



Maximum PIE - Winning in Business



***Happily Maximizing Profit in a Small or
Medium-Sized Company***



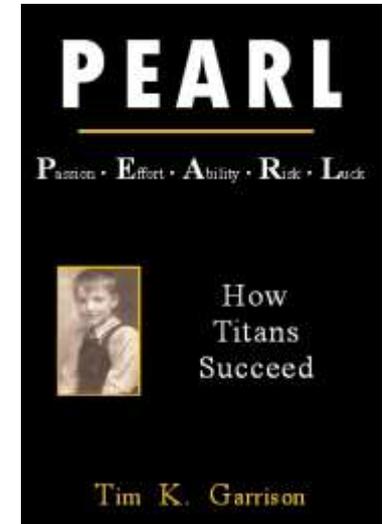
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Sources

The source material for this presentation comes from:

- * My 5th book, P.E.A.R.L., which includes a bibliography of 60+ books on success.
- * Success consulting with 30+ companies, including national and international work with True North Development, a Detroit-based global lean consultant.
- * Battle grime from starting up and running successful construction, consulting, and software companies.
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Part 5



Maximize Income

Copy

Maximum PIE = Max Income, Min Expense

Now that we have:

- The right people on the bus
- The wrong ones off
- The right people in the right seats
- TQI Culture in place

It's time to get serious about maximizing profit.

Recall, $P=I-E$.

To maximize profit we must **maximize income** and **minimize expense**.



Is our profit bucket leaking from one or two gaping holes or from a bunch of small cracks and pinholes?

A Thousand Little Cracks

Every company I work with suffers the same problem:

They bleed money from a thousand little cracks rather than one or two gaping fissures.



Big chasm – rare.

Why are big chasms rare and many little cracks common?



A thousand little cracks – common.

A Thousand Little Cracks

Big gaping holes demand attention and usually get fixed.

Small holes are viewed as an annoyance – something we can live with. The problem is they add up.

We should have a “**mind the pennies and the dollars will follow**” mindset.

MIND
YOUR
PENNIES



*Explain how small leaks cost us **profit**.*

A Thousand Little Cracks

Any company has fixed costs. Things like rent, utilities, salaries – recurring costs that are the same every month regardless of our income.

So when we leak money, the fixed costs still have to be paid. Meaning that leaked money *directly reduces profit*.

Meaning that we should view every leaked dollar as a critical opportunity missed.

- *How much profit cushion do we really have?*
- *Name a few small money leaking cracks here.*
- *Why don't they get fixed?*
- *What is opportunity cost?*



Opportunity Cost

My working definition of opportunity cost is: *Income we forfeit because we failed to produce something when we should have.*

Opportunity Cost

noun

1. (economics) the benefit that could have been gained from an alternative use of the same resource

For example, if we normally make 100 widgets a month but in October we only made 80 because we had to spend time and resources fixing defective widgets, we forfeited the income of 20 widgets in October. That's real.

- *Examples of opportunity cost in our company?*
- *Does upper management understand AND stay on top of accounting?*

Be More Excellent - Mind the Beans

Most companies' upper management do not *really* examine their own books regularly. **Big problem.**



- *When was the last time our upper management went through the balance sheet line-by-line?*
- *... A/R and A/P?*
- *Why is ignorance here a problem?*

Mind the Beans

If you're not minding the beans, you won't really know how much operating cash is available.

Cash flow is the life blood of any company.

CASH FLOW IS

KING

List some consequences of bad cash flow.

Mind the Beans

Without cash we can't pay employees or vendors. Unpaid employees and vendors stop producing, further damaging cash flow.

Without cash we can't buy equipment and supplies. Without these we can't do our job, further damaging cash flow.

Without cash we need loans. Borrowed money is expensive and labor intensive to get.

Without cash we can't reinvest and grow our company.

List some reasons management might not be aware of cash flow problems.



**I'M HAVING
AN
OUT-OF-MONEY
EXPERIENCE**

Mind the Beans

Possible reasons management might not know about cash flow problems:

- Bookkeeping staff may not be doing things right.
- Other staff may not be feeding accounting correct or on-time information (timecards, invoice requests, expense requests, etc.)
- Bookkeeping staff don't know when projects are done, extend, change, etc.
- Bookkeeping software may not be set up / operating correctly.
- Bookkeeping staff may not be as qualified as they said in the interview.
- There might be corruption / embezzlement happening.

- *Who's responsibility is it to be on top of the above - the bookkeeper?*
- *What's more difficult: maximize income, or minimize expense? Why?*



How Do We Maximize Income?

It's usually harder to maximize income than minimize expenses:

- There is only so much we can charge and still be competitive.
- For most companies there is only so much market we can tap to sell to.
- There are *numerous* things we can do to cut costs.

- *Is our price point competitive?*
- *Can we charge more? How?*



Maximize Income – Price Point

Integrity requires that we charge a fair price, even if we can get away with more.

*Hey, this is America –
why not skin a fat hog
when we can?*



Price Point

Some companies gouge when they can get away with it. I say that's bad business. A gouged customer is a loser in a win-lose transaction. A gouged customer is an angry customer.

With social media it's pretty easy for angry customers to get even.

A company in it for the long haul lives and dies by its reputation. **Integrity,** always.

- *What is "fair price"?*
- *Should we always aim for the highest price we can fetch?*



Price Point

“Fair Price” is what *you’d* want to pay if the tables were turned.

Sometimes we price with different goals in mind:

- Maximize profit
- Bring in new customers
- Survive a recession
- Meet or beat our competition

For a Maximum PIE goal, we should set as high a price point as we ethically can.

How are our prices? High?
Low? Fair? How do we
know?



Price Point

There are a few ways to know if you're priced right:

- You get too busy or too slow. Not a great strategy.
- Check your competition's prices. Sam Walton (Walmart) did this *all the time*. Be sure you're comparing apples to apples.
- A better way is to simply ask your customers.

What else can we do to maximize income?



Maximize Income – Getting Paid

An obvious way to maximize income is to be sure we're getting paid.



- * Are we being paid quickly and happily?*
- * What's wrong with slow payments?*
- * Are we being paid all that we're due?*

Getting Paid

Slow payments are the death knell to cash flow.

Sometimes to get a client to pay, we accept less than is due. This is almost always a failure on our part – we didn't invoice or collect well.



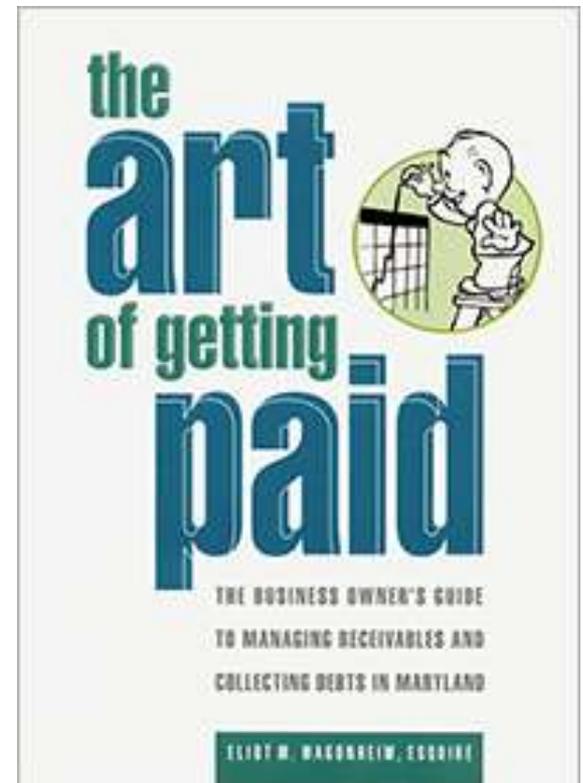
How good are our invoicing systems?, IE do they result in actual, on-time payments?

Getting Paid

Many companies spend a lot of time and effort as bill collectors. I've certainly done my share.

But not any more. I created a system that really works and so can you.

List three things that must be done to ensure on-time, full payments.



Getting Paid

- Invoicing must be made a top priority by management, who must always walk the talk.
- Invoicing systems and all of their subparts (for example timecards) must be clearly defined, easy to use, and understood by ALL.
- As with any system an actual person must champion invoicing. The buck stops with that person.

- * *Other ideas to maximize income?*
- * *How about being fast?*
- * *What do you think of the old saying, "Time equals money?"*



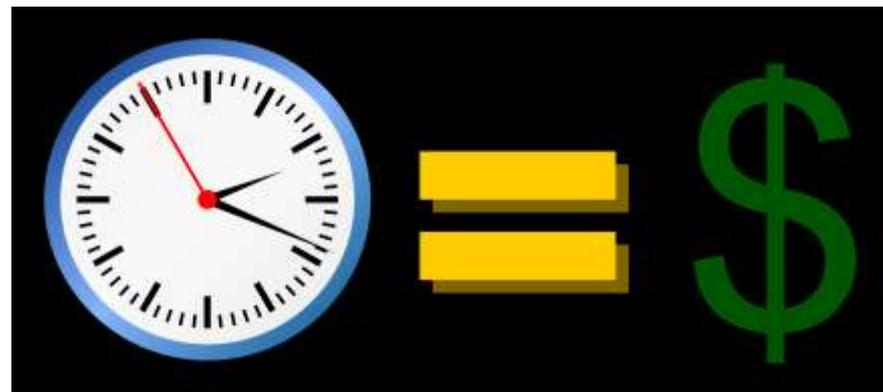
Maximize Income – Being Fast

In business, Time = Money.

- The faster we are the more we produce and get paid for. Opportunity cost goes to zero.
- The slower we are, not only is the converse true but our competition will surely pass us by. Double whammy.

So if we want to increase income (Money) we need to be fast. Also, wasting Time = wasting Money.

Is there a downside to being fast?



Being Fast

There is a serious potential downside to being fast: **Loss of Quality.**

Poor quality is a guaranteed coffin nail to any business. In fact, it's better to be slow and good than fast and bad. Quality is a foundational part of our TQI culture, speed isn't.

So the trick is to be fast in a controlled fashion.

List three things we can do to be fast in a controlled fashion.





Being Fast, In Control

- People. There is no substitute for people who are inherently fast. Inherently fast people can learn control. Inherently slow people will not likely ever be fast.
- Equipment. Controlled speed requires good equipment. For example, with copiers you pay more for higher copies per minute.
- Systems. Controlled speed requires good systems. Systems can be software, procedures, processes, or anything else we devise.

- *On a 1-10 scale, how fast are our people?*
- *Examples of equipment we have or should have?*
- *List three systems in our biz that are integral to our speed.*



So I just heard
there is a new slowpoke.

Being Fast – Example



I took these pictures at 11:00 on a Monday. When do you think this Amish crew started framing this 1,850 square foot 3 BR house? When will they finish (doors and windows installed, building wrap on, site cleaned up)?

What single item or method is our best opportunity for controlled speed?

Maximize Income – Templates

Templates are likely our best opportunity for controlled speed. In my business that is certainly the case.

- Spreadsheets
- Word templates
- Standard details

Says me: *He / she who has the best templates wins.*

- *List your three most important templates / systems.*
- *Do they cost or make you money?*



Maximize Income – Templates

The trick to any template or system is **maintenance**.

A template / system is never done. It can always be better. *Always*.

Which means as you use it and learn about it, someone must be in charge to update it.

- Do **each** of our templates / systems have an actual person in charge?
Who?
- Is there a formal procedure in place to gather input and update?
- Do you budget for this?

