

Mack Hanan's
***CONSULTATIVE
SELLING***TM

Fast-Value CalculatorTM
For Account Managers

The Hanan Formula
for High-Margin Sales
at High Levels

1.2-1**HOW TO CALCULATE PAST VALUE
ADDED TO SALES REVENUE
PERFORMANCE**

Use FORM 1.2-2 to calculate the value added by a sale that increased the contribution of customer SALES REVENUES.

**WHERE TO LOOK FOR A
CONTRIBUTION TO INCREASED
SALES REVENUES**

- Improved Product Design
- Improved Manufacturing Quality
- Improved Time to Market
- Improved Distribution
- Improved Customer Satisfaction
- Reduced Returned Goods
- Improved New Product Development Time
- Improved Forecasting & Inventory Management
- Improved Sales Coverage
- Improved Billing & Collections
- Improved Customer Targeting
- Reduced Warranty Costs

FORM 1.2-1/R	A
PAST VALUE ADDED	
TO INCREASE REVENUE CONTRIBUTION	
OF SALES TO	
[LINE OF BUSINESS]	

FROM CUSTOMER	FROM CUSTOMER																																													
<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; border: 1px solid black; padding: 5px;"> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 20px; text-align: center; border: 1px solid black;">1</td> <td style="padding: 5px;">BEGINNING VALUE [BENCHMARK] [\$000]</td> </tr> <tr> <td style="border: 1px solid black; height: 40px; text-align: center; vertical-align: middle;">\$ _____</td> <td style="border: 1px solid black;"></td> </tr> <tr> <td style="text-align: center; padding: 5px;">AS OF</td> <td style="border: 1px solid black;"></td> </tr> <tr> <td style="text-align: center; padding: 5px;">_____/_____ [MO] [YR]</td> <td style="border: 1px solid black;"></td> </tr> </table> </td> <td style="width: 50%; border: 1px solid black; padding: 5px;"> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 20px; text-align: center; border: 1px solid black;">2</td> <td style="padding: 5px;">INCREMENTAL INVESTMENT TO ADD VALUE [\$000 PAID TO US]</td> </tr> <tr> <td style="border: 1px solid black; height: 40px; text-align: center; vertical-align: middle;">\$ _____</td> <td style="border: 1px solid black;"></td> </tr> <tr> <td style="text-align: center; padding: 5px;">AS OF</td> <td style="border: 1px solid black;"></td> </tr> <tr> <td style="text-align: center; padding: 5px;">_____/_____ [MO] [YR]</td> <td style="border: 1px solid black;"></td> </tr> </table> </td> </tr> </table>	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 20px; text-align: center; border: 1px solid black;">1</td> <td style="padding: 5px;">BEGINNING VALUE [BENCHMARK] [\$000]</td> </tr> <tr> <td style="border: 1px solid black; height: 40px; text-align: center; vertical-align: middle;">\$ _____</td> <td style="border: 1px solid black;"></td> </tr> <tr> <td style="text-align: center; padding: 5px;">AS OF</td> <td style="border: 1px solid black;"></td> </tr> <tr> <td style="text-align: center; padding: 5px;">_____/_____ [MO] [YR]</td> <td style="border: 1px solid black;"></td> </tr> </table>	1	BEGINNING VALUE [BENCHMARK] [\$000]	\$ _____		AS OF		_____/_____ [MO] [YR]		<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 20px; text-align: center; border: 1px solid black;">2</td> <td style="padding: 5px;">INCREMENTAL INVESTMENT TO ADD VALUE [\$000 PAID TO US]</td> </tr> <tr> <td style="border: 1px solid black; height: 40px; text-align: center; vertical-align: middle;">\$ _____</td> <td style="border: 1px solid black;"></td> </tr> <tr> <td style="text-align: center; padding: 5px;">AS OF</td> <td style="border: 1px solid black;"></td> </tr> <tr> <td style="text-align: center; padding: 5px;">_____/_____ [MO] [YR]</td> <td style="border: 1px solid black;"></td> </tr> </table>	2	INCREMENTAL INVESTMENT TO ADD VALUE [\$000 PAID TO US]	\$ _____		AS OF		_____/_____ [MO] [YR]		<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; border: 1px solid black; padding: 5px;"> <table style="width: 100%; border-collapse: collapse;"> <tr> <td colspan="2" style="text-align: center; border: 1px solid black;">THIS IS YOUR PAYBACK</td> </tr> <tr> <td style="width: 20px; text-align: center; border: 1px solid black;">3</td> <td style="padding: 5px;">PAYBACK OF INCREMENTAL INVESTMENT [ELAPSED TIME]</td> </tr> <tr> <td style="border: 1px solid black; height: 40px; text-align: center; vertical-align: middle;"> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 20px; text-align: center; border: 1px solid black;">2</td> <td style="text-align: center; padding: 0 10px;">(+)</td> <td style="width: 20px; text-align: center; border: 1px solid black;">3</td> </tr> <tr> <td style="border: 1px solid black; height: 20px; text-align: center;">____/____</td> <td style="text-align: center;">+</td> <td style="border: 1px solid black; height: 20px; text-align: center;">____/____</td> </tr> <tr> <td colspan="3" style="text-align: center; border: 1px solid black;">_____ [TOTAL MOS/YRS]</td> </tr> </table> </td> <td style="border: 1px solid black; padding: 5px; text-align: center;"> <small>ENTER ON LINE 3 OF PAST VALUE PROFILER FORM 1.3/R</small> </td> </tr> </table> </td> <td style="width: 50%; border: 1px solid black; padding: 5px;"> <table style="width: 100%; border-collapse: collapse;"> <tr> <td colspan="2" style="text-align: center; border: 1px solid black;">THIS IS YOUR PAYOUT</td> </tr> <tr> <td style="width: 20px; text-align: center; border: 1px solid black;">4</td> <td style="padding: 5px;">PAYOUT OF ENDING VALUE [OUTCOME] [\$000]</td> </tr> <tr> <td style="border: 1px solid black; height: 40px; text-align: center; vertical-align: middle;">\$ _____</td> <td style="border: 1px solid black;"></td> </tr> <tr> <td style="text-align: center; padding: 5px;">AS OF</td> <td style="border: 1px solid black;"></td> </tr> <tr> <td style="text-align: center; padding: 5px;">_____/_____ [MO] [YR]</td> <td style="border: 1px solid black;"></td> </tr> </table> </td> </tr> </table>	<table style="width: 100%; border-collapse: collapse;"> <tr> <td colspan="2" style="text-align: center; border: 1px solid black;">THIS IS YOUR PAYBACK</td> </tr> <tr> <td style="width: 20px; text-align: center; border: 1px solid black;">3</td> <td style="padding: 5px;">PAYBACK OF INCREMENTAL INVESTMENT [ELAPSED TIME]</td> </tr> <tr> <td style="border: 1px solid black; height: 40px; text-align: center; vertical-align: middle;"> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 20px; text-align: center; border: 1px solid black;">2</td> <td style="text-align: center; padding: 0 10px;">(+)</td> <td style="width: 20px; text-align: center; border: 1px solid black;">3</td> </tr> <tr> <td style="border: 1px solid black; height: 20px; text-align: center;">____/____</td> <td style="text-align: center;">+</td> <td style="border: 1px solid black; height: 20px; text-align: center;">____/____</td> </tr> <tr> <td colspan="3" style="text-align: center; border: 1px solid black;">_____ [TOTAL MOS/YRS]</td> </tr> </table> </td> <td style="border: 1px solid black; padding: 5px; text-align: center;"> <small>ENTER ON LINE 3 OF PAST VALUE PROFILER FORM 1.3/R</small> </td> </tr> </table>	THIS IS YOUR PAYBACK		3	PAYBACK OF INCREMENTAL INVESTMENT [ELAPSED TIME]	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 20px; text-align: center; border: 1px solid black;">2</td> <td style="text-align: center; padding: 0 10px;">(+)</td> <td style="width: 20px; text-align: center; border: 1px solid black;">3</td> </tr> <tr> <td style="border: 1px solid black; height: 20px; text-align: center;">____/____</td> <td style="text-align: center;">+</td> <td style="border: 1px solid black; height: 20px; text-align: center;">____/____</td> </tr> <tr> <td colspan="3" style="text-align: center; border: 1px solid black;">_____ [TOTAL MOS/YRS]</td> </tr> </table>	2	(+)	3	____/____	+	____/____	_____ [TOTAL MOS/YRS]			<small>ENTER ON LINE 3 OF PAST VALUE PROFILER FORM 1.3/R</small>	<table style="width: 100%; border-collapse: collapse;"> <tr> <td colspan="2" style="text-align: center; border: 1px solid black;">THIS IS YOUR PAYOUT</td> </tr> <tr> <td style="width: 20px; text-align: center; border: 1px solid black;">4</td> <td style="padding: 5px;">PAYOUT OF ENDING VALUE [OUTCOME] [\$000]</td> </tr> <tr> <td style="border: 1px solid black; height: 40px; text-align: center; vertical-align: middle;">\$ _____</td> <td style="border: 1px solid black;"></td> </tr> <tr> <td style="text-align: center; padding: 5px;">AS OF</td> <td style="border: 1px solid black;"></td> </tr> <tr> <td style="text-align: center; padding: 5px;">_____/_____ [MO] [YR]</td> <td style="border: 1px solid black;"></td> </tr> </table>	THIS IS YOUR PAYOUT		4	PAYOUT OF ENDING VALUE [OUTCOME] [\$000]	\$ _____		AS OF		_____/_____ [MO] [YR]	
<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 20px; text-align: center; border: 1px solid black;">1</td> <td style="padding: 5px;">BEGINNING VALUE [BENCHMARK] [\$000]</td> </tr> <tr> <td style="border: 1px solid black; height: 40px; text-align: center; vertical-align: middle;">\$ _____</td> <td style="border: 1px solid black;"></td> </tr> <tr> <td style="text-align: center; padding: 5px;">AS OF</td> <td style="border: 1px solid black;"></td> </tr> <tr> <td style="text-align: center; padding: 5px;">_____/_____ [MO] [YR]</td> <td style="border: 1px solid black;"></td> </tr> </table>	1	BEGINNING VALUE [BENCHMARK] [\$000]	\$ _____		AS OF		_____/_____ [MO] [YR]		<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 20px; text-align: center; border: 1px solid black;">2</td> <td style="padding: 5px;">INCREMENTAL INVESTMENT TO ADD VALUE [\$000 PAID TO US]</td> </tr> <tr> <td style="border: 1px solid black; height: 40px; text-align: center; vertical-align: middle;">\$ _____</td> <td style="border: 1px solid black;"></td> </tr> <tr> <td style="text-align: center; padding: 5px;">AS OF</td> <td style="border: 1px solid black;"></td> </tr> <tr> <td style="text-align: center; padding: 5px;">_____/_____ [MO] [YR]</td> <td style="border: 1px solid black;"></td> </tr> </table>	2	INCREMENTAL INVESTMENT TO ADD VALUE [\$000 PAID TO US]	\$ _____		AS OF		_____/_____ [MO] [YR]																														
1	BEGINNING VALUE [BENCHMARK] [\$000]																																													
\$ _____																																														
AS OF																																														
_____/_____ [MO] [YR]																																														
2	INCREMENTAL INVESTMENT TO ADD VALUE [\$000 PAID TO US]																																													
\$ _____																																														
AS OF																																														
_____/_____ [MO] [YR]																																														
<table style="width: 100%; border-collapse: collapse;"> <tr> <td colspan="2" style="text-align: center; border: 1px solid black;">THIS IS YOUR PAYBACK</td> </tr> <tr> <td style="width: 20px; text-align: center; border: 1px solid black;">3</td> <td style="padding: 5px;">PAYBACK OF INCREMENTAL INVESTMENT [ELAPSED TIME]</td> </tr> <tr> <td style="border: 1px solid black; height: 40px; text-align: center; vertical-align: middle;"> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 20px; text-align: center; border: 1px solid black;">2</td> <td style="text-align: center; padding: 0 10px;">(+)</td> <td style="width: 20px; text-align: center; border: 1px solid black;">3</td> </tr> <tr> <td style="border: 1px solid black; height: 20px; text-align: center;">____/____</td> <td style="text-align: center;">+</td> <td style="border: 1px solid black; height: 20px; text-align: center;">____/____</td> </tr> <tr> <td colspan="3" style="text-align: center; border: 1px solid black;">_____ [TOTAL MOS/YRS]</td> </tr> </table> </td> <td style="border: 1px solid black; padding: 5px; text-align: center;"> <small>ENTER ON LINE 3 OF PAST VALUE PROFILER FORM 1.3/R</small> </td> </tr> </table>	THIS IS YOUR PAYBACK		3	PAYBACK OF INCREMENTAL INVESTMENT [ELAPSED TIME]	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 20px; text-align: center; border: 1px solid black;">2</td> <td style="text-align: center; padding: 0 10px;">(+)</td> <td style="width: 20px; text-align: center; border: 1px solid black;">3</td> </tr> <tr> <td style="border: 1px solid black; height: 20px; text-align: center;">____/____</td> <td style="text-align: center;">+</td> <td style="border: 1px solid black; height: 20px; text-align: center;">____/____</td> </tr> <tr> <td colspan="3" style="text-align: center; border: 1px solid black;">_____ [TOTAL MOS/YRS]</td> </tr> </table>	2	(+)	3	____/____	+	____/____	_____ [TOTAL MOS/YRS]			<small>ENTER ON LINE 3 OF PAST VALUE PROFILER FORM 1.3/R</small>	<table style="width: 100%; border-collapse: collapse;"> <tr> <td colspan="2" style="text-align: center; border: 1px solid black;">THIS IS YOUR PAYOUT</td> </tr> <tr> <td style="width: 20px; text-align: center; border: 1px solid black;">4</td> <td style="padding: 5px;">PAYOUT OF ENDING VALUE [OUTCOME] [\$000]</td> </tr> <tr> <td style="border: 1px solid black; height: 40px; text-align: center; vertical-align: middle;">\$ _____</td> <td style="border: 1px solid black;"></td> </tr> <tr> <td style="text-align: center; padding: 5px;">AS OF</td> <td style="border: 1px solid black;"></td> </tr> <tr> <td style="text-align: center; padding: 5px;">_____/_____ [MO] [YR]</td> <td style="border: 1px solid black;"></td> </tr> </table>	THIS IS YOUR PAYOUT		4	PAYOUT OF ENDING VALUE [OUTCOME] [\$000]	\$ _____		AS OF		_____/_____ [MO] [YR]																					
THIS IS YOUR PAYBACK																																														
3	PAYBACK OF INCREMENTAL INVESTMENT [ELAPSED TIME]																																													
<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 20px; text-align: center; border: 1px solid black;">2</td> <td style="text-align: center; padding: 0 10px;">(+)</td> <td style="width: 20px; text-align: center; border: 1px solid black;">3</td> </tr> <tr> <td style="border: 1px solid black; height: 20px; text-align: center;">____/____</td> <td style="text-align: center;">+</td> <td style="border: 1px solid black; height: 20px; text-align: center;">____/____</td> </tr> <tr> <td colspan="3" style="text-align: center; border: 1px solid black;">_____ [TOTAL MOS/YRS]</td> </tr> </table>	2	(+)	3	____/____	+	____/____	_____ [TOTAL MOS/YRS]			<small>ENTER ON LINE 3 OF PAST VALUE PROFILER FORM 1.3/R</small>																																				
2	(+)	3																																												
____/____	+	____/____																																												
_____ [TOTAL MOS/YRS]																																														
THIS IS YOUR PAYOUT																																														
4	PAYOUT OF ENDING VALUE [OUTCOME] [\$000]																																													
\$ _____																																														
AS OF																																														
_____/_____ [MO] [YR]																																														
<table style="width: 100%; border-collapse: collapse;"> <tr> <td colspan="2" style="text-align: center; border: 1px solid black;">THIS IS YOUR PROFIT IMPROVEMENT</td> </tr> <tr> <td style="width: 20px; text-align: center; border: 1px solid black;">5</td> <td style="padding: 5px;">INCREMENTAL VALUE ADDED [YOUR CONTRIBUTION] [\$000]</td> </tr> <tr> <td style="border: 1px solid black; height: 40px; text-align: center; vertical-align: middle;"> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 20px; text-align: center; border: 1px solid black;">4</td> <td style="text-align: center; padding: 0 10px;">(-)</td> <td style="width: 20px; text-align: center; border: 1px solid black;">1</td> </tr> <tr> <td style="border: 1px solid black; height: 20px; text-align: center;">\$ _____</td> <td style="text-align: center;">-</td> <td style="border: 1px solid black; height: 20px; text-align: center;">\$ _____</td> </tr> <tr> <td colspan="3" style="text-align: center; border: 1px solid black;">+ \$ _____</td> </tr> </table> </td> <td style="border: 1px solid black; padding: 5px; text-align: center;"> <small>ENTER ON LINE 2 OF PAST VALUE PROFILER FORM 1.3/R</small> </td> </tr> </table>	THIS IS YOUR PROFIT IMPROVEMENT		5	INCREMENTAL VALUE ADDED [YOUR CONTRIBUTION] [\$000]	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 20px; text-align: center; border: 1px solid black;">4</td> <td style="text-align: center; padding: 0 10px;">(-)</td> <td style="width: 20px; text-align: center; border: 1px solid black;">1</td> </tr> <tr> <td style="border: 1px solid black; height: 20px; text-align: center;">\$ _____</td> <td style="text-align: center;">-</td> <td style="border: 1px solid black; height: 20px; text-align: center;">\$ _____</td> </tr> <tr> <td colspan="3" style="text-align: center; border: 1px solid black;">+ \$ _____</td> </tr> </table>	4	(-)	1	\$ _____	-	\$ _____	+ \$ _____			<small>ENTER ON LINE 2 OF PAST VALUE PROFILER FORM 1.3/R</small>	<table style="width: 100%; border-collapse: collapse;"> <tr> <td colspan="2" style="text-align: center; border: 1px solid black;">THIS IS YOUR ROI [INTERNAL RATE OF RETURN]</td> </tr> <tr> <td style="width: 20px; text-align: center; border: 1px solid black;">6</td> <td style="padding: 5px;">RATE OF RETURN ON INVESTMENT [%]</td> </tr> <tr> <td style="border: 1px solid black; height: 40px; text-align: center; vertical-align: middle;"> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 20px; text-align: center; border: 1px solid black;">5</td> <td style="padding: 0 10px;">\$ _____</td> </tr> <tr> <td style="text-align: center; padding: 5px;">÷</td> <td style="border: 1px solid black;"></td> </tr> <tr> <td style="width: 20px; text-align: center; border: 1px solid black;">2</td> <td style="padding: 0 10px;">\$ _____</td> </tr> <tr> <td colspan="2" style="text-align: center; border: 1px solid black;">+ _____ %</td> </tr> </table> </td> <td style="border: 1px solid black; padding: 5px; text-align: center;"> <small>ENTER ON LINE 4 OF PAST VALUE PROFILER FORM 1.3/R</small> </td> </tr> </table>	THIS IS YOUR ROI [INTERNAL RATE OF RETURN]		6	RATE OF RETURN ON INVESTMENT [%]	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 20px; text-align: center; border: 1px solid black;">5</td> <td style="padding: 0 10px;">\$ _____</td> </tr> <tr> <td style="text-align: center; padding: 5px;">÷</td> <td style="border: 1px solid black;"></td> </tr> <tr> <td style="width: 20px; text-align: center; border: 1px solid black;">2</td> <td style="padding: 0 10px;">\$ _____</td> </tr> <tr> <td colspan="2" style="text-align: center; border: 1px solid black;">+ _____ %</td> </tr> </table>	5	\$ _____	÷		2	\$ _____	+ _____ %		<small>ENTER ON LINE 4 OF PAST VALUE PROFILER FORM 1.3/R</small>																
THIS IS YOUR PROFIT IMPROVEMENT																																														
5	INCREMENTAL VALUE ADDED [YOUR CONTRIBUTION] [\$000]																																													
<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 20px; text-align: center; border: 1px solid black;">4</td> <td style="text-align: center; padding: 0 10px;">(-)</td> <td style="width: 20px; text-align: center; border: 1px solid black;">1</td> </tr> <tr> <td style="border: 1px solid black; height: 20px; text-align: center;">\$ _____</td> <td style="text-align: center;">-</td> <td style="border: 1px solid black; height: 20px; text-align: center;">\$ _____</td> </tr> <tr> <td colspan="3" style="text-align: center; border: 1px solid black;">+ \$ _____</td> </tr> </table>	4	(-)	1	\$ _____	-	\$ _____	+ \$ _____			<small>ENTER ON LINE 2 OF PAST VALUE PROFILER FORM 1.3/R</small>																																				
4	(-)	1																																												
\$ _____	-	\$ _____																																												
+ \$ _____																																														
THIS IS YOUR ROI [INTERNAL RATE OF RETURN]																																														
6	RATE OF RETURN ON INVESTMENT [%]																																													
<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 20px; text-align: center; border: 1px solid black;">5</td> <td style="padding: 0 10px;">\$ _____</td> </tr> <tr> <td style="text-align: center; padding: 5px;">÷</td> <td style="border: 1px solid black;"></td> </tr> <tr> <td style="width: 20px; text-align: center; border: 1px solid black;">2</td> <td style="padding: 0 10px;">\$ _____</td> </tr> <tr> <td colspan="2" style="text-align: center; border: 1px solid black;">+ _____ %</td> </tr> </table>	5	\$ _____	÷		2	\$ _____	+ _____ %		<small>ENTER ON LINE 4 OF PAST VALUE PROFILER FORM 1.3/R</small>																																					
5	\$ _____																																													
÷																																														
2	\$ _____																																													
+ _____ %																																														

1.2-4**HOW TO CALCULATE PAST VALUE
ADDED TO SELLING EFFICIENCY
PERFORMANCE**

Selling Efficiency can be calculated by one or all of 3 ratios:

1. Selling Expenses : Sales
2. Finished Goods Inventory : Sales
3. Same-Day Order Fulfillment : Sales

**FORM 1.2-4.1
SELLING EXPENSES**

Use FORM 1.2-4.1/C to calculate the value added by a sale that decreased the cost contribution of customer SELLING EXPENSES.

**WHERE TO LOOK FOR A
CONTRIBUTION TO
SELLING EXPENSES**

- Reduced Direct Labor Content
- Increased Rate of New Product Introductions
- Increased Sales Volume
- Reduced Sales Cycle
- Reduced Cost of Sales
- Improved Salesforce Productivity

FORM 1.2-4.2 FINISHED GOODS INVENTORY

Use FORM 1.2-4.2/R to calculate the value added by a sale that increased the revenue contribution of customer FINISHED GOODS INVENTORY or use FORM 1.2-4.2/C to calculate the value added by a sale that decreased the cost contribution of customer FINISHED GOODS INVENTORY.

WHERE TO LOOK FOR A CONTRIBUTION TO FINISHED GOODS INVENTORY

- Increased Inventory Turns
- Increased Accounts Receivable
- Reduced Order Entry-Shipping-Billing Cycle
- Reduced Out-Of-Stock
- Converted to Just-In-Time [JIT] Inventory
- Improved Forecasting

FORM 1.2-4.3
SAME-DAY ORDER FULFILLMENT

Use FORM 1.2-4.3/R to calculate the value added by a sale that increased the revenue contribution of customer SAME-DAY ORDER FULFILLMENT.

**WHERE TO LOOK FOR A
CONTRIBUTION TO SAME-DAY
ORDER FULFILLMENT**

- Increased Same-Day Shipments
- Decreased Order Backlog
- Reduced Order Entry-Shipping-Billing Cycle
- Increased Accounts Receivable

1.2-5**HOW TO CALCULATE PAST VALUE
ADDED TO WORKING CAPITAL
PERFORMANCE**

Working Capital performance can be calculated by one or both of 2 ratios:

1. Inventory Turnover
2. Accounts Receivable Turnover

Each of these 2 indicators reveals a manager's performance in regaining the use of funds that are temporarily tied up in inventory or are inaccessible for reinvestment in new inventory by remaining uncollected in the form of receivables. Both inventory and receivables have an inverse relationship to cash flow: when they increase, cash flow decreases; when they decrease, cash flow increases to provide additional working capital.

GUIDE TO INVENTORY TURNOVER

$$\text{INVENTORY TURNOVER} = \frac{\text{COST OF GOODS SOLD}}{\text{INVENTORY}}$$

- A high inventory turnover ratio may be accompanied by lower net income since profits may be sacrificed in obtaining a larger sales volume. A higher rate of turnover is likely to be less profitable than lower turnover unless accompanied by a higher gross margin. A higher rate of turnover may be cost-ineffective if it is generated by a disproportionate increase in selling and administrative expenses.

- A low inventory turnover ratio may reflect slow business, overinvestment in inventory, accumulation of inventory at ends of periods in anticipation of higher prices or greater sales volume, inflated inventory value resulting from the inclusion of obsolete and unsaleable goods, or an unbalanced inventory (excessive quantities of certain inventory items in relation to immediate requirements).

Use FORM 1.2-5.1/R to calculate the value added by a sale that increased the revenue contribution of INVENTORY TURNOVER.

WHERE TO LOOK FOR A CONTRIBUTION TO INVENTORY TURNOVER

- Increased Sales Force Size
- Acquired Added Distribution
- Reallocated Sales Force Concentration To Key Accounts
- Introduced New Products
- Penetrated New Markets
- Revised Sales Force Training
- Reduced Inventory
- Revised Sales Force Compensation & Incentive Plan
- Converted To Just-In-Time [JIT] Inventory Management
- Improved Sales Force Productivity
- Optimized Inventory Mix To Favor Fast-Moving Products

GUIDE TO RECEIVABLES TURNOVER

$$\text{RECEIVABLES TURNOVER} = \frac{\text{SALES}}{\text{ACCOUNTS RECEIVABLE}}$$

- A low receivables turnover ratio may reflect bad credit risks, slow business, long credit terms extended to customers or an ineffective collection process. Low turnover ratios often accompany periods of recession, requiring short-term borrowing to pay off current liabilities.
- A high receivables turnover ratio may reflect sluggish sales activity or stringent credit terms.

Use FORM 1.2-5.2/R to calculate the value added by a sale that increased the revenue contribution of ACCOUNTS RECEIVABLE TURNOVER.

WHERE TO LOOK FOR A CONTRIBUTION TO ACCOUNTS RECEIVABLE TURNOVER

- Automated Billings & Collections
- Accelerated Shipments
- Accelerated Receivables Collection
- Accelerated Billings
- Eliminated Bad Risks
- Shipped & Billed More Goods Same Day Ordered