Understanding and Implementing

The 7 Commandments of Financial Success

The 7 steps to financial success are all about having the business organized well, so you can concentrate on the growth and development of the business!

What are the steps and how do we use them in our company?

**The 7 Step of Financial Success:**

1. Create Financial Alignment with your operations.
2. Accuracy in the financial data and reporting.
3. The financial reporting is timely – completed no later the 5th of the next month.
4. The company leads through its people – not through numbers.
5. Have Key Performance Measurements that tie directly to operational performance.
6. Track only the key measurements and information you use for operating performance.
7. Set standards in your company – standards of excellence.

These are the steps of financial success. Let’s take a closer look at each step, and determine how we can implement these in our business!

Create financial alignment with your operations.

Having financial alignment in our company simply means we have accurate data on any market we do business in operationally. Examples are Residential Replacement, Service Labor, Service Parts Sales, Service Sales, Maintenance, New Construction, Light Commercial, and Indoor air Quality. These are direct market segments, where the company may do work, and provide examples of how we can track the performance of the organization, so long as the data is accurate, in order to know how the company is performing in each segment.

Accuracy in the financial data and reporting.

Having accuracy in your financial reporting is not easy to do. It requires discipline. It requires cooperation from your employees, and it requires a commitment to having accuracy. Accuracy in your financial data assumes that you have a proper chart of accounts to be departmental.

The company must have its paperwork in order to be fully departmental. The Chart of accounts, the time cards, the service invoice, and sales agreements, must all allow the company employee to designate where the sale occurred by department, and where their labor, the materials, and equipment and any costs associated with the employee occurred by department or market segment.

It also requires the employees to be diligent in completing their paperwork accurately! Can you say training!

The financial reporting is timely – completed by the 5th of the month.

Having the financial data accurate is nice, if we receive it 45 days after the events that created the performance has happened, we might as well be driving our car staring at the rear view mirror. If your company gets the financial data on the 20th of the month following the close, then this is exactly what is happening to you. It’s nice to know what our performance has been, but it is even better to know the performance soon enough to influence it.

Imagine a system where you know the financial performance of the company while it’s happening, so you can adjust your operations before bad things happen, or you know you’re going to have a great month, and you know how much profit you are going to make.

The company leads through its people – not through numbers.

The leadership of the company needs to understand the people in the company create the results. What the implication here is to create maximum impact of financial results and performance, the people in the company need to be educated about the company performance and numbers! Educating the employees about the financial performance will NOT LEAD TO EVERYONE ASKING FOR A RAISE! Don’t be silly! What it will lead to is an understanding of how their role relates to the success of the company, and if you are compensating the employee fairly, this kind of sharing will only lead to an employee working harder for the company.

We are providing clear expectations, and allowing the employee to learn how they’re role, and their work relates to the success of the company.

To carry this concept one step further, you can even compensate the employees based on the profits of the company, or even the Key Performance Benchmarks set for their respective area. So adapting an hourly pay plan to a pay for performance plan. You can only do this if you are willing to train them and educate them on the financial performance!

Have key performance measurements that tie directly to operational performance.

The company should have measurements for each market segment and of course the total company as well. These performance measurements are benchmarks that allow the company to determine how well or poorly the performance is for the department, or the employee.

**Examples of these benchmarks are:**

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| Residential Replacement Labor Unburdened is: | 9% of sales or less |
| Residential Equipment Costs are: | 25% of sales price or less |
| Residential Service Labor is: | 22% of labor only sales or less |
| Residential Maintenance and Service are: | 25-30% of total revenues |

There are many more benchmarks, but these are simply examples of how we can use financial benchmarks to determine how we are doing in crucial areas such as labor control, and mix of business. We want these performance measures so the business is always in front of us as leaders and managers.

Track only the key measurements and information you use for operating performance.

Many companies track too much information. A key financial principle is to track only the information you are going to really use. No more, no less.

This may sound relatively simple, but often there are companies that measure areas that are not used in the performance of the company.

Set standards in your company – standards of excellence.

Setting standards within the company allows the company to train the employees on the performance standards, but also the operational standards. In addition to setting the standards, you must train the personnel in the company what those standards are and how the employee can relate to their performance.

Follow these steps to creating and implementing The 7 Commandments of Financial Success:

1. Define your markets you do business in operationally.
2. Establish the new chart of accounts with bookkeeping.
3. Departmentalize the financial statements in those markets at least to the gross profit levels.
4. Adjust your paperwork and forms to account for the new chart of accounts.
5. Train all personnel on the departmental process. Meaning, they need to understand where to put their labor hours, and allocate information on the forms, so the financial data gets allocated properly by bookkeeping.
6. Hold the field and technical personnel accountable for accurate and timely completion of field invoices, time cards, and paperwork.
7. Set clear concise expectations for your accounting and bookkeeping function, to have the reports you need by the 5th of the month. Ask their feedback as to what and how this can be accomplished.
8. Create benchmarks for each department, and for the total company. If you are not sure about what benchmarks, review the industry standards and Key performance Measurements section of the web site.
9. Create performance based pay systems that tie to the employee and departmental benchmarks.

Why is this critical to my success?

* The 7 steps are crucial to your success because they represent the financial structure a business needs to understand why it has the performance it generates.
* Having the financial structure in place creates accountability. For you and for employees!
* The 7 commandments create a discipline in the company to review performance, and create a sense of urgency when performance isn’t where it’s supposed to be.
* Properly implemented financial controls and structure helps you **MAKE MORE PROFITS!**