

## LEADERSHIP

# Is it Time for a Reality Check?

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A reality check can apply to a company that is in a growth mode or a company that is experiencing a decrease in sales. When it comes to managing our businesses, the numbers, a strong business plan to benchmark our progress, and a good advisor or business friend can all supply some of the most beneficial reality checks we can find.

Let's suppose you are in a growth mode like a few remodeling companies we have spoken with in the last week. When we find ourselves in this situation, it is easy to be optimistic, or underestimate the time things will take and overspend on the future without truly looking at return on investment (ROI). One thing I have found that is simple to do, yet it takes a considerable time investment to do it well, is using a planning timeline for the business. This allows you to make more educated decisions for planning output capability of the team and to foresee potential bottlenecks that we could create for ourselves and our team.

For example, in working through the planning process with my management team a few years back, we identified that, with all the internal innovation we were working on, looking at a physical move of our headquarters location would be too big of a strain on the team. Why? Because it would jeopardize the timely completion of other innovation projects scheduled to roll out to our franchise network. So, to keep moral high and our present plans moving forward in a timely manner, we delayed our move.

This is similar to double or triple booking your production schedule when you have no competent subcontractors lined up to fill in the gap. Then, you find your team and you are in a very stressful situation that you created due to lack of planning. I am continuously amazed how we will better plan for our customer's projects than the operations of our own businesses.

A simple way to create a timeline is to develop a spreadsheet. At the top of each column in the spreadsheet put the year starting with 2008 - go left to right. (We plan up to 10 years out, yet five years should suffice for most.) Next, list each department, noting if it includes one person, a group or a part-time person. Then, list out all the innovations or changes you have occurring or plan to make. After completing this, you can see what, if any, bottlenecks you have. Be sure, just like estimating a job, to assign the appropriate hours to complete each item. Be careful not to overcomplicate this process because it is not an exact science. Review it a minimum of once per quarter because your business and the market are dynamic, and so you should be prepared to be flexible to respond appropriately. Without utilizing a simple tool like this, you're flying blind and could have a close call or a collision with a mountaintop hidden in a cloud if you're not careful. This can stress everyone out and doesn't help production, and it could cause serious damage to your business.

Let's say you're experiencing a 30% decrease in sales in comparison to the previous year, and it has now been three to four months in a row that this has happened. It is not time to panic and put your head in the sand. Yes, working hard is a prerequisite to success, but it alone will not navigate you through turbulent times, just like a pilot must know how to read the instruments on his plane's dashboard, so that he doesn't overreact or under-react, rather react or act appropriately to the current conditions. We have to work smart!

Knowing what your gross sales numbers, gross profit margins, gross profit dollars, overhead / G & A, and net profit need to be to have a healthy company is critical. Your balance sheet is another important instrument reading like your "current ratio", which is your current assets versus current liabilities. A healthy ratio is 2:1, while a ratio of 1:1 is okay, and a 1:2 ratio is considered unhealthy and some serious changes probably need to be considered. If you don't know these, find a professional business advisor, a CPA, or a business friend to help you!

If sales should be at \$150,000 a month and you're at \$75,000 a month for the last three months, it is time to look at making some difficult reductions to your overhead. By tracking your numbers against your budget and/or last year's numbers, you can make educated business decisions - otherwise it just a guess. When thinking about the flying analogy, guessing if your parallel to the ground rather than knowing could mean life or death to you, and in this case your business.

Make time for planning and review for your team and you. It is critical in good times and challenging times. Both are needed to keep your company healthy and fit for flying to new heights!