Five Answers, most decision makers can’t get their hands on.

A publication from Acumen
01. Inventory Accuracy
02. Preventative Maintenance
03. Maintenance Costs
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We’ve all heard the saying “you don’t know what you don’t know.” And, of course, the saying that “knowledge is power.” So what do you do when you don’t know what you don’t know? How do you find out so that you have the power knowledge brings and, with it, the ability to make the changes that will lead to a positive impact on your bottom line?

Here are some areas in your business that you think you know:
- Inventory Accuracy
- Preventative Maintenance
- Maintenance Costs
- Profit Centers
- Budget vs. Actual

What you don’t know is that you don’t know the entire story about what’s happening in those areas, and not knowing the entire story leads to delayed or incorrect decisions, which cost money and subtract from your bottom line. And as we always say, business is the game and accounting is how you keep score.

We’ll use a baseball metaphor to explain: if you’re not keeping the right score, not keeping score in enough detail, not analyzing the score from inning to inning and from one at-bat to the next, you’re making bad decisions: sending the wrong batters to bat and the wrong pitchers to pitch.

However, we all make decisions based on the information we have at the time. That’s perfectly normal and completely justifiable, because we can’t make decisions based on information we don’t have. Therefore, to fix the problem, we need to change the information that we have available to us.

In our experience, the majority of companies do not get enough information in enough detail or in a timely enough manner in those aforementioned five key areas, which means that they are failing to make the most effective decisions possible. Let’s talk about those five key areas.
Inventory Accuracy

Inventory is the most important thing you have. It is the product you sell to your customers, the inventory you receive to make the product you sell to your customers, the parts you keep to maintain your equipment, the supplies you have to run your office, and so on. For many companies, inventory is often one of the largest – if not THE largest – contributor, to the value of a business.

If your business has inventory, it will be at the heart of everything you do. Accordingly, having more information about your inventory as soon as possible is critical to allowing you to make the best decisions.

Accurate inventory information has a huge effect on your organization's ability to provide a high level of customer service. At the heart of providing quality customer service is the ability to set proper customer expectations – and then meet them. For example: McDonald's. When you go to McDonald's, your expectation is not a fancy meal but rather a low price, and as long as you get your low price, you're a happy customer.

When one of your customers places an order with you, do you immediately know if you have the item in stock? If you know, you can set the proper shipping expectations. If you don't have the part on hand, your sales team should know whether or not it's been ordered so that they can set the proper expectation about lead time.

What you know about your inventory also has a huge effect on your pricing. Do you know what it really costs to receive items? You should be tracking shipping, duty, and/or port charges, and those costs need to be taken into consideration when you're pricing your items, because without accurate numbers to get to your cost, it is impossible to set prices accurately. If a widget costs you a dollar to buy but four dollars to ship to your office, for example, you need to be charging at least five dollars; any less and you're losing money.

On the purchasing side, you need to know what you have as well as predict what you will need. We recommend setting up a system that allows tracking of the minimum and maximum quantity that will be needed at any given time. This should be done on a per item basis and always account for seasonality of items – you're always going to need more air conditioners in the summer, after all. Setting the minimum and maximum quantities can be done by looking at historical usage, business philosophy, and market factors.

You can do none of this, of course, unless you know about your inventory – what’s in your warehouse, how much of it’s in there, where you can find it, and how long it’s been there.

For many companies, inventory is often one of the largest – if not THE largest – contributor, to the value of a business.
If your inventory knowledge is accurate enough, you can find small errors and prevent them from becoming big errors that require large write-offs at the end of the year. You can assess industry trends based on what inventory is moving fastest. You can keep your warehouse more organized, and the more accurate your inventory knowledge is, the less likely you’ll overpay on taxes each year.

The best way to get a good handle on your inventory knowledge is to get up close and personal with your inventory counting system. (We have another ebook you can read, about cycle counting, for more information about how to do that.)

Preventative Maintenance

All equipment requires maintenance, and all maintenance includes a small amount of downtime. The trick is to learn when to work on your equipment so you can reduce the downtime to the bare minimum.

The best way to do that is by using preventative maintenance: fixing equipment that’s not technically broken.

For example, your backhoe. If your backhoe is digging a ditch and it breaks, what happens? You will probably have to load it on a truck and haul it back to your facility to be fixed. During this unscheduled downtime, your employees are standing around, your maintenance employees had to drop other jobs they were doing, your project has fallen behind, and your customer is unhappy – all of which can result in the loss of significant amounts of profit.

If, however, you have a preventative maintenance plan where you routinely take all of your backhoes through a 50-point inspection, the breakdown in the ditch and the ensuing downtime would have been prevented.

As another example, think of your car. When you get regular oil changes, you’re implementing a preventive maintenance plan for your vehicle. You choose your maintenance schedule – every 3 months or every three thousand miles, etc. – and you do it because if you fail to regularly change your oil, at some point your engine will seize up and you will be left sitting on the side of the road waiting for a tow truck.

So how do you make and follow a good preventative maintenance schedule? A good software system will go a long way in helping you do so. Start by collecting the manufacturer’s maintenance schedules for your equipment, estimating how long each maintenance task will take, determining what parts will be required, and then schedule maintenance time for your equipment based on a system of your choosing, such as every 500 hours, every 500 miles, etc.
In an ideal scenario, your system should, on Monday, generate all of the preventative maintenance jobs that you need to do for the week. Some jobs will need to be done weekly, some monthly, and others quarterly or annually. Some will be based on the amount of miles or usage hours. Either way, you should input what you do as you work, and the system should automatically generate a list of what maintenance jobs need to be done and when.

**Maintenance Costs**

You probably think that your maintenance costs are pretty straightforward – but you’re probably missing some of the less obvious costs that must be accounted for if you’re looking at the break-even point or profitability of your equipment.

The most obvious type of cost is the **cost of parts**. The new tire when the old tire went flat, etc.

The next cost you need to be aware of is **labor cost**. It’s easier to allocate labor costs to the correct place when you have a person or team that’s solely dedicated to maintaining your equipment. If instead you have, like most companies, staff that splits their time between equipment maintenance and other tasks, you need a way for the employees to track the time they spend on each task. If you don’t track time, there’s no way of knowing how long your employees are working on internal maintenance. Is your mechanic fixing your truck for two hours and a customer’s truck for three hours or vice versa? The difference in cost can add up quickly if you aren’t tracking the actual amount of time spent working on your own equipment.

There are also **overhead costs**. “Overhead” generally indicates the cost of utilities, building rental, tools, and consumable items that need to be replaced often, like grease, oil, spray paint, etc. Here again, tracking time is important because otherwise you won’t know how much of your overhead costs are due to internal maintenance versus external/customer maintenance.

For example: If you track your time for a month and discover that your employees spent 1,000 hours doing work that month and 300 of those hours were spent on internal work, you know that 30% of your overhead costs can be attributed to the maintenance of your own equipment.

The last cost – **opportunity cost** – is the most complicated cost to understand and the toughest to track. An opportunity cost is a trade off: it’s a situation in which, if one thing increases, another must decrease, or a situation in which the loss of some quality/aspect results in the gain of some other quality/aspect.

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Here’s a more concrete example. One of the companies we work with repairs large ships. They own four docks where they bring the ships to make the repairs and, while they do an excellent job managing their other costs, they lose money when it’s time to do internal maintenance. The repairing of a large ship carries a price tag of a million dollars or more, so when they have to shut down one of their docks for cleaning or other maintenance, they lose revenue. In this case, the quality of their dock increases, but their ability to repair four ships at once decreases; the trade-off, of course, is the necessity of a well-maintained workspace versus a million dollars in revenue.

Profit Centers

What do backhoes, bottled beer, and buildings on a beach all have in common?

They’re all profit centers. A profit center could also be an employee or geographic territory; at its most basic level, a profit center is any part of your business that directly adds to your … well, profits.

A backhoe is a piece of equipment that you use to do jobs, which earns you revenue. Bottled beer is a product you make, which earns you revenue, and a building on a beach is a location from which you do business, which also earns you revenue.

So what is it about profit centers you don’t know that’s affecting your bottom line? The actual cost of each profit center. Take the backhoe, for example. Perhaps you rent backhoes to other people or perhaps you use them to complete fixed fee construction jobs. Either way, the backhoe has maintenance costs – it needs lube jobs, it needs fuel, etc. What you need to know is whether or not the cost of maintaining that backhoe is more or less than the revenue you’re earning from its use. If it’s costing you more than it’s earning you, it’s time to retire it.

The same is true of all your profit centers, and what it means is that you need to organize your accounting in terms of your profit centers so that you always know which are continuing to earn you money and which no longer are.

As a simple example, let’s say a company has ten stores. If all ten stores do the same thing and eight of the stores are making money, the business in its entirety is profitable, and, looking at the numbers from the entire organization, there wouldn’t appear to be any issues. If, however, you looked at each store as an individual business, you could easily see which two stores weren’t making profits. It’s an old business adage, but one of the best ways to improve the bottom line is to stop doing what you shouldn’t be doing. In this example, closing the non-profitable stores would have a significant positive impact on the bottom line.

Most companies would, of course, track both cost and revenue by store location, but we encourage you to track information on a more detailed level. In the example of the ten stores, replace the ten stores with ten pieces of equipment. If you have ten cranes in your back lot that are available for work, are all ten of them...
profitable? Probably not, but how do you know which ones are and which ones are not? How do you know what you should stop doing? It can be tough to make a business decision based on anecdotal information, so we encourage our customers to track as much information as possible in as much detail as possible. With the right system and the right business process, it won’t take any longer than the time you currently spend tracking and it will give you far better information, taking the guesswork out of making decisions.

**Budget vs. Actual**

Last year your company made four million dollars. This year you made five million dollars. So are you doing better this year than you did last year?

Unfortunately, the answer is “not necessarily.” It’s not that straightforward.

Let’s say that last year you had four employees that you budgeted would each make one million dollars in sales. You calculated their salaries into your expenditure budget, and so when they each made their one million dollar quota, your budget and your actual balanced. This year, however, you were sure that the demand for your product would go up, so you hired two new employees and again budgeted for each one to make one million dollars in sales. So your 5 million dollars this year was technically a step backwards from last year.

This is why it’s so important to create a written budget – and then actually compare it to your true spending.

The first step in budgeting is determining what to budget. There are many choices: revenue, expenses, billable hours, sales quotas, production, etc. You must then determine at what level to budget: corporate, location, employees, equipment, etc. The final steps of budgeting are collecting the information you’ll need to compare, analyzing the information, reporting the results, and making adjustments as necessary.

So now that you know what you don’t know, you’re going to go and learn it, right? Having a thorough knowledge of these critical areas will put you in a position to make better decisions more quickly, which will improve your bottom line.

Need a quick overview? Here’s what you need to find out:

- **Inventory Accuracy** – What’s in your warehouse?
- **Preventative Maintenance** – Do you know how to service your equipment before it’s too late?
- **Profit Centers** – Where are your profits coming from?
- **Budget vs Actual** – Did I make what I expected to make this year?

*This is why it’s so important to create a written budget – and then actually compare it to your true spending.*

Acumen Information Solutions can help you find the answers to these questions and give you the knowledge you need to have a better business. Contact us today to find out more.