

Can an SFO add 10% to your bottom-line by rethinking your business?

Overview

Leafo, while consistently outperforming the market. Like most businesses of certain size, Leafo, seldom felt the need to have someone reassess what they are doing and what can be done better. While the the first thought was to improve profitability by cost optimization, **Prequate's** approach of challenging fundamentals, running simulations of strategic decisions and working with the business in implementing transformations generated breakthroughs that the business had not experienced before.

** Considering the nature of our work, few names and non-integral specifics have been changed to honor commitments of confidentiality.*

Strategic Finance Office

Prequate's model is to add value across to businesses as a cross functional focused business impact team whose goal is to deliver measurable, tangible & regular outcomes.

Prequate's initiatives range from business (markets, offerings, pricing, board activation & management, line extensions, spin-offs, acquisitions, growth planning) to financial (cash flow management, capacity utilization, profitability, capability, technical guidance, structuring).



Leafo, Inc.

Industry: Information Technology
Location: United States
Size: 500+ employees

Company Bio

Leafo*, Inc. ('Leafo'), was in the maturity stage of the organizational life-cycle and having consistent growth year on year without necessarily increasing their headcount. Operationally, they were profitable at 1.7x the industry standards. They have a well functioning Finance Team of 20 members with an experienced CFO from the Information Technology Industry who had been with Leafo for over 5 years and knew the ins and outs better than anyone else.

"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."

- **Andy Rodley***
Managing Director
Leafo, Inc.

What did it mean for Leafo?	Idle hours saved of	Selling Costs reduced by	Gross Profits increased by	Management Time rescued of over	Initiatives deployed in under
	5k	\$40k	\$110k	18%	90
	per month	per month	per month	of available time	days

The Challenge

The power of looking at a business outside-in is something that businesses tend to forget after a period of time. As the management gets busy in day-to-day operations, they forget to re-evaluate periodically what they are doing right and what they are doing wrong. Further, what worked in the past may not be what is working at this point of time for them. The value of the SFO, which functions as an external problem-solving crack team comes in here.

The company 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 requires 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 over 20% CAGR over the last 5 years, the accrual of cash was reducing. The company continued to maintain profitability above their industry peers and hence were unaware that there could be an issue. During the same 5 year period, the company had also not made any sizable infrastructure spends.

Something was amiss.

Enter **Prequate**.

We were 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, we realized that while the business continued to grow, the profitability seemed to stay hovering around the same figure, though the time utilization numbers improved. This meant that the problem was less tactical and more strategic.

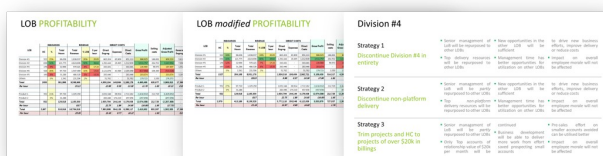
The Approach

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

Step 1 Introduce a more structured method at capturing costs relating to business operations of each LoB (right from marketing team to post sale support) + standardize reporting languages across all the LoBs

Step 2 Execute a detailed LoB study of all the LoBs with an eye for moving from allocations (distributed by share) to allotment (identified for specific purpose)

Step 3 Identify under-performing / unprofitable / onerous LoBs and deep-dive to understand the reasons for their impact on overall profitability



It was observed that one of their core LoBs on which over 20% of their workforce was allotted, was leaking over \$50k a month of leakages, while being managed by one of their most talented executives, who was constantly trying to improve efficiencies. The Executive was effectively running the most efficient sinking ship. Further, the referral value and cross-sell opportunities estimated was less than 12% on over 80% of their accounts.

"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 are doing and evaluate 'why'. Here, an external team can be the difference between knowing and actually doing something."

- Pradyumna Nag
Director

The Solution

Once the leaky tap is identified, you don't go with a sledgehammer to fix it. Neither do you run to switch off the water for the whole building. Transformation is also like that. Careful analysis, followed by a clearly orchestrated action plan. Followed by action.

Step 4 Execute 'The Leap' (Prequate's signature study) - a well-constructed simulation of scenario modeling 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 90, 120 & 360 day horizons.

Chosen strategy: Discontinue all relationships with a relationship value less than \$250k. Division would roll up into a smaller vertical with similar technology skills but more improved billing rates. Re-skill resources over next 90 days with previous client engagements with 8+ CSAT scores as sample exercises. Key executive would be promoted to manage smaller vertical.



Potential savings: Over \$1.2M per annum

Step 5 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 6 Deploy. Don't just consult. We got on board with the client with a single purpose mission - Execute the transformation. Prequate's team played point with all management members over the 90 day period.

The Result

A leaner, happier, more focused business with higher profitability and greater sustainability.



About Prequate

The Prequate approach works on the foundation that transformation is possible from the tangent between management and finance. Accordingly, Prequate's DNA is made by experience spanning assurance, accounting advisory, taxation, corporate finance & investment banking and entrepreneurship (as most of the team has had an entrepreneurial stint of their own in their career).

Strategic Finance to create **Business Impact** through execution driven support.

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