

BUSINESS FINANCE

Strategic Insight For Finance Leaders

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When John Hrudicka set out to transform finance at Elkay Manufacturing Co., he wasn't going to settle for a few minor upgrades.

A Total

When John Hrudicka set out to transform finance at cabinetry and plumbing products maker Elkay Manufacturing Co., he wasn't going to settle for a few minor upgrades. Hrudicka, now vice president of finance, launched a total renovation that included profitability analytics, customer relationship management, a rolling forecast, and the Balanced Scorecard. • By Steve Player



STEVE PLAYER
is North American
Program Director,
Beyond Budgeting
Round Table

Steve Player: The thing I find most amazing about what your team is doing is the sheer number of initiatives that you're attacking, and we'll come to that. First, would you give me a quick overview of Elkay?

John Hrudicka: Elkay Manufacturing is a 90-year-old company that spans the housing industry and some commercial markets. We manufacture and sell sinks, which is where we began and represents the roots of our company. We also sell faucets, cabinetry, countertops, and water coolers, as well as food service equipment, which is a business that we recently entered into. Historically, our company has been divided into two major divisions: kitchen cabinetry and plumbing products.

At present, under our new CEO, we're planning to evolve our go-to-market strategy to become more synergistic and become a solutions provider to better serve our customers' needs. For example, if somebody sets out to remodel their kitchen, we'll provide tools to assist them in configuring a complete kitchen based on their style preference and utility needs. We'll bring efficiencies

to our commercial customers and projects by providing them complete solutions through a single source partner. Our ultimate objective is to provide solutions that the customer wants, as opposed to selling them the individual products that we provide.

SP: Tell me a little about the Elkay management system, which anchors all of this.

JH: It consists of four primary components and related business practices which, when integrated, provide for greater transparency, knowledge, and guided analytics. The result is real-time, strategically aligned business decisions made by every employee in the company.

It starts with our strategy framework; we have adopted the Balanced Scorecard. We've also implemented a Balanced Scorecard best practice by formalizing an office of strategy management to ensure our commitment to strategy execution. The core of the Elkay management system [EMS] is our strategy, with an emphasis on monitoring and measurement to ensure execution.

The second component, business performance management, describes the business planning application that we utilize to plan our business and to monitor and measure our performance against our objectives. It enables us to identify change relative to our initiatives and desired outcomes and to develop the appropriate actions to achieve our goals.

The third component is what we call discrete product costing (DPC), its foundation

The core of the Elkay management system **is our strategy...**

Remodel

A man in a dark suit, white shirt, and striped tie is leaning on a dark countertop. He is looking towards the camera with a slight smile. The background shows a kitchen setting with a sink and cabinets.

POINT GUARD: For Hrudicka, taking a cue from NBA star Kobe Bryant, the art of winning depends on the ability to identify change in a timely manner, assess it, adapt, and execute.

being time-driven, activity-based costing. We utilize Acorn Systems for our application. DPC is a cost assignment methodology that produces very rich profitability analytics. It's been an integral component for us in driving behavior and creating a culture of awareness and understanding around the profitability profile of our customers, segments, products, and activities. We've had a great deal of success; we were named customer of the year by Acorn Systems, and we recently completed a Harvard case study, authored by Dr. Robert Kaplan, that's being taught at Harvard Business School.

The fourth component is customer relationship management. CRM provides a holistic view of our customers in terms of, one, what they buy; two, how they buy; and three, their customer care issues and profitability to Elkay. It provides a guide to help us track our selling processes in real time with complete transparency.

SP: How do the parts integrate? Is it all one big system?



Strategy is perpetual, whereas the budget has a distinct start and stop, which produces value-destructive behaviors.

JH: It's a bit disparate. The technology pieces we're building into the system tend to be best-of-breed. We believe technology has matured to the point where you don't need to buy a fully integrated suite that possibly forces you to sacrifice functionality that's necessary to meet a business need. You must be able to trace back any initiative, technology investment, or resource assignment to the distinct purpose of alignment and execution against a business objective — or why are you doing it?

We've already integrated DPC, our profitability analytics, with our scorecards and dashboards. Soon, we'll integrate DPC with our CRM application to complete a 360-degree view of the customer. DPC will provide a lot of the data points for the measurements in the Scorecard, but we also want to make the DPC P&Ls more readily available to our sales teams and management by integrating the P&Ls and associated guided analytics into CRM.

SP: How long have you been here at Elkay?

JH: Three years, but feels like ten relative to the amount of change in our company!

SP: How did you develop your initial action plans?

JH: Aside from the traditional "threshold" finance activities, everything we do in the finance function ultimately has to align back to business strategy to ensure that we're working on the right stuff.

When I first arrived — in fact, it was during the interview process — the VP of sales literally sat me down in a chair and said, "Your costs suck." I connected the dots quickly: Our costs were inaccurate, he didn't trust them or any analysis that they supported, and therefore he was unable to make good business decisions. This is a basic and fundamental need of any business, so I concluded during the interview process that this would be my number one priority in aligning to and supporting business needs.

Another thing I understood quickly was the need for a new planning solution. We just recently completed our budget for 2010, and we stated to the board that this would be our last. We're committed to the elimination

of the budget.

This wasn't a difficult choice for our company. By continuing with the budget management system, we'd be in direct conflict with our strategy framework. Strategy is perpetual, whereas the budget has a distinct start and stop, which produces value-destructive behaviors.

SP: That's a fairly bold strategy. How did you tell the board? What was their reaction?

JH: What's interesting is that, while I think that Tim Jahnke, our CEO, may have thought it was a little bold, I didn't think that it would be. I've been in enough board meetings to experience their frustration at our inability to predict the future. They didn't trust our predictions or our process, and they were ready for something new.

The old management system was based on the ability to predict the future, but there are no crystal balls; this economy has certainly provided proof of that. We're committed to developing a process that allows us to respond to changes in our business on a real-time basis, thereby negating the need for a budget.

SP: So you told them that you're not going to budget anymore. What did you tell them that you're going to do instead?

JH: I described continuous planning, which is our term for the Beyond Budgeting concept, and its alignment to our Balanced Scorecard framework.

We provided a sports analogy to talk through the concept. In my opinion, business is very analogous to sports; accomplishment and winning is through the team.

I described an excerpt of an ESPN documentary on Kobe Bryant, arguably the best player in the NBA. Kobe said, “There’s so much intelligence in the NBA; there are no surprises. Everybody knows what’s coming: the other team’s offensive and defensive schemes, their players’ strengths and weaknesses, etc. The ability to win, to look up at the scoreboard at the end of the game and have more points than the other guy, depends on the ability to execute against what you already know is coming.”

He took it further and said, “The triangle offense we run is the most well recognized offense in the NBA; it was run by Michael Jordan and the Chicago Bulls, and now it’s used by the current world champion Los Angeles Lakers. Every team understands the intricacies of this offense inside and out. What they attempt to do is to introduce change to confuse us; they’ll change the coverage schemes, for example. Our success depends on our ability to identify that change in a timely manner, assess it, adapt, and execute.”

This is the essence of strategy execution in business. You can be certain of one thing: The hypotheses and assumptions that you formed and utilized in developing your strategy were wrong at the time or will be wrong in the future, because things will change, and you must adapt in order to win.

SP: So you’re moving to a rolling forecast?

JH: Right, we’ve implemented that. We’re not good at it yet, but that wasn’t the point; the point was for us to get started so that we could drive the mind-set of the people who needed to support this new environment. When they think about where they’ve got to be 18 months out, what do they need to do to support this extended view of the business? Already, even with our first rolling forecast, our demand planning people are extending their window from 12 to 18 months in their demand planning tool. We’ll continue to evolve this process and chunk out the other elements of continuous planning.

The budget — and I think I probably speak for most managers — is perhaps the most frustrating part of the job relative to effort and value realized. Most finance people will tell you, “I don’t know where the value comes from in this process.” It takes entirely too long, and there’s direct conflict with strategy execution. As a finance professional who is business-partner minded, I’m acutely aware of this challenge. When you discover an alternative that may enable you to do this more effectively and align the process to strategy execution, you need to pursue it!

SP: Tell me about finance’s involvement with the CRM project. That’s not the one you usually see people hitting.

JH: No, you don’t. Prior to Elkay, I worked for a healthcare company, and I took a step out of finance into a business role. I was vice president of business operations, and we implemented CRM. This was for a company that was very successful, with a tenured sales force that thought that they didn’t need this tool to be successful. The only reason we were able to invest in the tool and implement it was because our president decided that we were not going to run our sales organization by the seat of our pants and on the back of spreadsheets anymore. But I had a bull’s-eye on my back; nobody wanted to do this!

Once it was implemented and the sales team experienced how it enriched their productivity and performance, we couldn’t keep up with the requests from the salespeople: “Can it do this, can it do that?” It was a tremendous success, and it drove significant bottom-line improvement in the first year of implementation.

I brought this story to Elkay and described the integration that we would achieve with the other elements of the management system that we’ve implemented. We discussed the 360-degree view of the customer that the CRM vendors preach, but which they really don’t possess; they have everything but customer profitability. We said, “We’re going to complete that 360 view by integrating DPC into the CRM tool to provide customer profitability.” They had already bought into DPC, so once we said that we would bring it into CRM, this solidified the merits of pursuing this solution.

SP: Are manufacturing and distribution, the non-financial parts, also under the Elkay management system?

JH: Yes, and again I’d say that we’re in our beginning stages. The reason I don’t think that it’s perceived as a finance initiative or a finance-owned initiative is that we have sponsorship at the very top levels of the company. The CEO and the presidents of the divisions have all embraced this, and not from a finance perspective but from a business perspective.

I’ll give you one example: DPC might very easily be perceived as a finance initiative, a finance system, or a finance application. The reason why it’s not is that as we went through the implementation, we involved all of the functions of the business. In fact, every function signed off on the model before we actually put it into play.

It’s been interesting, since we started doing this — you know, you tell a story here and a story there about the behavior changes we’re experiencing, and the momentum of interest in what we’re doing continues to grow. Every time we tell our story, people get excited: “I haven’t heard of anyone else doing this!” They can connect with it and follow how it’s all going to work together. **BF**

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Reduced back office expenses
Profit Improvement: \$600M

Improved capacity utilization
Profit Improvement: \$175M

Identified unprofitable SKUs
Profit Improvement: \$10M

Renegotiated with unprofitable customer
Profit Improvement: \$4M

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“How would you operate your business without this?”

Tim Jahnke
CEO, Elkay Manufacturing