



Track Cash Generation

How well do you generate cash? Let the Geneen formula answer the question for you. It is based on two simple indicators... inventory turns and gross margin. This measure marries profit and cash generation.

WONDERMENT® Project Steps:

1. Determine your number of Inventory Turns on an annual basis.
2. Multiply the number of Inventory Turns by your Gross Margin %.
3. Calculate the number on a monthly basis, and chart the resulting trends.



Geneen Formula =
Inventory Turns
X Gross Margin %.

The result should always be at least 1.5. (Higher is better)

Harold Geneen – Chairman, ITT

ITT had 273 diverse companies and Geneen often used these types of formulas to evaluate them.

Example: Paper Mill

Big Mill Paper, located in Wisconsin, sold \$15M in paper last year. Big Mill's cost of goods (COGS) sold was \$8.1M. Their GM% for the year was 46% (see formula at right). The amount of inventory on hand at year-end was \$3.5M, giving them 2.3 Inventory Turns (see formula at right). Running the numbers in the first column below, the Geneen is 1.06, which is 2.3 turns times 46%.

Let's take it a step further. Let's say that the owner of Big Mill Paper needs to know if his custom-milled watermarked paper is generating better financial performance than standard-milled paper. See what happens below when you compare the Geneen for custom and standard paper.

Despite custom's margin being lower, the speed with which the inventory turns generates more cash and therefore a better Geneen. This is counterintuitive to people trained to focus on margins.

Gross Margin % =
(Rev. – COGS) / Rev.

Inventory Turns =
COGS /
Year-end Inventory

In Your Company ...

Using your most recent annual, quarterly or monthly numbers, start with a simple analysis of your total revenue, COGS, and inventory, and record your results below.

Indicator	Total Paper	Standard Paper	Custom Paper	In Your Company
Revenue	\$15M	\$10M	\$5.0M	\$
Cost of Goods Sold	\$8.1M	\$5.0M	\$3.1M	\$
Year-end Inventory	\$3.5M	\$2.75M	\$.75M	\$
Inventory Turns/year	2.3	1.8	4.1	
Gross Margin %	46%	50%	38%	
Geneen	1.06	.9	1.56	

What questions does this raise?

- What is the trend?
- What factor causes it to be so high?
So low?
- What do low turns mean? High turns?
- What can you do to increase turns?
- Which can you change more easily:
Turns or Gross Margin %? How?
- How can accounts receivable or
accounts payable days change?

Please tell us what you think. Log on to www.jacquard.com or call 847.945.8700.