PROCESS OVERVIEW

STORM CONSULTING, LLC

MARGINS VS. INVENTORY COSTS

Many times with the owners focused on EBITDA management ignores the asset and cash generation side of the business. This is a mistake as there are usually tens of millions of dollars in value waiting to be realized! A recent example is that we reduced the inventory by more than half in a quarter of a billion dollar company within twelve months. This enabled the company to emerge from bankruptcy and use none (not one cent) of the company's $80mm line of credit!

Operating a well run company takes a balance of all three financial results, asset management, cash flow and profitability. At STORM we have many quick evaluation techniques to determine the right balance between these various elements of operations. Below is one very useful tool to conduct such a quick analysis of a product line.

Turns and Earns

Quickly analyzing products to measure their contribution to the bottom line vs. asset and cash utilization is critical in making decisions regarding a product's future. One tool we use to accomplish this task is the Turns and Earns Matrix.

Inventory Turns

Gross Margin %	1	2	3	4	5	6	7	8	9	10
50%	0.5	1.0	1.5	2.0	2.5	3.0	3.5	4.0	4.5	5.0
45%	0.5	0.9	1.4	1.8	2.3	2.7	3.2	3.6	4.1	4.5
40%	0.4	0.8	1.2	1.6	2.0	2.4	2.8	3.2	3.6	4.0
35%	0.4	0.7	1.1	1.4	1.8	2.1	2.5	2.8	3.2	3.5
30%	0.3	0.6	0.9	1.2	1.5	1.8	2.1	2.4	2.7	3.0
25%	0.3	0.5	0.8	1.0	1.3	1.5	1.8	2.0	2.3	2.5
20%	0.2	0.4	0.6	0.8	1.0	1.2	1.4	1.6	1.8	2.0
15%	0.2	0.3	0.5	0.6	0.8	0.9	1.1	1.2	1.4	1.5
10%	0.1	0.2	0.3	0.4	0.5	0.6	0.7	0.8	0.9	1.0
5%	0.1	0.1	0.2	0.2	0.3	0.3	0.4	0.4	0.5	0.5

Action Plans

Using this tool a general rule of thumb is that a Turns and Earns index of 1 is close to breakeven. Over this level you make money. Below it you likely don't. Of course knowing what actions to take to move more products over this hurdle is the key!