

## **Business Examples – Detail w/o Sections**

### **TeamsWin for Common Businesses – Detail**

The purpose of this document is to present detailed examples of how common businesses (that you might see every day) could use TeamsWin Information Heavylifting. It lists some business examples, management problems, decision techniques and their data requirements. In other words, it is a quick review of a little business science.

### **Imagine Types and Subtypes**

While you look at these business examples, imagine how their characteristics are organized in reports, maps, catalogs, etc. Then imagine those schemes associated. In other words, imagine all the types and subtypes you need in order to understand a business, and how the owner mentally associates those structures. The way he sets up his reports shows us how the owner associates those structures. This document does not say any more about strategic entity organization for these example businesses, but use your imagination.

### **List of common business examples**

Construction - Brick and Stone  
Exercise Studio  
Fast Food  
Glass Business  
Insurance  
Quick Stop Gas  
Real Estate  
Souvenir Shop  
Tire Store

### **List of General Business Problems**

Advertising  
Capital Budgeting  
Economics  
Supply, Demand, Capacity  
Operational Budgets  
Organization Development  
Motivation  
Production  
Profit Planning  
Cost-Volume-Profit  
Marginal Analysis  
Reporting  
Sales

## Business Examples – Detail w/o Sections

### Enterprise Understanding—Decision Support

Selling price; number and type of products to manufacture; amount to spend on promotion; and type of equipment to buy are decisions made after the relationship between cost, volume, and profit (CVP) has been completely analyzed. TeamsWin Business Models produce understanding. Understanding automatically establishes the CVP relationship. Plus, the key to CVP is the value of the contribution margin, also a business model feature.

### The Big Picture

Information for all these decisions comes from the big picture, the enterprise. For example CVP information comes from several functions. “Cost” information comes from financial systems (account expense), personnel systems (employee time, machine time). “Volume” information comes from business systems (sales, production, distribution, etc.). Especially if your business system has standard costs, those standards were developed with information from several functions.

### Hidden in your Reports

Using the understanding you already have stored in your reports, we assemble your “big picture”. We just mine your reports to structure your information for decision making. For our example of common business, notice the similarity your reports have with the other businesses on our list.

#### *List of common business reports*

- Advertising
- Contacts
- Contracts
- Customer Strategy (Requests)
- Franchise/Industry Reports
- Inventory
- Maps
- Marketing Strategy
- Payroll (or Time and Expense)
- Production
- Proposals
- Purchases by Type
- Requests
- Sales by Type
- Schedules
- Supplier Catalogs (Proposals)
- Trial Balance

#### *List of unique reports*

- Brick and Stone**— Industry Reports
- Construction**— Industry Reports

## **Business Examples in More Detail**

**Exercise Studio**— Industry Reports  
**Fast Food**—Fast Food Franchise Reports  
**Glass Business**— Industry Reports  
**Insurance**—Franchise/Industry Reports  
**Quick Stop Gas** — Quick Stop Franchise Reports  
**Real Estate**—Property Transactions  
**Souvenir Shop**—Chamber of Commerce Web Site  
**Tire Store**—Tire Store Franchise Reports

### ***Salespeople–Communicate***

Salespeople make sales decisions; balancing what to sell, the price, and value to the customer. The business model adds something new to this balance. With his view of the business model, now the salesperson can also understand value to himself the supplier.

### ***Producers–Work***

Producers make typical production management decisions; deciding when to make or buy, deciding how to sequence work, or deciding when to sell or process further. In our common business examples, the decision is often: “when to work and when to communicate”. In other words, the same person is both salesperson and producer. Understanding from the business model helps in this “sell or process further decision”. With the business model, the decision maker will be able to compare the value of the sale to the value of the work.

### **Management skills development**

Managers need to develop management skills. Like a coach during a game, they need decision making skills to apply their various tactics to a game situation. They need to be prepared. Like tools in their toolbox, their various tactics need to be organized. The business model organizes tasks and management tactics, making it easier to develop management decision making skills. Management tactics need to be organized and reorganized daily.

### **Organization Habits**

Business modeling produces checklists. The habitual daily use of these checklists can develop organizational management skills. Use of Checklists can train managers to “dovetail” or pull together sets of difficult tasks. These habits of organization produce the power to complete projects “on schedule and under budget.” They also help managers quickly transition back and forth from salesperson to producer.

### ***Administration (The Heart of Decision Making)***

Strategic Plan  
Operating Plan  
Strategic Analysis  
Market Analysis  
Product Analysis  
Customer Analysis  
Modern Management Accounting System  
Profit Planning Analysis

# Business Examples in More Detail

Cost Volume Profit Analysis  
Contribution Margin Analysis

## **Modern Management Accounting System**

### *Traditional System*

Profit Maximization Aid  
Goal Allocation Device  
Control Device

### *Modern System*

Is also an: Information System  
Providing: Support for Decision Making  
Serving as a: Communication Medium

## **Profit Planning Analysis**

### *Cost Volume Profit Analysis*

Selling price; number and type of products to manufacture; amount to spend on promotion costs, and type of equipment to buy are decisions that are made after the relationship between cost, volume, and profit (CVP) has been completely analyzed. Understanding from the business model establishes this CVP relationship. Plus, the key to CVP is the value of the contribution margin.

### Contribution margin

(Marginal income, marginal contribution)

The difference between sale price and variable costs, contribution margin is the amount available to cover fixed costs first and then provide a profit. Contribution margin can be both expressed in terms of total dollar values and in terms of contribution margin per unit.

### Variable costs

Costs which vary directly with production and can include costs for both manufacturing, and selling and administrative activities.

### Break-even analysis

The break-even point is the point where there is neither a profit nor a loss from sales. It is the point where all fixed and variable costs are covered and nothing is left for profit. The break-even point can be expressed in terms of units or sales dollars.

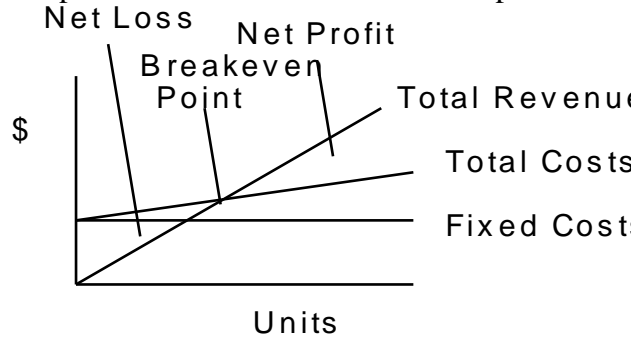
### Flexible Budgets

Make performance analysis possible when output deviates from planned levels. The actual volume produced is used for cost analysis in determining the efficiency of operations. Variable costs are viewed as having a linear relationship with units produced. Fixed costs are considered constant within a relevant range of activity.

## Business Examples in More Detail

### *Graphic Approach*

Graphics illustrate the interrelationships of the revenue and expense data.



### *Contribution Margin Analysis*

The causes of an increase or decrease in the budgeted contribution margin can be isolated by analyzing the variance.

#### Sales price variance

For each product, equal to the actual minus the standard sales price multiplied by the quantity sold.

#### Cost variance

For each product, equal to the actual minus the standard cost multiplied by the quantity sold

#### Quantity variance

For each product, equal to the actual minus the standard contribution margin multiplied by the quantity sold.

#### Mix Variance

For each product, equal to the actual minus the budgeted quantity sold multiplied by the difference between the budgeted and average contribution margin, where the average contribution margin is the average for all units produced, not only this product.

## Investors (That's you)

For these businesses, the investors are mainly the people who own  
(Or are buying) the business.

Investors—Assuming people invest in these businesses to make the most amount of money with the least amount of risk, the question for these investors: Which business is the best investment? In other words, should they continue to invest in their business or buy another?

Investors— if in business for reasons other than profit then incorporate as a non-profit and use your business model to attract others to your purpose.

Investors—When selling a business, use your business model to attract investors and get the right price for your life's work.

# Business Examples in More Detail

## Detail Section

### ***Sales Detail***

Strategic Plan  
Operating Plan  
Product Information  
Customer Research

To be effective, salesmen need product information. They need to know supplier capacity and the product (or service) value to both supplier and customer. Salesmen also need to know corporate income and improvement trends. Our business models support every plan element with historical trend information. Strategic Plans define product, customer, and markets. So, they define “Who, What, Where and Why”. Measurement Plans define “How and When”. Together, both these plans define the value of the product to both the customer and supplier, information the salesman needs to maximize his own value.

### ***Production Detail***

Production information (Input, Output, Distribution, Capacity, Status)  
Strategic Plan  
Measurement Plan

Production Status included in basic information, such as:

Plans  
Budgets  
Programs  
Milestones  
Projects  
Time and Expense

### ***Marketing Detail***

Strategic Plan  
Measurement Plan  
Communication Information

### **Communication Information**

To be effective, advertisers (marketers) must communicate. They must know their message, their communication medium, and their audience. Also, when communicating through children or the elderly, they must know both their primary and their secondary audience.

#### ***Message***

Their message, defined in their program description, supports the Corporate Vision.  
Program description

#### ***Medium***

Their communication medium, described in their system/network description, carries their message.

# Business Examples in More Detail

Communication System description

## *Audience*

Their audience needs to be described clearly by research projects so those working together can focus the advertising. This focus is critical for accurate measurement. If advertising can't be measured it can't be planned and it can't help the mission. Most advertising can be measured if the audience is clearly described.

Research Projects

## ***Administration Detail***

### **Standard Cost Variance Analysis**

Standard costing is a costing system in which uniform costs are assigned to products and differences between standard and actual are accumulated in variance accounts. Use of standard gives management criteria for evaluating performance. Standard costs should always be developed based on normal production capacity. TeamsWin Business Models make it very easy to develop and use standards.

### **Use of standard costs**

#### *Cost control*

To have an effective cost control system, there is a need to have a standard that specifies how the job is to be done and how much it should cost.

#### *Establishing budgets*

Standard costs are a source of information for estimating requirements.

#### *Inventory costing*

GAAP require historical actual costs for inventory purposes in most instances, but if variances represent efficiencies or inefficiencies, it may be appropriate to charge them against income in the period incurred rather than allocate them.

#### *Product pricing*

National Association of Accountants research study suggests standard costs are more easily adjusted and projected into the future than are past actual costs for the following reasons:

Standard costs are free from distortions caused by excess spoilage, re-operations, and so on.

Standard is easily adjusted to reflect changes in materials and labor prices.

Standard overhead rates based on normal activity level are an acceptable basis for pricing that provides for the full recovery of overhead costs in the long run.

Standard costs for marketing activities can easily be assigned to the product, although not entered in the inventory records.

## Business Examples in More Detail

### *Motivating employees*

A standard cost developed jointly by management and the individual responsible for the costs, if accepted by the individual as his or her own personal goal, can be a motivating influence.

### *Reducing paperwork costs.*

Since the inventory ledger is kept only in terms of quantity.  
Less time to prepare budgets and production reports.  
Analysis easier because deviations from standard are highlighted.

### **Cost Behavior Analysis**

Regression analysis identifies associations between variables without proving them.  
We have a better basis for planning if we can identify causal relationships between measurable variables.

Simple regression (one dependent and one independent variable)

Data collection (obtain observations from past experience concerning values of the dependent and independent variables at various points in time)

Create the cost line -  $Y = A + B(X)$

High low method (simple but imprecise)

Scatter graph and visual fit (imprecise)

Least squares method (using business model equations)

Multiple regression (one dependent and multiple independent variables-generally handled by computer programs in business models)

Non linear cost functions and regression (Linear regression techniques may be applied to hypothesized non linear cost relationships. An example would be "learning curve" experienced in the start-up phase of a complex manufacturing process)

### **Business Model Time Series Analysis**

Time series analysis (Used to identify consistent patterns of data behavior over time as input to a forecasting model)

Regression techniques can be used on time series analysis.

### **The four components of a time series are:**

Trend

Cyclical movements

Seasonal movements

Random variations

Random independent variables

### **Capital Budgeting Analysis**

#### *Relevant Costs and Revenues*

Items in the future that will be different for the alternatives under consideration.

# Business Examples in More Detail

## *Future costs*

Future costs will be incurred in the future. A past, historical cost is a sunk cost and irrelevant.

## *Differential costs*

Differential costs vary among the alternatives under consideration. A cost that is the same under all alternatives under consideration is not differential and is irrelevant.

## *Opportunity costs*

Opportunity costs—an economic benefit given up when an alternative is rejected. Although not a recorded accounting cost, it is relevant.

## **Process of capital budgeting**

- Find investment opportunities
- Collect information about opportunities
- Select discount rate (generally the cost of capital)
- Financial analysis of cash flows
- Make a decision
- Implement the alternative selected
- Project evaluation and appraisal

## **Types of capital budgeting decisions**

Investment decisions are made for many purposes. Sometimes they are necessary to meet the present needs of the firm such as the replacement of machinery or they may be the result of a strategic decision as in the case of moving to a new market by introducing a new product. Most decisions, however, can be classified into one of the four categories:<sup>1</sup>

### *Obligatory*

This group of projects includes those legally required such as pollution control devices and those required for reasons of morale, public relations, and social responsibility.

All of the techniques of capital budgeting use some form of profitability analysis in ranking the investment opportunities. However, for projects in the obligatory category, profitability may not be a consideration. But even here, if the objective could be accomplished in two or more ways, the techniques can be used to rank the possible alternatives.

### *Replacement*

These projects assure the productive capacity of the firm through replacement of worn or damaged equipment.

### *Cost reduction*

Projects in this category are designed to cut operating costs.

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<sup>1</sup>Thomas H. Vernon, "Capital Budgeting and the Evaluation Process," Management Accounting, 1972 (October) 20.

# Business Examples in More Detail

## *Expansion*

This would include projects that expand current product lines or add new ones.

## **Financial Statement Analysis**

### *Nature of Financial Statement Analysis—To determine risk and the anticipated return on an investment.*

The relationship among financial statement amounts and the stability of such amounts over time provide evidence as to risk and return. The purpose of this analysis is to evaluate such interrelationships.

### *Analytical Procedures*

Ratio—Relationship between two numbers need not be limited to a single statement.

Turnover—Special form of ratio. IS over BS. Ex: Cost of sales over Average Inventory.

Inventory turnover is the number of times in an accounting period that the Balance Sheet item is consumed.

Component percentages—Amount of one financial statement item is related mathematically to another financial statement item (common size financial statements).

Trends—Trends plot operating performance over time for the purpose of indicating stability or direction of the items.

### *Analytical Methods of Major Investor Groups*

Short Term Creditor's Analysis—Ratios of significance generally indicate quick return of investment.

Current Ratio—Indicates an entities ability to meet its short term obligations. Current Assets (over) Current Liabilities

Quick Ratio—indicates the entity's ability to meet its short term obligations with items most easily converted to cash. Current Assets (less) Inventory (and) Prepaid (over) Current Liabilities

Working Capital into Total Assets—Measures the liquidity status of all the entity's assets. Total Assets (over) Working Capital

Accounts Receivable Turnover—the number of times in an accounting period that account receivable is consumed by sales. Net Credit Sales (over) Average Accounts Receivable

Days Sales in Accounts Receivable—Days in accounting period over turnover. Days in period/365 (over) ART

Inventory Turnover—indicates the number of times the entity liquidates its inventory during the period. This ratio can be calculated for each class of inventory (RM, WIP, and FG).  $\text{Cost of Sales} / \text{Average Inventory} = \text{Average age of inventory} / \text{Days in period} / 365$  (over) = Inventory turnover

### Long Term Creditor's Analysis

Concerned with the debt paying ability of the entity over time. So all the ratios for the short term creditor apply also to the long term creditor plus these three ratios, which measure the entities leverage, or the ability of the enterprise to use debt financing to improve the

## Business Examples in More Detail

rate of return on stockholders' equity. The key is paying a lower rate on borrowed funds than what the entity is earning on its investments.

Debt Ratio —  $\text{Total Debt (over) Total Assets}$

Equity Ratio —  $\text{Total Equity (over) Total Assets}$

Debt to Equity Ratio —  $\text{Total Debt (over) Total Equity}$

### Preferred Stockholder's Analysis

Concerned with same as long term creditors plus:

Times Interest Earned Ratio—Measures the entities ability to meet interest payments with current earnings.  $\text{Net Income before Income Taxes (over) Interest Requirement}$

Times Preferred Dividends Earned Ratio—Measures the entity's ability to meet stipulated preferred dividend commitments out of current earnings.  $\text{Net Income (over) Preferred Dividends Requirement}$

### Common Stockholder's Analysis

Concerned with price in relation to perceived market value and with dividend paying ability.

Earnings per Share— $\text{Net Income (less) Preferred Dividends (over) Weighted Average Common Shares Outstanding}$

Price Earnings Ratio—reflects the number of dollars investors are willing to pay per dollar of earnings.  $\text{Market Price (over) Earnings per Share}$

### General Analysis

Return on Sales—Measures operating efficiency. High return on sales = high efficiency.  $\text{Net Income (over) Sales}$

Asset Turnover—Measures operating effectiveness.  $\text{Sales (over) Assets}$

Return on Investment—Measures both efficiency and effectiveness of operations.

Investment amount may be total assets or stockholders' equity.  $\text{Net Income (over) Assets}$

### *Other*

#### List of FS Analysis Objectives

Liquidity

Profitability

Performance

Leverage

Long run solvency

Market price

Operating cycle

Interest coverage

Return on investment

#### List Operating Cycle

Inventory

Sales

Accounts Receivable

Cash

Inventory

# **Business Examples in More Detail**

## **Summary: Cross Functional Impacts**

This document has listed some business examples, management problems, decision techniques and their data requirements. In other words, it is a quick review of a little business science. There is also a mention of the owner's strategic entity organization found in his reports, which entity organization defines his business model and how he relates to the sources of information he uses. To pull it all together, imagine how decision makers use this information organization to evaluate and balance cross functional impacts. Since the owner may not be the only one making decisions, imagine the importance of all decision makers using one vision: the owner's business model. The small business owner has the opposite problem. He/she may be the only decision maker. Imagine how this information organization can make it easier for him to filter information. For all business owners and decision makers we supply a thinking tool that filters information by the owner's vision.