



Instant CFO!

...Discover How the Money Flows

November 2007

Today's Purpose:

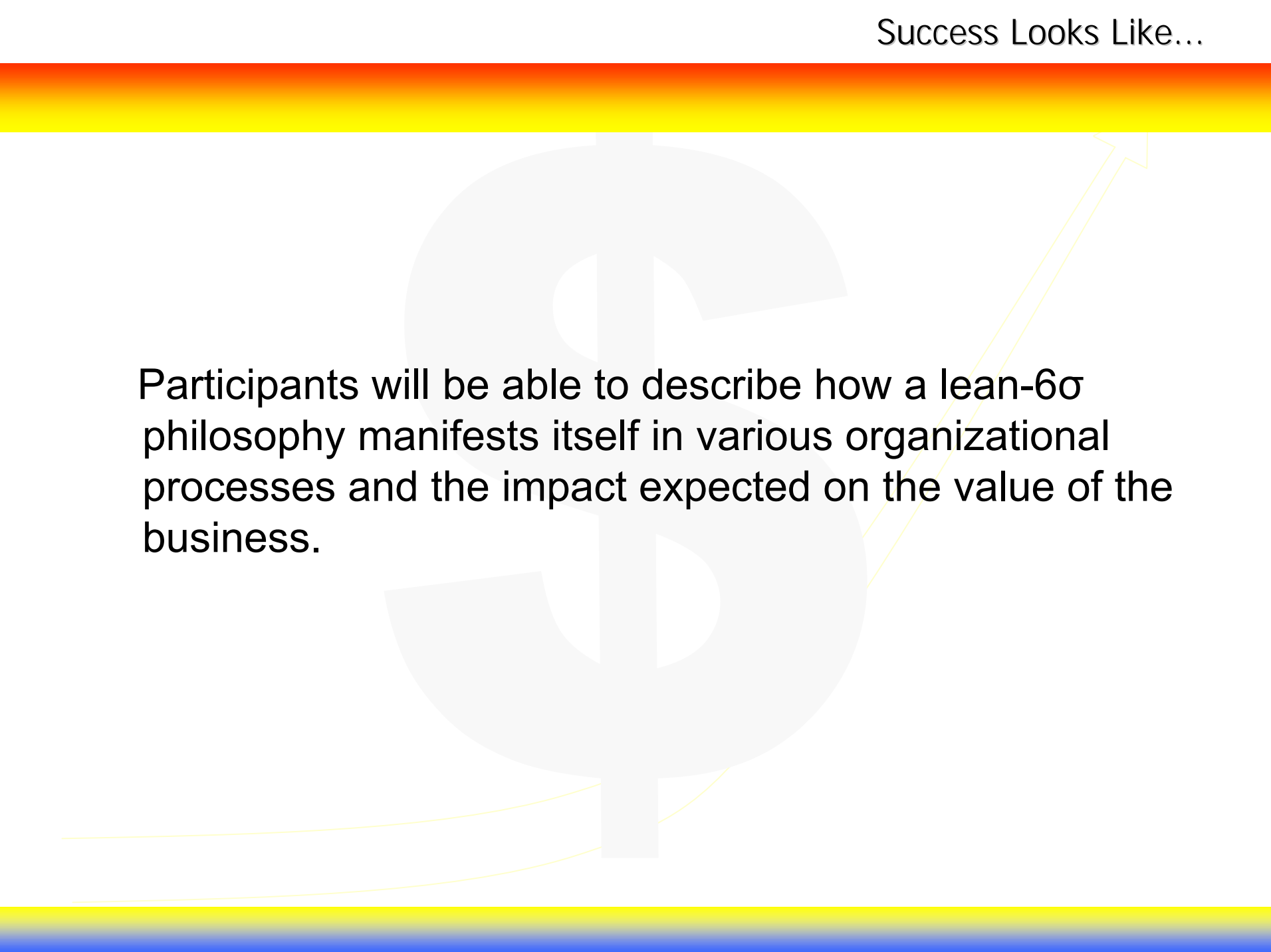
To demystify how money flows through the business and expose the mental model of CEOs and CFOs

In a way that each person sees where they fit, how they impact the flows and what drives & defines their daily work

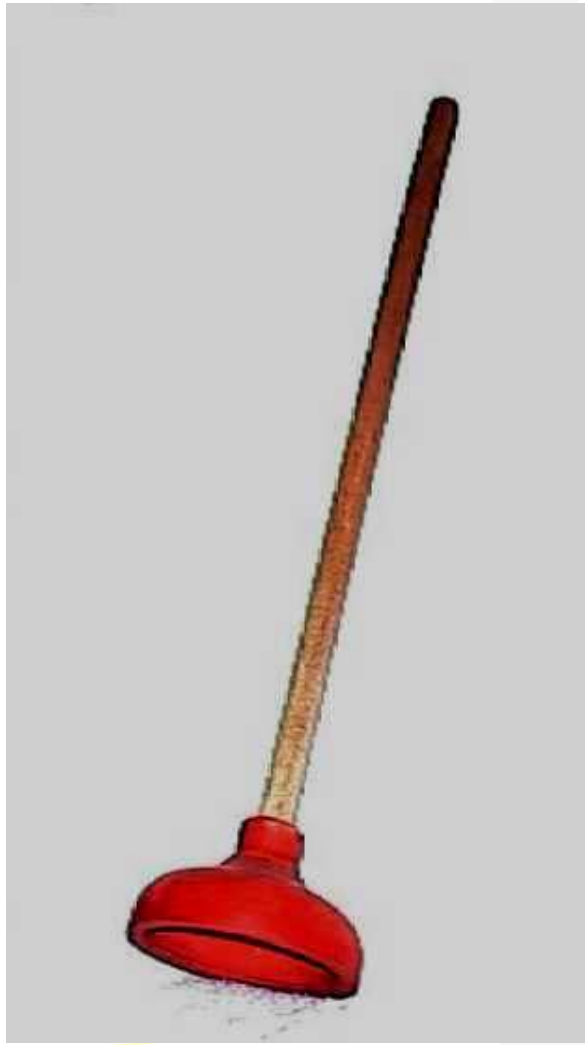
So that we increase the purposefulness of all improvement activity.

Products:

1. Shared understanding on the “rules of the game”
2. Seeing where your work fits and your impact
3. “Be the CFO” and explain the future of your business
4. Appreciate the work of Steve Fisher’s chair
5. Business finances demystified



Participants will be able to describe how a lean-6 σ philosophy manifests itself in various organizational processes and the impact expected on the value of the business.

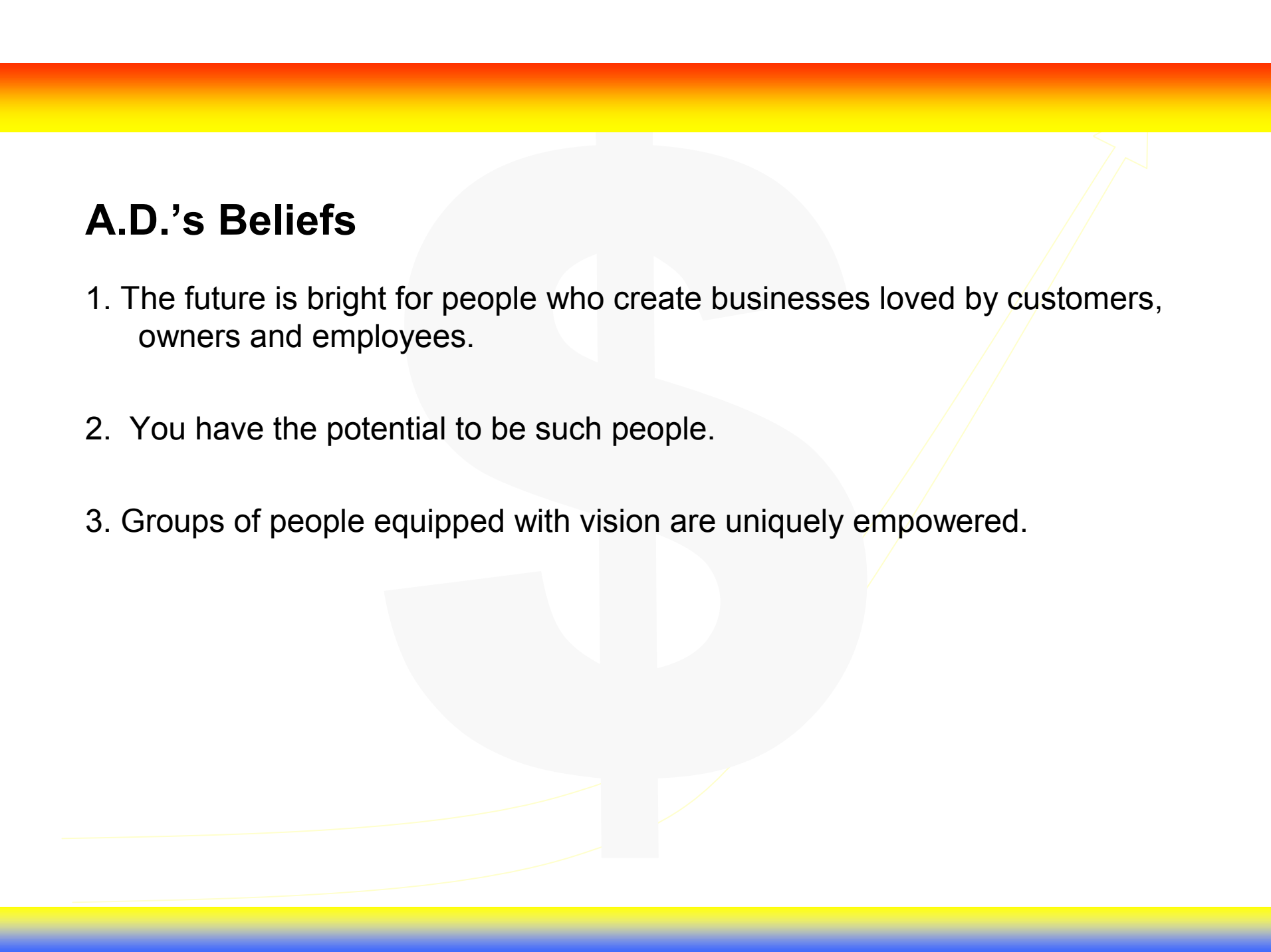


Corporate Plumber

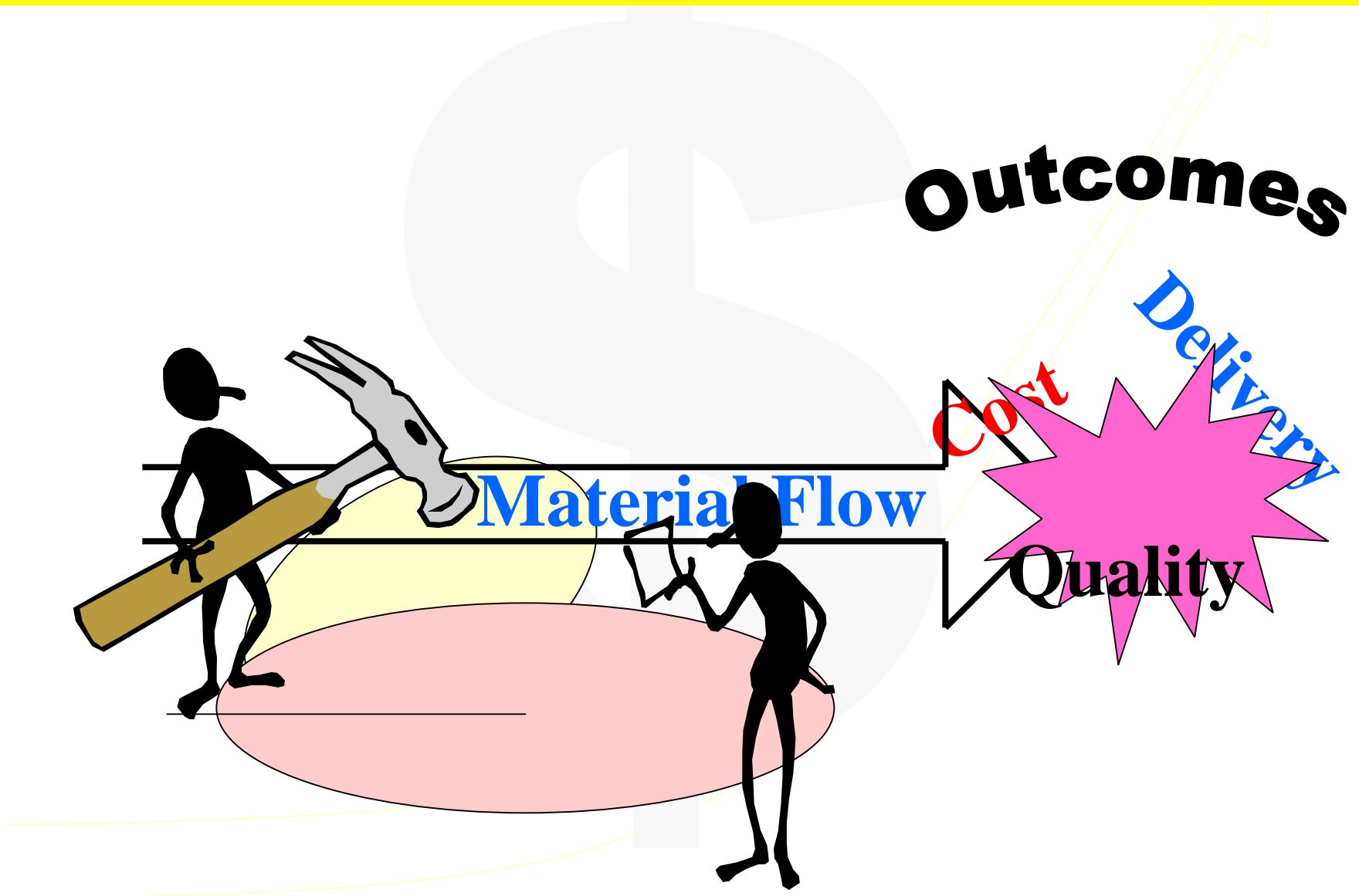


Organizational Enema

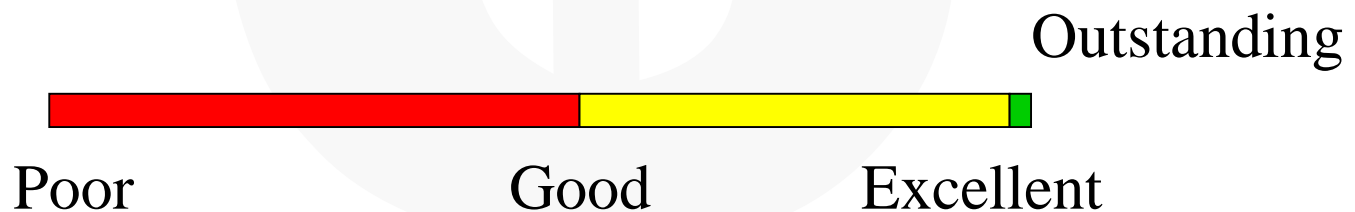
A.D.'s Beliefs

1. The future is bright for people who create businesses loved by customers, owners and employees.
 2. You have the potential to be such people.
 3. Groups of people equipped with vision are uniquely empowered.
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Why is this work Important?



- Poor standards deliver Bad results/rewards
- Good standards deliver Poor results/rewards
- Excellent standards deliver Good results/rewards
- Outstanding standards Take all the rewards



Improvements Possible

Key results to be expected with a soundly implemented and well maintained "kaizen."

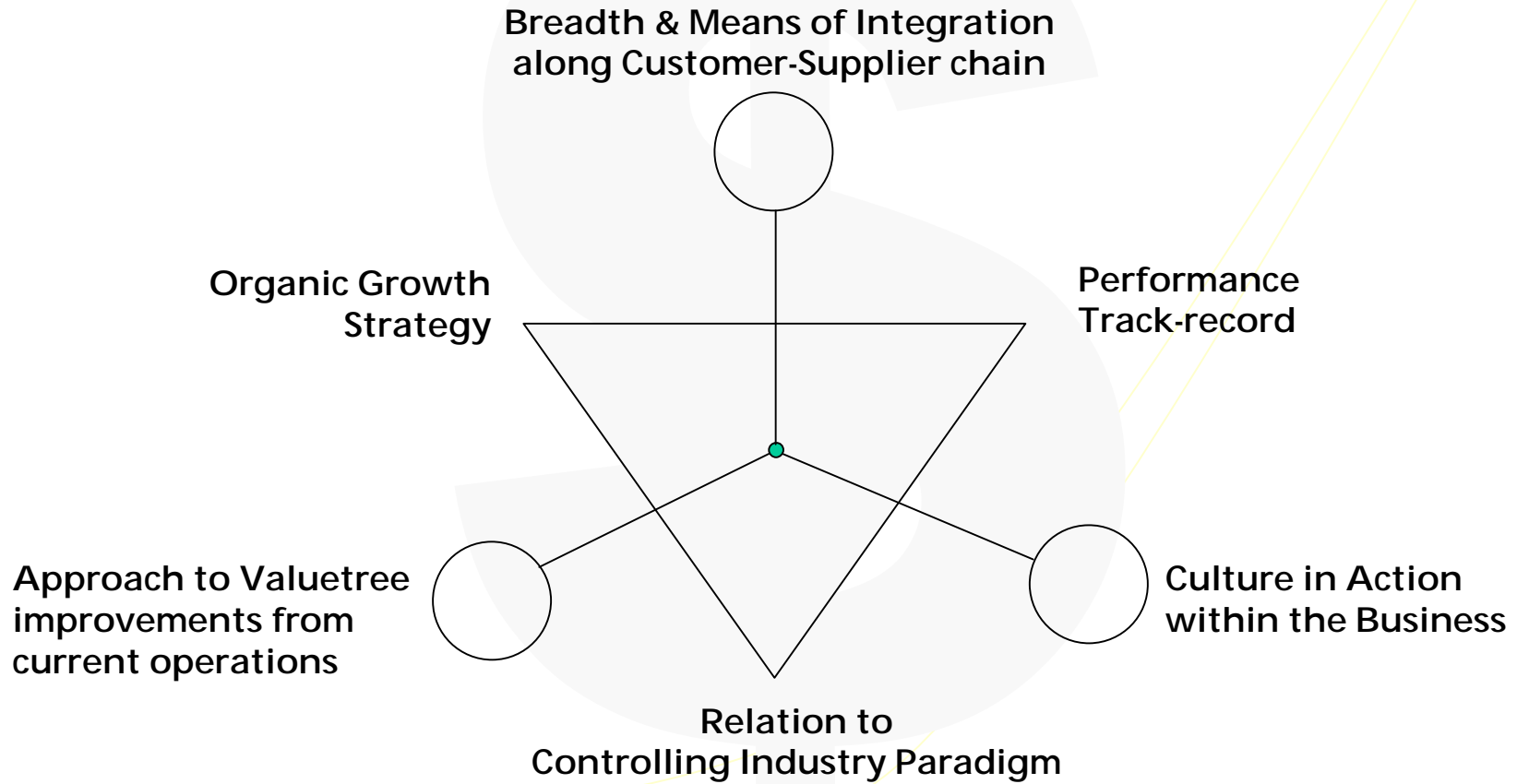
Immediately:

- 20% - 30% Productivity improvement
- 30% - 40% Increased equipment uptime
- 30% - 50% Reduction in space rents
- 10% - 20% Reduction in purchased costs
- 50% - 60% Improvement in product quality
- 10% - 20% Reduction in WrkComp Accrual
- 70% - 90% Reduction in WIP inventory

Translating into value?

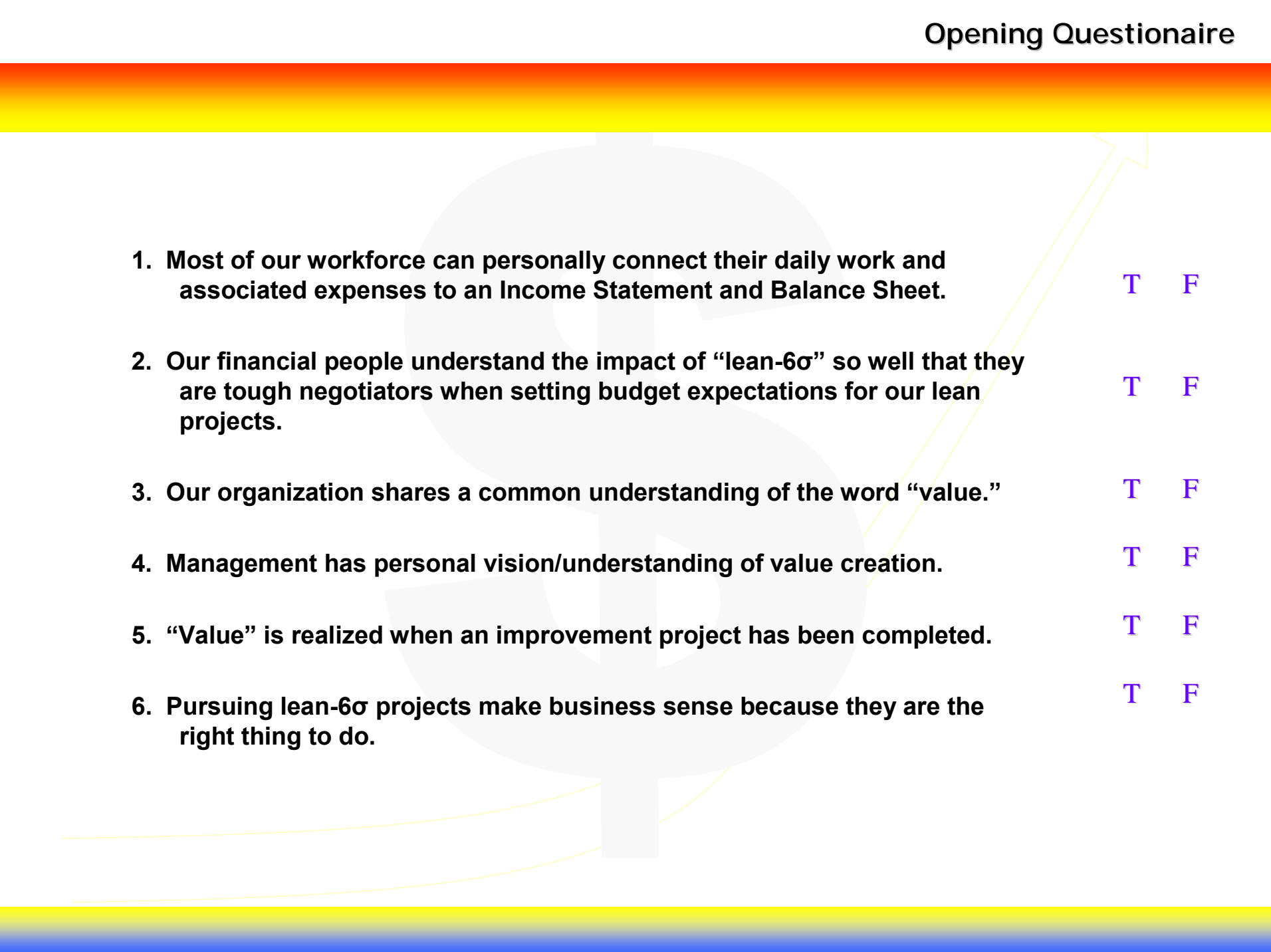
- **Two underlying Beliefs**
 - Institutions are either growing or declining.
 - A strong stock price is in everyone's best interest.
- **Two mantras**
 - All efforts are devoted to improving the relative competitive position of the organization.
 - All efforts assure that employees are truly in a position to make a personal choice about whether they stay or leave the organization...really being an employer of choice.

Strategic Integration Model





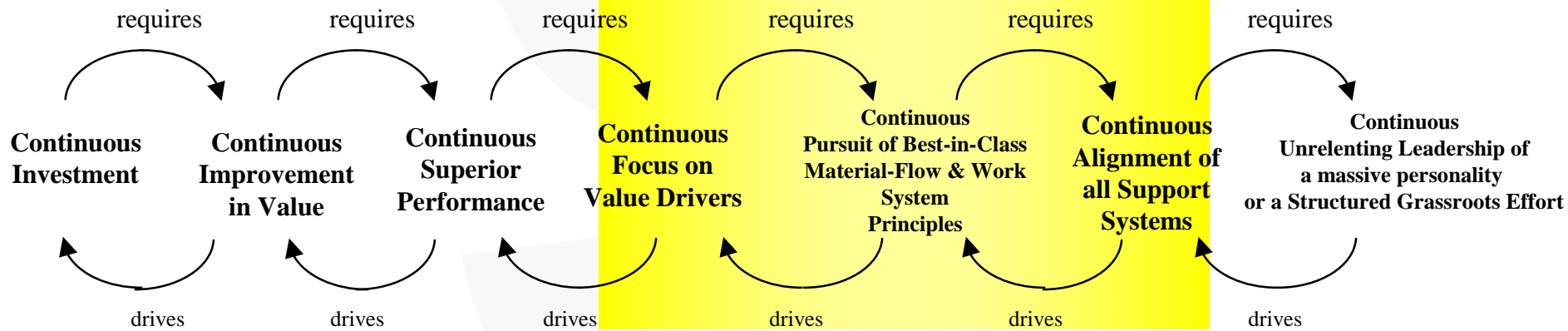
\$hifting
Performance
Using the *Value Tree*

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1. **Most of our workforce can personally connect their daily work and associated expenses to an Income Statement and Balance Sheet.** T F
 2. **Our financial people understand the impact of “lean-6 σ ” so well that they are tough negotiators when setting budget expectations for our lean projects.** T F
 3. **Our organization shares a common understanding of the word “value.”** T F
 4. **Management has personal vision/understanding of value creation.** T F
 5. **“Value” is realized when an improvement project has been completed.** T F
 6. **Pursuing lean-6 σ projects make business sense because they are the right thing to do.** T F

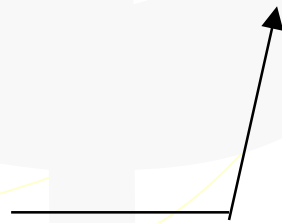
What is the Value Tree?

- • Financial model of the business on one page
 - Visually oriented
 - Interactive
 - Easily understood by people
- • Financial tool for developing business context
 - Interrelationships of various dollar flows
 - Drivers of business decisions
- • Financial “range-finder”
 - Target identification
 - Target selection
- • Financial-world de-mystifier
- • Financial guidepost helping answer the essence question...“Is the institution increasing its value (how much its worth) or destroying its value?”

Context within which the Value Tree Fits



Area of concentration



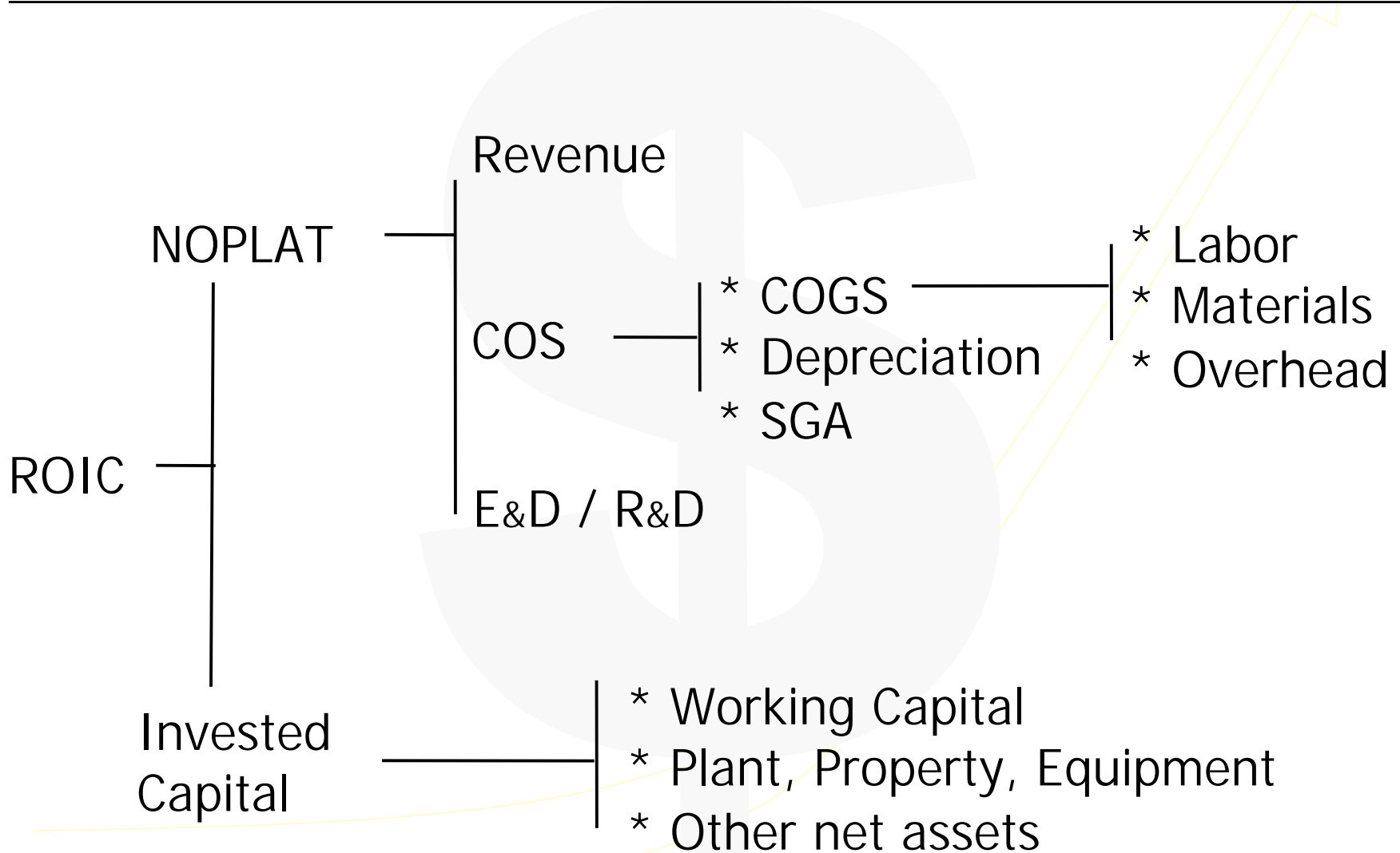
Guiding Beliefs of the Value Tree

- Long-run institutional health = long-term value creation.
 - Discounted cash flow (NOPLAT-Invested Capital) not EPS is the most comprehensive valuation tool consistent with long-term value creation.
 - Value is created by investing capital at returns $>$ the cost of capital.
- Equity holders require all information of all revenues and all claimants to make good decisions.
- The majority of the value of most institutions, at any time, is the cash flow derived from existing assets.
- The most significant value creator is superior performance in existing operations
 - Value creation is not exclusive to manufacturing organizations.

Getting to know "the tree"

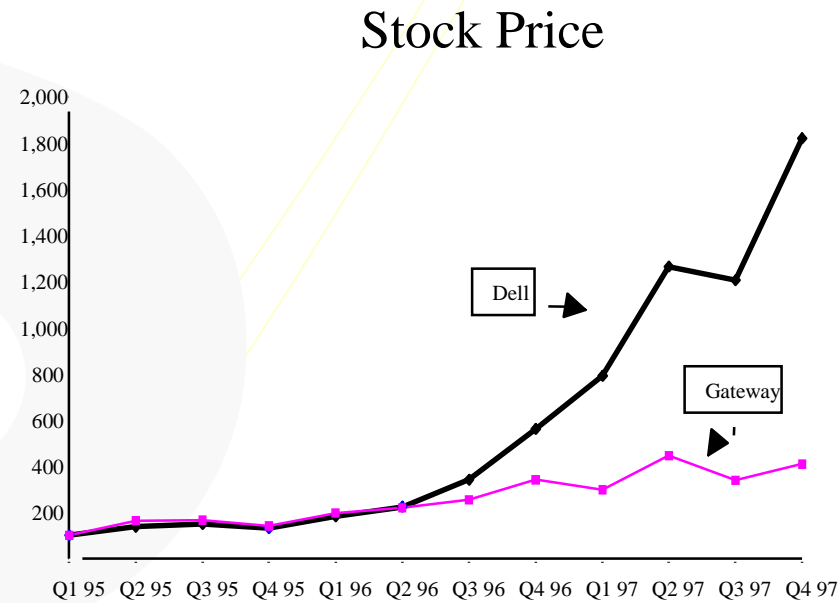
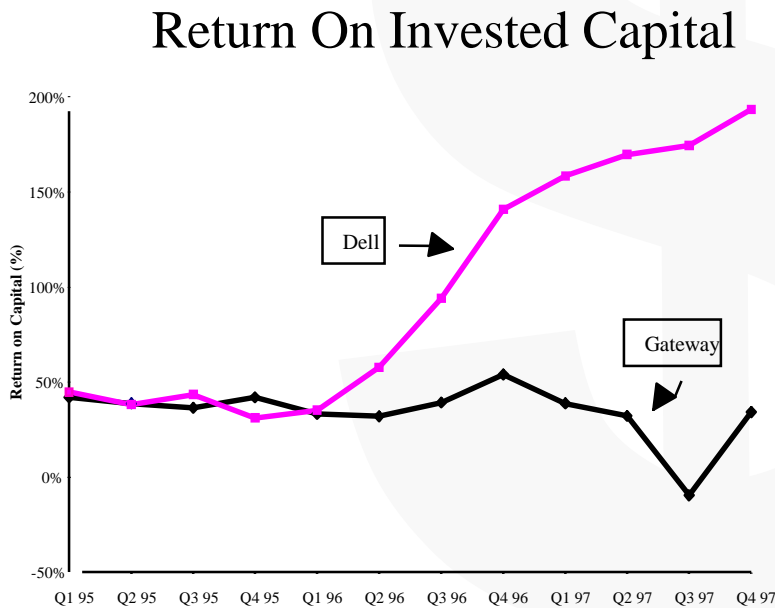


The Value Tree Exercise



What determines a firm's worth?

Notice the relationship that exists at Dell and Gateway; strong ROIC, strong stock price.



Strategic Work (Best suited for the broadest perspective and the greatest accountability)

- Crystallizing the current state-of-the-business
- Challenging the key paradigms which define the approach to product, technology and organization.
- Targeting and quantifying areas requiring organizational effort

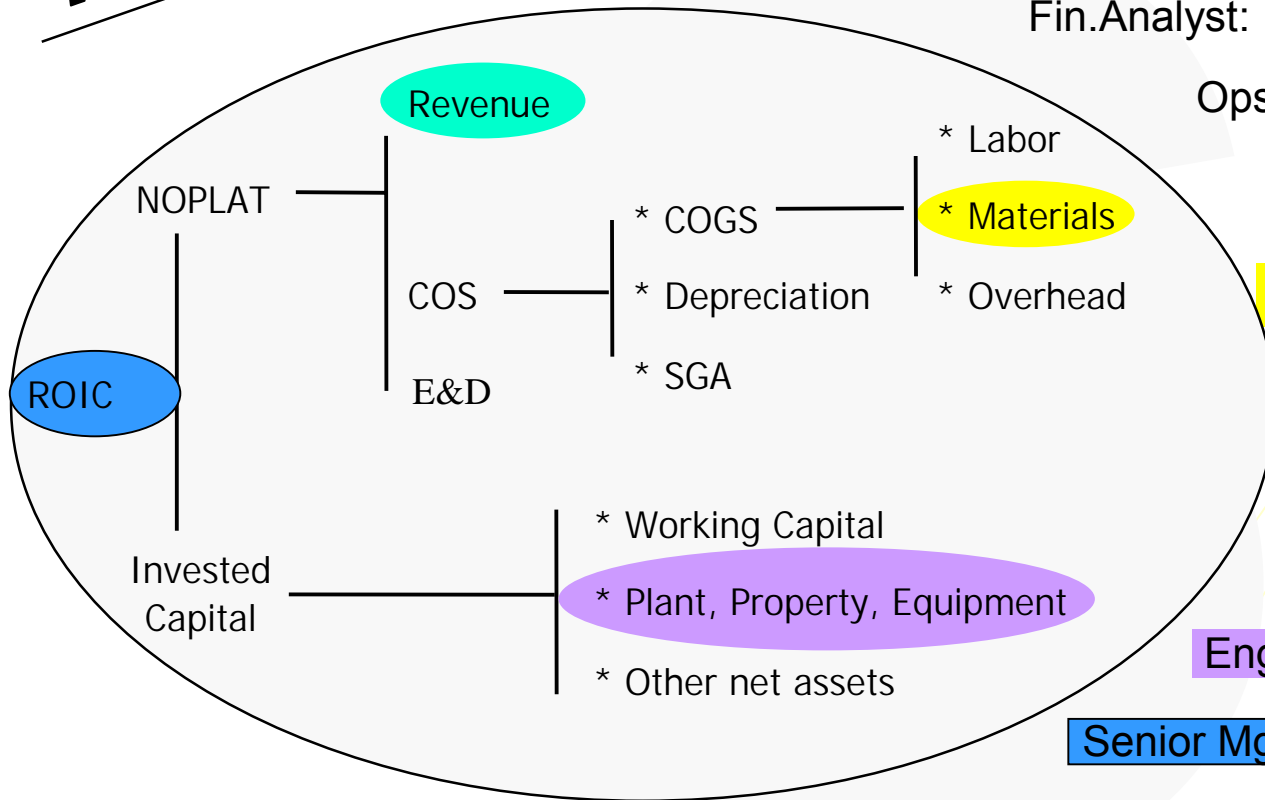
Leadership Work (Best suited for “content experts” with industry understanding)

- Choosing the pallet of “world class” concepts
- Building stakeholder consensus
- Defining and designing approaches to deliver performance

Operational Work (best suited for people doing the work)

- Understanding how money flows and how they relate to it
- Applying “world class” concepts
- Monitoring performance and taking corrective actions

The Value Tree for Targeted Insight



Sales /Marketing: Quality of sales \$; preparing for improvements

Fin.Analyst: Budgeting improvements

Ops/Shop: Knowing the big "whys"

HR/IR: Enablers of change

Procurement: Supply chain mgmt

EHS/Med: Waste chain mgmt.

Quality: More than SR²

Facil./Maint: TPM & Utilization

Engineering: Defining infrastructure

Senior Mgmt: Targeting & implications

Financial Planning: Detailing long-term performance

Order-to-Cash: Optimizing an enterprise flow

Values

Principles (guidelines for decisions)

Principles

Principles

Philosophy Σ

Principles

Standards of Excellence (manifestations)

Principles

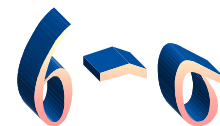
Standards of Excellence

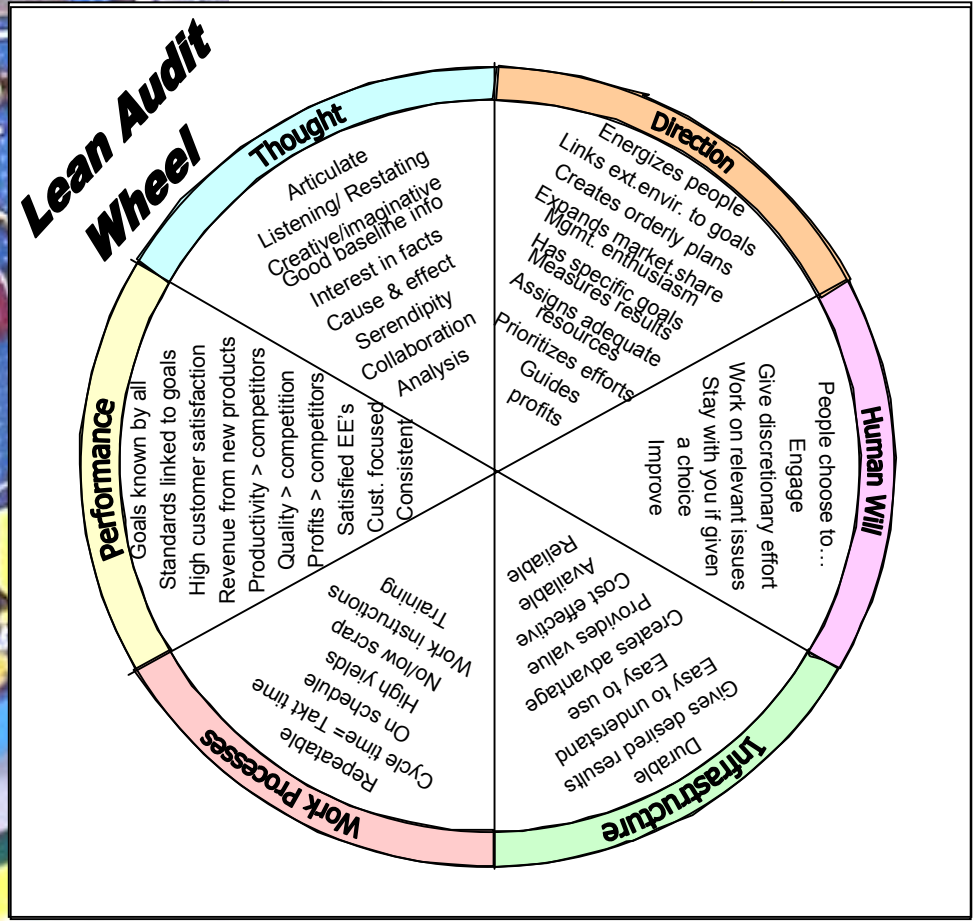
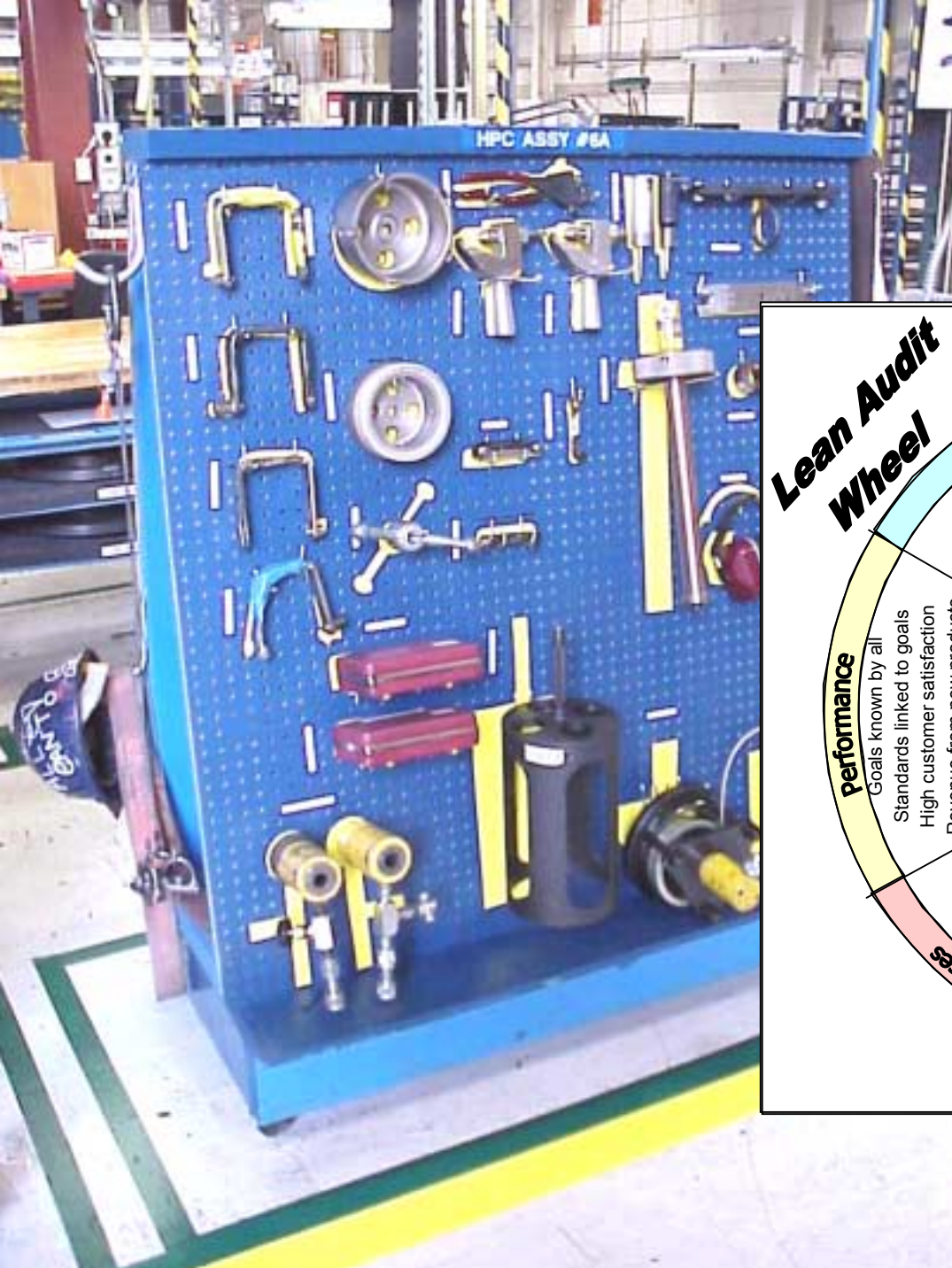
Principles

Standards of Excellence

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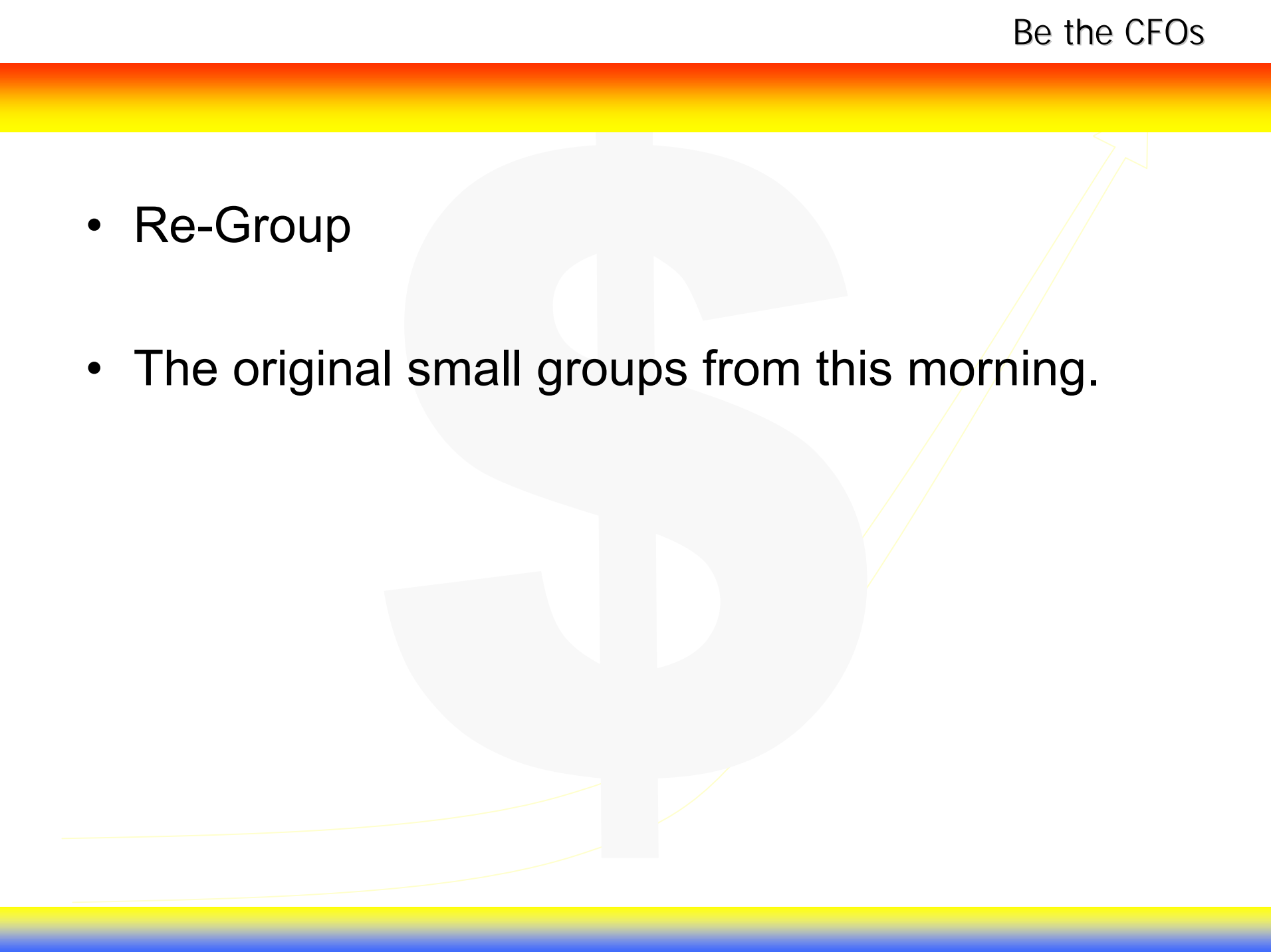


Working "the Tree"...was value created?

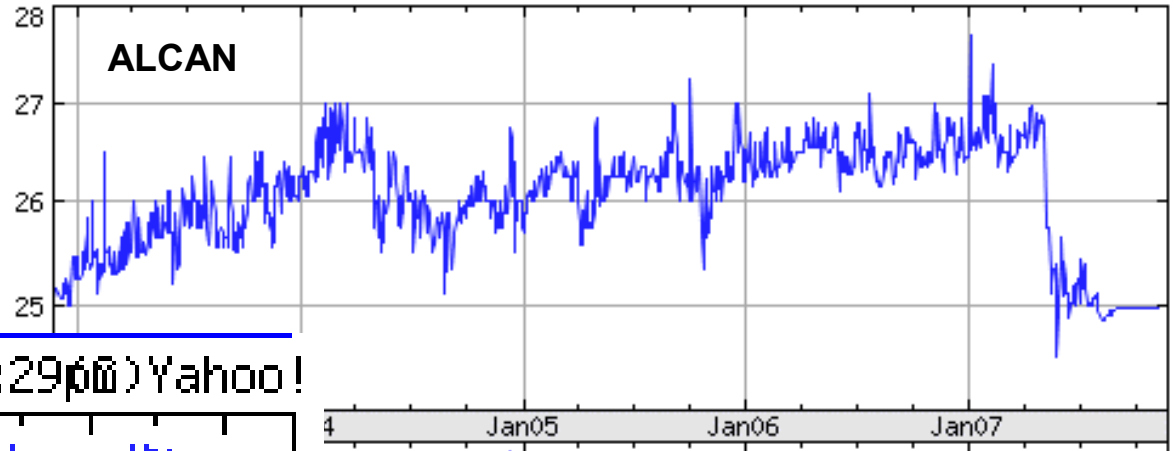
- Your Kaizen event opens-up 50% of your floor space?
- The %-load charts show a 20% productivity improvement potential?
- People learn about how the money flows and have no forum for working issues?
- Take the CI project you described earlier and determine
 - its potential impact on TheTree
 - did the books actually reflect it?



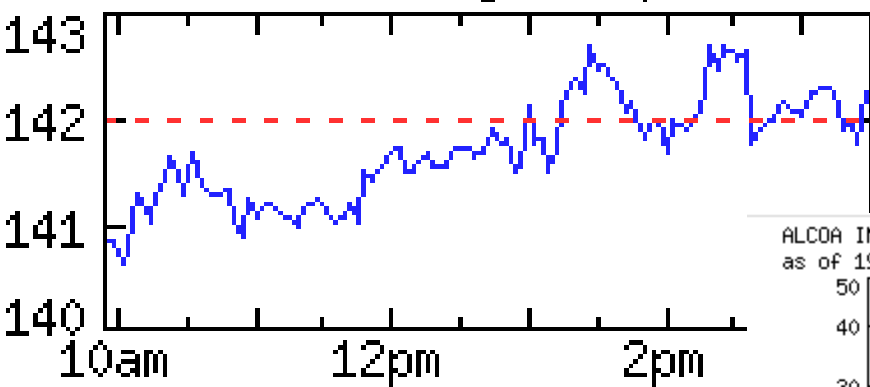
Be the CFO

- Re-Group
 - The original small groups from this morning.
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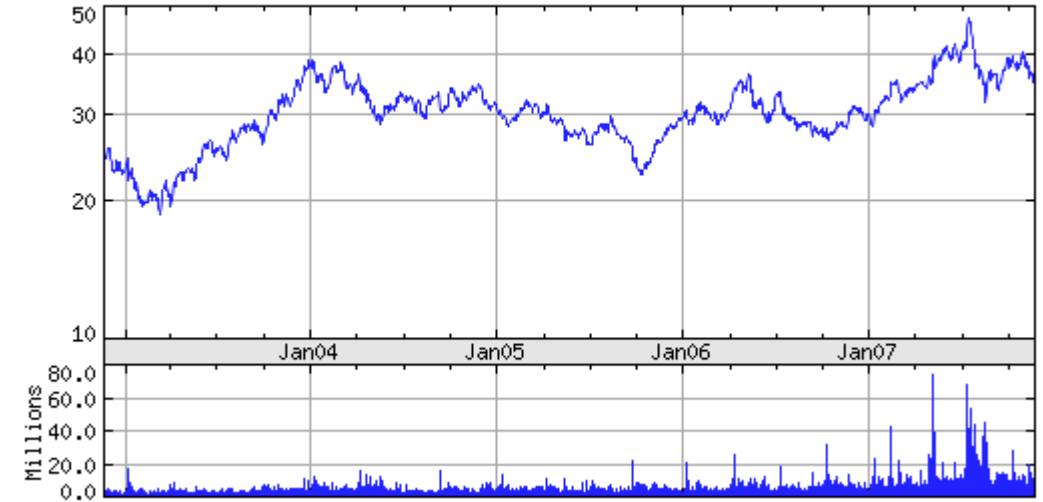
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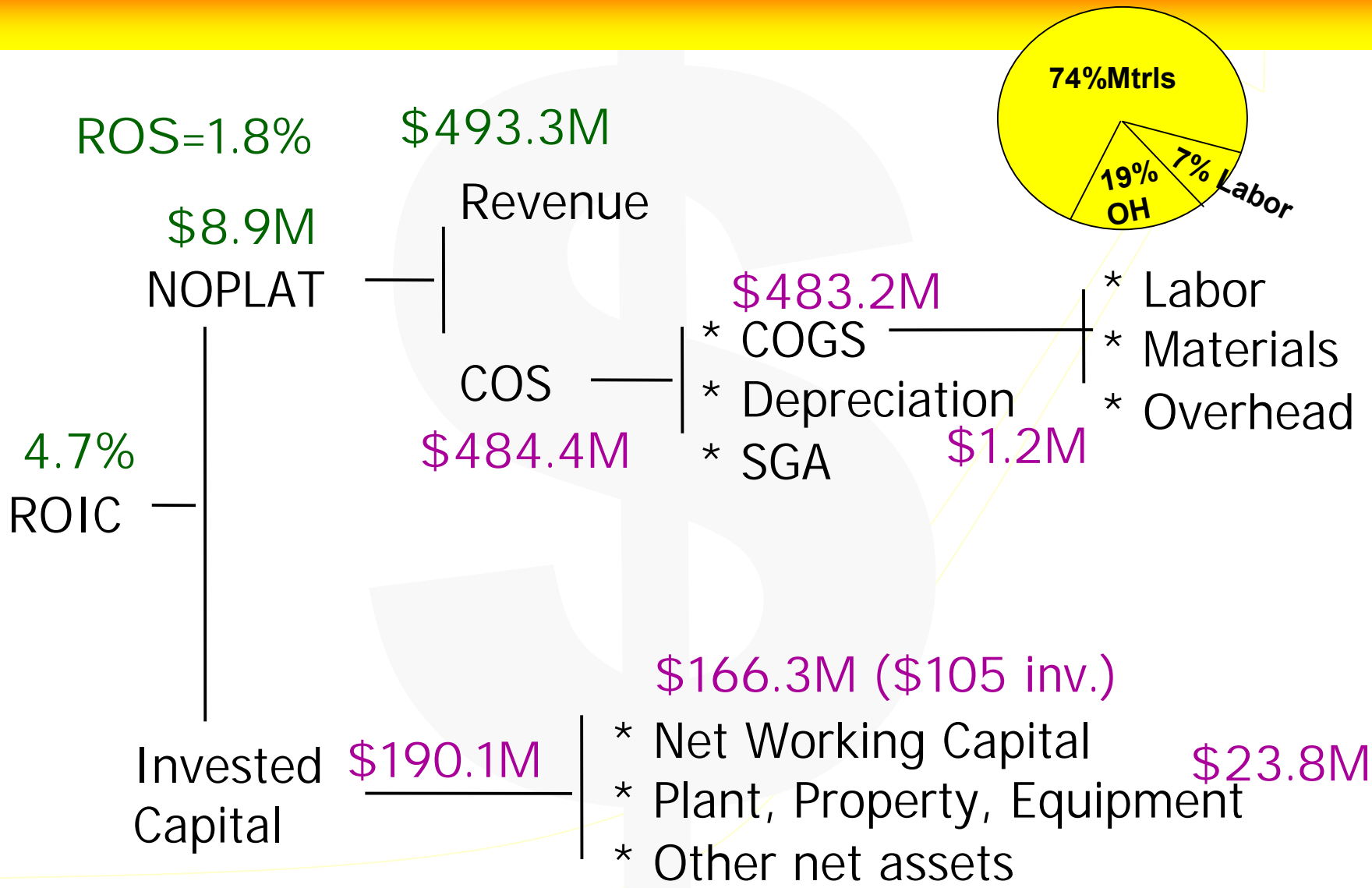
ALCOA INC
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Challenge: 15% ROS and 10% ROIC on flat revenues



**Drive on to
Excellence**