

THE ROAD TO MAXIMIZING PROFITS

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The road to profit can be rough, especially if you are without a map to guide you through the obstacles and barriers you will encounter along the way. These challenges throw you off course – turning your focus away from the final destination and toward alternative paths.

While dealing with issues as you approach them, keeping your long-term goals in mind is crucial to avoid going so far off course that it is difficult or impossible to turn things around.

There are many management theories to guide you along the way. For example, five avenues to success can be adopted from the 5Ps of Marketing (Marketing Management. Philip Kotler and Kevin Lane Keller. 15th Edition. 2016):

1. **People** – focuses on the needs of the company's customers, employees, and stakeholders.
2. **Processes** – these are the internal activities needed to produce a product or service.
3. **Programs** – are the company's customer-directed engagement, marketing, promotion, and sales activities.
4. **Performance** – reporting on various outcomes from a financial and non-financial perspective. This includes metrics such as profitability, brand and client equity, and implications beyond the company like social, legal, ethical, and environmental responsibilities.
5. **Productivity** – includes production, deliverables, quality control, and other programs that deliver value to customers.

Open Book Management

Another theory – Open Book Management (OBM), is at the junction of the five paths described above. OBM is a way of running a company that engages employees in making money. People learn to understand the economics of the business. They track and forecast key numbers. They figure out how to move those numbers in the right direction and share in the rewards of better performance.

Definitions of OBM vary, but they generally include the following components:

- Sharing the income statement and balance sheet with most employees

- Sharing other data with employees (such as productivity and plant utilization/quality data)
- Encouraging employees to use the information in their daily work
- Training employees to understand financial numbers
- Sharing financial results through a gain-sharing program

OBM has been called the most important management trend in the country for a good reason. OBM nearly always improves near-term financial results. Some companies reported as much as a 30% increase in productivity and profitability in the first year alone. Besides the economic benefits, OBM strengthens a company over the long haul. It improves the lives of employees, building loyalty and commitment. It helps create a business that can thrive year after year in today's mercurial economy.

A Powerful Competitive Advantage

Companies that use the OBM approach have a competitive advantage – their people. A major shift happens when leaders trust their employees to the extent required by OBM. Employees become invested in the company. They think of the company as their own and work hard to ensure it is successful. Instead of showing up to do a job, they show up to perform at a higher level. As a result, companies will have:

- More engaged employees
- Lower supervisory costs
- Better front-line relations with customers
- Faster, more agile response to changing customer needs
- More fun
- Higher company valuation

Putting It Into Practice

• Communicating With Employees

With conventional initiatives, a company's decision to hire consultants is usually the critical step. The consultants work directly with managers and employees to implement the prescribed changes. With OBM, consultants typically coach from the side

lines. Because it affects many different parts of a business, OBM requires senior managers' ongoing support and involvement. Because OBM is, in many ways, a cultural change, everybody in the organization learns new ways of thinking and acting. It also requires the ongoing involvement of middle managers and frontline employees. While the groundwork for change is being laid, an OBM company must develop "scoreboards" or vehicles for regular communication of key metrics to the workforce. Business-unit scoreboards include an income statement, a balance sheet, and other numbers critical to the unit's long-term health.

• Employee Accountability and Effect on the Company

The hallmark of OBM isn't just seeing and understanding financial metrics. It's taking joint responsibility for focusing on and meeting company goals and objectives. Like any system of responsibility and accountability, OBM needs a structure. The hallmark of OBM is employees' joint responsibility for moving the numbers in the right direction. OBM usually begins with department-level meetings, which must develop and monitor numbers from the ground up. Then employees start experimenting with ways of affecting the numbers, which may also encourage them to create better metrics to handle the most critical drivers.

• Rewarding Employees for Business Success

Traditional bonus plans are typically designed to reward improvements in the company's bottom line and procedural efficiencies. The bonus plan is thus an indispensable part of the management system because it answers the inevitable question: What's in this for me?

• Generating and Maintaining Excitement

OBM can be made competitive and rewarding with gameplay. A game is an initiative focusing on immediate improvement in a given area. Companies call it a game because it has a starting point, set of rules, goal, and reward for winning. Every game focuses on financial results. Employees learn that what they do on the job daily affects some number that ultimately impacts the business's financial performance. The satisfaction comes from figuring out how to win and benefiting from the rewards of winning. Gameplaying teaches employees to understand and care about the business. In open-book companies, people understand that games are a fun and exciting way to learn about the business and that the real payoff will come as the whole business unit improves its performance.

Conclusion

Because OBM is a system rather than a how-to program, it is not a quick fix. Implementation is a long and cumbersome process, particularly in a large company. The effect of the new way of thinking on the bottom line may not be apparent for some time.

The power of OBM lies not in the short term but in the long term. In its ability to change how people think and act, day in and day out. Business success always depends on a wide variety of factors. But this is a constant: whether a company's employees care if it does well, know how to help it do better, and have a reason for learning new skills and attempting new tasks.

About the Author. . .Salvatore Schibell, CPA, CFP®, MS Taxation, MBA, CGMA, is the tax partner at Lawson, Rescinio, Schibell & Associates, P.C. One of his specialties is working with contractors to maximize profitability utilizing his certified global management, financial planning, and tax planning specialties. Sal has many years of experience and can be contacted at 732-539-7328.

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