

How Profit is created through People and Process

“A step by step Blueprint on how to dig deep and make the best business decisions as a manager, executive, or business owner. Taught in a way you can apply and teach it to anyone.”

Prelude

The number one question I get asked, “is my business ok”? I’m qualified to answer this question because going from an employee to an executive in a giant multi-national corporation, and then doing the same in private corporations, I used my 14 years of post secondary education in finance, law, and accounting, to fix whatever the boss asked for. I started as a night clerk in a hotel, then 30 years later had seen boardrooms in North America, Asia Pacific, and the Middle East.

How Profit is created through People and Process can help managers, executives, and business owners learn how to make the best business decisions for their company. We will not be talking about soft skills such as better communication or leadership. What we will be talking about is a step by step method on how you answer the question – is my business or business unit - ok, how to calculate your “decision-making window”, how to gather the information to fix a problem for the boss or owner, and finally how to understand how Profit is created through People and Process.

This message is presented in a simple format as if we were in the same boardroom, and we were chatting in front of a whiteboard. The message is intended to teach you in a way that will make you a better business manager or owner for your company. My hope is that by the end, you can apply, and teach it to your team or business partners.

The message here is one that comes with a legacy of managers that I taught, leaving a trail of happy business owners or bosses, whose problems I fixed, with this simple step by step blueprint.

Introduction

When asked this question if my business is ok, or should we really invest in this business. There are three ways to find this out. Hire a business consultant, investment banker, or an accounting firm. However, let me teach you a fourth as we look at this step by step blueprint.

Here is a list of the items that will be required:

- Detailed transaction journal of your cash account
- Current AR summary report from the end of the most recent month

Once the information is gathered we will get to work and answer the question's determining the following:

- What are the company's obligations?
- What is our "decision-making window"?
- Knowing our decision-making window how do we gather all the information to make the best business decision?
- How do you go beyond the investment banker and accounting firms to understand, How Profit is created through People and Process?

How you understand your next month's Obligations

This is the silliest of illustrations – however it is a **CRITICAL** number to know!

You can skip to figure 3 just a few pages below, if you understand the concept of how to calculate your monthly obligations and pick up on the total, moving on to the how the decision-making window is calculated.

If you do not know about obligations or understand how to calculate your monthly obligations, please continue to follow along below:

Step 1

Print your detailed cash transactions. Figure 1 just a few pages below provide you with a sample.

Step 2

Beside each transaction on your cash journal (refer to step 1) write what each transaction is in the "item" column. The more detailed "items" you can provide the better information you will have for later. Refer to figure 2 just a few pages below for a completed sample.

Step 3

Create a final list by calendar date. We used the same amounts and dates for this illustration. Refer to figure 3 just a few pages below.

This sample exercise is something your bookkeeper or controller will be able to assist you with if you are not a financial business manager.

Complete Obligations list by date			Figure 3 (Step 3)			
	04-May	Utility Bill	- 2,000.00			
**		Bi weekly Payroll	- 10,000.00			
	06-May	Bank fees	- 275.00			
	08-May	Auto Lease	- 1,500.00			
**		Payroll Benefits	- 4,250.00			
	10-May	Tax Installment	- 4,950.00			
	11-May	Bob Salary	- 5,000.00			
	12-May	Bill Salary	- 8,000.00			
	14-May	Lease copier	- 1,000.00			
	15-May	Truck Lease	- 2,000.00			
	18-May	Fuel Bill	- 6,000.00			
**		Bi weekly Payroll	- 10,000.00			
	22-May	Utility Bill	- 1,250.00			
	24-May	Equipment Lease	- 3,750.00			
	25-May	Bank Loan	- 8,750.00			
	27-May	Jim Salary	- 6,250.00			
	28-May	Monthly Advertising Bill	- 6,500.00			
	29-May	Membership Dues	- 1,525.00			
	30-May	Payroll Taxes	- 5,000.00			
	31-May	Rent	- 15,000.00			
**		Materials	- 11,250.00			
**		Suppliers	- 23,750.00			
			- 138,000.00			
** these amounts will fluctuate with your sales levels but they still need to get paid. For this illustration we just used last months amounts						
Materials and supplies were added to be paid before the end of the month.						

Determining the decision-making window for your company

Once the list of obligations is complete, and using our total of \$138,000 for the month, we can now determine the decision-making window. Sorry we had to endure that example calculation however the total obligations number is critical to decision making.

To illustrate how the decision-making window works, we first look at the AR aging report as shown in figure 4 a few pages below. Notice we provided sample information for the actual sales below the traditional report. This information could easily be found on your income statement. Here is the information we would look at to start calculating our decision-making window:

- Current month sales of \$178,800 is above our obligations of \$138,000
- In fact, going backwards, the actual sales, were all more than our obligations of \$138,000
- We seem to collect most of our money from customers in the 60-89-day range

The 60-89-day range, from today, would be when we would expect to collect our monies from our current month sales. If we do not add to our obligations, and current month sales end above \$138,000 we will be fine 90 days from now. This grind will continue at the start of each month.

Monitor sales keeping obligations the same, and if our current month sales exceed our obligations, our business is ok.

However, if sales in the current month do not exceed our obligations, it will affect us 60-89 days from now. These 60-89 days is our calculated collection window to plan for our cash short fall coming up – this cannot be ignored!

Figure 5 just a few pages below is a more often than not scenario. Here is what we take away from this sheet:

- We currently have \$68,000 in the corporate bank account
- Actual sales are listed in the box below and placed as collections at the end of the month, corresponding with our 60-89-day collection window.
- We need to collect some of our \$108,000, from our sales 3 months ago, before the 25th of month 1 or we will NOT be able to make our bank loan payment – highlighted in red.
- Even if we collect all our sales from 2 & 3 months ago, using this illustration, we will NOT – REPEAT NOT make payroll on the 5th of month 3.... Unless we collect some of our actual sales from the \$148,000 before that date.

In this illustration your decision-making window is 2 months and 4 days!

Now if you have an overdraft and money tucked under your mattress this date can be extended. However now you know how to calculate your **decision-making window**.

Illustration of an AR aging Report					Figure 4
Balances as of the end of this month					
	This	Month	Month	Three	
	Month	Before	Before that	Months Ago	
Days ago	30 or less	31-59	60-89	90-119	
Customer 1	15,000.00	16,000.00	4,000.00	-	
Customer 2	17,500.00	15,000.00	2,250.00	2,250.00	
Customer 3	5,250.00	4,000.00	-	-	
Customer 4	29,000.00	32,000.00	6,000.00	2,000.00	
Customer 5	7,500.00	7,925.00	-	-	
Customer 6	5,000.00	7,500.00	-	-	
Customer 7	2,250.00	-	-	-	
Customer 8	13,500.00	8,000.00	-	-	
Customer 9	9,000.00	14,000.00	3,500.00	-	
Customer 10	4,800.00	5,250.00	-	-	
Customer 11	1,500.00	2,250.00	-	-	
Customer 12	68,500.00	30,000.00	5,000.00	-	
	178,800.00	141,925.00	20,750.00	4,250.00	345,725.00
Actual Sales	178,800.00	174,600.00	168,250.00	153,200.00	

Determining the Decision-Making Window				Figure 5	
Cash in the Bank		Month 1	Month 2	Month 3	Month 4
Starting Cash Balance		68,000.00	38,000.00	6,000.00	16,000.00
Date	Item				
4	Utility Bill	- 2,000.00	- 2,000.00	- 2,000.00	- 2,000.00
5	Bi weekly Payroll	- 10,000.00	- 10,000.00	- 10,000.00	- 10,000.00
6	Bank fees	- 275.00	- 275.00	- 275.00	- 275.00
8	Auto Lease	- 1,500.00	- 1,500.00	- 1,500.00	- 1,500.00
9	Payroll Benefits	- 4,250.00	- 4,250.00	- 4,250.00	- 4,250.00
10	Tax Installment	- 4,950.00	- 4,950.00	- 4,950.00	- 4,950.00
11	Bob Salary	- 5,000.00	- 5,000.00	- 5,000.00	- 5,000.00
12	Bill Salary	- 8,000.00	- 8,000.00	- 8,000.00	- 8,000.00
14	Lease copier	- 1,000.00	- 1,000.00	- 1,000.00	- 1,000.00
15	Truck Lease	- 2,000.00	- 2,000.00	- 2,000.00	- 2,000.00
18	Fuel Bill	- 6,000.00	- 6,000.00	- 6,000.00	- 6,000.00
19	Bi weekly Payroll	- 10,000.00	- 10,000.00	- 10,000.00	- 10,000.00
22	Utility Bill	- 1,250.00	- 1,250.00	- 1,250.00	- 1,250.00
24	Equipment Lease	- 3,750.00	- 3,750.00	- 3,750.00	- 3,750.00
25	Bank Loan	- 8,750.00	- 8,750.00	- 8,750.00	- 8,750.00
27	Jim Salary	- 6,250.00	- 6,250.00	- 6,250.00	- 6,250.00
28	Monthly Advertising Bill	- 6,500.00	- 6,500.00	- 6,500.00	- 6,500.00
29	Membership Dues	- 1,525.00	- 1,525.00	- 1,525.00	- 1,525.00
30	Payroll Taxes	- 5,000.00	- 5,000.00	- 5,000.00	- 5,000.00
31	Rent	- 15,000.00	- 15,000.00	- 15,000.00	- 15,000.00
31	Materials	- 11,250.00	- 11,250.00	- 11,250.00	- 11,250.00
31	Suppliers	- 23,750.00	- 23,750.00	- 23,750.00	- 23,750.00
Expected Collections		108,000.00	106,000.00	148,000.00	-
Ending Cash Balance		38,000.00	6,000.00	16,000.00	-122,000.00
Current Sales		30 or less	Will collect in Month 4		-
1 month ago sales		31-59 days	Will collect in Month 3		148,000.00
2 months ago sales		60-89 days	Will collect in Month 2		106,000.00
3 months ago sales		90-119 days	Will collect in Month 1		108,000.00

How to gather the right information to make business decisions

To make the best decisions for you as a manager or for your company will require the information that exists in the work flow. If your decision-making window is 2 months and 4 days, you do not have time to do a full process mapping exercise. If your boss sends you overseas you're lucky to get three days before he wants a solution to the problem, he asked you to fix.

Find out the workflow process from the time a customer calls for your services, until the invoice is paid – we will call this the sales process. Next sketch out each broad step within the sales process, then who should be doing them – if more than one person does the same step you only need to understand “the position or title” of who is responsible for completing the step.

Let's illustrate this workflow using a mechanics one bay auto repair shop. The mechanic owns the business, but we can all follow along, as we are likely to have taken our vehicle, in for repairs at some point in our lives.

Gathering the broad steps:

- Customer calls to book appointment
- Mechanic writes appointment into day timer
- Customer arrives for appointment
- Work order is generated, vehicle and customer information gathered
- Inspection of vehicle completed using the inspection report
- Repairs estimated, and parts sourced
- Customer confirms for you to proceed
- Parts are ordered
- Parts picked up or delivered
- Repairs completed
- Customer pays invoice

In this case, except the bookkeeping, the mechanic performs every step.

Say the company wanted to increase billable hours. Obvious options include hiring another mechanic, renting a two-bay shop, etc. The first step is to see how these decisions effect the decision-making window. What happens to our decision-making window as we add in the extra obligations to our list for the rent deposit, the first month's rent and the additional salary.

Again, unless you have additional access to cash this decision-making window will shrink – and as you know – the decision-making window is not built on “potential” sales. What if you move forward and customer 12 who is 38% of your revenue gets a better billable rate elsewhere. I do not want to drag this on with what ifs, but you do have to know what it does to your decision-making window, and how **comfortable** you are with whatever decision you make with the information you have.

The last section that follows, will take you deeper into gathering the information you need to make for the best business decisions possible with this concept of workflow (Process). Deeper because we know where the real opportunities lie for creating Profit through People and Process. Let's go order a cheeseburger.

How Profit is created through People and Process

Everything you need to know about how Profit is created through People and Process can be learned through ordering a cheeseburger.

Having a late lunch one day in a small-town diner a customer watches while two new customers come into the diner. These new customers place their order with the waitress. Clearly one of the customers says, Cheeseburger with no pickles. As the order is delivered, the waitress leaves, and the customer takes their first bite of the cheeseburger - Right into a pickle. As the waitress circles back to see how the food is tasting, the customer complains, and the restaurant manager comes over, to help smooth the situation over, so that the customer is satisfied before they leave the restaurant.

Here is how the information traditionally gets gathered:

- **The owner or executive of a corporation** will get their sales summary report indicating the lost revenue through the cheeseburger that was given for free.
- **The alarm will get sounded from above, down below, that we have a problem to fix here People. Investment bankers will see this as an opportunity for improvement. Accountants will ask why the free food (promo) account is up or down compared to last year.**
- The restaurant manager will look at the customer bill to determine who is at fault. If the order was placed for the cheeseburger – waitresses fault. If the order was placed for the cheeseburger “indicating no pickles” it was the cooks fault.

This is your typical every day corporate business routine. **Because we, as the other customer in the diner, eating our late lunch, would have listened to the waitress and cook talking in the kitchen about how pickles are a new item on the cheeseburger and no one has updated the ordering system to put these substitutes on the order slip for the kitchen.**

Know your obligations, learn how to calculate your decision-making window, see how your business decisions affect your decision-making window, dig deeper to find that barrier preventing you from creating Profit through People and Process.

That way you are truly making the best business decision for your boss or company.

This step by step blueprint was created for you by Business Developer Inc.

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