

Compass HR Consulting, LLC

Consumer Products Business

Situation

The business developed a business plan to grow revenues and profits without increasing working capital. Target performance was set at twice the average annual market growth rate for its products. Breakthrough performance was defined as doubling the sales revenue and profits over five years, requiring a 15% compound annual growth rate in both sales and profits. The goal was to accomplish that without an increase in working capital implying that the business could not finance its customers' purchases.

Opportunity

Working with the HR business partner and the compensation consultant, management established a balanced business scorecard in which each item measured was linked to one of the three overarching goals.

Actions

The balanced scorecard formed the basis for a management incentive compensation plan. The plan included the overall business targets for sales, profits, and working capital. Department objectives to drive and support the business targets were set for operations, finance, sales and marketing, and Human Resources. Each participant was also assigned individual targets. The plan had upside potential that was significantly higher than previous plans or what was typical in other areas of the parent company.

Results

Profits in the first two years increased 17% and 15% respectively. Operating cash flow exceeded the maximum target with effectively no increase in working capital. Operating expenses were reduced by consolidating distribution from three centers into two and Headquarters staff into three floors from four. Commercial payment terms were reduced from 45 days to 30 days as standard. New markets opened in Canada. Incentive payments for business unit performance were at the maximum level. Payments for department and individual performance varied significantly based on the balanced scorecard results. Performance past year two could not be documented as the consulting relationship ended.