



## Goal Setting

Goal setting is of paramount importance within the Profit Gap service. They are an essential element for the guidance Profit Gap provides for your business, as the goals are what trigger the Cash and Profit Impact results as shown in the reports. The color coding of the Scorecard and Roadmap are directly impacted by the goals you set.

The essence of Profit Gap 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 Profit Gap will demonstrate on your business.

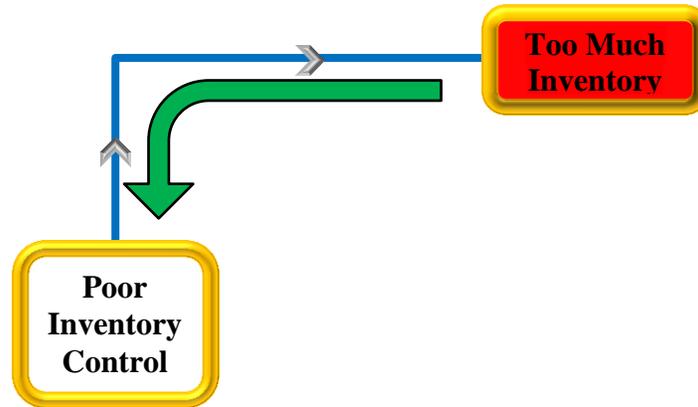
It is critical that all businesses have financial improvement goals. The Profit Gap goals that you set are directly related to the metrics found on the Scorecard. The goals that are included in the Profit Gap report processes identify potential Cash and Profit Impacts relative to actual performance. These numerical impacts will be shown on the Roadmap and Profit Mastery Assessment (PMA) pages of the report.

The PMA Sensitivity Analysis section in a Profit Gap 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, Profit Gap would see the company as having 15 days of excess Inventory. That 15 days equates to \$130,830 of Cash Impact,

(15 *Days* X  $\frac{\$8,722}{\text{Day}}$  = \$130,830), a significant 33% Cash Impact opportunity.

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

Then, using the Road Map, this company can go backwards from the **”Too Much Inventory”** Box to **“Poor Inventory Control”** where they can identify the root cause of the problem.



**Important:** To highlight the importance of goal setting, if this company were to set their goal at 44 days (a mere one day improvement), Profit Gap would only indicate \$8,722 of excess inventory out of their total of \$392,500 of inventory or 2.2% excess. Thus, **Too Much Inventory** on both the Scorecard and the Road Map would **NOT** be highlighted and the company could lose its opportunity for improvement.

## First Report Goals

For the first report that you request for a company the goals are automatically set for you. For the Platinum version of Profit Gap the goals are set to 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.

On the second and all future reports you can now edit the goals. The place you edit the goals is on the Login Page for Profit Gap. Below is an example.

### FINANCIAL REPORTING

Welcome to Financial Reporting. Please enter the information on the form below and click the **Update** button. Once your data is saved, the data collection process will begin.

Your Name

Company Name

Email

Phone

Report Period Ending

Report Password

NAICS Code

Report Type

Last Month's Scorecard Metric Performance

Last Month's Scorecard Goal Metric

Comparable Industry Performance

Set Your Goals For This next Profit Gap Report

Metrics	Last Month Actual	Current Goal	Last Month's Goal	Industry Top 10%	Industry Top 25%	Industry Average
Current Ratio	1.2	<input type="text" value="2.0"/>	2.0	2.28	1.64	1.49
Quick Ratio	1.1	<input type="text" value="1.0"/>	1.0	1.68	1.42	1.26
Debt-to-Worth	5.8	<input type="text" value="-1.2"/>	-1.2	0.21	1.17	2.55

This page gives you a lot of information so you can intelligently set your goals. This page supplies your last month actual performance, your last month's goal, the Comparable Industry Data (Platinum model only) and a column to adjust the goal. Profit Gap prepopulates the goal column with your last month goals so you do not have to enter every goal into this form if the last month's goal is not met and is still appropriate.

## Goal Setting

Setting goals is more of an art than a science. It is a balance on where you need your company perform relative to realistic goals that motivate your staff. On the first Profit Gap report you will see your goals set at the top 10% of your industry for the Platinum version and 20% better than your actuals on the Silver and Gold versions. 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.

In my experience in the corporate world goals are often set by corporate management as non-negotiable directives. My former company 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 we were at 80% yield or 20 defects per 100 units! In our case to reach 6-sigma we needed over a 50,000 X improvement. As you can expect, few were responsive on signing up to make these enormous improves to reach the final goal. So enthusiasm of the people that will get the job done was critical. Rather than set the goal every month to be 99.99966%, we developed a time line of goals that made reaching the interim goals achievable. Now 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		Month 23	Month 24
81%	82%	83%	84%	85%	86%	87%	88%		99.99%	0.9999966%

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 Profit Gap first report sets your initial goals at the top 10% of your industry for the Platinum version and 20% better than your actuals on the Silver and Gold versions. If the top 10% is substantially better than your actual last month performance, set this next month goal to be a smaller incremental improvement that your staff can support. It might even be worth a meeting with your staff where you set the goals together to get maximum “buy-in” on the goals.

Here are some guidelines that we recommend you use:

- 1) Against industry standards (data available in Platinum only):
  - a) If you are below the Average 50%, set your goal at the industry standard of 50%.
  - b) If you are better than the Average 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 you 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 then run your Profit Gap 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.

