 **FRAMING THE FUTURE**
Opportunity. Efficiency. Growth.

Open Book Management:
Do your employees know the score?

Rick Carpenter, Central States Mfg. , Inc.

Frame Building Expo



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The Game of Business

How do you keep score????

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Questions for discussion:

- How do you keep score today?
- What is the difference between sales and profits?
- Is profit good or bad?
- What happens to the profits we earn?
- How much profit do you earn on a typical unit that you sell?



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The Goal of the Game of Business

We Want To Create and Distribute Wealth



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Two Higher Principals

1. You get what you give.
2. United we stand, divided we fall.




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We Teach People How To Make Money.


How do your employees view business:

- What is the difference in sales and profits?
- How does your company make money
- Can they understand the scorecard?
- How much profit do you earn on a typical unit that you sell?



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Profit and Loss Statements



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John Doe Construction
Profit and Loss Statement
31-Dec-10

	<u>YEAR-TO-DATE</u>	
REVENUE		
CONTRACT REVENUE	\$1,626,636.36	100.00%
LESS: COST OF MATERIALS	\$1,134,016.00	69.72%
GROSS PROFIT	\$492,620.36	30.28%
OPERATING EXPENSES		
OUTGOING DELIVERY	\$37,027.13	2.28%
MARKETING	\$24,820.42	1.51%
DEPRECIATION	\$20,858.75	1.27%
BUILDING RENT	\$24,300.00	1.49%
INSURANCE - PROPERTY & CASUALTY	\$487.60	0.03%
INSURANCE - MEDICAL	\$21,600.61	1.33%
JANITORIAL SERVICES	\$3,176.80	0.20%
RECRUITING COSTS	\$347.93	0.02%
REPAIRS & MAINTENANCE	\$6,461.33	0.40%
TELEPHONE	\$8,575.68	0.53%
UTILITIES	\$4,871.15	0.30%
WAREHOUSE SUPPLIES	\$2,102.43	0.13%
OFFICE EXPENSE	\$9,306.90	0.57%
COMPUTER EXPENSE	\$5,852.09	0.36%
WASTE DISPOSAL	\$1,182.90	0.07%
SALARIES & WAGES	\$242,564.29	14.91%
CONTRACT LABOR	\$14,340.24	0.82%
PAYROLL TAXES	\$20,796.70	1.28%
INSURANCE - WORKMAN'S COMP	\$2,624.90	0.16%
TRAVEL & ENTERTAINMENT	\$17,878.04	1.10%
TAXES/LICENSES	\$20.44	0.00%
TOTAL OPERATING EXPENSES	\$469,571.33	28.87%
Net Profit Before Tax	\$23,049.03	1.42%
Taxes	\$8,067.16	0.50%
Net Income After Tax	\$14,981.87	0.92%



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We Teach People How To Generate Cash

Balance Sheet Management



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John Doe Construction

Balance Sheet & Cash Flow

December 31, 2010

	(Dollars)
Current Assets:	
Cash and cash equivalents	\$20,000
Accounts receivable	\$190,000
Employee Advances	\$700
Inventory	\$207,000
Total current assets	\$424,700
Property, plant, and equipment:	
Land	\$95,000
Buildings and improvements	\$290,000
Office equipment	\$15,000
Production equipment	\$35,000
Vehicle	\$90,000
Less: accumulated depreciation	(154,000)
Net property, plant and equipment	\$161,000
Total assets	\$585,700
Liabilities and Stockholders' Equity	
Current Liabilities:	
Accounts payable	\$115,000
Line of Credit - Bank	\$190,000
Income tax payable	\$8,500
Current maturities of long-term debt	\$24,000
Total current liabilities	\$337,500
Long-term debt, less current maturities	
Building Note Payable	\$250,000
Less: Current Maturity of Long Term Debt	(25,000)
Total Long term Liabilities	\$225,000
Total Liabilities	\$562,500
Stockholders' equity	
Common stock	\$250,000
Retained earnings	\$185,700
Total stockholders' equity	\$423,200
Total Liabilities and Stockholders' Equity	\$985,700



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We share the profits of the company.

Tie Results to Bonuses. (What gets paid for gets done.)



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How do we hit the goal??

- Buy better.
- Cut scrap costs.
- Sell more value on each contract / sales transaction.
- Invoice correctly / avoid invoicing errors.
- Eliminate material damage during shipment to jobsites.

Are we measuring the factors that affect this bonus??
 Are we communicating the scores to the people that influence these factors??



Bonus Set Up:

- How much are you willing to pay?
- How much profit was made from the game?
- How often do you want to pay a bonus?



Recommendations:

1. Provide for incremental payouts.
(If you hit half of the goal, pay part of the bonus.)
Remember this is about MOTIVATION!!!!
2. Pay often enough to keep people involved.
(We found that quarterly bonuses work.)
Remember this is about MOTIVATION!!!!



Example Bonus Payout:

Target of **30.75% Gross Profit** – Pay 5% of net profit before tax.

Net Profit

\$29,944.35 X 5% = \$1,497.22 Bonus money

Taken from the increase in profits of \$7,570.32.

Note: Remember the added payroll taxes!!

Actual cost of the bonus will be about 35% higher.

Bonus of \$1,497.22 x 135% = \$2,021.25



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Goals for the Bonuses

1. Used to teach about business.
2. Identify critical areas to focus on for the coming year or (areas of vulnerabilities).
3. Puts everyone in the same boat and brings us together as a team.
4. Helps identify problems fast. Everyone is looking for solutions to get the desired results.
5. Provides excitement and increases the energy level. (We are always asking ourselves if the bonus is providing the right motivation.)



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Best Practices

- A. Give people a chance to win early and often.
- B. Set up different payout levels for each goal. (Remember this is about motivation.)
- C. Make it possible for people to earn bonuses frequently enough to keep them involved in the GAME.
- D. Don't pay the bonus unless it is earned.



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Summary:

Teach employees how to keep score in the game of business.

Tie bonuses to the outcomes you want in your business.

Create wealth for the owners and the employees.

Win, Win, Win !!!!!



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