

What happens  
when Finance  
goes beyond  
numbers

PREQUATE

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About when we saved  
a company ~20% by  
cost savings

## How it began

**Beta** Private Limited is a 30 year old well established, family run, manufacturing company with a top-line of over USD 1Mn based out of India. **Prequate** was brought in to help **Beta** manage further growth by analyzing and changing old systems.

**Beta** was in a mature stage and wanted to move from family run business to process based. They relied on experience and rule of thumb for determining the pricing and costing mechanism.

*Disclaimer:* **Beta** started a continuous engagement model that allowed **Prequate** to develop the management reporting frameworks within the CFO Office offering.

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## the problem set

**Prequate** as part of the standard delivery model was in charge of overhauling the finance function. In the course of such delivery, Prequate noticed that:

- > Costing of all products were on an adhoc basis
- > Pricing mechanism was based on rule of thumb
- > True profitability for each LOB was not known

Costing and pricing function are primary to any business and a scientific methodology has to be used to determine the correct parameters.

## the approach

The main questions to be addressed behind any cost or pricing mechanism need to be addressed:

- > Does the system capture all costs?
- > Is there information flow for studying product based profitability?
- > Are all contract based payments well defined?

A new costing and pricing plan had to be devised to facilitate these outcomes.

## action steps

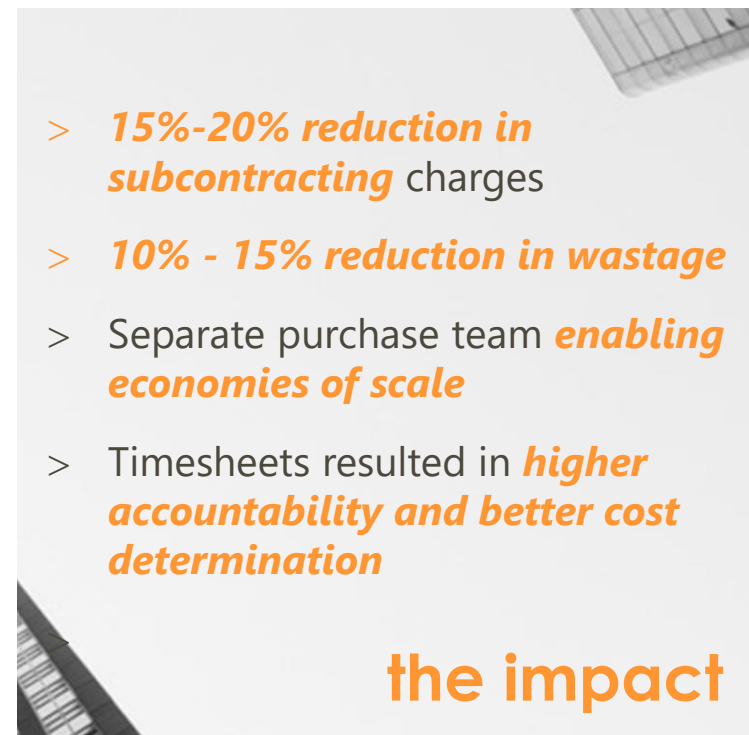
- > **Detailed operation study:** To understand the setup and functioning of all systems
- > **Review of SOWs & Job orders:** Study the term, conditions and pricing scheme.
- > **Process study:** Study each process in isolation and then as a whole to analyze gaps
- > **Analyze Wastage:** Understand the treatment given to wastages in books of accounts

## results matter

- > **BOMs**, which were not considered, **was incorporated** into the system
- > **Renegotiated with sub contractors** since their pricing was constant and not pegged to the size and nature of work.
- > Individual process study led to **recognition of hidden costs**
- > Suggested the **building of a purchase team** to reduce wastage; Developed a method for **recognition and accounting of abnormal wastage** which was not even identified before

- > **15%-20% reduction in subcontracting** charges
- > **10% - 15% reduction in wastage**
- > Separate purchase team **enabling economies of scale**
- > Timesheets resulted in **higher accountability and better cost determination**

## the impact



# Need more clarity?

*Prequate works with organizations to help them understand their environment and do business in a leaner and smarter way.*

By helping businesses interpret their surroundings, Prequate helps amplify the impact of their strategies and executional strengths without worrying too much, or with a lot more clarity, as to how their environment may be respond.

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