



## Quantum Profit Gram #5

Until 2007, working capital loans were easy to get and renew. Then the global credit bubble popped, and banks changed the rules. With many banks now insolvent, having their own debt to roll over at higher expense, distributors may receive:

- lower credit limits and in some cases non-renewals on their credit line;
- higher total fees and interest cost.

No more aggressive bidding to win profitless-at-best sales growth, hoping to earn “growth rebates” at year end. “Volume is vanity” grows debt, while “profit is sanity” pays down debt. With revenues down 20 – 40% and too much capacity in nearly every channel, you must, instead, generate your own free cash-flow to:

- better service and keep your bank line; and / or
- build cash reserves to finance new working capital needed for winning refugee accounts from heavily-indebted, imploding competitors still pushing for volume.

Bottom line, you have to improve your skills in managing pre-tax ROTA (Return on Total Assets). ROTA is a universal financial productivity ratio that measures how productive a firm is with asset dollars, whether the dollars belong to shareholders, suppliers or banks. Branch managers can be compared and paid on improvement in a modified version of ROTA called ROCA “Return on Controllable Assets” which is: the branch profit divided by the average investment in inventory and receivables.

If your ROTA is lower than the interest rate on your borrowing, then you have negative leverage and net profit will decline. If, however, you have a ROTA north of 15%, then you have strong positive leverage that will boost your return on equity and produce cash-flow to reduce debt or finance new sales.

What micro-elements of your business need to be better managed to make your ROTA go up? If you rank all of your customers by their own approximate ROTAs, then you’ll find a range from the top accounts (cash cows) all the way down to ones that both lose money and require semi-dead, special-stock inventory (cash hogs).

To get started, ask these questions: How can I create such a customer-ROTA ranking report? What specific measures can I apply to different sub-sets of customers to improve their ROTAs? How can I re-align incentives to support granular-level changes for better customer ROTAs? How can I track our progress?

I’m high on WayPoint Analytics as an instant (three weeks), low-cost solution to help answer these questions (or use an internally-created equivalent if you have the time and resources). Either way, get started on a Hi-ROTA Management program to get clear of the bank.

Get more information on this and other topics using the links below and to the right. Learn more at upcoming Quantum Profit Management webinars using the same links.

D. Bruce Merrifield, Jr.

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MANAGEMENT

**High-ROTA  
Management  
is Key**



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