



Track What Counts **by Betsi Bixby**

One of the new buzzwords in leading-edge management circles is “Critical Number.” For every business, there are a handful of measurable predictors of business success. By focusing on just these few key numbers, a business can achieve tremendous gains, even in this disrupted market.

If a petroleum company wants to significantly increase its cash flow, the first step is to identify what measurable numbers will have the most significant impact on cash. Although we know that receivables, inventory and payables timing are the industry-wide controlling factors, we need to be much more specific at the individual company level.

To find a starting place, take a look at your last few months’ cash flow statements. Your cash flow statement will provide clues to your largest cash drains. Now the trick is to identify critical numbers that if achieved, will cure those deficiencies.

Let’s assume that your biggest cash problem is receivables. It would be easy to say that your critical number is days sales outstanding. That number, however, depends upon lots of other factors in your receivables process.

So, to get to the “right” critical number, you would need to examine your receivables process further. You might discover that one of major the reasons you are being paid late is that your bills are going out late because of remote workers now. With that information, you could set a critical number that is your percent of invoices mailed same day.

Or, perhaps after examining your system, you discover that the only way you can speed up your collection time is to move your existing accounts to EFT payment. Your critical number might become the percent of receivables dollars outstanding that on are on EFT terms.

If your problem is one of inventory, you may be tempted to use days supply on hand as your critical number. Like receivables, however, you should dig a little deeper to get at the root of your inventory problem.

Upon further examination of your inventory process, you may find that most products are turning well, but that you have a significant problem with obsolete inventory. This is likely a symptom of not matching your inventory to your customers needs. Your critical number, therefore, might be the number of items in inventory that are more than 20 or even 30 days on the shelf.

You may examine your store inventory and find that inventory turn is just fine, but your sales are declining. Again, the easy critical number to select would be dollar sales for the month. Upon deeper investigation, however, you may find that customer loyalty and repeat sales are highly



dependent upon a stable work force, and that you've been losing clerks from the disruptions happening. Your critical number, therefore, may be a turnover statistic.

As you review your cash flow, you will likely discover many opportunities for improvement. To guarantee success, however, limit your final critical numbers to just **three** items. Identify the three numbers that will have the biggest combined impact on your cash. By narrowing your goals to only three numbers, you will keep everyone in the company focused.

Once you have determined the three critical numbers, determine how they will be measured. There should be no room for subjectivity. Also determine who will be responsible for tracking each goal. Ideally, this should be a person who has major personal impact and stake in that goal.

Determine how each critical number goal will be tracked so that everyone involved can see the improvement as it occurs. Hold weekly "huddle" meetings to discuss progress on the three goals. Everyone in the company should know what the critical numbers are, why they are important, and how they personally impact those numbers.

Equally important is to determine a reward for meeting each critical number goal. A reward, however, does not necessarily mean a cash bonus or material prize. Those who are working towards achieving the goal should be given the opportunity to determine a motivating reward with final management approval, of course.

One company involved with a "no accidents in 365 days" critical number decided they wanted the supervisor (who said the goal was unreachable!) to dress up in a cheerleader outfit for one work day. The catch, of course, was that the supervisor was a burly, hairy, overweight male! Reputedly, the company achieved an impeccable safety record for well over a year and the supervisor made good on the deal including an actual cheer in his get-up! Just goes to show that people really do like to have fun on the job!

When you are in the fortunate position of having just met one of your critical number goals, don't rest on your laurels for too long. Remember that long list of potential critical numbers you came up with before you narrowed the list to three? As one goal is achieved, replace it with another. If the company's cash flow condition has changed, however, be sure to begin the process all over again by reassessing what is currently most critical to company cash flow.

Critical numbers work, but they take an extraordinary amount of time, energy and effort on the part of management and staff. Extra cash flow, and the good night's sleep extra cash gives us, however, is worth every bit of those costs.

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