

Goal Setting

Goals are an essential element of business guidance, as your goals are what trigger the Cash and Profit Impact results as shown in the financial reporting system. The color coding of the Key Performance Metrics (KPM's) and Financial Flow Chart are directly impacted by the goals you set.

The essence of this financial reporting system is that it measures your actual performance against the goals set by you. The tougher the goals, the greater the potential Cash and Profit impact that the report will demonstrate for your business.

It is critical that all businesses have financial improvement goals. The goals that you set are directly related to the Key Performance Metrics (KPM's) on page three of your report. The goals that are included in the report processes identify potential Cash and Profit Impacts relative to actual performance. These numerical impacts will be shown on the Financial Flow Chart and Financial Summary pages of your report.

The Financial Summary section on page 5 of your report is a great place to understand the significance of goal setting. The Hello Telephone Company shown below is an example. If the Hello Telephone Company has 45 days of Inventory (\$392,500) and the goal for Inventory Days was set at 30 days based on the company's need to maintain 30 days of inventory on hand in order to fill orders each month, the report system would see the company as having 15 days of excess Inventory. That 15 days equates to \$130,830 of negative cash impact,

$(15 \text{ Days} \times \frac{\$8,722}{\text{Day}} = \$130,830)$ This represents a significant 33% Cash Impact opportunity that is worth \$8,722.00 per day to the company.

Sensitivity Analysis		
Metric		Impact
<i>Cash Conversion Metrics</i>		<i>1-Day Sensitivity*</i>
Inventory Turn-Days	=	\$8,722 per day
Accounts Receivable Turn-Days	=	\$12,500 per day
Average Payable Payment Period	=	\$8,722 per day
<i>Margin Metrics (Month)</i>		<i>1% Margin Sensitivity**</i>
Margin (Gross or Net)	=	\$3,750 per 1%

Then, using the Financial Flow Chart, this company can go backwards from the “**Low Net Profits**” to the “**Excess Inventory**” Box to “**Bad Inventory Control**” where they can identify the root cause of the problem.



First Report Goals

For the first report that you request for a company, the goals are automatically set for you at the top 10% of your industry peers based on the NAICS code you provided. This should be your ultimate goal to be “Best-in-Class” in your industry. When you see your first report it will show you realistic potential for your business.

On the second and all future reports you can edit the goals. The place you edit the goals is on the Login Page for your report. Below is an example:

Metrics	Last Month Actual	Current Goal for Sept, 2012	Last Month's Goal	Industry Top 10%	Industry Top 25%	Industry Average
Current Ratio	0.3	1.0	1.0	2.88	2.04	1.50
Quick Ratio	0.3	1.0	1.0	1.19	0.90	0.76
Debt-to-Worth	-1.5	-1.2	-1.2	3.08	1.51	1.26
Gross Margin (%)	0	0 %	0	111.12	58.17	37.77

This page gives you a lot of information so you can intelligently set your goals. The page supplies your last month's actual performance, your last month's goal, the comparable industry data and a column to adjust your goal. The report will prepopulate the goal column with your last month's goals so you do not have to enter every goal into this form if your previous goal is still appropriate.

Goal Setting


Setting goals is more of an art than a science. It is often a balance between where you need your company to perform and realistic, perhaps shorter term goals that motivate your staff. On the first report you will see your goals set at the top 10% of your industry. If the top 10% is far away from your current level of performance, it will be hard to influence your staff to make such improvements as they will likely see the goals to be too difficult or impossible to achieve, resulting in a low level of effort.

Goals are sometimes set by corporate management as non-negotiable directives. What follows is an actual example from personal experience with a company that was one of the first to implement 6-sigma quality throughout the company. This new quality system focused on product quality, more specifically on manufacturing defects. The principal was simple; products that are defect free throughout the manufacturing process are less likely to fail for the customer. 6-sigma represents 99.99966% of the products manufactured to be free of defects or 3.4 defects per million.

At the time the company's performance was at an 80% yield or 20 defects per 100 units! In this case, to reach 6-sigma we needed over a 50,000 X improvement. As you can expect, few were interested in signing up to make the enormous improves required to reach the final goal.

Employee enthusiasm that would get the job done was critical. Rather than set the goal every month to be 99.99966%, the company developed a time line of goals that made reaching the interim goals appear to be much more achievable and the team was motivated to make an effort to achieve the final 6-sigma goal.

Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8		
81%	82%	83%	84%	85%	86%	87%	88%		



Month 23	Month 24
99.99%	99.99966%

The key to setting your goals for your company will be based on where you currently are performing and how far you are from your ultimate goal. The first report sets your initial goals at the top 10% of your industry. If the top 10% is substantially better than your actual last month performance, it is suggested that the next month goal be set at a smaller incremental improvement that staff can support and possibly achieve. It might even be worth a meeting with your staff to set the goals together to achieve maximum "buy-in."

Here are some recommended goal setting guidelines:

- 1) Against industry standards:
 - a) If your company is below the Median 50%, set your goal at the industry median of 50%.
 - b) If you are better than the Median 50%, but lower than the Top 25%, set your goal at the Top 25%.
 - c) If you are better than the Top 25%, but less than the Top 10%, set your goal at the Top 10%.
- 2) Against your own performance:
 - a) 10% better than the best of the last 3 months.
 - b) Equal to the best you have done over the last 13 months.
 - c) 10% better than the best you have done over the last 13 months.

Measure

Once you set your goals and then run your report. You can now measure how you are doing toward these new goals. If you met the goal in this last month, increase the goal again for your next month. If you did not meet the goal but are close, you can choose to have that goal remain the same or set it a little tougher for the next month.

Setting your goals and reviewing results on a regular basis will make your company more successful on your path to financial improvement.

