



# Best Practices for a Financially Strong Business

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*Harbour Results, Inc.*  
*November 27, 2023*

# About Harbour Results

## Trusted Advisor to the Manufacturing Industry

Established to help small- to medium-sized businesses transform operations and develop a roadmap to maintain financial and operational success.



Business  
Assessments



Operations  
Improvement



Strategic  
Development

Sales Planning



Custom Analysis  
Benchmarking

Due Diligence

Market Studies

powered by

HARBOUR | IQ™

# Agenda

**1 High level economic update**

**2 What about Manufacturing**

**3 What are the risks**

**4 What should I focus on**

**5 Questions and Answers**



# MACRO UPDATE: THE ECONOMY IS PRETTY OK

# What did and are the “Experts” saying?

Fi



Dalio Says He's Pessimistic About Global Economy in 2024

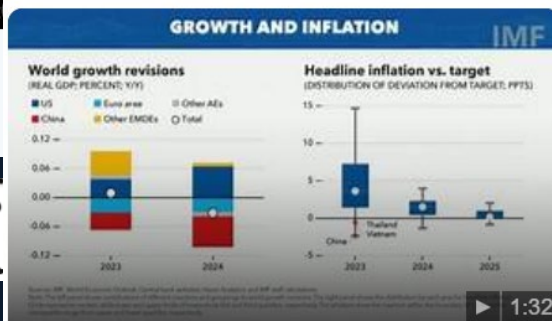
1 month ago

**‘Uncomfortably high’  
economists say about**

**“Yep, the probabilities in the  
batten down the hatches”**

**“These are very, very serious things...and they’re likely to put  
the U.S. in some kind of recession  
now” -JPM**

**Bloomberg**



IMF Sees Weak Global Growth in 2024 Amid Stubborn Inflation

1 month ago

[bloomberg.com](https://www.bloomberg.com)

**ECONOMIC OUTLOOK:  
U.S. IS BEING SET UP  
TO FADE IN 2024  
ECONOMIST SAYS**

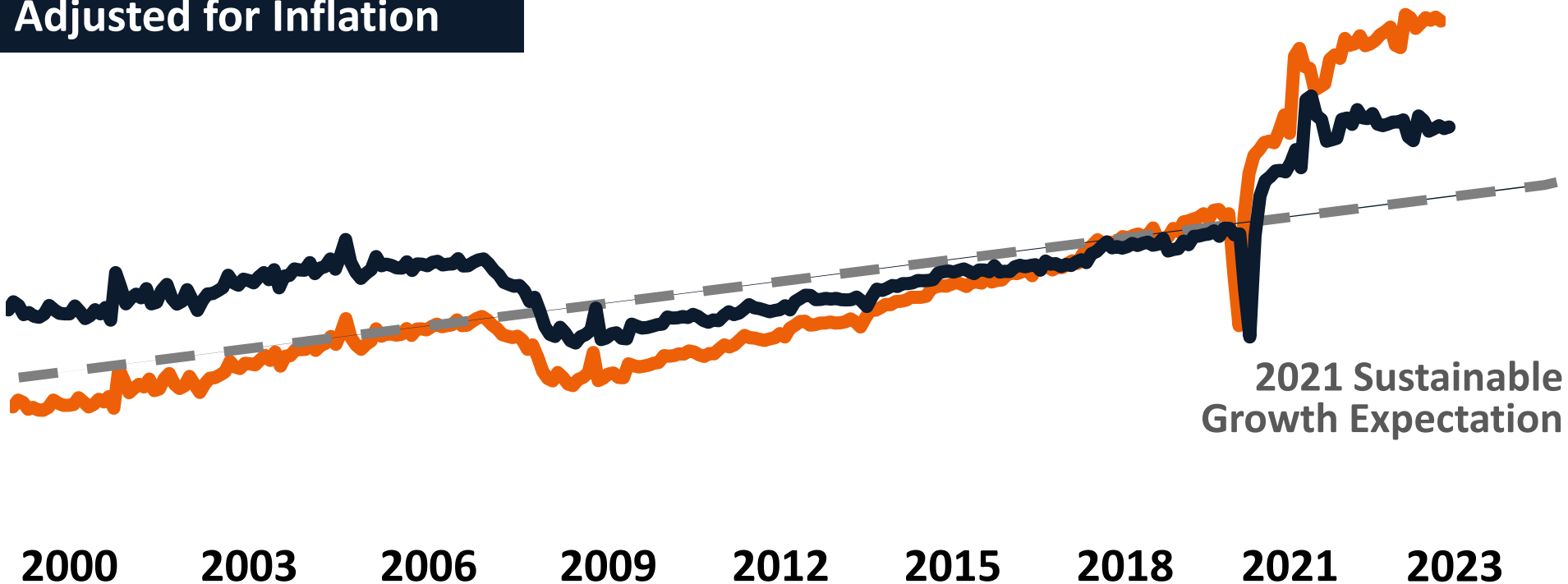


**Economic outlook: U.S. is being set  
up to fade in 2024, Economist says**

1 month ago

# Demand is Still Above Expectations

**Durable Good Demand**  
**Adjusted for Inflation**



2021 Sustainable  
Growth Expectation

2000 2003 2006 2009 2012 2015 2018 2021 2023

Source: FRED St Louis Federal Reserve

# Interest Rates Skyrocket – Plateau in Sight

6.52%

July 5, 2000

Treasury Yields Rising

July 16, 2007

Inflation Falling

Student Loan Deferment Ending

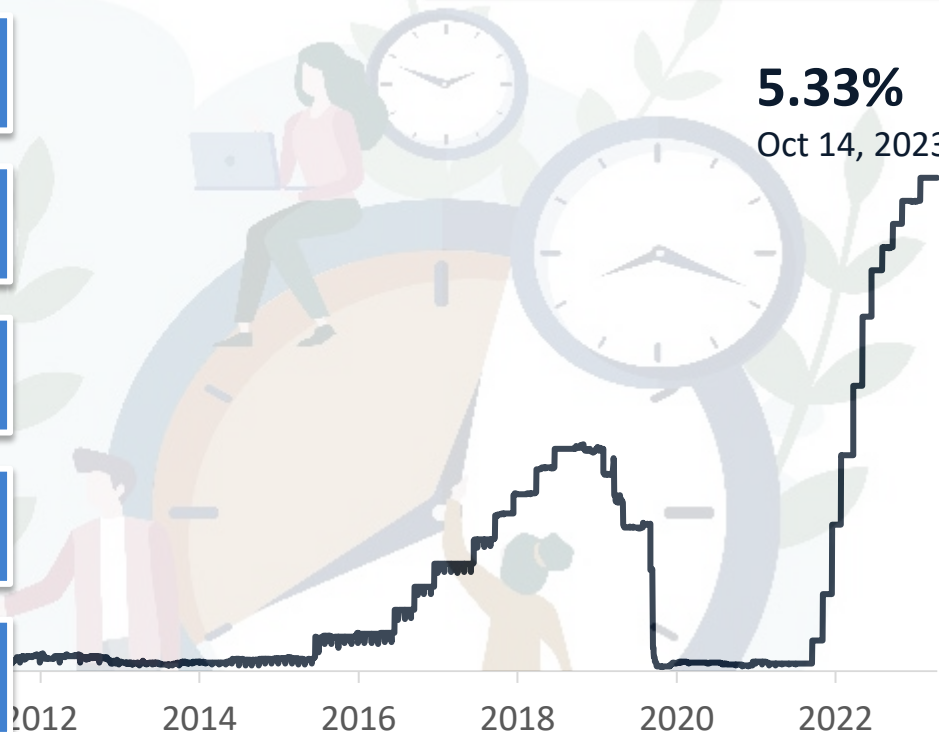
An Election is Coming

Slowing Housing Market

U.S. Federal Funds Rate

5.33%

Oct 14, 2023



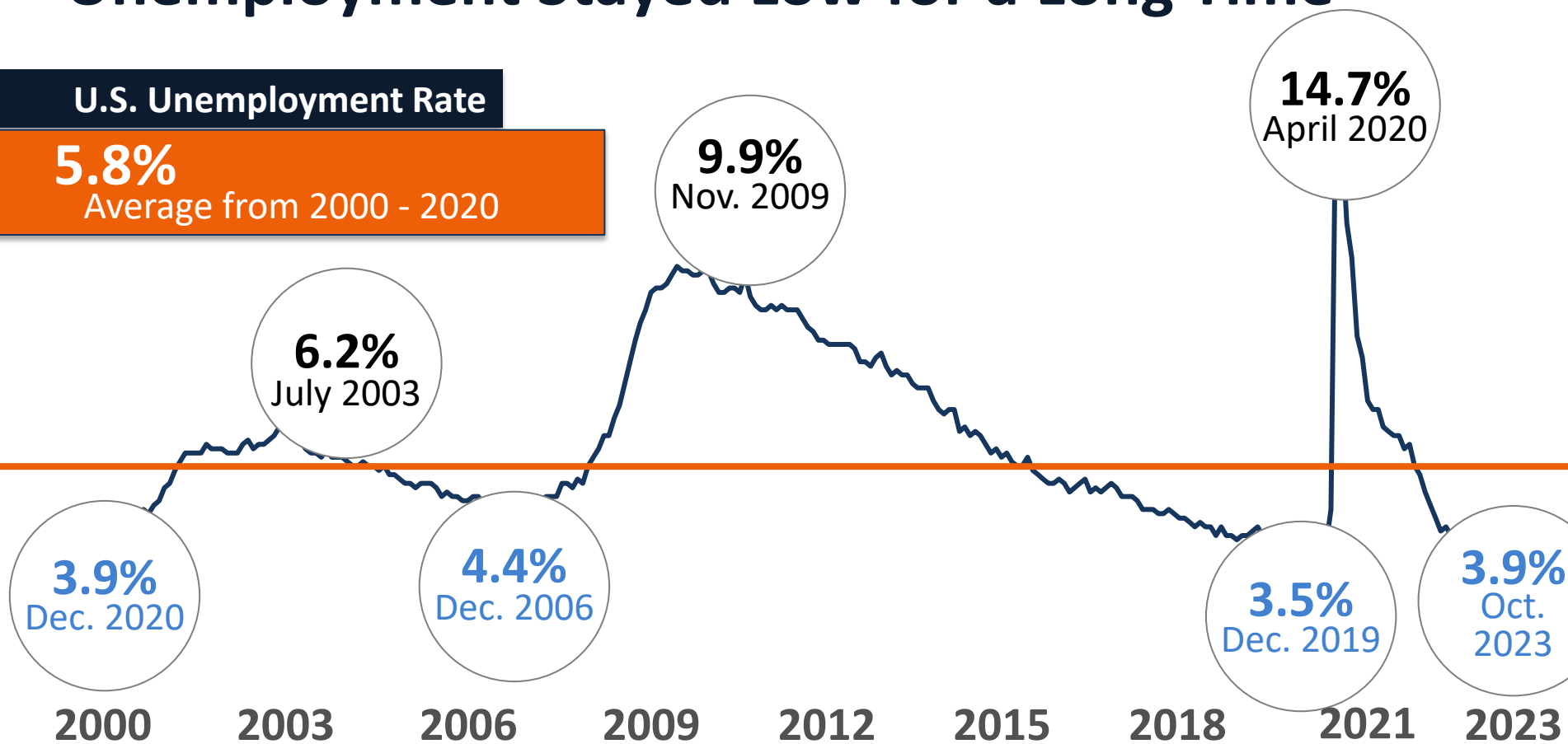
Source: FRED St Louis Federal Reserve

# Unemployment Stayed Low for a Long Time

U.S. Unemployment Rate

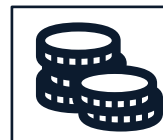
**5.8%**

Average from 2000 - 2020





# Disposable Income Growth is Plateauing

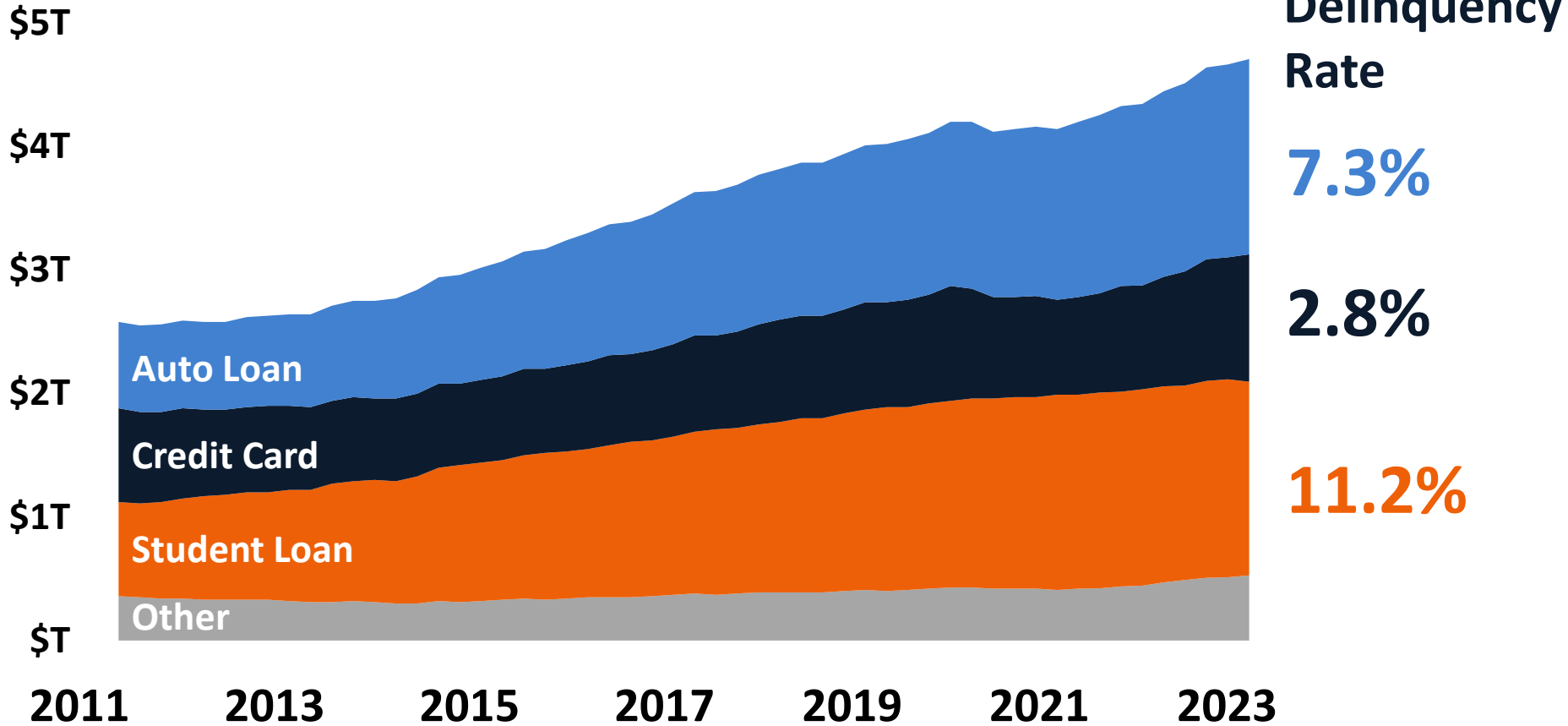


**U.S. Real Personal Disposable  
Income**

**2017                      2018                      2019                      2020                      2021                      2022                      2023**

Source: FRED St Louis Federal Reserve

# Consumer Debt Continues Rising



Source: New York Federal Reserve

# Falling Disposable Income

**\$150,000 Salary**

**30% Tax Rate**

**\$500,000 Home**

**\$51,529 Student Loan**

**\$48,000 Car**

**\$150,000**  
feels like  
**\$117,000**

**\$8,750**

**\$1,380**

**\$572**

**\$161**

**\$6,637**

# WHAT ABOUT MANUFACTURERS?

# Manufacturers Have Varied Concerns

All MFG

Extremely Concerned

42%

UAW/ Unifor  
Strike

Q1

Q2

Q3

67%

63%

60%

59%

56%

Not At All Concerned

Higher Cost of  
Doing  
Business

Upward Wage  
Pressures

Continued  
Inflation

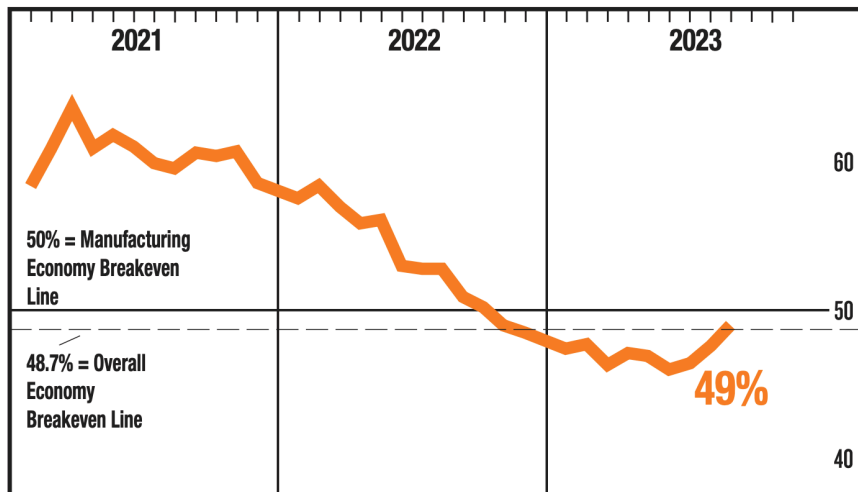
U.S. Recession

Access to  
Labor

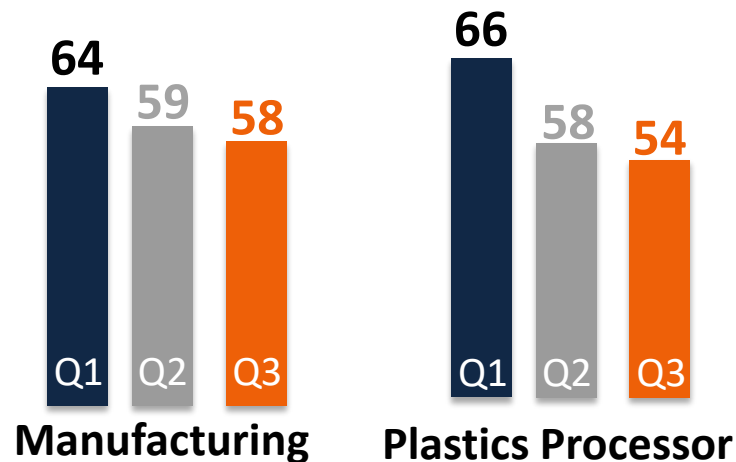
Question: Please rate your level of concern with the following topics in regard to your organization... Source: Harbour IQ

# The Market Feels Light

## Manufacturing PMI

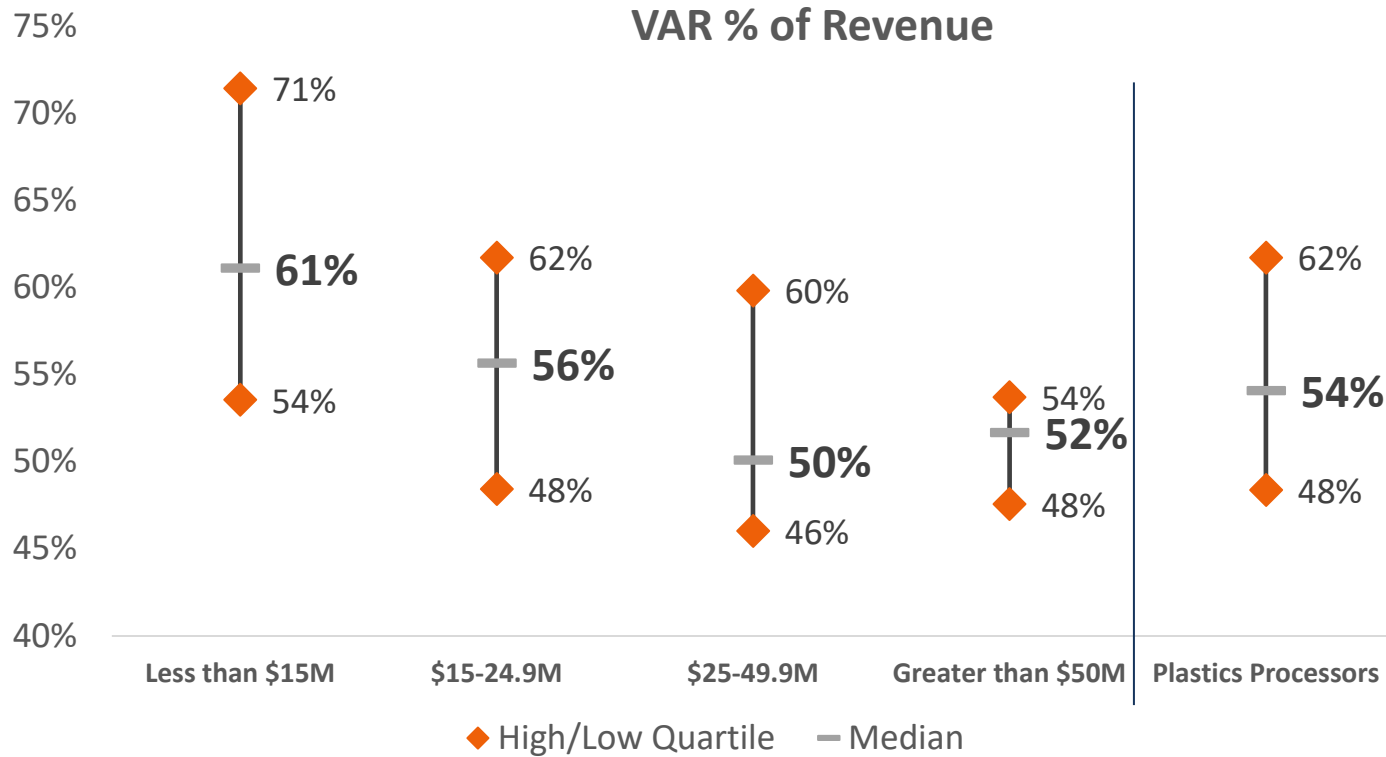


## HIQ Manufacturing Index



Source: Institute for Supply Management, Harbour IQ

# Rising Costs Squeezing Value-Add Percent

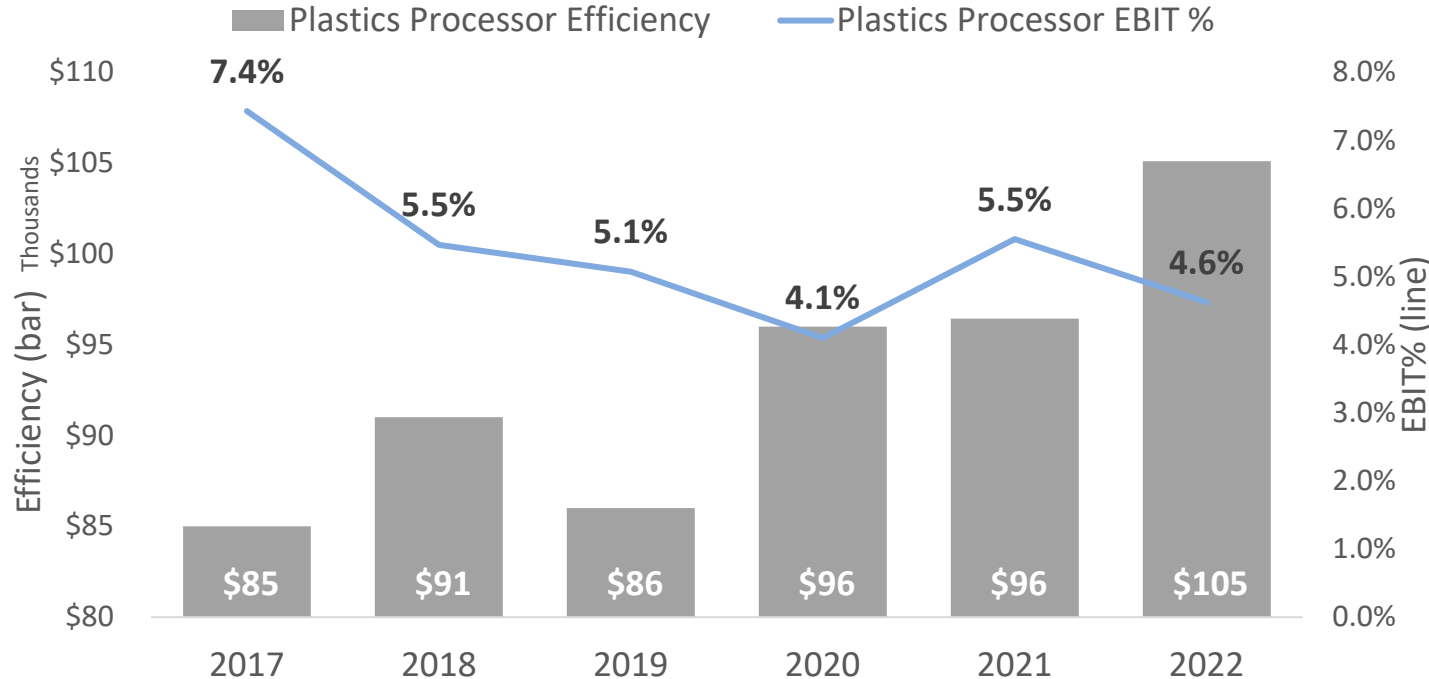


Even after posting a second year of revenue growth, Plastic Processors are continuing to experience a reduction in value-add revenue as input material costs increase. There is a direct relationship between lower value-add portion of revenue and slimming margins.

Equation: Value Add = Revenue – Material – Subcontracting. Region: North America. Source: Harbour IQ.

# Throughput has Not Materialized into Profit

## Efficiency & EBIT Trends



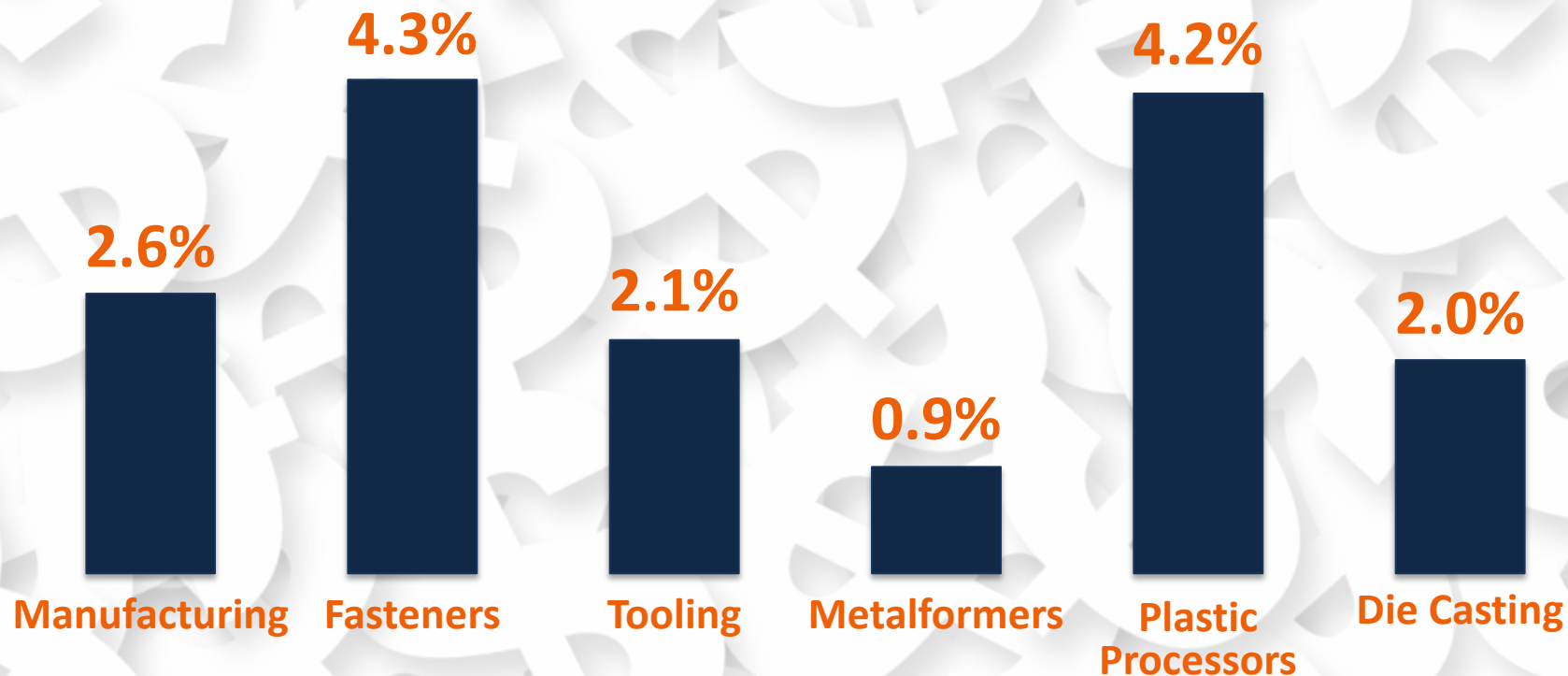
Improvements in top line revenue growth and throughput have not been able to overcome the headwinds faced with growing costs of doing business and have resulted in a decline in profitability from 2021.

Equation:  $\text{Efficiency} = (\text{Revenue} - \text{Materials} - \text{Subcontracting}) / (\text{Full Time Equivalent Employees})$ . Region: North America. Source: Harbour IQ.



# Revenue Growth Generally Flat in 2024

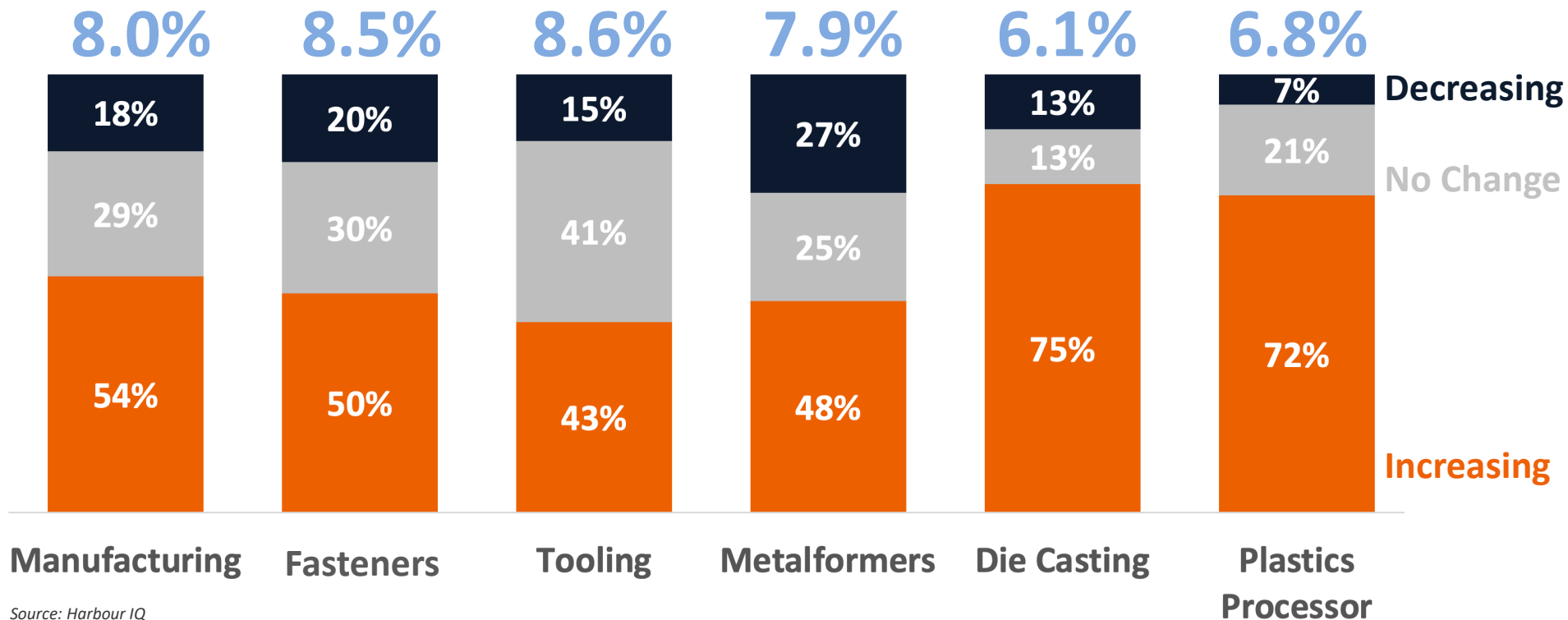
Avg. Expected Revenue Change



Source: Harbour IQ

# Most Expect Profit Increase for 2024

Expected 2023 Profit

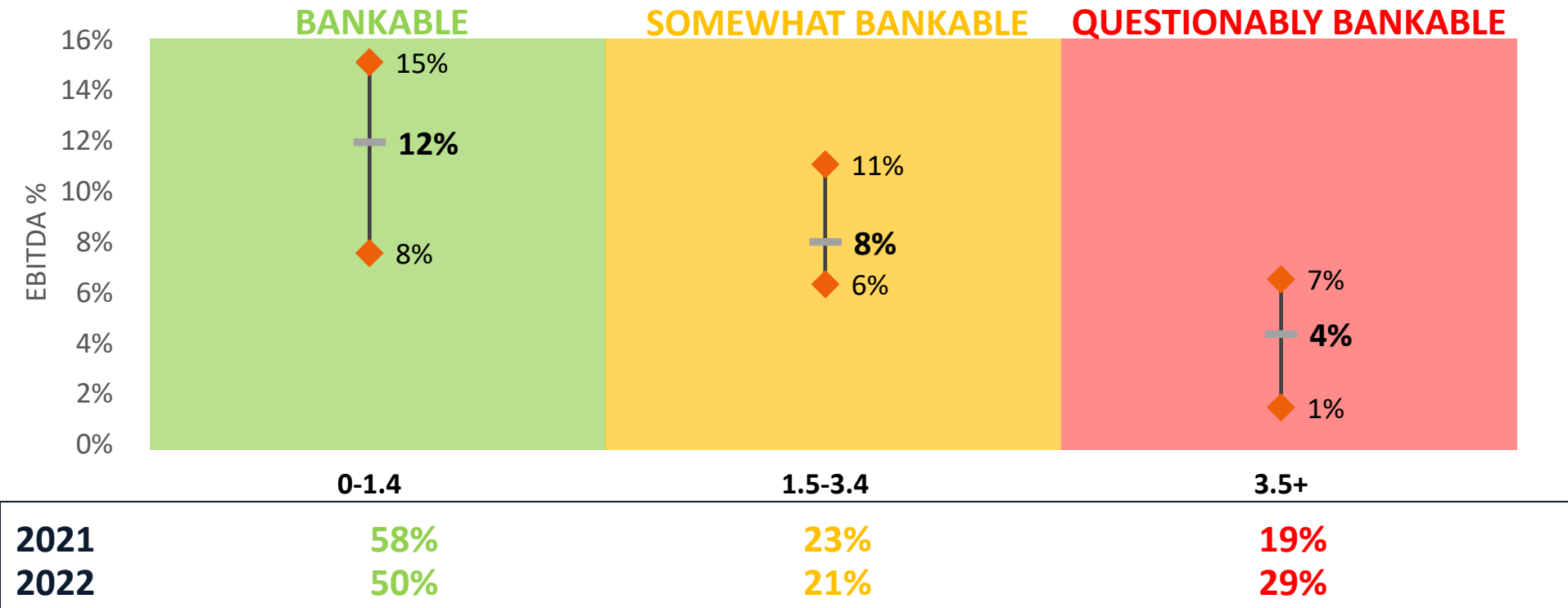


Source: Harbour IQ

# WHAT ARE THE RISKS?

# Approximately 100 MFGs are *Questionably Bankable*

## Debt-to-Earnings Trends – All MFG



# Where Does Your Company Sit Today?

## MAPP Top Performer Impact

Average Top Performer EBIT dropped from 14.8% in 2021 to 10% 2022

### FIXABLE

Recovery & Get-Well Plan

- Need the right plan
- Open to help
- Some bank questions
- DOABLE but requires humility

### SUSTAINABLE

Strong & Edgy

- Doing a lot right
- Need long-term sustainability
- Capitalize on opportunities

### MUST IMPROVE

Stable, But...

- Company is average
- Can improve
- Needs help
- Lost focus

### OH CRAP

Immediate Action

- Numerous challenges
- Cut to survive
- Running out of options
- Consider exit strategy

# Plastics Processor Top Performer Profile

EBIT

13.0

10.0%

Throughput

\$142

\$138k

Inventory  
Turns

10.1

4.9

Avg. DART

0.0

2.7

Uptime

72%

61%

Hit Rate

31%

21%

Cost of  
Quality

2.5%

5.3%

Turnover  
(Hourly>90  
Days)

2%

1%

Set-up Time  
(Hours)

0.9

5.2

Automation  
(already  
purchased &  
planning more)

57%

# WHAT SHOULD I FOCUS ON?

# What Does Hunker Down Mean?

**hunker down/hungkR dOUUn/vb**

1. Determine current position
2. Build plan to evolve
3. Connect experience, tribal knowledge with tech-driven young generation
4. Take to the next level





# What Does Your Data Tell You?

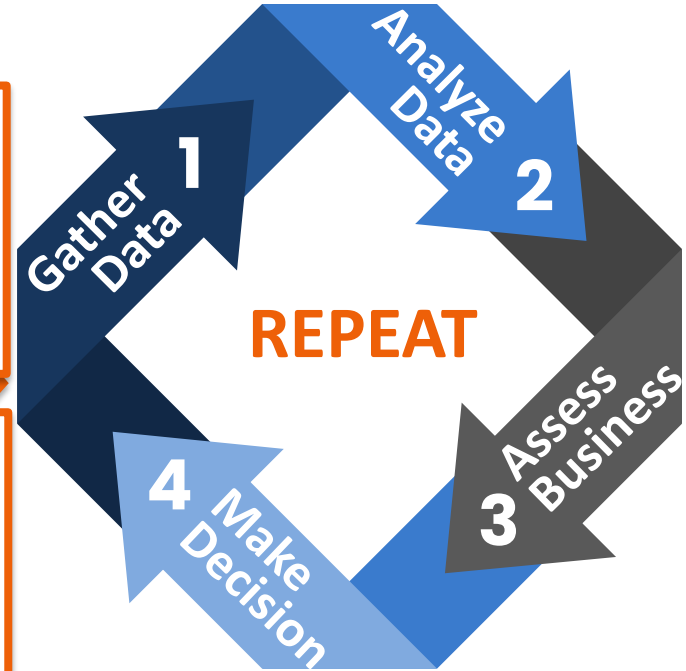
## Key Performance Data

***Data-Driven Companies Outperform Competitors by 20%***

***- McKinsey***

***Businesses That Use Data Improve Profits by 8%***

***- BARC Research***



# Analyze Your Financial Metrics

## Balance sheet example

### TEDDY FAB INC. BALANCE SHEET December 31, 2100

ASSETS		LIABILITIES AND SHAREHOLDERS' EQUITY	
Current assets		Current liabilities	
Cash and cash equivalents	\$ 100,000	Accounts payable	20,000
Accounts receivable	20,000	Notes payable	15,000
Inventory	15,000	Accrued expenses	4,000
Prepaid expense	4,000	Deferred revenue	10,000
Investments	10,000	Total current liabilities	59,000
Total current assets	149,000	Long-term debt	10,000
Property and equipment		Total liabilities	
Land	24,300	Shareholders' Equity	
Buildings and improvements	250,000	Common stock	100,000
Equipment	50,000	Additional paid-in capital	5,000
Less accumulated depreciation	(5,000)	Retained earnings	10,000
		Treasury stock	(200)
Other assets		Total liabilities and shareholders' equity	
Intangible assets	4,000		
Less accumulated amortization	(200)		
Total assets	\$ 472,100		

## BALANCE SHEET

## INCOME STATEMENT

### Sample Products Co. Income Statement For the Five Months Ended May 31, 2010

Revenues & Gains	
Sales revenues	\$100
Interest revenues	5
Gain on sales of assets	3
Total revenue & gains	108
Expenses & Losses	
Cost of goods sold	75,000
Commissions expense	5,000
Office supplies expense	3,500
Office equipment expense	2,500
Advertising expense	2,000
Interest expense	500
Loss from lawsuit	1,500
Total expenses & losses	90,000
Net Income	\$ 18,000

### Sample 1. Cash flow budget (by quarter of the year)

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Cash inflow				
Beginning cash balance	\$5,000			
Sale of crop products		\$50,000		
Sale of livestock products	25,000			\$10,000
Government payments				\$10,000
Total inflow	\$30,000	\$50,000		
Cash expenditures				
Seed	\$10,000			
Fertilizer		\$20,000		
Feed	10,000			
Processing			\$10,000	
Marketing				\$5,000
Capital purchases		10,000		
Interest			5,000	
Debt payments			10,000	
Total expenditures	\$20,000	\$30,000	\$25,000	\$5,000
Quarterly net cash flow	\$10,000	\$20,000	-\$25,000	\$5,000
Cumulative net cash flow	\$10,000	\$30,000	\$5,000	\$10,000

## CASH FLOW

# Start with Financial Health

**Redeploy  
Strategically**

**Save the capital for strategic opportunities with real payback**

**Return on Capital**

**Use a Return on Capital Employed metric against cost of capital to gage performance against investment**

**Manage Working Capital**

**Drive down Cash Conversion Days to keep cash on hand**

**Debt Under Control**

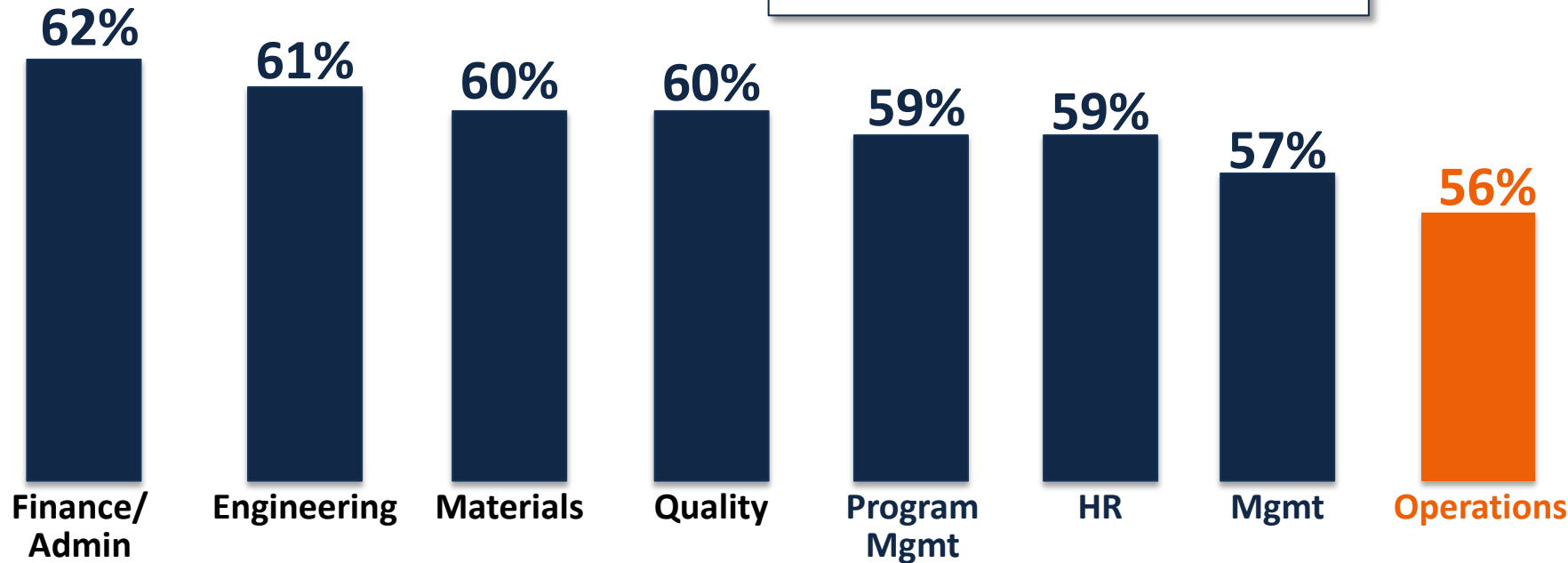
**Lower debt to a reasonable debt/equity leverage level**

# Good Enough Will No Longer Beat Better

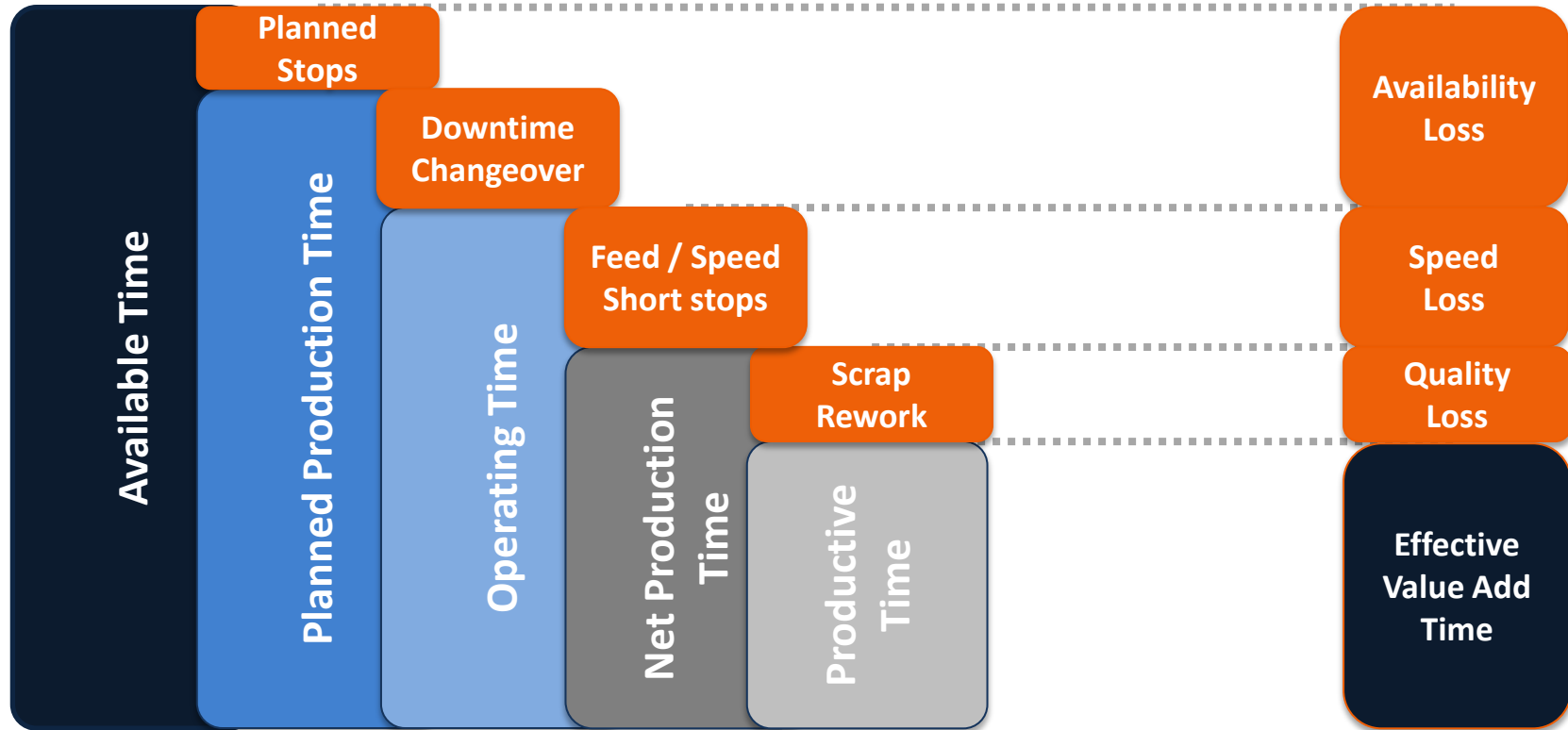
	75 <sup>th</sup> Percentile	100 <sup>th</sup> Percentile
<b>Throughput</b> (\$VA/FTE)	\$128,522	\$168,576
<b>Cost of Quality</b> (% of Revenue)	2.8%	.4%
<b>Press Set-up Times</b> (Hrs)	1.3	0.8
<b>Cash Conversion Cycle</b> (Days)	64	15
<b>Operating Income</b> (EBIT %)	6.8%	16.3%

# Operations Data = Largest Opportunity

Assessment Score Averages –  
8 Years of Data



# Measure Operational Loss – Know your True costs



# Throughput

=

$$\frac{\text{Revenue} - \text{Materials} - \text{Subcontracting}}{\text{Full Time Equivalent}}$$

Match Supply & Demand

Process Improvement

Technology Improvements

Data Analysis/Benchmarking

Product Planning

Employee Training

Profitability by Part

Swim Lanes

# React Now to De-Risk Your Business

## FIXABLE

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Financial Analysis  
Develop Plan  
Cash Flow Mgmt  
Cut Where You Can  
Drive Problem Solving  
Transparency  
Review With Bank

## SUSTAINABLE

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Review the Data  
Develop Teams to Dig  
into the Data  
Stepped Change in  
Improvements  
New Sales Plans  
Drive Flexibility

## MUST IMPROVE

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Challenge Team  
Review the Data  
Develop Improvement  
Action Plans  
Focus On Throughput  
Develop Sales Plans

## OH CRAP

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Ask For Help  
Don't Wait Too Long  
Financial Analysis  
Freeze Hiring  
Force Rank People  
Cut Where You Can  
Transparency  
Meet With Bank  
Be Proactive



# Questions

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