



## THE PRODUCTIVITY ENABLER

*At GenNx360, we systematically implement the productivity tenet of optimally utilizing all business resources to produce customer value.*

Developing a culture of driving productivity is essential to long-term growth in profitability of any business. This is especially critical when there is the inevitable negative change in the business cycle. When this occurs, demand drops and downward pressure is placed on both price and volume. One of the biggest challenges facing sub-\$200 million businesses is that they normally lack the scale to maintain their operating margin rate while absorbing the negative impact of both a reduction in sales revenue along with the pricing actions necessary to hold their market position.

GenNx360 created the Productivity Enabler to help portfolio companies' operating management segment their company's financial data in an operating format in order to identify and understand the key elements that drive business results. As a result, the business team can begin to build a culture around creating productivity initiatives that drive improvement in year-over-year operating performance, regardless of the business environment.

### **Early Implementation of Productivity As a Process is Critical**

Most mid-market companies focus primarily on revenue growth, thus relying on volume growth to bolster margins through fixed cost absorption. Businesses which have not

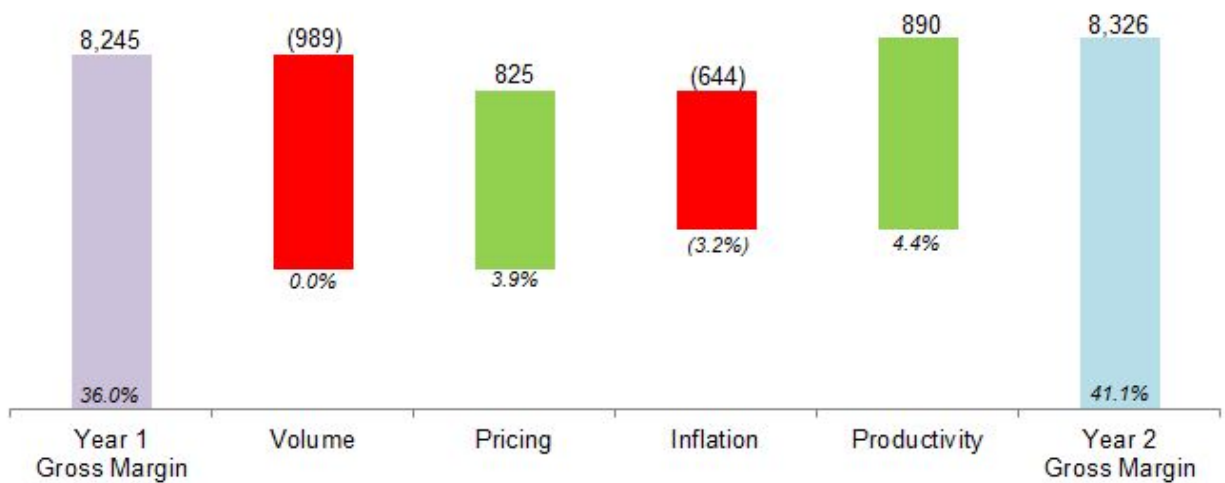
implemented systems and procedures to measure and review operating financial metrics and/or those that have not developed a culture of identifying and implementing productivity measures fail to understand declines in profitability or key drivers to improve performance during periods of slow or no growth.

During the first 100 days post acquisition, GenNx360 engages with portfolio company leaders to establish the required operating rhythm & rigor to build a culture around productivity and efficiency. Establishing the frequency of operating reviews (rhythm) and level of detail (rigor) together with early engagement of the leadership team are critical to setting expectations and focusing on the discipline needed to drive transformational changes.

Through its *Productivity Enabler* program, GenNx360 begins to train operating managers on segmenting their cost between variable and fixed so they can focus on the contribution margin and operating leverage as it relates to the following:

- Price
- Volume
- Mix
- Productivity of variable and fixed cost
- Inflation

Below is one example of how GenNx360 looks at each operating element (*excluding mix impact*):



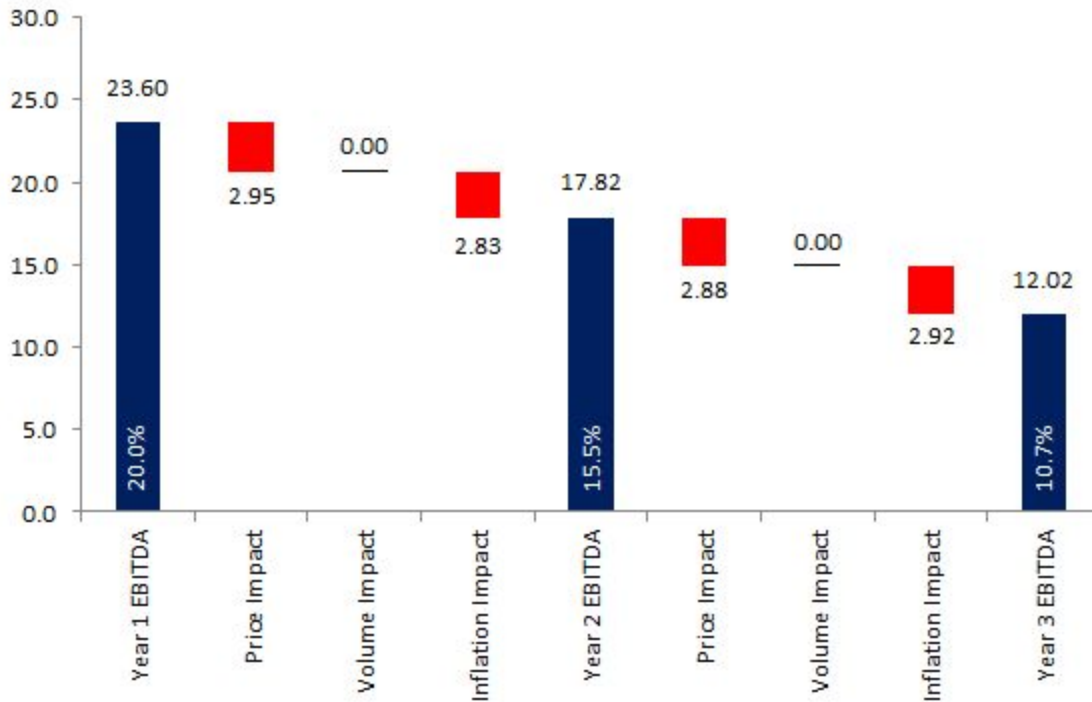
- Volume: Change in units sold which has a dollar impact on EBITDA
- Pricing: Offsets some of the impact of volume and has a positive impact on the margin rate
- Inflation: Escalations driven by economic inflation and has a negative impact on margin rate
- Productivity: Cost efficiencies offset inflation and the remaining negative impact of volume

In this example, it became clear to management that without productivity their margin dollars and margin rate would continue to decline even with positive pricing actions.

### **Year-Over-Year Productivity Drives Business Confidence**

Slowdown in volume growth, downward price pressure, and cost inflation in absence of productivity achievements result in a downward spiral on the profitability of the business and increase the burden of generating cash (*Figure 1*).

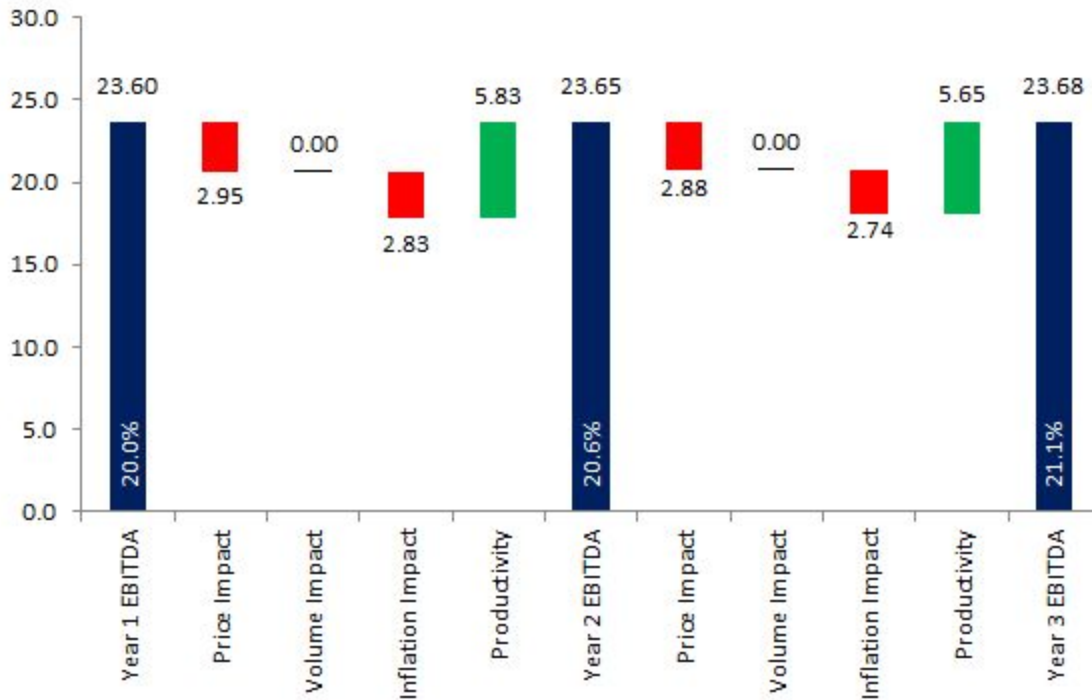
**Figure 1: Performance Without Productivity**



*Note: Assumes 2.5% price decrease, 3.0% cost inflation*

The GenNx360 framework and toolkits help its portfolio companies visualize the impact of critical factors and implement processes to help the business hold or improve margins during a period of no volume growth, negative price, and cost inflation. The bottom line is that the achievement of year-over-year productivity drives margin improvement and business sustainability, thus bolstering confidence of employees, investors and customers in both tough as well as growth environments (Figure 2).

**Figure 2: Performance With Productivity**



*Note: Assumes 2.5% price decrease, 3.0% cost inflation, 6.0% productivity*

### **Productivity As an Ongoing Process**

The GenNx360 *Productivity Enabler* provides operating management the tools to isolate the impact of price, mix, and inflation from their revenue and cost base, respectively, so they can focus on the elements of variable and base costs that is supporting the volume level of the business. Reinvestment of cost savings from productivity initiatives which hit the financial ledger not only help in offsetting potential negative impacts of price, volume, and inflation; but also transforms an average or good business into a great business.