

Experience the Trust



2010 Agenda for the CEO

Chief Executive Officers (CEOs) today face an unprecedented level of pressure to improve EBITDA. The advent of Sarbanes Oxley, private equity, globalization, the weak dollar, the credit crunch, and the x, y generational culture all present challenges. Clinton Rubin, LLC, a management consulting firm, has developed our annual Agenda for the CEO for 2010. The agenda provides thought leadership issues that facilitate a CEO's ability to improve EBITDA. Clinton Rubin developed the agenda after surveying a vast array of c-level executives.

The topics in our 2010 Chief Executive Officer Agenda include:

- Beware of the gross margin trap
- Outsourcing sounds like an easy fix, but isn't
- Focus on Specialization to increase market share and profit
- Obtaining and retaining the best and brightest is harder than it used to be
- Governance, Risk, and Compliance (GRC) needs to be managed as a holistic enterprise process

Beware of the Gross Margin Trap

Strategic decisions are often made using gross margin as the basic performance indicator. Too often, gross margin does not provide an accurate picture concerning product and customer profitability. Hard decisions around the life cycle of a product and/or the pricing of a product are hard to make without sufficient detail.

We suggest developing mini P&Ls of each product and customer. This provides a unique perspective of profit by product and by customer. To accomplish this task, you need to drive towards what we call “transactional transparency,” that is allocating ‘all’ invoice transactions for a year to ‘all’ products and customers. Most companies have a good handle on ‘direct costs’ but it is amazing how often allocating the 15-18% SG&A to all products and customers P&L shows a completely different perspective of profit.

This process generally requires a fair amount of data mining to build a model, but once the model is built, running the model once a quarter or even yearly can help make more informed decisions that have proven to have significant positive impact on EBITDA.

As a result of this new perspective, strategic decisions concerning business operations are often required that result in a fair amount of change and project management. It is not always a quick fix to achieve the desired results, but the model provides a unique perspective and a Return on Investment Analysis to support any required implementation investment.

Outsourcing Sounds Like an Easy Fix – but isn’t.

Many companies have explored outsourcing and off shoring. While the low cost of labor and potential reduction in cost is inviting, there are many issues that require exploration, due diligence, planning, re-engineering and perseverance to make outsourcing work and improve EBITDA over the long run.

- *Exploration:* There are many forms of outsourcing to investigate including off shore, on shore, split onshore and offshore as well as investigating the relocation of employees to a low cost alternative (not using a vendor, but moving your own employees to a low cost area either on shore or offshore).
- *Due Diligence:* Once an option has been determined, specific vendors should be investigated, and performance guidelines and service level agreements should be developed and understood by both parties.

- *Planning:* Planning to execute outsourcing is very difficult since in many cases the workers who need to be involved will be displaced. However, planning for process and policy re-engineering, systems modifications, culture change etc., takes time and is paramount.
- *Re-engineering:* We suggest that if you are outsourcing a process, make certain the vendor is providing a 'world class' process or the process you are outsourcing is re-engineered and streamlined prior to outsourcing. We believe it is better to improve the process before it is outsourced, rather than outsource a broken process. We promote the concept of modular business modeling (explained below). Also, the human resource aspects of severance and training require lots of time and effort.
- *Perseverance:* We believe you need to be prepared to implement a continuous improvement process to smooth out the time, language, process, policy, systems, training and management issues.

Focus on Specialization to Increase Market Share and Profit

Over the past decade, most organizations have re-engineered their business around a process model and have implemented an enterprise (ERP and CRM) solution to integrate their business from end to end. While this has provided improved efficiencies regarding process cycle time, it has created a generic industry platform. The generic platform has provided an opportunity for nimble, flexible, specialized firms to better compete for market share with very specialized products and services.

During the advent of the internet, the term disintermediation of business was a popular term. In short, disintermediation is the carving up of businesses into very specialized independent (standalone) businesses (or components). Today, disintermediation or the creation of specialized businesses is becoming a reality, It is being accomplished by:

- Modeling your business with **Component Based Modeling (CBM)** techniques will identify 'components' of your business. Identify which functions can be centralized in the components and provided as a service (internally and/or externally). Prioritize the value of each component in your value chain. Identify the inputs and outputs of each component. Identify performance measures of each component and recommend components that should remain in-house and which components should be outsourced.
- Developing a **Service Oriented Architecture (SOA)** to support the component based business model. This architecture will support each component that will remain in-house and integrate or interface with components that will be out-sourced.

- Implementing **Software as a Service (SaaS)**. This concept develops and/or uses pre-developed software deployed and/or available via the internet that is used and paid for by the click/or transaction. The SOA defines the required SAAS modules. Many of the SAAS modules may already exist via the internet; and if they do not exist, you may develop and attain a royalty for its use by others.

Obtaining and Retaining the Best and Brightest is Harder than It Used to Be

Human Capital is one of your firm's largest investments. With baby boomers retiring and generation x, and y seeking to balance life/work issues Human Capital Management has become one of the most burning issues for CEOs today. At Clinton Rubin, we promote the following key concepts to obtain and retain the best and brightest talent.

- Develop individual performance metrics that are directly tied to the firm's performance metrics and goals.
- Develop and maintain a performance management system that promotes investment and growth in human capital.
- Utilize interim executive and mid management resources to meet project related demands such as developing and running a Project Management Office (PMO).
- Outsource transactional aspects of Human Resources such as payroll, benefits administration and, where appropriate, recruiting.
- If you have a large contingent workforce, outsource the administration and transactional processing.
- Utilize Human Resource professionals as a strategic resource at the executive level of management.
- Develop and invest in alternative work arrangements such as working from home, flex hours, etc.
- Utilize Human Resources as a conduit to brand the firm identity via the employees.

Governance, Risk, and Compliance (GRC) needs to be managed as a Holistic Enterprise Process

In today's highly regulated environment, companies are increasingly pressured by governance, risk and compliance concerns while at the same time needing to drive business performance, predictability and stakeholder confidence. The current approach to managing GRC is marked by two sets of problems:

- Highly fragmented business processes and systems that compound the cost of managing risk and compliance; and
- Little or no investment in identifying and mapping out a phased approach to comprehensive GRC management.

Underlying these issues is the inherent risk in strategically coordinating and managing a wide range of IT infrastructures that directly supports the processes and systems in the GRC business environment. Organizations are deprived of a powerful tool for controlling and addressing risk effectively, while at the same time they are shifting investments and resources to non-revenue generating activities.

Each organization must chart its own course to embrace a GRC framework, weighing critical business requirements with organizational GRC maturity and top-level commitment. Companies may choose to start by identifying one or two high-priority risk areas and initiate a business-specific or initiative-driven deployment of GRC applications. These early successes will help drive the value of a comprehensive GRC strategy and will provide a reusable and sustainable model for controlling and addressing future governance, risk and compliance areas.

Companies will spend at least 27 billion dollars on addressing tactical compliance issues in 2010 alone, yet even with this investment they will remain vulnerable to risks and burdened with high costs. Specific benefits from a comprehensive GRC approach include:

- **Increased shareholder value.** Good governance – reflected in many intangibles, including brand, culture and reputation – can have favorable impact on share price premiums.
- **Optimized risk/return portfolios.** Achieved with transparency and insight for selecting (and rejecting) projects based on risk impact and probability relative to potential return.
- **Reduced GRC costs.** Significantly cuts down the resources required to control and address risk, ensure compliance and maintain effective governance.

- **Improved business performance and predictability.** Delivers comprehensive visibility, a systematic process for anticipating and controlling risks and the tools to proactively determine proper actions and critical tasks.
- **Business sustainability.** Delivered through software automation, analytics and alerts, visibility to risk interdependencies for improved control and repeatable, cost-effective GRC solutions.
- **Business agility.** By empowering decision-makers to identify and assess alternative what-if and future scenarios, GRC leads to greater business agility and competitiveness.
- **Intelligent IT risk management.** Delivered through an intelligent network infrastructure that can provide IT risk management information and controls at high speeds throughout the enterprise.

Contact Us

If you would like to participate in our next Round Table Discussion to develop our 2011 Agenda for the CEO, please send us an email to info@clintonrubin.com and we will inform you of the date, time and location of our next event. If you would like to discuss any of these topics, or how we can be of assistance, please contact us at 215-245-2212.