

Lake County Contractors Association Professional Practice Report

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Keeping Score with a Strategy-Based Business Model

By Joseph M. Modica, CPA

Economic recovery statistics may be making headlines, but beware. Business bankruptcies are up 13% over last year, and at their highest level since 1998. Construction industry professionals need to focus on the economic indicators within their industry and the performance indicators within their businesses to avoid the negative impact from any future economic downturns.

It is not good enough to work “in” your business. You must step back, think strategically, and work “on” your business. This calls for a unique, strategy-based management model that puts you proactively in control and steps ahead of your competition. This model includes six key action steps:

- Define your strategy
- Prepare a budget
- Identify Critical Success Factors
- Determine Key Performance Indicators
- Generate “Flash” Reports
- Prepare financial statements

Define your strategy – You have to know where you want to go and how you’re going to get there in any endeavor, especially in business. Many businesses skip this step. You need to move away from the day-to-day activity of running your business and look at the big picture. Decide what you want your business to look like when you sell it (even if you never plan to sell it). Then decide what it is going to take to get you there. Businesses who plan strategically are better prepared for a timely reaction to sudden changes in the marketplace or operational crises that can undermine profitability.

Put together a budget – Many business owners, if they create a budget at all, put it in a drawer and never look at it again. Your budget should be the road map that helps bring your strategy to life so you can achieve your goals. I recommend using a combination of two budgeting techniques: historic/trend based and zero based. For example, when budgeting a field labor force of 300, you would probably calculate a percentage increase or decrease from a previous year’s numbers (historic). A zero-based approach would be based solely on anticipated numbers with no regard for past history. Combining historic-base and zero-base allows for goal-oriented thinking with the reality check of past numbers to keep you realistic.

Identify your Critical Success Factors – Now it gets interesting. Look at your organization, think about your strategy, and decide what vital issues must be controlled for your budgeted goals to become reality. Do labor costs need to be kept flat? Do you need to manage your return on fixed assets? Do you need sales growth? This is the step that links operational tasks with financial goals. Identify your Critical Success Factors and you are ready to translate your strategy into employee performance.

Determine your Key Performance Indicators – Key Performance Indicators allow you to measure progress in achieving your strategic goals. Having identified the Critical Success Factors, you can link that information to specific objectives your organization must accomplish.

For example, if increased profitability is part of your overall strategy and a budgeted goal, and you have determined that labor costs are a critical success factor, the key performance indicators might include the following:

Ratio of straight time vs. over time
Number of employees
Revenue per employee

Your employees do not have to understand financial data, they only need to understand the performance goals they've been given. They simply have an operational goal that needs to be met, and if it is met, the financial goals should be achieved. As a side benefit, this will provide an objective performance measurement tool for your employees.

Generate Weekly "Flash" Reports – Ask yourself: would a team play a game without keeping score? If you are a business owner and you don't run weekly financials you are playing a very important game without keeping score. "Flash" reports provide a quick look at important data to help you manage your business. A typical Flash Report includes:

Key Performance Indicators
Cash Information
Receivables
Payables

Prepare Periodic Financial Statements - Business owners cannot and must not delegate the responsibility for understanding their business's financials to anyone else. In addition to weekly "Flash" Reports, which allow business owners and managers to stay nimble and solve problems before they become crises, periodic financial statements are essential management tools, evaluating the progress you have made in reaching your strategic goals. These financial reports can also be valuable planning tools.

Mike Ditka said, "Only cowards live in the past." Business owners need to adopt a strategy-based management model to ensure that progress is monitored and goals are met. Without this model you will be dealing with the problems of the past rather than creating opportunities for the future.

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