

MONTHLY MANAGEMENT REVIEW · MARCH · MONTH 3 OF THE FISCAL YEAR

Example Industrial Supply Co.

Fictitious company. Wholesale distributor, about US\$15M in annual revenue.

Revenue

\$1.28M

+6.0% vs budget

Gross margin

31.5%

-1.7 pts vs budget

EBITDA

\$91K

7.1% of revenue (budget 8.4%)

Cash at month end

\$253K

13-week low: \$167K, week 9

Three things management should know

- Growth is not reaching gross profit.**
Revenue was 6.0% above budget (\$73K), but gross profit rose only \$2K. Gross margin fell from 33.2% to 31.5%.
- Discounts on one line explain it.**
The discount rate on Industrial supplies (MRO) was 8.6% against 4.0% in the budget. Across the business, discounts gave back \$34K of gross profit.
- Cash will be tight in weeks 8 to 10.**
Receivables and inventory absorbed \$353K in the quarter. The forecast shows cash at \$167K in week 9, below the \$200K buffer.

Decisions for this month

- Set a discount ceiling for Industrial supplies (MRO) and require approval above it.
- Agree a collection plan for the accounts behind the increase in receivables.
- Decide how to fund the seasonal purchase in weeks 8 and 9.

Gross profit: budget to actual

March, US\$ thousands. Change vs. budget by driver. Budget: \$400K · Actual: \$402K



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Profitability

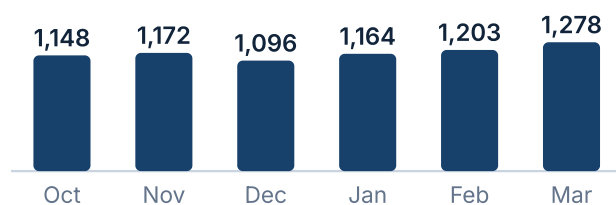
Budget vs. actual

	March			Year to date		
	Actual	Budget	Var.	Actual	Budget	Var.
Revenue	1,278	1,205	+73	3,645	3,530	+115
Gross profit	402	400	+2	1,175	1,172	+3
Gross margin %	31.5%	33.2%	-1.7	32.2%	33.2%	-1.0
Selling	87	81	+6	246	236	+10
Warehouse and delivery	105	98	+7	299	289	+10
General and administrative	119	119	0	357	355	+2
Operating expenses	311	298	+13	902	880	+22
EBITDA	91	102	-11	273	292	-19
EBITDA %	7.1%	8.4%	-1.3	7.5%	8.3%	-0.8

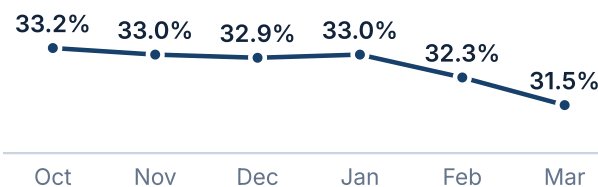
By product line, March

Product line	Revenue			Gross margin %		Discount rate		Gross profit		
	Actual	Budget	Var.	Actual	Budget	Actual	Budget	Actual	Budget	Diff.
Industrial supplies (MRO)	592	520	+13.9%	26.6%	30.0%	8.6%	4.0%	157	156	+1
Safety equipment	379	385	-1.6%	38.5%	38.0%	4.5%	4.0%	146	146	0
Fasteners and hardware	307	300	+2.2%	32.3%	32.5%	4.8%	4.0%	99	98	+1
Total	1,278	1,205	+6.0%	31.5%	33.2%	6.5%	4.0%	402	400	+2

Revenue, last six months



Gross margin %, last six months



How to read this

- Industrial supplies (MRO) grew 13.9% against budget, but its margin fell from 30.0% to 26.6%. On \$72K of extra revenue it produced \$1K of extra gross profit.
- The other two lines are close to plan. The margin problem is concentrated, which makes it manageable.
- Operating expenses are \$13K over budget, mostly commissions and freight that follow volume. Lower-margin volume is carrying full variable costs.

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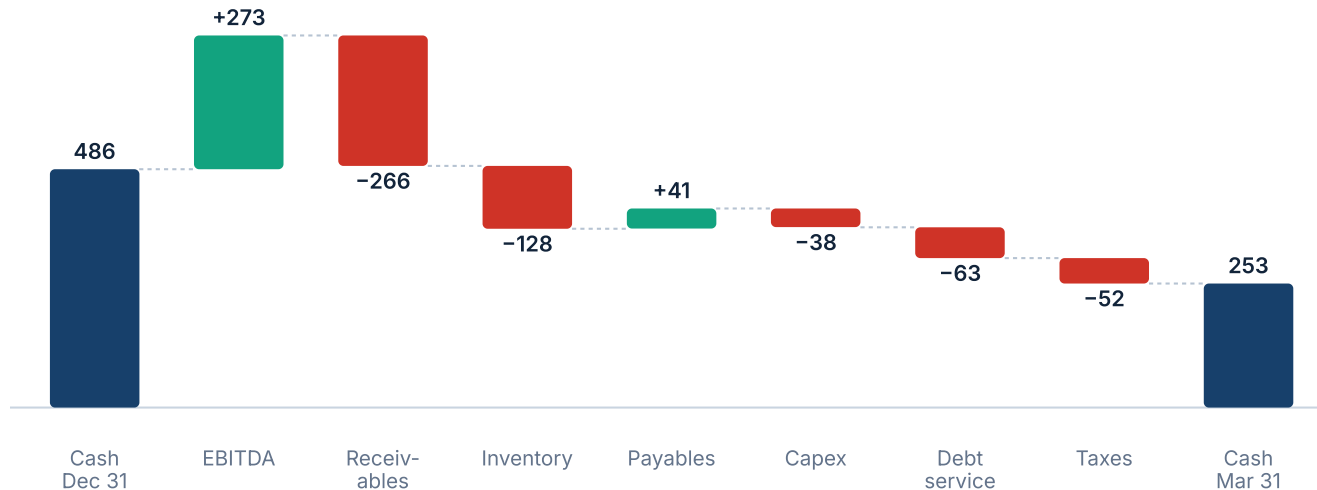
Cash and working capital

Working capital

	Dec 31	Mar 31	Change
Receivables	1,502	1,768	+266
Inventory	1,318	1,446	+128
Payables	861	902	+41
Net working capital	1,959	2,312	+353
Days sales outstanding	39.6	43.7	+4.1
Days inventory	51.9	52.7	+0.8
Days payables	33.9	32.9	-1.0
Cash conversion cycle (days)	57.6	63.5	+5.9

From profit to cash, first quarter

US\$ thousands. Cash at December 31 to cash at March 31.



How to read this

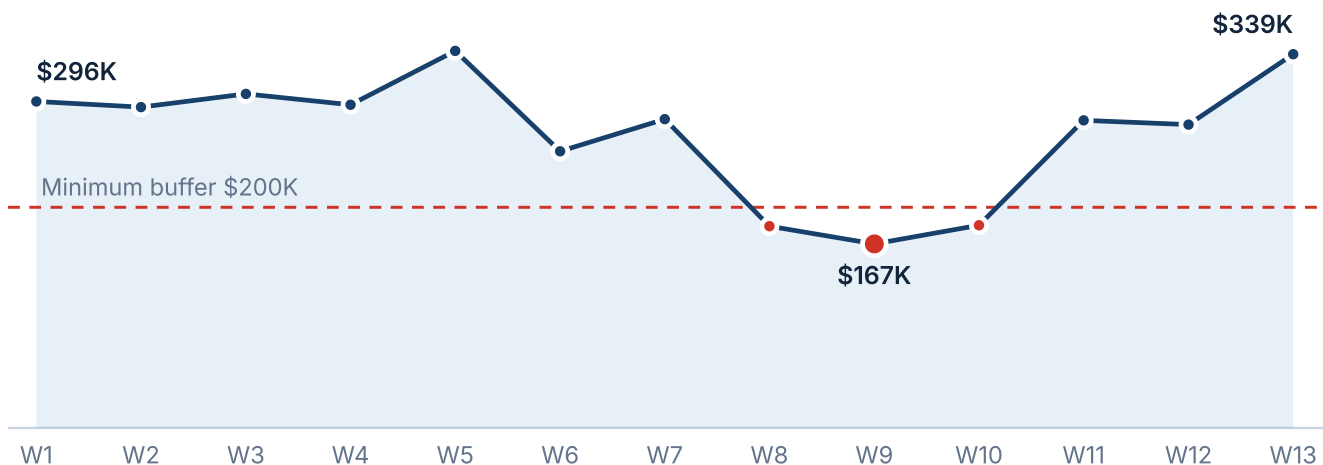
- The business earned \$273K of EBITDA in the quarter and cash still fell by \$233K.
- Receivables grew \$266K because sales grew and customers are paying 4.1 days slower. Each day of collection is worth about \$40K of cash.
- Inventory rose \$128K ahead of the seasonal purchase. That is a choice, and it should be a deliberate one.

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13-week cash forecast

13-week cash forecast

Projected cash at the end of each week, US\$ thousands.



Weekly detail

	W1	W2	W3	W4	W5	W6	W7	W8	W9	W10	W11	W12	W13
Opening cash	253	296	291	303	293	342	251	280	183	167	184	279	275
Customer receipts	288	296	279	304	292	281	276	268	284	322	331	318	326
Suppliers	204	199	206	198	203	212	208	246	238	201	197	204	200
Payroll	–	64	–	64	–	64	–	66	–	66	–	66	–
Other operating	41	38	39	52	40	38	39	53	40	38	39	52	40
Debt, tax, capex	–	–	22	–	–	58	–	–	22	–	–	–	22
Closing cash	296	291	303	293	342	251	280	183	167	184	279	275	339

The low point is created by the seasonal inventory purchase paid in weeks 8 and 9. The business is not losing money; the timing of cash is the issue, and it is visible eight weeks ahead.

Levers still available

- Bring forward collection on the largest overdue accounts before week 8.
- Split the seasonal purchase into two deliveries, or agree extended terms with the supplier.
- Arrange a short draw on the credit line now, rather than in week 8.

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Priorities for management

Priority	Why it matters	What it is worth
Discount discipline on Industrial supplies (MRO)	Discounts are the main reason growth is not reaching gross profit.	Each point of discount on this line is about \$6K of gross profit a month. The gap to budget is \$30K a month.
Collections	Customers are paying 4.1 days slower than in December.	Returning to December's collection period would release about \$165K of cash.
Timing of the seasonal purchase	It takes cash below the buffer in weeks 8 to 10.	Splitting the purchase keeps cash above \$200K without new borrowing.

Questions for next month's review

- Did the discount ceiling hold, and what happened to volume on Industrial supplies (MRO)?
- Which accounts explain the slower collections?
- Is the forecast still below the buffer after the actions agreed?

What happens with this report

WEEK 1

Review

We go through last month's report together: what changed, why, and what it means.

WEEK 2

Options

We evaluate the options that come out of the analysis and what each would take.

WEEK 3

Focus

We go deeper on the few options that matter and agree what to do or measure.

WEEK 4

Report

The new monthly management review, including progress on what was agreed.

About this example

This report is an illustration of the monthly management review that Finanzap delivers in week 4 of each cycle. The company and all figures are fictitious and were built so that the income statement, working capital and cash tie to each other. The analysis for a real business depends on its information and on management's priorities.

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