

*The first specialized software for  
monitoring companies' profit  
from customer perspective*

## Guide for working with ProfitFinder®

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A system description

## **Executive Summery**

ProfitFinder® analyses a company's profit relations with its markets. The analysis is performed on different levels in the company. This means that a whole company can be analysed concerning the profit produced. The analyse can be performed automatically in real time by ProfitFinder®.

The system delivers an adjusted follow up function with the tool's agenda and logbook. It delivers result information in real time to all decision makers connected to ProfitFinder®. In doing so the system creates a network for decision-making.

ProfitFinder® method distributes fixed costs in relation to how the production capacity is used. That opens up possibilities for an aggressive marketing in order to reach full capacity there even a lower price can give the same or larger profit in return with higher capacity use at a lower fixed cost.

ProfitFinder® supports the day-to-day work on increasing profit production by giving real time information on prices, costs, warehouse situation and use of production capacity. It complements the "vertical budget" information with "horizontal process oriented" information showing the company's profit relations with its markets.

To complete the in house systems with ProfitFinder® connects responsible managers and let them focus on where, on what and on how much money the company earns. It gives a foundation, which increases the possibilities for a better profit on both short and long terms.

Because it is an automatic system, ProfitFinder® is user friendly. The system motivates the managers to an active work when it comes to create profit though the system continually shows the actual results and therefore also the effect of actions taken by the responsible managers.

## **Introduction**

The background for introducing ProfitFinder® is that such a dedicated tool or system does not exist in the market. The system specifically focuses on a company's profit production and allows the user to analyse and monitor the relations between the company and its markets that generate profit. ProfitFinder® uses a profit relation method which makes this possible!

The automatic profit analysis that ProfitFinder® delivers complements your existing ERP/MPS/CRM systems by making a company financially transparent. This allows the users to analyse the earning relations between the company and its markets, which hereinafter are called the Profit Relations abbreviated PR. The automated input software automatically transforms and calculates your business data into a detailed ProfitFinder format, which shows how much and where profit is being produced.

The Analysis is performed from production (for manufacturing companies and buying in for trading companies hereinafter both types are referred to as production - in sequence out to markets and customers.

The automatic analysis also covers comparisons over time periods, prognoses, benchmarks and ranking of the analysed profits on products, customers and resources. A graphical interface makes the analysis easy to grasp and use.

When it comes to work with profit in the whole company, ProfitFinder® connects the managers in a network. The connection is established through the system's agenda and logbook. The combination of the automatic profit analysis with possibilities to communicate in the system directly makes the daily control of results and long-term projects easier to manage.

Planning for sustainable profit is done through the integrated Balance Score Card (BSC). The BSC in ProfitFinder® is flexible and can be adjusted to meet the demands of each customer. The planning process is supported by a simulation function, where changes in costs, prices and workload can be simulated for different scenarios influencing the profit.

## Introducing ProfitFinder® functions for analysis, follow-up and planning.

### The analyse tools

The analysis part is the engine of the system and contains a large selection of functions. They are all being automatically updated. This makes it possible for ProfitFinder® to mirror a company's activity like an economic process control which continuously shows profits and earning relations.

# The automatic profit analysis is the basic analysis from which all other analysis functions starts. The analysis is built on the profit relation method. At any time, current profit relations can be analysed from production through markets. Resources, products and customers can be ranked as winners or losers. The analysis is performed on three levels, which are consistent with products to customers as the lowest level. On the next level, market and production resources are connected to present what markets the production resources are selling to. Finally all profit relations are added up for the whole company on top management level.

# Benchmarking in ProfitFinder® means that different key profits are automatically being compared internally. Information from the benchmark tool can be distributed to managers through an interactive communication function.

# Index is a function showing a product or a customer's importance related to the total profit.

If the company is using the Balanced Score Card (BSC) function, the index function also allows management to evaluate a product or a customer in relation to the BSC. The index function enables you to save notes regarding the information given, to compare profits over time for use when starting new activities and use as a protocol during a project.

# Prognosis – this function shows continuously twelve months outcome and six months forecast as a prognosis.

# Time comparison between results for different time periods compared with other, free chosen periods of the automatic profit analysis.

### The follow-up-tools.

# The project agenda is used to manage short and long term projects and is accessible from each level of the automatic profit analysis.

# The logbook is a function allowing managers to log information directly “on” a product, a customer or a resource. Both the agenda and the logbook have functions for communication within the system’s network.

# The Network enable all users to be connected since ProfitFinder® is based on a client/server-system. That means that everyone in the network has access to the same information. Specific information can be transferred to managers who should not access all information. This is done through individual access codes.

A network can be built around specific organisational structures. For example different company positions like Business Controllers, or managers having responsibility for profit-results. In small companies maybe just one Financial Officer will use it or in other company the CEO and the top management. The possibility to connect managers in the individual company in accordance to how they can get use of the system makes it adjustable to every company’s size.

### Planning tools

# The Balance Score Card (BSC) in the ProfitFinder® design is a flexible function which allows managers to build BSC on all three decision levels. This means that a BSC can be built for different individual resources and even on individual products and customers. A user-friendly interface makes even a complex BSC easy to understand and use. The BSC is integrated with the automatic profit analysis engine of ProfitFinder® making it possible to match real time results with long term goals in BSC on a daily basis!

# The Simulation function enables managers to simulate how prices, costs, volumes and different uses of capacity will influence the profit.

## Working with ProfitFinder®

The analysis of a company's financial relations with its markets is the core delivery of the system. Such profit relation (PR) analysis is a type of profit chain where the profit of the physical process from production through warehouse and further out to customer is being measured. The PR in ProfitFinder® uses a very different approach compared to traditional profit chains. A ProfitFinder® PR does not add profit during the process instead it starts the process by valuing the products when they are being produced at market prices!

Then the PR shows where in the process the profit is consumed by different costs in the production and also later in the distribution parts of the chain. Finally ProfitFinder® is showing the profit or loss when products reach the customers. ProfitFinder® can do this analysis even continually in real time automatically!

By adding up all production profit in market price, the PR-analysis starts out with a total production turnover this is equal to the first profit to be analysed. The variable production costs from the production turnover is then redrawn which results in the second profit. From that profit fixed costs are redrawn which leads up to the profit the production delivers. In this way a sequential analysis is performed financially mirroring the physical flow or process.

Now the production profit is split into two parts, one part (or nothing or all) goes to warehouse and another part is delivered directly to the market and customers.

Coming so far in ProfitFinder® analysis, it is easy to compare the contribution from production with the market costs and see if what is left is enough to reach the profit goal!

ProfitFinder® complete the analysis by showing what is left from the profit which went direct to the market after variable and fixed marketing costs. This finally leads up to show the net margin. This figure is then compared with the turnover in order to calculate the Net Margin in percentage!

This is how ProfitFinder® mirror the sequential analysis of how the production turnover profit is consumed first in the production part and then in the distribution and marketing part of a company's business process.

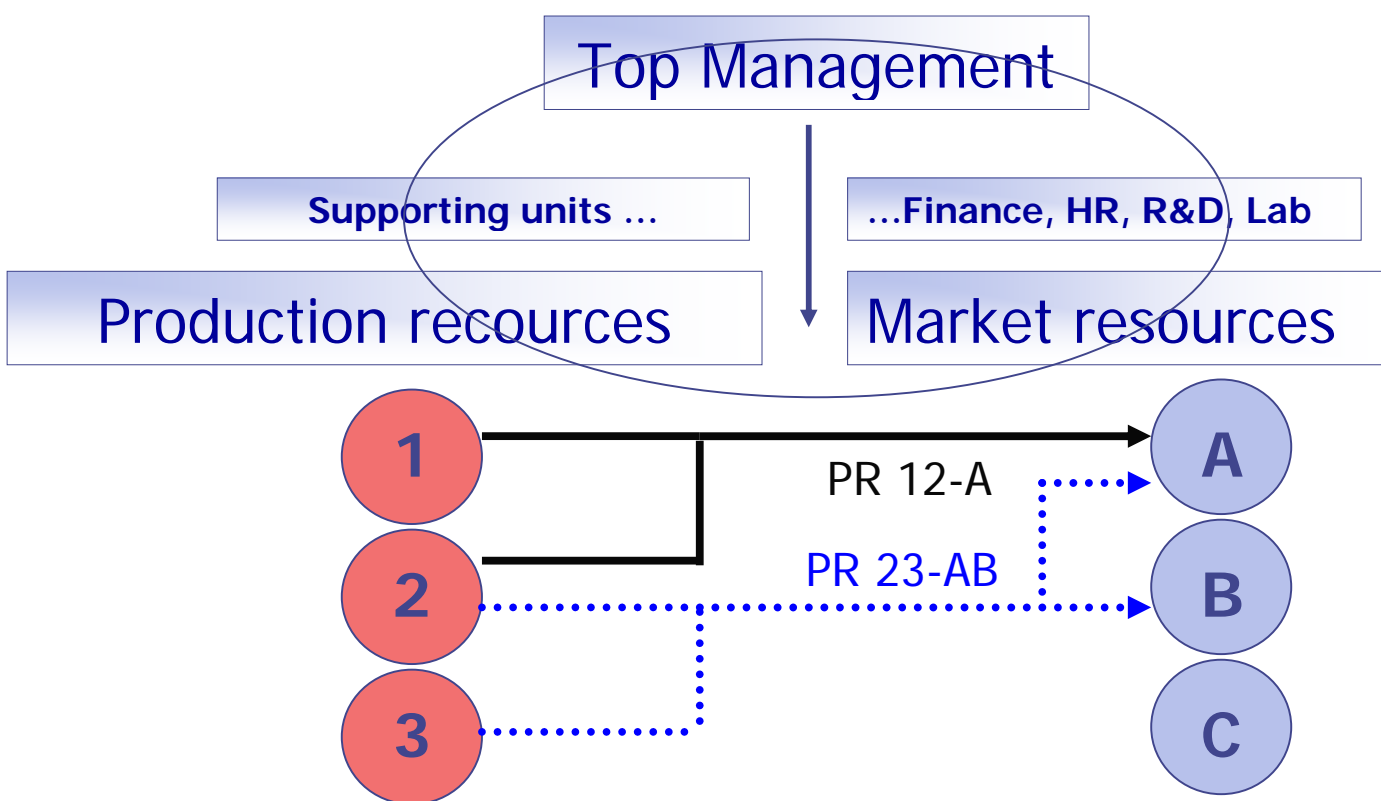
In earning terms ProfitFinder® delivers profits from production out to customer and does it in a sequence that also reveals the relations these profits are a result of!

Depending on how much of the fix costs that are activated in ProfitFinder®, the system delivers net margin per customers and markets from bottom line when all costs are encountered or to the level they are taken into account.

With ProfitFinder® costs and revenue "meets" during the whole business process so the profits and their relations are expressed explicitly.

The analysis is consistently performed from the lowest level where products are connected to their customers. Furthermore for production resources – equal to where the products are being produced – to their markets. This means where these products are produced and where these facilities are selling these products. Finally all these profit relations (PR) are added up for the whole company showing total production turn over and total profit delivered from production and how this profit balance or not, the market costs and if the final profit – the net margin - matches the profit goal.

From top management level it is then very easy to drill down if there are a demand for more details e.g down to resource level and down to product to customer level in order “to watch the foundation of the analysis”!



The figure shows an ordinary vertical organisation managed with cost budgets for supporting units and production departments and turnover budget for the marketing side. ProfitFinder® takes on a complementary road by connecting production and products with respective market and customers by creating a relation between them, the profit relation (PR). Doing so ProfitFinder® opens up a dialogue between managers in charge, allowing them to look through the whole chain and take action focusing on profit in order to optimize the profit for each PR! In the figure we can identify PR 12-A which means products from production resources 1 and 2 which are sold on markets A and B. PR 23-B equals products from production resources 2 and 3 that are sold on markets A and B. This is how responsible managers in cost and income departments in production and on the market side meet and are able to focus on profit.

This creates opportunities for identifying new ways of increasing profit, compared with a traditional standalone budget system, where costs and income terms do not meet and show no contribution within the process. With ProfitFinder® analysis an understanding dialog between production and marketing in the first place and secondly with the supporting units are very helpful for doing better business and increasing profit. All managers involved can now see their result in profit terms instead of just following cost or income budget. That is why ProfitFinder® also is called The Profit Finder!

The drill down technique gives both detailed information and an over view

ProfitFinder® continuously shows in real time, analysis of a company's all profit relations giving a detailed decision support concerning the company's financial functionality from production out to customer. Such a sequential analysis creates a base for forming a more process/flow oriented organisation.

Though companies produce and buy from different geographic regions and sell their products worldwide, there is a demand for systems that can control the profit for the whole business chain.

Especially when the market costs tends to be a growing part of the whole product cost the PR-analysis offers specific benefits as has been shown in this paper.

ProfitFinder® analysis delivers a continuously control so that the produced profit for different resources and products are in balance with the correspondent marketing costs and profit goals for different markets and products. This gives both an overview from top level for the whole company down to details on product to customer level.

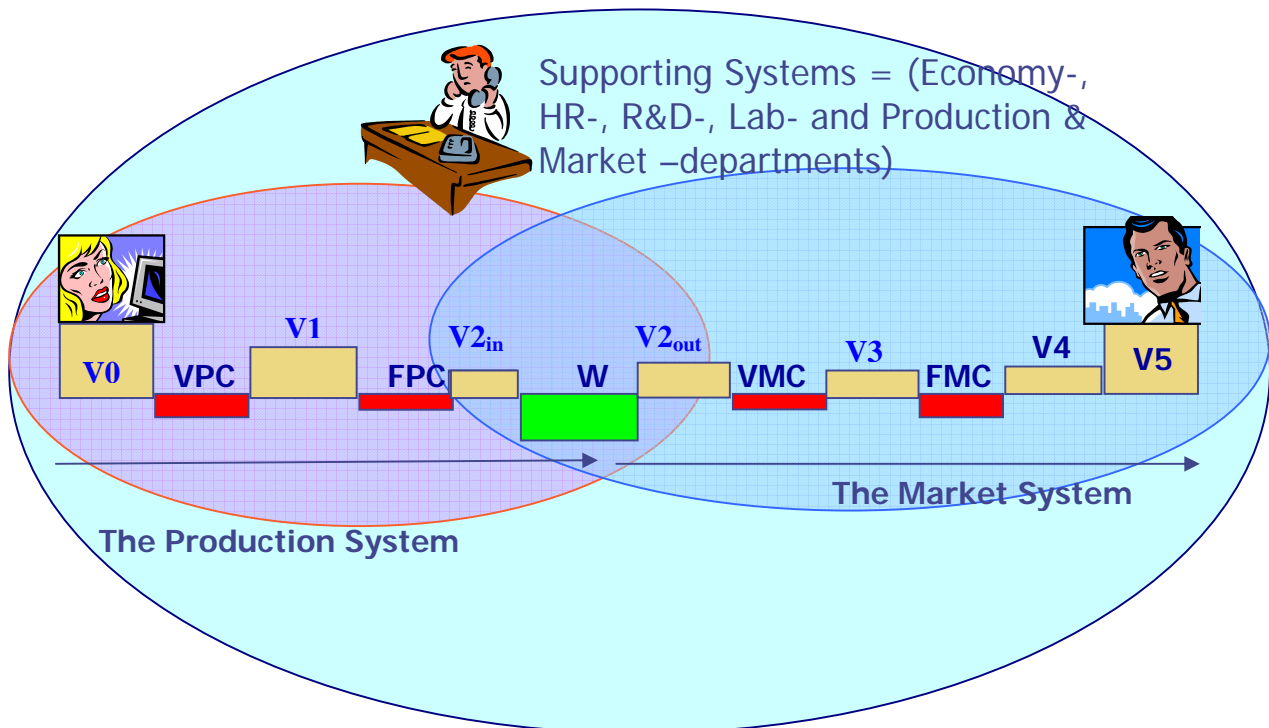
The system forms a profit-monitoring network including qualitative information supporting the quantitative analysis.

ProfitFinder® is used as a tool to support management work in monitoring a company's profit. In companies with different locations for production and market departments, networking is very useful to keep focus on PR from both the production and market sides.

Qualitative information about market circumstances, competitors, customers' preferences and so on, is needed in order to interpret the analysis efficiently. ProfitFinder® handles this with its logbook where it is possible to write directly "on" a product, customer or a resource.

The essence of what ProfitFinder® offers is that all this information, tailored for each manager, is available immediately in the network. This gives management a profit network with automatic focus on profit creation, earning and results in a never-ending dialogue!

A Profit Relation (PR) in a connecting network with people from production, market and supporting systems emerges! All having the same information throughout the whole process from production through warehouse (W) to the market!



The total process from production to market described in financial terms.

The figure shows how ProfitFinder® starts to analyse the production by pricing it to the market price, in the figure shown as V0 – Production Profit. This profit can be analysed for a product connected to its customers or for a production resource in relation to its markets, or it for the whole company. V0 is the starting profit and then the Variable Production Cost (VPC) is deducted and the profit V1 can be analysed. From V1 the Fixed Production Costs (FPC) is deducted and V2<sub>in</sub> (= into the warehouse) the profit left from production is shown. W stands for Warehouse. V2<sub>out</sub> is equal to the profit that went to the market. From V2 out the Variable Market Cost (VMC) is deducted and the profit V3 is shown and finally the Fixed Market Cost (FMC) is deducted and the Net Margin Profit V4 is shown. V5 is the Turnover for the analysed period.

Connecting managers from different departments in a network makes the whole profit creating process transparent. In that way many new possibilities will occur in order to add profit and increase profit.

## Working on different levels.

Level one (L1) is the analysis base where products are connected with the customers buying the products. The analysis can be done both from products to customers and from customers to products. On L1 is the production profit in market price exposed (V0 – see figure on page 8 to explain the abbreviations) if the analysis is being done from the product side. Then the VPC and the FPC is deducted for that product and the V1 and V2 are expressed. V2 has two profits, one into the Warehouse (W) and one out of W going to the market in the analysed period. ProfitFinder® also shows how much total V2 there is in W and how much that is worth in market price. The information for W also contains numbers of pieces on the specific product. In the W-section is also shown how much production capacity was used when producing the product.

From W we follow the V2-out to the customer side and for different customers we can analyse the price difference between different customers. ProfitFinder® adjusts this so every customer gets the correct V2. Then, the VMC and FMC are deducted and V3 and V4 are analysed. V4 being the Net Margin is then compared with the turnover for the different customers and the Net Margin in percentages are calculated and shown.

The fixed costs are calculated dynamically in relation to how much a certain product or customer use production or market resources.

The N1-level is where detailed analysis is performed and where products and product combinations can be studied in relation to the customers that are buying the products. Profit can be analysed and costs and prices can be adjusted in order to reach profit targets. The information can be given in real time, which gives the management immediate opportunities to take action and make corrections!

## Price differences are automatically identified

The profit calculation in the production part is done in average market prices for each product. On the market side, ProfitFinder® therefore makes corrections so every customer gets the exact paid price. This allows the system to show a correct profit for each customer. This means that all price differences can be studied.

## An example from Level 1 (L1)

A customer buys a couple of products. Some are in a very hard competition with low prices, some have better prices but the rest belongs to the company's most profitable products. Here ProfitFinder® delivers an analysis of the customer which can be done for a) the current order, b) for any order earlier from this customer.

The responsible manager can immediately get the profit for each such order and also check back in the Profit Relation (PR) from beginning of production to customer. Different orders have been produced where different fixed costs (FPC and FMC) have been used which gives a feed back if costs or price have to be adjusted for upcoming production in order to reach the profit goal!

If more information is needed about cost, pricing and customers it might be found in the log book which is an integrated part of ProfitFinder®. Follow up activities are monitored through the ProfitFinder® agenda. The information is available for all managers in the network instantly.

## Level two (L2)

L2 consists of production and marketing resources. These are used to produce products and handling customers. Resources having a production customer/market relation (PR) are connected. This allows the same analysis to be performed on this level as on Level 1 (L1).

A production resource is equal to where one or more products are being produced and a marketing resource is equal to a manager or a market department taking care of one or more customers.

On L2 profits from products and customers are added to their production or marketing resource. The profit analysis on this level gives figures on production contribution per resource and Net Margin for each market resource. All other profits and costs in the chain from production to market are also shown as they are for the warehouse situation.

L2 is the level where outsourcing can be analysed because production resources can easily be compared to cost and profit regarding external supplier. Likewise, can external marketing companies be compared with internal marketing resources.

In the same manner a merge with another company can be studied concerning structural synergy. But the system is most used in the daily work on increasing profit where all resources are continuously and automatically analysed. ProfitFinder® function for Benchmarking makes a systematic comparison of the different resources production of profit.

## Common functionality for level 1 (L1) and L2

Both L1 and L2 contain detailed quantitative and qualitative information about products, customers and production and market resources. Information about how much production capacity has been used is also given on both levels.

The warehouse (W) status is also expressed in profit (V2) as for in market profit, also the physical units which has gone into the W and out during the analysed period.

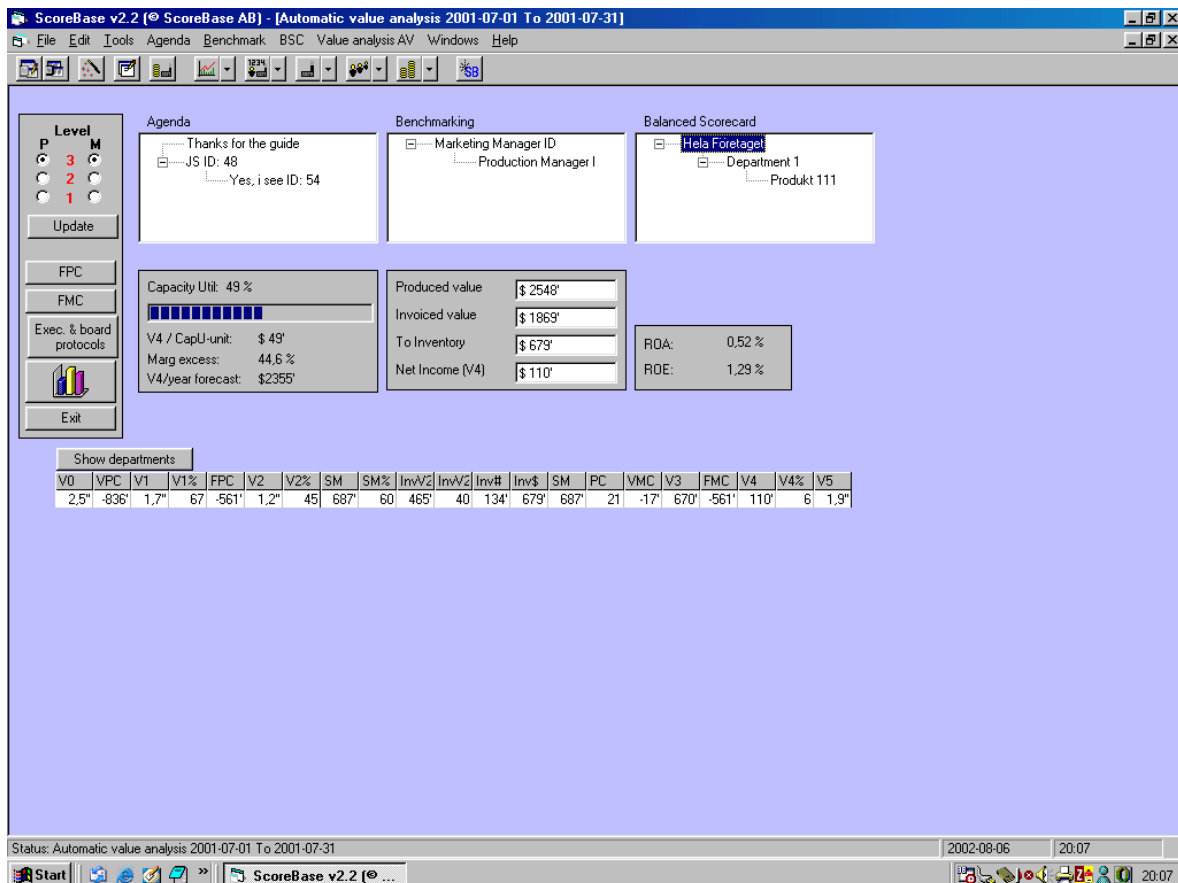
### Level 3 (L3) is the Top Level where all PR adds together

On L3 is the analysis added which gives possibilities to check the total balance between the total production turnover Profit 2 (V2) - and total market costs in order to reach the profit margin (V4). From L3, all management information is distributed like strategies and planes. ProfitFinder® uses functions for Balance Score Card, Benchmark and the agenda as tools through which the management develops and distributes the management information within the company.

L3 also contains figures showing the total production capacity the company uses over time. It is also expressed how much the net margin will increase if the capacity increases by one percent. A prognosis for the rest of the year for the net margin is delivered continuously.

From L3, as from the other levels, it is easy to drill down to the lower levels. This gives possibilities to follow any profit from top level down to lowest product and/or customer level (L1).

### In ProfitFinder® level 3 (L3) looks as shown:



## The levels mirror the decision structure of the organisation

The levels L1, L2 and L3 and their managers are the network of the decision makers. These have possibilities to influence the profit production and the profit. On L1, the ProfitFinder® users are product- and sales managers. L2 are for production and marketing managers. On L3, finally the top management is the user. Other supporting departments in the network cooperate with the operating managers.

The network function, operating in real time, connecting all the decision makers, makes it possible for each one of the managers to influence their responsible areas profit production and at the same time communicate with other managers who have an impact on their common results.

The system is also perfect for the smaller company where it gives CEO a total control of the operations. It is important to express that the system is also perfect for smaller and middle sized companies. For larger companies it is a complement to existing systems but for other companies it is the perfect decision support system delivering the information managers need for their daily work on improving profit.

## ProfitFinder® in smaller companies

Because there are three levels, this does not mean that the system cannot be used in smaller companies. The only difference is that in a smaller company it may be only the CEO who is the user.

Regardless of the size of the company there is always a need for control regarding what the company earns or loses money on. Therefore, ProfitFinder® analysing power is needed to get a detailed profit control continuously.

## ProfitFinder® as basis for a rewarding system

In order to stimulate profit creation, ProfitFinder® can be used as a basis for a rewarding system for the managers responsible for the company's result. A bonus can be connected to the production contribution (V2) and the net margin (V4) respectively. Also other profits, within the process from production to market, which are within the managers' responsibility, can be used as a bonus source.

## By using Internet

All the users can have real time information connection wherever they are and all around the clock.

## An automatic system

ProfitFinder® is developed to be an automatic system both when it comes to input and when working with it for the user. The automatic input program makes it possible to choose updating interval, which fits in with every company's activity density. But the most important is that working with ProfitFinder® is automatic which means that the information always is new up to date and that all functions are reachable with a mouse click!

## Summary

ProfitFinder® analyses a company's profit relations with its market. The analysis is performed on different levels of the company. This means that the whole company's profit production is visualized. This analyse can be performed automatically in real time by ProfitFinder®

The system has a logbook and an agenda as follow up tools. These tools deliver result information continuously to all decision makers connected to ProfitFinder®. In that way the system creates a network making front line decisions possible.

ProfitFinder® method distributes fixed costs in relation to how the production capacity is used. That opens up possibilities for an aggressive marketing in order to reach full capacity there even a lower price can give the same or larger profit in return with higher capacity use at a lower fixed cost.

ProfitFinder® supports the daily work increasing profit production by giving real time information on prices, costs, warehouse situation and use of production capacity. It complements the "vertical" budget" information with "horizontal process oriented" information showing the company's profit relations with its market.

By completing the in house systems with ProfitFinder®, for larger companies responsible managers are connected. This gives them current information on where, on what and how much money the company is earning. And for smaller and middle sized companies to start using decision support the system is ideal because it is a small user friendly tool which can easy be installed and handled by CEO or CFO.

The system shows continuously the current earning situation and the effect of actions taken. This motivates the managers to actively work focused on producing profit!

Stockholm, Sweden, August 2010

Börje Paulsson, CEO ScoreBase