

The HOW and WHY of Key Business Measurements

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1. The Need for Key Measurements

1. Too much information
 - ▶ Computer data dumps
 - ▶ Too many reports
 - ▶ The “Mammoth Report”
 - ▶ Critical information lost in the details
 - ▶ Management decision information
 - ▶ Two minute reports
 - ▶ Dashboard reports
 - Drill downs
2. Loss of focus
 - ▶ Too much information = No information
 - ▶ Too much detail
 - ▶ Not the right information or right format
3. What is important
 - ▶ What are the critical measurements
4. Lack of accountability
 - ▶ Holding people accountable for results
 - ▶ What are their key results
 - How are they measure
5. Requires a plan
 - ▶ Need to measure against a plan, target, goal, or objective
 - ▶ Raw numbers by themselves don’t mean much
6. Reaction time
 - ▶ Management information needs to be timely
 - ▶ General management reports are too late
 - ▶ Real time information
7. **CALL TO ACTION**
 - ▶ *Too often information is there but no one is taking action to correct the problems*

II. Simplification

1. Make it really simple
2. Make it standard
3. Make it consistent
4. Make it reliable
5. Make it timely
6. Make someone accountable

III. Accountability

1. Who is responsible for tracking the metric
2. Who is responsible for the performance of the metric
3. Who is responsible for corrections to achieve the target metric

IV. Levels of Measurements

- Company
- Regions
- Divisions
- Community
- Departments / functions

V. Financial Structure

Follow NAHB Chart of Accounts:

1. Revenues
2. Cost of sales
 - ▶ Lots
 - ▶ Direct construction cost – sticks, bricks and labor to put them up
3. Operating functions:
 - ▶ Production – the field
 - ▶ Sales and marketing
 - ▶ Financing
 - ▶ Office
4. Use the financial structure as an internal management tool
 - ▶ Can be adjusted by accountants for external users and reports
5. Utilize the concept of “Responsibility accounting”
 - ▶ Managers held accountable for financial results of their departments
 - ▶ Meaningful management reports
 - ▶ Become responsible
 - ▶ Empowering

VI. Other sources of key indicators

1. Marketing
2. Sales
3. Inventories
4. Production
5. Warranty

VII. Use comparisons

1. Measure against something
 - ▶ Target or goal
 - ▶ Budget

- ▶ Industry standard
2. Use trend lines
 - ▶ Not just one isolated period
3. Sort by common reasons
 - ▶ Accumulate information by common cause
4. Understand the dynamics
 - ▶ What are the numbers showing
5. Show cumulative numbers
 - ▶ Show progress towards the targets

VIII. Chart Critical Numbers

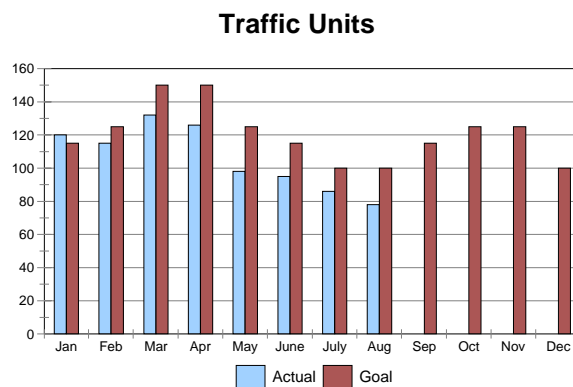
1. Our people are visual
 - ▶ Don't relate to tables of numbers
2. Can see issues faster
 - ▶ Directs attention
 - ▶ Why is this happening?
 - ▶ Get people engaged faster

IX. Focus on Critical Areas

1. What are the critical areas needing management attention
2. Shows where the problems are
3. Directs management to proper decisions
4. Stimulates action

X. Marketing

1. Traffic units
2. Source of traffic
3. Where they are coming from
 - ▶ Zip codes
 - ▶ State
 - ▶ Cities



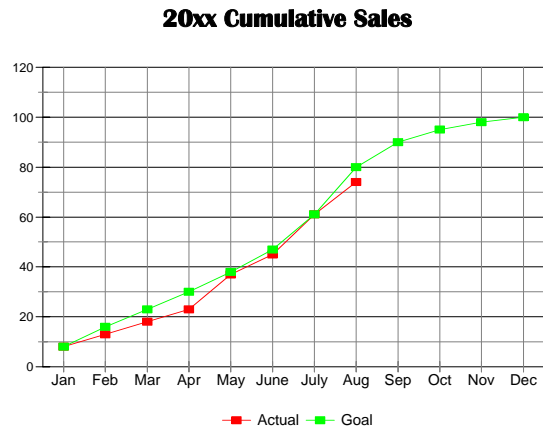
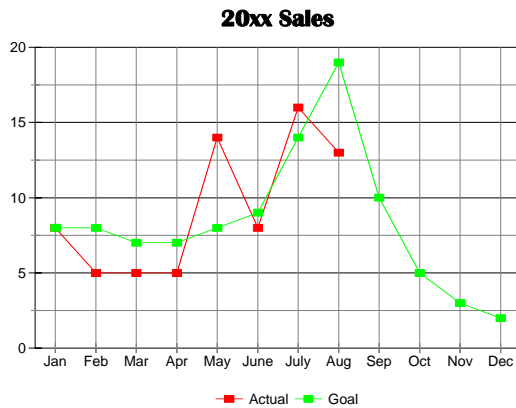
XI. Sales

1. Discounts
2. Contracts
3. Cancellations
4. Closings
5. Sales by plan
6. Sales by community
7. Sales by divisions

XII. Discounts

1. Get lost
 - ▶ Too often record contract at net amount
 - ▶ No record of the amount of discount
 - ▶ Hard to analyze financial impact of discounts
2. Every dollar of discount is lost profit dollar
 - ▶ Comes out directly from profit
3. How many more homes do you have to sell to make up for discounting?
 - ▶ \$10,000 discount
 - ▶ 5% net profit = 1/20
 - ▶ \$10,000 X 20 =
 - ▶ \$200,000 in house sales

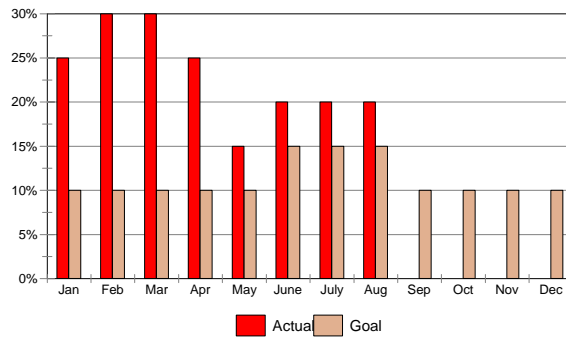
XIII. Contracts



XIV. Cancellations

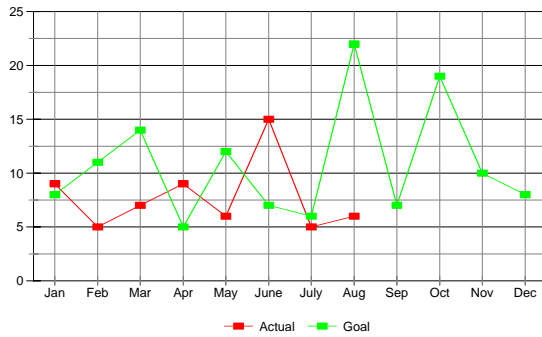
1. Timing
2. Reasons
 - ▶ Financing
 - ▶ Contingency
 - ▶ Relocation
 - ▶ Dissatisfaction

Cancellations

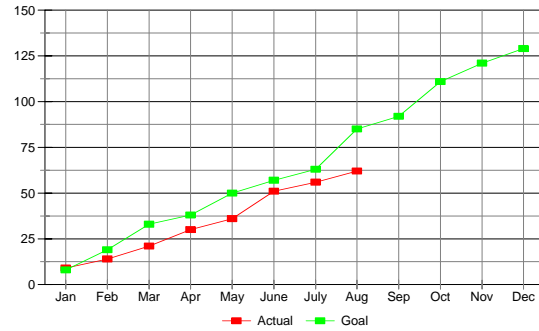


XV. Closings

20xx Closings

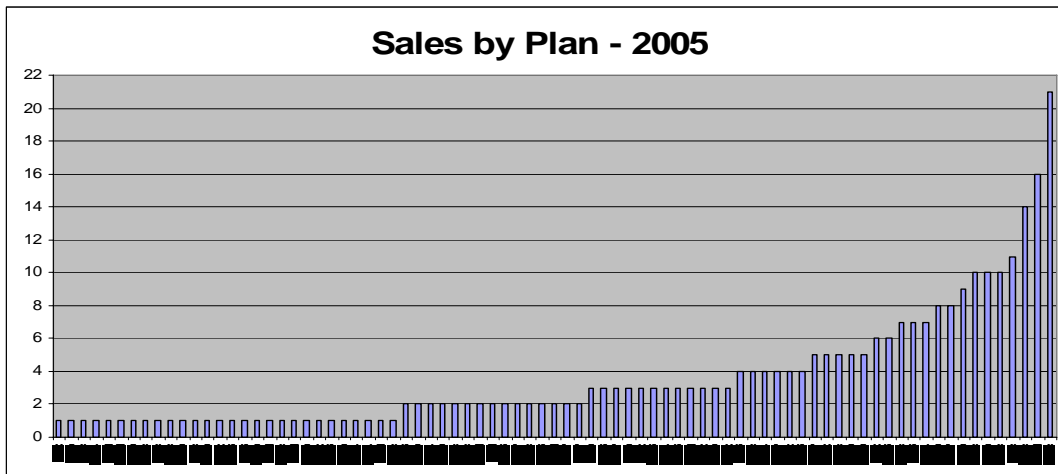


20xx Cumulative Closings

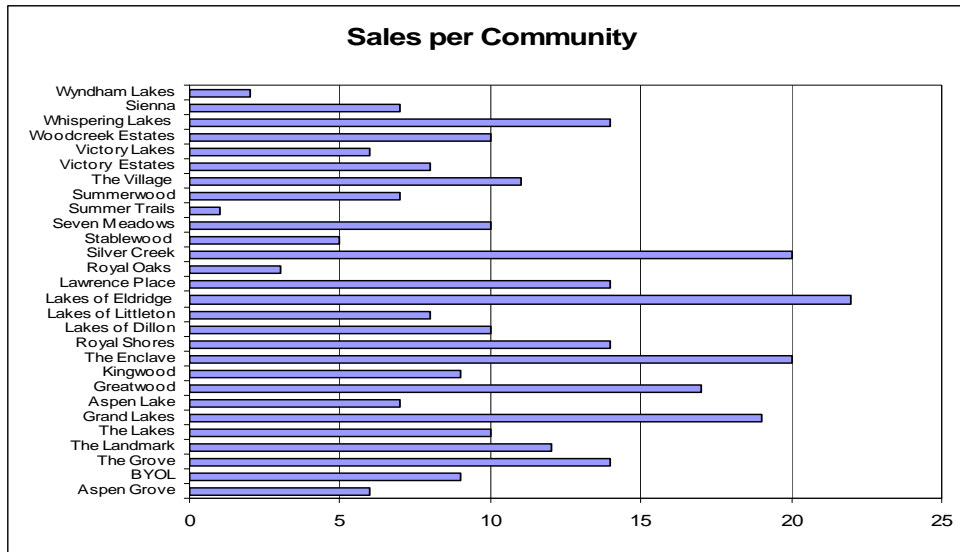


XVI. Sales by plan

Sales by Plan - 2005



XVII. Sales by community

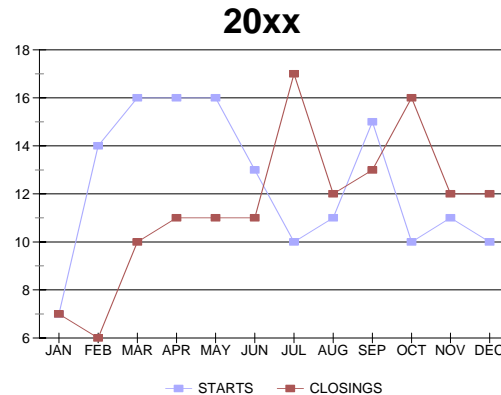
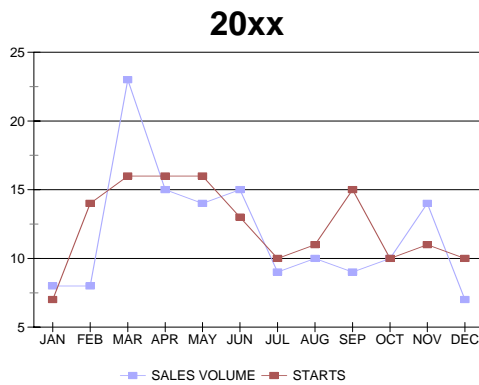


XVIII. Inventories

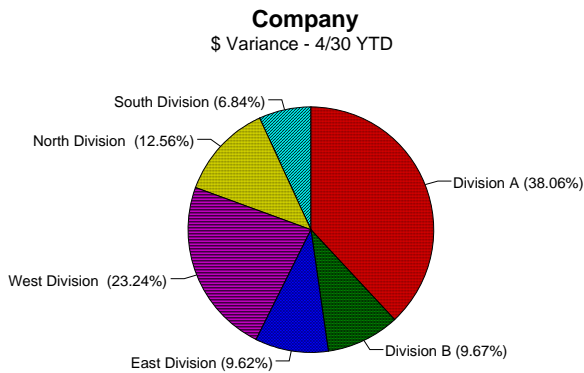
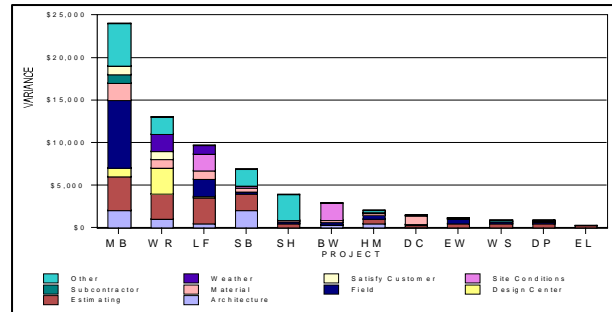
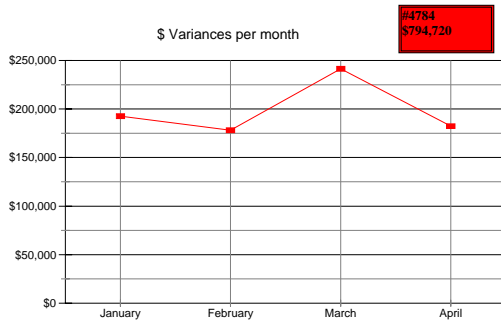
1. Total spec homes
 - ▶ Should have a limit by community
2. Total FINISHED spec homes – aging
 - ▶ Should have a program to eliminate
3. Lots available
 - ▶ By product
 - ▶ By community
 - ▶ By geographical area of your market
4. Number of weeks / months of available lots

XIX. Production

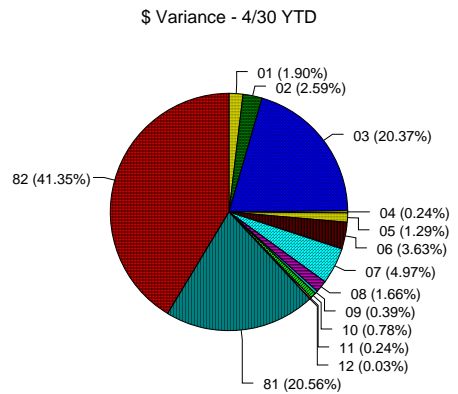
1. Starts



2. Contract backlog
3. Variances
 - ▶ Where
 - ▶ Reasons
 - ▶ Who is responsible
 - ▶ Types of variances
 - Cost
 - Schedule
 - Quality



Reasons



4. Cycle Time
 - ▶ Impacts turnover rates
 - ▶ Impacts indirect construction costs
 - ▶ Impacts financing expenses
 - ▶ Impacts cash flow
 - ▶ Impacts work in process inventory
 - ▶ Impacts loan requirements

Average days from start to closing:

	2002	2003	2004	2005	2006
Less than 1800	83	113	116	116	124
1800 to 2500	107	123	129	131	132
Over 2500	125	153	153	171	172

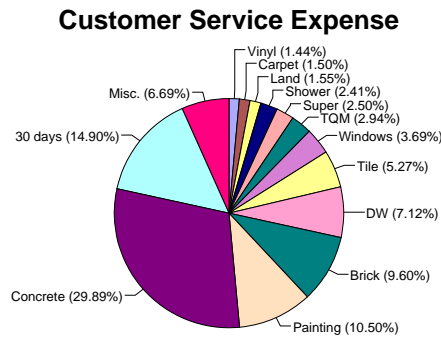
THE POWER OF TURNS

Cycle Time	Target homes closed				
	300	420	600	720	900
180 days 2.0 turns	150	210	300	360	450
150 days 2.4 turns	125	175	250	300	375
120 days 3.0 turns	100	140	200	240	300
90 days 4.0 turns	75	105	150	180	225

5. Average delay days
 - ▶ Reason codes
 - ▶ Track same as cost variances
6. Superintendent loading
 - ▶ Types of homes being supervised
 - ▶ Location of homes being supervised

XX. Warranty

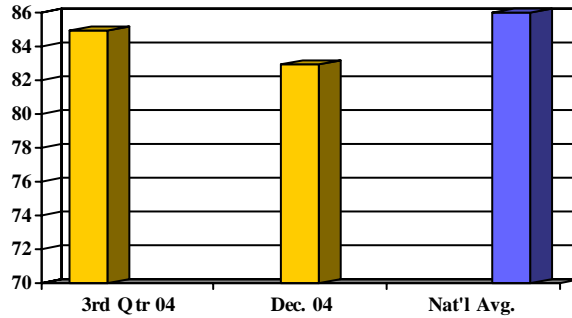
1. % budget for warranty
2. Warranty causes
3. Average aging for outstanding items



XXI. Customer Satisfaction

1. Willingness to refer

Customer Satisfaction Results Willingness to refer Homeowner Survey



XXII. Key Financial Indicators

1. Gross Profit

- ▶ By month
- ▶ By unit
- ▶ By plan / model
- ▶ By community
- ▶ By division

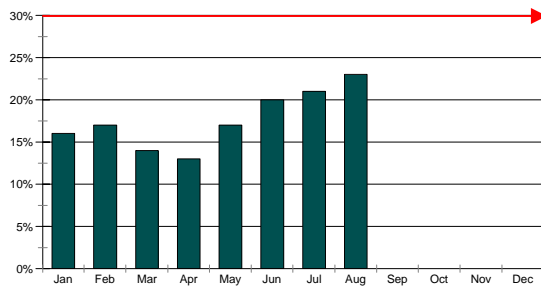
2. First line of defense

- ▶ Can't have good net profits without good gross profits

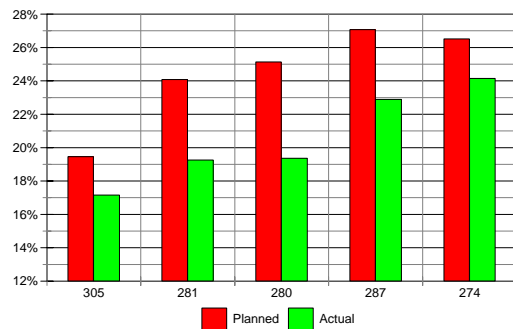
3. Does not guarantee profits

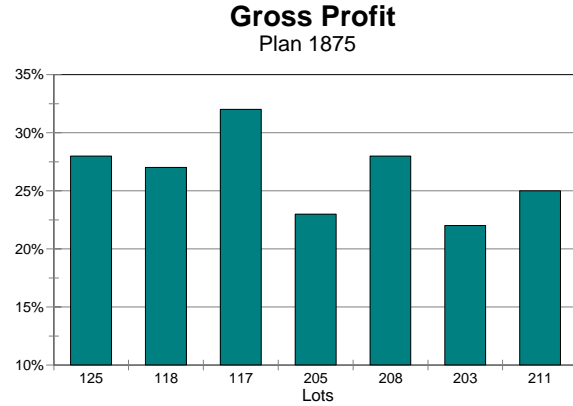
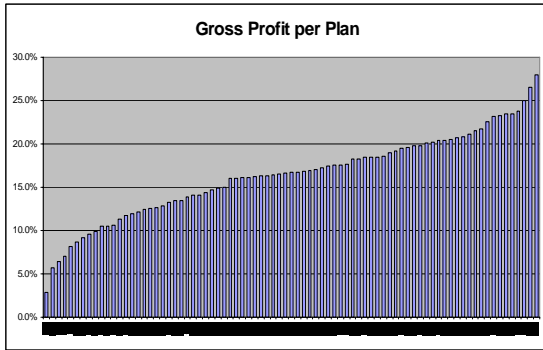
- ▶ Sales volume
- ▶ Operating expenses too high
- ▶ Poor systems and procedures
- ▶ Inefficient

GROSS PROFIT

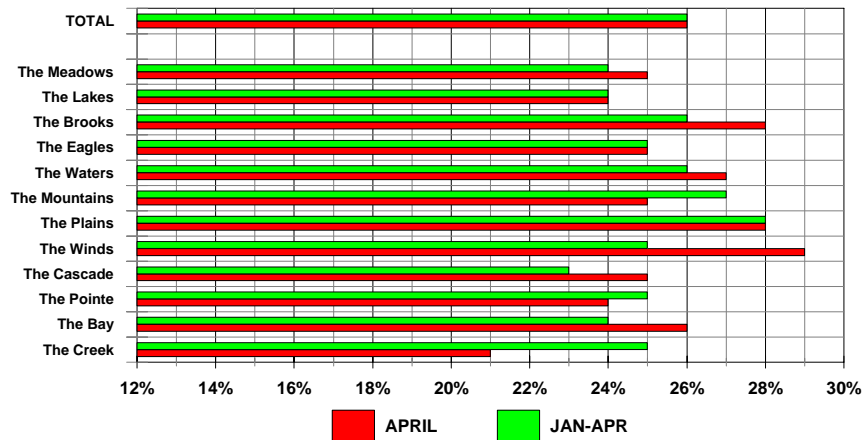


GROSS PROFIT PER UNIT





GROSS PROFIT ANALYSIS
January - April



2. Indirect cost ratio – field expenses
 - ▶ Indirect cost / sales
3. Financing expense ratio
 - ▶ Financing expenses / sales
4. Sales and marketing expense ratio
 - ▶ Sales and marketing expenses / sales
5. General & Administrative expense ratio
 - ▶ G & A / sales
6. Net Profit ratio
 - ▶ Net profit / sales

	Current	YTD	Target
GROSS PROFIT	26.50%	25%	30%
INDIRECT COST	3.20%	3.35%	3.50%
FINANCING EXPENSES	3.50%	3.20%	4.00%
SALES & MARKETING	6.50%	7.00%	6.00%
G & A	4.70%	4.90%	4.50%
NET PROFIT	8.60%	6.55%	12%

XXIII. Other Financial Indicators

1. Inventory Turnover
 - ▶ Average Inventory / Sales
2. Debt to Equity
 - ▶ Total Liabilities / Owners' Equity
3. Return on Investment
 - ▶ Net Profit / Average Owners' Equity
4. \$ Volume per employee
5. Cash Balance - % of budget