Advanced Financial Modelling
Assessing Profitability of Contracts

Project Date | Jan 2022

Executive Summary

❖Company overview

✓ With over 65 years of history and leadership, the company operates in the **maintenance and resale of industrial hydraulic pumps** and equipment.

✓ Through **Maintenance Contracts**, the company offers its customers a comprehensive range of services, including monthly preventive maintenance; unlimited 24/7 corrective maintenance on demand; and the loan of equipment in cases where specialized workshop repairs are required.
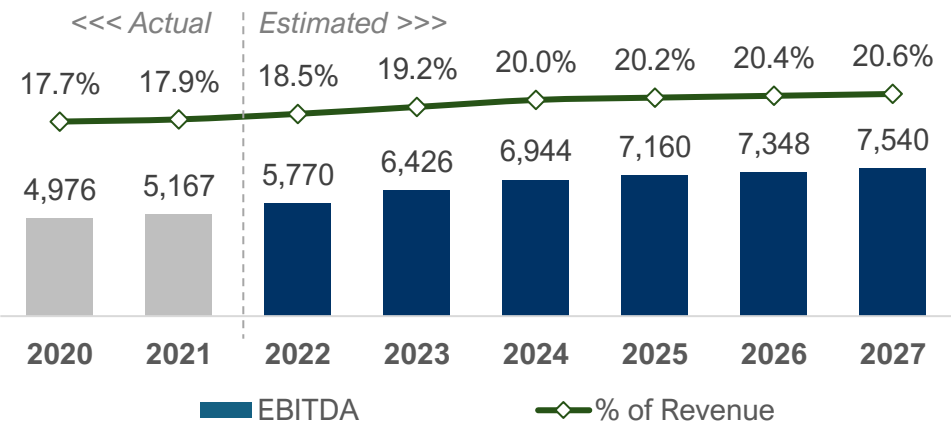
❖Purpose of the work

✓ The company required a detailed profitability analysis of their customer base, as they **lacked individual assessments** of each contract (approx**. 3.000 contracts**).

✓ Once the profitability of each contract was determined, actions were taken by the sales and aftersales support teams to realign services offered or adjust pricing.

❖Outcomes

✓ **Increased profitability by 11.4% in a year** through service realignment and contract optimization, phasing out loss-making contracts to focus on strategic customers.

✓ Significant changes in sales team strategies to focus on new customers and contracts aligned with the outcomes of this work.

❖EBITDA Growth (\$ thd)

<<< Actual | *Estimated >>>*

	2020	2021	2022	2023	2024	2025	2026	2027
% of Revenue	17.7%	17.9%	18.5%	19.2%	20.0%	20.2%	20.4%	20.6%
EBITDA	4,976	5,167	5,770	6,426	6,944	7,160	7,348	7,540

EBITDA ◆% of Revenue

Timeline

Project Scoping, Methodology and Expected Outcomes	Data Collecting and Modeling	Results analysis and action plans with the teams	Implementation
2 months	**2 months**	**1 month**	**Ongoing (one-year full cycle)**

Project Scoping, Methodology and Expected Outcomes

- Defining the timeline, required resources, and expected outcomes.

- Establishing ways to collect necessary data, a methodology to assess cost structures, and set criteria for classifying contracts based on **profitability** and **strategic alignment.**

- Collaborating with the sales team to develop actionable plans based on projected outcomes.

Data Collecting and Modeling

- Ensuring that systems (ERP, mobile devices, and field tablets) are in place to collect the required data.

- Managing and analysing **large operational datasets** from multiple sources.

- Developing models, including **regression analysis**, to measure financial impacts and **identify key cost drivers.**

Results analysis and action plans with the teams

- After running the models, **each contract was categorized** as A1, A2, A3, or A4 based on the matrix criteria (see next slide).

- An action plan was determined for each category (e.g., the sales team to contact customers and negotiate service realignment or price adjustments based on market rates).

Implementation

- Contracts were divided into five groups for **negotiation throughout the year**, aligned with their annual service indexation dates.

- Feedback from the initial groups helped refine action plans and adjust tactics to minimize disruptions.

Method & Analysis

Profitability can be within our control, either increasing revenue or reducing costs. Conversely, the **strategy** classification is more influenced by external market factors beyond our control (e.g., customer type - large industrial complexes or small businesses). As a result, the contracts categorized as "poor" under the profitability criterion became the main focus of our actions, provided they demonstrated **at least a reasonable alignment** with our strategic objectives.

❖ Analysis Matrix

Profitability		Strategy Alignment		
		Good	Regular	Poor
	Good	A1 (160)	A1 (280)	A3 (490)
	Regular	A1 (320)	A2 (510)	A3 (400)
	Poor	A2 (350)	A2 (340)	A4 (150)

29.7%

23.0%

27.7%	37.7%	34.7%

❖ Action plans

A2
✓ Focus on **price adjustments** to match market conditions and **restructuring services**, such as shifting monthly preventive maintenance to a bi-monthly schedule.

A4
✓ **Price negotiation** was the primary focus, as restructuring services alone wouldn't achieve break-even profitability. **If negotiations failed**, these contracts were **marked for termination**.

A3
✓ Although not strategically aligned, these contracts **funded our business model transition**. The Sales team was instructed to **avoid new customers with similar profiles**.

A1
✓ No immediate action was taken, other than monitoring monthly profitability to ensure these contracts remained within their designated category.

Simplified Financial Statement

$ thd	2019	2020	2021	2022	2023	2024	2025	2026	2027
Gross Revenue	**30,540**	**31,304**	**32,086**	**34,693**	**37,159**	**38,653**	**39,376**	**40,022**	**40,679**
Category A1	9,120	9,348	9,582	9,821	10,067	10,318	10,576	10,841	11,112
Category A2	12,240	12,546	12,860	15,046	16,851	17,694	18,048	18,318	18,593
Category A3	8,010	8,210	8,416	9,089	9,725	10,114	10,215	10,317	10,420
Category A4	1,170	1,199	1,229	738	516	527	537	545	553
(-) GST @10%	(3,054)	(3,130)	(3,209)	(3,469)	(3,716)	(3,865)	(3,938)	(4,002)	(4,068)
Revenue	27,486	28,173	28,877	31,224	33,443	34,788	35,439	36,020	36,611
OpEx	**(19,515)**	**(20,003)**	**(20,503)**	**(22,134)**	**(23,493)**	**(24,212)**	**(24,590)**	**(24,932)**	**(25,279)**
(-) Category A1	(5,016)	(5,141)	(5,270)	(5,402)	(5,537)	(5,675)	(5,817)	(5,962)	(6,112)
(-) Category A2	(7,956)	(8,155)	(8,359)	(9,780)	(10,785)	(11,324)	(11,551)	(11,724)	(11,900)
(-) Category A3	(5,607)	(5,747)	(5,891)	(6,362)	(6,759)	(6,792)	(6,793)	(6,809)	(6,825)
(-) Category A4	(936)	(959)	(983)	(590)	(413)	(421)	(430)	(436)	(443)
(=) Gross profit	**7,971**	**8,170**	**8,375**	**9,090**	**9,950**	**10,576**	**10,848**	**11,088**	**11,332**
% of Revenue	*29.0%*	*29.0%*	*29.0%*	*29.1%*	*29.8%*	*30.4%*	*30.6%*	*30.8%*	*31.0%*
Apportioned SG&A	**(3,124)**	**(3,194)**	**(3,207)**	**(3,320)**	**(3,524)**	**(3,632)**	**(3,689)**	**(3,740)**	**(3,792)**
(-) Category A1	(832)	(841)	(790)	(810)	(831)	(851)	(873)	(894)	(917)
(-) Category A2	(1,260)	(1,293)	(1,334)	(1,467)	(1,618)	(1,699)	(1,733)	(1,759)	(1,785)
(-) Category A3	(881)	(896)	(919)	(954)	(1,014)	(1,019)	(1,019)	(1,021)	(1,024)
(-) Category A4	(150)	(164)	(165)	(89)	(62)	(63)	(64)	(65)	(66)
(=) *EBITDA*	**4,847**	**4,976**	**5,167**	**5,770**	**6,426**	**6,944**	**7,160**	**7,348**	**7,540**
% of Revenue	*17.6%*	*17.7%*	*17.9%*	*18.5%*	*19.2%*	*20.0%*	*20.2%*	*20.4%*	*20.6%*
Increase YoY%				*11.4%*	*8.1%*	*3.1%*		*2.6%*	*2.6%*

Thank you!

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