

The Management Triad™

For owners only...

How to Maximize Company Productivity

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60 Minute Agenda

- 1) What Productivity Is
- 2) How to measure it
- 3) How to manage it
- 4) How to improve it
- 5) Q&A

The complete presentation handout will be e-mailed to you following today's webinar

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“Productivity”



Company production of goods and/or services, relative to the amount of materials and number of employees needed

Productivity = return on resources

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Productivity Measures

- **Output**
Actual production of goods delivered, services provided
- **Efficiency**
The employees, materials, & costs required to produce said output
- **Yield**
Gross profit; net profit; cash flow

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Improving Productivity

Only 3 strategies!

- 1) **Sell more**
(find & close more customers)
- 2) **Charge more**
(get more GP from each customer)
- 3) **Pay less**
(manage for greater efficiency)

not mutually exclusive

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Steve Firszt & Productivity

- 20 years as Owner/President of a multi-store AV business (first new-construction distributed audio system in 1979)
- Working with CI business owners since 2004



I've got to be productive to afford all the women!

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Count the BIG #'s First



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1st BIG number...

- SALES
(actual production, *not* cash receipts)
3 categories...
 - Equipment
 - Install parts
 - Labor
- Sales **MIX** (% of total, by category)



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8

2nd BIG number...

- COGS
(how much you pay for *goods*)
 - Equipment
 - Install parts
- Direct Labor
 - Gross wages (employees + subcontractors)



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9

Yield = Gross Margin

- Category Margins
 - GM on Equipment
 - GM on Parts
 - GM on Labor
- Aggregate Margins
 - GM before Direct Labor Cost
 - GM net of Direct Labor Cost



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10

The Mix/Margin Productivity Matrix

	Sales	Mix	Cost	GP	Margin
Equipment	\$750,000	75%	525,000	225,000	30%
Parts	\$50,000	5%	25,000	25,000	50% GM before Labor Costs
Labor	\$200,000	20%	120,000	80,000	40%
Total	\$1,000,000				45.0%

**From our 6 numbers,
we get 8 "yield" measures**

Not bad, but...

**Because we're measuring mix & margin,
we might be able to improve mix & margin**

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11

Don't just measure... You must manage, too

- Most companies don't count the right stuff
- Most companies don't have productivity goals
- No goals = No plan
- No plan = No review



Counting on Luck?

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12

Productivity Before... & After

Before					
	Sales	Mix	Cost	GP	Margin
Equipment	\$750,000	75%	525,000	225,000	30%
Parts	\$50,000	5%	25,000	25,000	50%
Labor	\$200,000	20%	120,000	80,000	40%
Total	\$1,000,000			330,000	33.0%
GM before Labor Costs					
					45.0%

After					
	Sales	Mix	Cost	GP	Margin
Equipment	\$650,000	65%	435,500	214,500	33%
Parts	\$80,000	8%	36,000	44,000	55%
Labor	\$270,000	27%	135,000	135,000	50%
Total	\$1,000,000			393,500	39.4%
GM before Labor Costs					
					52.9%

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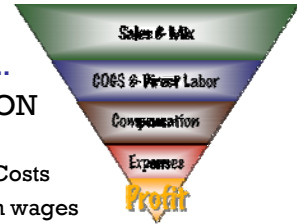
13

3rd BIG number...

After COGS, the biggest cost most integrators have...

COMPENSATION 4 categories...

- Direct Labor Costs
- Sales & Admin wages
- Commissions/variable
- All other payroll expenses



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14

Compensation Measures

4 Compensation Categories (on your P&L)...

- Direct Labor** (gross earnings of BEE's incl OT & subs)
- Admin** (wages, salaries, & OT of all others)
- Sales Commissions** (a variable category)
- Payroll Taxes & Benefits** (all other comp costs)

3 REALLY USEFUL measures...

- Monthly fixed payroll** (1 + 2)
- Variable as % of sales** (3 ÷ sales)
- Payroll "burden" as % of earnings** (4 ÷ 1+2+3)

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15

Direct Labor "Productivity"

- Direct Labor** (Billable Employees & Equivalents; BEE's = annual payroll hours ÷ 2080)
 - Annual labor revenues per BEE (RPBEE)
 - Labor efficiency (billed hours as a % of payroll hours)



$$\text{Billed hours} = \frac{\text{Labor revs}}{\text{Avg hourly rate}}$$

$$\text{Payroll hours} = \frac{\text{Labor cost}}{\text{Avg hourly wage}}$$

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16

Total Compensation "Productivity"

- Annual Revenue per Employee (RPE)** (Full-Time Employees & Equivalents; FTE's = annual payroll hours ÷ 2080)
- Total COMP** (all 4 categories)... as % of GP before direct labor costs

If you can manage TOTAL COMP towards 50% of GP, your company will be profitable

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The BIG #'s add up

- 9 #'s: 3 sales, 2 COGS, 4 Comp



COGS & Comp
65%-85%
of Sales

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18

Managing Productivity – First steps

- Establish baseline: what is your company's historical productivity performance? (*9 numbers*)
- Establish goals for 2010
 - Total sales
 - Mix by category
 - GM by category
 - Compensation

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19

Managing Productivity – PLAN • ACT • REVIEW

- PLAN:** Create monthly goals (Sales, COGS, & Comp budgets)
- ACT:** Update status of projects & new leads weekly; measure all proposal pricing against your mix/margin goals
- REVIEW:** Compare monthly results to plan; adjust tactics accordingly

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20

Maximizing Productivity: The Top-Line Management System™

- "Top-down" productivity management (*manage the big numbers*)
- Isolates key components of productivity (industry-specific)
- Comprehensive worksheets to help plan, measure, review



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21

Output • Efficiency • Yield... from a single-page report

SALES		EXPENSES			
Merchandise	1,116,137	76.77%	COMP 1 - Direct Labor & Subcontractors	180,325	12.40%
Parts	202,361	13.92%	COMP 2 - Sales & Admin Wages	145,440	10.00%
Other	6,000	0.41%	COMP 3 - Sales Commissions	32,452	2.09%
Labor	256,869	8.90%	Total Wages	358,227	22.41%
Total Sales	1,585,397		COMP 4 - Benefits & Other	61,717	17% of wages
			Total Compensation Expense	419,944	26.50%
			Total Occupancy Expense	58,952	4.05%
Cost of Goods Sold			Total Administrative Expense	98,051	6.19%
Merchandise	627,212	43.81%	Total Interest Expense	-	0.00%
Parts	95,226	6.34%	Total Sales Expense	113,812	7.18%
Other	(13,855)	-0.89%	Total Misc Expense	-	0.00%
Total COGS	706,583		Total Expense	690,558	43.61%
Gross Profit before Labor Expense	874,813	55.25%			

"If your systems seem complicated, they are probably wrong"
- Verne Harnish, *Mastering the Rockefeller Habits*

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22

DIY Resources

- Configure P&L to "measure the right stuff"
 - TLM Chart of Accounts
- Track actual production, by category
 - TLM Bookkeeping Process Overview
 - TLM Item List Guidelines
- PLAN • ACT • REVIEW
 - TLM Pipeline Tally
 - TLM Sales Manager Worksheet



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23

Additional TLM Resources

- Planning worksheets
 - TLM Top-Line Manager Worksheet (6 big numbers plus Labor Efficiency Analysis) - \$48.97
 - TLM Productivity Manager Worksheet (12-month planning & measuring system plus breakeven analysis) - \$197
- Workshops on CD
 - Productivity Management for Integrators* (Productivity Manager worksheet with on-screen instruction workshop)
 - QuickBooks for Integrators* six-hour telecourse (bookkeeping practices for the TLM system)

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Group "CFO" Program

I'll ride shotgun with you as you create & implement your TLM plan for 2010

- E-mail your 2009 YTD P&L
- I will create your baseline report in the 2010 Productivity Manager Worksheet, and return it to you before Jan 15
- We will meet in Jan, Feb, & Mar to set your goals, create your TLM plan, check your progress, and review actual results vs plan (PAR in action!).
- **\$497** (details at www.ffbizcoach.com/cfo.html)

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25

May you Grow & Prosper in 2010

Thank you!



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26