

- Count *correctly*
- Measure *the right stuff*
- Predict *more accurately*

Introduction to the Top-Line Management System™



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Steve Firszt, Head Coach Fast-Forward Business Coaching™

- Owner/President of A/V retailer 1980 thru 2000; 75 employees, four locations, 8-figure annual sales; grew custom division to \$3 million in mid-90's; profitable every year but two
- Working with retailers, start-ups, integrators, and distributors since 2004



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Fast-Forward's Top-Line Management System™

- Bookkeeping practices
- Productivity measures
 - Sales
 - Margins
 - Labor
 - Costs
- Financial predictions
 - Income
 - Cash flow



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COUNTING...

Counting

Not AC-counting....

How companies track & organize data

Good counting allows managers to easily & accurately measure company productivity.



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Counting used to be easy...

- When you bought something, you paid cash
- When you sold something, you received cash



Cash received = production
Remaining cash = profit

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Custom Integrator Transaction

- Cash first (most of it, anyway...)
- Then inventory...
- Then production...
- Then final payment



Does cash counting still work?

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Key measures

- Revenues
- Gross margins > Profit!
- Expenses
- Asset balances ("own") > Cash Flow!
- Debt balances ("owe")

Every TLM measure can be calculated from just two reports.

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3 BIG Counting Questions...

- **PRODUCTION**
When does the sale happen?
- **COST**
When are costs recognized?
- **OWN & OWE**
When does the customer take ownership...
Who owes who?



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Most common counting mistakes

- 1) Invoicing the customer for goods and/or services **before** the goods and/or services have been provided
- 2) No inventory asset or WIP: costs are not aligned with income
- 3) No Customer Deposit Liability account: advance customer payments look like company money

Counting Mistake #1

- *Invoicing the customer for goods and/or services **before** the goods and/or services have been provided*
- In the worst case, creates three mis-truths (with more to follow)
 1. Recognizes revenue
 2. Creates a customer AR balance
 3. Transfers ownership of inventory

Counting Mistake #2

- *No method for aligning costs with income (eg, inventory asset or WIP)*
- Three more mis-truths
 1. The revenue event (mistake #1) has no COGS = 100% profit
 2. The COGS event has no revenue = 100% loss (negative GM for the period)
 3. Indicates the goods are not in your possession

Counting Mistake #3

- *No Customer Deposit Liability account: advance customer payments not separated from AR*
- The most dangerous (& sometimes fatal) mis-truth of them all...

Looks like you “own” the payment received, when in fact you “owe” the future delivery of goods and/or services

Dominos down



| | Month 1 | Month 2 | Month 3 |
|----------------------|---------|---------|---------|
| Event | | | |
| Invoice | 32,000 | | 8,000 |
| Payment Received | | 32,000 | |
| Goods received | | 8,000 | 9,000 |
| Actual production | | 12,000 | 28,000 |
| P&L | | | |
| Sales | 32,000 | | 8,000 |
| COGS | | 8,000 | 9,000 |
| GP | 32,000 | (8,000) | (1,000) |
| Balance Sheet | | | |
| AR Balance | 32,000 | 0 | 8,000 |
| Inventory | | | |
| Deposit Liability | | | |

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Financial truth

| | Month 1 | Month 2 | Month 3 |
|----------------------|---------|---------|---------|
| Event | | | |
| Invoice | 12,000 | | 28,000 |
| Payment Received | | 32,000 | |
| Goods received | | 8,000 | 9,000 |
| Actual production | | 12,000 | 28,000 |
| P&L | | | |
| Sales | 12,000 | | 28,000 |
| COGS | | 5,000 | 13,000 |
| GP | | 7,000 | 15,000 |
| | | 58.3% | 53.6% |
| Balance Sheet | | | |
| AR Balance | 0 | | 8,000 |
| Inventory | 5,000 | 8,000 | 4,000 |
| Deposit Liability | | 20,000 | |

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Truth or ???

| | Bad Info | | | Solid Info | | |
|----------------------|-----------------|---------|---------|-------------------|---------|---------|
| | Month 1 | Month 2 | Month 3 | Month 1 | Month 2 | Month 3 |
| Invoice | 32,000 | | 8,000 | 12,000 | | 28,000 |
| Payment Received | | 32,000 | | | 32,000 | |
| Goods received | | 8,000 | 9,000 | | 8,000 | 9,000 |
| Actual production | | 12,000 | 28,000 | | 12,000 | 28,000 |
| P&L | | | | | | |
| Sales | 32,000 | | 8,000 | 12,000 | | 28,000 |
| COGS | | 8,000 | 9,000 | | 5,000 | 13,000 |
| GP | 32,000 | (8,000) | (1,000) | 7,000 | 15,000 | |
| | | | | 58.3% | 53.6% | |
| Balance Sheet | | | | | | |
| AR Balance | 32,000 | | 8,000 | | | 8,000 |
| Inventory | | | | 5,000 | 8,000 | 4,000 |
| Deposit Liability | | | | | 20,000 | |

The only correct # on the cash-counting side!

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Measure the right stuff

Start with the BIG numbers...

- Sales
- COGS
- Compensation



Get these right & the rest is small change

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Sales & COGS

3 categories

- **Equipment** (job-specific, easy to track)
- **Install parts** (common “infrastructure” items, purchased in bulk, hard to track)
- **Direct Labor** (gross earnings of billable employees & subs)

➔ **For each income account there must be an offsetting cost account**

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Mix & Margin Measures

Mix = % of sales

- Equipment
60% (+/-)
- Parts
10% (+/-)
- Labor
30% (+/-)

Margin = GP%

- Equipment
35% (+/-)
- Parts
60% (+/-)
- Labor
50% (+/-)



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Keep it simple!

- **Sales**
 - Only those items/services you purchase for resale
- **COGS**
 - Only the cost of items purchased for resale
- **Direct labor cost**
 - Gross earnings & subs

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Compensation

4 categories

- Direct Labor & subs (COMP 1)
- Admin/overhead (COMP 2)
- Commissions (COMP 3)
- Taxes & Benefits (COMP 4)

Total Earnings

Total Compensation



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P&L Structure in TLM

| | |
|--|---|
| <ul style="list-style-type: none"> ■ Equipment ■ Parts ■ Labor <hr/> <p style="text-align: center;">Total Sales</p> <ul style="list-style-type: none"> ■ Equip COGS ■ Parts COGS <hr/> <p style="text-align: center;">Total COGS</p> <hr/> <p style="text-align: center;">GP before Labor</p> | <p>Expenses</p> <ul style="list-style-type: none"> ■ Direct Labor ■ Admin/overhead ■ Commissions <hr/> <p style="text-align: center;">Total Earnings</p> <ul style="list-style-type: none"> ■ Taxes/benefits <hr/> <p style="text-align: center;">Total Compensation</p> <p style="text-align: center; color: red;">9 numbers... 5 subtotals...</p> |
|--|---|

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10 key measures

- **Mix**
(3 categories)
 - **Margin**
(3 categories)
 - **GP/GM**
 - Before labor
 - Net of labor
 - **Payroll "load"**
 - COMP 4 as % of gross earnings
 - **"GPCD"**
GP before labor ÷ Total compensation
- Manage GPCD to 1.8 or higher
and you will make money!

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Measure & Improve

- **Increase sales** (sell more customers)
- **Raise prices** (get more \$\$ from each customer)
- **Lower costs** (become more efficient)



TLM reveals strategies to help you become
more productive & profitable

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P&L Improvement Strategies

- **Improve Mix** (higher % of more profitable categories)
- **Improve Margins** (see exactly which categories are too "cost-heavy")
- **Improve Labor Efficiencies**
RPE • LRPBEE • Labor Utilization

Each strategy points to higher GPCD

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Measure & Predict

- Sales by category by month
- Profit by category
- Compensation & other major costs
- Monthly operating profit
- AR, Inventory, AP, Customer Deposits



Manage & improve cash flow

Now what?

DIY resources

(www.ffbizcoach.com/page14.html)

- TLM Toolkit (FREE)
- Bookkeeping Essentials (\$25.97)
- Top-Line Manager Worksheet w/ Labor Efficiency Analysis (\$48.97)

Group resources

- Productivity Analysis (\$197)
- QuickBooks for Integrators telecourse (\$397)
- CFO Group (\$497)



CFO Program

- TLM Bookkeeping practices implementation (“count”)
- Complete TLM Financial Analysis (“measure”)
- 12-month financial plan (“predict”)
 - Income • Balance sheet • Cash flow
- Monthly review & strategy sessions (“active management”)

5 additional points net profit
\$6800, 5 payments

Count • Measure • Predict

Prosper

Thank you!



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