How's Your Chicken Efficiency?

I was out on a sales call with a consulting client several weeks ago, talking with a prospect about her specific printing needs. This prospect was the operations manager for home office of a regional restaurant franchise, one of several in the southeast that specializes in chicken & biscuits. She mentioned that she was working on designing a new "chicken efficiency" report.

I'm always interested in the way different businesses operate—and I wanted to make a point with my client about going beyond the specifications of any printed project and trying to understand something about the purpose behind it—so I asked the prospect to tell us exactly what "chicken efficiency" meant.

She answered that her company considered it the most important measure of an individual restaurant's day-to-day operational control. "Chicken efficiency" was calculated by determining the amount of chicken taken from inventory each day—in pounds—and dividing that figure into the amount of chicken sold each day—in dollars. So if 800 pounds of chicken was taken out of inventory on a day in which chicken sales totaled $2000, the "chicken efficiency" of that restaurant on that day would be $2.50 per pound.

If "chicken efficiency" stays within normal parameters, that's a very good indication that month-end profit levels will also be within normal parameters. But let's say that of that 800 pounds of chicken, 720 pounds was actually served and paid for, the other 80 pounds was spoiled or "flew away on it's own." The perfect "chicken efficiency" would have been $2.78 per pound (720 pounds divided into $2000). Let's assume that most of the other restaurants in this franchise group report "chicken efficiency" in the $2.70-$2.75 range for that day, and this one reports in at $2.50. Do you see how the "chicken efficiency" report alerts management to a problem and also provides a daily reading on what longer-term profits are likely to be?

QP Readings

The concept of "chicken efficiency" got me thinking about the things that quick printers can track as a day-to-day means of measuring performance. If you're familiar with the operating ratio studies performed by NAQP and several of the franchise organizations, you may already be tracking such things as sales-per-employee and cost-of-goods-sold on a monthly or longer-term basis, comparing your own ratios to other companies of the same approximate size, or in the same geographic region.

There's no question that these studies can help you to understand where you could/should be in terms of your own operation, but I've often wondered if anything close to a majority of quick printers are (a) tracking the most important ratios, and (b) doing it near enough to "real time" to be of maximum benefit. I've also wondered if there are other important readings not included in the typical industry operating ratio studies.

If I were you, I would want to know how I was doing on a day-to-day basis. I would certainly want to be able to identify a negative "trend" before it turned into a serious problem.

Profit Is Everything

Ultimately, the value of day-to-day "efficiency checks" is to protect your income, which comes out of the profit your business generates. When do *you* find out for sure how much profit you made in a given month...or whether you made any money at all? Many of the quick printers I work with don't find that out until 15-30 days after the close of each month. (Some of the quick printers I work with don't even get regular monthly operating statements, or have them prepared but don't look at them on a regular basis...which to me is an incredibly scary way to operate a business.)

Is it possible to run a business effectively using your checkbook balance as your only management tool? Sure, it's possible, but only if things are going well. When things are going poorly, you have to know what is going poorly as a start to correcting that problem.

Benchmarks And Trends

What are the factors and trends that you can track on a day-to-day basis to give you an early indication of performance against your month-end objectives—and most importantly, to give you time to do something about a slow start. The first issue has to be setting those objectives in the first place, and I've written before that you should always set two key objectives…one for top-line sales and one for bottom-line profit.

For the sake of discussion, let's say that your monthly sales objective will be $50,000 and your monthly profit/owners compensation objective will be $10,000. (That's a 20% owners compensation ratio, which might not get you to the very top on the industry profit leaders' analysis, but I think most quick printers would be pretty happy at that level!) Let's also say that the month under consideration will have 20 working days.

In a perfect-world situation, you might take in exactly $2500 in new orders each day, and deliver and invoice exactly $2500 worth of completed orders. Of course, one of my clients once told me that he's never had a perfect hour in his business, let alone a perfect day, week or month. It's not very reasonable to expect sales volume or deliveries to track so neatly.

Still, by taking a look at your historical patterns and making a few "educated assumptions," it's possible to establish daily benchmarks that will help you to track monthly volume expectations accurately. The first benchmark should reflect "work in progress"—orders written during the previous month but not yet completed and/or invoiced. Realistically, you only have 16-18 "same-month selling days" in each calendar month, but you'll also be invoicing work sold during the last few "selling days" of the previous month. Let's base our projections on 16 selling days in order to stay on the safe side of the margin for error that's unavoidable in something like this.

Whether from actual history or from one of my "educated assumptions," let's say that $12,000 in "work in progress" is required as a starting point to get you to $50,000 in total invoiced sales. Let's also say that you have a historical pattern by which orders tend to come in more heavily in the first half of each month than in the second half. With $12,000 in "work in progress," you'll need to write up $38,000 in orders during the first 16 days of the calendar month, and you might project that 60% of that will come in during the first 8 working days, and the remaining 40% will come in during the next 8 days. That yields a daily "orders written" objective of $2850 per day for the first 8 days, and $1900 per day for the next 8 days.

The most effective way to track this is to put together a simple spreadsheet listing your "work in progress" objective and actual starting point, the daily "orders written" objective and the result for each selling day, and the cumulative month-to-date total objective and actual volume level at the end of each day. Divide your actual by your objective to come up with a "percentage of par" figure. This gives you two "chicken efficiency" sales criteria to track on each day of the month: daily and month-to-date sales performance as a percentage of par.

Reacting

Let's say that you start out a month with $11,000 on "work in progress." You know that you're starting this month behind "par" ($11,000 ÷ $12,000 = 91.6% of par) but you can also safely say that you're within striking distance. The first three selling days bring in $3100, $3600, and $2900 in orders. At this point, you're a little bit above "par." The later in the month you remain above par, the more confident you can be of reaching your "orders written" objective.

What if you're still behind par after five or six days, or significantly behind the "work in progress" par level on the first day of the month? If that's the case, do something! Get out and see some of your customers, especially the ones you're pretty sure are buying things from other printers that they could be buying from you. Send letters or get on the telephone to people you haven't heard from in a while.

I can't guarantee you that this action will completely reverse an early negative trend, and bring you right up to par for this particular month. But I can promise that any accelerated sales activity is likely to *effect* the trend, and gain you better results than you were headed for. Perhaps more importantly, the selling activity you put forward this month—or any month—will increase your chances of starting out at or above par and reaching or exceeding your objectives in future months.

Orders Invoiced

When orders arrive in your shop, that's only the start of the profit process. The next step is to produce each order and send the customer a bill. From an accounting perspective, sales volume really only becomes "official" when the order is invoiced.

You can establish "par" values for invoiced sales volume in the same way we did it for orders entered, using historical patterns and/or educated assumptions. By tracking each days "orders invoiced" performance along with your month-to-date "orders invoiced" against par values, you gain two more "chicken efficiency" criteria to help you keep track of your business. And you gain still another one by subtracting month-to-date "orders invoiced" from the sum of each month's opening work-in-progress total plus the total of orders written so far that month. That running "work-in-progress" sub-total gives you a further idea of how much business is likely to be completed and billed during the current month.

What if you get to the last few days of a month and you have enough "work in progress" to reach your sales goal, but it's questionable whether you'll get all of it completed and invoiced if you stick to your normal production schedule? You have two options in a situation like this: (a) to stay on your normal production schedule, fall short of this month's goal, but start out the next month with a healthy "work in progress" bank; or (b) accelerate your production schedule in order to get the work out, reach your goal for this month, but start out next month below par.

If I were you, I would choose Option B. Do you remember the old saying about how “a bird in the hand is worth two in the bush?” The way I look at it, Option A means accepting the failure to reach your goal in the current month, and then possibly compounding the problem by starting off the second month with what may be a false sense of security. I’d rather see you do whatever it takes to reach this months goal, and then do whatever it takes to reach next month’s goal!

Remember, a large part of the purpose of tracking your “chicken efficiency” is to motivate you to act before “trends” become serious problems!

Tracking Profit Goals

Another thing you have to remember is that sales volume means very little if profit doesn’t come along with it. What criteria can you track on a day-to-day basis to stay on top of performance against your profit goals?

I’ve observed that there are three major “traps” in which profit gets lost on a day-to-day basis in a printshop: paper, payroll, and pricing. You might call them “the three deadly P’s.”

Since paper is your major consumable item, it’s bound to be a large contributor to profit or loss. But how do paper-related profit problems manifest themselves on a day-to-day basis? The most damaging situation is probably when you have to use twice as much paper as estimated to get a job done…a “problem job” or a re-run. I think you should ask for a daily “exception report” from your production department. That simply means they have to tell you about any job that didn’t go smoothly or that had to be re-run. Once you know what the problems were, you can estimate how much they cost you and consider the effect of each day’s production problems on month-end profit.

This “exception report” will also give you an idea of how much of your payroll expense might be “leaking” away from your profit goal. Obviously, paying people to run a job twice is draining on profit. But this isn’t the only way to track your payroll position on a day-to-day basis.

I would also create a “chicken efficiency” comparison by calculating the desired relationship between payroll expense and sales. Let’s say that you’re budgeting $12,500 for payroll expense as a component of reaching your goals of $50,000 in sales and $10,000 in profits. That’s a 25% payroll expense, but it can also be reflected as a “payroll efficiency” of $4.00. By dividing your daily invoiced sales by your daily payroll expense, you will come up with a daily figure to compare to this “payroll efficiency” standard. If you need a figure of $4.00 to reach your profit goal and you’re running at $3.25 after the first week of the month, you’ve gained an early warning that you’re operating behind the profit curve.

By the way, if you aren’t invoicing each and every order on the day it is completed, you’re making what I consider to be a very significant operating error. After all, the whole idea behind doing the work is getting the money! As soon as a job is complete, you should start the process of getting paid!

If your accounting system doesn’t make it easy to do that, I’d call that another reason to look into one of the printshop management software products, like PrintSmith, where the same information you input to create an estimate is used to generate the work order and the invoice with just a few mouse clicks or keyboard commands.

Pricing

The third major profit trap is pricing, and again, this is an area where a sophisticated estimating/business management software system can really help you on a day-to-day basis. If you take the time to develop and enter accurate cost information into your system, you can track the expected gross profit on every estimate or order you enter. At the end of each day, it becomes a simple matter to call up a total “orders entered” value and look at the expected total gross profit value of those orders.

If that value is lower than it has to be to support your profit goal, you’ll need to take action to get back on track. Hopefully, we’re talking about a “wake-up call” which might encourage you to challenge your assumptions on how low your prices “need” to be. Please remember something I’ve said many times before: “Whenever you get the order, you probably could have charged at least a little bit more for it.”

Please also remember that pricing alone doesn’t guarantee profit any more than sales volume does. That’s why you check on “payroll efficiency” and “paper efficiency” too. But I hope you’ll agree that these daily checks can go a long way toward eliminating unpleasant surprises at the end of the month, and that’s what I think “chicken efficiency” has to offer you.