

# Measuring & Driving Performance

Tools & Techniques for  
Leadership Teams & Analysts



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# Introduction

- Randy MacLean, creator of WayPoint Analytics
- wrote early accounting software
- had budget & performance responsibility
- spent past 15 years in company performance data all day, every day
- thousands of in-depth discussions with owners & top executives





# Today's Objectives

- new metrics that control financial performance
- what they are / how they're used
- a new perspective that will increase your profits
- you'll leave with new actionable metrics to manage the business



# We Need a New Nomenclature

- need actionable metrics that control & improve company profit
- need precise nomenclature for their true nature
- conventional financial metrics are:
  - results, not drivers (not actionable)
  - (revenue, margin, order size, etc.)  
don't work because they don't measure the things that matter



# The Purpose of the Business

The purpose of a business  
is to convert product & service value  
into profit.

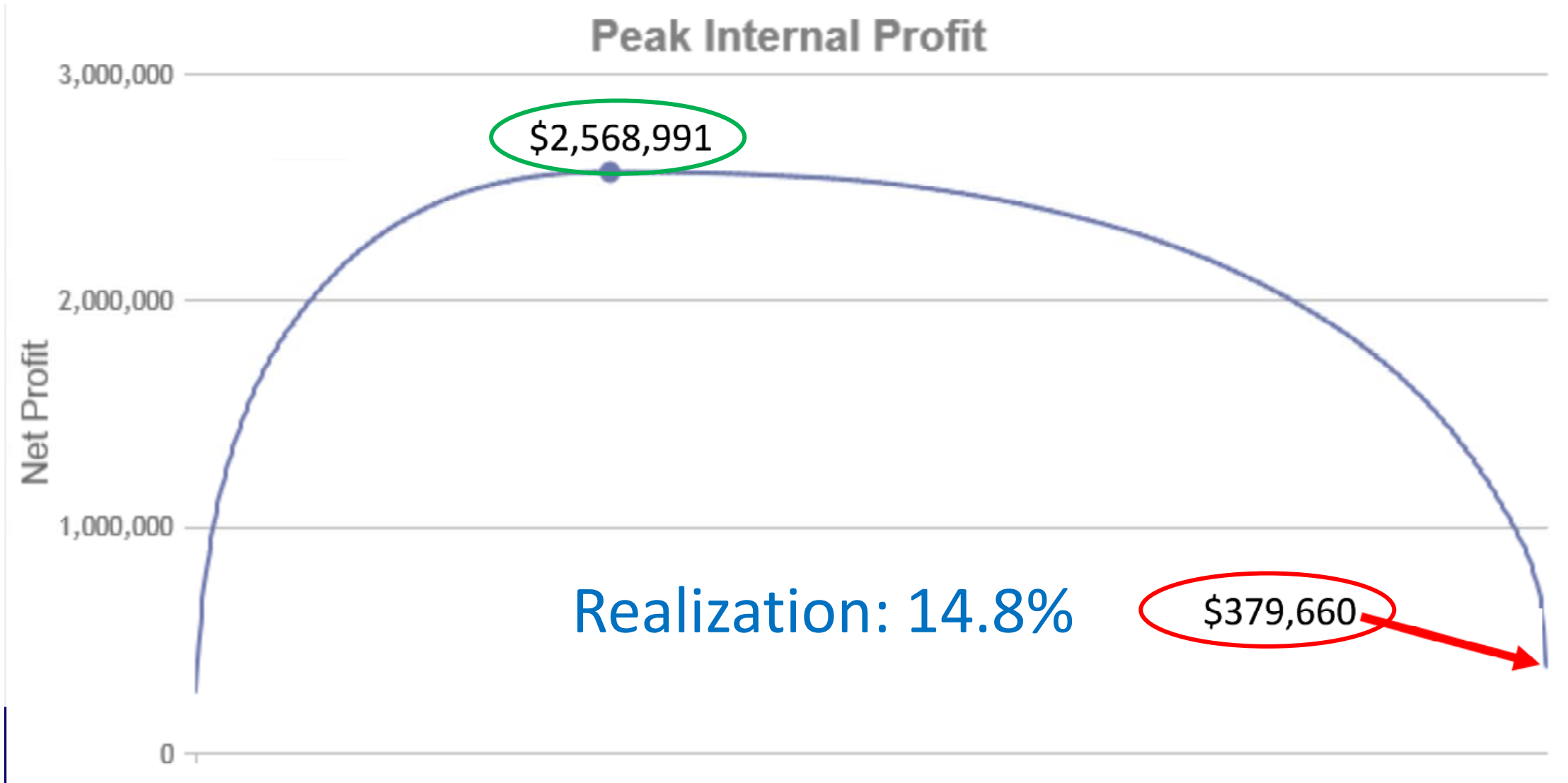


# The Purpose of Customers

The purpose of a customer relationship is to convert product & service value into profit.



# Whale Curve



# Income Statement

Revenue	\$20,334,250		
CoGS	\$15,756,131		
Gross Profit	\$4,578,119	22.5%	(Operating Cash)
Selling Exp	\$645,104		
Order Entry Exp	\$145,233		
Whse Exp	\$752,568		
Delivery Exp	\$515,047		
G & A + Other	\$1,613,124		
Operating Exp	\$3,671,076	18.1%	
NBC	\$907,043	4.5%	(Manageable Profit)
Sales Comp	\$527,384		
Net Profit	\$379,660	1.9%	





# Operating Cash (OpCash)

- Gross Profit Dollars (GP\$)
- principle value in your company
- profit opportunity / profit potential
- money you use to write checks
- drives all value relationships



# Expense Drivers

- things you can count
- transactions:  
orders; invoice lines; invoices; shipments
- headcount / work hours
- square footage
- trucks
- (NOT inventory)



# Productivity (\$)

- value relationship of  
(things with value to things you can count)
- OpCash / (order; line; invoice; ship)
- OpCash / manhour
- OpCash / sq ft
- OpCash / etc.



# Productivity

		Productivity	
Gross Profit	\$4,578,119		
Ord Cnt	13,294	\$344/ Ord	
Inv Cnt	13,789	\$332/ Inv	
Line Cnt	49,047	\$93/ Line	
Ship Cnt	11,193	\$409/ Ship	





# Efficiency (%)

- value relationship  
(things with value to other things with value)
- $\text{Exp\$} / \text{Rev\$} = \text{Exp\%}$  (expense rate)
- $\text{NBC\$} / \text{Rev\$} = \text{NBC\%}$  (profit rate or spread)
- $\text{GM\%} - \text{Exp\%} = \text{NBC\%}$  (profit rate or spread)
- $\text{GP\$} / \text{Exp\$} = \text{OpCash Ratio}$   
(all exp or individual)



# OpCash Ratios (OCR)

- profit opportunity per dollar expended
- $GP\$ / Exp\$ = \text{OpCash Ratio}$   
(profit potential per dollar expended)
- all expenses or individual expense categories  
(warehouse, transportation, admin, etc.)
- principal operations metric  
(department incentives)



# OCR (OpCash Ratio)

Gross Profit	\$4,578,119	
Selling Exp	\$645,104	\$7.10
Order Entry Exp	\$145,233	\$31.52
Whse Exp	\$752,568	\$6.08
Delivery Exp	\$515,047	\$8.89
G & A + Other	\$1,613,124	\$2.84
Operating Exp	\$3,671,076	\$1.25



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# Return on Expense (ROX)

- measures profit generated per dollar expended
- $\text{NBC\$} / \text{Exp\$} = \text{ROX}$  (Return on Expense)
- best way to evaluate segment / activity (requires detailed costing)
- all expenses or any expense category (warehouse, transportation, admin, etc.)





# Return on Expenses (ROX)

Selling Exp	\$645,104	\$1.41
Order Entry Exp	\$145,233	\$6.25
Whse Exp	\$752,568	\$1.21
Delivery Exp	\$515,047	\$1.76
G & A + Other	\$1,613,124	\$0.56
Operating Exp	\$3,671,076	\$0.25
NBC	\$907,043	



# Where Measures are Used

- for operations:
  - productivity measures
  - OCR - OpCash Ratios
- for segment / activity evaluation & prioritization:
  - efficiency measures
  - ROX - Return on Expense



# Implementing New Metrics

- brief / train your team
- look at your current performance on the metrics
- identify areas that over/under-perform
- target best opportunities with action plans
- set review dates 30/60/90 days out
- evaluate improvements and relate to financial metrics



# Summary

- Operating Cash (OpCash)
- Expense Drivers
- Productivity / Efficiency
- OpCash Ratios (OCR)
- Return on Expense (ROX)
- Where Measures are Used
- Implementing New Metrics





# Glossary

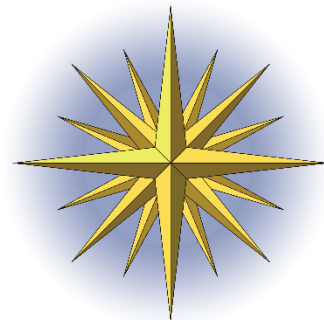
- OpCash - Operating Cash (GP\$)
- Exp - operating expenses (excludes sales compensation)
- NBC - Net Before Compensation ( $\text{\$GL} - \text{Exp\$}$ )
- Exp% - expense rate ( $\text{Exp\$} / \text{Rev\$}$ )
- NBC% - profit rate ( $\text{NBC\$} / \text{Rev\$}$ )
- OCR - OpCash Ratio ( $\text{GP\$} / \text{Exp\$}$ ) (all exp or individual)
- ROX - Return on Expenses ( $\text{NBC\$} / \text{Exp\$}$ )
- Spread - difference between GM% & Exp% (=NBC%)



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