



THE CHALLENGE OF MEASURING BUSINESS PERFORMANCE IN REAL TIME

Professor Keith Cleland was an international business consultant and FCPA meeting in New York with the CPA's managing director for the United States when the seeds of the *TARI*[™] concept – target average rate index – were sown.

It was the late '80s and the pair were reviewing the latest accounting software package intended to be used as a business tool. They were frustrated that the software was producing 32 separate measures all of which were retrospective and generally imprecise for the business owner to judge his business performance.

"It was clear accounting software couldn't be used as business management software, and it's still true today. You can track revenues and expenses, but it misses the core of how one creates a profitable business," says Cleland. "It was on my return flight from that meeting that I decided to develop a methodology around productivity and profitability, the fundamental drivers of any business that coincidentally never appeared in accounting software."

TARI combines productivity and profitability with the key activity at the core of the business. In manufacturing, trades and service sectors, for instance, gross profit per hour per employee is the usual measure. In retail/wholesale, the unit of key activity is gross profit per sale and with restaurants, it's gross profit per meal. Combining this with a detailed understanding of the time taken for jobs to be completed was the key to unlocking a clear and precise understanding of business performance week to week.

"It is a shock for many business owners when they see this figure. They'd never thought of their businesses in these terms before and they can see how it immediately explained the usually disappointing, and until then, inexplicable performance of their business that their financial statements failed to reveal," says Cleland. "These figures went straight for the jugular in focusing on key constraints to their business performance."

With the reality of the business identified, an improved gross profit dollars per unit of key activity is set. The *TARI* figure becomes the new benchmark on which a company judges its performance. Cleland says that when business owners start thinking in terms of *TARI*, it has a direct and positive impact on pricing and quoting for jobs, and creates a new awareness about the time taken to deliver a good or service.

As a business improves its performance, the *TARI* figure can be adjusted successively higher, requiring the business to continue improving all aspects of its performance and even creating a culture of innovation as senior management explore ways to maximise productivity and profitability.

TARI for Business[™] has been used by selected businesses over the last 10 years as Cleland and his partner Trevor Watters developed and refined the program.

The most important information *TARI for Business* requires comes from invoicing. By tallying a random selection of six-to-ten invoices, and identifying the equivalent number of full time employees, *TARI for Business* can start identifying key benchmarks for the business.

As the ongoing input and comparison process continues, a clear picture of the true situation emerges, allowing analysis of the business revenue performance in real time. Cleland has outlined

numerous case studies in which he has applied *TARI* to more than 30 businesses.

TARI Case Study

RAW Hair Salon – Darlinghurst, NSW

After having to pay wages by using their own credit cards for the past two weeks, the two partners of *RAW Hair Salon* had been deliberating how they were going to tell the 16 staff and loyal customers, they had no alternative but to close the doors.

RAW had been struggling to keep the business alive since the American tourist trade dropped off following 9/11. They moved premises to a more fashionable location which provided a basement for shampoo and head massage, a ground floor for cutting, a first floor for colouring and a second floor beautician treatment. However, the rent was double that of the previous location.

The salon was attracting top staff and celebrity customers including models, television and radio stars, senior executives and leading socialites. *RAW* also boasted the 2004 Hairdresser of the Year, Anthony Nadar, as one of its partners. However the other partner, David Shaw, was maintaining his job as a flight attendant in order to provide cash input into the business.

Through a chance conversation with one of their customers, *TARI for Business* creator Keith Cleland, met the partners and agreed to analyse the salon's health. A 20 minute on-the-spot analysis revealed the salon was charging out an average of three hours 51 minutes per hairdresser, for every eight hours of pay. The average hourly rate achieved was \$81.

Targeting expenses plus a reasonable profit, including wages for the two partners for the year ahead, resulted in a *TARI* (*Target Average Rate Index*) of \$99, based on 200 hours for the week, or five and a half hours per hairdresser a day.

Based on these findings, the owners accepted the need to improve chargeable output. Appointments were reviewed and cutting times reduced from 60 minutes to 45 minutes. David tracked charged output for comparison with targets daily and weekly.

Action Sheets were introduced, pinpointing tasks for each staff member, linked with timings. The staff entered into the exercise with growing enthusiasm, particularly when they saw their ideas for achieving added value by way of improved service were taken seriously and acted upon. A senior hairdresser was also hired to monitor customer service.

"*TARI* gives me focus and the Action Sheets give me the means of making things happen", says David.

Results after the initial four weeks revealed the salon was

achieving an average of \$108 by four and a half hours a day. A substantial improvement over a *TARI* of \$99, although falling below the five and a half hours target. Results after two months indicated an average hourly rate of \$119 coupled with an average output of five hours per day. The salon started making a profit for the first time since 9/11 and there was enough money to pay wages to the partners and substantially repay the credit card debt.

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FOCUS BASED MANAGEMENT

Join the *TARI* for Business Challenge!

Wealth Creator is putting *TARI for Business* to work for one of its own! One lucky business owner will have the opportunity to apply *TARI for Business* to their operation courtesy of *Wealth Creator!* The team at *TARI for Business* have been given eight weeks to take one of our reader's businesses to the next level using the *Target Average Rate Index* approach.

You've read how *TARI for Business* is applied and how it can improve business performance. Now it's time to put *TARI* to work for your business. As part of the *TARI for Business* Challenge, *Wealth Creator* will run a follow up article in the March/April 2006 issue documenting the experience of the selected business. **wcm**

BUSINESS CHALLENGE

Take advantage of a unique offer and reap the benefits of this highly successful business tool.

In 25 words or less, tell us why we should put *TARI* into your business.

Send your answer with your name, address, company name, telephone number and email address to:

TARI Business Challenge,

C/O *Wealth Creator* magazine

123 Erskine St, Middle Park 3206

or email to jonathan@wealthcreator.com.au.

Entries close October 8, 2005 and the winner will be announced in the next issue.

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