



Beyond Open Book



The Front Line Drives the Bottom Line

Beyond Open Book

THE GREAT GAME OF BUSINESS





When Employees Think, Act & Feel
Like Owners...

Everybody Wins.

Beyond Open Book

THE GREAT GAME OF BUSINESS



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Every employee...

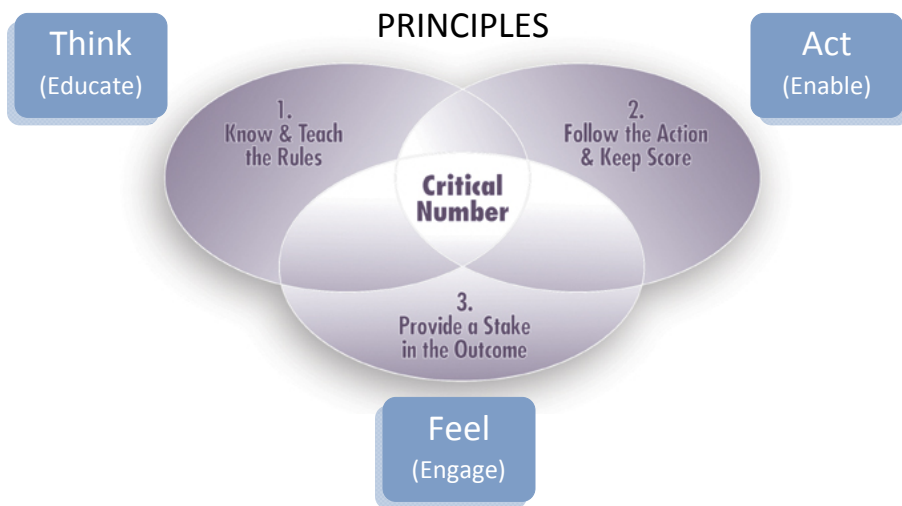
- is given the measures of business success and taught to understand them
- is expected and enabled to act on their knowledge to improve performance
- has a direct stake in the company's success

Background



- In 1983 – failing division, International Harvester Co.
- Today - 25 year employee owned company
 - 320 Million in Sales
 - 17 highly diversified business units
 - 10 cents per share to \$234 per share (FY 2007)
- Great Game of Business – One of the most celebrated approaches to Open-Book Management

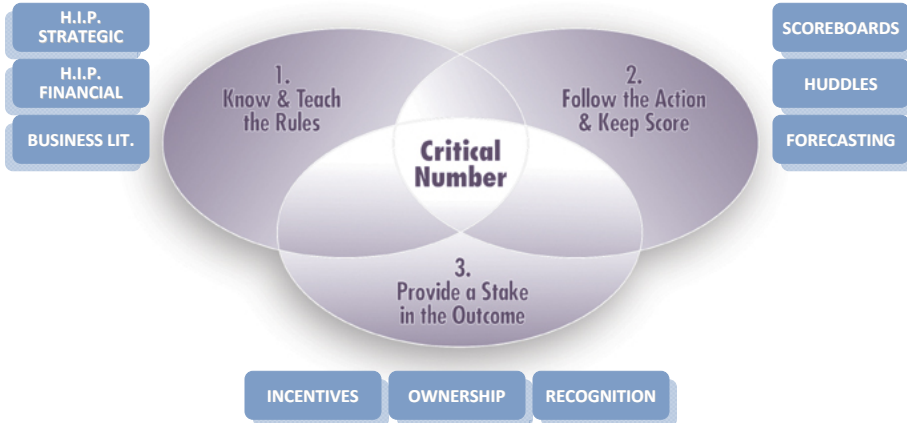
Great Game of Business



Great Game of Business



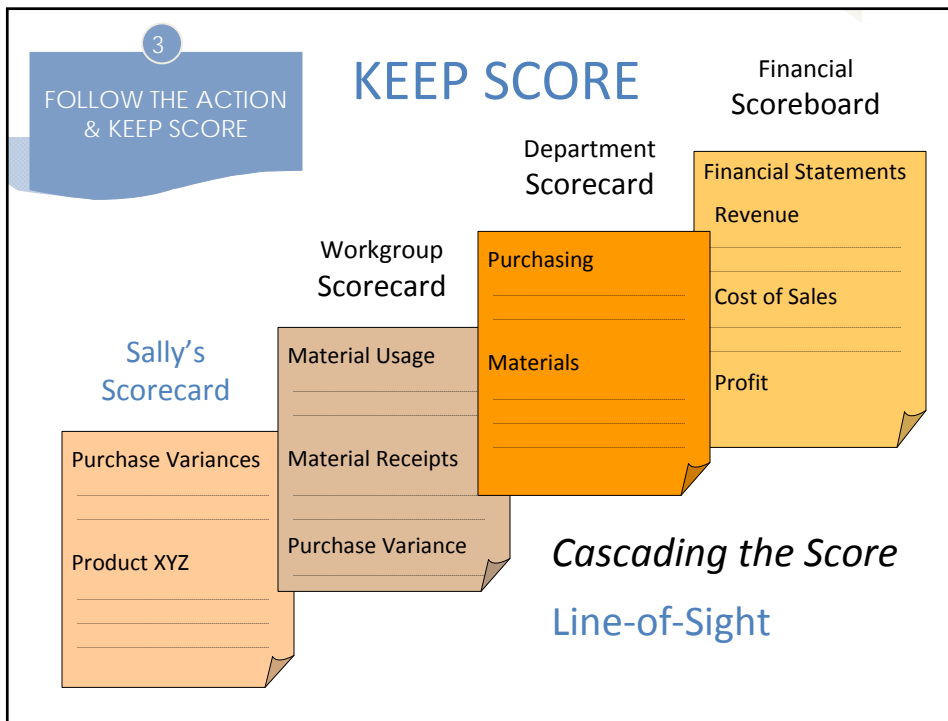
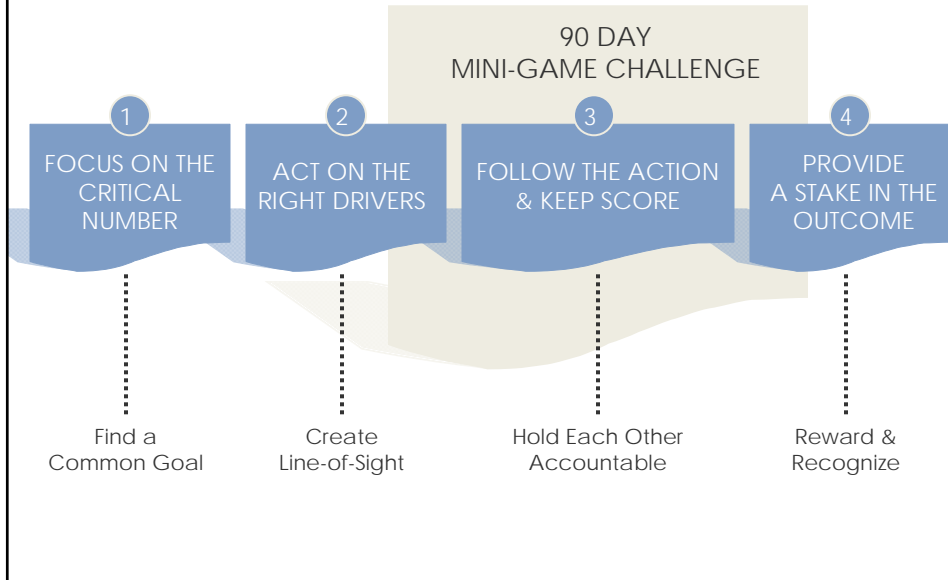
PRACTICES



It's a Process



Our Approach...



Resp	Line	Sales	Prior Year	Plan	Wk 1	Wk 2	Wk 3	Wk 4	Wk 5	Final
Sales	1	Net Sales Orders-Customers (Net of RMA's-Discounts)		9297	9400	8500	8200			8922
Mats	1a	Misc. Orders-New/Core Parts and Premium Freight Sales		39	480	480	30			
	2	Orders Behind Schedule (Net)		150	976	974	937			
	3	Orders Available To Ship (1,1a,2)		8936	9776	9524	9294			
Prodtn	4	Ending Behind Schedule (Net)		150	475	400	490			
	5	Net Shipments (3 - 4)	3520	8266	9301	8933	8894			19953
Acctg	6	Deere Support Fees	317	791	778	786	766			963
Acctg	7	SRC Support Fees	45	102	112	109	109			134
	8	Total Factory Sales (5 - 6 - 7)	811	7493	8411	8059	8020			9816
		Cost Of Goods Sold (COGS)								
Ind Mf	9	Standard COGS	2072	4692	5167	5226	5203			6498
	10	Freight Costs-								
Prodtn	11	2.80% of Sales Inbound	123	315	353	339	338			444
Prodtn	12	3.40% of Sales Outbound	116	282	316	204	402			371
	13	Total Standard COGS (9 + 11 + 12)	2311	5289	5837	5869	5843			7213
	14	Standard Gross Margin (8 - 13)	850	2154	2574	2190	2176			2523
		Std. Margin % (14 / 5)	24.1%	26.0%	27.7%	24.5%	24.5%			22.2%

Resp	Line	Variances	Prior Year	Plan	Wk 1	Wk 2	Wk 3	Wk 4	Wk 5	Final
Prodtn	15	Inbound Freight	(19)	6	(85)	(110)	(110)			(225)
Prodtn	16	Outbound Freight	(12)	15	(100)	(50)	(30)			(67)
Mats	17	Purchase Price and Reclass Var.	(19)	51	10	(80)	(100)			(149)
Prodtn	18	Material Usage	(70)	(50)	(25)	(18)	(14)			(1)
Mats	19	Inventory Adjustment/ Disposal Losses	(5)	10	5	5	5			5
Prodtn	20	Labor Performance Rate	6	4	4	10	10			25
Prodtn	21a	Mfg O/H Spending Production		275	275	275	275			
Mats	21b	Mfg O/H Spending Purchasing		22	23	23	23			
Whse	21c	Mfg O/H Spending Warehouse		102	115	120	120			
Maint	21d	Mfg O/H Spending Maintenance		64	64	64	64			
QC	21f	Mfg O/H Spending Quality		29	29	29	29			
	21	Total Mfg. O/H Spending (21a..21f)	392	492	506	511	511			562
Prodtn	22	Less Overhead Absorption	(330)	(411)	(390)	(390)	(390)			(491)
	23	Overhead Variance (21 + 22)	62	81	116	121	121			199
	24	Total Variances; Sum lines; (15,16,17,18,19,20,23)	(567)	118	(75)	(152)	(112)			(280)
	25	Cost Of Goods Sold Actual (13+24)	2265	5406	5762	5717	5671			7002
	26	Actual Gross Margin (8 - 25)	916	2037	2649	2342	2348			2814
		Actual Margin % (26 / 5)	26.7%	24.6%	26.5%	24.2%	24.4%			26.8%

3

FOLLOW THE ACTION
& KEEP SCORE

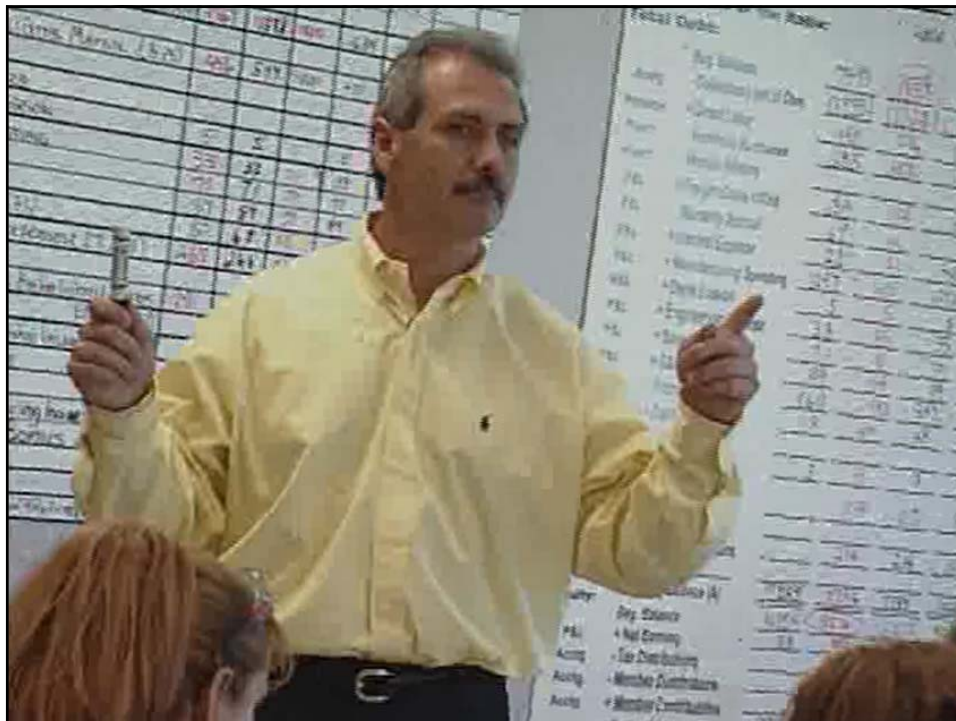


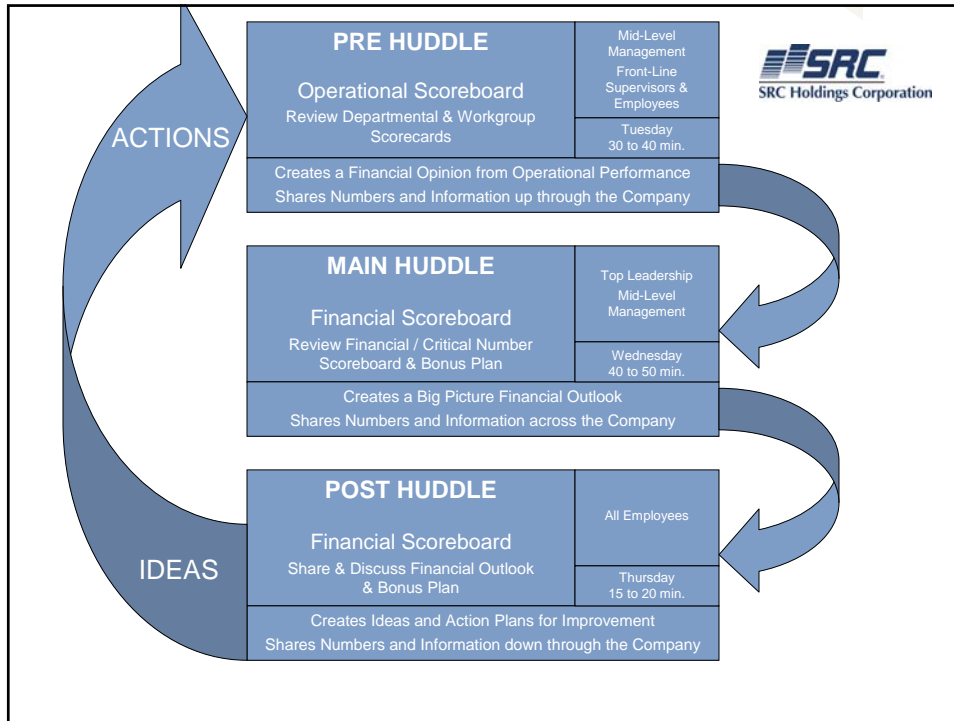
FOLLOW THE ACTION

What's a Huddle?

- Evaluate Game Conditions
- Check the Score
- Plan the Next Play
- (manage deviations)
- Get Fired Up

Hold Each Other
Accountable





3
FOLLOW THE ACTION & KEEP SCORE

FOLLOW THE ACTION

What's a Huddle?

- Numbers Focused
- Enhances Teamwork
- Promotes Action
- Educates the Team
- Spreads & Maintains Accountability
- **Forward Looking**

Hold Each Other Accountable

GREAT GAME BUSINESS

ROA Scoreboard - August 2006		Forecast Week 1	Forecast Week 2	Forecast Week 3	Forecast Week 4
Owner					
Net Income Calculations					
July Actual Net Income	Cindy	\$1,569			
August Opinion Net Income	Cindy	\$ 500			
Total Net Income (opinion & YTD)	Cindy	\$2,068			
Net Income YTD Plan	Cindy	\$1,748			
YTD Comparison to Plan	Cindy	\$321			
Annualized Projected - Actual, Opinion & Plan	Cindy	\$3,081			
Year End Net Income Plan	Cindy	\$2,761			
Total Assets Calculation					
Actual July Ending Assets	Cindy	\$23,248			
Net Change in Inventory					
Material Receipts	Sally	\$13,900			
Material Usage Variance	Sally	\$0			
Purchase Price Variance	Sally	(\$23)			
Labor	John	\$141			
Labor Variance	John	\$0			
Overhead Absorbed	Alicia	\$0			
Total Into Inventory	Alicia	\$14,018			
COGS Out	Alicia	(\$11,411)			
Total Net Change Inventory	Cindy	\$2,607			
Net Change in Fixed Assets					
Capital	Doug	\$31			
Depreciation	Cindy	(\$26)			
Total Net Change Fixed Assets	Cindy	\$5			
Net Change in Accts Rec					
Shipments	Joe	\$ 12,600			
Gross Collections	Cindy	\$10,100			
Total Net Change in A/R	Cindy	\$2,500			
Total Net Change in Assets	Cindy	\$5,112			
Total August Ending Assets Opinion	Cindy	\$28,360			
Plan August Ending Assets	Cindy	\$17,466			
Year Ending Asset Plan	Cindy	\$14,559			
Opinion ROA (annualized)	Cindy	10.87%			

Rolling Forecast

		Feb PLAN	WEEK 1	WEEK 2	WEEK 3	WEEK 4	FINAL
Total Debt / Equity = Ratio		7544	7949			7701	7588
Main Drivers of the Ratio:		4069	4223			4110	4129
Total Debt:		1354	1355			1335	1338
Acctg	Beg Balance	7752	7588			7298	7298
Prodctn	- Collections net of Core	(1590)	(1000)			(910)	(910)
Purch.	+ Direct Labor	119	119			126	126
Purch.	+ Inventory Purchases	600	550			550	550
P&L	- Vendor Returns	-	-			-	-
P&L	+ Freight Costs In/Out	108	108			108	108
P&L	Warranty Accrual	54	54			54	54
P&L	+ Interest Expense	25	20			20	20
P&L	+ Manufacturing Spending	286	275			276	276
P&L	+ Deere Liasion	5	5			5	5
P&L	+ Engineering Expense	34	19			2	2
P&L	+ Sales Expenses	80	80			65	65

Rolling Opinions

MUST BE LOWER THAN 1.35:1 FOR D/E RATIO




3
FOLLOW THE ACTION
& KEEP SCORE

FOLLOW THE ACTION

Why Forecast?

- It's our early warning system - Alerts everyone to opportunities and emerging challenges
- Line-of-sight, Cause-and-Effect
- Sustains commitment
- Ability to forecast accurately is an indication of how well employees understand their numbers

Hold Each Other Accountable



90 DAY
MINI-GAME CHALLENGE

1 FOCUS ON THE CRITICAL NUMBER

2 ACT ON THE RIGHT DRIVERS

3 FOLLOW THE ACTION & KEEP SCORE

4 PROVIDE A STAKE IN THE OUTCOME

Mini-Game

A short-term rapid improvement challenge designed to correct a weakness or pursue an opportunity within the company.



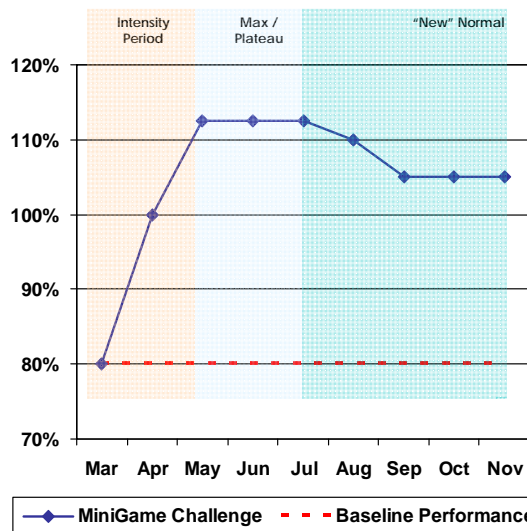
Don't know the most important goal

Don't see how they make an impact

Don't feel empowered to act

Are not held accountable

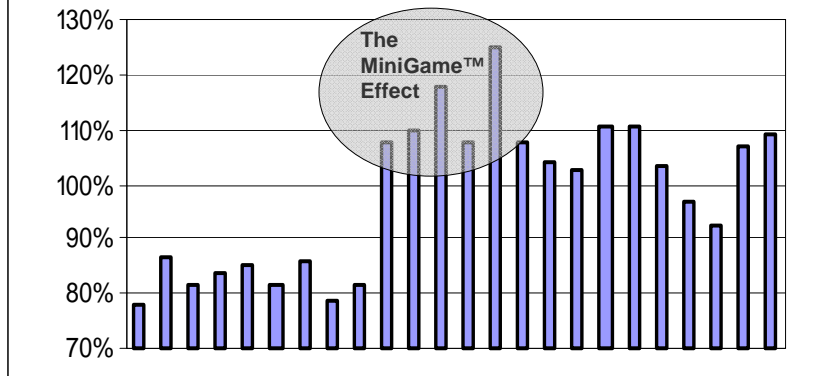
Wonder WIIFM



The MiniGame™ Effect



Cylinder Heads Labor Ratio



90 DAY MINI-GAME CHALLENGE



1. Choose the Game – *The Right Drivers*
2. Defined the Target (Stretch Goal)
3. Estimate the Benefit
4. Identify the players
5. Determine the timeframe
6. Develop a theme
7. Design the scoreboard
8. Choose the reward
9. Play the Game
10. Celebrate the Win

90 DAY
MINI-GAME CHALLENGE

Driver Derby



- The Game: A restaurant food & equipment distributor needed to dispose of \$50,000 in excess inventory
- The Target: 75% reduction
- The Players: Delivery truck drivers
- The Timeframe: 90 days



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ANNUAL



- Strategic planning engagement
 - Budgeting
 - Bottom up from work teams
 - Collaborative with CFO & CEO
 - Demands of capital structure vs. realities
 - Core Values Review
 - Feedback
 - Vote on changes

Beyond Open Book



ANNUAL



Kindermusik - FY2014		
Expense Category		
Assessments - SMTDA	Est. FY	
Financial MFR 2nd Enrollment	\$ 76,263	MA
Postbase PDRs until FY16	\$ 12,000	EA
Medusa Travel by ZIPs	\$ 12,000	CS
Eliminate URMV Private classes	\$ 8,500	SC
No Office Supplies	\$ 8,100	HM
No paid or honor stipendials	\$ 8,150	PE
No Process Scheduling	\$ 5,700	AG
Eliminate URMV Coding Meeting	\$ 4,000	HE
Chc notice of 12 CPU for ABC 3-9s	\$ 4,000	CP
Suspend ESOP Contribution Budget	\$ 3,800	RG
Delay 4 quarter recovery planning	\$ 3,800	CM
Medusa CF Support Plan	\$ 3,000	CM
Eliminate consulting contract	\$ 3,000	MD
Eliminate consulting of budget for IT	\$ 3,000	CM
Medusa laboratorial Legal fees	\$ 2,000	LE
Eliminate Pagan Classes	\$ 1,800	DP
Postbase GA 1st Invest to FY16	\$ 1,600	LE
Use stock photo service	\$ 1,200	LI
No stipendials, cost capexent feedback drop	\$ 1,200	LE
Process - suspend advertising/local ad	\$ 1,100	AG
Stop buying th labels for dollhouse product	\$ 1,000	DPF
Cancel regional ESOP trip	\$ 1,000	LE
Delay new EO MPOE to FY16	\$ 800	RG
Eliminate Mail Order Svc	\$ 800	MR
Postbase Sign & Sign Wood	\$ 800	JR
Decrease janitorial use to 8 days/mt	\$ 800	MC
Medusa number of existing names submit	\$ 800	PC
Eliminate enrollment id for Acad	\$ 800	JR
Eliminate lateral business function	\$ 800	AI
FedEx Overnight	\$ 800	HC
New job application fee fee	\$ 400	HC
Field ex digital content purchase	\$ 400	LE
Field EO support until FY16	\$ 300	RG
Total	\$ 116,650	



QUARTERLY



- Half-Day team events (*mandatory*)
 - Business review
 - Quarterly financial wrap-up
 - Strategy for next quarter
 - Brainstorm breakouts
 - Recognition
 - Heroic Ownership awards
 - Team Building Activity
 - Laser Tag; Scavenger Hunt; ESOP Game

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QUARTERLY



- April 2008 Agenda

TEAM KINDERMUSIK QUARTERLY MEETING Wednesday, April 23, 2008

Goal: To come together as a total team of owners to mark the transition between quarters and re-invest in our team.

FY08 & Q4 WRAP-UP

12:00p Phones off/Catered lunch
12:15p *Hero drawing!!!*
12:20p FY2008/Q4 Financial Wrap: Scott
KI's Share Valuation/Private Co. Index: Scott
12:35p *Special Presentation: Scott*

FY09 & Q1 PREVIEW

12:40p Strategy Update: Michael
12:55p Consumer Channel Top Initiatives: Brian & team
1:10p *Special Presentation: Brian*
1:15p Educator Channel Top Initiatives: Carol & team
1:30p *Hero drawing!!*
1:35p Accounting/Ops Team Top Initiatives: Scott & team
1:50p Product Development Top Initiatives: Debby & team
2:05p *Hero drawing!!!*

TEAM INVESTMENT

2:10p EO Q&A
2:25p Sharing Exercise: Michael Dougherty
2:45p *Hero drawing!!*
3:00p GROUP ACTIVITY BEGINS!!! (*details to be provided at 3*)
6:00p CONCLUDE GROUP ACTIVITY

NEXT TEAM KI MEETING: Monday, July 28, 2008



WEEKLY



- Own Zone Meeting
 - Build the income & cash flow statement
 - 10 to 12 contributors
 - Teach, don't preach
 - calculate EBITDA
 - accounting methods & restatements
 - Variance explanations
 - Bonus watch

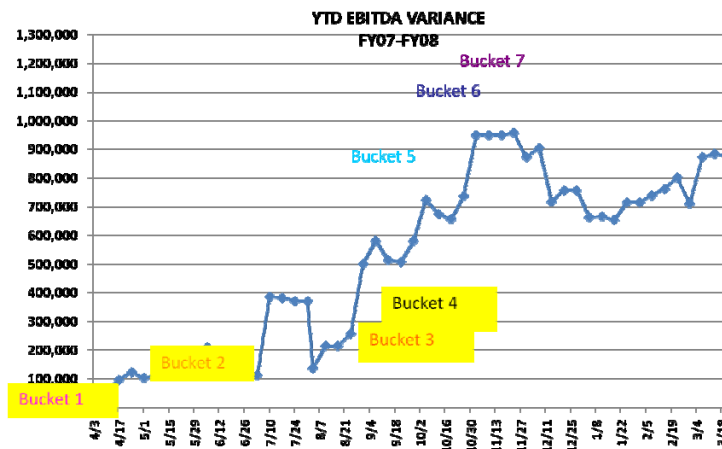
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WEEKLY



Bonus Watch FY2008 (YE 3/31/2008)



DAILY HUDDLES



- 15-min stand-up meetings
 - Personal Metrics
 - Stucks
 - Updates
- Power of peer accountability
- Cascading, two-waves to every EO
- A meeting that sets you free

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9/10/2008



9:15 Operations Team Huddle

- Metrics
 - # DSO
 - % Order fill rate
 - # Customer issues unresolved
 - Avg. \$ order size
- Update: August financial closing
- Stuck: Nodus interface install
- UPS quote: U.S. & EU distribution
- eBook: possibility for a revenue model with digital delivery
- Wiki review status

11:11 CEO Council Huddle

- Metrics
 - incremental net sales
 - cash flow & LOC vs. budget
 - gross margin
 - days behind IT project list
- U.S. economic outlook
- Reprioritizing IT projects
- Bad profits on sibling kits?
- Stuck: U.S. consumer recession
- Update: toy safety import laws
- Stuck: rollout Australia website



Questions?



THE GREAT GAME OF BUSINESS



~~drink~~
When employees think and act like owners...