

Management Consultants to the Precast Industry

RESULTS IMPROVEMENT BULLETIN

PRECAST BUSINESS RESULTS IMPROVEMENT BULLETIN

Precast Business Results Improvement Bulletins are published by MJS Management Services. Additional bulletins that summarize current management challenges and solutions for the precast industry can be found at www.mjsmanagement.net.

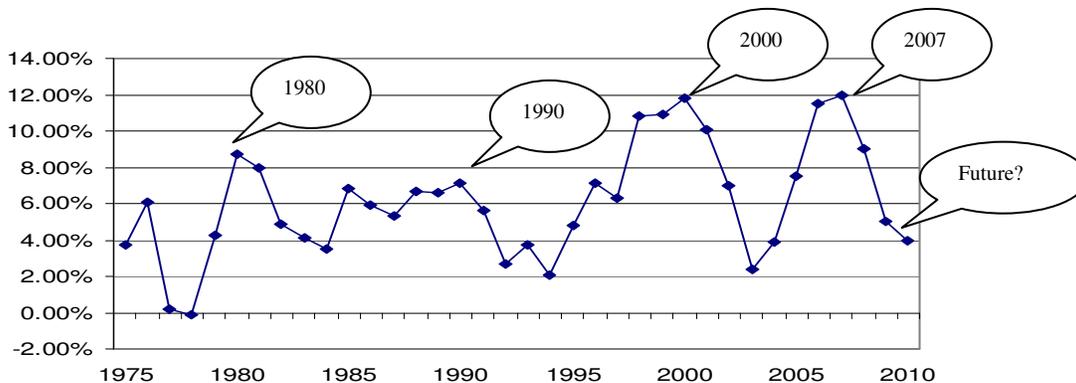
MJS Management Services is a consulting firm that works exclusively with clients in the precast industry to improve business performance and results. For assistance with this or other management challenges please call 206-388-5209 or contact us by email. Visit our web site for a full description of the services we provide.

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PLAN FOR THE WORST, HOPE FOR THE BEST - Practical suggestions for dealing with the downturn

Learn from history

The chart below summarizes 3 decades of profit performance for the precast industry – (industry **average** profit before tax as a % of revenue: MJS Management projections for 2008-2010, MJS Management data for 2006-2007, and PCI financial survey data 1975-2005).





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The lessons – the precast sector is far more cyclical than many industries; profitability declines substantially during recessions due to aggressive price cutting and delays in adjusting fixed costs; industry revenues and profits reach new peaks after each downturn.

Use a basic financial model and business plan to guide decisions

Quick reaction is critical to maintaining profitability during a downturn, a business plan and basic financial forecasts are necessary tools to guide management decisions. The future cannot be accurately predicted so we recommend that management teams prepare 3 scenarios – worst case, expected, best case - and a plan on how the business will operate in each situation.

Financial model example (\$000's)

	2009 Forecast			2008	2007
	Best Case	Expected	Worst Case		
Revenue	\$44,000	\$40,000	\$36,000	\$48,000	\$50,000
Direct costs	37,000	34,000	31,000	39,000	39,000
Gross profit	7,000	6,000	5,000	9,000	11,000
Gross profit %	15.9%	15.0%	13.9%	18.8%	22.0%
Overhead	4,700	4,600	4,400	5,000	5,000
Profit before tax	2,300	1,400	600	4,000	6,000
Profit (% revenue)	5.2%	3.5%	1.7%	8.3%	12.0%

In the example above, if the management team observes that actual conditions are moving in the direction of worst case, the business plan will be adjusted to further reduce overheads and direct costs to preserve profitability. The key is that because these steps have been identified and evaluated in advance, they will be implemented more quickly.

In tough markets, a dilemma faced by precasters is that deep cuts impact future capability through the loss of trained people. To evaluate the pros and cons of carrying extra costs through a downturn, **the financial model should be extended for a 3 year period** (2009-2011). In this example, if revenue is projected to stay in the \$40m range then an overhead target of \$4m or less might be set.

Management teams typically will need to identify a variety of options and create various versions of the financial model until an acceptable business plan is identified – so keep the model simple so that it is easy to adjust. Hint: often during downturns precast

RESULTS IMPROVEMENT BULLETIN

management teams tend to underestimate how quickly markets will slow and prices decline (and conversely how quickly markets and prices improve during the growth part of the business cycle).

RESULTS IMPROVEMENT BULLETIN

Other priorities

1. **Manage cash and credit** – aggressively collect outstanding accounts, don't wait for them to become overdue; update credit assessments for all customers; reduce capital expenditures.
2. **Evaluate all costs** – Evaluate all components of the cost structure and identify options for reductions. Our next Results Improvement Bulletin will provide a helpful checklist for cost structure analysis and reduction.

An opportunity to improve productivity and competitiveness

Slowdowns create a sense of urgency that can be tapped to further drive productivity improvements. Focus your employees on making the business more competitive. During peak market periods a common obstacle to productivity gains is a lack of time to work on improvement projects – ensure that available time and energy is channelled in the right direction. Suggestions:

- Form teams to improve productivity in key areas in production and engineering - focus on doing things faster (e.g. setup and cast in 8 hours rather than 9) and higher quality (reduce errors in drawings, steel fabrication, wood shop and other processes). Improvements in the range of 10-20% should be targeted.
- Set goals & monitor progress regularly. Hold the teams accountable for results.
- Ask the teams to: analyse the target process (e.g. describe each step in the process), identify improvements, implement changes and monitor their results.

If you need help

Leverage our industry knowledge and extensive experience to help with:

- **Operational plans and strategies for dealing with the downturn:** Use our experience to develop effective short and long term plans for slower markets.
- **Cost structure analysis:** Take advantage of our independent perspective to help quickly analyse and adjust your cost structure.
- **Productivity and competitiveness:** We are the leading implementer of lean manufacturing practices in the precast sector and have completed more than 200 productivity improvement projects with leading precast producers. Leverage our track record, best practices, and high performance benchmarks. We bring proven methods to quickly improve competitiveness in production, engineering, field and other departments.