

RC Advisory Services

7-Point Business Philosophy

The principals of RCAS share a conservative management philosophy that focuses on fiscal control, accountability, shareholder value, and use of proven leadership techniques. Our initial analysis of a client's company often reflects how well it conforms to the tenants listed below.

1. Companies must periodically confront the Brutal Realities¹ of their business.

Consistently successful companies have a process for periodically reviewing all aspects of their business. These reviews include:

- Mission, Vision, Goals, Objectives, Competitive Threats, Gap Analysis, Staffing, Exit Strategies and how well each functional department is operating relative to their current and perceived future competition.
- The reviews must be brutally honest even in the face of current business success.
- This type of critical review requires the establishment of a culture where people at all levels have an opportunity to express their opinions and be heard.
- The results of these formal reviews should periodically be presented to the Board of Advisors (or Directors) and reflected in the Strategic Plan.

2. There must be a high priority on positive cash flow and profitability.

The culture of successful companies reflects a level of training and awareness of the importance of positive cash flow and profitability.

- Company-wide bonuses should be tied to these critical parameters.
- A considerable amount of training is often required for lower level managers and workers.
- A degree of "open book" communication of the financial position of the company aids all employees to make informed decisions that affect cash flow and profitability

3. There must be an operating plan (as well as a strategic plan).

This is a twelve month rolling plan that the management team uses to review the prior and current month's financial performance as well as to project the next twelve months of performance.

Characteristics of the plan include

- Realistic and achievable goals and objectives including conservative sales projections
- Supported by a financial model; includes tracking charts of key metrics
- Is the basis for management team control, planning, and buy-in.
- If not already established, the operating plan is the foundation for a Strategic Plan

4. There must be a financial model.

The Financial model is typically an Excel workbook with individual worksheets for inputs for sales assumptions, manpower planning, fixed and variable expenses with calculated worksheets for the balance sheet, P&L and Cash Flow statements, etc..

- The model should be designed to allow any manager to do a "what if" analysis.
- The model directly supports the operating plan.
- It must be easy to understand and use by all decision makers.
- It must include visible tracking of metrics to monitor operating plan performance.

5. The company must be managed so as to increase shareholder value.

A company must be managed in a manner that increases shareholder value and the value of the business.

- The management team must be trained and knowledgeable in the factors which affect business valuations
- The organizational structure, salaries, and fringe benefits must be "customary and usual" for the size of the company.
- A corporate valuation should be periodically determined
- The company should be managed as if it were always on the market "For Sale"

6. There must be trained, motivated and empowered leader-managers.

A collaborative management team is essential to company success. Some of the desired characteristics include:

- Team based and cooperative environment
- There is a strong emphasis on management and leadership training and coaching
- An environment where leadership and motivational skills are fostered and promoted
- Managers have clearly defined responsibilities with the authority to make decisions
- Managers are held accountable for financial performance
- Management bonuses are based upon the overall financial performance of the company

7. There must be an effective board of advisors (or directors).

An effective Board of Advisors (or Directors) is critical to the continuing success of a company.

Characteristics of an effective board include:

- Outside members are essential because they can bring a sense of professionalism and accountability to the CEO and senior management staff.
- Regular meetings with a fixed agenda that rigorously addresses performance commitments from the prior meetings as well as formal reporting of the Operating Plan metrics
- The strategic plan should be reviewed in conjunction with the critical review of the company operations.
- CEO and management team compensation should be addressed by a Compensation Committee made up of the outside members.

¹From *Good to Great* by Jim Collins