

# Open Book Management

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## What is Open Book Management?

From "The Great Game of Business":

Open-book management is a way of running your company that gets everyone, at all levels of the business, as informed, involved and engaged as the owner is in making the company successful. It's about fully engaging employees in the business by teaching them how the business works and what is critical to success. This includes understanding how profitability is driven, how assets are used, how cash is generated, but most importantly, **how their day-to-day actions and decisions can make or break the business.**

Put simply, OBM goes far beyond simply opening the books.



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## Discussion

- At what level are you sharing financial data currently?
  - Top Secret.
  - Redacted/Condensed.
  - Full sharing with a small group.
  - Fully open book.



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## Discussion

- What is stopping you?
  - Don't know where to start.
  - Don't want our information to get to competitors.
  - Employees will want a raise.
  - Too complicated.



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## Discussion

- Why do you want to be open book management?
  - Empower and engage employees.
  - Grow your business.
  - Have managers accountable for results.



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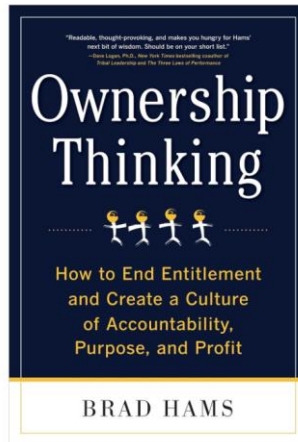
## Discussion

- Who do you want to include?
- How deep in the organization are you willing to go?
- What are you willing to share?



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## Book Club



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## Entitlement

- Surveyed participants – Where do you see entitlement at Gainey's?
  - In a manager that comes in the department, uses your equipment and tools, makes a mess refuses to clean up his mess, and catches an attitude when asked why?
  - I feel like a lot of employees show up for a check and not to make a difference or benefit the company.
  - Employees who have been here for a long time, who are not held accountable like newer employees. Employees who feel like they can do whatever they want because the company can't function without them and have been allowed to accept that mindset.
  - Too much security is what entitlement is all about.
  - Taking advantage of company money, buying things like they don't care who pays for it.
  - Damaging tools, leaving things lying around.



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## Incentive Plans That Work!

- Incentive plans must be self-funding.
  - If not, you have created a new expense.
  - Must improve the financial performance of the company.
  - Employee perspective: What's In It For Me? WIIFM
- Key indicator that will drive the plan.
- Percentage share that will be paid out.
- Very unsuccessful for Gainey's.
  - Too complicated, difficult to track, results were subjective.



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## Key Performance Indicators

- Measure through the windshield, not the rearview mirror.
- Financial Statements are historical documents.
- Scoreboard.
- Leading Indicators.
  - Yards in submittals.
  - Yards release to production.
  - Quotes per month/POs per month.
  - Yards produced/not shipped.
- Lagging Indicators.
  - Revenue.
  - COGS.
  - MH/yard.



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# Rapid Improvement Plans

- Identify a KPI that needs improvement.
- Identify a quantifiable goal and time frame for the RIP.
- Quantify the financial benefit of reaching the goal.
- Name the RIP and create a theme.
- Identify a celebration for reaching the goal.



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## RIP Go Berserk On Rework!

- ▶ Current: \$12,000.00
- ▶ Goal: Reduction - 25%
- ▶ Time Frame: 90 Days - with 1 month Huddle updates
- ▶ Projected Financial Benefit: \$3,000.00 + loss of opportunity
  - ▶ Boot Inspections → (Quality Control & Post-Production)
  - ▶ Holes floating & Improper placement → (Production)
  - ▶ Improper Finish → (Production)
  - ▶ Incorrect Drawings Issued to Production → (Drafting / Scheduling)
  - ▶ Rebar Placement / Incorrect Reinforcement → (Production / Reinforcement)
- ▶ IT'S PARTY TIME: Barbeque for Operations employees (- 35 People) \$300-\$500



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## RIP

SELL DEAD STOCK PIECES!

## INVENTORY 7/20/22

TOTAL # PIECES: 273

## GOAL

ELIMINATE DEAD STOCK PIECES IN STORAGE AREA.

## REWARD

Project Managers that sell dead stock items will receive \$15.00 per piece of precast upon shipment of the product and invoicing the customer.

*\*Must complete form and receive approval prior to delivery.*



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## Summary of Ownership Thinking

- Tracking your leading indicators and using them to predict rather than react.
- Incentive plans need to be simplified and easy to track.
- We wanted our managers to know more about financials.



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## Exercises Used

- RIP presentations.
- For each chapter ask participants, what can you start using in your department right away? Or companywide?
- At each meeting present the cost of an item:  
Year/Month/Week/Day.
  - Cement
    - Year: \$814,810
    - Quarter: \$203,703
    - Month: \$67,901
    - Week: \$15,669
    - Day: \$3,246



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Amount we can spend per day to reach our profit target of 10% if we sell \$20,000,000/year.

\$79,681 Daily Revenue  
(\$2,803) Steel  
(\$3,246) Cement  
(\$602) Admixtures  
(\$7,788) Castings  
\$65,242



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## Biz-Builder Boot Camp

- George Hedley 2-day training .
- [hardhatbizcoach.com](http://hardhatbizcoach.com)
- Books, classes, videos, webinars, etc.
- 20 weeks of training.



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## Discussion

- How has your company stopped growing?
- What are your barriers to growth?
- What are your shut-off valves? Bottlenecks?
- What kind of company are you?
- What kind of company do you want to be?



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## What kind of boat are we?



## Pair up

- What kind of boat are you? Why? Describe.
- Pros/Cons.
- What kind of boat do you want to be? Why?
- What is it going to take to become that boat?

## Profit

- It's not how much you make; it's how much you keep!
- What is profit?
  - The financial benefit realized when revenue generated from a business activity exceeds the expenses, costs, and taxes involved in sustaining the activity in question. (Investopedia)
  - Revenue – expenses = profit
- How much do you think we make?
  - For every \$ we make, how much do we keep/spend?
  - Small group discussion: If we sell \$X, how much is profit?
- What do you do with profit? (invest in business, distribute to shareholders, pay dividends)
- How do you pay taxes on it?



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## Profit

- Profit does not = cash
- So where is the \$?
  - AR, inventory, assets
- How does your company calculate profit? Net income, EBITDA, gross profit?
- Whatever you are measuring, keep it consistent.



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## Profit

- What is healthy profit growth?
- What should our profit target be?
- What is healthy sales growth?
- What should our growth target be?
- Group exercise:
  - Have small groups answer these questions and calculate the numbers for 5 years. It will bring to light any unrealistic expectations.



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## How does accounting work?

- Accrual accounting.
  - Method where revenue or expenses are recorded when a transaction occurs rather than when payment is received or made.
  - Matching principle – revenues and expenses are recognized in the same period.
- Cash basis accounting.
  - Your personal finances are cash-based.



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## Capitalize vs. Expense

- Assets and liabilities on balance sheet.
- Expenses on Income Statement or Profit and Loss Statement.



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## Budget

- How do you set your annual budget?
  - Who do you get involved with the budget?
- Have small groups analyze budget to actual for specific items or categories and let them present their findings.
  - Example:
    - Plant Supplies actual vs. budget.
    - Is it over or under budget? Why?
    - How can we fix it or make it better?
    - Year-to-year comparison, is it up or down? Why?



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# Financial Ratios

- Why are they used?
  - Banks, bonding companies, insurance companies, etc. use them to evaluate you.
- How does your company use them?



	2017	2018	2019	2020	2021	2022	2023
Revenue							
Materials Cost							
Other Direct Expenses							
Gross Margin							
Gross Margin Percent							
EBITDA							
EBITDA as % of Revenue							
Net Income							
Net Income as % of Revenue							
Current Assets							
Accounts Receivable							
Inventory							
Total Assets							
Current Liabilities							
Accounts Payable							
Long-Term Debt							
Equity							
Total Liabilities							
Depreciation							
Capital Expenditures							
Average # of Employees							
Current Ratio							
Return on Assets							
Average Collection Days							
Inventory Turns							
Revenue per Employee							



## Financial Ratios

- Which ratios will mean the most to your team?
- Certain ratios and calculations will mean more to individual departments: MH/yard, average collection days, inventory turnover, EBITDA as % of sales, etc.



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## Liquidity Ratios

- Company's ability to pay current bills and debts without having to raise additional capital (get a loan).
- **Working capital:**  
Current assets / Current liabilities = Working capital ratio
  - Anything less than 1 can indicate liquidity issues and a ratio of 1.5 to 2 indicates a company is on solid financial grounds in terms of liquidity.
- **Net working capital:**  
Current assets – Current liabilities = Net working capital



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## Leverage Ratios

- Company's proportion of debt to assets, equity, or capital.
- If the company goes out of business, what can be sold or what is available to pay debt.
- **LTD to Assets:**
  - Long-term debt/Total assets = LTD/TA ratio
  - Long-term position of the company
  - Varies by industry, but less than 0.5 is considered good.
- **\*\*Debt to EBITDA:**
  - Debt/EBITDA = Debt to EBITDA
  - Amount of income generated and available to pay down debt before deducting interest, taxes, depreciation, and amortization.
  - Varies by industry, but anything over 1.0 indicates the company has more debt than earnings.



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## Coverage Ratios

- **Debt Service Coverage Ratio (DSCR):**
  - Net Operating Income/Total Debt Service = DSCR
  - Includes the repayment of interest and principle on debts calculated on an annual basis. (TTM)
  - Ratio below 1 indicates a company may have a difficult time paying principle and interest in the future as it may not generate enough operating income to cover these charges as they become due.



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## Other calculations

- ROA
- ROI
- ROE
- AP to Sales
- AR Turnover
- Mark-up
- Margin on sales
- OH Margin on Sales



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## Gross Profit Margin

- Do you track it?
- What is it?
- What does it tell you?



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## Inventory

- How can employees impact inventory valuation.
- How is it valued?
- How is it expensed?



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## Accounts Receivables

- What departments have an effect on average collection days?
- What is the effect of bad debt and slow collections?



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## Mark-up

- Bid/Quote mark-up vs. final mark-up?
- Are you getting what you quote?



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## Overhead

- What is Overhead?
- How is it calculated?
- What is the fixed OH cost of keeping your business open every month?



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## Breakeven Sales Revenue

- Total OH expense/Gross Profit %



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## Business Insurance

- How does business insurance work?
- Emod/worker's compensation



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## Monthly Financial Review

- Target good and bad results.
- Ask for comments.
- Calculations worksheet.



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## Great Game of Business

- People on the team helping you win and share in the rewards.
- Everyone can play the game together and share the rewards.
- Tap into the strengths of every individual in your company.
- Competitive spirit.
  - Everyone likes to win – and no one likes to lose.
- Treat company \$ like your own \$
  - Not just purchasing – remakes/repours, taking care of equipment and tools.
- Is what you are doing driving sales and profit?



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## Benchmarking Survey

- Small groups take sections to analyze and compare to other companies.
- Present findings to group.
- AGC monthly and quarterly reports on economy.



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## Scorecard

- EOS
- Biz-Builder
- Ownership Thinking
  
- What makes sense for you?
- The numbers have to either prompt action or affect behavior.



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