

Activity Value Management® (AVM®) is a revolutionary stakeholder-centric Lean-based Financial Planning & Analysis (FP&A) system. AVM® is both a diagnostic and prescriptive business transformation method that generates unparalleled opportunities for revenue, expense, and performance management that represents the next-generation of FP&A. AVM® achieves these outcomes by fusing customer experiences and employee engagement, with costs, efforts, activities, and bottom-line performance. What makes AVM® successful is an unmatched set of analytical tools applied by the organization that uncover hidden breakthrough opportunities that enhance financial and operational performance at a fraction of the time and cost of other improvement approaches.

Why Activity Value Management?

The short- and long-term success of any organization relies on the knowledge of its financial and senior management regarding costs, customers, and competition. However, conventional financial systems that measure aggregated performance are completely inadequate for decision support. Do costs reliably reflect how resources are consumed by processes and activities? Are shared, indirect, and overhead costs properly assigned to products and services? Does the cost information produced by the financial systems adequately reflect true costs? Are financial systems the primary source for performance-based decisions? A good decision-support system must provide both quantitative and qualitative intelligence coupled with analytical tools necessary to improve competitive performance at all levels within the organization.

Who Can Benefit From Activity Value Management?

When any of the following occur, your organization will benefit from an AVM® review:

- Changes in the business environment due to economic downturns, loss of market share, product/service maturity, mergers and acquisitions, deregulation, etc., that affect performance.
- Growing costs without a similar growth in revenues.
- Increased demands for performance accompanied by budgetary constraints.
- Revisions to strategies that require redeployment of effort towards more mission-critical practices.
- Lack of knowledge regarding the *true* cost and profitability of products, services, and market channels.
- Declines in employee engagement and/or customer loyalty affecting competitive performance.
- Overlap, duplication, and non-mission-critical effort expended on activities across functional boundaries, generating excessive and unnecessary costs.
- Challenges related to risk management and/or compliance (e.g., Sarbanes-Oxley) with respect to identifying, measuring, and establishing necessary controls pertaining to critical processes and activities.
- When you need to grow the business but cannot afford to do so.
- Difficulties hiring the right employees at the right cost during times of booming economic conditions.
- Desire to establish and maintain a leadership position in a highly competitive market.

What is AVM?

Activity Value Management® represents the next-generation of performance management that effectively integrates financial information with non-financial stakeholder experiences in ways never before achieved. AVM® responds to business needs by providing a unique perspective of financial and operational results not available through any other performance management method. The focus of AVM® is to derive fact-based solutions to some of management's most pressing issues. AVM® is implemented through a unique partnership to develop a specific set of organizational activities, across lines of business, to which employee and non-employee expenses are assigned then combined with information representing the views of the organization's stakeholders. The objectives of AVM® are to:



Activity Value Management®

- Determine the **true** cost and profitability of specific products and services — validate pricing while focusing on under-performing areas of the business.
- Identify and eliminate unnecessary and avoidable costs while reducing operational/financial risk.
- Assure alignment of processes and activities with strategies, goals, and objectives — eliminating or reducing non-mission critical costs and efforts.
- Uncover opportunities to improve/accelerate profitability (*expense optimization coupled with revenue growth*), market share, and stakeholder loyalty — securing jobs and improving competitive performance.
- Create a mission-critical workforce by increasing concentration on those activities that directly impact the fundamental value of the organization while enhancing employee engagement and commitment.
- Implement change based on an enhanced understanding of processes, activities, and core competencies.

The AVM® Advantage: AVM® provides added value over all other performance management methods because AVM® provides the following primary benefits not available with conventional approaches:

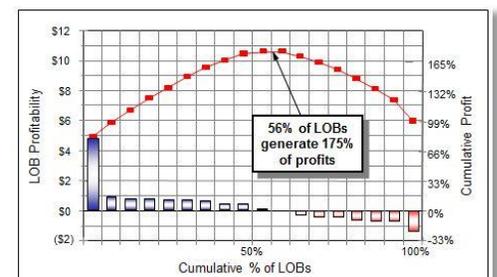
- Integration of stakeholder experiences that define value to ensure changes enhance customer loyalty and employee satisfaction, contributing to improved operational and financial performance.
- Preservation of a complete “bi-directional” audit trail linking all cost elements to both activities and lines of business — necessary for effective cost management, identification of misplaced effort/expense, and to validate process/activity controls with respect to regulatory compliance and risk reduction.
- Direct assignment of all expenses, without using pooled or averaged costs, are made to activities, products, and services improving line of business costing and profit measurement — eliminating the many drawbacks and inaccuracies of conventional absorption cost accounting, Activity-Based Costing (ABC), and all other multi-stage costing systems. A higher degree of accuracy is achieved as all products and services are costed independently.
- Improved “time-to-benefit” since AVM® normally requires ¼ the time and ¼ the cost to implement.

How is AVM Success Achieved?

AVM® utilizes an exclusive set of proprietary tools that permit a unique perspective of the organization in terms of processes, activities, costs, lines of business, and stakeholder opinions:

- **True Line of Business Costing** — AVM® links **every** cost element to processes, activities, and lines of business using direct assignment of costs and efforts, providing an unparalleled perspective of product and service cost/profitability – treating **all** costs as direct. AVM®, unlike virtually all other cost-accounting systems, avoids using outdated pooling and allocation methods or reliance on averaged cost driver rates that distort product/service cost and profitability. AVM® produces a process-based income statement that identifies activities which do not contribute to product and service value.
- **Mission-Critical Analysis** — One of the most powerful tools in AVM’s arsenal is the ability to measure the impact that non-mission-related, or the lack of concentration on mission-related, activities have on achieving the organization’s goals and objectives. Identification of such activities and resulting redeployment of resources generates significant leverage of organizational competencies.
- **Line of Business (LOB) Profitability Analysis** — AVM® is a disciplined approach based upon an understanding of the true costs of products and services. LOB profitability analysis unveils the profit contribution of each product and/or service and highlights the processes and activities of under-performing lines of business.
- **Cost Factor Analysis** — AVM® identifies the financial impact of negative cost factors that inhibit the optimum financial performance of the organization.

| Line of Business | | | |
|--------------------------|--------------|----------------|--------------|
| | Output A | Output B | Output C |
| Revenues | \$##,###,### | \$##,###,### | \$##,###,### |
| 1 Enhance Product Line | | | |
| 11 Research Products | | | |
| 12 Develop Products | | | |
| 2 Generate Revenues | | | |
| 21 Define Market | | | |
| 22 Market Products | | | |
| 23 Forecast Sales | | | |
| 24 Book Sales | | | |
| 3 Supply Products | | | |
| 4 Receive Revenues | | | |
| 5 Service Customers | \$X,XXX,XXX | \$Y,YYY,YYY | \$X,ZZZ,ZZZ |
| 9 Support Infrastructure | | | |
| Total Cost | \$##,###,### | \$##,###,### | \$##,###,### |
| Profit (Loss) | \$##,###,### | (\$##,###,###) | \$##,###,### |



Activity Value Management®

- **Cross-Functional Evaluation** — This tool identifies misplaced and duplicative activities performed throughout the organization. Reduction of overlap and duplication creates a more nimble and “lean” organization, optimizing resource performance and compliance to regulatory obligations.
- **Fragmentation** — Fragmentation measures the number of employees “touching” an activity as compared to actual effort expended. Reduction in fragmentation can significantly improve performance by consolidating activities to be performed by fewer and better-trained employees – a Lean principle. Decreasing fragmentation improves ownership and responsiveness while lowering cost.
- **Forward and Reverse Audit Trails** — AVM® provides a complete transparent bi-directional audit trail directly linking all resource costs, through activities, to products and services. This unique and proprietary feature is essential for effective performance management, permitting direct financial measurement of the impact of management decisions. AVM® is the only system that can identify the impact of product-mix decisions on specific resource costs.

| Cross-Functional Evaluation | | | |
|-----------------------------|------------------------|--------------|--------------|
| | Finance/Acct | Operations | Sales/Mrkt |
| Process/Activity Costs | 1 Enhance Product Line | | |
| | 11 Research Products | | |
| | 12 Develop Products | | |
| | 2 Generate Revenues | | |
| | 21 Define Market | | |
| | 22 Market Products | | |
| | 23 Forecast Sales | | |
| | 24 Book Sales | | |
| | 3 Supply Products | | |
| | 4 Receive Revenues | | |
| 5 Service Customers | \$A,AAA,AAA | \$B,BBB,BBB | \$C,CCC,CCC |
| 9 Support Infrastructure | | | |
| Total Cost | \$##,###,### | \$##,###,### | \$##,###,### |

Search for...

- Overlap
- Duplication
- Misplaced activities

How Does AVM® Contribute to Other Improvement/Regulatory Initiatives?

AVM® helps to optimize investments in other improvement and regulatory initiatives such as:

- Balanced Scorecard, Sarbanes-Oxley, Malcolm Baldrige, ISO certification, and other management frameworks that require an understanding and documentation of organizational processes.
- Stakeholder survey assessment by linking survey outcomes to bottom-line performance.
- Lean Management, Six Sigma, and Lean Six Sigma by identifying the processes and activities that will generate the highest ROI — optimizing rather than maximizing the investment in similar or related methodologies.
- Forecasting and budgeting by improving understanding of organization-wide spending towards value-creating activities as opposed to costs associated with activities that do not contribute to the value proposition.

How is AVM® Implemented?

Working in collaboration with clients, AVM® consultants focus on fact-driven solutions with a bias towards action aimed at improving bottom-line performance while enhancing the organization’s fundamental value. AVM® seeks to leverage employee’s first-hand knowledge and experience about the organization by engaging the entire workforce in the improvement and innovation process — developing employee-accepted results. This unique partnership is why AVM® works in *every* organization and generates an outstanding ROI for those who grasp the power of AVM®.



Results

AVM® consistently produces financial improvements averaging over \$8 million per 1,000 employees, or equivalent to 5% to 10% of revenues — achieved while improving stakeholder satisfaction and loyalty.

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