



BUILDING A “HIGH PROFIT” BUSINESS MODEL

Executive Overview for:

Analyzing Organization Expenses to Assure the Achievement of your High Profit Strategic Business Model and Annual Business Plan

*“The theme of this segment is the acknowledgement that our **associates** assigned in all areas of the company to include direct labor, direct supervision, direct supervision, and SG&A overhead expenses represent a significant portion of the company's overall cost structure. We have said on many occasions that our people are our most important product and we have actually spent considerable time within the Business Solution Library to teach you how to build a “High Performance Organization and Company Culture”. We have also talked about how critical it is to make associates responsible and accountable for both position objectives and new initiatives or we will not be able to achieve the goals outlined in the Strategic plan.*

You as company leaders, however, must stay vigilant and have a formal system for continually reviewing and authenticating nearly every position in the company to assure two things. You must continue to verify that each position is valid in your quest for a High Productivity Culture and a High Profit Company and in addition that you have the “right” associate operating within each role. As companies grow, markets change, technology, automation, and methodologies improve, you as an organization must stay ahead of the curve and take advantage of every opportunity to streamline and improve the performance and productivity of your people and your business. Your ability to be profitable in the market place with competitively priced products demands it.

The YourBoard.US philosophy and RROI-Position and Performance Agreement can be the tool used to bring all of the objectives and initiatives down to the level of each associate’s Role where responsibilities and accountabilities are assigned and the expectation for results are jointly agreed upon and reviewed. This process can be very helpful in both verifying the need for each position and assuring that the associate filling each role is meeting and exceeding expectations.



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The successful achievement of objectives and the execution on planned strategic initiatives with a “right sized” work force is where great companies separate themselves from mediocre companies and where profits become quite different. - YourBoard.US

1. Analyzing the SG&A and Direct people expenses to assure they are “in budget.”
2. In addition to expense analysis for the SG&A organization of people, we should establish similar and aggressive initiatives for finding direct labor, direct supervision and logistics cost consolidations.



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Numbers are just numbers unless there is a detailed plan with objectives and initiatives discussed, assigned and jointly agreed to by each Owner, Leader, Manager, Supervisor and Associate within the company.

It is the assignment of responsibilities and the acceptance of accountability toward reaching the objectives and implementing the initiatives that will determine if the numbers you put in the financial plan will “come alive” as positive results and profits. This is where the “number projections” end and the “execution plan” begins. This is where the rubber meets the road of reality. This is where great leadership and management take the “ball” and run with it.

Steps to convert the Strategic Business Model and Financial Plan to reality is all about the management process.

It is critical that every objective and initiative identified in the PMS analysis process be assigned to the Leadership and Management, Supervisors and Associates (the Team) both in discussion and also more formally written in each associate’s “Position and Performance Agreements.” This is covered thoroughly in the “Individual and Organization Development” segment under the topic RROI-Position and Performance Agreements.

Managing in a positive way within a High Performance “Recognition Based” Company Culture to the agreed upon objectives and initiatives is the very top priority of the company Leadership and Management Team. This is where a skilled, engaged and motivated organization makes the real difference in achieving financial performance.

Analyzing the organization and its costs and being certain that the selected group of team members shown on the organization chart fits within the sales and general administration expenses shown on our budget draft is very critical.



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Historically, except in retail, restaurant and hospitality type industries where occupancy costs are significant, people represent upwards of 70% of all SG&A expenses. This is where you put a confidential organization chart together and list, in abbreviated fashion, each position and then place the payroll cost of each associate next to their position to include any prorated salary increases and any incentive bonuses or commissions that are projected in SG&A. Obviously, this exercise is conducted and shared only with the Owner, CEO, COO and CFO. While building and adjusting our “high performance” organization, keep in mind each associate’s role, responsibilities, objectives and the planned initiatives you have identified and assigned to improve gross margins and profits. Don’t allow unintended consequences from a major SG&A cutback to defeat your strategic purposes and plans.

Note: Generally, employee payroll taxes and benefit costs are figured as a percent of total payroll. Be certain you have considered all of the payroll tax and benefit expenses in your final calculations of the total SG&A people cost



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Example: Organization Chart and related people expenses

Example Big 5 Budget – SG&A (Overhead)

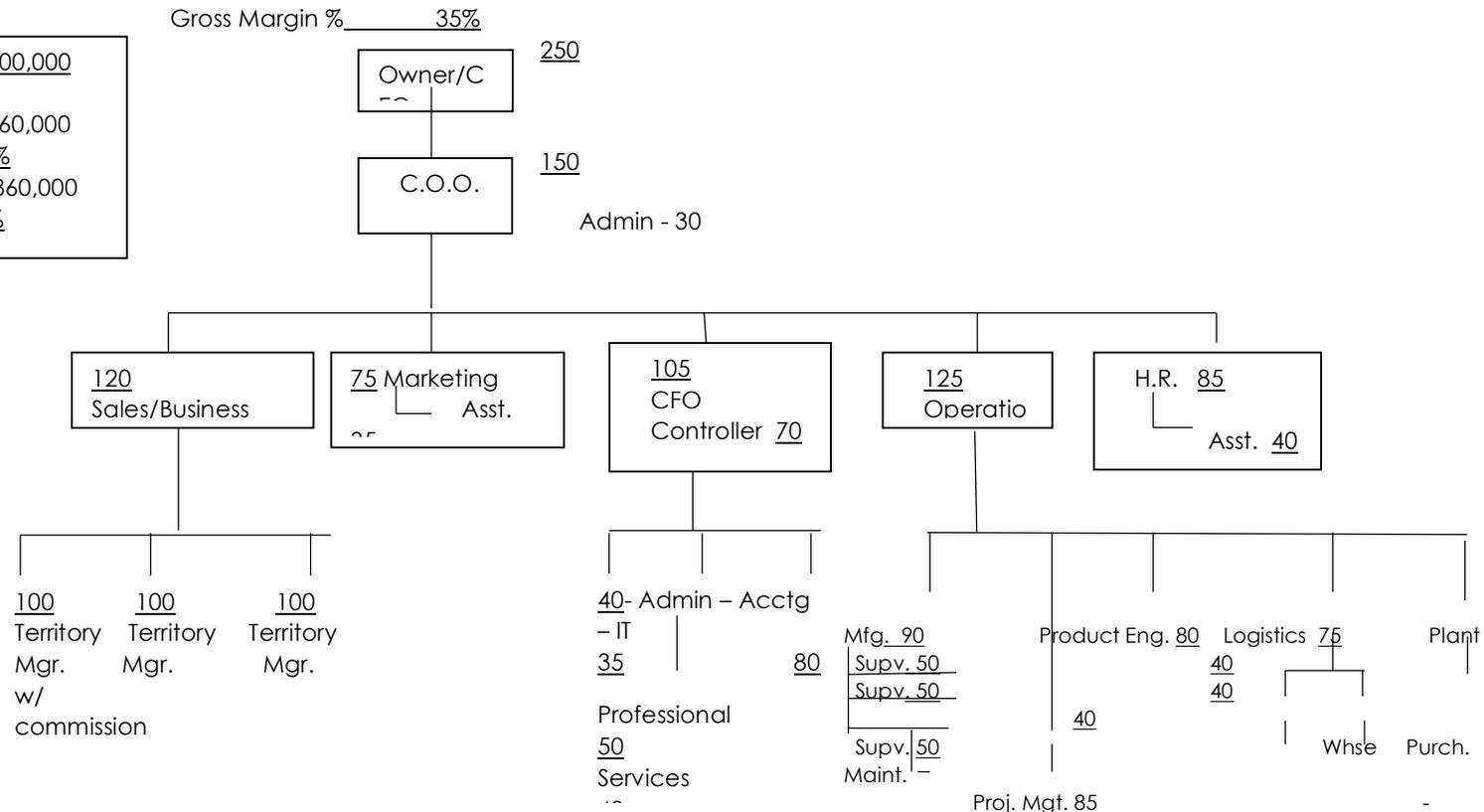
Revenue \$ \$10,000,000
 Direct Costs \$ \$ 6,000,000
 Gross Margin \$ \$ 3,500,000

SG&A – People \$	<u>\$2,200,000</u>
(at 70% of SG&A)	<u>22%</u>
SG&A non-people	\$ 660,000
(at 30% of SG&A)	<u>6.6%</u>
SG&A Total \$	\$ 2,860,000
SG&A % of net sales	<u>29%</u>

Profit \$ **\$640,000**
 ROS% **6.4%**

SG&A people budget
 \$2,200,000
Results: Actual projected
people expense \$2,160,000

Yes ✓ we are in budget for



Big 5 “Direct Cost” People Budget

Budget: \$1,010,000
 Actual Plan \$1,000,000

Yes ✓ we are in budget for direct cost people costs



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Note: In this hypothetical example, we show being on the good side of the Budget Plan by \$40,000.00 in your SG&A people costs. If you show a negative variance you either adjust the Financial Plan or, cautiously, adjust the head count.

Annual Organization Budget

The Owner, CEO, CFO and COO (and potentially other managers) should conduct an annual sit down review and audit of each position within the organization to test whether it is needed or could be consolidated or eliminated. When you do this annual or even semi-annual organization audit the Leadership and Management Team should be looking at two things:

1. **Is the position contributing to the success of the organization?** Could it be consolidated with another position, moved to part time, be outsourced more cost effectively without impacting quality, integrity or control, or could the position be eliminated? Be certain that there is input from multiple perspectives so that a position is not eliminated only to find out there was a need for the position you hadn't thought of. The unintended consequences of a bad decision on eliminating a position makes management look inept and can change a positive culture to a negative one.
2. **Is the wrong person in the role?** Is having the "wrong person" in a role why the contribution to the company is minimal? This should not occur if you have chosen to follow the process outlined in the segment on: "The RROI – Position and Performance Agreement." In this key element of organizational development, there should be no associate, at any level or rank, who isn't meeting the jointly agreed upon objectives and initiatives and isn't contributing to the company as was jointly outlined and agreed to when developing their Role within the organization.

If the position within the organization structure is valid and should be a critical contributor to the performance and financial objectives of the company, but is not working out that way because you have the wrong person in the role, I would suggest you follow the steps outlined in the "RROI – Position and Performance Agreement" process to either improve the person's performance quickly or transition them out of the position.



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The bottom line to organization costs are:

1. The leadership of the company must be certain the position is valid and the person in the role is performing at 100% so that all of the objectives and are achieved and the initiatives for the planned improvement are covered.
2. **The organization costs are covered within the final budgeted SG&A Expense Plan.**
3. If the final organization plan is higher in costs than the SG&A budget, after everything was taken into consideration, then the final budget draft and all of the profit numbers within it will have to be adjusted.
4. **Direct costs** – A similar exercise should be undertaken for all of the “people” contained in direct costs. A similar organization audit should be conducted, at least once a year by each Supervisor and Manager within the “direct cost” category to validate both the position and individual in the position’s performance level as we did in SG&A. Again, if the total projected directed cost for the associates, or the projected use of material or other non-people require adjustment, it is necessary to do that before the final budget draft is submitted.

Don’t forget the greatest opportunity for “Margin Improvement” is the analysis of direct labor, direct material and logistics costs. This category of direct expense, because of its usual high percent of overall revenue, has the greatest opportunity to impact both the gross profit and profit. Key technology, automation and process initiatives for reducing direct labor, direct material and logistics costs can generate the single greatest opportunity for gross profit improvement. The only counter to that comment is a warning not to do anything to impact quality or product performance outcomes or service in the eyes of our customers.

Summary

As it relates to the final budget review and authentication you should now have looked and verified the direct labor and material cost and SG&A organization expenses to assure that they are reflected properly in the planned budget. At this point of “organization auditing” you should also look hard for opportunities to improve profitability with “creative initiatives” for cost and expense reductions.



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