



Improving your cash conversion cycle

Visual Profit Management
“Japanese style MQ accounting”

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Self-Introduction



Yukitoshi Tanno

Work and professional experiences

- For over 20 years, taken executive leadership roles for supply chain strategy and innovation at leading companies in a variety of industries in Japan, the US, and the UK.
- Currently a Supply Chain and Management Consultant.

Qualification



GE Healthcare



- Japan Govt – Approved Support Agencies for Business Innovation
- Japan Govt – Registered SME Management Consultant
- JPC - Accredited Management Consultant

Education

- Univ. of Electro-Communications, Bachelor of Engineering
- Tokyo Institute of Technology, Master of Engineering
- Arthur D. Little School of Management, MBA (Boston)

Questionnaires for Participants

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1st Question

What is the most critical KPI(Factor)
for your business?

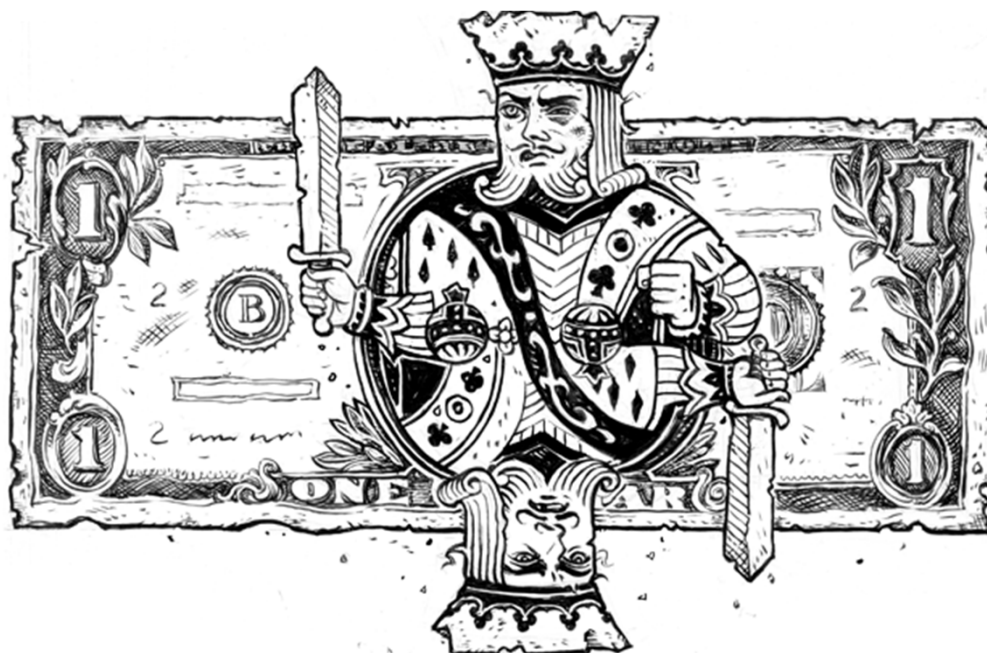
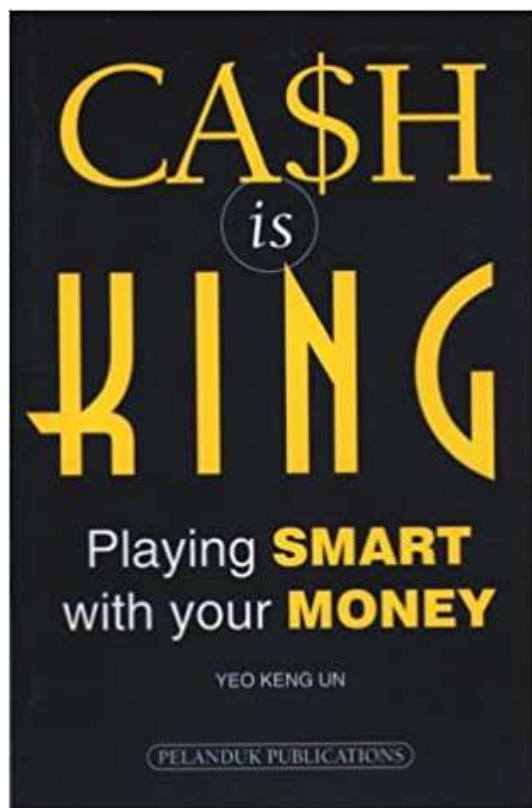
☒ Vision, Customer, Sales, Cost,
Profit, Cash, Any other - - - - ?

Scan QR code and access
to the questionnaires



<https://forms.gle/YjMwoLRjvL2PW27y7>

Cash is King, Cash Flow is Queen.



Questionnaires for Participants

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2nd Question

How frequently do you measure cash profit for your business?

☒ Daily, Weekly, Monthly, Quarterly, Half-year, Yearly?

☒ Why does it take so long?

Scan QR code and access to the questionnaires



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No Measurement, No Achievement!

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Instrument Flying?

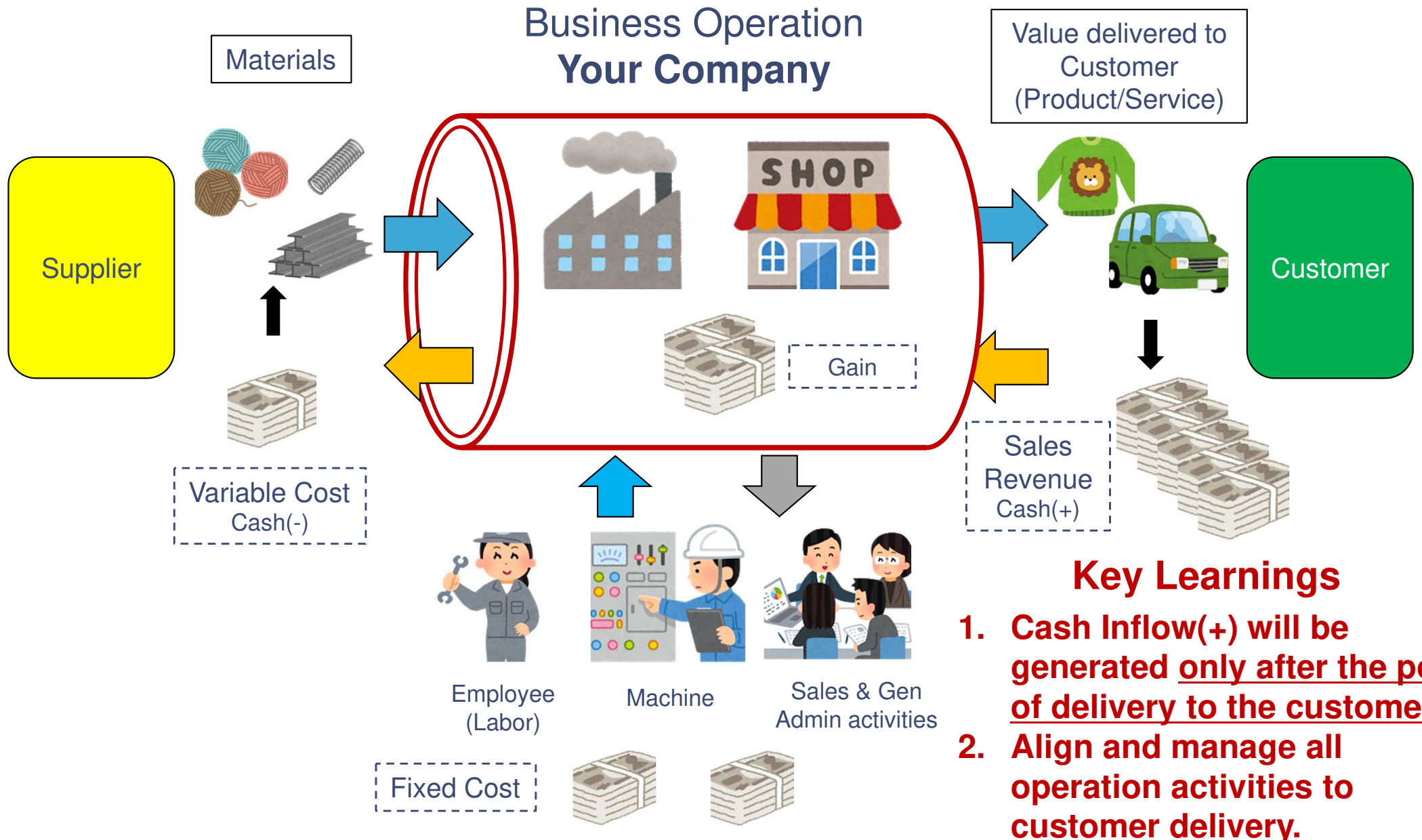


Flying Blind?



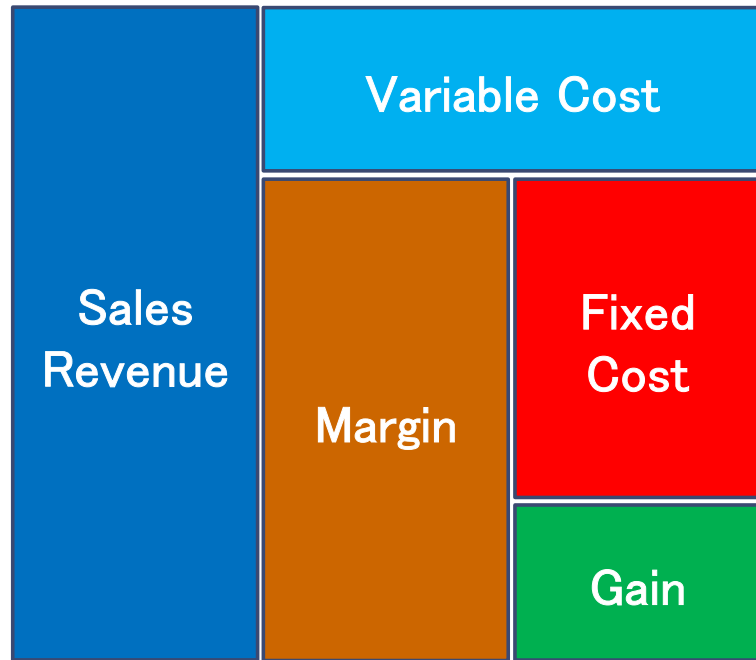
Cash-Converting Mechanism

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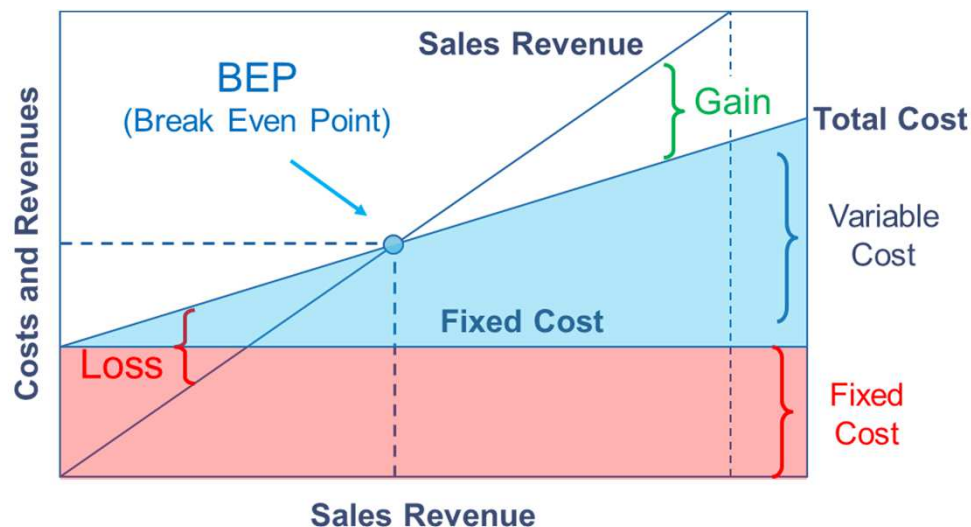
Straightforward strategy to make money

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Simple guide

1. Time to customer delivery(↓)
= cash conversion speed(↑)
⇒ Maximize Sales Revenue
2. Minimize Variable Cost(↓)
⇒ Maximize Margin
3. Minimize Fixed Cost(↓)
⇒ Exceed Break Even Point
⇒ Maximize Gain



Dos & Don'ts Discussion

Case Study XYZ Company

Monthly Max Capacity: 100 units
BEP Capacity: 80 units
Production Line: A-Line and B-Line are in series.
The capability of A and B lines are balanced.



Action A)

Buy 6 month-volume of materials in bulk at a 10% discount and paid in cash.

⇒ Don'ts

1. Not relevant to customer delivery
2. While a slight reduction in material costs, huge cash equivalent to the inventory amount will be withdrawn.
3. Inventory management cost increases.

Action B)

Purchase a new and high-efficiency machine and implement it into A-Line.
No change in B-Line.

⇒ Don'ts

1. Not relevant to customer delivery. B-line will be a bottleneck.
Backlog(WIP: work-in-progress) will be piled between A and B-line.
2. WIP is a waste usage of cash.

Dos & Don'ts Discussion

Case Study XYZ Company

Monthly Max Capacity: 100 units
BEP Capacity: 80 units
Production Line: A-Line and B-Line are in series.
The capability of A and B lines are balanced.



Action C)

The surplus resources of A-Line are reallocated into B-line to reduce the WIP.

⇒ Dos

1. Relevant to customer delivery. Sales will increase.
2. WIP will be reduced.

Action D)

This month, production already achieved BEP capacity. A customer asks an additional order of 10 units with 10% discounts. The discount price still covers the variable cost and some part of the fixed cost.

⇒ Dos

1. Relevant to customer delivery. Sales will increase.
- 2.&3. Maximize Margin and Gain.

Questionnaires for Participants

Aggregator Japan

3rd Question

Can you comply with the guidance easily?

- ☒ If Yes, tell me your best practice
- ☒ If No, what's the problem?

Scan QR code and access
to the questionnaires



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Disconnection between Mgmt. & Ops.

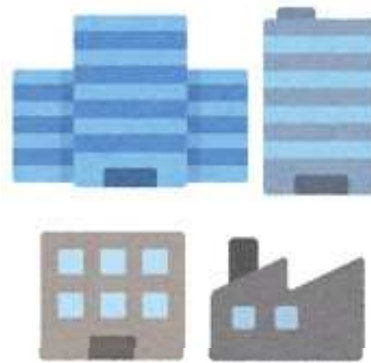
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Management talks in Money(Rs,\$,€,¥).
Operations talks in Quantity.
There is a gap between them.



Management

Company
Achievement



Operations

Common Language as a solution

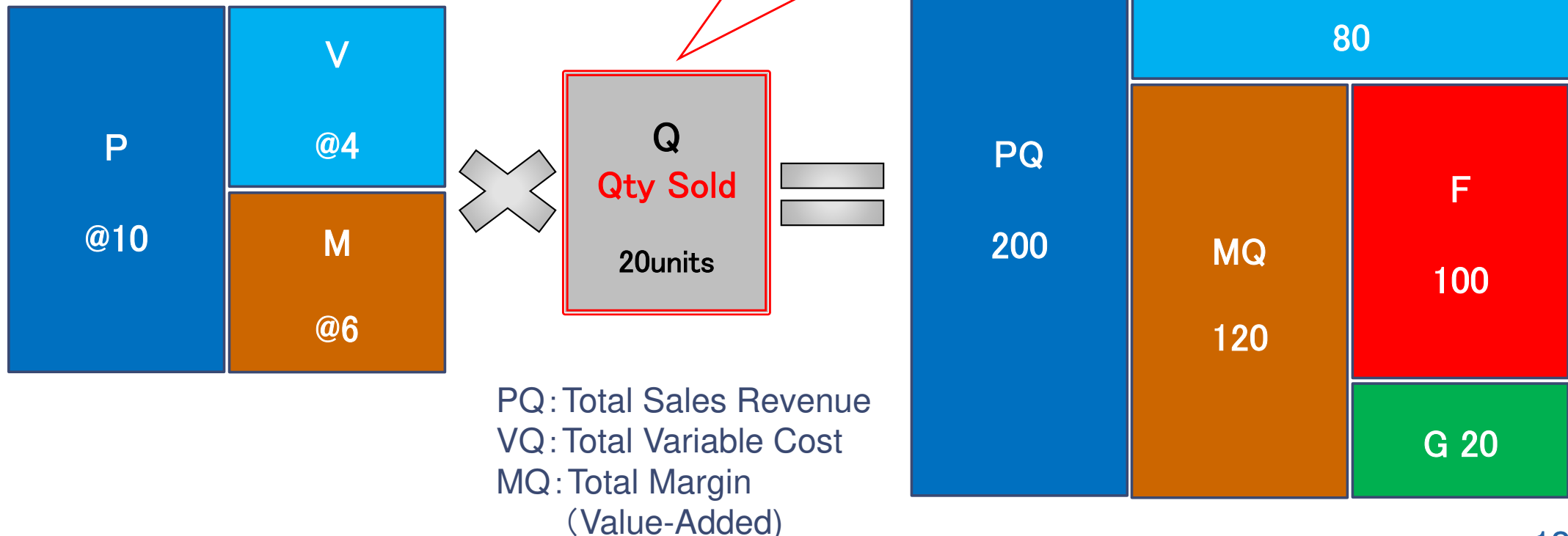
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MQ Accounting(Graphical Equation for Making Money)

G: Gain(\doteq EBIT)
P: Selling Price/Qty
V: Variable Cost/Qty
M: Profit Margin/Qty
(Value-Added/Qty)
Q: Quantity(Qty)
F: Fixed Cost

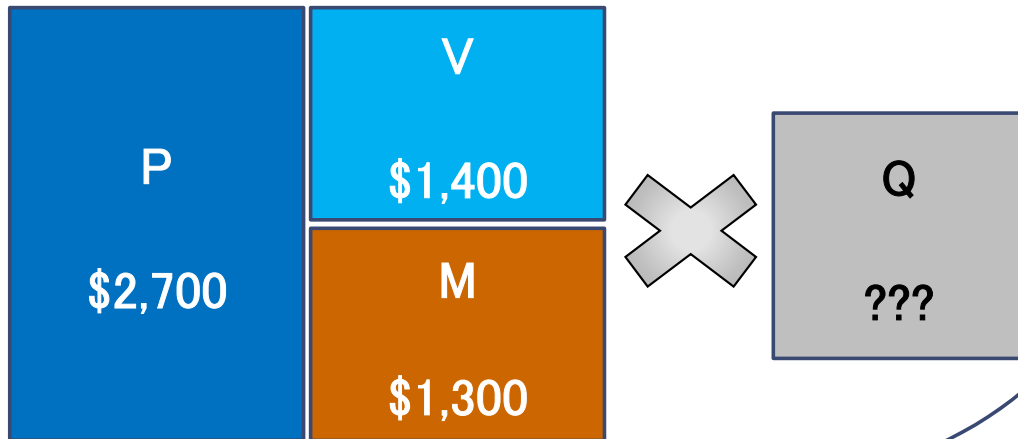
Goal is to
maximize the G
by controlling
4 factors.

Q is the connecting number between mgmt & ops..
Ordinary, no Q in the financial statement.
Q could be the number of units, events, customers etc..



Graphical Solution for BEP Analysis

Profit-Cost Structure for a Merchandise



Q1) If the fixed cost is \$18,200, how many items should be sold to cover the cost?

Ans \Rightarrow 14ea.

Q2) What is the sales revenue at that time?

It is called the break-even sales revenue.

Ans \Rightarrow \$37,800

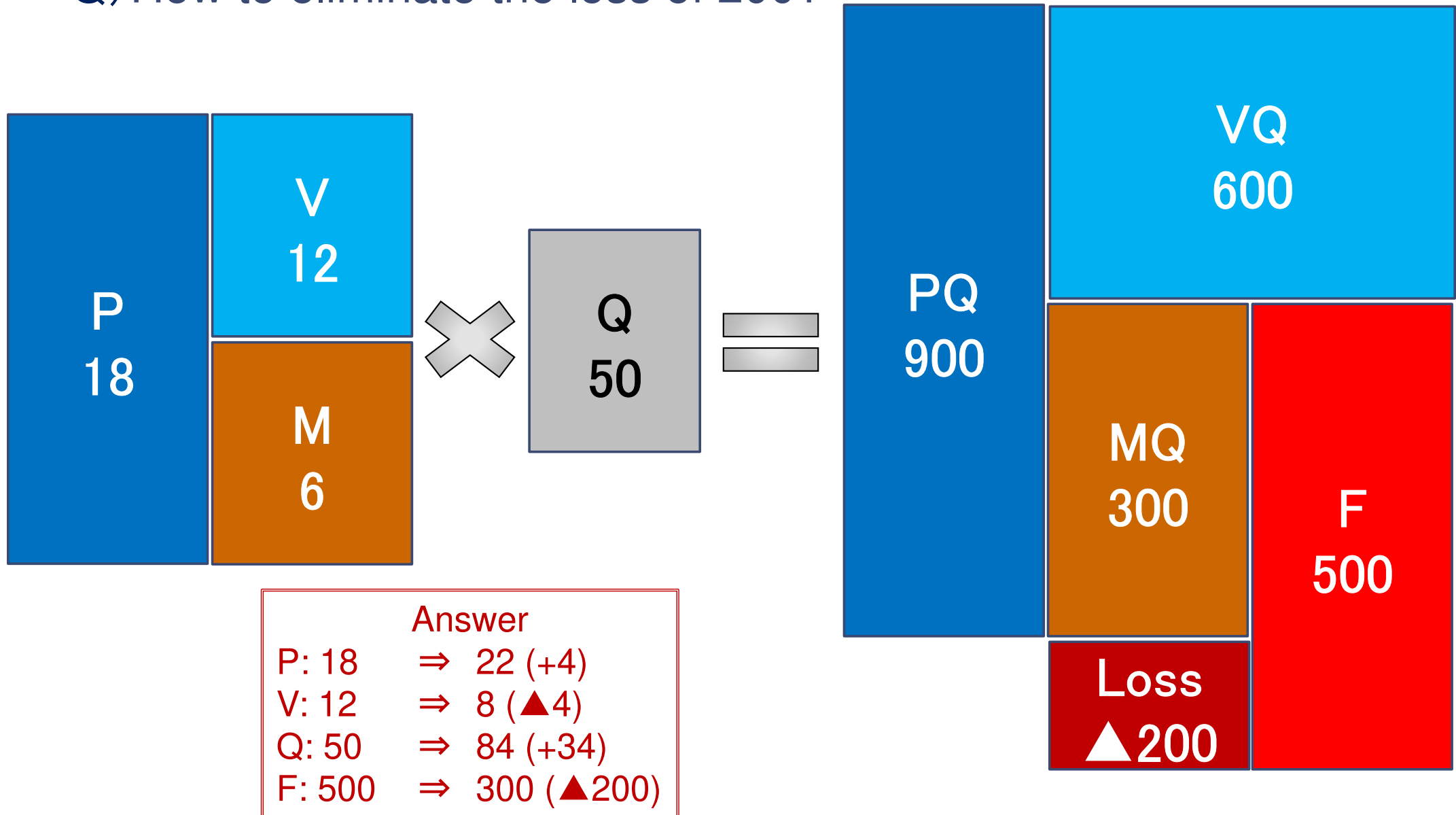
Q3) What is the gain if 17 items are sold?

Ans \Rightarrow \$ 3,900

※A profit/loss plan cannot be made unless the profit-cost structure per unit is understood.



Q) How to eliminate the loss of 200?



Profit/Loss Simulation

Merchandise (Product) Value per unit

P	V	×	Q	=
18	12		50	
	M			
	6			

Input Number
Calculated automaticall.

Profit/Loss Statement (Monthly)

PQ	VQ(Variable cost = Materials + Outsourcing fee)		
900	600		
MQ	300	F	Detail
			F1 : Labor (manufacturing)
			F2 : Personnel (Sales & Admin)
			F3 : Manufacturing Expense
			F4 : SGA Expense
			F5 : Depreciaiton
			F6 : Non-operating Expense
	G		
			-200

Break-even point sales revenue	1,500
Break-even point sales quantity	83.3

Focus on unnecessary costs.

Implementation Steps



- Make it simple as possible
- Start small
- Try & Learn
- Brush up little by little

① Define Profit/Cost Structure

- Define 4 factors based on Sales Database and Financial Statement
- In order to make variable cost as simple as possible, limit only material cost.

※Note: Outsourcing cost or transportation fee are one of option.



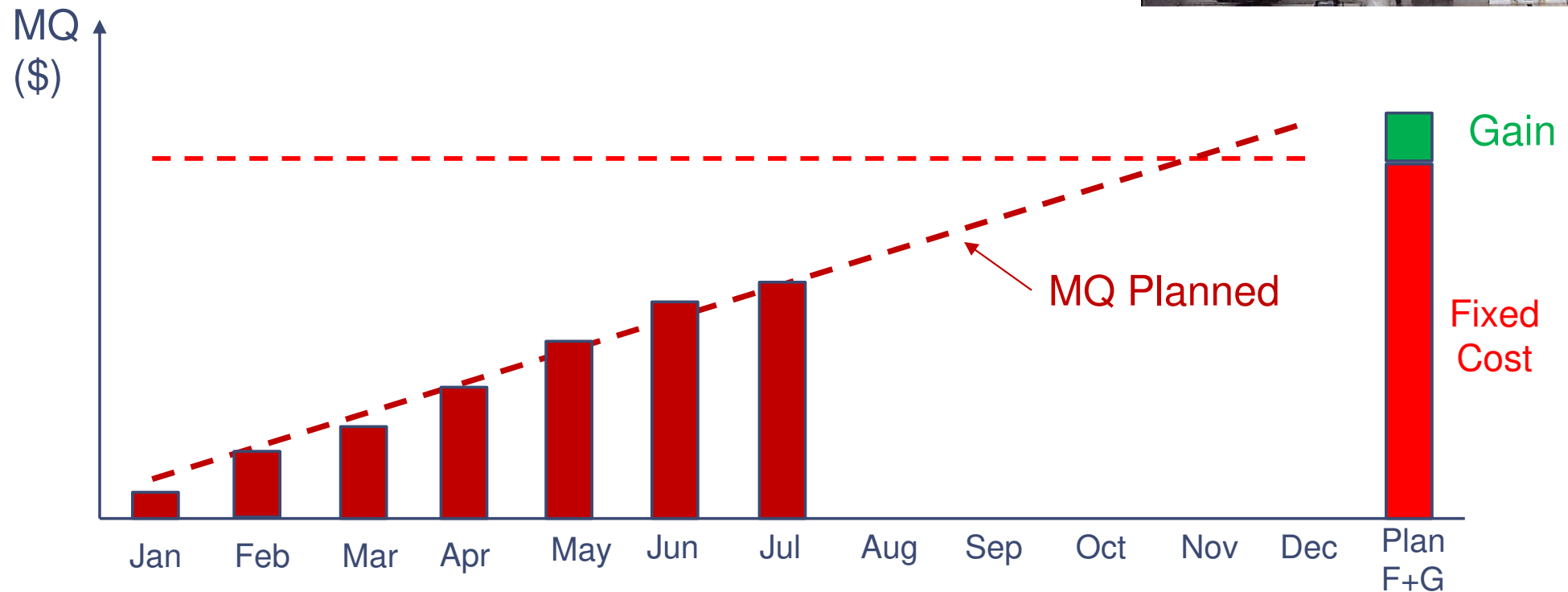
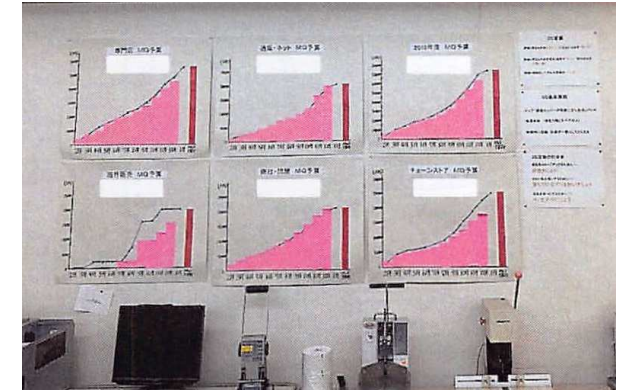
Implementation Steps

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② Visualization

- Visualize plan and result by chart, daily, weekly, monthly, annually...
- Our team calls the Fixed Cost Line as “Living expense including our salary”.

Communication Board

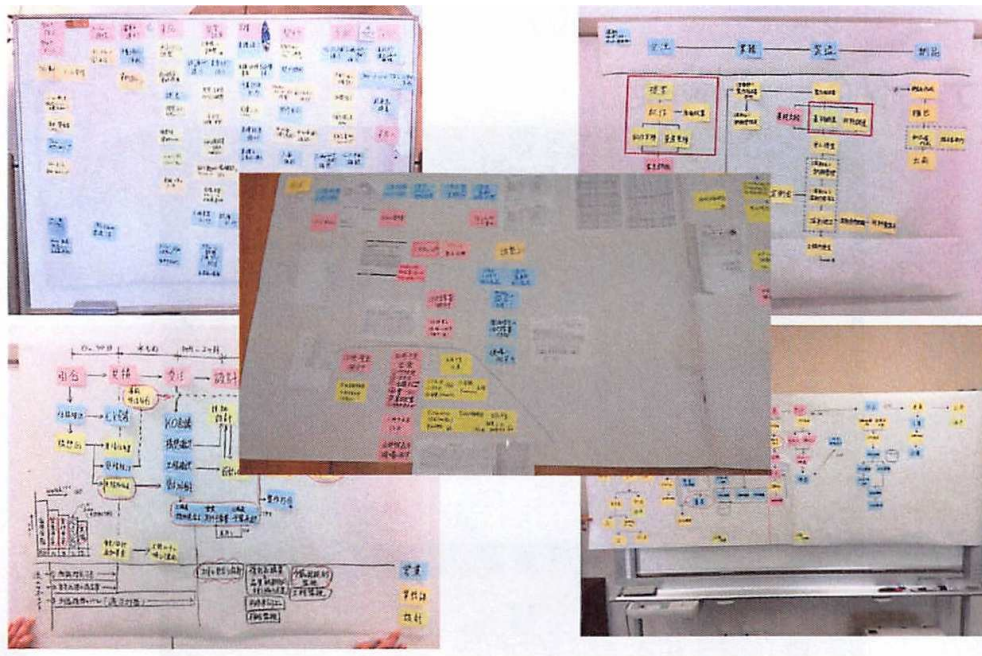


Implementation Steps

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③ Get People Involved

□ Team Brain Storming



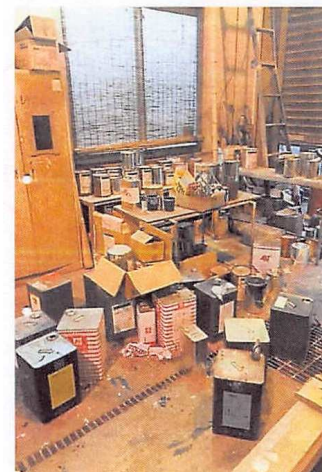
□ ECRS

E: Eliminate
C: Combine
R: Rearrange
S: Simplify

#1 Priority

Eliminate irrelevant processes to expedite delivery and maximize gain.

【Before】



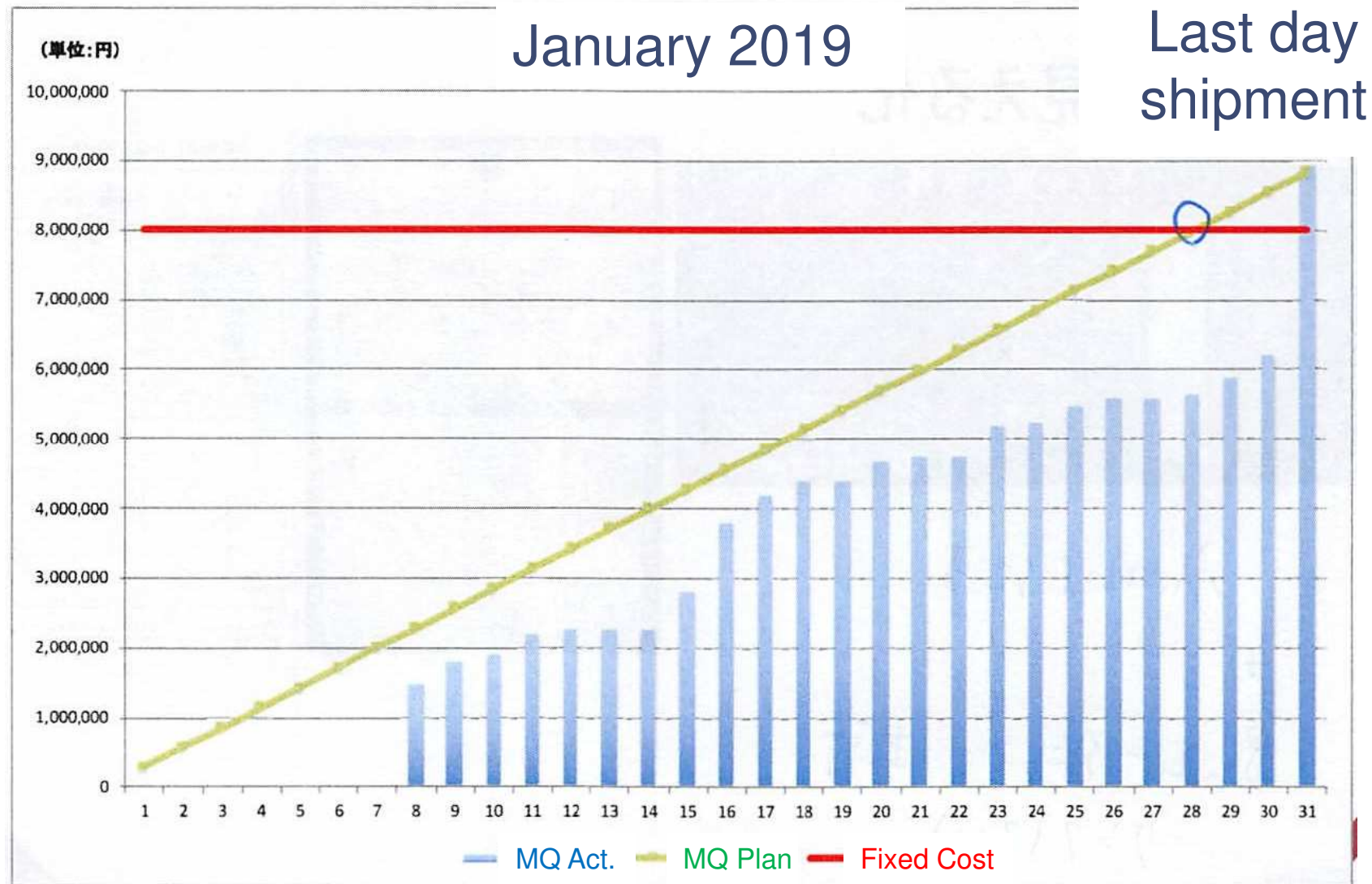
5S

【After】



(Reference) Last Day Miracle

- Miracle sometimes happens.
- The will power of people achieves the goal on the last day.



**Thank you for listening
Any question?**

Yukitoshi(Yuki) Tanno

**On-line Remote Consulting
Available from Japan**



Please contact NPCC!!



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