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**PRE
QUATE**

Can you add 10% to your bottom-line by rethinking your business verticals?

Businesses seldom spend time looking inward, especially once they have been in business for a few years. Leaf* learnt of hidden leakages when they brought on Prequate and objectively analysed their business right from the foundations.



0 Organization profile

company name:	Leaf*
model:	Technology
segment:	Enterprise Software
age:	20+ years
size:	HC: 500+ employees
revenue:	\$12M+

* Names of businesses have been masked with generic names to protect client confidentiality and honour executed non-disclosure agreements. Further, information which is extremely specific to a company and could be considered as critical nature, indicative of trade secrets, proprietary intellectual property or a sensitive part of a current or closed investment banking related transaction that Prequate assisted on have been substituted with similar information.

1 Overview

Company's performance at the time of this exercise was:

- EBIT of 1.7x Industry benchmarks
- Finance team of 20+ members
- 20%+CAGR consistently since last 5 years

2 Problem statement

Leaf had 5 lines of business (LoBs) which it had classified as independent functions that only depended on centrally for management time, governance, and support functions. The business & sales teams were separately allotted to each LoB as it required domain expertise to make a sale. The marketing team was a shared function whose time was allocated across all the LoBs based on the revenue generated by each LoB.

Despite achieving consistent growth, the accrual of cash was inconsistent and reducing at times. The company continued to maintain profitability above industry benchmarks and peers and hence were unaware that there could be an issue.

3 Beginning a journey with Prequate

Prequate was brought on board to recognize opportunities for improving profitability with a perspective of cost optimization and boost the overall reporting frameworks for performance.

Within 6 months of working with the business on the scope, we realized that though key metrics such as utilization, billability, account growth had improved, the cash accruals was not growing in a manner that reflected this. The benefit of economies of scale had become fairly linear over time.

This meant that the problem was less tactical and more strategic.

4 Knowing the why

The power of looking at a business outside-in is something that businesses tend to forget to do after a period. As the management gets busier in day-to-day operations, they forget to re-evaluate periodically what they are doing right and what they are doing wrong.

The real value of the offering of 'SFO/ Strategic Finance Office', which functions as a focused, external, independent, problem-solving team becomes of utmost significance here.

“

Because something worked well in the past does not mean it will work well today. Every few years, a company needs to look inward at everything they're doing and evaluate 'why'. Here, an external team can be the difference between thinking, knowing and being able to do something about it.

“

Prequate

5 The approach

The first step to solving a problem is understanding how the business was making money mathematically.

▲ Step 1

Structure & standardize the language of measurement

Introduce a more structured method at capturing costs relating to business operations of each LoB (right from the marketing team to post-sale support) + standardize reporting languages across all the LoBs

5 The approach

▲ Step 2 Execute a detailed LoB study

Execute a detailed LoB study of all the LoBs with an eye for moving from allocations (*distributed by share*) to the allotment (*identified for a specific purpose*)

▲ Step 3 Identify & Isolate

Identify under-performing/ unprofitable/ onerous LoBs and deep-dive to understand the reasons for their impact on overall profitability

LOB PROFITABILITY

LOB	REVENUE		EXPENSE		DIRECT COSTS		Share Costs	Sales	Admin	General	Other	TOTAL	ALLOCATION
	MM	%	Total	Share	Direct	Share							
Product A	100	100%	100,000	100%	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Product B	50	50%	50,000	50%	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000
Product C	20	20%	20,000	20%	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Product D	10	10%	10,000	10%	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Product E	5	5%	5,000	5%	500	500	500	500	500	500	500	500	500
Product F	2	2%	2,000	2%	200	200	200	200	200	200	200	200	200
Product G	1	1%	1,000	1%	100	100	100	100	100	100	100	100	100
Product H	1	1%	1,000	1%	100	100	100	100	100	100	100	100	100
Product I	1	1%	1,000	1%	100	100	100	100	100	100	100	100	100
Product J	1	1%	1,000	1%	100	100	100	100	100	100	100	100	100
Product K	1	1%	1,000	1%	100	100	100	100	100	100	100	100	100
Product L	1	1%	1,000	1%	100	100	100	100	100	100	100	100	100
Product M	1	1%	1,000	1%	100	100	100	100	100	100	100	100	100
Product N	1	1%	1,000	1%	100	100	100	100	100	100	100	100	100
Product O	1	1%	1,000	1%	100	100	100	100	100	100	100	100	100
Product P	1	1%	1,000	1%	100	100	100	100	100	100	100	100	100
Product Q	1	1%	1,000	1%	100	100	100	100	100	100	100	100	100
Product R	1	1%	1,000	1%	100	100	100	100	100	100	100	100	100
Product S	1	1%	1,000	1%	100	100	100	100	100	100	100	100	100
Product T	1	1%	1,000	1%	100	100	100	100	100	100	100	100	100
Product U	1	1%	1,000	1%	100	100	100	100	100	100	100	100	100
Product V	1	1%	1,000	1%	100	100	100	100	100	100	100	100	100
Product W	1	1%	1,000	1%	100	100	100	100	100	100	100	100	100
Product X	1	1%	1,000	1%	100	100	100	100	100	100	100	100	100
Product Y	1	1%	1,000	1%	100	100	100	100	100	100	100	100	100
Product Z	1	1%	1,000	1%	100	100	100	100	100	100	100	100	100
Total	200	100%	200,000	100%	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000

LOB modified PROFITABILITY

LOB	REVENUE		EXPENSE		DIRECT COSTS		Share Costs	Sales	Admin	General	Other	TOTAL	ALLOCATION	Total	Share	Quantity
	MM	%	Total	Share	Direct	Share										
Product A	100	100%	100,000	100%	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Product B	50	50%	50,000	50%	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000
Product C	20	20%	20,000	20%	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Product D	10	10%	10,000	10%	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Product E	5	5%	5,000	5%	500	500	500	500	500	500	500	500	500	500	500	500
Product F	2	2%	2,000	2%	200	200	200	200	200	200	200	200	200	200	200	200
Product G	1	1%	1,000	1%	100	100	100	100	100	100	100	100	100	100	100	100
Product H	1	1%	1,000	1%	100	100	100	100	100	100	100	100	100	100	100	100
Product I	1	1%	1,000	1%	100	100	100	100	100	100	100	100	100	100	100	100
Product J	1	1%	1,000	1%	100	100	100	100	100	100	100	100	100	100	100	100
Product K	1	1%	1,000	1%	100	100	100	100	100	100	100	100	100	100	100	100
Product L	1	1%	1,000	1%	100	100	100	100	100	100	100	100	100	100	100	100
Product M	1	1%	1,000	1%	100	100	100	100	100	100	100	100	100	100	100	100
Product N	1	1%	1,000	1%	100	100	100	100	100	100	100	100	100	100	100	100
Product O	1	1%	1,000	1%	100	100	100	100	100	100	100	100	100	100	100	100
Product P	1	1%	1,000	1%	100	100	100	100	100	100	100	100	100	100	100	100
Product Q	1	1%	1,000	1%	100	100	100	100	100	100	100	100	100	100	100	100
Product R	1	1%	1,000	1%	100	100	100	100	100	100	100	100	100	100	100	100
Product S	1	1%	1,000	1%	100	100	100	100	100	100	100	100	100	100	100	100
Product T	1	1%	1,000	1%	100	100	100	100	100	100	100	100	100	100	100	100
Product U	1	1%	1,000	1%	100	100	100	100	100	100	100	100	100	100	100	100
Product V	1	1%	1,000	1%	100	100	100	100	100	100	100	100	100	100	100	100
Product W	1	1%	1,000	1%	100	100	100	100	100	100	100	100	100	100	100	100
Product X	1	1%	1,000	1%	100	100	100	100	100	100	100	100	100	100	100	100
Product Y	1	1%	1,000	1%	100	100	100	100	100	100	100	100	100	100	100	100
Product Z	1	1%	1,000	1%	100	100	100	100	100	100	100	100	100	100	100	100
Total	200	100%	200,000	100%	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000

It was observed that one of their core LoBs on which over 20% of their workforce was allotted, was leaking over \$50k a month while being managed by one of their most talented executives.

We further deep dove into the referral value and cross-sell opportunities generated from that business unit and found that it was < 12% growth across their top 80% accounts.

Now that it was identified as a leaky tap, the next step was to simulate well-thought out action plans.

6 The analysis

Step 4 Execute Scenario analysis

Execute 'The Leap' (Preqate's signature study) - a well-constructed simulation of scenario modelling on the key reasons and understand the impact on cash accruals including 'if this, then that' of each scenario, both on long-term business and short-term cash flows.

We generated 5 scenarios with 3 sub-scenarios that included all decision-making elements, revenue & cost drivers, and key reasons for inefficiency. After generating the scenarios, we ran simulations of all the scenarios to develop a decisioning grid across about 90, 120 & 360-day horizon.

STRATEGY 1 | Discontinue Division #4 in entirety

LOB	REVENUE		OPERATING PROFIT		GROSS PROFIT		NET PROFIT		ALLOCATION		Mgt	Total Allocations	Operating Profit
	Total Revenue	% LOB	1 year	3 year	1 year	3 year	1 year	3 year	1 year	3 year			
Cost of R/L Management	12,500	10%	12,500	12,500	12,500	12,500	12,500	12,500	12,500	12,500			
New projects	35,144	29%	35,144	35,144	35,144	35,144	35,144	35,144	35,144	35,144			
Total	47,644	39%	47,644	47,644	47,644	47,644	47,644	47,644	47,644	47,644			
Per Hour	78.24		8.00	8.00	14.00	14.00	8.00	8.00	14.00	14.00			

- To maintain the current margin and the cost of the R/L team supported, the additional new business to be brought in must not be less than \$640k
- Business development costs are approx. \$75k per month based on current R/L
- Use effort expenditure
- LOB head's salary will be reallocated by the General Engineering team
- There will be incremental savings from dropping billing team resources
- Margins of 50%
- Impact on overall not affected

STRATEGY 2 | Discontinue non-platform projects

LOB	REVENUE		OPERATING PROFIT		GROSS PROFIT		NET PROFIT		ALLOCATION		Mgt	Total Allocations	Operating Profit
	Total Revenue	% LOB	1 year	3 year	1 year	3 year	1 year	3 year	1 year	3 year			
Cost of R/L Management	12,500	10%	12,500	12,500	12,500	12,500	12,500	12,500	12,500	12,500			
New projects	35,144	29%	35,144	35,144	35,144	35,144	35,144	35,144	35,144	35,144			
Total	47,644	39%	47,644	47,644	47,644	47,644	47,644	47,644	47,644	47,644			
Per Hour	78.24		8.00	8.00	14.00	14.00	8.00	8.00	14.00	14.00			

- Platform projects are currently not profitable, the decision to continue working on Platform projects would ensure that the business development spends adequate amount of time in
- LOB head's salary continues to be absorbed by the WEE team
- Margins of 95% are assumed on the new business of \$1M added
- New business added needs to ensure the margin of 100% on engineering effort

STRATEGY 3 | Trim projects + HC to \$20k projects

LOB	REVENUE		OPERATING PROFIT		GROSS PROFIT		NET PROFIT		ALLOCATION		Mgt	Total Allocations	Operating Profit
	Total Revenue	% LOB	1 year	3 year	1 year	3 year	1 year	3 year	1 year	3 year			
Cost of R/L Management	12,500	10%	12,500	12,500	12,500	12,500	12,500	12,500	12,500	12,500			
New projects	35,144	29%	35,144	35,144	35,144	35,144	35,144	35,144	35,144	35,144			
Total	47,644	39%	47,644	47,644	47,644	47,644	47,644	47,644	47,644	47,644			
Per Hour	78.24		8.00	8.00	14.00	14.00	8.00	8.00	14.00	14.00			

- 5 accounts having billing in excess of \$2k per month, total to \$20k in revenue. Accounts are XXX
- Total number of employees delivering against these projects are 13 with a total monthly cost of \$14k with support of 3 resources on US costing approx. \$1k for the month
- LOB head's salary can be absorbed by the Division 4E and the current business development effort can be repositioned to add more business to other LOBs (e.g.,
- Bidding team sit available hourly at
- Other 23 resource month

STRATEGY 4 | Grow with business development effort

LOB	REVENUE		OPERATING PROFIT		GROSS PROFIT		NET PROFIT		ALLOCATION		Mgt	Total Allocations	Operating Profit
	Total Revenue	% LOB	1 year	3 year	1 year	3 year	1 year	3 year	1 year	3 year			
Cost of R/L Management	12,500	10%	12,500	12,500	12,500	12,500	12,500	12,500	12,500	12,500			
New projects	35,144	29%	35,144	35,144	35,144	35,144	35,144	35,144	35,144	35,144			
Total	47,644	39%	47,644	47,644	47,644	47,644	47,644	47,644	47,644	47,644			
Per Hour	78.24		8.00	8.00	14.00	14.00	8.00	8.00	14.00	14.00			

Strategy 4.1 | Get new business

- At the current cost of LOB, the LOB will need to get additional revenue of \$270 to be able to achieve break-even
- At the current rate of a blended \$21.82, the number of additional billable hours will need to go up from 1,742 to 3,000 hours against a total hours available of 4,512 which is 67% utilization.

Strategy 4.2 | Higher billing rates

- At a blended rate of \$38 to the US for new projects, the total additional billable hours without adding new profiles is 848 hours.
- At 2,543 hours of billable effort (with 1,742 hours @ \$21.8 and 848 hours @ \$38), we will be at a breakeven.

7 The execution

▲ Step 5 Decision-making

Division #4		
Strategy 1 Discontinue Division #4 in entirety	<ul style="list-style-type: none">Senior management of LoB will be repurposed to other LOBsTop delivery resources will be repurposed to other LOBs	<ul style="list-style-type: none">New opportunities in the other LOB will be sufficientManagement time has better opportunities for utilization on other LOBs <p>to drive new business efforts, improve delivery or reduce costs</p> <ul style="list-style-type: none">Impact on overall employee morale will not be affected
Strategy 2 Discontinue non-platform delivery	<ul style="list-style-type: none">Senior management of LoB will be partly repurposed to other LOBsTop non-platform delivery resources will be repurposed to other LOBs	<ul style="list-style-type: none">New opportunities in the other LOB will be sufficientManagement time has better opportunities for utilization on other LOBs <p>to drive new business efforts, improve delivery or reduce costs</p> <ul style="list-style-type: none">Impact on overall employee morale will not be affected
Strategy 3 Trim projects and HC to projects of over \$20k in billings	<ul style="list-style-type: none">Senior management of LoB will be partly repurposed to other LOBsOnly top accounts of relationship value of \$20k per month will be continued	<ul style="list-style-type: none">Business development will be able to deliver more work from effort saved prospecting small accountsPre-sales effort on smaller accounts avoided can be utilized better <p>to drive new business efforts, improve delivery or reduce costs</p> <ul style="list-style-type: none">Impact on overall employee morale will not be affected

Chosen strategy:

Discontinue all relationships with a relationship value across the last 12 rolling months of < \$250k.

Quantify the decision-making cost:

\$1.2M over 12 months

▲ Step 6 100-day Plan

Craft a clearly thought out '100-day plan' of the chosen strategy to pursue, keeping in mind the impact on morale and inhibitors to the strategies achieve-ability.

▲ Step 7 Deploy. Improve. Deploy.

We got on board with the client manning an external team for them with a single purpose mission - *Execute the transformation*. Prequate's team played point with all management members over the 90-day period to help them achieve the planned outcomes.

8 Result?

Measurement period: **180 days**

Increased profitability:

- ▲ Gross profits increased by ▲ \$110k per month
- ▲ Selling costs reduced by ▼ \$40k per month
- ▲ Overall organizational PAT increased significantly
- ▲ Net cash accruals improved significantly during measurement period

Rescued time:

- ▲ ▲ ~18% total management time rescued from managing business vertical
- ▲ 5k idle hours a month rescued from better utilization
- ▲ Saved 1 quarter in planned execution time due to flexibility from extended team at Prequate

Conserved leadership:

- ▲ BU head leading non-performing vertical was repurposed to higher value vertical slowly growing into senior leadership over time

8 Result?

“
Over the last year, Prequate is now ingrained in our core business and our go-to-guys before any business decision. It’s powerful to have a partner who understands what we do and brings together such advanced skill-sets to our company.
”

President, Leaf

PRE QUATE

website

If you want to
see what else we do

See our thought
leadership

see more

book time

If you want to book
a quick call with the team

About Prequate

Prequate is a management ^ finance advisory that acts and manages as a Business Finance, Strategic Finance & Management Assist group. Over the last 10+ years, Prequate has worked with 350+ businesses in 20+ industries across 25+ countries and has been covered by various publications for its breakthrough approach to advisory.

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