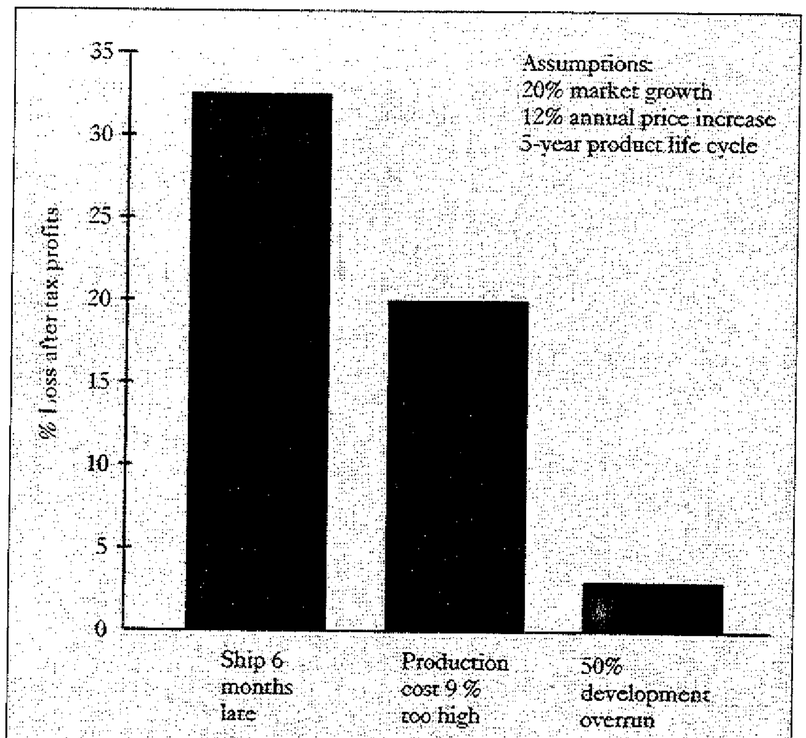
To find out, the company could have conducted market surveys by mail, phone, or face-to-face. But the company

EXHIBIT 1
The Basis of Competition



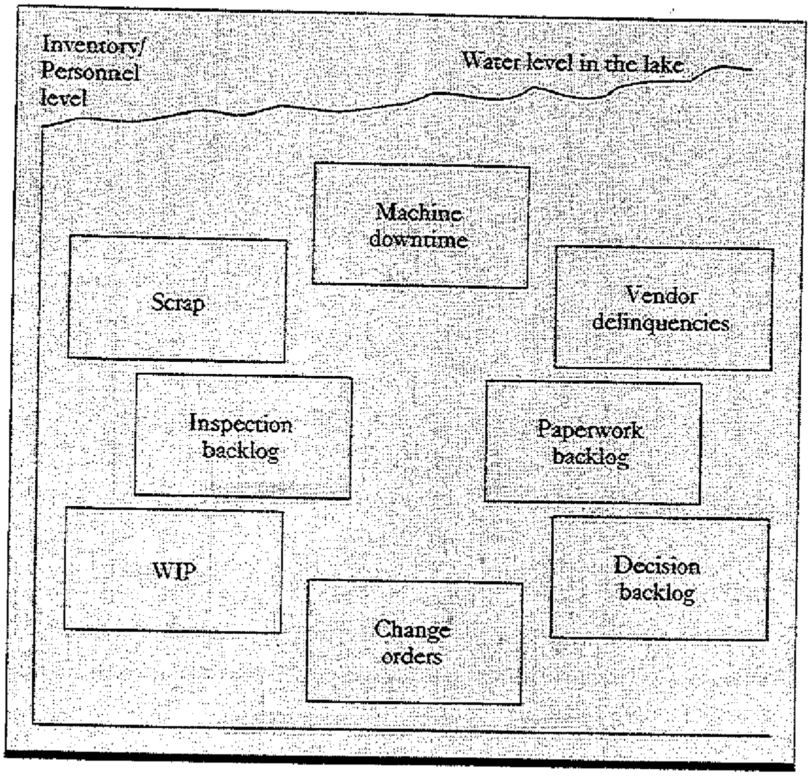
Source: "Time-based Competition," Business One-Irwin, Homewood, IL

EXHIBIT 2
Factors Affecting Profit



Source: "Time-based Competition," Business One-Irwin, Homewood, IL

EXHIBIT 3
Why Do We have Inventory/Personnel?



decided to measure customer behavior rather than attitude, because behavior and attitudes frequently are not the same. A "black box" was installed on the company's phone system. The company found that 10 percent of the callers were hanging up if the phone wasn't answered by the third ring.

How often does your phone ring? In most telephone sales systems it rings about every three or four seconds. How would you like to have the opportunity to increase revenues 10 percent by reacting 10 seconds faster? The company now answers over 98 percent of its incoming calls within three rings.

A second part of the international company's study focused on the order rate when an operator didn't know the answer to a customer's question. The company found that the order rate declined 50 percent each time an operator had to find the answer and call the customer back. So, if the customer had to be called twice with answers, there was only a 25 percent chance of getting the order. Why? By that time, 75 percent of the customers already had called a competitor and placed the order, many times at a higher price.

In traditional fashion, department supervisors sat in corner offices. Since it took too long to go to the supervisor's office for each answer, order takers would stockpile questions and ask the supervisor at the end of the day. They then would call customers back the following day, converting only 50 percent to sales.

The company made a major change to capture orders on the first call. The company reconfigured the layout of its order processing department: the supervisors were located in the middle of their respective areas, and the order takers were placed around the supervisor's desk like the spokes on a wheel. Now, the order takers get immediate answers to their questions and capture virtually 100 percent of customers' orders.

MEASURE CUSTOMER SATISFACTION THROUGH PERFORMANCE

The problem with financial statements is that they are lagging indicators of performance, not leading indicators; and they are results oriented, not process oriented. Nonfinancial performance measures evaluate the key success factors that drive the financial results. Think of business as a ball game. If you want to know who won the game, look at the scoreboard, but if you want to know how they won the game, watch what happens. If you're the losing team and want to win the next time, you can't succeed by watching the scoreboard. You have to learn how to hit, catch, field, and pitch better—get better at the processes of playing the game.

I had a client once that supplied marine paint to boat repair shops. In the early 1990s, the economy was weak and the owner was fighting for a larger slice of a shrinking pie. The owner told me that in order to compete in the poor economy he lowered prices. When I asked him how he knew that, he replied that he has been in business for 25 years and knew his customers' minds. Besides, he added, that was how his competitors competed against him.

We surveyed boat repair shops, including customers and noncustomers, and found that the element of cost was way down on the list of competitive factors. Speedy delivery was by far the most important element. When a shop pulled a boat in for repairs and found it didn't have the paint to do the job, a couple of extra dollars a gallon for paint paled in comparison to the money wasted waiting for the paint to be delivered or to tow the boat to and from the holding lot.

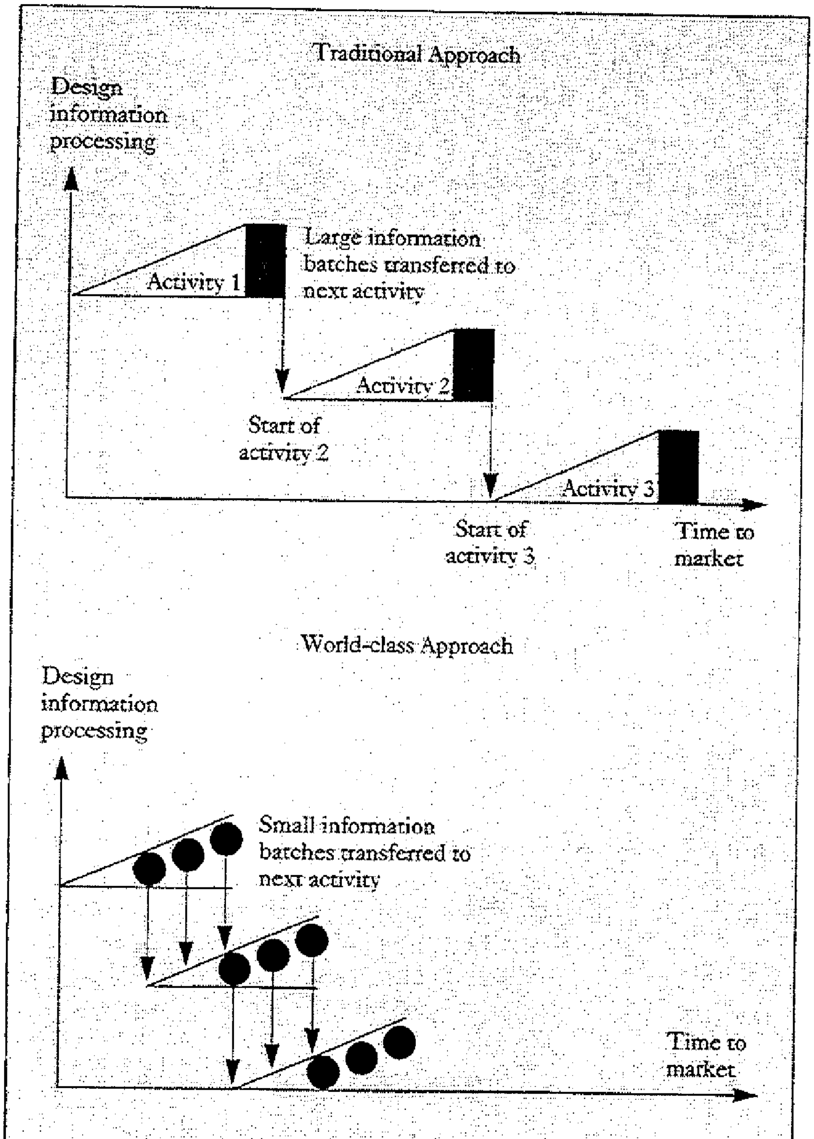
The next step was to analyze the client's sales pattern. The client carried about 150 colors of paint. We found that 20 percent, or about 30, of the colors accounted for 80 percent of sales. Those two facts allowed us to put together a winning strategy. The owner bought two additional delivery vans, stocked each one with two gallons of each of the 30 colors, installed cellular phones, and raised prices. He guaranteed delivery within 30 minutes (or the first two gallons were free), and mailed out flyers to all the repair shops in his market territory. His profits dramatically increased.

The key to profitability is to identify and measure the right variables which many times are not readily apparent. Finance and accounting professionals are good at measuring what's evident and exactly quantifiable, even if it's not very relevant. But, it's much better to be approximately right than exactly wrong.

Financial managers today challenge conventional wisdom. In 1988, Xerox began monthly surveys to learn what customers really wanted (see Exhibit 5). Customers were asked to rate Xerox on a scale of 1 (very dissatisfied) to 5 (very satisfied). The goal was to have all customers rating Xerox at the level 4 or 5 by 1993.

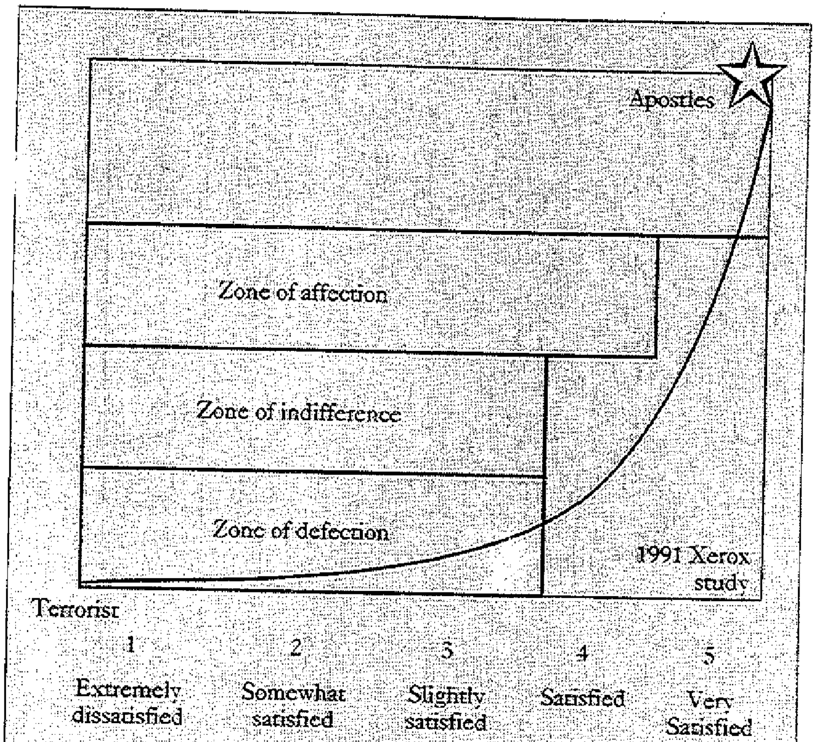
In 1991, after surveying 480,000 customers per year, Xerox analyzed the results. Conventional wisdom held that the relationship between customer satisfaction and revenue was one-to-one; that customers giving a 5 rating would buy 25 percent more Xerox equipment than a customer giving a 4 rating. However, Xerox found that very satisfied customers (5 rating) were six times more likely to buy more Xerox equipment than merely satisfied customers (4 rating). As a result, Xerox focused its efforts on creating "apostles"—customers that were so satisfied they become virtually part of the sales force, touting their satisfaction to others.

EXHIBIT 4
Speeding Up Processes to Increase Profits



Source: "Time-based Competition," Business One-Irwin, Homewood, IL

EXHIBIT 5
Customer Satisfaction Drives Loyalty Drives Profit



"Putting the Service-Profit Chain to Work." *Harvard Business Review*, March-April 1994

What kind of nonfinancial performance measures might Xerox track? If you are in a service business, the "call back" rate is a nonfinancial performance measure. Let's assume, for example, that the copier repair unit's revenue declined 10 percent and costs were up 15 percent in the last quarter. No amount of analyzing the financial statements will reveal the cause. Only when you analyze work orders will the reasons for this dismal performance be apparent.

Repair persons spent, on average, 15 minutes more than planned on each call, making them late for the next call. This resulted in decreased customer satisfaction, and declining customer retention as clients sought out third-party repair alternatives. Digging deeper, they found that 80 percent of the overruns on repair time were committed by 20 percent of the repair staff. Further they learned that 90 percent of the overruns were by repair staff who had been with the company less than 12 months and who had attended a new training methodology adopted at the Xerox training school 18 months ago.

Xerox also wanted to avoid "terrorists"—customers who were so unhappy that they complained to anyone who would listen. What was the answer? Fire your customers. Retain only those customers that generate profitable returns.

How do you identify those to be fired and those to be retained? Treat each customer as an investment center and compute Return on Customer (ROC). Stop focusing only on sales revenue; not all customers are equally profitable. You aren't in business to generate revenue; rather, you're in business to generate profits.

With ROC, you can reduce revenue and increase profits by analyzing each customer's total profitability. That means tracking the below-the-line cost of serving each customer. If yours is a typical American company, you will likely find that 20 percent of your customers provide 80 percent of your profits. The middle 60 percent provide 30 to 40 percent, and you lose your shirt on the bottom 20 percent of your customers.

Your most unprofitable customers are very price-sensitive and are willing to endure long waiting times. Meanwhile, such customers demand a disproportionate amount of support services and staff time, which, in most companies, isn't tracked to specific customers. Exhibit 6 depicts this relationship.

But how do you fire your customers? Once you find out how much it's costing to support these customers, don't hesitate to raise prices. Then one of two things will happen: either they will pay the increased prices, making them profitable customers, or, more likely, they will refuse and become someone else's profit drain. Think about it. Giving your competitors your most unprofitable customers is one of your most potent competitive weapons.

DON'T AUTOMATE—OBLITERATE

In addition to using nonfinancial performance measures as a competitive weapon, you can use them to streamline the finance and accounting functions. In a joint project, the American Institute of CPAs (AICPA) and The Hackett Group, a Cleveland-based consulting firm, benchmarked the best practices in finance and accounting departments. They found that the differences between the best and the average are large.

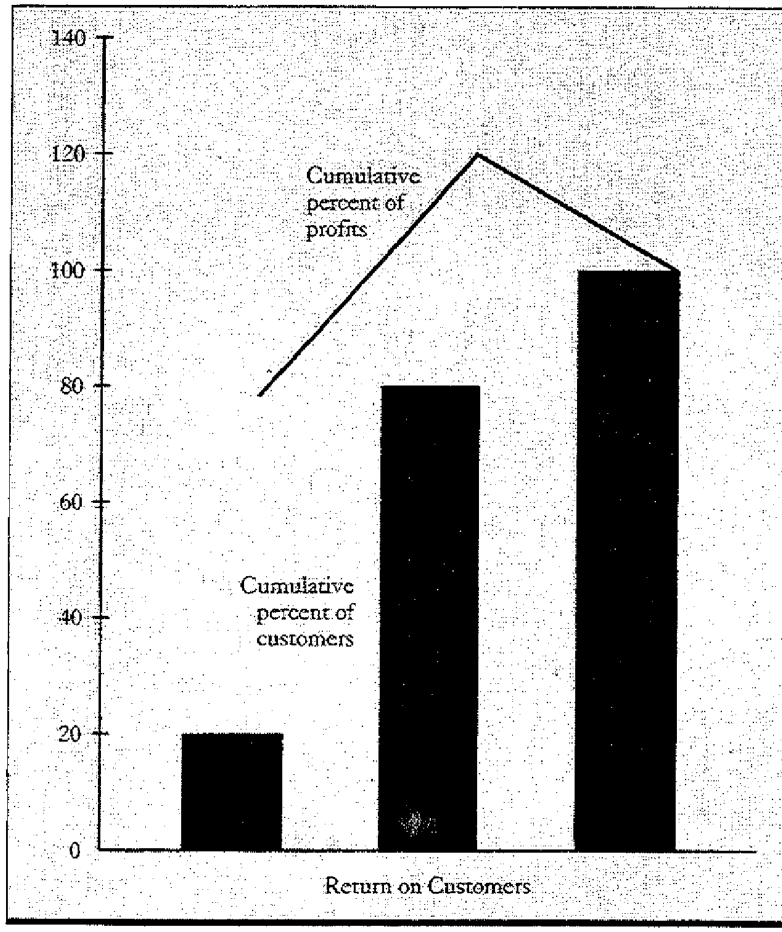
The real key to these measures is how the work is done. World-class companies don't simply automate the work and do it faster; they do it completely differently by analyzing every step of each process and by eliminating steps that don't add value.

Consider how a customer pays vendor invoices. The customer mails a purchase order to a vendor. When the goods arrive, the customer generates a receiving report and sends it to accounts payable. When the vendor's invoice arrives, the accounts payable staff matches the invoice, purchase order, and receiving report.

If the purchase order contains all the requisite detail and a receiving report matches the purchase, why is the vendor's invoice needed? World-class companies such as Ford Motor Company no longer use vendor invoices. As a result, Ford reduced head count in its accounts payable department by more than 75 percent, and has more reliable information to boot.

Rather than matching purchase orders and receiving reports weeks after the goods have been received, Ford enters receiving information into its computer tracking system upon arrival (usually through scanning bar codes and the use of EDI for advance ship notices) and it is automatically matched to the purchase order. Any discrepancies between the purchase order and receiving document are handled immediately while the materials are still on the dock.

EXHIBIT 6
Where Do Profits Come From?

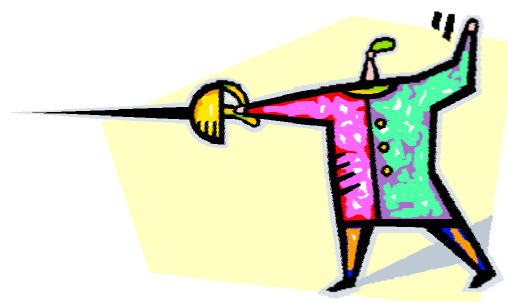


The payoff in efficiency is enormous, but to achieve this kind of system, management must be willing to undertake fundamental change and not settle for doing things "the way we've always done it."

CONCLUSION

The accounting numbers seldom tell the full and necessary story. Financial managers must discover the "whys" and "hows" of the processes in order to measure the actual performance of a company. By evaluating the processes that generate the results in customer satisfaction, the financial manager will have a much clearer and more reliable set of tools with which to measure corporate performance. ■

How to Transform Your Accounting Department into a Competitive Weapon



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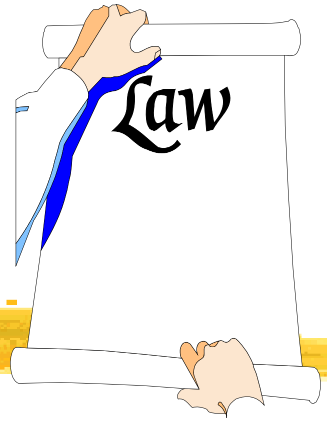

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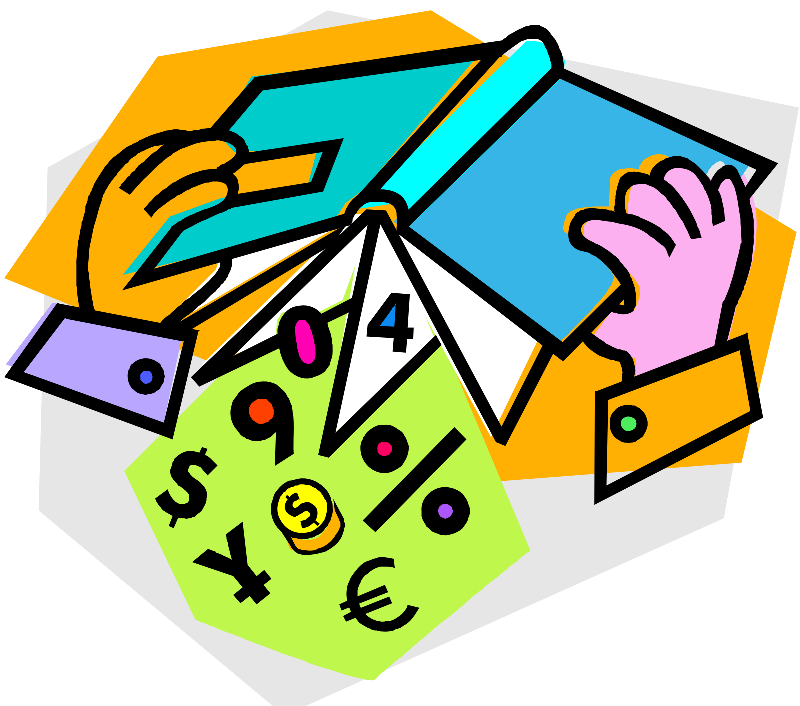
Do You Know......

what financial statements are????



Once Upon a Time. . . .

Oldie but goodie: Job Applicants

A mathematician, a statistician and an accountant apply for the same job. The interviewer calls in the mathematician and asks "What do two plus two equal?" The mathematician says, "Four."

The interviewer asks "Four, exactly?"

The mathematician looks at the interviewer incredulously and says "Yes, four, exactly."

Then the interviewer calls in the statistician and asks the same question "What do two plus two equal?"

The statistician says "On average, four - give or take ten percent, but on average, four."

Then the interviewer calls in the accountant and poses the same question "What do two plus two equal?"

The accountant gets up, locks the door, closes the shade, sits down next to the interviewer and says

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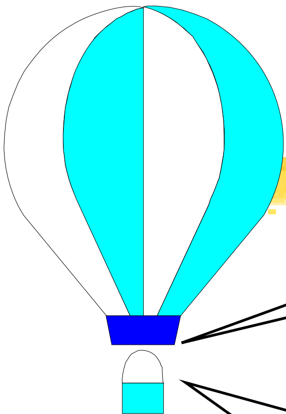


Excuse me. Can you tell me ________________

You're in a ___________.

You must be an _______________.

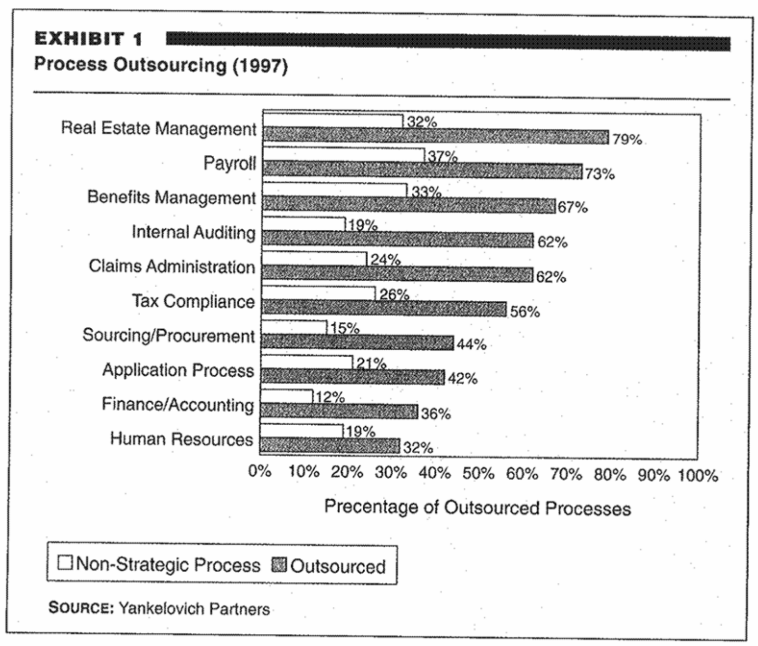
How did you _____________?

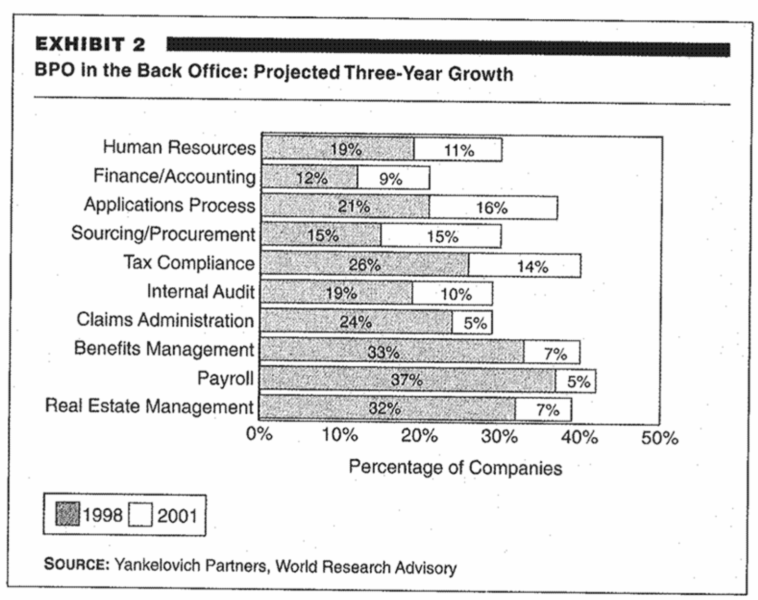
Because you gave me a precise answer that is completely ____________.

Outsourcing Accounting

Business Process Outsourcing in accounting is expected to increase in the next three years in accounts receivable, accounts payable, payroll, risk management, and due diligence. It is predicted that companies will become virtual, executing only core processes and contracting everything else out to third-party vendors who are more efficient at executing a particular support process.

Areas being Outsourced





FINANCE PRIME CANDIDATE FOR OUTSOURCING

The Boiling Frog

What's the Point?

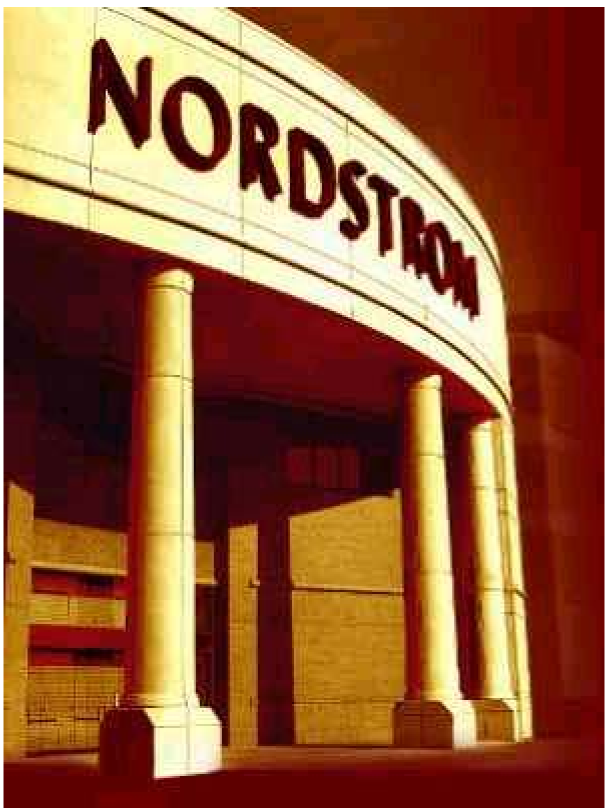
Vision Project

- **CORE PURPOSE:** CPAs … making sense of a changing and complex world.
- **VISION STATEMENT:** CPAs are the trusted professionals who enable people and organizations to shape their future. Combining insight with integrity, CPAs deliver value by:
  - Communicating the total picture with clarity and objectivity,
  - Translating complex information into critical knowledge,
  - Anticipating and creating opportunities, and
  - Designing pathways that transform vision into reality.

Top 5 Core . . .

- TOP 5 CORE VALUES
  - Continuing Education and Life-Long Learning
  - Competence
  - Integrity
  - Attuned to Broad Business Issues
  - Objectivity
- TOP 5 CORE COMPETENCIES
  - Communications and Leadership Skills
  - Strategic and Critical Thinking Skills
  - Focus on the Customer, Client and Market
  - Interpretation of Converging Information
  - Technologically Adept

The Nordstrom Way



We're glad to have you with our company. Our number one goal is to provide outstanding customer service. Set both your personal and professional goals high. We have great confidence in your ability to achieve them.

Rule #1: Use your good judgment in all situations. There will be no additional rules. Please feel free to ask your department manager, store manager, or division general manager any question at any time.

Whack

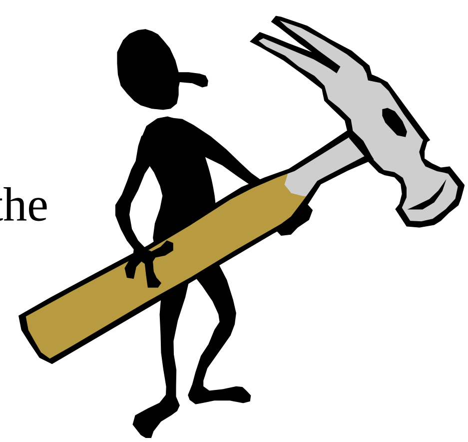
There was an engineer who had an exceptional gift for fixing all things mechanical. After 30 years, he happily retired. Several years later the company contacted him about a seemingly impossible problem they were having with one of their multi-million dollar machines. The engineer took the challenge.

Having fixed this machine 11 years before, he walked up to the machine and gave it a firm rap with a hammer. The machine came to life and worked perfectly.

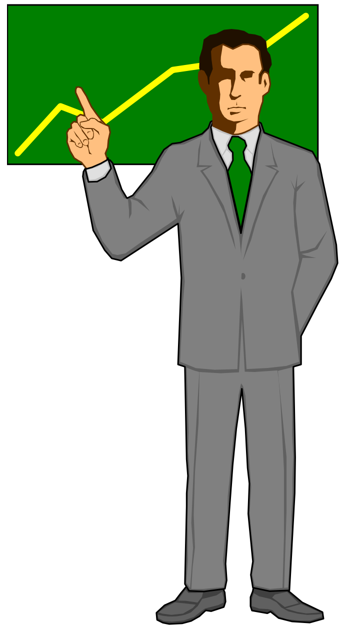
The engineer sent the company a bill for $50,000. They demanded an itemized accounting of his charges.The engineer responded:

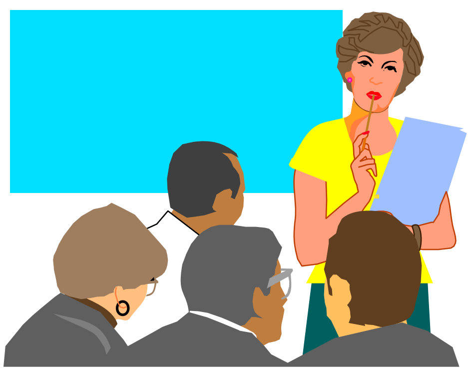
One whack with hammer :	$1
Knowing where to whack:	$49,999

The company _________________ and the engineer retired again in peace.



4 Quick Tips

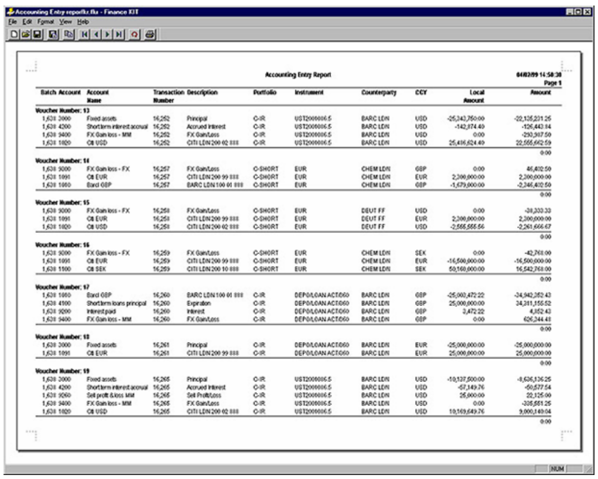


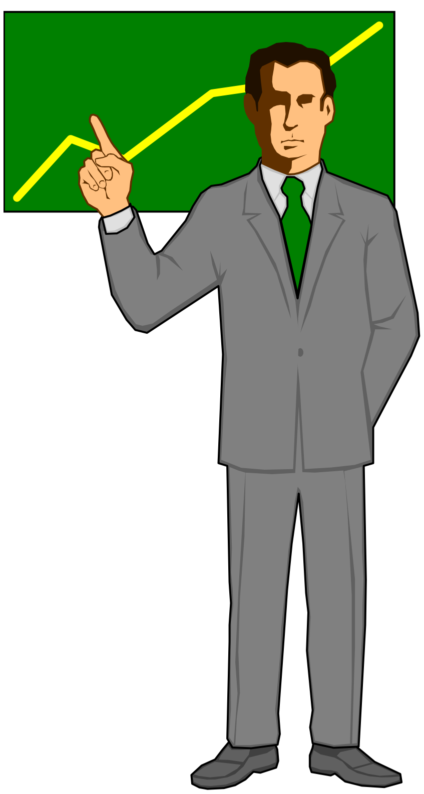


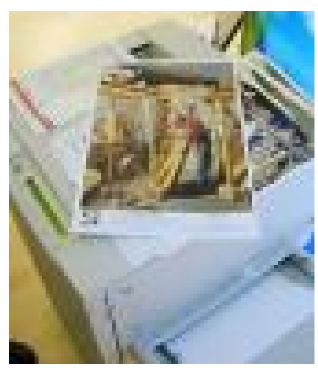
Quick Tip #1


BLONDIE
by Dean Young & Denis Lebrun
BEEP BEEP BEEP
HELLO, YOU HAVE REACHED THE MACGRAW CORPORATION... THANK YOU FOR CALLING
IF YOU ARE USING A TOUCH-TONE PHONE AND WISH TO PLACE AN ORDER, PRESS 1
IF YOU WISH TO MAKE AN INQUIRY ABOUT AN ORDER, PRESS 2
HI, DAD
OH, HI, ALEXANDER
AND IF YOU WISH TO REGISTER A COMPLAINT, PRESS 4
I DIDN'T GET TO HEAR 3! WHAT IF I WANTED IT?!
WHAT'S ALL THAT SHOUTING ABOUT?
WE'D BETTER GO SEE
I WANT TO TALK TO A HUMAN BEING!!
SINCE NO NUMBER HAS BEEN PRESSED THIS CALL IS TERMINATED
CLICK!

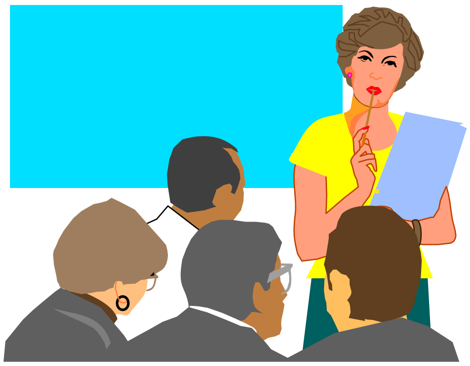
Quick Tip #2







Quick Tip #3



Want to be indispensable?

____

____

____

Quick Tip #4

100% Guaranteed

THE MANTIS PROMISE

Try any product that you buy directly from Mantis with **NO RISK!**

If you're not completely satisfied, send it back to us within one year for a complete, no-hassle refund.

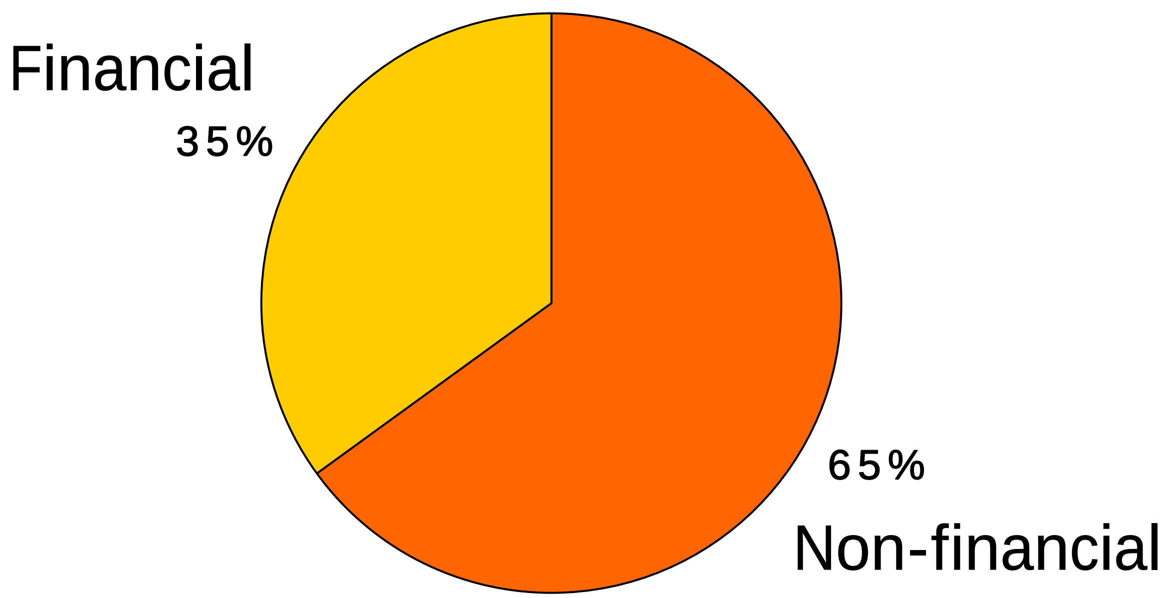
Mantis Tillers

1. Draw 2 lines representing monthly sales:
(a) 30-day return guarantee
(b) 1 year return guarantee

2. Discuss the pros and cons of the 30-day vs. the 1-year guarantee

Measures That Matter

What matters most?



Ernst & Young

Criteria that Drive and Measure Profits

Non-Financial → **Financial**

Non-Financial

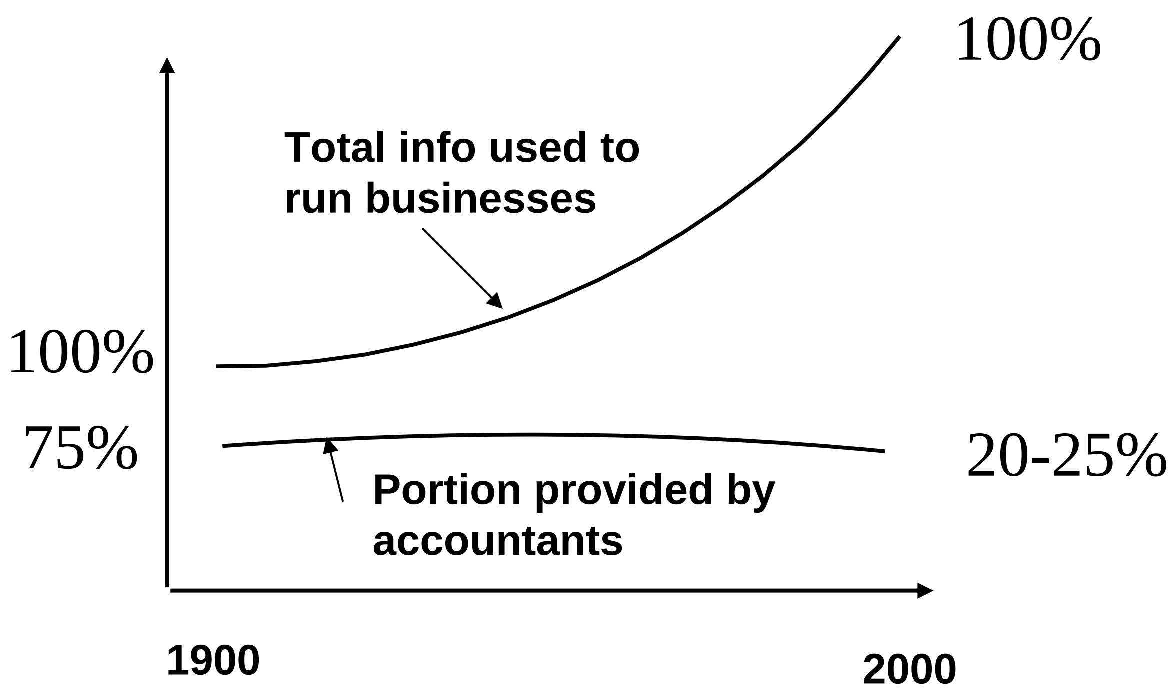
- Management
- Products & services
- Customer satisfaction
- Corp culture
- Investor comm.
- Executive pay
- New products
- Research capability
- Strategic planning
- Strategy execution
- Mgt. credibility
- Employees
- Process quality
- Market position

Financial

- Sales
- Profitability
- ROA
- Cash flow
- Sales growth
- Income growth
- Market share
- Cost control

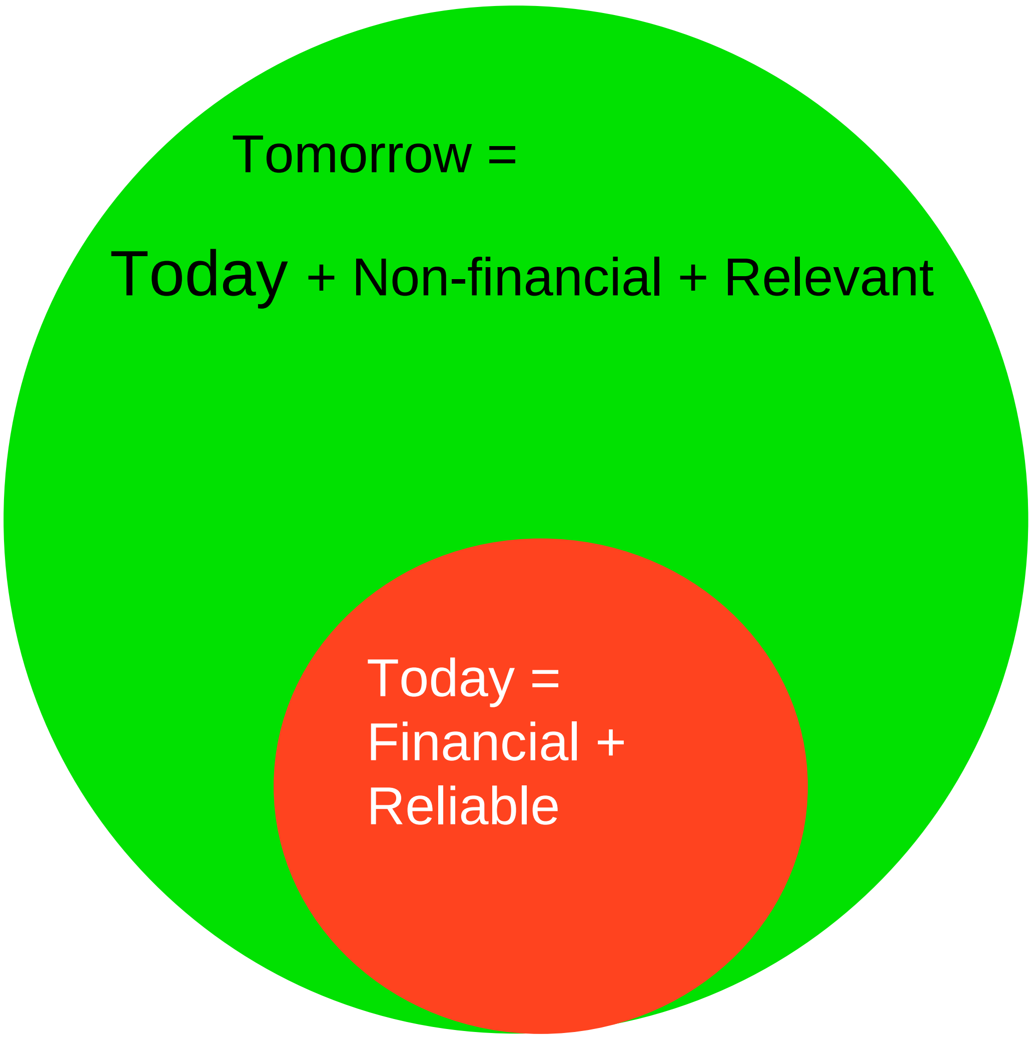
Ernst & Young

Loss of Accountants Information Market Share



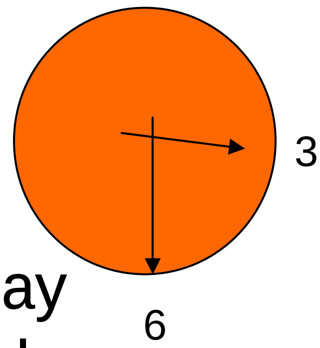
Adapted from "The Future of Audits,"
J of A, Sept. 1994, p. 74

Accountants Would Rather Be Exactly Wrong Than Approximately Right



Adapted from "The Future of Audits"
Journal of Accountancy, Sept. 1994, p. 74

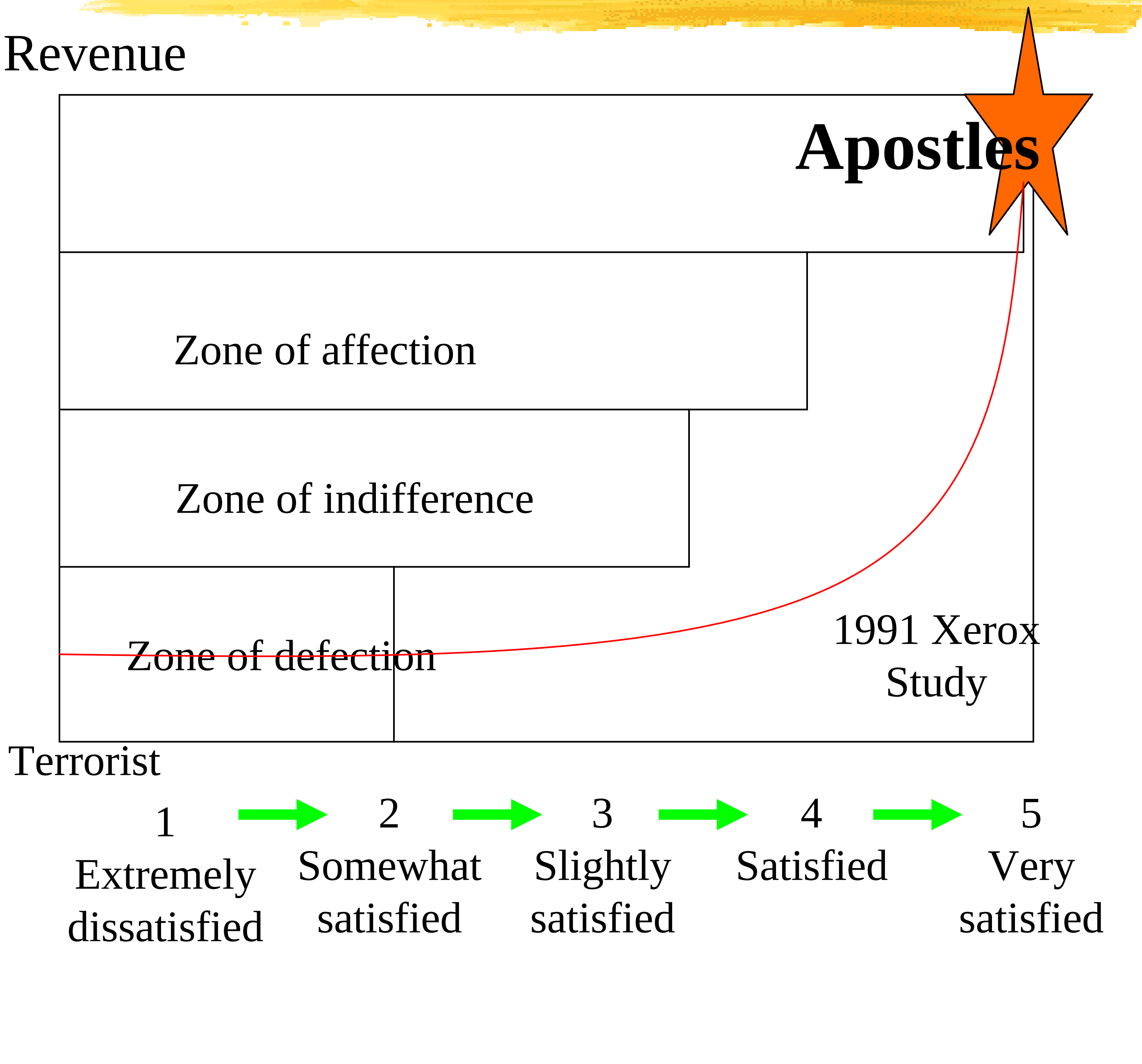
Who Are Accountants?



- Accounting spends 51% of its time on transaction processing.
- 30% of accounting managers say they are a business partner. Only 5% of CEOs agree.
- 63% of accounting managers say their primary role is business advocate. 61% of non-accounting managers think controller is corporate cop.
- 61% of accounting managers say they embrace service and involvement. 65% of non-accounting VP's say accounting is oversight and surveillance.

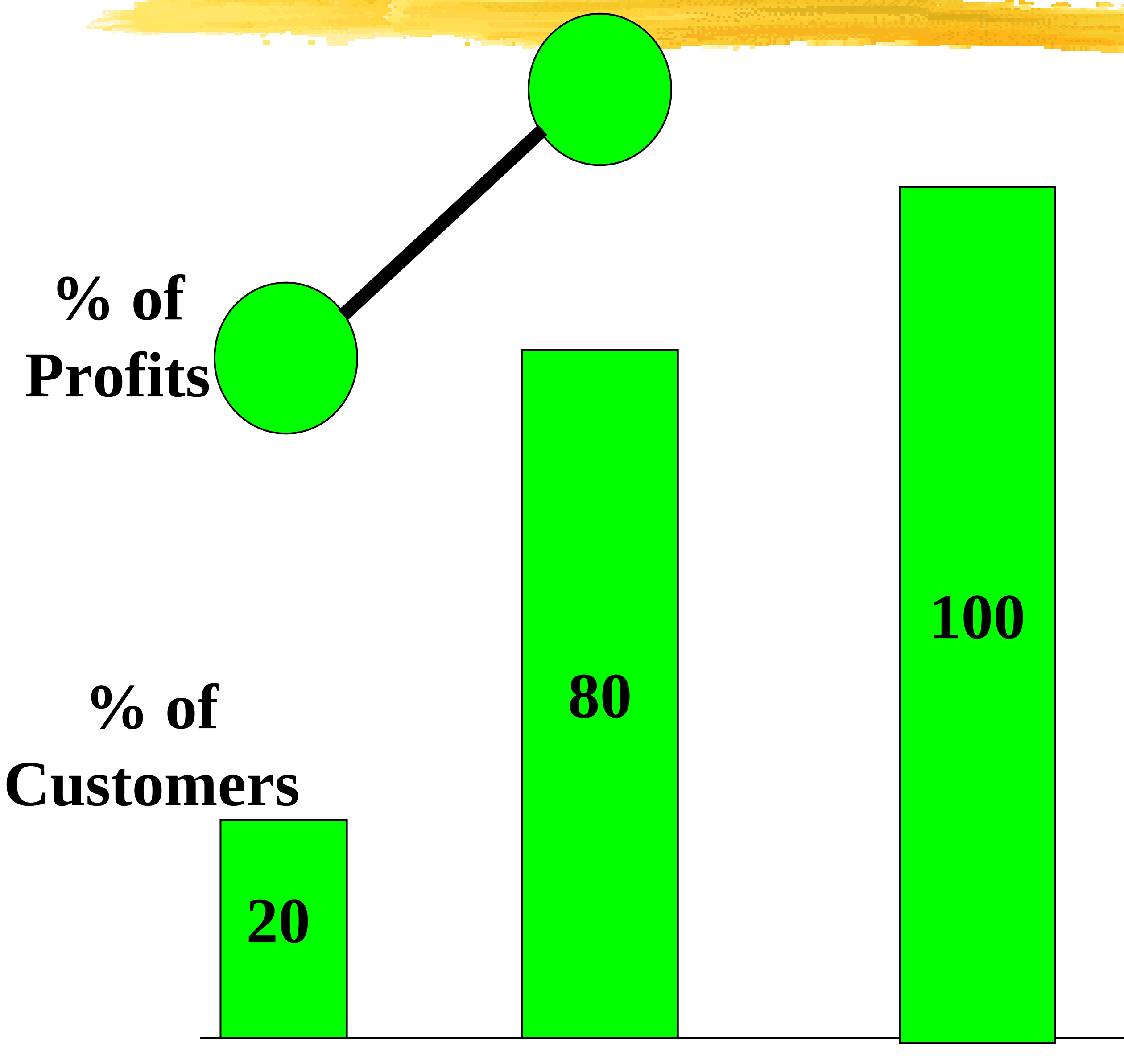
CFO Magazine

Customer Satisfaction Drives Loyalty Which Drives Profits

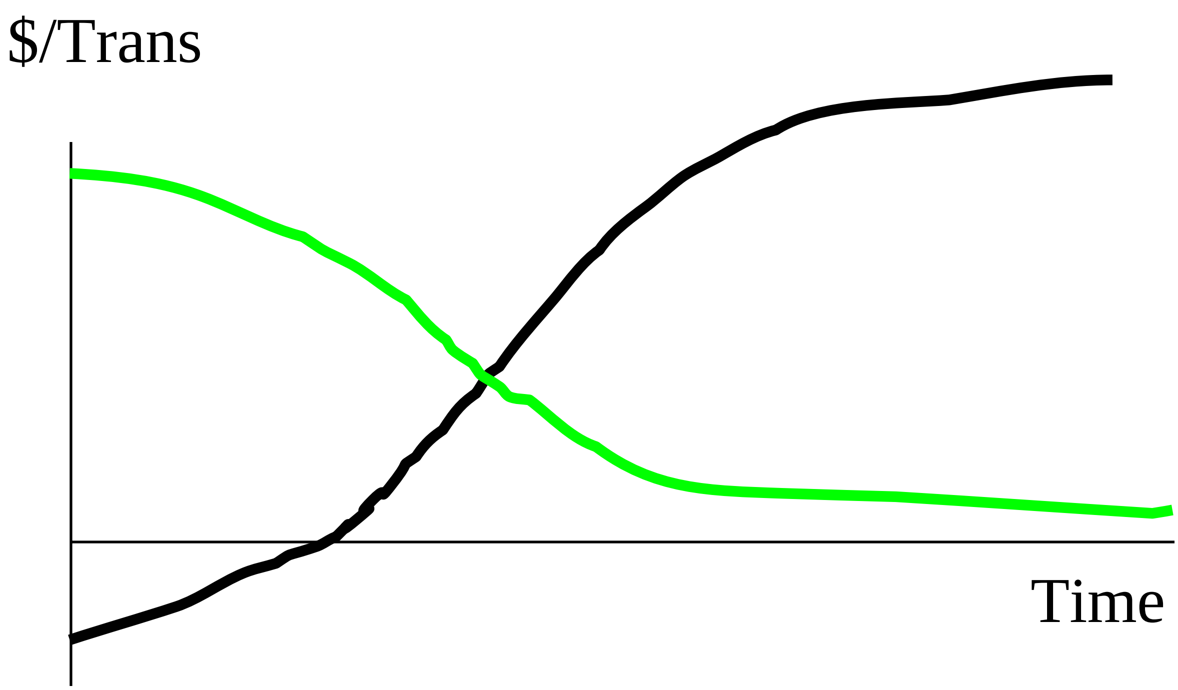


Source: Time-based Competition

Customer Profitability



Cost/Transaction vs. Profitability/Transaction



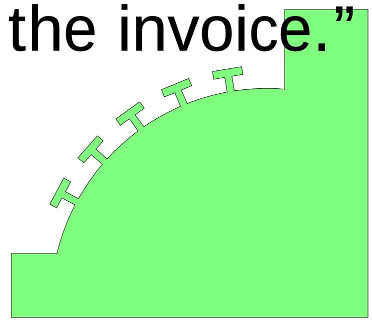
Getting Sales To Do What YOU Want

- Does sales focus on the most profitable customers?
- Does sales strive to make the most profitable sales?
- Does sales WANT to help collect the balance due?

Solution

1. Level the commission
2. Pay higher rate on profit measure
   1. Gross margin
   2. Revenue – direct costs
3. Pay on ____________________
4. Use both systems for _____________

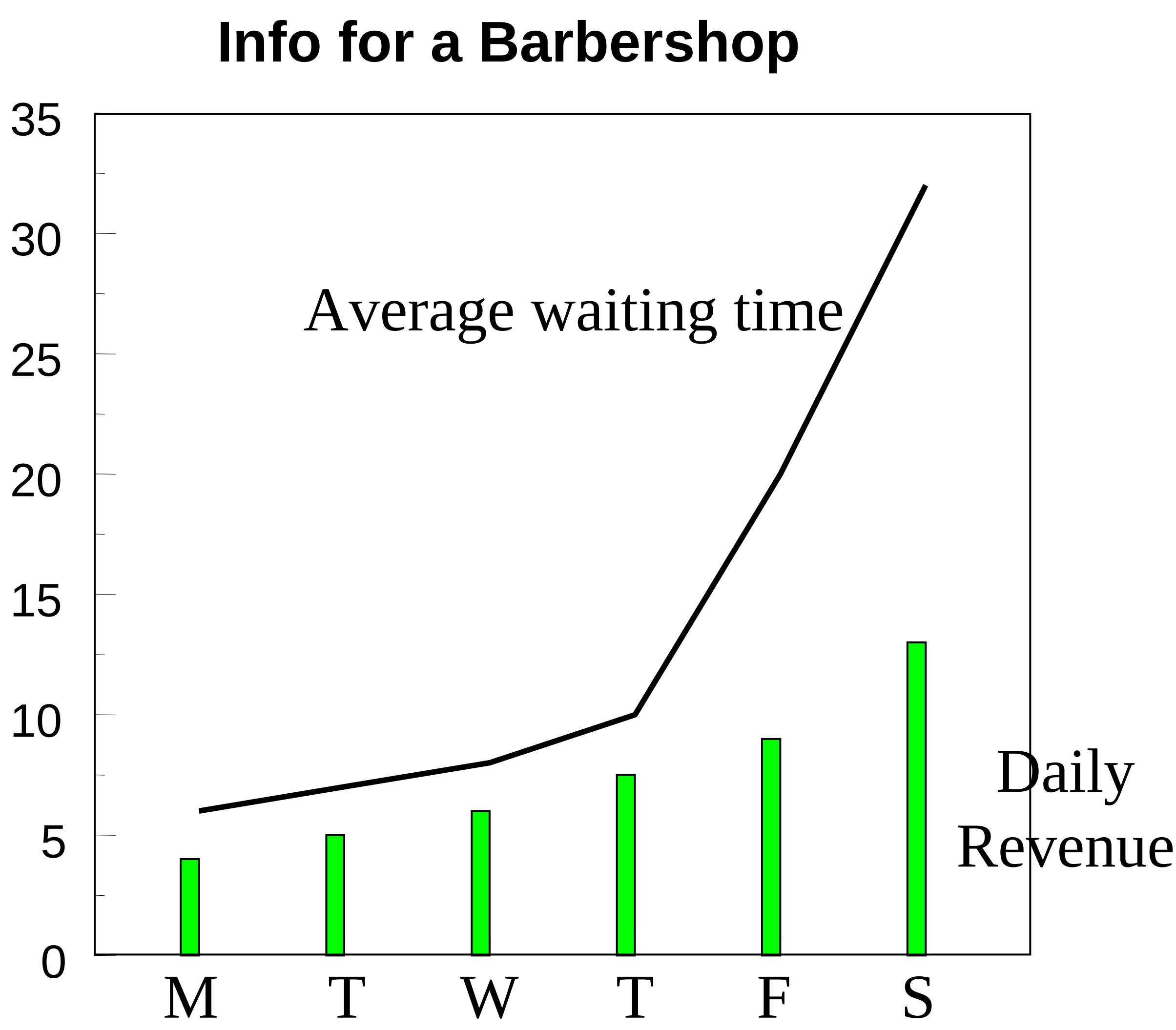
Thoughts on Sales and Credit



- Credit calls - “We didn’t get the invoice.”
  - Fax
  - Email
- Poor credit signals
  - Substitutes compiled or reviewed statements
  - Profitable, but no cash flow statement
- Ideas to increase sales
  - Offer quantity discounts
  - Suggest upgrades that add value
  - Include a flyer or catalog
  - Stay in contact

The Pizza Connection

Insight, Not Just Facts



Riding a Dead Horse

When you discover you are are riding a dead horse, the best strategy is to dismount.

Business Dead Horses Can Be Ridden if You. . . .

1 Declare, “This is the way we’ve always ridden this horse.”
2 Appoint a committee to study the horse.
3 Arrange visits to other companies to study how they ride horses.
4 Appoint a “tiger team” to revive the dead horse.
5 Hold a training session to improve riding ability.
6 Compare the state of dead horses in today’s environment.
7 Change the standard to declare, “The horse is not dead.”
8 Hire contractors to ride the dead horse.
9 Harness several dead horses together for increased speed.

Business Dead Horses Can Be Ridden if You. . . .

1 Declare, “No horse is too dead to beat.”
2 Increase funding to improve the horse’s performance.
3 Buy something to make the dead horse run faster, like a new saddle.
4 Declare the horse is, “better, faster, and cheaper” dead.
5 Start a quality circle to improve dead horse performance.
6 Revisit performance requirements for horses.
7 Say this horse was purchased with cost as an independent variable.
8 Promote the dead horse to a management position.

Will They Remember You

Scientific	We are *fast.* We travel at 186,000 mps.
Muffler shop	You don't need an appointment. I'll hear you coming.
Suggestive	Let me remove your shorts. For a good time, see me. Who wants to expose himself? We love it when you talk dirty to us.
Dentist	Be true to your teeth, and they won't be false to you.
Historical	If you have a tax problem requiring the wisdom of Solomon, you'll find me in the Yellow Pages under 'A. Solomon, enrolled agent.'
Play on words	We do Windows. For 50 years you've been walking all over us – and we love it.

Will They Remember You?

- You have 10 seconds
- Make it memorable
- Make people laugh
- Makes you approachable
- Tell people the result, not the job:
  "Hi, I'm Joe Smith. I'm an accountant."
  Rephrase:________________________________
  ____
  ____
  What's your line?
  ____

Inventory is a(n)________

MASS CUSTOMIZATION becomes the new marketing mantra.

That seeming oxymoron is a response to consumers' desire for individual treatment in an increasingly impersonal world. Nowadays, the average Joe can buy custom clothing at an affordable price, made-to-order music CDs, even personalized vitamins. "If you don't **mass customize**, you're going to lose business in today's marketplace," warns W. Michael Cox, chief economist at the Federal Reserve Bank of Dallas.

The Internet is a popular medium for custom orders. Ford Motor Co. lets buyers "build a vehicle" from a palette of options, while Golf to Fit crafts custom clubs based on questionnaire responses. But Levi Strauss & Co.'s customers must visit stores to be measured for its Original Spin jeans. Levi tested personalized women's jeans in 1994, and the response was so positive that last fall it added men's jeans and more leg styles and colors.

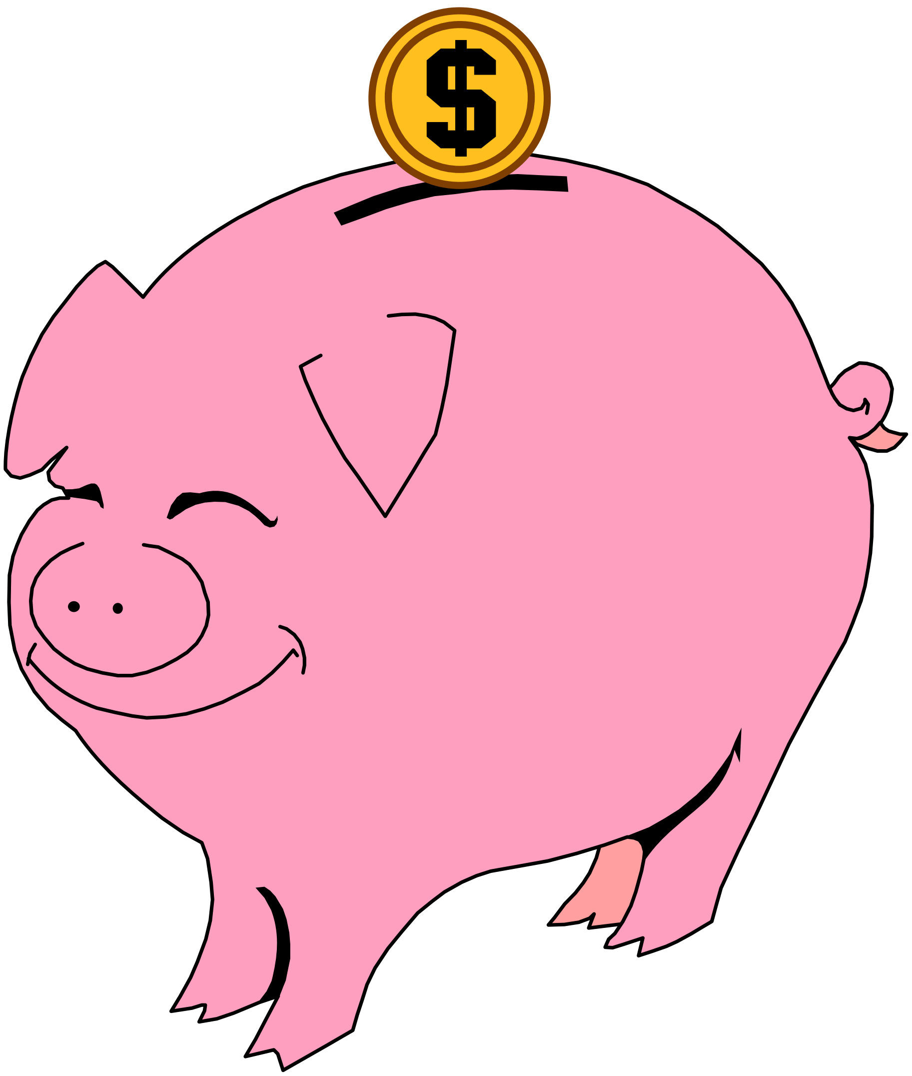
WSJ, April 29, 1999, p. A1

Mass Customization

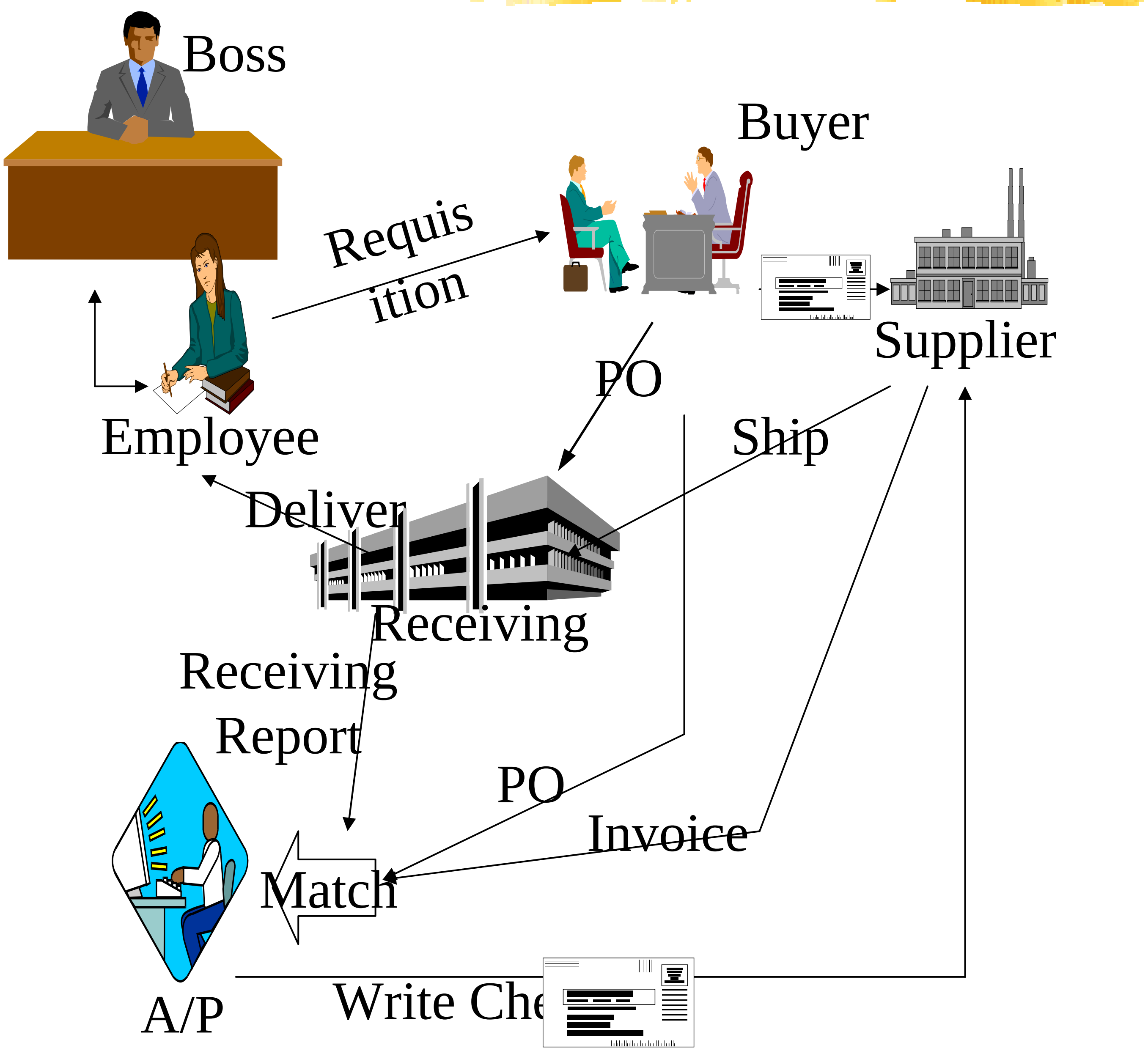
Dell offer visitors product information, an interactive customization feature and an online store.

Welcome to the Interactive Pricing Center, where you can do lots of useful things. You can build your own Saturn, starting with a base car, then adding any options you might like.

Cutting the Fat from Accounts Payable



Traditional Purchasing System



Cutting the Fat from Accounts Payable

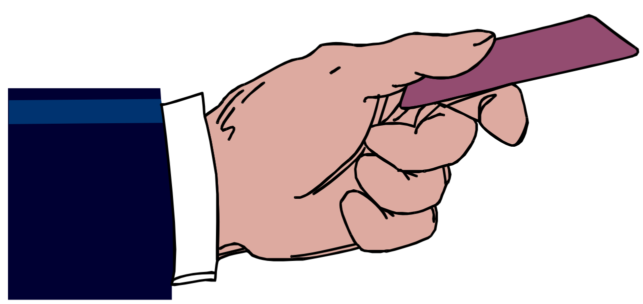
- Average cost to acquire and pay for an item is $
- Cost of processing a small item is greater than
- The solution?
- P-cards are generally used for:
  - Maintenance
  - Repairs
  - Operating items

Charge It!

- ✓ Purchase cards cut costs and boost controls
- ✓ Dramatic positive impact
- ✓ Strengthen control
- ✓ Prevent circumvention of traditional purchasing system
- ✓ Overcoming the inevitable resistance

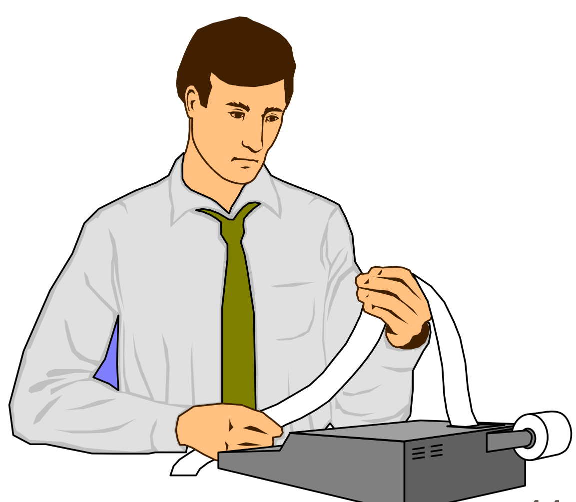
Corporate Purchasing Cards

- 13% of companies use them and 33% plan on using
- For companies with at least $500 million in sales, 25% use them and 43% plan to



What's Reduced or Eliminated in A/P

- Paperwork
- Approvals
- Identifying and expediting invoices for cash discounts
- Backorders for partial PO fills
- Rationalizing paperwork
- Accruals
- Answering phone inquiries
- Expense reports/petty cash
- Check-writing



What’s Reduced or Eliminated in Purchasing

- Receiving requisitions
- Assigning buyers
- Selecting suppliers
- Calling suppliers
- Negotiating or price checking
- Establishing terms

What’s Reduced or Eliminated in Purchasing

- Transcribing requisitions to POs
- Filing and mailing PO to supplier
- Filing and mailing POs internally
- Resolving invoice differences
- Closing the order when complete

What’s Reduced or Eliminated in Requisition

- Time spent
  - Filing out requisition forms
  - Obtaining approvals
- Time savings are offset to maintain card-related information
- Supply stockpiles

Other Reductions or Eliminations

- Mail related
  - Receiving, sorting and distributing checks and correspondence
  - Postage

- Bank reconciliation time
- Receiving activities
- Information processing

P-cards and Your Bank

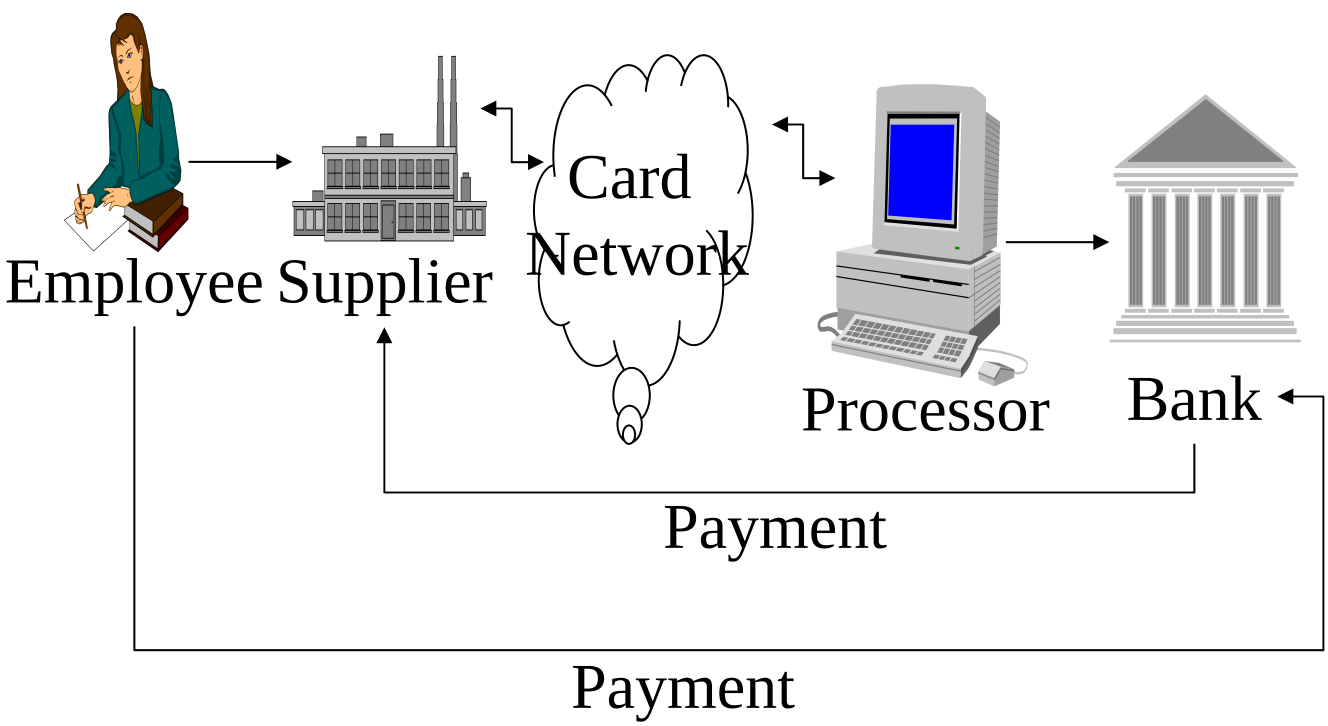
- What the bank wants
  - Paid monthly
  - Fees are negotiable
- Sends a paper or electronic statement for all purchases
- Vendors get paid in 1 or 2 days
- Block certain purchases or restrict to specific vendors
- Get on-line, real time, access to activity

The Bank

Benefits of Corporate Purchase Cards

- Managers save time
- Purchasing patterns
- Number of vendors
- Card numbers correspond to the G/L
- Ordering is as simple as

Purchasing Card Flow



Where Should You Use P-cards?

High

Capital Equip Computer systems Strategic services	Inventory Raw materials Equipment
Contract services Petty cash items Meeting Facilities Emergency buys	MRO items Office supplies Freight/postage

Importance Value

Low # of transactions High

Implementing Purchasing Cards

- Get internal support
- Form cross-functional team
- Set goals and objectives
- Develop purchasing program plan
- Formulate policies and procedures to promote P-cards
- Present program to participants/suppliers
- Modify policies and procedures
- Expand the program
- Develop a user manual
- Distinctive card design

Purchasing Card Features

- Single transaction limit
- Monthly dollar limit
- Finance office/Budget $ limit
- Merchant blocking
- Daily transaction limit
- Monthly transaction limit
- Total company limit

- Determined by company a [illegible] to each cardholder

Better Internal Controls

- Strengthen spending controls
- Solves timing problems
- Manage by exception
- Don’t need manual logs
- MROs usually occur over 2 accounting periods
- Don’t reconcile POs issued and liabilities
- Avoid side agreements

World-Class Accounting

HACKETT BENCHMARKING SOLUTIONS℠

FINANCE PROCESSES

HUMAN RESOURCES

INFORMATION TECHNOLOGY

PLANNING

PROCUREMENT

Mark Krueger
(800) 356-4225 or www.answerthink.com

Finance Processes

Transaction Processing	Control & Risk Management	Decision Support
A/P	Budgeting	Performance analysis
T&E	Forcasting	New business pricing
Freight	Performance reporting	Cost analysis
Fixed assets	Cash mgt	Strategic planning
A/R	Treasury mgt	Finance mgt
Credit	Insurance mgt	
Collections		
Customer billing		
General acctg		
External report		
Tax acctg		
Cost acctg		
Tax filing		
Time collection		
Payroll		
Benefits		

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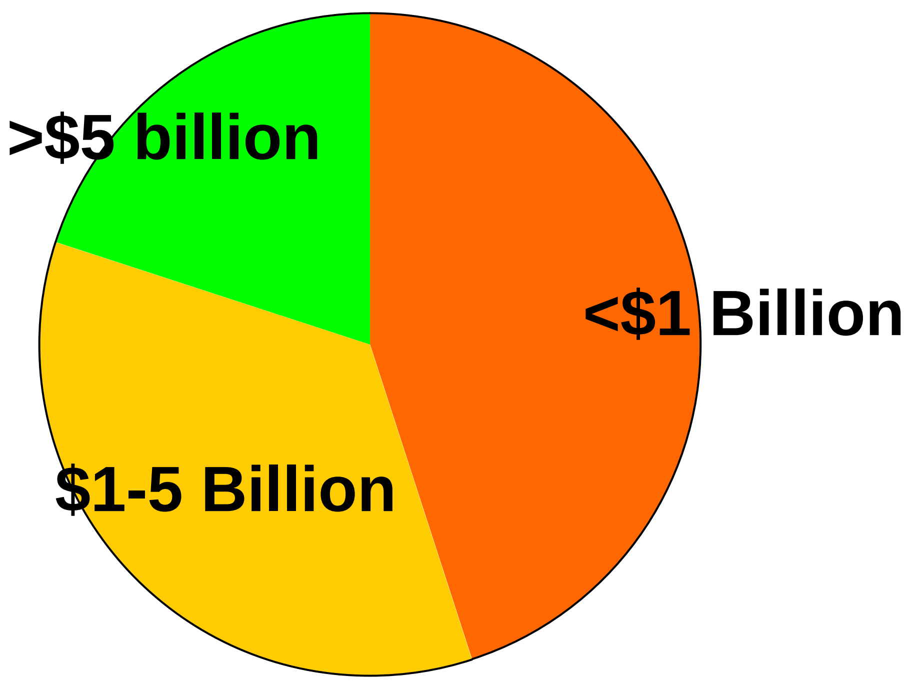
Company Size



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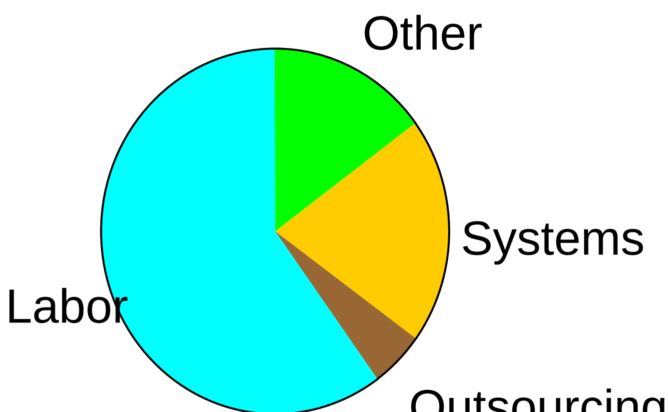
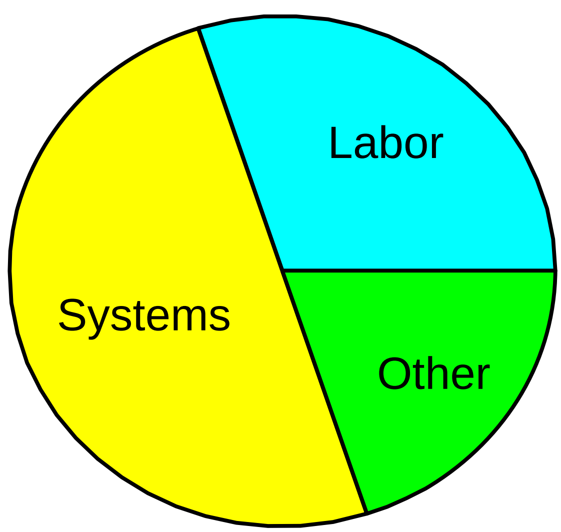
Cost Components

Average



World-Class



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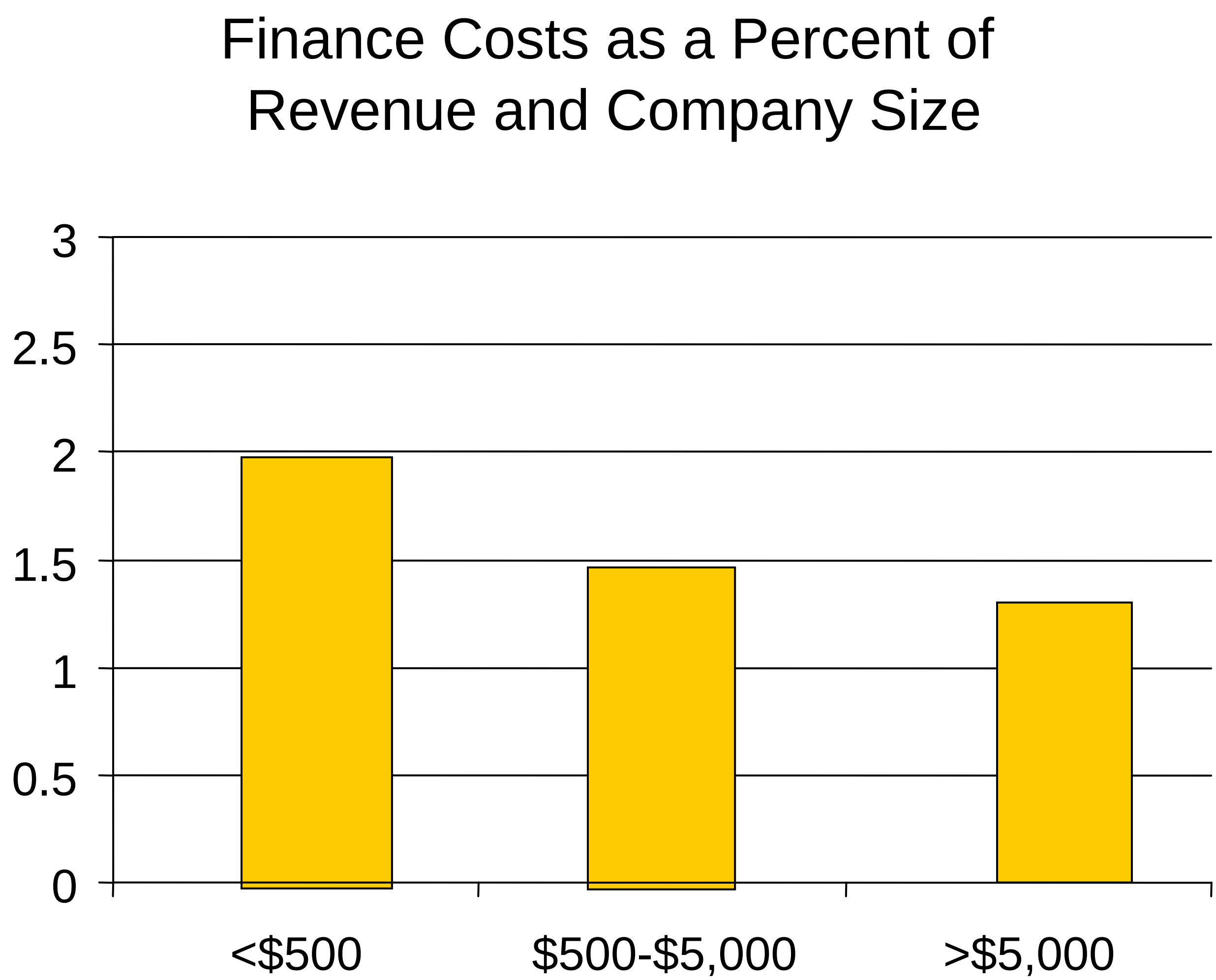
Finance Cost are Falling



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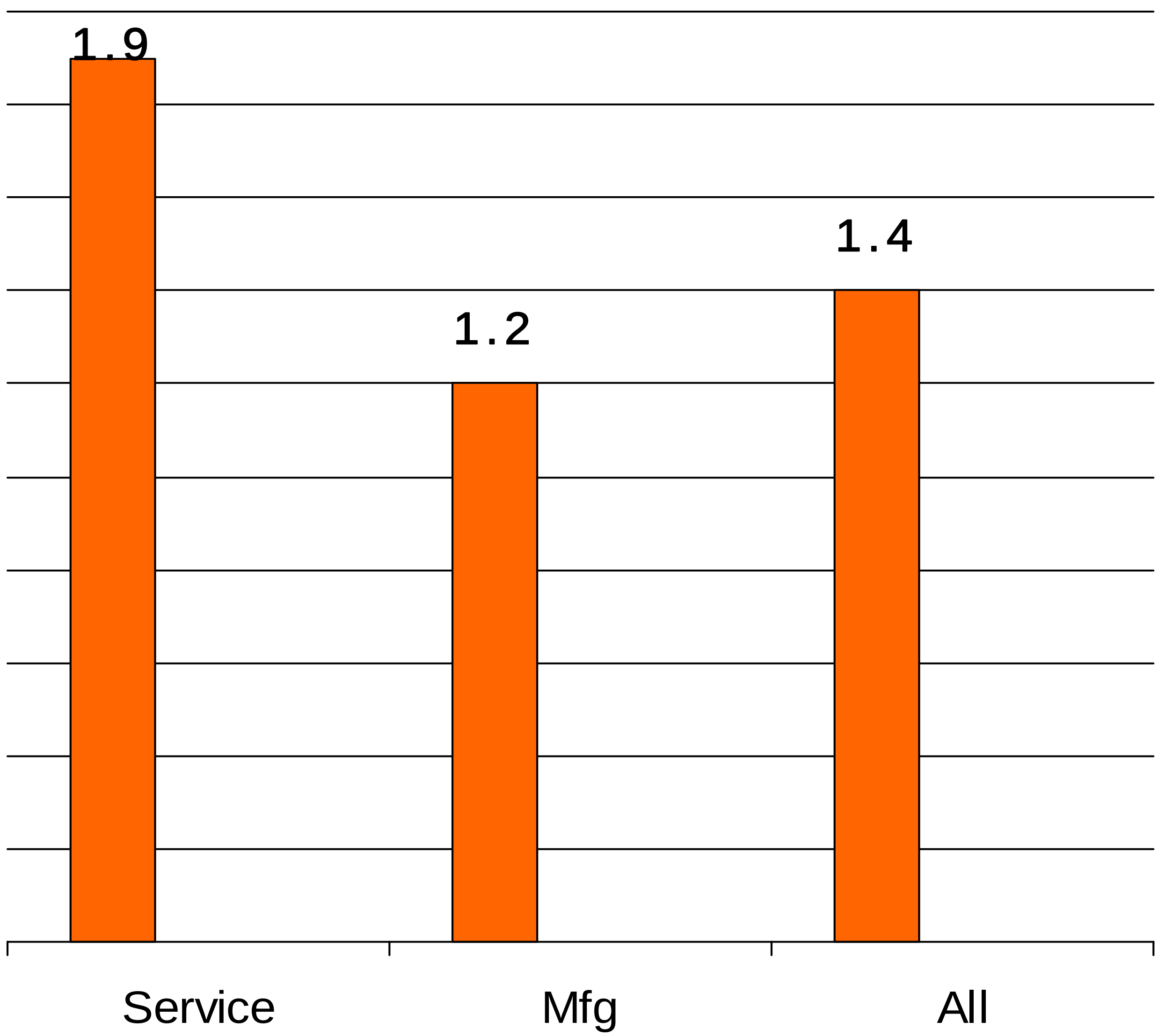
Finance Cost as Percent by Type of Organization



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Accounts Payable Best Practices

- Two-way matching
- Procurement card
- EDI and advance shipment notifications (ASNs)
- Online purchase requisition systems
- Web-based supplier catalogs
- EFT settles payment
- Recurring payments automated
- Purchasing solves own problems
- Sundry items
- Invoice documents imaged
- A/P processing consolidated

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Accounts Payable Quick Fixes

- Implement procurement cards
- Eliminate multiple approvals
- Eliminate approval routing of invoices under three-way match
- Raise limit for checks requiring duplicate signatures
- Automate signature blocks applied to checks
- Discourage manual checks
- Reimburse sundry items through expense reports
- Eliminate multiple copies and files

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Accounts Payable Fun Facts

	Average	1st Quartile
Cost as a % Of Revenue	0.055%	0.044%
FTEs/$Billion	14.3	11.8
Transactions/FTE	13,137	17,679
Cost/Transaction	$2.93	$1.90

Per billion dollars of sales...

- Processes 187,859 supplier invoices annually
- Pays employees $37,623 in salaries and benefits
- Utilizes 1.9 systems that are 5.4 years old
- Productivity increase of 5% over the last year
- Saves $109,520 with first-quartile processes

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How to Close the Books in 2 Days

MOTOROLA

1. Estimates
   - Good enough
   - Would anyone make a different decision
2. Software
   - What
   - When
   - Format
3. Adjusting journal entries
   - What's a journal entry
   - Correction of a defect
   - Figure out what happened and fix it

General Accounting Best Practices

- Close in two days or less
- Soft closes
- Financial statements available one day after close
- Subsystems interfaced with G/L
- High materiality levels set for journal entries
- Cost allocations estimated
- Inter-company charges
- Reconciliation and analysis of balance sheet accounts
- Common general ledger
- Standard chart of accounts
- Centralized account maintenance
- G/L contains only summary
- Detailed transaction information
- Drill-down available

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General Accounting Quick Fixes

- Soft monthly close process
- Raise materiality levels
- Simplify allocation process
- Standardize chart of accounts
- Eliminate P&L estimates
- Eliminate unnecessary management reports

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General Accounting Fun Facts

	Average	1st Quartile
Cost As A % Of Revenue	0.064%	0.043%
FTEs/$Billion	11.7	8.6

The average billion-dollar company...

- Makes 1,474,869 journal entries annually
- Pays their employees $53,709 in salaries and benefits
- Utilizes 2.0 systems that are 5.8 years old

Saves $205,373 with first-quartile productivity

The Hackett Group