

Analysis Leads \$4.5 Million

Private Investigative/Specialty Security Firm to Improve Profit Margins Dramatically

Situation

Prior to 2006, a private investigative and specialty security firm focused on due diligence, executive background checks, executive protection, and undercover loss prevention. Although these services were successful, the company wanted to expand its offerings, so it purchased two niche firms—one that focused on financial investigations and another that conducted criminal defense investigations. Each of the new businesses had its own billing model, which complicated collections and muddled profitability assessments. For example, in the original business, investigations typically were completed and billed in a matter of days, while criminal defense investigations might last up to two years and required establishing a retainer.

During 2007, those issues were compounded by decreased profits. Although 2008 was profitable, the management team wanted to be sure the company was living up to its potential. So in early 2009, the team used RAI Stone Analytics® custom financial modeling and forecasting capabilities to provide insights.

Vital Questions

1. What would have the biggest impact on company profits? Cutting staff? Restructuring pricing? Improving collections?
2. Specifically, what effect would cutting overhead by 1 percent have on the bottom line?
3. What do banks look for when evaluating debt-to-equity ratios?

Key Insights and Actions

- RAI Stone Analytics® What If modeling supported the decision to reduce salaried investigative staff, which increased profit margins.
- RAI Stone Analytics® industry comparison showed comparable companies averaged 45–50 days in Receivables vs. the investigative firm's 90–120 days. As a result of this insight, the firm revised its approach to Receivables and got more aggressive on collections. Consequently, cash flow improved, which enabled them to reduce their reliance on their line of credit, and Accounts Payable could stop their juggling act every month.
- Better collections had the additional benefit of improving the company's balance sheet, which gave the firm more clout with bankers.
- The combination of staff reductions, improved collections, increased cash flow, and expanding the loss prevention business, enabled the firm to realize a 300 percent increase in profits in 2008.
- Although the investigative firm had already restructured its pricing models to accommodate the various businesses, the RAI Stone Analytics® report confirmed the wisdom of that decision.

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■ Key Insights and Actions (cont.)

- The careful analysis made clear the security/loss prevention business had the largest growth potential, so the firm began expanding that segment of the business. In addition they began treating the two branches like two different companies with separate goals and financial reports. Now private investigations has one gross margin and bottom line, while security/loss prevention has another.
- Finally, RAI Stone Analytics® gave the management team vital insights into the company's performance. The What If modeling feature enabled them to plan more confidently.

According to the company controller, "Running RAI Stone Analytics® isn't a one-time exercise. It would be useful to do every two years to see what refinements are needed."