PLANNING FOR PROFIT WORKSHOP

Grandy & Associates

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We Teach Contractors How to Build Profitable Businesses.

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DAY 1

Welcome

Training is often about individual parts of the company. Sales, Product, Installation, Service

In this Learning Lab

- Develop an active working model of YOUR company
- Goal: Know what to charge in every department
- Discover "how to" achieve your targeted profit goal
- Pricing right: Allows you to do everything else

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Grandy & Associates has been working with contractors for over 30 years. For three decades we have had one simple goal. Help contractors operate profitable businesses. It sounds so simple doesn't it. When you consider however that most contractors operate annually with less than 3% profitability, there is still a lot of room for improvement.

This class is specifically designed to help you discover what you should charge in each department of your company to achieve your goals to today and adequately plan for tomorrow. During this two-day workshop, you will build an active company model using your company numbers. When complete, you will be able to see the performance of your company at a glance. Let's get started!

The Challenge

Over 90% of current business owners…

- What is the first thing you must decide?
- Even if wrong, typically still make money at this stage
- Over 70% of companies hit first million in gross sales AT A LOSS!
- Moving dollars, just not keeping many of them

Expenses you did not plan on

- Computer dies, vehicle breaks down
- Lead guy goes to competition
- Last job ends at a loss

I made more money when I was half the size

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Think about it Across all small businesses, the failure rate is extremely high. Why is this. In the trades industry, how long do you think it takes the typical company owner to realize they have a serious financial problem?

You may have heard the story of a frog in hot water. It goes like this: If you put a frog in a pot of hot water, it knows it's not a good place to be and will jump out. If, however, you put a frog in a pot of cold water, life is good for the frog. It can swim around and enjoy life. If you turn the heat up just a little, the water will warm up and the frog will never notice a change. If you turn the heat up a little more, again the water will warm up a little more and the frog won't notice. If you continue this, the frog will literally boil to death and never realize that there was a problem. Running your business is much like the frog in hot water. It would be easy if it were "do something today and go out of business tomorrow as a result", right? We would just avoid doing that. Instead, running our business is much more like the pot of cold water.

Three Stages of Going out of Business

1. Do more work
2. Put personal savings back into the business
3. Another mortgage on house, max line of credit, sell excess inventory

Three Stages of GROWING out of Business

1. Owner moves from filed to the office
    - What just went up? Adjust rate?
2. Gross sales between $750K - $1.2 Mil
    - Serious infrastructure expansion
    - Happens again at 2.2M, 5.5M, 7.5M…
3. Any point of rapid growth
    - 15% or more in one year (cash flow issues)
    - Job pays in stages, your people are paid weekly

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Stop and think about these three stages. It is not uncommon for companies to move up and down this list at various stages throughout their history. The key is plan for the stages of growth in your company. The planning for profit software tool will help you do just that. During this workshop, we will walk you through how to navigate each of these strategic growth points successfully.

Top Two Reasons Companies Fail

1. Improper labor pricing
2. Cash flow management

What percentage of businesses fail their first year? - 50%

- Reason: Poor paperwork
- Improper Pricing
- No Business Plan
- No Clear Budget (Cashflow)
- After 5 years – 85%

What percentage of franchises succeed their first year? - 97%

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Tragically, 50% of typical small businesses fail within their first twelve months of operation. The reasons for this include: Improper labor pricing, no clear business plan, and no clear budget from a cash flow perspective. By contrast, 97% of franchises succeed in their first year. Why is the percentage so much higher? In addition to great systems and programs, the foundation of their success is due to proper pricing and aggressive cash flow management from day one.

But be encouraged. Over the last three decades we have seen countless contractor attend this workshop, apply the principles we will show you, begin to use the software, return home and begin to see things move in the direction they have desired from the beginning. No matter where you are today, increased profitability is within your reach.

Cash Flow Vs Accounting

There are significant differences in cash flow vs accounting

- Reason: Poor paperwork
- Improper Pricing
- No Business Plan

Cash Flow deals with the "real" dollars that flow in and out of a company on a daily basis - Accounting tends to work with "paper" dollars.

There are two major differences between cash flow vs accounting

- Equipment replacement costs vs depreciation
- How loan payments are handled

Each will show a significantly different bottom-line profit margin!

There are significant differences in cash flow and accounting. The two major differences are equipment replacement costs vs depreciation and how loan payments are handled. Cash flow deals with the "real" dollars that flow in and out of a company on a daily basis. Accounting, on the other hand, tends to work with paper dollars. Accounting isn't bad. To be very clear, you absolutely need a good accountant! Accounting can tell an owner a lot about what is going on within the company. When it comes to setting hourly rates, however, those need to be determine using cash flow dollars. All the calculations we do over the next couple of days will be using a cash flow approach.

Equipment Replacement Costs vs Depreciation

Depreciation

- Deals with what a piece of equipment cost several years ago

Equipment Replacement

- Deals with what it will cost to replace it several years from today and builds the costs into today's pricing

Must get tomorrow into today!

Depreciation deals with what a company paid for a piece of equipment several years ago. Accounting then takes the total "cost" and spreads it over whatever number of years the government currently allows. Equipment replacement cost, on the other hand, asks two questions. *"How many more years of active service will the equipment provide before it needs to be replaced?"* and *"What will it cost to replace it when it is replaced?"* When the cost of future replacement is determined, it is then built into today's pricing so that when the equipment is replaced, there will be enough money available.

Equipment replacement costs will always be significantly higher than depreciation.

Loan Payments Differences

If you have a $500 loan payment and $100 is interest, what shows up on the P&L?

- $100 interest shows on the Profit & Loss
- Cash flow shows "all" $500 as flowing out of the company
- Software Profit & Loss will reflect cash flow model
- We will show you how to integrate with your accounting software

Loan payments are the single biggest difference between cash flow and accounting. If you have a $500 loan payment and $100 is interest with the other $400 being principle, what do you suppose shows up in the accounting income statement? The only thing that shows up, is the only thing Uncle Sam allows to be counted, the $100 interest. The other $400 paid out in principle simply goes off to never, never land!

Cash flow, however, considers the full loan payment of $500 to be an expense to the company. After all, the company wrote a check for $500 and it flowed out of the checkbook. Remember, our objective is to determine how much the company needs to charge per hour to cover all of its "real" costs of doing business. We want to determine an hourly rate that will allow money to be left in our checkbook when it is all said and done. At the end of the year, Uncle Sam, in the form of your accountant, can decide what he wants to call profit and what he doesn't.

Cash Flow Vs Accounting	Accounting	Cash Flow
Sales	$800,000	$800,000
Cost of Materials	- $320,000	-$320,000
Cost of Labor	-$160,000	-$160,000
Overhead:		
Depreciation	-$ 20,000	
Equipment Replacement Cost		-$ 35,000
Interest on five loans	- 6,000	
Full loan payment on five loans		- 24,000
Other Overhead Costs	- 280,000	- 280,000
Profit	+ $ 14,000	- $ 19,000

That is a bottom-line difference of $33,000!

Benefits of a Budget

What will a budget do for you?

- Forces you to understand the "real" costs of doing business
- Provides accountability within the company
- Helps you make good economic decisions
- Helps the company begin to PLAN for the future
- **Tomorrow is ALWAYS in today!**

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A budget forces the company to look at all of its "real" costs of doing business. It also provides accountability. It is strongly recommended that others inside the company get involved in the budgeting process. When individuals provide numbers for the budget, they also tend to be accountable for what they provide, especially if they are held accountable.

The third reason deals with economic decisions. Economic decisions are relatively easy to make if you have the numbers in front of you. If three trucks had an annual maintenance cost of $400-$600 dollars per year and the fourth had an annual maintenance cost of $2,000, guess which truck needs to be replaced? Right, it's the fourth truck. Seeing the numbers helps company owners make good economic decisions.

The final benefit is that a budget helps the company plan its growth. When costs are broken down by department, management can easily see what is making money and what isn't. Obviously, you want to grow in the areas that are making money!

Departmentalization

- Company starts with a few things
- Now doing multiple things
- One department can easily be subsidizing another and the owner may not realize it!

This is the most common company view

Sales:	**$ 1,000,000**
Cost of Materials	**- 300,000**
Cost of Labor	**- 200,000**
Overhead:	
Fixed and Variable Overhead	**- 350,000**
Profit =	**$ 150,000**

This is the most accurate company view

Department	**Profit**
Service	**$80,000**
New Construction	**<$20,000>**
Retro-Fit	**$90,000**
Profit =	**$ 150,000**

What often happens is that all the money a company makes goes into one pot and all the bills get paid out of the same pot. If there is money left in the pot at the end of the year everything must be going okay, right? The answer is "maybe."

When costs are broken out by department, what is often found is that one department is making money while another is losing money. One department may be making a $50,000 profit while the other department is losing $20,000. The bottom line says the company made a $30,000 profit for the year. The reality is that one department is actually subsidizing the other…and no one knows!

What If A Department Is Losing Money?

Even if a department proves to be unprofitable…
DO NOT automatically eliminate it!

It may be ok to lose money in a department if the department is:

- Absorbing a significant amount of fixed overhead allowing the other departments to be profitable
- Creating profitable work for other departments

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Watch what can happen when a department is eliminated:

	Service	Retro-Fit	New Construction
Sales	$ 150,000	$ 250,000	$200,000
	(25%)	(42%)	(33%)
- Labor	45,000	65,000	60,000
- Materials	30,000	85,000	85,000
- Dept. F/V-OH	20,000	15,000	12,000
- General F-OH	37,000	62,000	48,000
Net Profit	$ 18,000	$23,000	$ -5,000
% Profit	12%	9.2%	-2.5%

Watch what happens to this fixed overhead

Watch what can happen when a department is eliminated:

	Service	Retro-Fit	New Construction
Sales	$ 150,000	$ 250,000	
	(32.5%)	(62.52%)	
- Labor	45,000	65,000	
- Materials	30,000	85,000	
- Dept. F/V-OH	20,000	15,000	
- General F-OH	55,125	91,875	48,000
Net Profit	$ -125	$ -6,875	
% Profit	-0.08%	-2.8%	

Watch what happens to this fixed overhead

It is very tempting to simply shut down a department that is losing money. The problem is that the department that is losing money is usually carrying a significant amount of fixed overhead. It is paying some of the rent, utilities, insurances and many other fixed costs.

If the department is eliminated because it is losing money, guess what happens to the fixed overhead costs? They are not eliminated; they simply shift to the remaining departments. The net result is that profitable departments can suddenly become unprofitable when they pick up the additional fixed overhead costs.

It is **OK to keep** a department that is losing money if it is doing one of two things: 1) If the department is absorbing a significant amount of fixed overhead, and is, in effect, allowing the other departments to make money; or 2) it is creating profitable work somewhere else in the company. A company may be losing money in new construction, but if the new construction work is creating annual Maintenance Agreements and/or profitable service work, that's fine.

Now, don't simply leave a losing department alone. Do everything you can to at least get it to breakeven. If in fact it is losing money, and it is getting worse, then, yes, get rid of it but do it gradually. Phase out the department while, at the same time, you are increasing volume in the more profitable areas of the company.

How Many Departments Do You Have?

Contractors say: We are too small to have departments

A particular type of work is considered a department if:

- It makes up a **minimum of 5%** of gross sales
- Has its own unique hourly rate
- Look at where people are spending their time

If a type of work makes up at least 5% of the total gross sales of a company, it should become a department unto itself. The hourly rate can also determine if it is a department. Assume, for a moment, that the company does residential and commercial service work.

If both departments charge the same hourly rate, perhaps $50/hour, then they could be considered "the same" department. If, however, the residential department charges $50/hour but the commercial department charges $65/hour, then they would be considered two different departments.

List Your Company Departments

- List only the departments you have NOW
- We will do the "what if" process tomorrow
  - Every employee will be assigned to a department
  - Company overhead will be assigned to a department

Department 1: _____

Department 2: _____

Department 3: _____

Department 4: _____

Department 5: _____

Department 6: _____

Department 7: _____

Department 8: _____

Department 9: _____

Department 10: _____

List as many departments as you have at present based on the definition of departments we just covered. Please only show departments that are active at the present time. We will show you tomorrow how to add departments you want to expand to in the future.

Keep in mind that labor, materials, and overhead costs will all be allocated to departments as you enter your company data into the software. This will become the basis for your company model and department pricing later on, so give this worksheet some serious consideration.

Monthly Cash Flow Projections

Departmentalization is only 50% of the problem

- Lack of accurate month by month cash flow projections can close your doors

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
Gross Sales	2	1	3	12	30	25	20	10	18	22	10	3
Less Cost of Sales	6	5	7	10	20	18	16	9	16	17	9	6
Net Profit/Loss	-4	-4	-4	2	10	7	4	1	2	5	1	-3
Cum. Profit/Loss	-4	-8	-12	-10	-	7	11	12	14	19	20	17

There are two things that put contractors out of business. The first is improper labor pricing, and the second is cash flow. A company can be priced absolutely perfectly and still go out of business due to cash flow problems. There are very few contractors that don't have at least one month during the year when they lose money.

The key is to project and track when this typically happens. That's where creating a month-by-month cash flow budget comes in. The creation of a monthly cash flow budget will allow the

contractor to get keep a close watch on the ebb and flow of the company so they can plan according for the hills and valleys that are a natural part of business life.

To get an idea of what kind of information a budget can provide, let's look at the sample company above. If the above company's projected budget was simply looked at for the year, everything would look pretty good. The company is projected to show a $17,000 profit for the year. Now, however, let's look at what's happening on a month-by-month basis.

The budget tells us we are projected to lose $4,000 in January, February and March. It is telling us we will go $12,000 in the hole before things turn around. That is critical information. Every company needs to know if they are going to have any negative months and if so, how many will there be and when will they occur.

Guess what? If our sample company doesn't make it through the first three months of the year, they will go out of business BEFORE they get to the profitable part of the year.

Cash flow projections are critical. Outside of improper labor pricing, cash flow problems put more companies out of business than any other single factor.

The Right Question

How can I lower my tax bill AND still cover the 1st quarter?

- New truck may not be the best answer
- Pre-empt expenses before year ends
- Employee incentives / Team vs Uncle Sam
- Charitable donations

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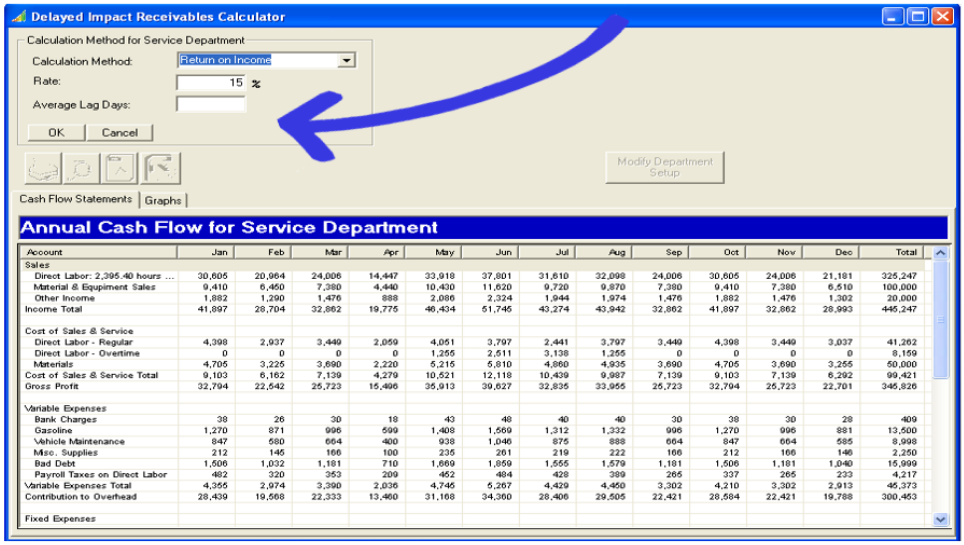
Cash Flow – Lag Days

Does everyone pay on time if you have billable services?

See the impact delayed receivables has on your cash flow

Enter average lag days



Account	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Sales													
Direct Labor: 2,395.40 hours ...	30,605	20,964	24,006	14,447	33,918	37,801	31,610	32,098	24,006	30,605	24,006	21,181	325,247
Material & Equipment Sales	9,410	6,450	7,380	4,440	10,430	11,620	9,720	9,870	7,380	9,410	7,380	6,510	100,000
Other Income	1,882	1,290	1,476	888	2,086	2,324	1,944	1,974	1,476	1,882	1,476	1,302	20,000
Income Total	41,897	28,704	32,862	19,775	46,434	51,745	43,274	43,942	32,862	41,897	32,862	28,993	445,247
Cost of Sales & Service													
Direct Labor - Regular	4,398	2,937	3,449	2,059	4,851	3,797	2,441	3,797	3,449	4,398	3,449	3,037	41,262
Direct Labor - Overtime	0	0	0	0	1,255	2,511	3,138	1,255	0	0	0	0	8,159
Materials	4,705	3,225	3,690	2,220	5,215	5,810	4,860	4,935	3,690	4,705	3,690	3,255	50,000
Cost of Sales & Service Total	9,103	6,162	7,139	4,279	10,521	12,118	10,439	9,987	7,139	9,103	7,139	6,292	99,421
Gross Profit	32,794	22,542	25,723	15,496	35,913	39,627	32,835	33,955	25,723	32,794	25,723	22,701	345,826
Variable Expenses													
Bank Charges	38	26	30	18	43	48	40	40	30	38	30	28	409
Gasoline	1,270	871	996	599	1,408	1,569	1,312	1,332	996	1,270	996	881	13,500
Vehicle Maintenance	847	580	664	400	938	1,046	875	888	664	847	664	585	8,998
Misc. Supplies	212	145	166	100	235	261	219	222	166	212	166	146	2,250
Bad Debt	1,506	1,032	1,181	710	1,669	1,859	1,555	1,579	1,181	1,506	1,181	1,040	15,999
Payroll Taxes on Direct Labor	482	320	353	209	452	484	428	399	265	337	265	233	4,217
Variable Expenses Total	4,355	2,974	3,390	2,036	4,745	5,267	4,429	4,450	3,302	4,210	3,302	2,913	45,373
Contribution to Overhead	28,439	19,568	22,333	13,460	31,168	34,360	28,406	29,505	22,421	28,584	22,421	19,788	300,453
Fixed Expenses													

This report is part of your Labor Pricing software. Cash flow is critical to any business. The initial model you create "assumes" all work is invoiced when completed and that the invoice is paid immediately. For many contractors, that is often not the case.

This report allows the user to enter the average number of days it normally takes to receive payment. Service might be a week (if not collected right on the job) while commercial can take 30-60 days. By entering the number of lag days (days until payment is expected) the software can then better project what your cash flow needs are going to look like.

Owner Earnings

Total everything the owner takes out of the company:

- Base salary
- Insurance premiums (health, life, car, etc)
- Club or association dues
- Bonus, draw, or simply extra cash taken out
- Anything and everything else the company pays for you

"If you are not spending at least two weeks a year at a place like this, it's time to take a good look at your pricing!"

The question is not:

1. "What does everyone else make?"

The real question is:

2. "What salary do I need to earn to support my lifestyle and family?"

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Our budgeting process is going to help you determine what total gross income must be earned in order to meet your family needs.

Steps for Creating a Family Budget

1. List and total all weekly expenses
   - (Food, school lunches, gasoline, "fun" money, etc.)
   - X 52 weeks = Annual amount

2. List and total all monthly expenses
   - (Rent, loan payments, phone bill, utilities, etc)
   - X 12 months = Annual amount

3. List and total all annual expenses
   - Property taxes, annual insurance
   - Clothes
   - Birthdays
   - Christmas
   - Vehicle Maintenance
   - College
   - Savings, etc.

Weekly Expenses:

- Church
- Tithe
- Food
- Gasoline
- Children's Allowance
- Wal-Mart
- Cleaners
- Newspapers
- Beauty Shop

Monthly Expenses:

- House Payment
- Loans
- Retirement
- Contributions
- Cable TV
- Card Payments
- Utilities
- Savings
- Internet Service
- Vehicle Maintenance
- Medical Expenses
- Clothing
- Health Insurance
- Life Insurance
- College Funds
- Telephone
- Cell Phone

Annual Expenses:

- Property Tax
- Annual Insurances
- Vacation
- Vehicle Licenses
- 401K
- Roth IRA

Often Forgotten Items

To be sure you have all bases covered, get the input of other family members who may think of items you are leaving out. Another easy way is to review your checkbook log to see what you might have missed. Include all major expenses in your budget.

Don't Forget Taxes!

Taxes need to be added to your budget:

- Federal Income Tax (10%-35%)
- Social Security / Medicare (8%)
- State Income Taxes (0%-7%)
- Local Income Taxes (0%-3%)

Estimated Withholding Range 18% to 53%

Taxes need to be figured in to determine the "total" gross income that needs to be earned and therefore built into the company budget.

Family Budget Resources on Thumb Drive

Grandy & Associates

Family Budget

Expense Description	Weekly Amount	Monthly Amount	Quarterly Amount	Annual Amount	Total Annual
Tithe					$ -
Food					$ -
Gasoline					$ -
Kids Allowance					$ -
Groceries					$ -
Heath & Beauty					$ -
House Payment					$ -
Utility Bill					$ -
Loans					$ -
Retirement					$ -
Cable TV					$ -
Savings					$ -
Internet					$ -
Vehicle Maintenance					$ -
Medical Expenses					$ -

Be sure to take advantage of the budgeting assistance tools included as a part of this workshop. They are located on your thumb drive and will be advantageous in helping you establish a clear, accurate budget.

For additional budgeting resources, we highly recommend www.DaveRamsey.com

What Determines Your Hourly Rate?

What does NOT determine your rate?

- Competition
- What you think the customer will pay
- What you "feel" like charging
- NADA pricing!!

What DOES determine your rate?

- Your "real" cost of doing business
- Desired salary target
- Benefits you want to offer employees
- Desired profit margins

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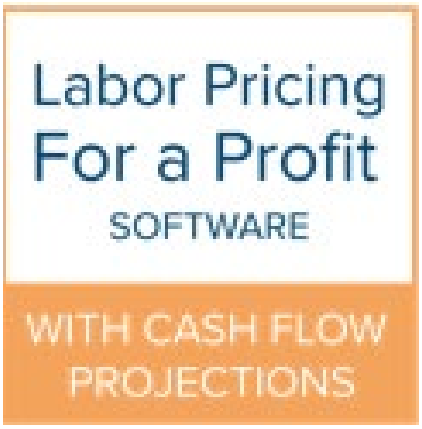
Many contractors will say their rates are determined by what their competition charges or what they think the customer will pay. Others set their rates based on what they feel they need to charge or what they would like to charge. All of the above reasoning is wrong.

The company's hourly rate needs to be determined by what it costs a company to do business. Part of that cost is the family budget we just created. The hourly rate also needs to include the benefits you pay your employees, as well as a profit to fund the growth of the company. *Your hourly rate is not determined by what you **want** to charge, it is determined by what you **have** to charge to cover your costs of doing business.*

Labor Pricing For Profit Software Installation

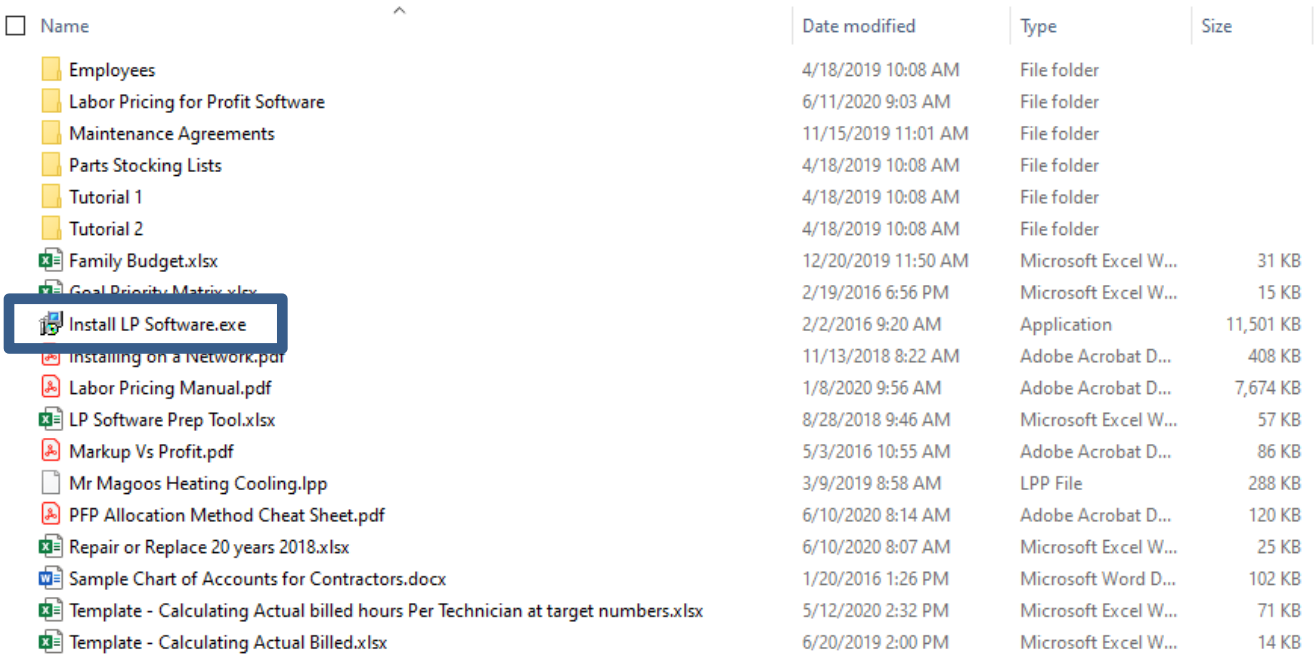
It is now time to begin creating your company model.



Follow these steps please to download:

- Take the planning for profit thumb drive and insert into your device.

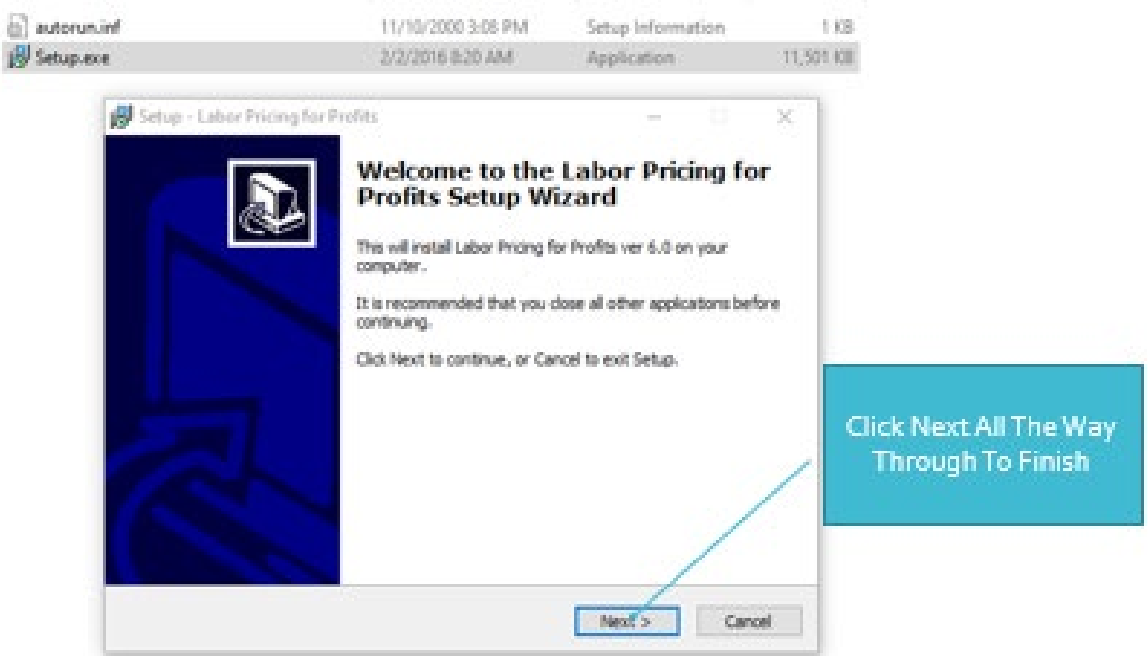
- Locate the proper folder and open the Labor Pricing for Profit Software tab.



Name	Date modified	Type	Size
Employees	4/18/2019 10:08 AM	File folder	
Labor Pricing for Profit Software	6/11/2020 9:03 AM	File folder	
Maintenance Agreements	11/15/2019 11:01 AM	File folder	
Parts Stocking Lists	4/18/2019 10:08 AM	File folder	
Tutorial 1	4/18/2019 10:08 AM	File folder	
Tutorial 2	4/18/2019 10:08 AM	File folder	
Family Budget.xlsx	12/20/2019 11:50 AM	Microsoft Excel W...	31 KB
Goal Priority Matrix.xlsx	2/19/2016 6:56 PM	Microsoft Excel W...	15 KB
Install LP Software.exe	2/2/2016 9:20 AM	Application	11,501 KB
Installing on a Network.pdf	11/13/2018 8:22 AM	Adobe Acrobat D...	408 KB
Labor Pricing Manual.pdf	1/8/2020 9:56 AM	Adobe Acrobat D...	7,674 KB
LP Software Prep Tool.xlsx	8/28/2018 9:46 AM	Microsoft Excel W...	57 KB
Markup Vs Profit.pdf	5/3/2016 10:55 AM	Adobe Acrobat D...	86 KB
Mr Magoos Heating Cooling.lpp	3/9/2019 8:58 AM	LPP File	288 KB
PFP Allocation Method Cheat Sheet.pdf	6/10/2020 8:14 AM	Adobe Acrobat D...	120 KB
Repair or Replace 20 years 2018.xlsx	6/10/2020 8:07 AM	Microsoft Excel W...	25 KB
Sample Chart of Accounts for Contractors.docx	1/20/2016 1:26 PM	Microsoft Word D...	102 KB
Template - Calculating Actual billed hours Per Technician at target numbers.xlsx	5/12/2020 2:32 PM	Microsoft Excel W...	71 KB
Template - Calculating Actual Billed.xlsx	6/20/2019 2:00 PM	Microsoft Excel W...	14 KB

New Company Set Up Wizard

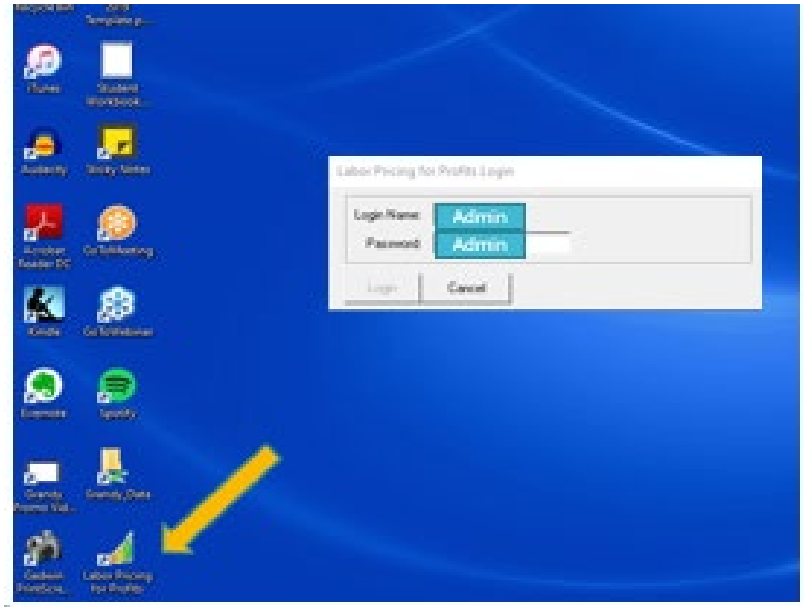
Select new company set up wizard under the set-up tab on the software home screen.



Download From the Website if the Flash Drive is an Issue

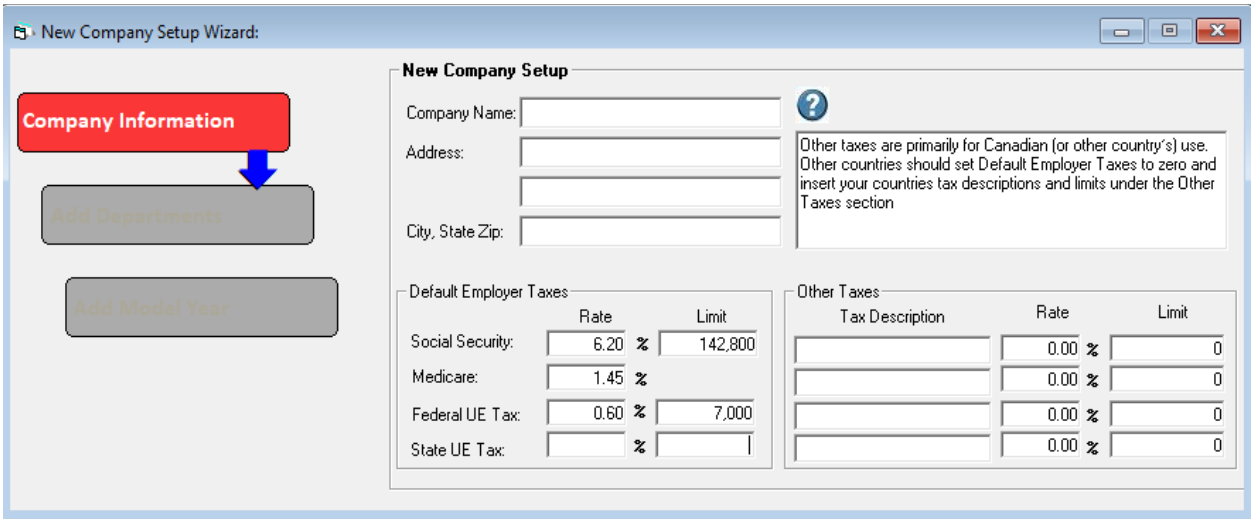
Update to 6.00.34

Look for Desktop Icon



- Click next when the set-up wizard appears on your screen and follow prompts.
- After installation, locate the desktop icon and open the software.
- The log in and password are defaulted to Admin.

Setup Wizard: Step 1



Step 1 is where you will enter your company name and address plus all the current tax limits (note Social Security Tax Limits typically change each year). The Medicare and Federal UE Tax will tend to stay the same each year. The State UE Tax will differ by state and is also based on your own history of employees filing for State Unemployment Benefit.

Once the data in entered on Step 1, press "Next Step".

State Unemployment Insurance Taxable Wage Base Chart

State unemployment insurance taxes are based on a percentage of the taxable wages an employer pays. The Federal Unemployment Tax ACT (FUTA) requires that each state's taxable wage base must at least equal the FUTA wage base of $7,000 per employee, although most states' wage bases exceed the required amount. Some states apply various formulas to determine the taxable wage base. Others use a percentage of the state's average annual wage, and many simply follow the FUTA wage base.

State	2021 Wage Base
Alabama	$8,000
Alaska	43,600
Arizona	7,000
Arkansas	10,000
California	7,000
Colorado	13,600
Connecticut	15,000
Delaware	
District of Columbia	9,000
Florida	7,000
Georgia	9,500
Hawaii	47,400
Idaho	43,000
Illinois	12,960
Indiana	9,500
Iowa	32,400
Kansas	14,000
Kentucky	11,100
Louisiana	7,700
Maine	12,000
Maryland	8,500
Massachusetts	15,000

***States left blank are still being verified**

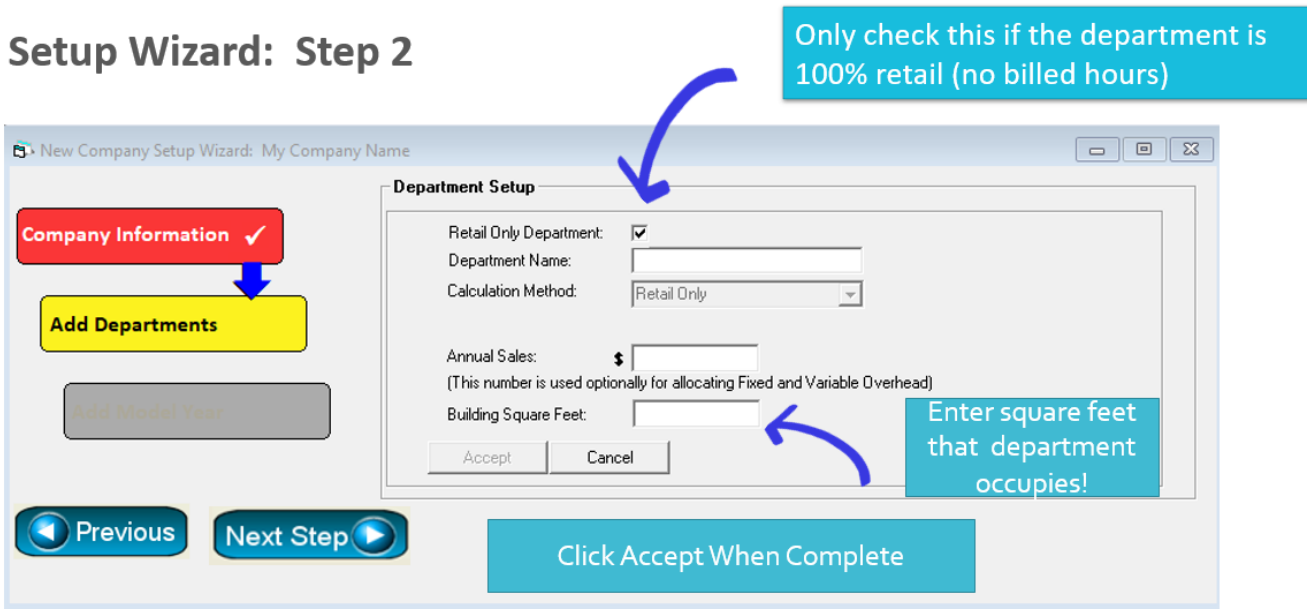
State	2021 Wage Base
Michigan	*
Minnesota	14,000
Missouri	11,000
Montana	35,300
Nebraska	**9,000
Nevada	33,400
New Hampshire	14,000
New Jersey	36,200
New Mexico	27,000
New York	11,800
North Carolina	26,000
North Dakota	
Ohio	9,000
Oklahoma	24,000
Oregon	43,800
Pennsylvania	10,000
Rhode Island	24,600
South Carolina	14,000
South Dakota	15,000
Tennessee	
Texas	9,000
Utah	38,900
Vermont	14,100
Virginia	8,000
Washington	56,500
West Virginia	12,000
Wisconsin	14,000
Wyoming	27,300

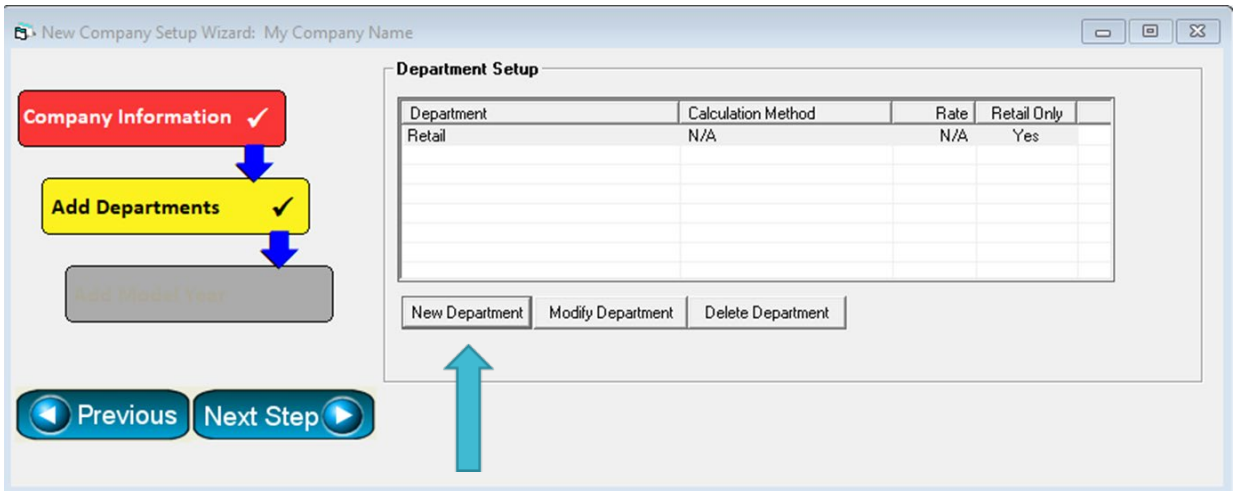
Michigan - $9,000 for contributing employers that are not delinquent on UI payments
Nebraska – New for 2020, $24,000 for employers assigned to rate category 20.
Rhode Island - $26100 for employers in the highest UI tax rate group

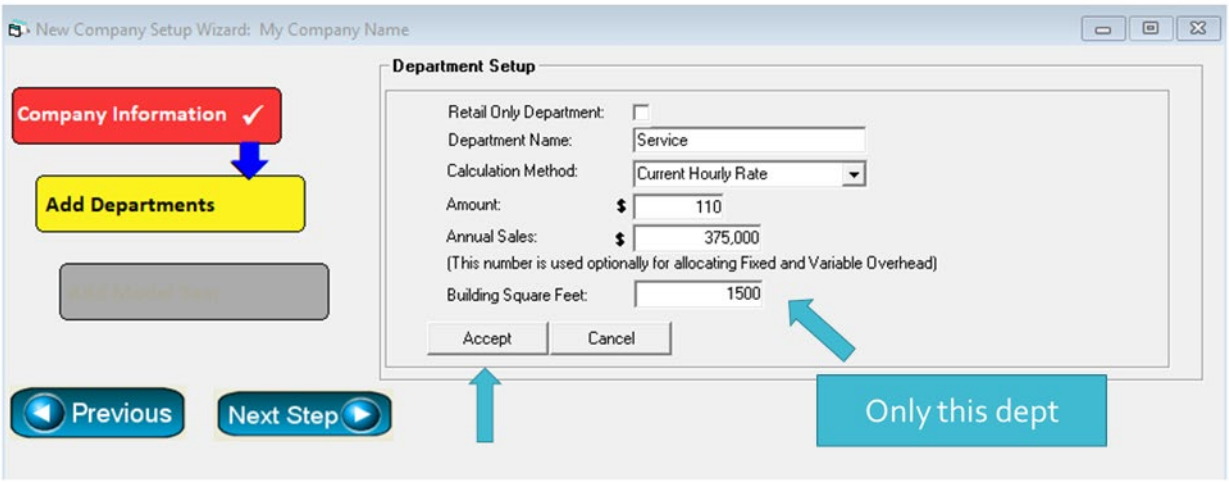
Setup Wizard: Step 2 & 3

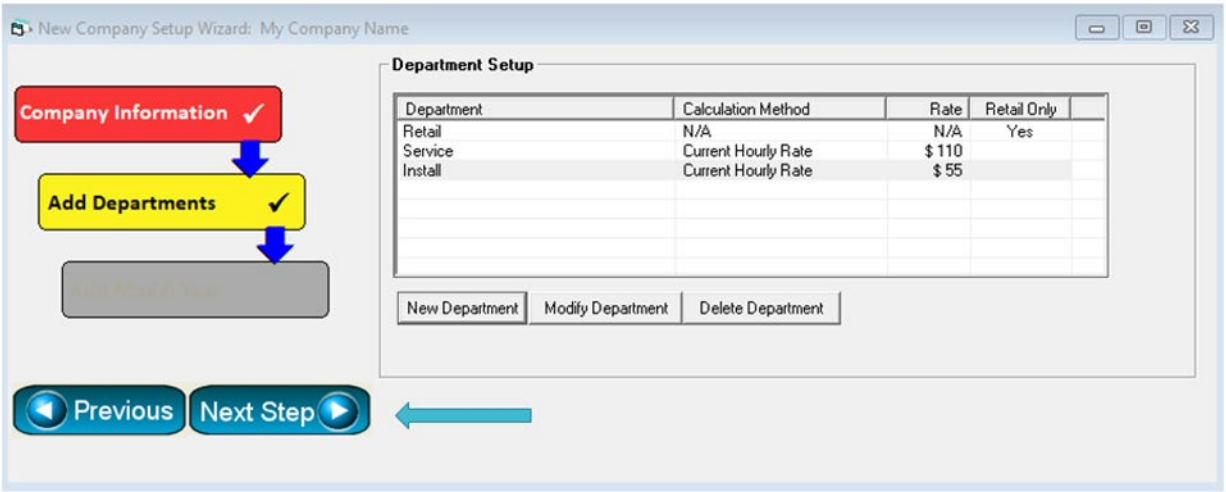
This is where you will enter each department within your company. During the workshop, we ask each company to select current hourly rate for our calculation method. Later, you can enter Return on Income (what net profit would you like to earn) and Desired Profit (total dollars you would like to earn in that department for the year). When completed, click next step.

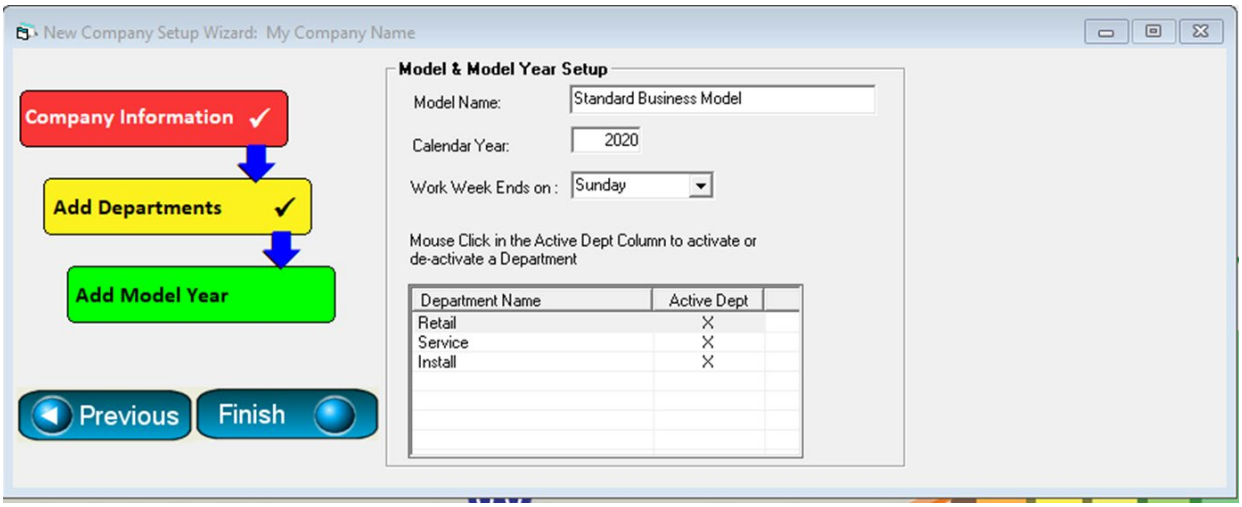
Setup Wizard: Step 2






New Company Setup Wizard: My Company Name
Company Information
Add Departments
Previous
Next Step
Department Setup
Retail Only Department:
Department Name: Service
Calculation Method: Current Hourly Rate
Amount: $ 110
Annual Sales: $ 375,000
(This number is used optionally for allocating Fixed and Variable Overhead)
Building Square Feet: 1500
Accept
Cancel
Only this dept


New Company Setup Wizard: My Company Name
Company Information
Add Departments
Previous
Next Step
Department Setup
Department | Calculation Method | Rate | Retail Only
Retail | N/A | N/A | Yes
Service | Current Hourly Rate | $ 110
Install | Current Hourly Rate | $ 55
New Department
Modify Department
Delete Department


New Company Setup Wizard: My Company Name
Company Information
Add Departments
Add Model Year
Previous
Finish
Model & Model Year Setup
Model Name: Standard Business Model
Calendar Year: 2020
Work Week Ends on : Sunday
Mouse Click in the Active Dept Column to activate or de-activate a Department
Department Name | Active Dept
Retail | X
Service | X
Install | X

Equipment Replacement Costs

Remember:

Equipment replacement costs take the place of depreciation and will always be significantly higher!

- All companies have some type of equipment
- Someday each piece of equipment will wear out and need to be replaced
- How are you going to pay for it? Buy it & pay for it? OR pay for it & buy it?
- Equipment replacement is a large cost of doing business!

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Every company has some type of equipment. Even if you are a one-person operation, you still have a pickup truck, a van or some means of transportation. Someday, each and every piece of equipment is going to wear out. It is not a matter of whether it will be replaced but when it will be replaced! The question then becomes "How are you going to pay for it when it does need to be replaced?" Most owners are told by their accountants that they will replace their equipment out of the profits of the company. What you will quickly notice is that most companies, perhaps yours included, don't generate enough profit to replace their equipment and still make a profit.

A quick check in terms of whether your equipment replacement cost is currently covered in your pricing is this: *When you last replaced a piece of equipment, did you pay cash for it or did you get a loan?* If your answer is that you got a loan, take it as a big red flag that your cost of replacing your equipment is probably not included in your current pricing. Typically, equipment replacement cost is the second highest cost of doing business in the entire company. It is more than rent, utilities or insurances. The only cost higher than equipment replacement is your cost of non-billable time!

Leased Equipment

- **DO NOT** put the leased equipment on the equipment replacement list
- Normal lease dollars will be covered as overhead
- If there is a large buy-out at the end of the lease, then **DO** put that cost on the equipment replacement list

If you lease equipment, do not place that equipment on this list. The lease payment will be picked up later on as an overhead cost. If you typically have a large buy-out at the end of the lease, because of excess miles or abuse, you may want to put that amount on the list for later enter to the system. If you are going to continue to lease equipment, and have to come up with a large down payment at the beginning of the lease, you may want to enter that number as well so you will be properly funded when the time comes.

Equipment on Loan Now

- Loans will be picked up in overhead costs
- Equipment replacement cost is in addition to the loan
- Costs divided over all billable hours is less of an impact than you may think

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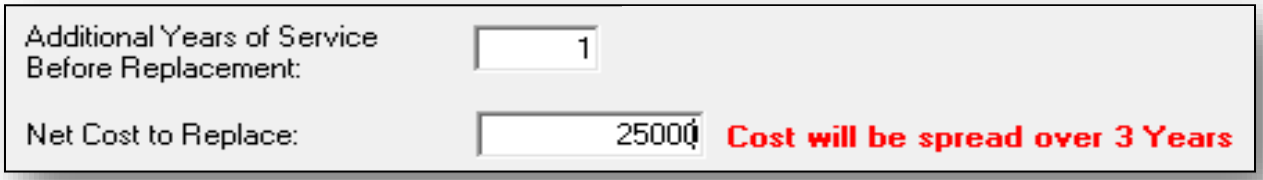
Loans will be picked up in overhead later today. Equipment replacement costs must be entered here in addition to the loan. Overhead will show the existing loan which we must pay off and this section will show how much in addition to the loan must be set aside for the replacement purchase when the time comes. Why would you take this approach? Companies with the least amount of debt weather the most storms. *Please note the software will divide any upcoming purchase over a minimum of two years.

Unique Situations

Equipment That Needs To Be Replaced Within 1 Year

- If the total cost were spread over the next 12 months, it would create an unrealistically high hourly rate
- The software will spread the cost over at lease 3 years, if you enter 1 year
- You may also select 2 years as an option



If you are a normal contractor, you probably have at least one piece of equipment that will need to be replaced within the next twelve months. If it's going to cost you $30,000 to replace the equipment this year, that's a lot of cost to throw into one year. Putting your total cost into one year would make your cost of doing business unrealistically high.

From a common sense standpoint, any piece of equipment that will be replaced within the next twelve months needs to have its cost spread over at least three years to come back to a realistic hourly rate.

The software will do that for you – automatically! Any equipment that is entered with a one year replacement will automatically be spread over three years.

What Should Be On The List?

Include any item of significant value that the company replaces on a routine basis.

- Primary target is mobile equipment
  - Trucks
  - Vans
  - Flatbeds
  - Job trailers
- Include additional pieces of equipment you will need in the future ($1,000 or more in value)
  - Computers, copy machines, shop equipment, server, etc
- By putting these items on your list, you will be putting money aside so that when equipment is purchased, you will have the money available to buy it

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Equipment Replacement Costs Impacts Your Hourly Rate

Example

- 3 men who charge an average of 30 hours/week to the customer
- Total billable hours charged to the customer for the year:
  3 men x 30 hourse per week x 52 weeks = 4,680 hours/year
- Total equipment replacement costs for the year: $42,000
- Equivalent dollar per hour figure (of the final hourly rate):
  $42,000/4,680 hours
- $8.97 of my hourly rate is dedicated to equipment replacement

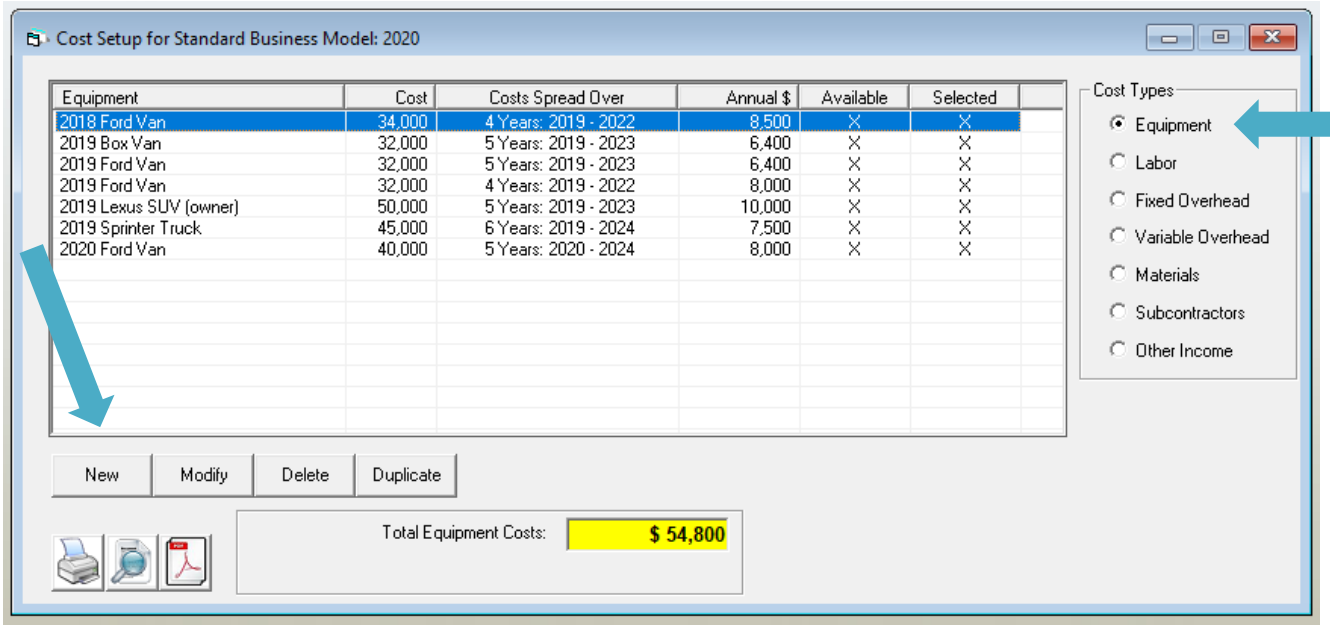
By the end of the workshop every cost of doing business will eventually relate back to some dollar amount of the final hourly rate per dept.

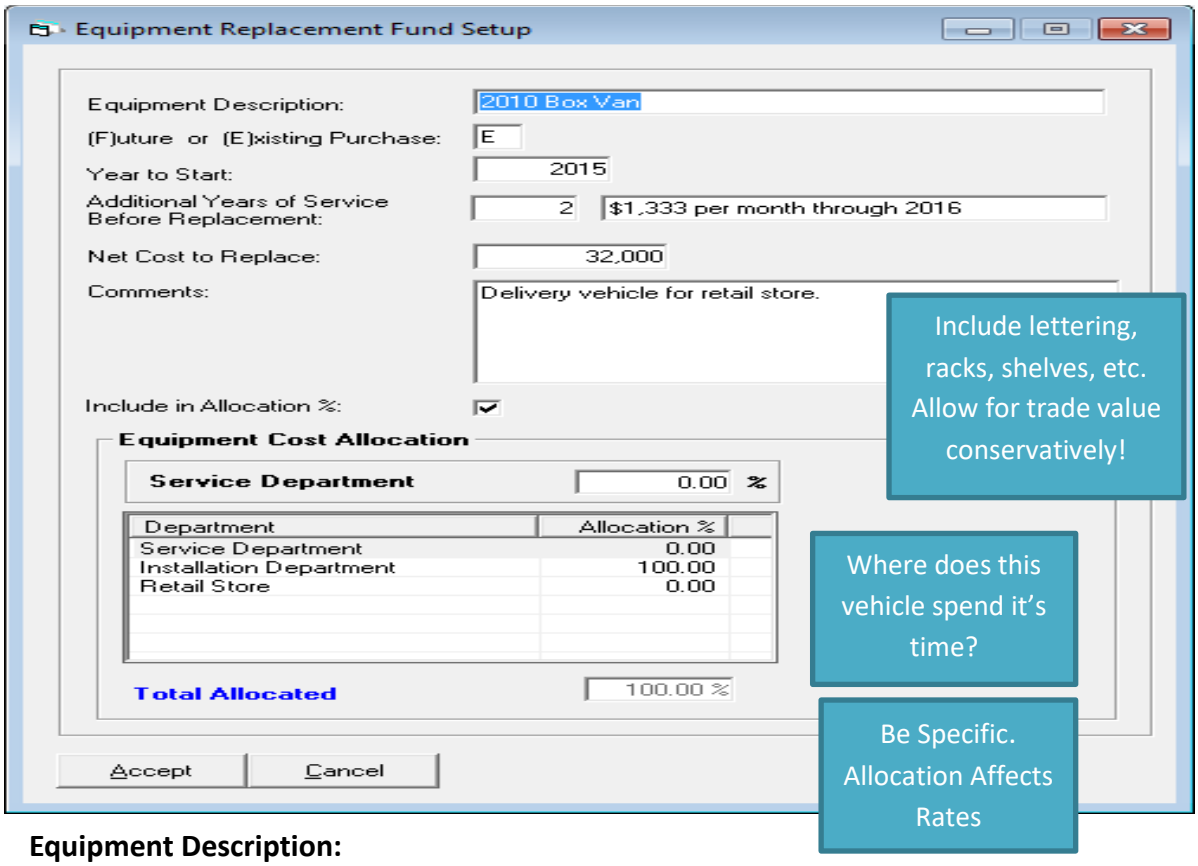
If you wish, you may include any piece of equipment valued at $1,000 or higher that you will need to replace or add in coming years. Perhaps, you have three technicians in the field today, but your business plan calls for adding a fourth technician in three years. When you add that fourth technician, he or she is going to need a truck to drive. If you wish--and again it's optional--you can add the truck you will need in three years to today's list so that when you do need to buy the additional truck, you will have the money available to purchase it.

The goal is to get tomorrow into today in every area of your company. Most contractors are very pleasantly surprised to see how little this impacts your hourly rate once it is divided among all of the billable hours in a particular department. While it will raise your rate, it is well worth it for the minimal difference and feeling of satisfaction of being prepared for the stages of growth within your company.

By the end of the workshop every cost of doing business will eventually relate back to some dollar amount of the final hourly rate for each department of your company. Tomorrow we will see this illustrated in the labor rate analysis report.

Enter Equipment Replacement Cost into The Software





Equipment Description:
Enter a description of the piece of Equipment.

Future or Existing Purchase:
F for future purchase, E if it has already occurred.

Year to Start and Years to Replace:
Enter the date to begin saving and the proposed date of equipment replacement.

Net Cost to Replace: Enter the expected cost or the equipment including set up costs.

Include in Allocation %:
Select this option for all gas burning vehicles and pieces of equipment. This will include these items in your fuel allocation costs later today.

Department Allocation:
Select the proper allocation for each piece of equipment based on where it spends its time among your company departments. For example, a truck may spend 20% of its time in service and 80% of its time in new construction. Be as accurate as possible with all department allocations as this will ultimately impact the rate for each department of your company.

When Should Equipment Be Replaced?

Based upon one of these criteria

- Functional replacement decision
- Economic replacement decision

Functional Replacement - Consider

- It's more than just the cost to repair
- Lost income (could not get to job)
- Increased non-billable time (technician is idle)
- Office inefficiencies, rescheduling, angry clients

When a piece of equipment begins to "randomly" breakdown.....

It's time to get rid of it!

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A vehicle should be replaced on a functional basis when it gets to the point that it is randomly breaking down and no longer dependable. The cost of breakdown includes the cost of the repair itself, plus lost or at least delayed income not to mention the customer frustration on the other end.

Economic Replacement

Year	Purchase Price	Maintenance and Repair	Total Cost	Average Annual Cost
1	18000	500	18500	18500
2	-	1000	19500	9750
3	-	1200	20700	6900
4	-	2400	23100	5775
				↓
				6100

Most equipment will be replaced on a functional basis. For older functional equipment, here is an equation of replacement. Take the initial cost of the vehicle and add the repair costs each year. Divide the cumulative total by the number of years you have owned the vehicle. When the average annual cost starts going up instead of down, it is time to consider replacement.

Field Labor

These are the employees who are actually doing the work and whose hours are charged **DIRECTLY** to the customer

OWNER:

If the owner works in the field he/she is considered field labor.

The **most critical cost area** of the entire labor pricing process is the area of field labor. Field labor refers to those employees whose time is charged directly to the customer. That can be the service technician making the repair or the installation technician who is installing a new piece of equipment. In both cases, the technician's hours can be charged directly to the customer.

Field labor **DOES NOT** include office help or supervisors (unless the supervisor's time is charged directly to the job). Field labor may include the owner, if the owner works in the field. If the owner works in the field full time, ALL his/her time will be considered field labor. If the owner spends half his/her time in the field and half in the office, then half his/her time will be considered field labor with the other half going into overhead later on.

Non-Billable Time (Or Lost Hours)

#1 biggest expense for most companies!!!
These are the hours that you pay field labor but cannot charge the customer directly!

This includes:

- Shop time
- Travel time
- Vacation, sick days, holidays
- Company meetings
- 45-minute cup of coffee

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Non-billable time refers to the time field labor is paid for that cannot be charged directly to the customer. The key word here is "directly." All costs of operation eventually are paid for by the customer. It is just a matter of whether the customer pays for it directly or indirectly.

Non-billable time is not necessarily non-productive time. The technician may be working on a vehicle or putting up stock, both of which are productive. The key is that the time cannot be charged to the customer directly, and therefore is considered non-billable.

Typical Non-Billable Time

Vacation – Holiday - Sick

- 80 hours: Two weeks' vacation (3.8%)
- 72 hours: Nine paid holidays (3.5%)
- 40 hours: Five sick days (1.9%)
  = 192 hours / 2080 hours year
  = **9.2%** Non-billable time

Holidays
Typical Six Plus:

Presidents Day
Columbus Day
Christmas Eve

Model Employee

- Assume the model employee has a minimum of only 1 hour a day that is non-billable
- 1 hour per day x 47 working weeks = 235 hours per year (**11.3%)**
- Model employee's non billable time:
  - 3.8%.....Vacation
  - 3.5%.....Holidays
  - 1.9%.....Sick Pay
  - 11.3%.....One hour a day
- **20.5% Non-Billable time**

Employee Type	% Non-billable
Service Tech	40% - 55%
Installation crew	20% - 35%

If you're not tracking it…it is much higher than you think!

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Calculation of Field Labor Rate

Be conservative

- Don't **over estimate** the number of billable hours
- Most think they bill out more hours than they really do

This is where "billable hours" are determined

- Effects monthly cash flow
- Determines "cost" of non-billable time
- Significant factor in calculating your hourly rate

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It is not unusual to get to the end of the process and find out that the hourly rate you are currently charging is higher than what the process says you need to charge. The reality is that you are not making any money with your current price. Nine times out of ten the problem can be found in the area of billable time.

Typically, contractors *over estimate* the number of hours that were really charged to the customer. For instance, you may think you are charging out 6 hours a day on the average when the real figure may be 4-5 hours a day. If your numbers seem way off at the end of our session, check your estimated billable hours against your actual billed hours and see if they are realistic.

Field labor estimates, by the month, have a dramatic effect on monthly cash flow. Monthly labor sales are based on how many hours were built in as billable each month during the year. If the technician takes two weeks' vacation in May, only half his/her time is available for sale. If a lot of overtime is worked in July, sales will increase because more billable hours are built into the model for that month.

Non-billable time is the company's single highest cost of doing business. The more non-billable time is built in, the higher the overhead cost. The higher the overhead, the higher your hourly rate will need to be.

Field Labor Comments

- Owner – If significant field time, then DO include this
- Field Supervisors - Is their time charged directly to the job?
- Shop Labor – Is their time charged directly to the job or general overhead?
- New Technicians – you may want to build in "extra" lost hours to cover training

Shop labor is handled just like field supervisors. If they are charged to the job, they are direct labor. If they are not charged directly to the job, their time will be considered as indirect labor and, therefore, will be built into the overall hourly rate.

Often new technicians are not as productive at first as they will be later on. When you enter the monthly hours for each new technician into the computer model, simply put more time in non-billable time and less time in productive time. In effect, the training time becomes part of the overhead cost of running the company.

As You Enter Field Labor

- Hourly rate - Base rate unless union
- Overtime (significant & consistent)
  - Preferred: Cover overhead in 40
  - Consistent seasonally, show where it occurs
- Slow periods: Reflect real life pattern
- Lost hours = Non-billable
- Place vacations where they actually occur
- You may revise vacations and sick hours per employee

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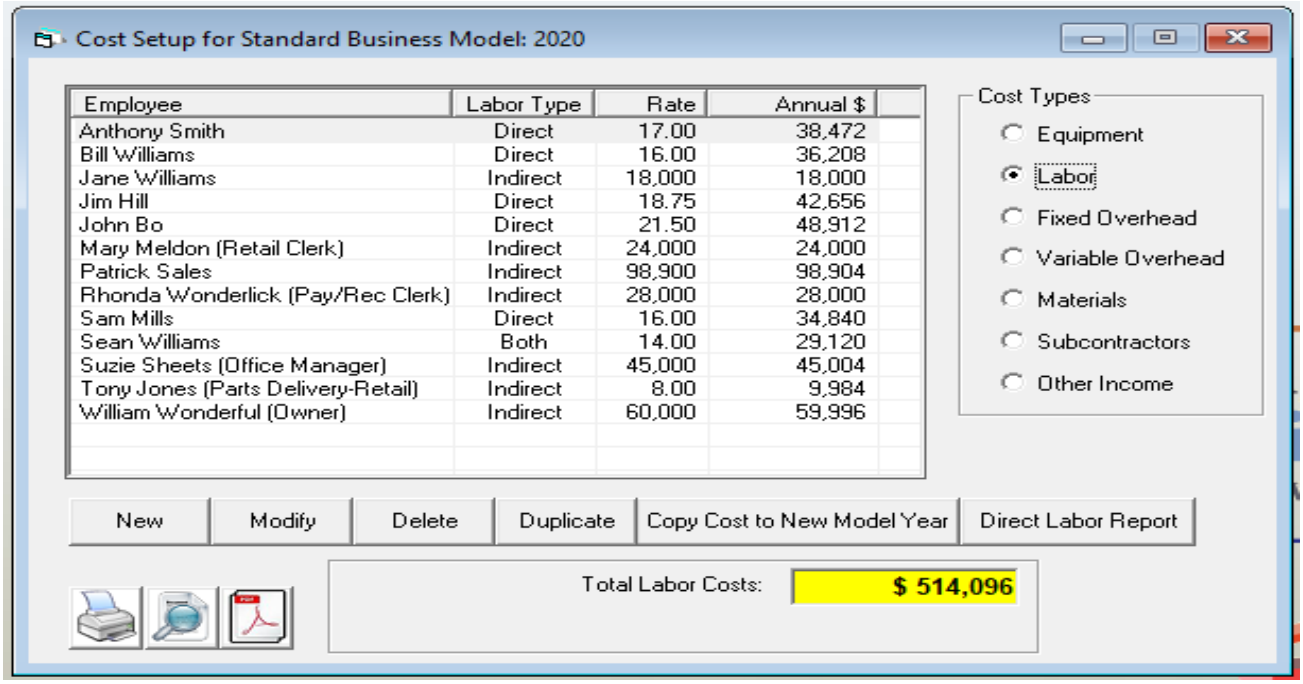
Unlike non-union technicians, union technicians have a significant benefit package tied directly into their hourly rate. The "base rate" for a union technician should include the fringe package. Non-union technicians "base rate" is just that; it includes no benefits as part of the rate.

Don't forget we are projecting costs for the coming twelve months. If you have raises planned for the next year, be sure to adjust the basic hourly rates to reflect that.

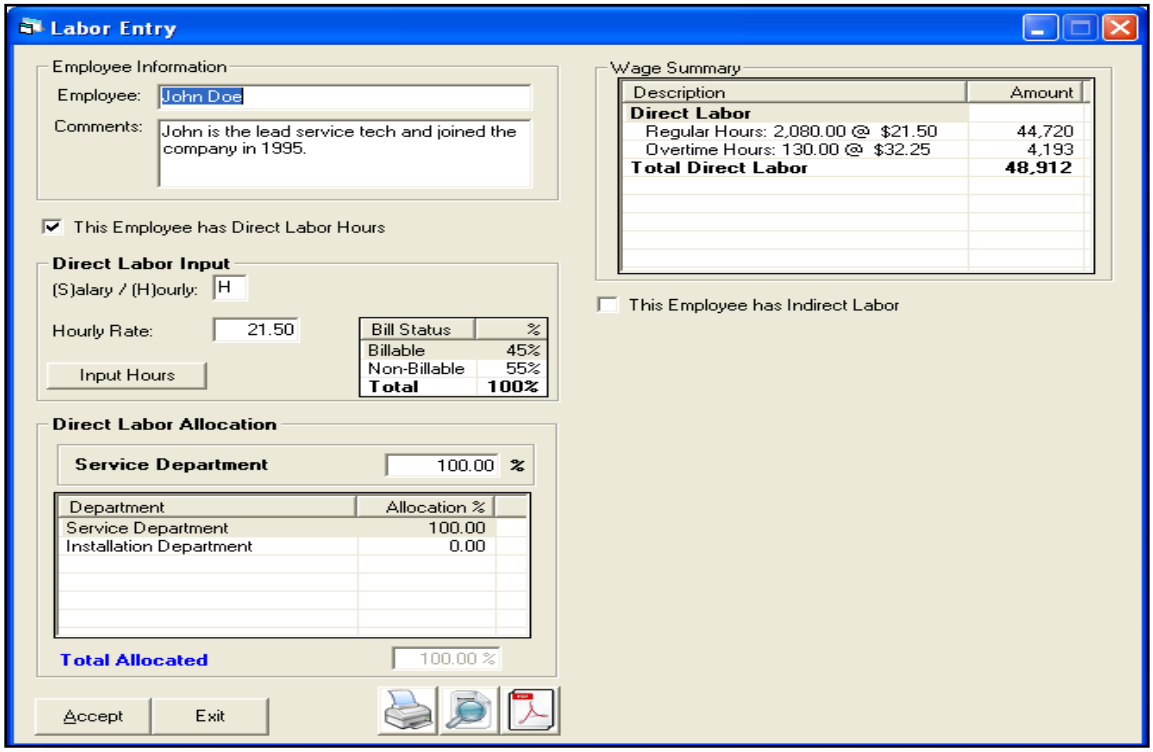
Like our equipment costs, proper allocation by department is very important! Resist the urge to generalize in this area. Be accurate so that your pricing for each department is truly reflective of your company.

Only build overtime into the model if overtime is consistent and significant. If the normal work week is 45 hours, you would want to enter the information that way which will include five hours of overtime a week. If certain months of the year are always busy, and usually include overtime hours, build that into your model. If overtime happens "on occasion," don't build it into the model. The software will view overtime hours as part of the necessary hours to cover overhead.


Select Company & Model
Help
Setup
Reports
Calculators
Tracking Reports
Utilities
Grandy & Associates
software
Labor Pricing
For a Profit
WITH CASH FLOW
PROJECTIONS
6.0


Cost Setup for Standard Business Model: 2020
Employee | Labor Type | Rate | Annual $
Anthony Smith | Direct | 17.00 | 38,472
Bill Williams | Direct | 16.00 | 36,208
Jane Williams | Indirect | 18,000 | 18,000
Jim Hill | Direct | 18.75 | 42,656
John Bo | Direct | 21.50 | 48,912
Mary Meldon (Retail Clerk) | Indirect | 24,000 | 24,000
Patrick Sales | Indirect | 98,900 | 98,904
Rhonda Wonderlick (Pay/Rec Clerk) | Indirect | 28,000 | 28,000
Sam Mills | Direct | 16.00 | 34,840
Sean Williams | Both | 14.00 | 29,120
Suzie Sheets (Office Manager) | Indirect | 45,000 | 45,004
Tony Jones (Parts Delivery-Retail) | Indirect | 8.00 | 9,984
William Wonderful (Owner) | Indirect | 60,000 | 59,996
Cost Types
Equipment
Labor
Fixed Overhead
Variable Overhead
Materials
Subcontractors
Other Income
New
Modify
Delete
Duplicate
Copy Cost to New Model Year
Direct Labor Report
Total Labor Costs:
$ 514,096

Enter Field Labor in the Software



Salary / Hourly:

Input (S) for Salary, (H) for Hourly. If the User Selects Salary as the Pay Method, they can then decide how to spread the employee's salary. The Salary can either be spread evenly over the year based on the number of paydays in each month or can be spread based on the number of hours worked in a particular month.

Annual Salary / Hourly Rate:

Depending on the response to the Salary/Hourly box, the user should either enter the employee's annual salary or hourly rate.

Input Hours:

The hours for this employee are pulled from the Default Hours in the Model Year setup. They can be modified here. Note the hours input screen must be accessed in order to save a Direct Labor employee.

Direct Labor Allocation:

You must allocate this employee to various departments. The allocation percentage must total 100%. Note too that Direct Labor Hours cannot be allocated to a Retail Only Department.

Enter Field Labor – Input Hours

The hours for this employee can be modified in this screen.

Direct Labor Hours for John Doe

Calendar Year: 2011

Hours Input for:

	Regular Hours	Overtime Hours	Total Hours	Lost Hours	Sick Hours	Vacation Hours	Holiday Hours	Non-Billable Hours	Billable Hours
January (5 weeks):	200.00	0.00	200.00	96.00	0.00	0.00	8.00	104.00	96.00
February (4 weeks):	160.00	0.00	160.00	76.80	0.00	40.00	0.00	116.80	43.20
March (4 weeks):	160.00	0.00	160.00	76.80	8.00	0.00	0.00	84.80	75.20
April (4 weeks):	160.00	0.00	160.00	76.80	0.00	40.00	0.00	116.80	43.20
May (5 weeks):	200.00	20.00	220.00	96.00	8.00	0.00	8.00	112.00	108.00
June (4 weeks):	160.00	40.00	200.00	76.80	0.00	0.00	0.00	76.80	123.20
July (5 weeks):	200.00	50.00	250.00	96.00	8.00	40.00	8.00	152.00	98.00
August (4 weeks):	160.00	20.00	180.00	76.80	0.00	0.00	0.00	76.80	103.20
September (4 weeks):	160.00	0.00	160.00	76.80	0.00	0.00	8.00	84.80	75.20
October (5 weeks):	200.00	0.00	200.00	96.00	8.00	0.00	0.00	104.00	96.00
November (4 weeks):	160.00	0.00	160.00	76.80	0.00	0.00	8.00	84.80	75.20
December (4 weeks):	160.00	0.00	160.00	78.40	8.00	0.00	8.00	94.40	65.60
Total Hours	2,080.00	130.00	2,210.00	1,000.00	40.00	120.00	48.00	1,208.00	1,002.00

Accept Cancel

Regular Hour - The total number of hours you paid the employee.

Overtime Hours – The total overtime hours per month.

Lost Hours – The hours monthly you pay this employee that you can't bill to a customer.

Sick Hours – Enter the sick hours allowed for this employee each year.

Vacation Hours – Enter the vacation hours allowed for this employee for the year.

Holiday Hours – The company paid holiday hours for this employee.

Use these averages for initial software entry if unsure

Lost Hours Avg

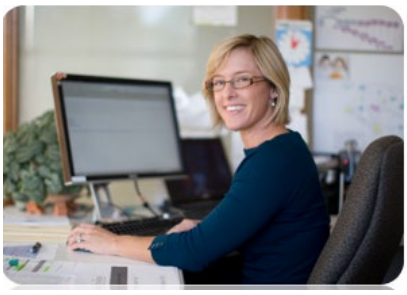
Service

40-55%

Install

20-35%

Indirect Labor



- Office workers
- Owner (if he/she does not work in the field)
- Field supervisors (if time is not charged directly to the job)
- Shop help
- Sales people

Earlier we said direct labor must bill out enough to cover overhead

Don't forget about overtime in this section, if hourly

Sales People

- Estimate their annual income (previous year)
- Cover commissions as a cost of doing business

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Shop Now let's look at the rest of your staff. Everyone whose time cannot be billed directly to the customer is considered Indirect Labor. We have already discussed the owner, field supervisors and shop help in terms of how to apply their time. Office workers will always be considered indirect labor (overhead) as will sales people.

When you are entering indirect labor, be sure to include overtime if they routinely earn it. Some office staff is on a standard 45- or 50-hour work week.

We are going to consider sales people as part of our overhead cost. This will require estimating what their income will be. Some sales people are paid a salary but most receive commission or a combination of salary and commission.

Comments on Indirect Labor

- Enter each person in by name or position to easily identify on all reports
- Allocate time accurately
- This will impact the rate in each department
- Add in any planned raises for the coming year
- The software is a tool to help you project and plan for where you want to go!

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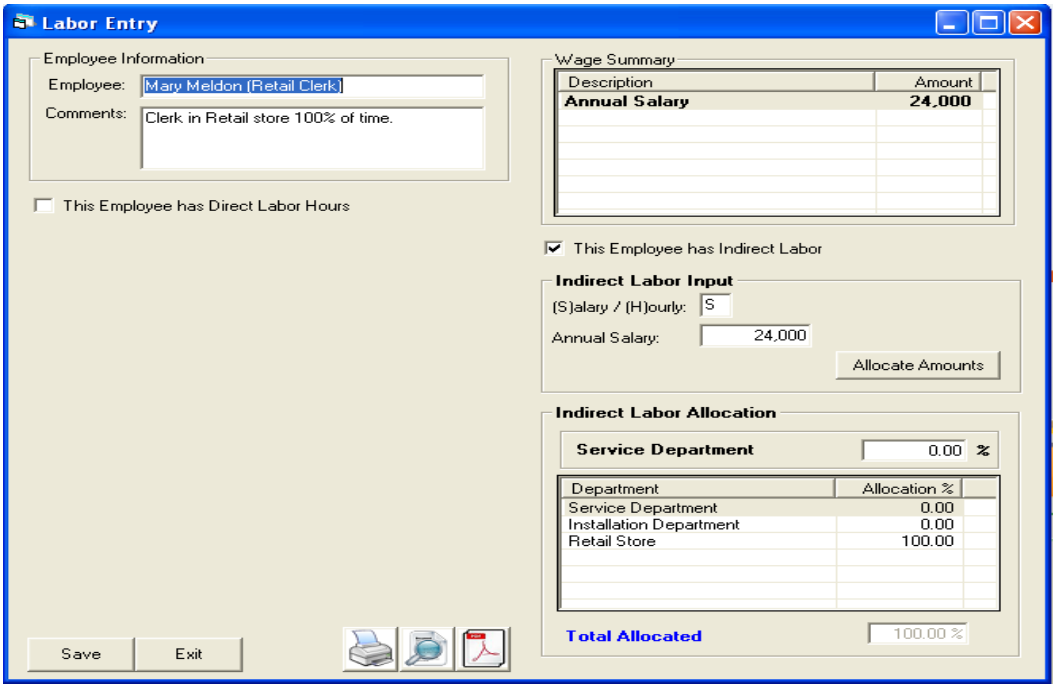
Each indirect labor person will be entered, by name, into the software. This will allow their taxes to be figured accurately. Another advantage is that when the reports are printed, each indirect labor person (owner, office worker, shop person or sales person) will be listed as a separate line item under the fixed overhead heading. Separate listings will allow the cost of these people to be easily identifiable.

When it comes to allocating each person's costs to the different departments, the best thing to do is to ask them. They know where they spend their time. They will be able to allocate their time much more accurately than you will be able to.

Don't forget to build in any proposed hourly or salary increases for the coming year. It will affect overall costs and cash flow.

Enter Indirect Labor into The Software



Indirect labor entry is just like the one used for field labor (direct labor). The only practical difference is that you will not have to estimate non-billable time nor will you have to consider vacations, holidays or sick days since all the indirect labor cost will go directly to fixed overhead.

Indirect Labor Entry

Enter in each of the indirect labor employees. You will need to enter each employee individually.

Salary / Hourly: Input (S) for Salary, (H) for Hourly

Annual Salary / Hourly Rate: Depending on the response to the Salary/Hourly box, the user should either enter the Employee's Annual Salary or Hourly Rate

Monthly Allocation:

The user can either let the system allocate the hours based on the number of weeks in each month or can manually allocate the amount as he sees fit.

Enter – Direct and Indirect Labor (same person)

Sometimes an employee can be both direct and indirect. If this is the case with your company simply check both the direct and indirect boxes and split the employees time as needed. The cool part about this situation is that the direct and indirect time can have different departmental splits.

Labor Rate Breakdown

$19.00 – Average base hourly rate
$76.01 – Fixed overhead rate/hour
$18.75 – Variable overhead rate / hour
$20.00 – PROFIT per hour
$133.76 – Hourly rate charged the customer

The above rate was arrived at based on charging out 6,000 billable man-hours to the customer for the year.

- What happens if LESS than 6,000 man hours are charged out during the year?
- What happens if MORE than 6,000 man hours are charged out?

REAL COST

= $133.76 - $76.01

= $57.75/hour

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If the company bills out exactly 6,000 man-hours, it will absorb all of its overhead costs. If it bills out less than 6,000 hours, it will NOT absorb all the overhead.

What if the company bills out MORE than 6,000 man-hours during the year? Once 6,000 man-hours are billed out, all the FIXED overhead will have been absorbed. That means all hours billed out over the estimated 6,000 will become extremely profitable work. The fixed overhead cost drops out after 6,000 hours, which means the company could potentially reduce its bid price and still make a very good profit. That doesn't mean you should or have to. It is nice to know exactly where you are in your total hours billed which gives the greatest flexibility if or when you need it on a particular job.

Example

- It's late November and the company has worked 5,500 of its 6,000 man hours
- They now have an opportunity to bid on a job with 800 man hours int it, and it can be completed by the end of the year.

Can the company lower the normal bid price and still make money?

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Can The Contractor Lower His Or Her Price On This Job?

The answer to the first question is yes, you can lower your bid price and make a good profit. Why? Because 300 of the 800 hours on the job will not have any fixed overhead on them.

In the second case, the contractor can again lower his/her pricing if he or she knows how many hours should have been billed out year-to-date and how many hours have actually been billed out to date. Again, it will require creating a budget and tracking the numbers.

Material Sales

Materials, Equipment and Spare Parts:

Materials are normally sold in one of three ways

1. Wholesale
2. Retail
3. Some combination of the two

The question is:

"What part do materials play in your business?"

• Pass through with minimum markup and profit

• Have significant markup and profit

Overhead is usually covered in some combination of labor rate and material markup.

- Lower labor rate raise material or vice versa
- Discount material without adjusting labor rate
- Just gave away some profitability

Installation jobs – 20% to 50% markup

Service – Varies with the price of the part

- Over 100% on smaller items
- Significantly less on larger items

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In most trades, equipment and spare parts are marked up significantly. The norm ranges from 20% to 50% markup on major pieces of equipment with an average markup of about 100% on smaller spare parts. However, this will vary by trade.

Data Entry for Materials

Cost Setup for Standard Business Model: 2020

Description	Method	Cost $	Markup %	Annual $
Materials - Installation	D/L Hours	110,000	54 %	169,400
Materials - Retail	Monthly	12,000	35 %	194,400
Materials - Service	D/L Hours	50,000	100 %	100,000

Cost Types
- Equipment
- Labor
- Fixed Overhead
- Variable Overhead
- Materials
- Subcontractors
- Other Income

New | Modify | Delete | Duplicate | Copy Cost to New Model Year

Total Materials Costs: $ 304,000
Total Materials Revenue: $ 463,800

Materials Entry

Materials Description:
Method to Apply Cost: Monthly
Item Starts in: January
Monthly Materials Cost:
Markup: 0 %
The difference between Markup and Margin
Annual Materials Revenue: 0
Comments:

Materials Cost & Income Allocation

Service Department 0.00 %

Department	Allocation %
Service Department	0.00
Installation Department	0.00
Retail Store	0.00

Total Allocated 0.00 %

Monthly Allocation

	Cost	Revenue
January:		0
February:		0
March:		0
April:		0
May:		0
June:		0
July:		0
August:		0
September:		0
October:		0
November:		0
December:		0
Totals	0	0

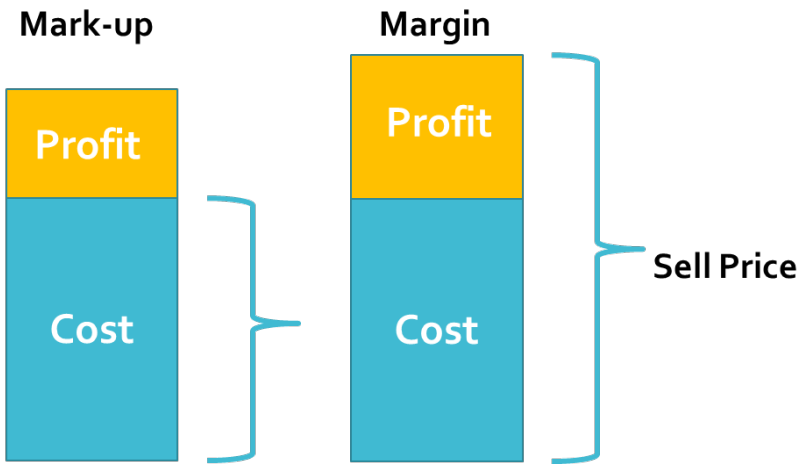
Accept | Cancel

- Enter **one line** item for each department.
- Select direct labor hours.
- If you are unsure, use the rule of thumb of $25k per tech annually.

Mark-up vs Margin

Two of the most misunderstood terms in the industry today

- Mark-up – Profit is shown as a percentage of **cost**
- Margin – Profit is shown as a percentage of **sell**



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Mark up and Margin are two of the most misunderstood terms in the industry today. Many times, they are used interchangeably but they are not interchangeable. Let's cover what they are, how they differ, and why you need to know about it. If you are using Markup, profit is shown as a percentage of cost. If you are using margin, profit is shown as a percentage of the sell price. There are two different reference points between the two items and each will give you a different sell price.

Why Does This Matter?

Your Profit & Loss

- P&L shows gross profit for your company
- Gross Profit – Dollars
- The amount depends on your calculation method

The reason you need to be aware of these differences is that your profit and loss statement shows you "gross profit" dollars. Regardless of the calculation method you use, you will have gross profit dollars. The real question is are you generating enough gross profit dollars to cover all of your costs of operating your business plus generate a reasonable net profit.

Your Profit & Loss Shows Gross Margin Margin Method on P&L

Profit Target 40%

	Margin		
Sales	500,000	Cost/.6	
Cost of Goods Sold	300,000		
Gross Profit		**200,000**	40%
Rent	12,000		
Insurance	12,000		
All Other Expenses	156,000		
Expenses Total		180,000	
Net Profit		**20,000**	4%

Let's look at a typical profit and loss statement and see how this fits together. In this example, we are shooting for a gross profit of 40%. If your sales are $500,000 and your cost of goods sold is $300,000, then that will leave you with a gross profit of $200,000. You can't just keep all of this. You have to pay your overhead expenses first. If these total $180,000, then you have to subtract this from the gross profit leaving a net profit of $20,000.

You can calculate your profit percentage by taking the profit and dividing it by the total sales. In this case, that's $200,000/$500,000. That shows you that you have a gross profit of 40%. This means that your gross profit of $200,000 is 40% of sales. If you do the same with the net profit, you will see that net profit is equal to 4% of gross sales.

Markup Method on P&L

	Margin				Mark-up		
Sales	500,000	Cost/.6			420,000	Cost x 1.4	
Cost of Goods Sold	300,000				300,000		
Gross Profit		**200,000**	40%			**120,000**	28.5%
Rent	12,000				12,000		
Insurance	12,000				12,000		
All Other Expenses	156,000				156,000		
Expenses Total		180,000				180,000	
Net Profit		**20,000**	4%			**-60,000**	-50%

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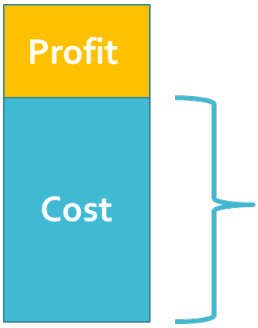
Now let's look at this same example as if we are pricing a job using a markup. Your cost of goods sold are still the same $300,000. If you typically price jobs using a multiplier of 1.4 in order to get your 40% profit, then you will find that your total sales will not be $500,000. instead, you would sell these jobs for $420,000. ($300,000 x 1.4 = $420,000).

Remember the formula that we used to calculate the actual profit. That was profit / total sales. When you perform that calculation here, you will see that your profit was not 40%. $120,000 / $500,000 – 28.5% Now you have to subtract your over-head expenses form that gross profit. Here you find that instead of making $20,000, you will actually be losing $50,000. That's a big difference.

Mark-Up Calculation

- Mark-Up – Profit is shown as a percentage of **cost**
- Can be misleading
- Multiplier
  - i.e. 10% profit = Cost x 1.1



$1000

$1000	Cost
X 1.1	10% Mark-up
$1100	Sell

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As we said earlier, if you are using markup, then profit is shown as a percentage of cost. This can be misleading. While you are generating gross profit dollars, it may not be enough to cover your overhead and it will not line up with your profit and loss statement.

With markup, you multiply your cost times a markup multiplier. For example, if I am looking for a 10% markup, I would multiply my costs x 1.1. If my material costs are $1000 and I am looking for 10%, then I would multiply the cost x 1.1 to come up with a sell price of $1100. The problem is that this does not give me a 10% profit – it gives me a 10% markup. There is a difference.

To Determine Profit

$$= \frac{\text{Sell} - \text{Cost}}{\text{Sell}}$$

$$= \frac{\text{Profit}}{\text{Sell}}$$

$$= \frac{\$\,100}{\$1100} \quad (\$1100 - \$1000)$$

= **9.09% gross profit**

Let's check to see what our real profit actually was. We can calculate the profit earned on a job by subtracting the cost of the product or service (labor, materials and overhead) from the retail selling price to the customer and then dividing the result by the retail selling price. We can simplify this just a bit. If you subtract costs from the sell price, that gives us profit. In this case, if we are just subtracting the cost of the job, then this will give us gross profit.

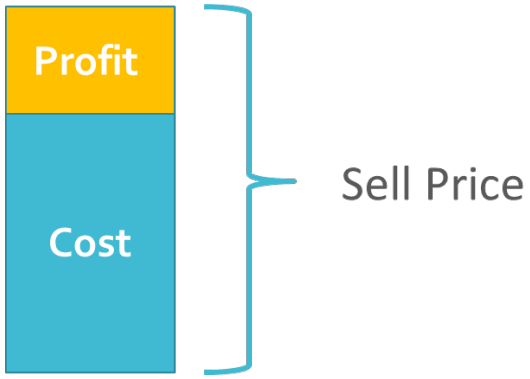
On this previous job, our profit was $100 and the sell price of the job was $1100. When you take $100/1100, that shows that the actual profit on this job was 9.09%, not 10%.

Now, you can say that this is pretty minor. It's less than 1%. While that is true, when you spread it over a million dollars in sales, it adds up-especially when it's all coming out of your pocket.

Margin Calculation

	Margin				Mark-up		
Sales	500,000				420,000	Cost x 1.4	
Cost of Goods Sold	300,000				300,000		
Gross Profit		**200,000**	40%			**120,000**	28.5%
Rent	12,000				12,000		
Insurance	12,000				12,000		
All Other Expenses	156,000				156,000		
Expenses Total		180,000				180,000	
Net Profit		**20,000**	4%			**-60,000**	-50%

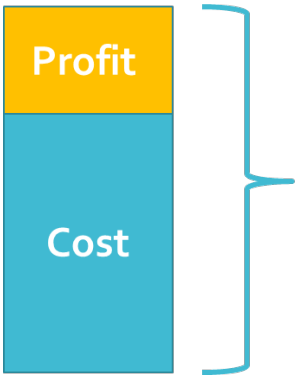
- Margin – Profit is shown as a percentage of **sell**
- Divisor



Remember, if you are using margin, the profit is shown as a percentage of the total sell price. The reference number is larger. It's the total sell versus just the parts cost for markup. To calculate pricing using margin, you would use a divisor.

How To Actually Earn a 10% Profit

- Divide by the reciprocal of the percent of profit
- GP Divisor = 1.00 - % profit desired
  = 1.00 - .10
  = .90
- Margin – Profit is shown as a percentage of **sell**
- Divisor
  - i.e. 10% profit = Cost / .90



Sell Price

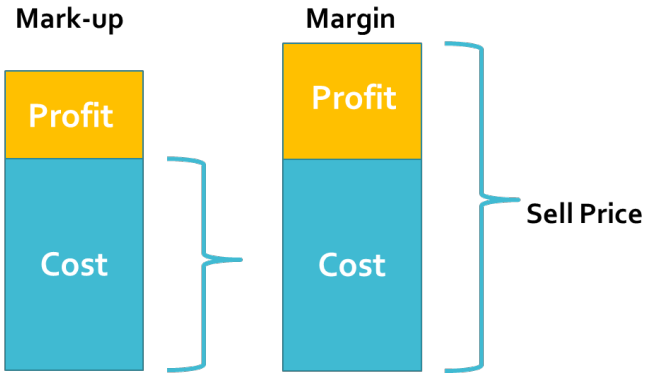
$1000	Cost
÷ .90	10% GP
$1111	Sell

To determine the proper selling price to actually generate a 10% profit requires you to divide your cost (labor, materials and overhead) by the reciprocal of the profit you are looking for. To find out what this is, you simply subtract your target profit percentage from 1. In the example here, you are looking for a 10% profit. When you take 1-10% (.10), I get a reciprocal of .9. This is your divisor. If you are looking for a 20% profit, your divisor would be .8 etc. In our example, if you are looking for a true 10% profit, your formula would be cost / .9. If you take $1000/.9, you will see that your sell price to hit a true 10% profit would be $1,111.

Mark-Up Vs. Margin

Verify That Profit

- To Determine Profit %
- = Profit / Sell
  = $111 ($1111 - $1000) / $1111
  = 10% gross profit



- **Mark-up** – Profit is shown as a percentage of cost
- **Margin** – Profit is shown as a percentage of sell

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You can verify that profit by using the same formula we did earlier to calculate profit. Total gross profit / total job sell price. In this example, the total profit is $111. that being the case, $111 / 1111 = 10%. That verifies that we ended up with a true 10% profit.

Remember, when using markup, profit is shown as a percentage of the cost. When using margin, profit is shown as a percentage of the sell price. The reference point is different and there for the profit will be different.

Mark-Up Vs Margin Discrepancy

Mark-up	Margin	Discrepancy
10%	9.09%	0.91%
20%	17.0%	3%
30%	23.0%	7%
40%	29.0%	11%
50%	33.3%	16.7%

The examples we have been using were targeting a 10% profit and when calculating true profit, there was less than a 1% discrepancy between what we thought we were getting and what we were actually getting. The greater the multiplier, the greater the discrepancy. This chart shows the discrepancy at various markup levels. As you can see, it can become substantial.

Mark-Up Vs Profit Table

We have taken the work out of the calculations for you. This table will show you various markup multipliers for the various profit margin targets. As you are entering material costs in the Labor Pricing software, we also show the value that you need to enter into the software.

Bottom line, if you are going to continue to use a multiplier, make sure you are using the correct multiplier to generate the profit that you are looking for.

Grandy & Associates

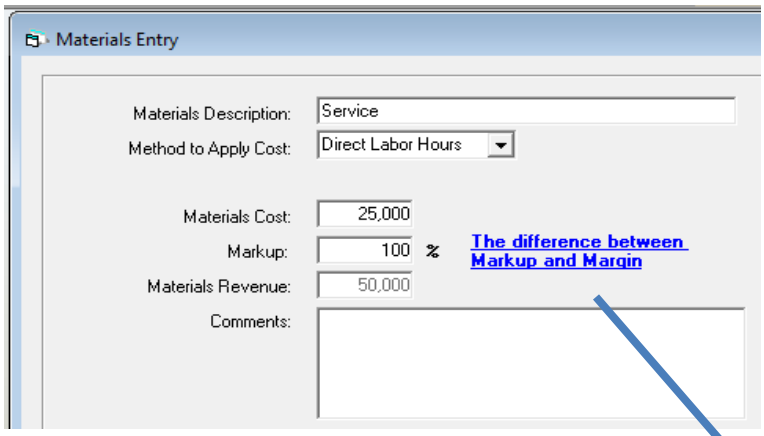
Mark-Up vs. Profit

Gross Profit	Mark-up	Enter in Software	Gross Profit	Mark-up	Enter in Software	Gross Profit	Mark-up	Enter in Software	Gross Profit	Mark-up	Enter in Software
1	1.010	1%	21	1.266	27%	41	1.695	69%	61	2.564	156%
2	1.020	2%	22	1.282	28%	42	1.724	72%	62	2.632	163%
3	1.031	3%	23	1.299	30%	43	1.754	75%	63	2.703	170%
4	1.042	4%	24	1.316	32%	44	1.786	79%	64	2.778	178%
5	1.053	5%	25	1.333	33%	45	1.818	82%	65	2.857	186%
6	1.064	6%	26	1.351	35%	46	1.852	85%	66	2.941	194%
7	1.075	8%	27	1.370	37%	47	1.887	89%	67	3.030	203%
8	1.087	9%	28	1.389	39%	48	1.923	92%	68	3.125	213%
9	1.099	10%	29	1.408	41%	49	1.961	96%	69	3.226	223%
10	1.111	11%	30	1.429	43%	50	2.000	100%	70	3.333	233%
11	1.124	12%	31	1.449	45%	51	2.041	104%	71	3.448	245%
12	1.136	14%	32	1.471	47%	52	2.083	108%	72	3.571	257%
13	1.149	15%	33	1.493	49%	53	2.128	113%	73	3.704	270%
14	1.163	16%	34	1.515	52%	54	2.174	117%	74	3.846	285%
15	1.176	18%	35	1.538	54%	55	2.222	122%	75	4.000	300%
16	1.190	19%	36	1.563	56%	56	2.273	127%	76	4.167	317%
17	1.205	20%	37	1.587	59%	57	2.326	133%	77	4.348	335%
18	1.220	22%	38	1.613	61%	58	2.381	138%	78	4.545	355%
19	1.235	23%	39	1.639	64%	59	2.439	144%	79	4.762	376%
20	1.250	25%	40	1.667	67%	60	2.500	150%	80	5.000	400%

Gross Profit	Mark-up	Enter in Software
81	5.263	426%
82	5.556	456%
83	5.882	488%
84	6.250	525%
85	6.667	567%
86	7.143	614%
87	7.692	669%
88	8.333	733%
89	9.091	809%
90	10.000	900%
91	11.111	1011%
92	12.500	1150%
93	14.286	1329%
94	16.667	1567%
95	20.000	1900%
96	25.000	2400%
97	33.333	3233%
98	50.000	4900%
99	100.000	9900%

Software Requires you Enter a Mark Up

- Select desired profit margin
- Find equivalent mark up
- Input that number into the program



When you click on "The difference between Markup and Margin", this white table will show up. DO NOT USE.

The Labor Pricing for a Profit Software requires that you enter in a markup. The table below shows you the corresponding markup and margins percentages.

Margin	Markup	Margin	Markup
5	1.053	33	1.493
6	1.064	34	1.515
7	1.075	35	1.538
8	1.087	36	1.562
9	1.099	37	1.587
10	1.111	38	1.613
11	1.124	39	1.639
12	1.136	40	1.667
13	1.149	41	1.695
14	1.163	42	1.724
15	1.176	43	1.754
16	1.190	44	1.786
17	1.205	45	1.818
18	1.220	46	1.852
19	1.235	47	1.887
20	1.250	48	1.923
21	1.266	49	1.961
22	1.282	50	2.000
23	1.299	51	2.041
24	1.316	52	2.083
25	1.333	53	2.128
26	1.351	54	2.174
27	1.370	55	2.222
28	1.389	56	2.273
29	1.408	57	2.326
30	1.429	58	2.381
31	1.449	59	2.439
32	1.471	60	2.500

Use the table on the prior page.

Gross Profit	Mark-up	Enter in Software	Gross Profit	Mark-up	Enter in Software
1	1.01	1%	21	1.27	27%
2	1.02	2%	22	1.28	28%
3	1.03	3%	23	1.30	30%
4	1.04	4%	24	1.32	32%
5	1.05	5%	25	1.33	33%
6	1.06	6%	26	1.35	35%
7	1.08	8%	27	1.37	37%
8	1.09	9%	28	1.39	39%
9	1.10	10%	29	1.41	41%
10	1.11	11%	30	1.43	43%
11	1.12	12%	31	1.45	45%
12	1.14	14%	32	1.47	47%
13	1.15	15%	33	1.49	49%
14	1.16	16%	34	1.52	52%
15	1.18	18%	35	1.54	54%
16	1.19	19%	36	1.56	56%
17	1.20	20%	37	1.59	59%
18	1.22	22%	38	1.61	61%
19	1.23	23%	39	1.64	64%
20	1.25	25%	40	1.67	67%

Overhead

What do we know about estimating overhead?

- Field labor: **Be conservative**
  - Most think they bill out more than they actually do
- Overhead expenses
  - **Be liberal to ensure its covered**

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When we estimated field labor, we said we wanted to be conservative. If we thought we billed out 6 hours a day we put in 5 or 5 1/2. When it comes to estimating overhead, however, the opposite is true. We want to be as accurate as possible, but if we are going to be off, we want to be off on the high side. We would rather estimate overhead to be $100,000 a year (and calculate our hourly rate based on that) and have the actual overhead come in at $80,000 than to estimate our overhead cost at $80,000 (and set our hourly rate based on that) and have the actual come in at $100,000.

What is Overhead?

- What is costs the company to do business
- What it costs to simply "open the doors"

Two types of Overhead

- Fixed overhead
  - Does not vary with productivity
- Variable overhead
  - Directly tied to productivity
  - If the company does more work, they go up
  - If they do less work, they go down

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Overhead includes whatever it costs the company to run the business. It is everything from gasoline to the insurance on your vehicle. Whatever it costs the company to open its doors on a daily basis is part of what is known as overhead.

There are two types of overhead. One is called fixed overhead and the other is called variable overhead. Fixed overhead includes items that must be paid each month whether you sell anything or not.

Variable overhead on the other hand is DIRECTLY tied to productivity. Variable overhead includes things like gasoline, vehicle maintenance and small tools. If more work is done, these items go up. If less work is done, these items decrease.

Forgotten Overhead Costs

- Spouse working in the office
- Bad debt
- Cost of customers using credit cards
- Loan payments: Cash flow shows entire payment not just interest
- Owner's retirement
- Equipment replacement: Plan for it
- Past due balances: Create a plan to get current

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There are several overhead items that are often forgotten and/or are underfunded.

It is not unusual, especially in a small company, for the spouse to be working in the office for little or no pay. The spouse is an employee, and their salary needs to be built into the cost of doing business. Remember, the customer needs to pay all of your costs of doing business, whether they are charged directly or not. This item should be entered as indirect labor in the labor entry section of the software.

The owner's salary is often much like their spouses. The owner often "takes what is left" when in reality their salary needs to be built into the cost of doing business just like the rent and utilities. Remember what we did first thing today; we created a family budget to see what income you need to earn. Be sure to include your salary as an overhead cost. Do not, however, put the owner's salary in as overhead if they work in the field and were entered as field labor. The owner should be entered as indirect labor unless they work in the field in which case they would be entered as direct labor.

Methods of Spreading Overhead Costs

1. Department specific
2. Square footage
3. Number of employees
4. Number of vehicles
5. Managerial discretion (logical guess)
6. Gross sales

Method 1: Department Specific

- Only exist if a particular department exists
- Marketing expenses
  - Direct mail, yellow pages, etc
- Office personnel assigned to a specific department
  - Dispatcher, etc
- Loans for specific vehicle and / or equipment

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These are cost that can be directly allocated to a specific department. The acid test is this: If that specific department did not exist, would the cost disappear? If it would disappear, the cost would be considered department specific. An example would be the dispatcher of the service department. If there were no service department, the dispatcher would be not needed; therefore, that cost would be considered department specific. Items that are often department specific include specific marketing dollars, vehicle loans (if the vehicle is only used in one department), small tools used in specific departments and some office personnel.

Method 2: Square Footage

Space Related Overhead Expenses

- These overhead costs are directly allocated based on the number of square feet in the building

The five common space related expenses are:

- Rent
- Utilities
- Building maintenance / repairs
- Building insurance
- Property taxes

Example

- Building square footage is 3,000 Ft^2
- Service occupies 1,000 Ft^2
- Rent is $750/month
- Rent allocated to service?

Formula

1,000 SF / 3,000 SF = 33.3%
= $750 / month x 33.3%
=$249.75 / month

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Many overhead costs are space related. Things like rent and utilities plus things like building maintenance, insurance and property taxes. The company will need to review what departments they have and then determine how many square feet each one occupies. The above costs can then be spread based on the percentage of square feet each uses.

Method 3: Number of Employees

- Medical insurance or expenses
- Uniforms
- Bonuses
- Cell phones

Example

- 2 Service Technicians
- 6 Installers
- 4 New Construction Employees
- All wear uniforms, each @ $30/month

Uniform expenses allocated as follows:

- **Service = $60/month - (2 technicians x $30/mo.)**
- **Install = $180/month - (6 technicians x $30/mo.)**
- **New Const. = $120/month - (4 technicians x $30/mo.)**

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Some costs are better spread by the number of employees. Medical insurance is a good example. If the company has ten employees and the medical premium for each one is $300 per month, the assignment would be simple. If three technicians worked in the service department, then the service department would pick up $900 of the insurance premium ($300 x 3 technicians). Uniforms can be prorated this way as can bonuses or retirement dollars. Keep in mind that some employees may split their time between two or more departments. If they spend half their time in service and half in installation, then their premium costs will need to be allocated in a like manner.

Method 4: Number of Vehicles

Several overhead costs can be prorated based on the number of vehicles

- Insurance
- Maintenance
- Licenses
- Vehicle tracking systems and / or radios

Most vehicles are used in one department but some may be used in multiple departments. Normally, insurance, maintenance, licensing and vehicle tracking system costs can be directly allocated to a specific truck, and therefore, to a specific department.

Method 5: Managerial Discretion

Logical guess

- **Use only if the first 4 methods don't work**
- When in doubt, ask those involved

*The important thing is not the "method" you use but the fact that you have **thought through** the most logical method of allocating the costs.*

Method 6: Gross Sales

- **Use only if the first 5 methods don't work**
- Bank charges
- Professional fees
- Conferences, travel and entertainment

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Managerial discretion is often the type of allocation used for office employees. When an employee is shown a list of departments, he can usually tell you roughly how much of his/her time is spent in each one.

One area that will need to be subjected to the "educated guess" is usually the owner's salary. The owner typically does several things. But with a little thought, they can usually give a pretty good accounting of where they spend their time and, therefore, how their salary needs to be allocated. It should be noted that the owner's vehicle and direct benefits will need to be allocated in a similar manner as their salary.

No matter how hard you try, there will always be a few items that simply can't be allocated to a department based on the methods just described. Items like bank charges, professional fees, conferences, training and travel often fall into this category. These remaining items need to be allocated based on gross sales. If service makes up 12% of the company's gross sales, then 12% of the above items will be allocated to service.

Two Parts to Estimating Overhead Costs

1. Projecting the **cost** affects the final hourly rate
2. **When** the cost occurs affects projected cash flow

You will be doing both in this software entry section

There are two things to consider when estimating overhead costs for the coming year. The first is what the cost is projected to be, and the second is when it will occur. What the cost will be affects your total cost of doing business. Your hourly rate is directly related to your cost of doing business; therefore, the closer you can estimate the cost, the more accurate your pricing will be. As a general rule, overestimate rather than under estimate overhead costs.

The second aspect deals with when it is paid. The "when" affects cash flow. Our income is going up and down because of the seasonality of the business. On the other side are costs. Some costs occur every month, and some only occur once or twice a year. When they occur dramatically affects cash flow. Remember, you can be priced absolutely perfectly and still go out of business because of cash flow problems. Making accurate cash flow projections is critical to the health of the company.

How To Estimate Overhead Costs

Cheat Sheet Will Assist

- Look at your Income Statement
  - Note: Which items are "**F**" fixed and which are "**V**" variable
- Ask yourself
  - Will this cost go up, down, or stay the same next year?
  - What current items will no reoccur next year?
  - What "new" costs will you have next year that were not part of this year's overhead?
  - When will the above costs be paid – what month(s)?

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Your initial source for projecting overhead costs is your current Income Statement. The first step would be to look at the list and note which items are fixed overhead items and which are variable. Next ask yourself if the cost listed is likely to go up, down or stay the same over the next twelve months. Some things, such as rent, you know will be the same. Other items, like health insurance, you know will increase.

Some items will not reoccur the next year while other new items will need to be added. Perhaps you are anticipating a new benefit or an additional overhead cost, like more cell phones, for the coming year. "When" they are paid is critically important. Although many items will be the same each month, some will just kind of pop up once or twice during the year. Pop up items are things like marketing costs, conventions, training, insurance payments and many taxes. When these kinds of items are paid is very important as their payment dramatically affects your monthly cash flow.

Items to Note on Your Profit / Loss Statement

- Payroll Taxes
  - Already taken care of in the software
- Interest Expense
  - Only enter interest on a line of credit
- Loan Payments
  - Enter full monthly loan payments of principle and interest
- Depreciation
  - Equipment replacement costs take the place of depreciation

All payroll taxes are automatically calculated by your software program based on the setup data you entered.

Delete interest as a line item unless it is interest on a line of credit. The line of credit interest suggests you estimate how much of the line you want to pay off during the coming year and then enter that as an overhead cost. For example, assume you owe $50,000 on a line of credit and it is your desire to pay off $20,000 of the line over the coming year. Enter $20,000 as an overhead cost which will make this cost part of your hourly rate; therefore, it WILL get paid off!

Be sure to list individually each and every monthly loan payment you have. The payment is for interest and principle. Loans are entered individually because loans usually represent equipment and differing pieces of equipment should be allocated to different departments.

DO NOT enter deprecation into the software; delete it as a line item. Equipment replacement costs will take its place and equipment replacement costs are automatically created based on the equipment you enter into the software.

Quick Overhead Reference Guide Allocation

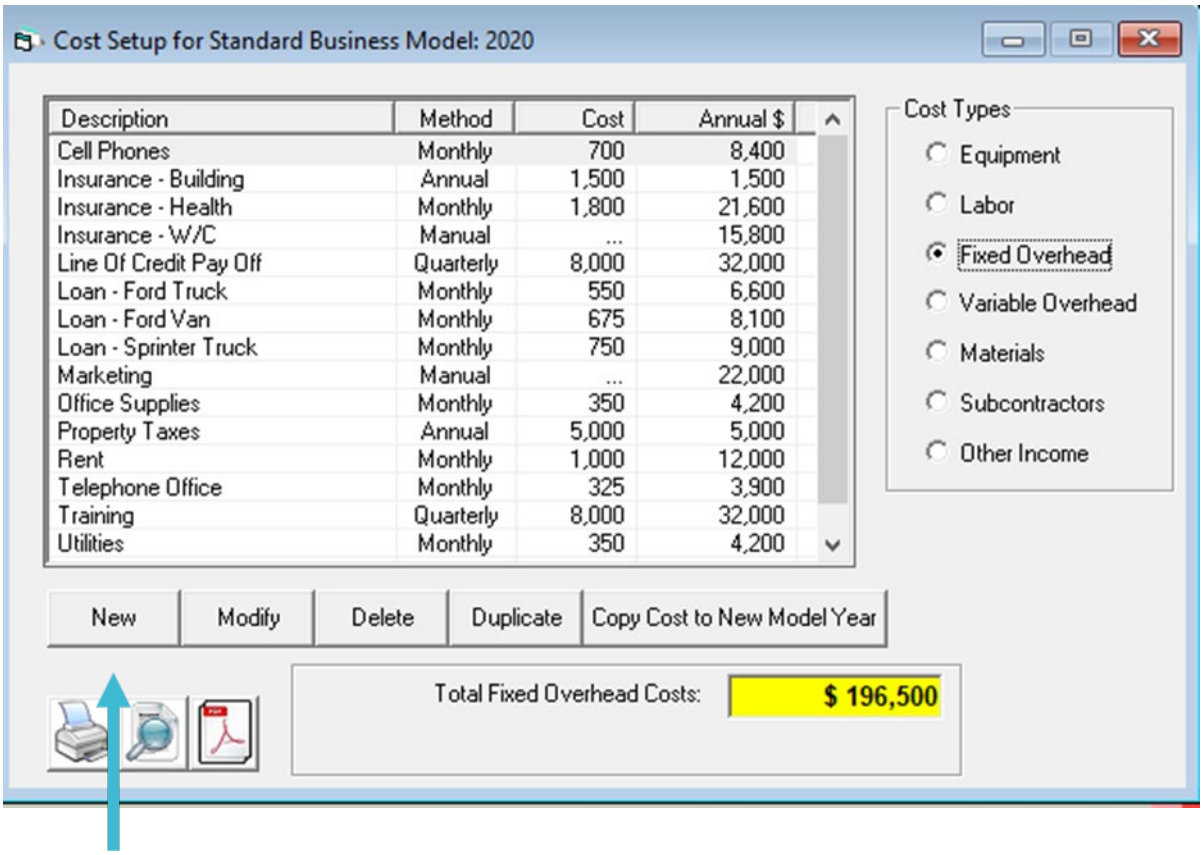
As you enter overhead into the software, be sure to use the Quick Reference Guide we created for you. This is a laminated hand out and it is also on your thumb drive for easy access. We have done the work you and this will make this data entry section go a lot smoother.

Simple look at each category of overhead and follow the recommended method to apply and allocation method. You may have some categories not listed in the reference guide. Simple look at similar categories and make a determination of the best method to apply and allocation for that overhead item.

Sales	**Where to Enter**	**Method to apply**	**Allocation Method**
Installation Sales - Commercial	Do Not Enter		
Installation Sales – Residential	Do Not Enter		
Service Sales - Commercial	Do Not Enter		
Service Sales - Residential	Do Not Enter		
Miscellaneous	Do Not Enter		
Cost Of Goods Sold	**Where to Enter**	**Method to Apply**	**Allocation Method**
Purchases - Commercial Install	Materials		
Purchases - Residential Install	Materials		
Purchases - Commercial Service	Materials		
Purchases - Residential Service	Materials		
Purchases - Subcontractors	Materials		
Expenses	**Where to Enter**	**Method to Apply**	**Allocation Method**
Note: Do NOT enter any employee wages in this section.			
401K or Retirement	Fixed	Monthly	Manual or Employee
Advertising	Fixed	Manual or Monthly	Manual
Bad Debt	Variable		Manual
Bank -Service Charges	Fixed	Monthly	Sales
Bank - Interest on LOC only	Fixed	Monthly	Sales
Bank - Loan Payment-full amt	Fixed	Monthly	Manual
Building Repairs	Fixed	Manual	Building Sq. Footage
Business Permits & Licenses	Variable		Manual
Cell Phones	Fixed	Monthly	All Employees
Charitable Contributions	Fixed	Manual	Sales
Computers / Software	Fixed	Monthly	Manual

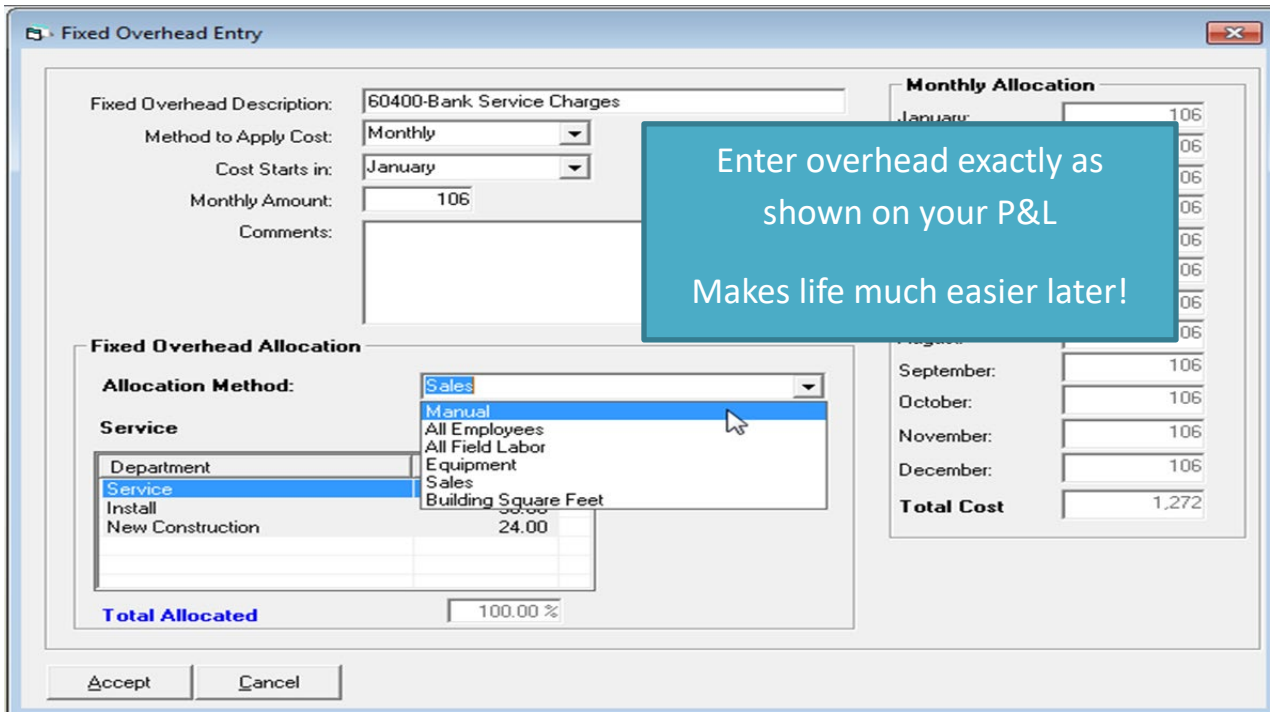
Depreciation Expense	Do Not Enter		
Dues & Subscriptions	Fixed	Monthly	Sales
Employee Incentives	Fixed	Annual or Monthly	Manual or Monthly
Freight & Delivery	Variable		Sales
Insurance - Building	Fixed	Annual	Building Sq. Footage
Insurance - Commercial	Fixed	Monthly	Sales
Insurance - Health	Fixed	Monthly	All Employees
Insurance - Liability	Fixed	Manual or Monthly	All Employees
Insurance - Life	Fixed	Monthly	All Employees
Insurance - Vehicles	Fixed	Manual or Monthly	Equipment
Insurance - Workers Comp	Fixed	Manual or Monthly	All Employees
Meals & Entertainment	Fixed	Monthly	Manual
Merchant / Credit Card Fees	Variable	Monthly	Sales
Miscellaneous Expense	Fixed	Monthly	Sales
Office Supplies	Fixed	Monthly	Manual
Permits	Variable	Manual	Manual
Postage	Fixed	Monthly	Manual
Professional Fees	Fixed	Manual	Sales
Rent	Fixed	Monthly	Building Sq. Footage
Small Tools	Variable		Sales
Spiffs	Variable		All Employees / Field
Taxes - FICA	Do Not Enter		
Taxes - FUTA	Do Not Enter		
Taxes - Property	Fixed	Annual	Building Sq. Footage
Taxes - SUTA	Do Not Enter		
Taxes - Use Tax	Fixed	Annual	Sales
Telephones / Internet	Fixed	Monthly	All Employees
Training	Fixed	Manual	Field Labor
Travel for office	Fixed	Monthly	Sales
Uniforms	Fixed	Monthly	All Employees
Utilities	Fixed	Monthly	Building Sq. Footage
Vehicle - Maintenance	Variable		Equipment
Vehicle - Gas	Variable		Equipment
Vehicle - GPS	Fixed	Monthly	Equipment
Write-offs	Variable		Sales

Data Entry for Fixed Overhead



Description	Method	Cost	Annual $
Cell Phones	Monthly	700	8,400
Insurance - Building	Annual	1,500	1,500
Insurance - Health	Monthly	1,800	21,600
Insurance - W/C	Manual	...	15,800
Line Of Credit Pay Off	Quarterly	8,000	32,000
Loan - Ford Truck	Monthly	550	6,600
Loan - Ford Van	Monthly	675	8,100
Loan - Sprinter Truck	Monthly	750	9,000
Marketing	Manual	...	22,000
Office Supplies	Monthly	350	4,200
Property Taxes	Annual	5,000	5,000
Rent	Monthly	1,000	12,000
Telephone Office	Monthly	325	3,900
Training	Quarterly	8,000	32,000
Utilities	Monthly	350	4,200

Enter your fixed overhead expenses from you Profit & Loss statement.



Description: Enter a description of the cost

Method to Apply Cost: Select the method that you want to apply this expense. Your options are Monthly, Quarterly, Semi-Annual, Annual or Manual.

Cost starts in: Select the month that the cost starts in. If you select Manual as Method to Apply Cost, this prompt is not available

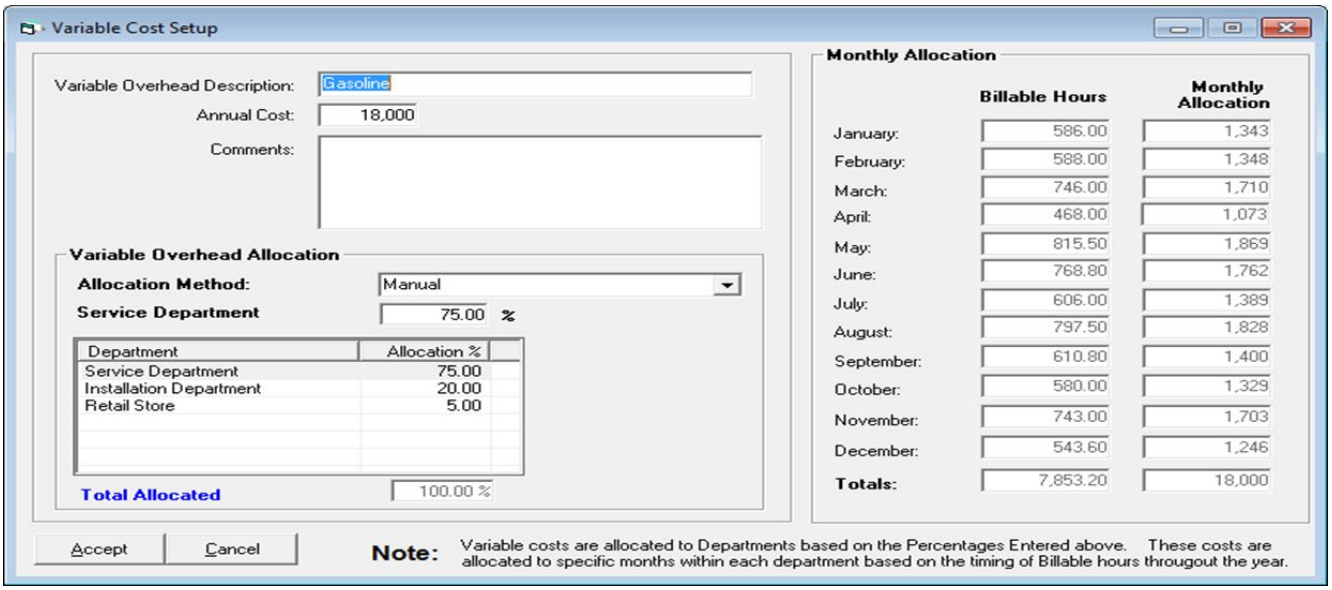
Amount: The user should enter the periodic amount (not the annual amount) of the cost.

Allocation Method Manual - Manually enter the amount to Allocate to each department

- **All Employees** - The system will automatically allocate to each department based on the way *All Labor* has been allocated to departments
- **All Field Employees** - The system will automatically allocate to each department based on the way *All Direct Labor* has been allocated to departments
- **Equipment** - The system will automatically allocate to each department based on the way equipment has been allocated to departments
- **Sales** - The system will allocate to each department in the same ratio that sales were entered in the Department Setup screen

Data Entry for Variable

As mentioned earlier, you simply have to estimate the total cost for the year. The software will prorate the cost on a monthly basis based on direct labor hours.



Description: Enter a description of the Variable Overhead Item

Annual Cost: Enter the Annual cost of the Item. This amount will be allocated based on the percent of Billable Direct Labor hours that occur in each month

Allocation Method Manual - Manually enter the amount to Allocate to each department

- **All Employees** - The system will automatically allocate to each department based on the way *All Labor* has been allocated to departments
- **All Field Employees** - The system will automatically allocate to each department based on the way *All Direct Labor* has been allocated to departments
- **Equipment** - The system will automatically allocate to each department based on the way equipment has been allocated to departments
- **Sales** - The system will allocate to each department in the same ratio that sales were entered in the Department Setup screen

Subcontractors

Subcontracting can "subsidize" your hourly rate
It is typically **NOT** recommended to enter subcontracting unless

- You sub out a lot of work / over $25,000
- Your overall markup is in excess of 15%
- This would generate enough profit to impact overhead

If you choose to enter subcontracting into your model –

consider setting it up as a separate department

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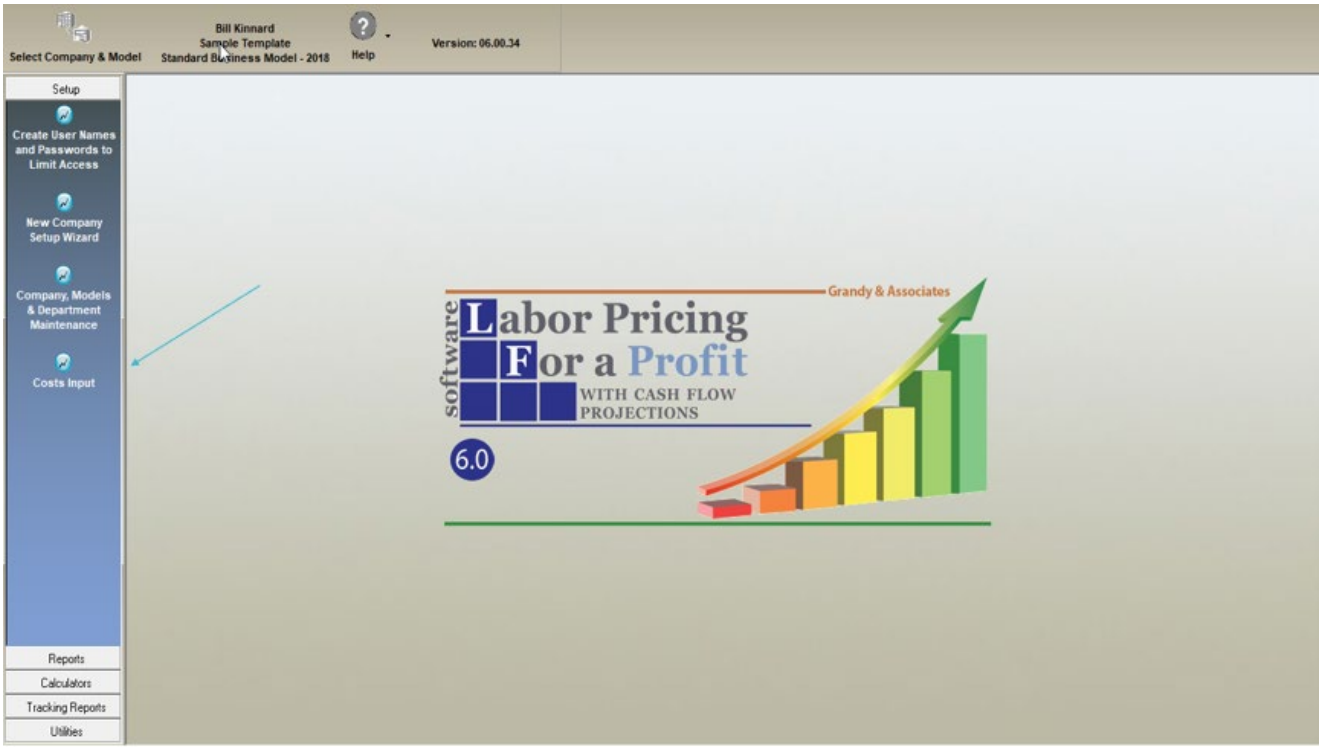
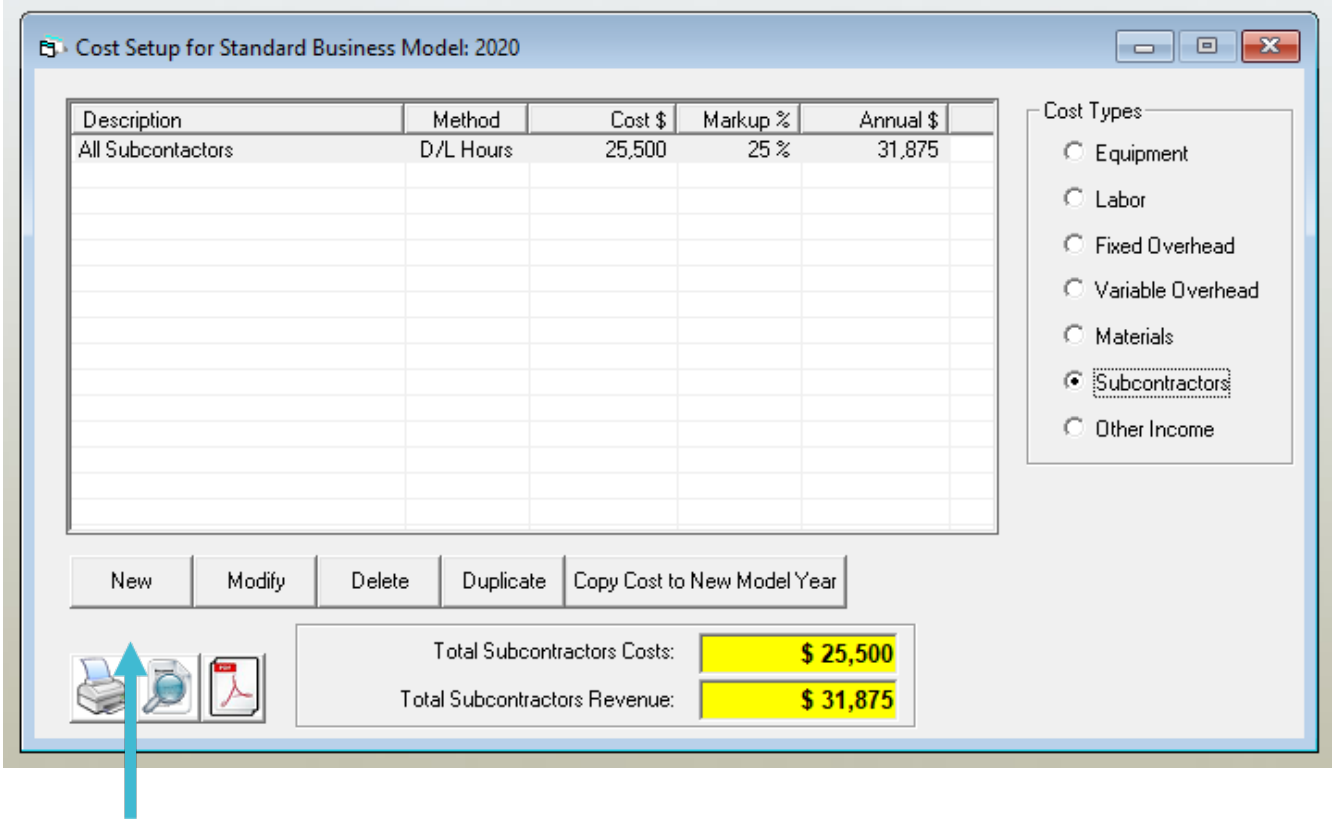
If subcontracting work is done and generates a significant profit, it is still not recommended to enter it into the computer model. The reason you don't want it in the rate is that it will tend to subsidize the hourly rate you develop.

If your company subs out over $25k annually with a markup of 15% or higher, it is suggested that you set up a separate department for that kind of work. By doing so, you will be able to include the cost and profit in your model without allowing it to subsidize your hourly rates.

Like variable overhead, all you need to do is enter the annual amount and the system will spread the cost monthly based on when your direct labor hours are worked. Some companies have a particular sub that does a specific job at a particular time during the year. If you are in a situation like that, note when the job(s) are done – in what month(s). You will have the ability to place your costs in particular months when you enter the data into the software.

Data Entry for Subcontractors





Subcontractor Entry

Subcontractor Description: James Brown
Method to Apply: Direct Labor Hours

Subcontractor Cost: 35,000
Markup: 25 %
The difference between Markup and Margin
Subcontractor Revenue: 43,750
Comments:

Subcontractor Cost & Income Allocation:

Installation Department 100 %

Department	Allocation %
Service Department	0.00
Installation Department	100.00
Retail Store	0.00

Total Allocated 100.00 %

Monthly Allocation

	Billable Hours	Allocated Cost	Allocated Revenue
January:	633.60	2,601	3,251
February:	643.60	2,642	3,303
March:	814.50	3,343	4,179
April:	523.60	2,149	2,686
May:	877.00	3,600	4,500
June:	823.60	3,380	4,225
July:	653.60	2,683	3,354
August:	867.00	3,558	4,448
September:	657.60	2,699	3,374
October:	635.60	2,609	3,261
November:	804.50	3,302	4,128
December:	593.28	2434	3,041
Totals	8,527.48	35,000	43,750

Accept Cancel

Note: Variable costs are allocated to Departments based on the Percentages Entered above. These costs are allocated to specific months within each department based on the timing of Billable hours througout the year.

If you are entering subcontracting into your computer model, use the above data entry worksheet. You will need to estimate the cost of subcontracting for the year as well as your average markup.

Like variable overhead, all you need to do is enter the annual amount and the system will spread the cost monthly based on when your direct labor hours are worked.

Some companies have a particular sub that does a specific job at a particular time during the year. If you are in a situation like that, note on the worksheet when the job(s) are done – in what month(s). You will have the ability to place your costs in particular months when you enter the data into the software.

Other Income

- Diagnostic fees
- Occasional sale of retail parts or equipment
- Earned income from savings or CD's
- Trip charges created by service department
- Rental income / office space
- Weekly pool maintenance if pool and spa

If entered, it will "subsidize your hourly rate

- If you have miscellaneous income coming in, it is usually clear profit. Keep it that way by NOT entering it into the software
- If you always (or most of the time) charge a "trip charge" or for service work you may want to consider entering it

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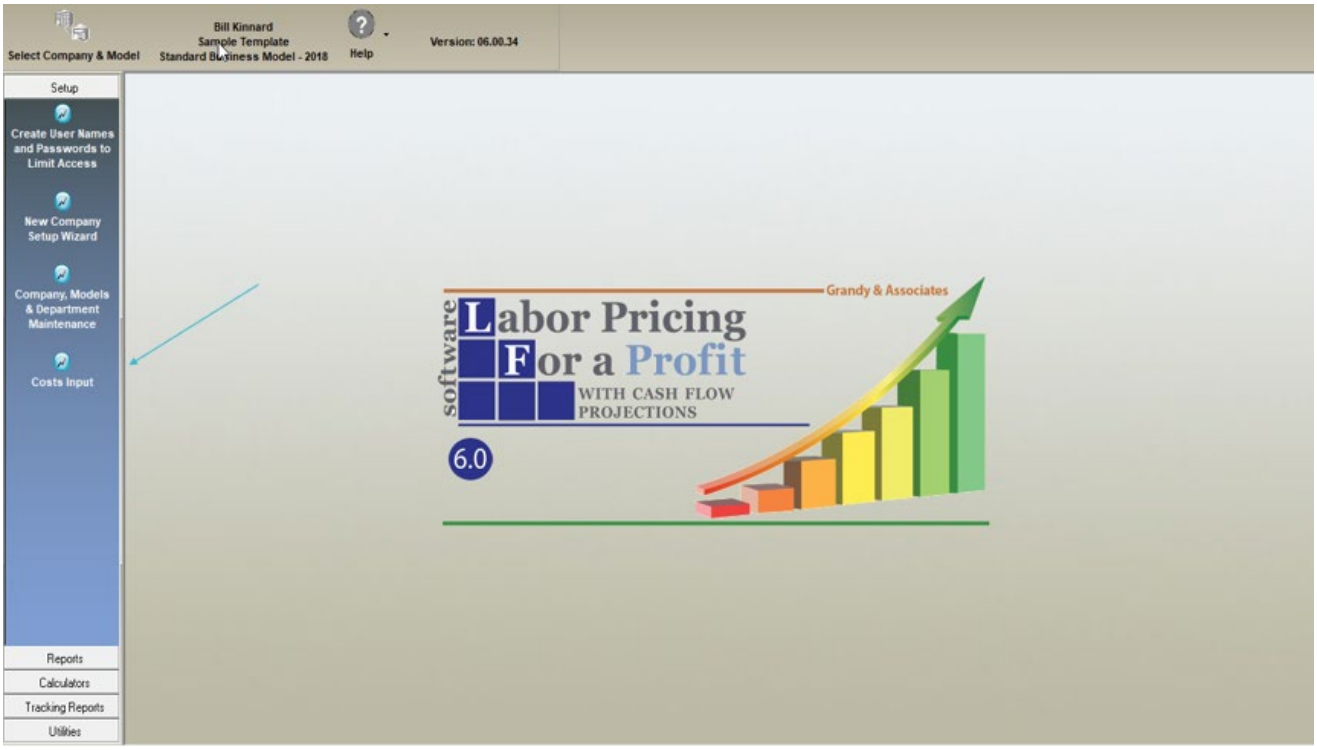
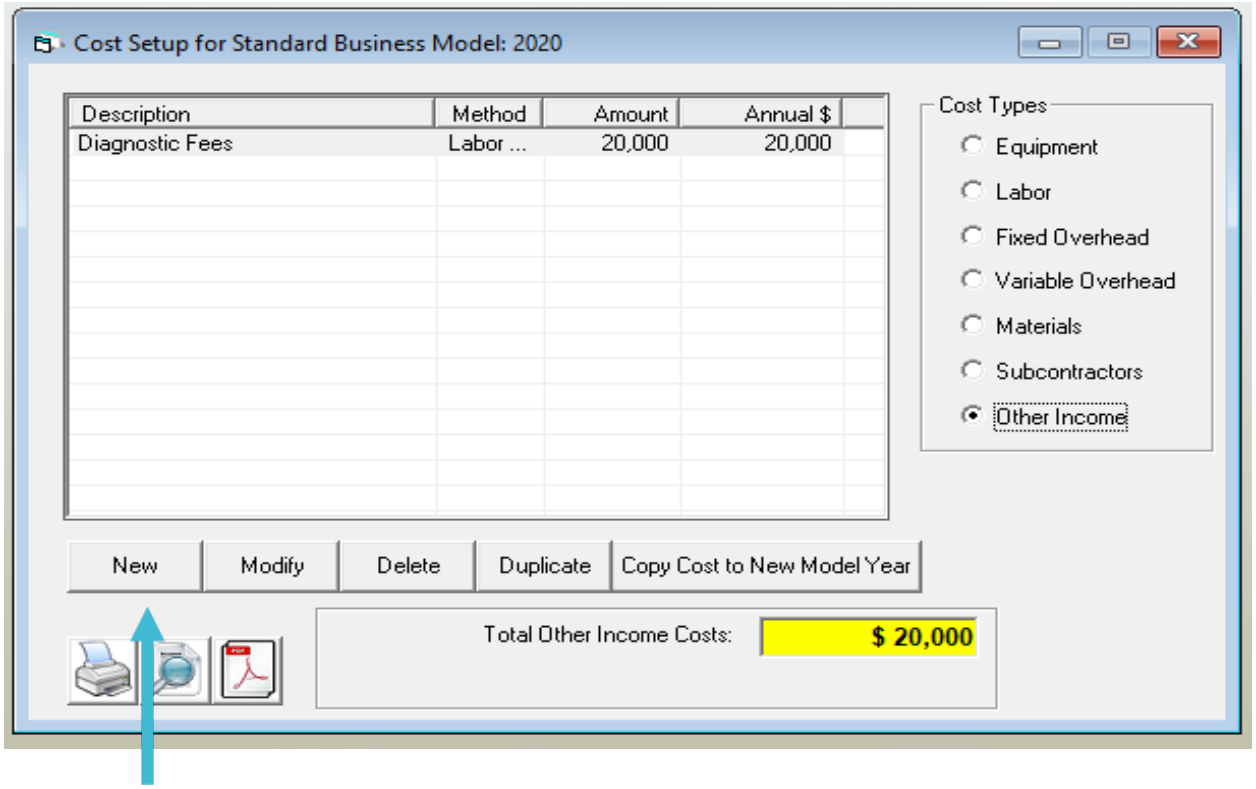
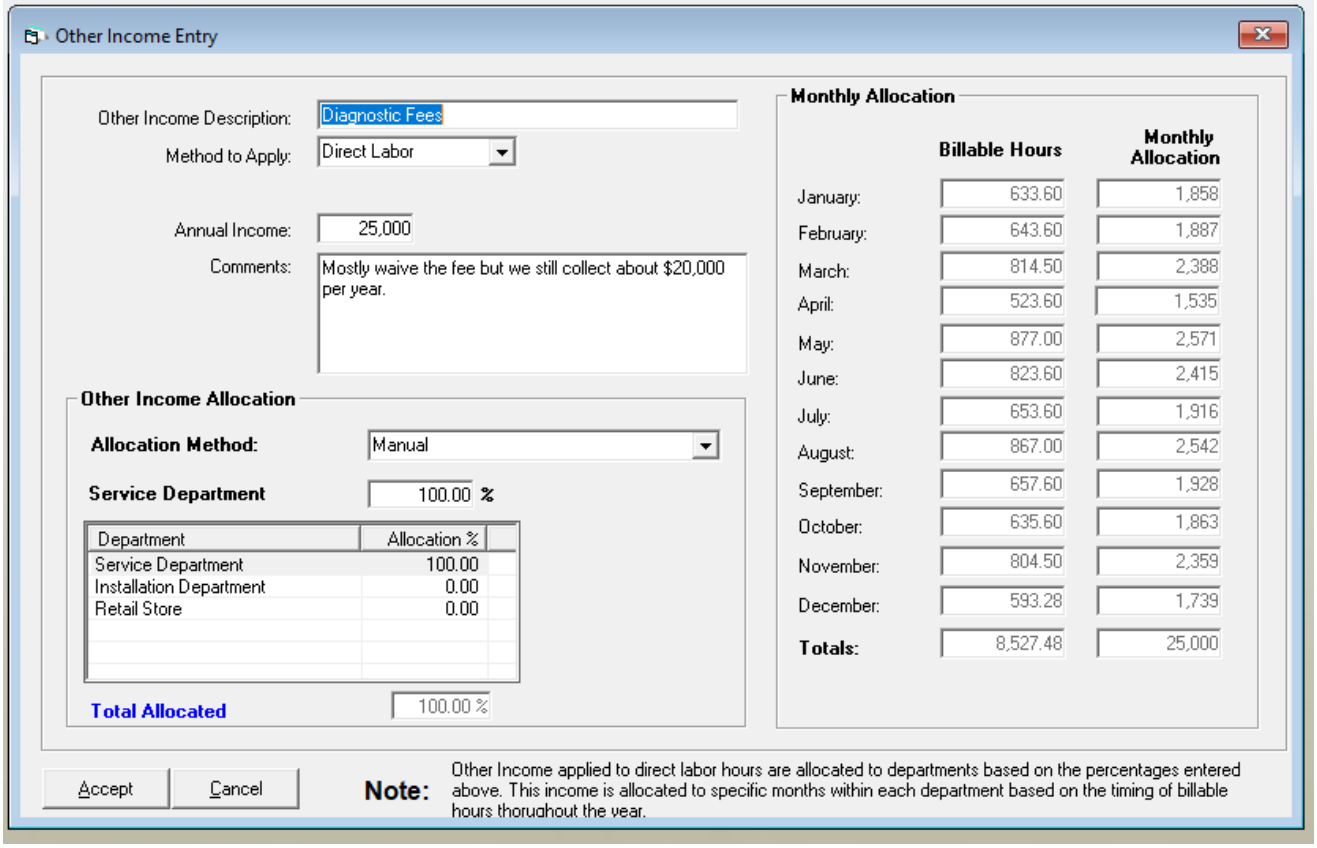
Other income is any money that flows into the company other than by the sale of labor or materials. It could be cash from the sale of a piece of equipment, interest on a CD or savings account or occasional trip charges. Although other income is very real, entering it into the computer will tend to "subsidize" the hourly rate just as the subcontracting did. If you have miscellaneous income coming in, it is usually clear profit. Keep it that way by NOT entering it into the software.

The exception, if there is one, would be trip charges. Some companies charge a standard trip charge on most, if not all, calls they make. It that is your situation you may want to play with the trip charge a bit. The first time you model your service department enter the amount for trip charges. The result will be the hourly rate you will need to charge the customers <u>in addition to the trip charge</u>. Step two would be to use the same model but take the trip charge out. The end result will be <u>what you could charge the customer on a straight hourly rate to make the same profit you would above without the trip charge</u>. It's one of those fun "what if's" you can do with the software.

Enter Other Income into The Software







Be aware if you do enter data here, it will be spread monthly based on direct labor hours just like materials, variable overhead costs and subcontractors. Use the Other Income section sparingly and typically reserved on for trip charges or diagnostic fees.

Preliminary Look

Our goal at this point is to give you a first look at your company through the Net Profit Analysis Report. We will cover this report in depth tomorrow. To make our time as productive as possible, we want to get your numbers tweaked in this section so you get an accurate look as

Sales Total

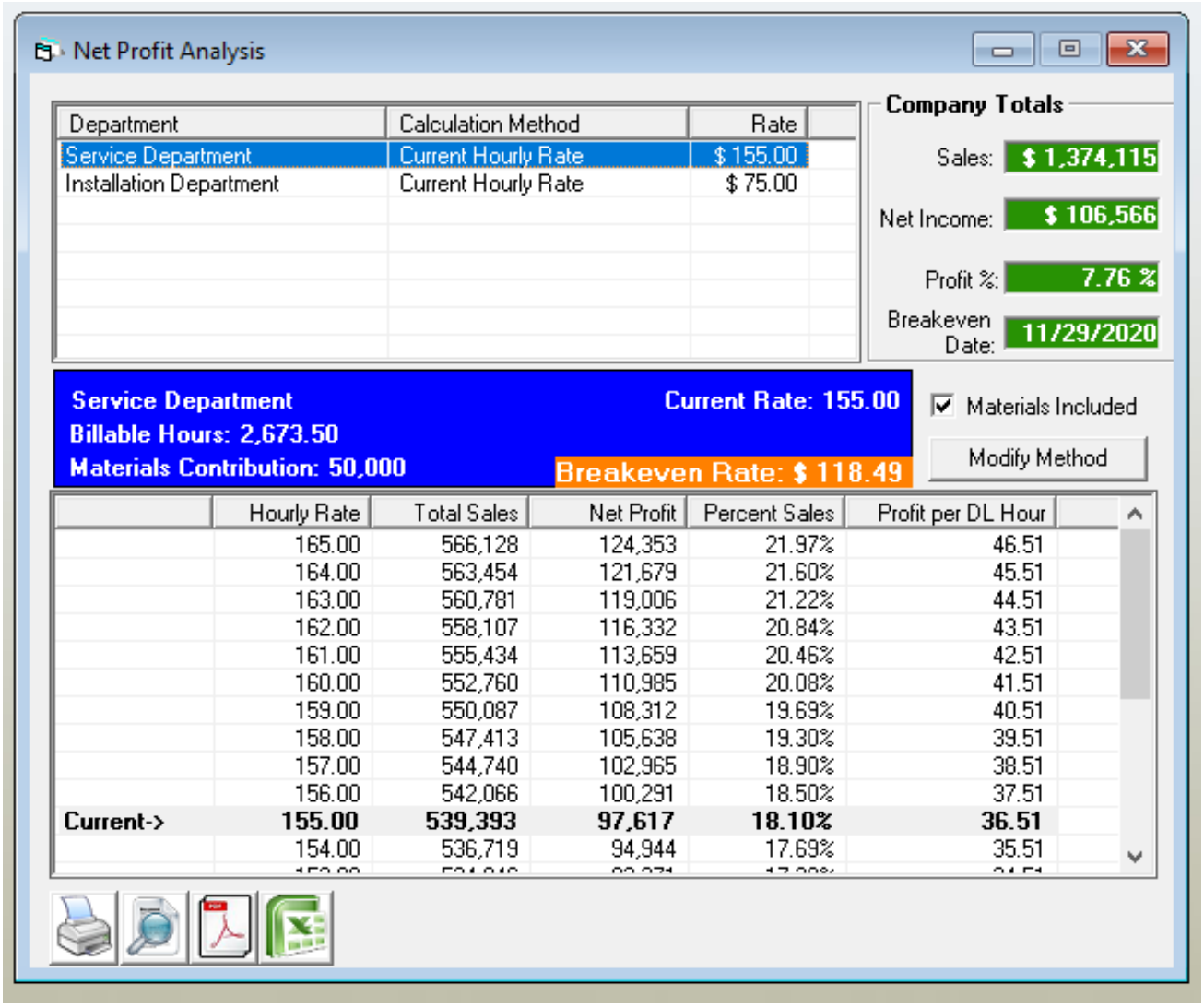
Current Dept Rates
X Billable Hours
Plus, Mark Up on Materials, Subs and Other

Sales Too High

Add Lost Hours

Sales Too Low

Subtract Lost Hours



	Hourly Rate	Total Sales	Net Profit	Percent Sales	Profit per DL Hour
	165.00	566,128	124,353	21.97%	46.51
	164.00	563,454	121,679	21.60%	45.51
	163.00	560,781	119,006	21.22%	44.51
	162.00	558,107	116,332	20.84%	43.51
	161.00	555,434	113,659	20.46%	42.51
	160.00	552,760	110,985	20.08%	41.51
	159.00	550,087	108,312	19.69%	40.51
	158.00	547,413	105,638	19.30%	39.51
	157.00	544,740	102,965	18.90%	38.51
	156.00	542,066	100,291	18.50%	37.51
Current->	**155.00**	**539,393**	**97,617**	**18.10%**	**36.51**
	154.00	536,719	94,944	17.69%	35.51

The sales total is the result of your current department rates multiplied by the number of billable hours in those departments plus markup on materials, subs, and other income if listed. If this number appears too high, you will need to add lost hours to your model. If this number appears too low, you will need to subtract lost hours from your model. This can easily be done by visiting the labor input tab and adjusting the employee profile for each field labor employee.

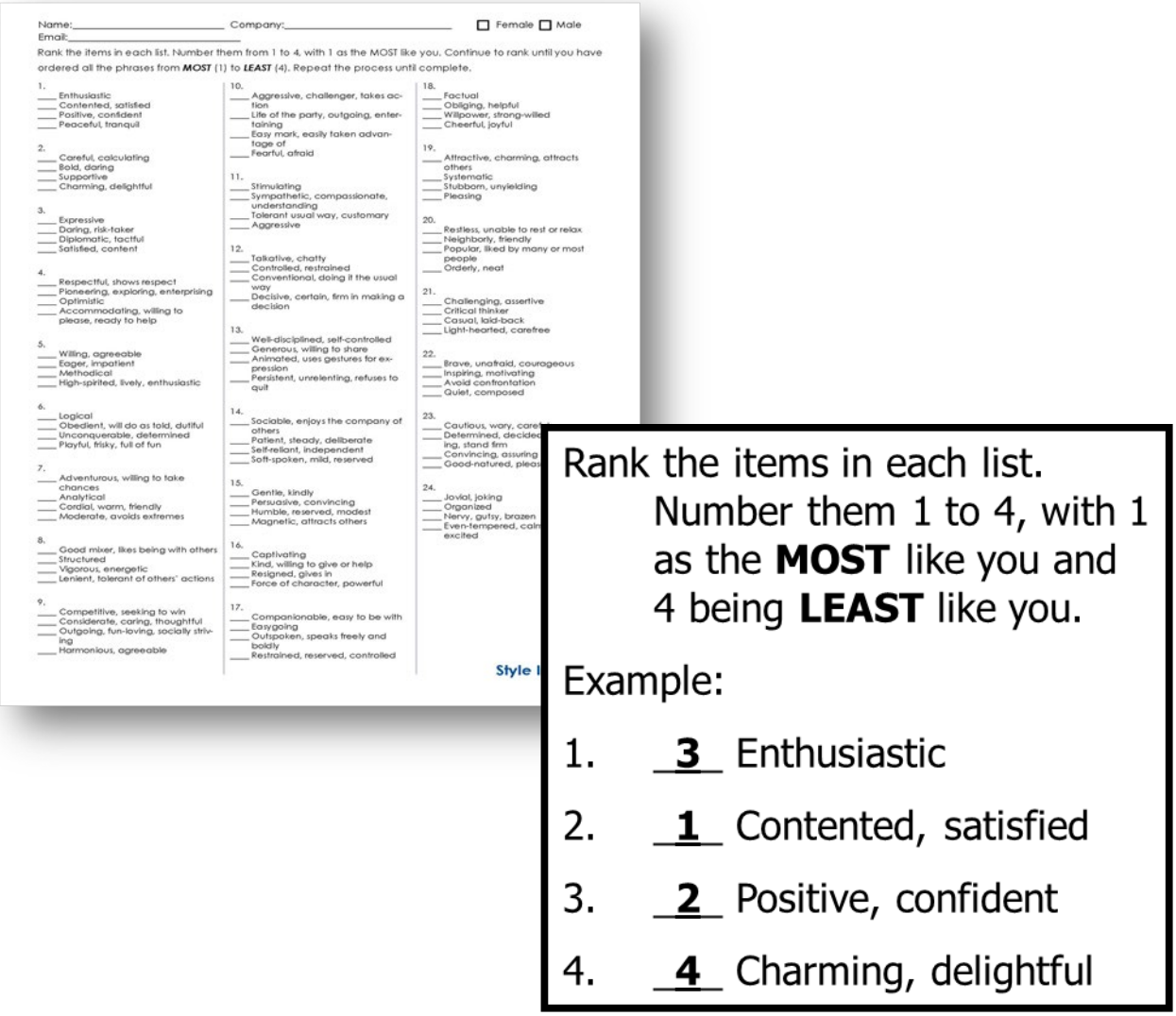
Net income reflects the amount left over after all other obligations are completely satisfied. That means overhead is covered, you are paid, suppliers are paid, you have saved for trucks and equipment replacement, etc.

Profit percentage reflects the net profit for your company as a whole. You many have individual department with a higher or lower percentage individually than what you see here.

This date represents the day of the year when overhead and all other items you have projected in the software have been completely covered. This is where you maximize profitability. For most companies, this date usually lands within the last six weeks of the year.

Day One Homework

- Enter all remaining data
- Review Lost hours
  - Adjust lost hours if needed
  - Overhead allocation percentages
  - Watch for duplicate entries and key errors
- Communication Style Assessment: www.GrandyAssociates.com/survey
  - License Number: 395116WLS



Name:_____ Company:_____ ☐ Female ☐ Male
Email:_____

Rank the items in each list. Number them from 1 to 4, with 1 as the MOST like you. Continue to rank until you have ordered all the phrases from ***MOST*** (1) to ***LEAST*** (4). Repeat the process until complete.

1.
___ Enthusiastic
___ Contented, satisfied
___ Positive, confident
___ Peaceful, tranquil

2.
___ Careful, calculating
___ Bold, daring
___ Supportive
___ Charming, delightful

3.
___ Expressive
___ Daring, risk-taker
___ Diplomatic, tactful
___ Satisfied, content

4.
___ Respectful, shows respect
___ Pioneering, exploring, enterprising
___ Optimistic
___ Accommodating, willing to please, ready to help

5.
___ Willing, agreeable
___ Eager, impatient
___ Methodical
___ High-spirited, lively, enthusiastic

6.
___ Logical
___ Obedient, will do as told, dutiful
___ Unconquerable, determined
___ Playful, frisky, full of fun

7.
___ Adventurous, willing to take chances
___ Analytical
___ Cordial, warm, friendly
___ Moderate, avoids extremes

8.
___ Good mixer, likes being with others
___ Structured
___ Vigorous, energetic
___ Lenient, tolerant of others' actions

9.
___ Competitive, seeking to win
___ Considerate, caring, thoughtful
___ Outgoing, fun-loving, socially striving
___ Harmonious, agreeable

10.
___ Aggressive, challenger, takes action
___ Life of the party, outgoing, entertaining
___ Easy mark, easily taken advantage of
___ Fearful, afraid

11.
___ Stimulating
___ Sympathetic, compassionate, understanding
___ Tolerant usual way, customary
___ Aggressive

12.
___ Talkative, chatty
___ Controlled, restrained
___ Conventional, doing it the usual way
___ Decisive, certain, firm in making a decision

13.
___ Well-disciplined, self-controlled
___ Generous, willing to share
___ Animated, uses gestures for expression
___ Persistent, unrelenting, refuses to quit

14.
___ Sociable, enjoys the company of others
___ Patient, steady, deliberate
___ Self-reliant, independent
___ Soft-spoken, mild, reserved

15.
___ Gentle, kindly
___ Persuasive, convincing
___ Humble, reserved, modest
___ Magnetic, attracts others

16.
___ Captivating
___ Kind, willing to give or help
___ Resigned, gives in
___ Force of character, powerful

17.
___ Companionable, easy to be with
___ Easygoing
___ Outspoken, speaks freely and boldly
___ Restrained, reserved, controlled

18.
___ Factual
___ Obliging, helpful
___ Willpower, strong-willed
___ Cheerful, joyful

19.
___ Attractive, charming, attracts others
___ Systematic
___ Stubborn, unyielding
___ Pleasing

20.
___ Restless, unable to rest or relax
___ Neighborly, friendly
___ Popular, liked by many or most people
___ Orderly, neat

21.
___ Challenging, assertive
___ Critical thinker
___ Casual, laid-back
___ Light-hearted, carefree

22.
___ Brave, unafraid, courageous
___ Inspiring, motivating
___ Avoid confrontation
___ Quiet, composed

23.
___ Cautious, wary, care
___ Determined, decided
ing, stand firm
___ Convincing, assuring
___ Good-natured, plea

24.
___ Jovial, joking
___ Organized
___ Nervy, gutsy, brazen
___ Even-tempered, cal
excited

Style I

Rank the items in each list.
Number them 1 to 4, with 1 as the **MOST** like you and 4 being **LEAST** like you.

Example:

1. __**3**__ Enthusiastic
2. __**1**__ Contented, satisfied
3. __**2**__ Positive, confident
4. __**4**__ Charming, delightful

DAY 2

Day Two Agenda

- Communication style assessment review
- Analyze your company reports
- Maximize your profitability through the "What if Process"
- Monthly Money Matters overview
- Review the five profit killers in the Service Department
- PFP alumni benefits

Communication Styles

DISC Scores Defined

- **D** score reveals: How you deal with problems and challenges.
- **I** score reveals: How you deal with people and contacts.
- **S** score reveals: How you deal with pace and consistency.
- **C** score reveals: How you deal with rules and procedures.

_____

_____

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DISC is an assessment tool that measure how a person interacts with others. Part of running a successful business is finding and keeping good people. Before you can communicate with your people, you need to understand how you communicate. Grandy & Associates offers assessments and analysis for your entire team. We would be delighted to assist you further.

Hammer
Hurt feeling, get over it!
Get things done

Dominance

This person may tend to be:

D

- Driving
- Ambitious
- Pioneering
- Strong-willed
- Forceful
- Determined
- Aggressive

It helps to...

- Be clear, specific, brief & to the point.
- Stick to business.
- Be Prepared with support material in a well organized "package".

It helps to avoid…

- Talking about things that are not relevant to the issue.
- Leaving loopholes or cloudy issues.
- Appearing disorganized.

Glass 1/2 full, hope its beer
Not detail people
Love shiny objects

Influence

I

- Enthusiastic
- Demonstrative
- Persuasive
- Warm
- Convincing
- Optimistic
- Trusting

- Provide a warm and friendly environment.
- Put details in writing.
- Ask "feeling" questions to draw out their opinions or comments.

- Being Curt, cold or tight-lipped
- Controlling the conversation.
- Driving on to facts and figures, alternatives, abstractions.

Customer Service
Really want to help
Hate controversy

Steadiness

S

- Slow to Change
- Nondemonstrative
- Patient
- Consistent
- Deliberate
- Steady
- Stable

- Break the ice with a personal comment.
- Present your case softly, non-threateningly.
- Ask "how' questions to draw out their opinions.

- Rushing headlong into business.
- Being domineering or demanding.
- Forcing them to respond quickly to your requests or objectives.

Love details/Analytical
High quality standards
Research is the best way

Compliance

C

- Careful
- Cautious
- Exacting
- Neat
- Systematic
- Accurate

- Prepare your "case" in advance.
- Stick to business.
- Be accurate and realistic.

- Being giddy, casual, informal, loud.
- Pushing too hard or being unrealistic with deadlines.
- Being disorganized or messy.

Bridge Project - Perspective

D: Grab those supplies, wood, nails, steel, lets go!
We will figure it out as we go…

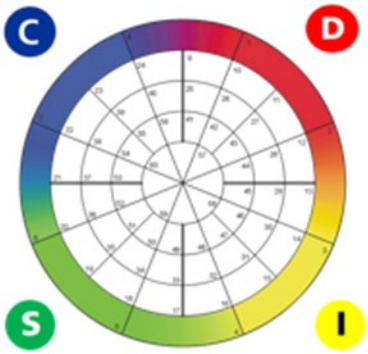
I: Awesome! Social media blast food, music, sell ideas to others…

S: Hand pick small team, get on the same page, delegate, elimnate confusion…

C: What kind of bridge? What will it be used for? People or equipment? Permits? Who else should meet us there so we can coordiate together?...

COMPLIANCE
Procedures & Constraints
- ✓ Diplomatic
- ✓ Attention to detail
- ✓ Objective thinker
- ✓ Systems and procedures
- ✓ Asks clarifying questions

DOMINANCE
Problems & Challenges
- ✓ Competitive
- ✓ Results oriented
- ✓ Innovative
- ✓ Quick decision maker
- ✓ Direct communicator – to the point!



STEADINESS
Pace & Consistency
- ✓ Friendly
- ✓ Loyal
- ✓ Natural ability to organize
- ✓ Logical step-wise thinker
- ✓ Good Listener

INFLUENCE
People & Contacts
- ✓ Confident
- ✓ Optimistic
- ✓ Visionary
- ✓ High degree of people contact
- ✓ Talks at length with others

Individual DISC Characteristics

D

DESCRIPTORS:

- Adventuresome
- Competitive
- High Value on Time
- Innovative
- Persistent
- Problem Solver
- Quick Decision Maker
- Results Oriented
- Self-Starter

OUTSTANDING CHARACTERISTICS:

- Desire to lead
- Challenge-oriented
- Desire to win
- Direct communication
- High risk

VALUE TO THE TEAM:

- Forward looking
- Innovative
- Challenge-oriented
- Initiates activity
- Bottom-line organizer

IDEAL ENVIRONMENT:

- An innovative and futuristic-oriented environment
- Freedom from controls, supervision and details
- Forum to express ideas and viewpoints
- Non-routine work
- Work with challenge and opportunity

POSSIBLE LIMITATIONS:

- Overuse of position
- Lack tact and diplomacy
- Set standards too high
- Take on too much, too soon, too fast

TENDENCY UNDER STRESS:

- Demanding
- Nervy
- Aggressive
- Egotistical

EMOTION:

Quick to get angry

I

DESCRIPTORS:

- Charming
- Confident
- Convincing
- Enthusiastic
- Inspiring
- Optimistic
- Persuasive
- Popular
- Sociable
- Trusting

OUTSTANDING CHARACTERISTICS:

- Need to interact
- Visionaries – big picture
- Talk at length with others
- Emotional – wear their heart on their sleeve

VALUE TO THE TEAM:

- Team player
- Helps mediate people towards an agreement
- Creative problem solving
- Optimism and enthusiasm
- Motivates others towards goals

IDEAL ENVIRONMENT:

- High degree of people contacts
- Freedom from control
- Freedom from details
- Forum for ideas to be heard
- Democratic supervisor who they can be friends with
- Multi-changing work tasks

POSSIBLE LIMITATIONS:

- Be unrealistic in appraising people
- Inattentive to details
- Situational listener
- Trust people too quickly

TENDENCY UNDER STRESS:

- Gabby
- Unrealistic
- Self-promoting
- Overly Optimistic

EMOTION:

Optimism

S

DESCRIPTORS:

- Amiable
- Friendly
- Good listener
- Predictable
- Sincere
- Stable
- Steady
- Systematic
- Team Player
- Understanding

OUTSTANDING CHARACTERISTICS:

- Loyal
- Natural ability to organize
- Great record keeping skills
- Patient and relaxed
- Long term relationships

VALUE TO THE TEAM:

- Service oriented
- Patient and empathetic
- Dependable team player
- Work for a leader / cause
- Logical step-wise thinker

IDEAL ENVIRONMENT:

- Stable and predictable environment
- Environment that allows time to change
- Long-term work relationships
- Little conflict between people
- Personal attention and recognition for tasks completed and well done

POSSIBLE LIMITATIONS:

- Hate change
- Avoids controversy
- Difficulty establishing priorities
- Internalize feelings when they should be discussed

TENDENCY UNDER STRESS:

- Non-demonstrative
- Unconcerned
- Hesitant
- Inflexible

EMOTION:

Non-demonstrative. They do not display their emotions to others.

C

DESCRIPTORS:

- Accurate
- Analytical
- Conscientious
- Courteous
- Diplomatic
- Fact finder
- High standards
- Mature
- Patient
- Precise

OUTSTANDING CHARACTERISTICS:

- Systems and procedures
- By the book
- Perfectionist
- Proof and evidence
- Attention to detail

VALUE TO THE TEAM:

- Objective thinker
- Conscientious and steady
- Asks clarifying questions
- Maintain high standards
- Comprehensive problem solver

IDEAL ENVIRONMENT:

- Where critical thinking is needed
- Technical work or specialized areas
- Close relationship with small group
- Familiar work environment
- Private office or work area

POSSIBLE LIMITATIONS:

- Be overly intense
- Be defensive when criticized
- Get bogged down in the details
- Appear aloof and cool

TENDENCY UNDER STRESS:

- Fussy
- Picky
- Pessimistic
- Overly critical

EMOTION:

Fear

Company Reports

Billed Hours Tracking Report

Critical that you track billable hours monthly

	Actual Hours for Month	Budgeted Hours for Month	Monthly Over (Under)	Cumulative Actual Hours	Cumulative Budgeted Hours	Cumulative Over (Under)
January	440.00	437.84	2.16	440.00	437.84	2.16
February	475.00	466.24	8.76	915.00	904.08	10.92
March	540.00	560.40	-20.40	1,455.00	1,464.48	-9.48
April	394.00	394.24	-0.24	1,849.00	1,858.72	-9.72
May	600.00	592.00	8.00	2,449.00	2,450.72	-1.72
June	0.00	522.24	0.00	2,449.00	2,972.96	-523.96
July	0.00	471.44	0.00	2,449.00	3,444.40	-995.40
August	0.00	542.80	0.00	2,449.00	3,987.20	-1,538.20
September	0.00	461.84	0.00	2,449.00	4,449.04	-2,000.04
October	0.00	435.84	0.00	2,449.00	4,884.88	-2,435.88
November	0.00	554.40	0.00	2,449.00	5,439.28	-2,990.28
December	0.00	414.70	0.00	2,449.00	5,853.98	-3,404.98
Total	2,449.00	5,853.98	-1.72			

One of the most common requests we have received over the years during the Planning for Profit Workshop is how to accurately track billed hours. The software provides a way for you to track your billed hours each month of the year.

Accurate tracking in this key area is absolutely paramount to ensure you are on track to hit your profit goals each year. We have created the chart below to make this step easier than ever. Simply enter your departments and the subsequent data to determine the billed hours you have in each department of the company.

Billable Hours Calculator

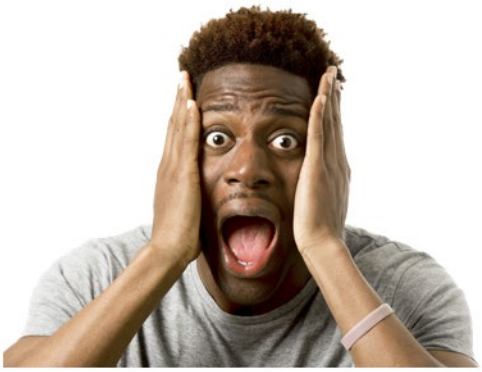
Located on your flash drive
Use this to track billable hours on the tracking report

Video tutorial available on the PFP alum page at
www.Grandyassociates.com/pfpalum

Department	Revenue	Materials cost	Material Markup	Material Sales	Target Labor Rate	Actual Billed Hours
Service Department	514393	50000	100%	$100,000	$ 155.00	$ 2,673.5
Installation Department	608448	110000	54%	$169,400	$ 75.00	$ 5,854.0
	7990	2500	35%	$3,375	$ 54.38	$ 84.9
	5467	3200	40%	$4,480	$ 75.00	$ 13.2
	5567	1550	100%	$3,100	$ 75.00	$ 32.9
	7899	2240	100%	$4,480	$ 75.00	$ 45.6

This spreadsheet will be covered in class. It will help you keep track of your actual billed hours throughout the year. It is available on your thumb drive, as well as on the www.grandyassociates/pfpalum page, along with a tutorial video.

What If Scenario – Add a Technician



Rate
$25 Hourly Rate
2 Weeks (80 Hours) Vacation
6 Paid Holidays (48 Hours) Paid Holidays
5 Sick Days (40 Hours) Sick Time
20 Lost Hours Per Week

Truck
$35,000 Branded, shelves, ladder rack, etc.
5-year replacement schedule

Materials
$25,000 Annual Cost
100% Mark Up

Overhead

Uniform	$500
Health Insurance	$5000
W. Comp	$2500
Liability Insurance	$2500
Truck Insurance	$3000
Training	$2000
Communications	$2400
Fuel	$6000
Maintenance	$1500
Tools	$2500
Truck Loan	$7000
Merchant Fees	$3500
Miscellaneous	$2500

Category Totals:

Wages	$52,000
Truck	$35,000
Materials	$25,000
Overhead	$40,900
Total	$152,900

BEFORE Any Changes Please Note:

Current Rate

Current Department Profit

Current Breakeven

Example shown in class available on the alumni page:

www.GrandyAssociates.com/pfpalum

Profit

Why Do You Need to Generate a Profit?

Profit funds the growth of the company:

- Expansion to new markets
- Increased employee wages & benefits
- Increase in receivables and inventory
- Capital expenditures and growth
    - More computers
    - Communication equipment
    - Move to new location, etc.

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Now we get to ask a great question. What do you do with the profit your company generates? We must be strategic with these dollars and give every dollar an assignment.

Profit funds the growth of the company. As the company creates new locations or expands into other markets, money will be needed. When it comes to adding employee benefits or increasing their wages, something has to pay for it. The company's net profit will bridge the gap until you can include those costs in the hourly rate.

What Are Realistic Expectations of Profit?

A well-run company should shoot for these profit minimums.

- New Construction 1% - 3%
- Retrofit 10% - 12%
- Remodel 10% - 12%
- Service 15% - 20%
- Flat Rate 20% - 25%

Published Industry Average

3%-5% Profit

I would suggest you create your computer models along the above lines to see what you would have to charge in order to actually earn those kinds of profits. It's easy to do. Simply enter the profit margin you "want" to earn in each department and the software will tell you what you need to charge per hour to make that profit. It's that simple!

What to Do With the Profits?

- 5% Team Profit Sharing
- 40% Debt Reduction
- 40% Hill and Valley
- 15% Checkbook

The above numbers are a suggestion only. It is the model that we follow at Grandy Associates. We submit it for your consideration. It has served us very well and believe it is a worthy model.

Whatever model you may ultimately choose, the last item may be the most important to remember. Money that just sits in the checkbook unassigned will always find a place to go. Make sure to give every dollar an assignment that flows through your company.

Monthly Money Matters Overview

Who Should Be Included?

- Owner
- Office Manager
- Bookkeeper
- Any key managers

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In order to know if you are on track with your financial planning throughout the year, you need to review your progress. The monthly financial review will start to tell you a story that you will never hear just by following your gut. The monthly financial review can be conducted in about 30 minutes each month.

By reviewing your numbers every month, you will start to see patterns that would not otherwise be seen. Another advantage of reviewing your financials each month is that you will find errors. It is likely that you will find several items that were miscategorized when they were entered. This gives you a chance to fix these few small items right away. This way, when you get to the end of the year, your books are clean and you don't have to panic to get them in shape in order to do year end.

Who should be involved in the financial review? Well, that's up to you, however, we recommend that the owner, the office manager, the book keeper and any key managers be a part of this meeting. The key thing to remember is that not one person has all the answers to the questions that will likely come up as a result of reviewing your month financially. By having all key people involved, you will be able to get the answers you need, fix any issues that are discovered and make informed decisions as to any changes you want or need to make.

What Should You Review?

- Profit & Loss statement
  - Tutorial to integrate PFP model with your accounting software on alumni page
- Hill & Valley account
  - Be prepared in advance
- Balance sheet
  - The balance sheet is a summary of the financial state of the company
- Payables
  - What you owe others
- Receivables
  - What others owe you

_____

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We have a gift for you. Another benefit of being a PFP alum, is that you will receive access to the Money Matters Self-Paced Online Learning Course that walks you through this process. This is free to you for the next six months. ***Watch your email for the link to connect to this great learning opportunity.***

Service Department Profit Killers

1. Under billing
2. Cost of non-billable time
3. Poor maintenance agreement productivity
4. Lost sales leads

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Under Billing

Time & Material Under Billing

- 9:55 am / 11:05 am
- What does the typical technician record for time on that call?

Upfront Pricing Under Billing

- Tech should average 2.3 flat rate codes per call
- Average tech writes down 1.7

The average service technician costs the company over $10,000 a year by under billing for work that was actually performed!

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Across the trades industry, 95% of all service technicians under bill the customer by at least $10 to $30 per hour and don't even realize it! When charging by time and material the under billing occurs when the technician rounds the time from perhaps 2 ¼ hours to "simply two hours". Under billing can also occur by not charging for all the parts used or not marking up the part as instructed. The technician may only mark it up 50% when it should have been 75%. Under billing occurs in upfront pricing also. The technician performs perhaps three tasks, but only bills for two! Under billing is usually not intentional, but it costs the average company thousands of dollars a year for work that was actually preformed, but was not billed.

Impact of Lost Materials

- $50 part / 3% (.03)
- $250 part / 3% (.03)
- $75 cup of coffee / 3% (.03)
- $2500 loss on a job / 3% (.03)

This is a great exercise to share with your team. It illustrates the impact of lost materials on profitability.

How much more would you have to sell to recover a $50 part that was damaged? Many if not most of your team members will say you only have to sell another $50 to recover the loss. Let's do the math to see who is right. The typical trades company operates around 3% net profit. Yes, this should be higher but we will use this number for our illustration here.

Here is the formula to use to calculate. $50 lost part / 3% (.03) net profit = $1,666.66. That means I would have to sell another $1,666.66 to make $50 at 3% net profit. Oh, by way, that next $1,666.66 will be a zero profit because the $50 profit I would have made must now go to recoup the cost of the damaged part I cannot sell. Ouch!

Here is another alumni benefit. We have this entire exercise on the alumni page just for you. Feel free to review this exercise again or even share the video with your team. www.GrandyAssociates.com/pfpalum

Under Billing Example

Hourly rate	$75.00
+ Parts cost	$21.00
+ Parts x markup ($21 x 100%)	$21.00
+Trip charge or	N/A
+Diagnostic fee x .33 ($49 x .33)	$16.17
Revenue / Billable Hour Goal	$133.17

Budgeted Gross Sales per Technician:

= $133.17 x 1000 billed hours per year or **$133,170/year**

The first step is to determine what your company should be charging out per hour. It is called your "Target Revenue Billable Hour" or your R/BH. This is the result of taking your hourly rate plus material cost and markup, plus trip charge or diagnostic if applicable. This reveals your R/BH goal.

Have a conversation with your technician

1. Calculate your R/BH together ($133.17)
   - Show target of where it should be
2. Total gross sales and divide it by billable hours
   - For a period of time (week or two)
3. Compare the two rates and multiply the difference by the number of hours worked….that is what it costs the company through under billing

Actual Service Department's R/BH:

= Gross Sales / Billed Hours

= $ 128,185 /1,135 billed hours

= $ 112.94/ hour

Now the question is: *"Is that happening?"* Set up a one on one with each technician and go over this vital area. Celebrate those who are on target and use this as a coaching moment for those who are not. Keep a close eye on the critical area moving forward.

Cost of Under Billing

= ("Target RBH" – "Actual RBH") x Billed Hours

= ($133.17 - $112.94) x 1,135 Billed Hours

= $22,961 / year

A significant amount of under billing dollars can be saved in the company if we measure and manage this important step!

Non-Billable Time

- Travel time between jobs unless port to port
- Holidays / Vacations / Sick
- Shop time
- Company meetings
- Work around the shop or office
- Warranty work
- Call back hours
- Customer no-show hours

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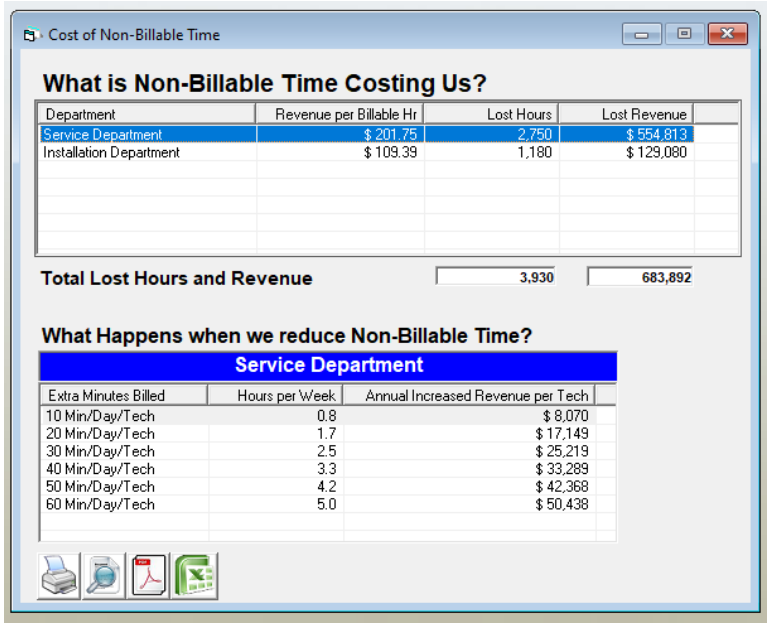
The subject of non-billed time has been discussed at length. Suffice to say that the average service technician is costing the company over $20,000 per year

If the company's billing rate was $100 per hour, with no materials or markup on materials, a savings of two hours a week of non-billable time just became billed hours at $100 per hour. With only two additional hours a week, the result would be an additional $10,400 in profit per year – per technician!

Lost billing opportunities is another HUGE area of potentially increased profit. Every hour that is saved in non-billable time (as we discussed earlier) then becomes a billed hour at your normal billing rates. It is a win-win!

Non-Billable Time

- Must keep your arms around this critical area
- No measure = no manage
- Physically track billable and non-billable time
- Use the new billable hours calculator



Cost of Non-Billable Time

What is Non-Billable Time Costing Us?

Department	Revenue per Billable Hr	Lost Hours	Lost Revenue
Service Department	$ 201.75	2,750	$ 554,813
Installation Department	$ 109.39	1,180	$ 129,080

Total Lost Hours and Revenue 3,930 683,892

What Happens when we reduce Non-Billable Time?

Service Department

Extra Minutes Billed	Hours per Week	Annual Increased Revenue per Tech
10 Min/Day/Tech	0.8	$ 8,070
20 Min/Day/Tech	1.7	$ 17,149
30 Min/Day/Tech	2.5	$ 25,219
40 Min/Day/Tech	3.3	$ 33,289
50 Min/Day/Tech	4.2	$ 42,368
60 Min/Day/Tech	5.0	$ 50,438

Every non billable hour you save becomes a billable hour at your normal rate!

Your Labor pricing Software contains a report that is titled Cost of Non-billable Time. This report is designed to show you how much non-billable time is costing your company. You will see your revenue per billable hour by department at the top. On the bottom half, you will see the impact of getting your team to bill out an extra 10 minutes, 20 minutes, etc. per day. The impact is huge and remember, the numbers you see here are per technician. This is 100% profit and all flows to the bottom line.

Poor Maintenance Agreement Productivity

- Benefit of Maintenance Agreements
  - Helps to fill in slow days of the year (90)
- Danger of Maintenance Agreements
  - Mindset of technician

The average technician exceeds the allotted time to perform a maintenance agreement costing the company thousands of dollars a year!

_____

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_____

Contractors have been trained over the years to see multiple benefits of having a maintenance agreement program. One of those benefits is the ability to use maintenance agreements as a fill in on slow days. The average contractor will have about 90 slow days per year.

The downside of this thinking is that we have inadvertently trained the technicians to "think" of maintenance agreement work as a "fill in" work. The end result is that the technician thinks there is little work when he or she is assigned to perform a maintenance agreement.

The technician then stretches out the time when performing a maintenance agreement thinking they will be sent home when they return for lack of work. That kills any profit built into the maintenance agreement. Tracking the actual time, a technician uses to perform a maintenance agreement is critical to the overall profitability of the maintenance agreement program.

Example

- 500 Maintenance Agreements
- Extra 10 minutes on each one
- 83 hours a year at $133.17/hour

Cost to the company is over $11,000/year

- Work with service team to determine proper time guidelines
- Once established, is it good or bad to finish early?
- Perceived value is lowered when we finish too early
- KPI: Early finish on MA correlates to higher call back ration for that technician

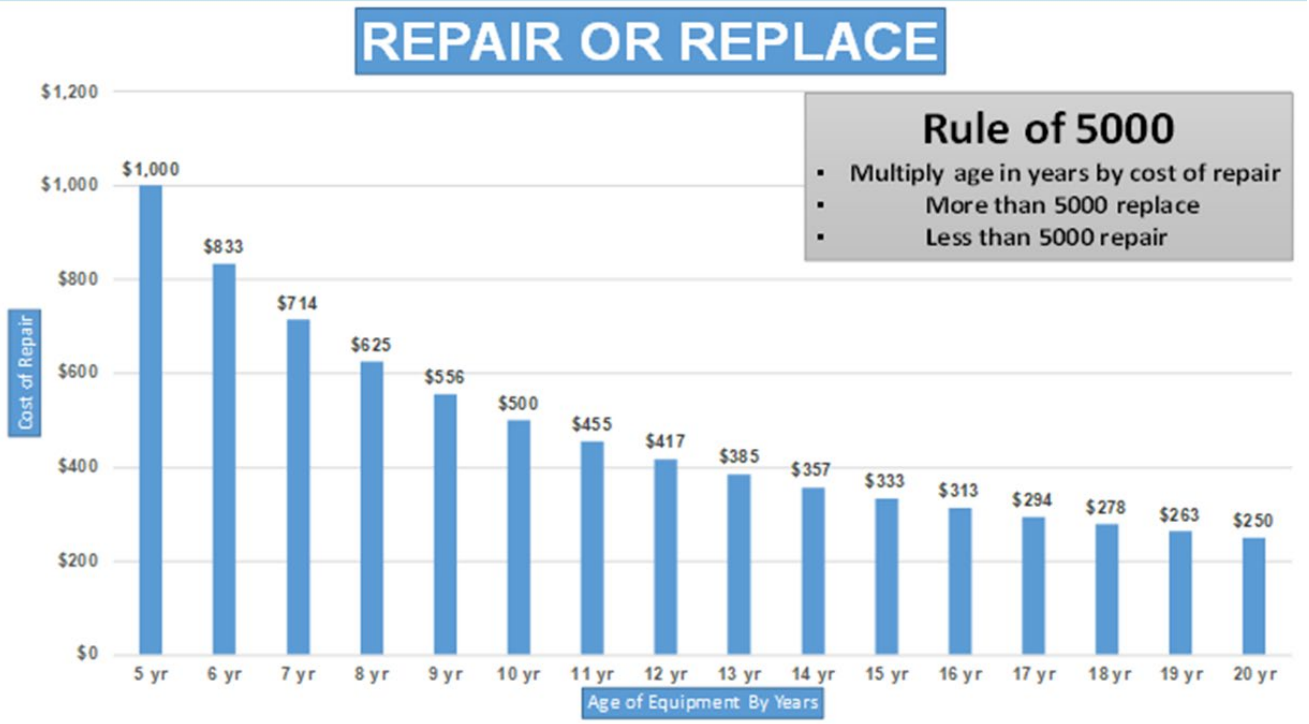
Maintenance Agreement Impact

- Maintenance agreements are typically valued at 6-7 times their face value
- General profits and assets pale in comparison for increased valuation
- Company with 5,000 MA valued at $179 with above multiplier equals 5.5 M.
- **Target: 1,000 Maintenance Agreements per Million in Gross Sales Residential**

Lost Sales Leads

Many service technicians fail to inform the customer, and management, about old equipment that needs to be replaced

This costs thousands annually!



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There are thousands of dollars' worth of potential sales left on the table each year simply because the technician did not make the effort to identify the age of the equipment, they are working on. It is the technician's responsibility to inform the customer of newer, more efficient equipment that is currently available on the market. Failure to inform the customer and the company sales team of the possible need for replacement is a disservice to the company and to the customer.

Qualified Sales Lead

- Technician notes equipment is old OR poor condition
- Technician educates & informs customer about options
- Technician asks if they would like to talk to someone from his company about possible replacement of the equipment
- If they say yes…..technician calls office while there to set the appointment
- When should this happen?

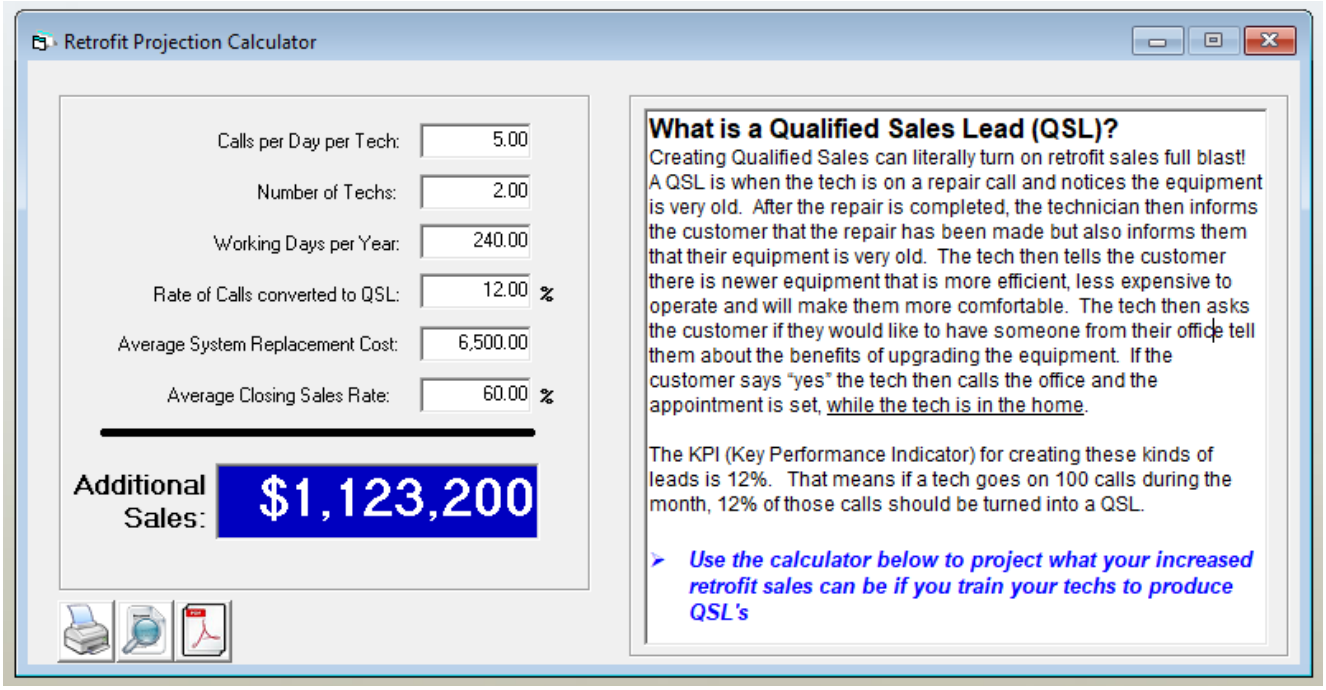
If appointment is set while technician is in home

97%

If technician calls the office on the way to the next job and office sets the appointment

67%

KPI Qualified Sales Lead



A qualified sales lead is defined as the technician noting the customer's equipment is either old (defined by you) or in very poor condition. The technician then informs the customer of the situation and asks the customer if they would be interested in having someone from his/her company come out to talk to them about the advantages of perhaps upgrading their equipment. If the customer says "yes" then the technician calls the office and hands the phone to the customer so an appointment can be set.

If the appointment is set while the technician is in the home, 97% of the time the customer is there when the sales person arrives. If the technician waits to call the office while going to his next job the sales person can expect the customer to be home at the appointed time 67% of the time!

Have the technician set the appointment while he/she is in the home and pay them a spiff for setting the appointment and another spiff if the sale is made. It's a win-win for everyone!

By entering a few simple numbers in this calculator in the software, you will quickly realize how instituting the process of Qualified Sales Leads can turn on retrofit sales full blast. If you instituted the program and only hit half your goal, retrofit sales will still have increased dramatically!

PFP ALUMNI BENEFITS

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  - Maintenance Agreements
  - Cashflow and Collections
  - Tax Tips
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Money Matters Self-Paced Online Training

  - Free for 6 months

MONTHLY FINANCIAL MATTERS SELF-PACED LEARNING NOTES

Part of your alumni benefit is full access to the self-paced online learning modules for the Monthly Financial Review. Access to these modules is gained through a sign in code sent to your email.

Who should be involved in the financial review? Well, that's up to you however we recommend that the owner, the office manager, the book keeper and any key managers be a part of this meeting. Remember, it's only 30 minutes long.

Owner

Manager

Bookkeeper

Key Department Personnel

The key thing to remember is that not one person has all the answers to the questions that will likely come up as a result of reviewing your month financially. By having all key people involved, you will be able to get the answers you need, fix any issues that are discovered and make informed decisions as to any changes you want or need to make.

The monthly financial review consists of reviewing 5 items.

Profit & Loss statement
Hill and Valley account
Balance sheet
Payables aging
Receivables aging

Before we can get into the reports, there are a few things that we need to review.

Cash Flow vs Accounting Differences

If you recall, we talked about the difference between cash flow and accounting. There are significant differences between the two. Cash flow deals with the "real" dollars that flow in and out of a company on a daily basis. Accounting, on the other hand, tends to work with paper dollars.

Accounting isn't bad. It can tell a company owner a lot about what is going on within the company, but when it comes to setting hourly rates, those need to be determined using cash flow dollars. When you are doing your monthly financial review, accounting can also give you some bad information. You need to adjust your Profit & Loss statement for cashflow to make sure you have a complete picture.

Accounting Reports

Also recall we covered how a company can show a profit when looking at the Profit & Loss statement from an accounting perspective, but still be losing money from a cash flow perspective. See the next few pages to refresh yourself on this information again. It's important. You have to run your company based on the real money flowing into and out of your accounts. NOT NUMBERS ON A REPORT. To review, the two major difference between cash flow and accounting were depreciation vs Equipment Replacement costs, and How loan payments are handled.

Depreciation vs. Equipment Replacement Costs

Depreciation deals with what a company paid for a piece of equipment several years in the past. Accounting then takes the total "cost" and spreads it over whatever number of years the government currently allows.

Equipment replacement cost, on the other hand, asks two questions:

"How many more years of active service will the equipment provide before it needs to be replaced?" and *"What will it cost to replace it when it is replaced?"* When the cost of future replacement is determined, it is then built into today's pricing so that when the equipment is replaced, there will be enough money available. Equipment replacement costs will always be significantly higher than depreciation

Loan Payments

Loan payments are the single biggest difference between cash flow and accounting. If you have a $500 loan payment and $100 is interest with the other $400 being principle, what do you suppose shows up in the accounting income statement? The only thing that shows up, that is the only thing Uncle Sam allows to be counted, the $100 interest. The other $400 paid out in principle simply goes off to never, never land!

Cash flow, however, considers the full loan payment of $500 to be an expense to the company. After all, the company wrote a check for $500 and it flowed out of the checkbook. Remember, our objective is to determine how much the company needs to charge per hour to cover all of its "real" costs of doing business. We want to determine an hourly rate that will allow money to be left in our checkbook when it is all said and done. At the end of the year, Uncle Sam, in the form of your accountant, can decide what he wants to call profit and what he doesn't.

The example above vividly points out the difference in cash flow and accounting. Note that accounting shows $20,000 in depreciation. From a cash flow perspective, however, the company will be required to put aside $35,000 in order to be properly funded when it comes time to replace the current pieces of equipment.

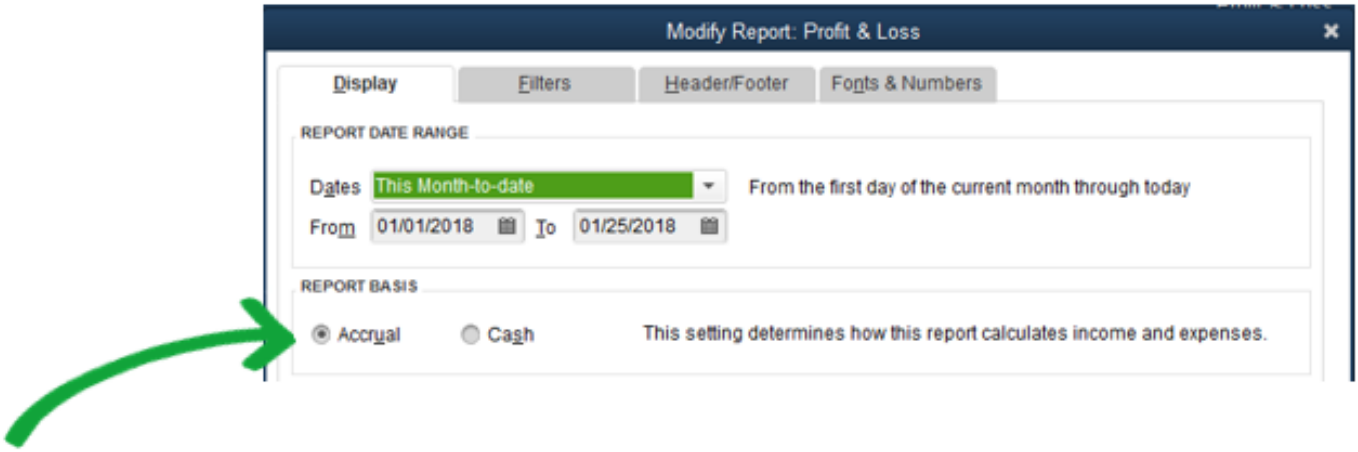
The company also has five loan payments. The interest portion of the loan payments (the only part Uncle Sam allows you to show as an expense) totals $6,000. The total loan payments, including principle and interest, is $24,000. Now ask yourself, how many dollars actually flowed out of the company? Right, checks were written for $24,000, not simply the $6,000 accounting is allowed to show.

	Accounting	Cash Flow
Sales	$800,000	$800,000
Cost of Materials	- $320,000	-$320,000
Cost of Labor	-$160,000	-$160,000
Overhead:		
Depreciation	-$ 20,000	
Equipment Replacement Cost		-$ 35,000
Interest on five loans	- 6,000	
Full loan payment on five loans		- 24,000
Other Overhead Costs	- 280,000	- 280,000
Profit	+ $ 14,000	- $ 19,000

When it is all said and done in our above example, what do we see? We see an accounting income statement that says we made a $14,000 profit, when in reality the company lost $19,000 from a cash flow perspective. That is a total difference of $33,000. That's a big difference! Now, you may understand why contractors sometime "appear" to be profitable from an accounting standpoint when in reality they are in the process of going out of business.

Since about 85% of contractors use QuickBooks™, we will show you how to run the reports with that accounting software tool. Every decent software has these same capabilities.
Before we can get into running the reports, we have to make sure we are clear on terms. Your accounting program will likely have the ability to run your reports on an accrual basis or a cash basis.

Cash Basis is accounting



I want to be very clear here. Cash Basis accounting is STILL ACCOUNTING! It is not the same as cash flow that we have been referring to throughout this program.

Let's look at the differences.

Accrual Basis Accounting

Accrual basis accounting records revenue at the time the invoice is generated. For example, if you generate an invoice in your accounting program on October 8th and the customer pays you on

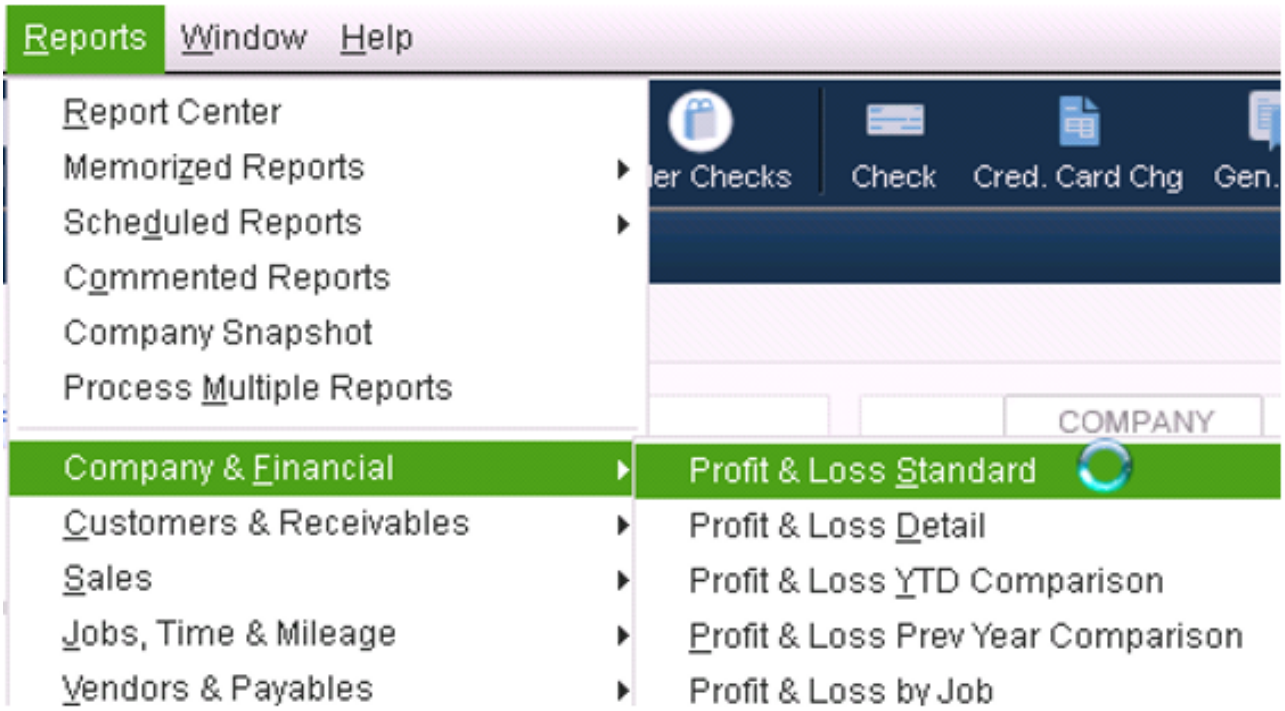
November 27th, accrual-based accounting will record this as an October sale. That means that your sales reports will show you had revenue in October even though no money came in. Having $100,000 in sales doesn't mean anything if there is no money to back it up.

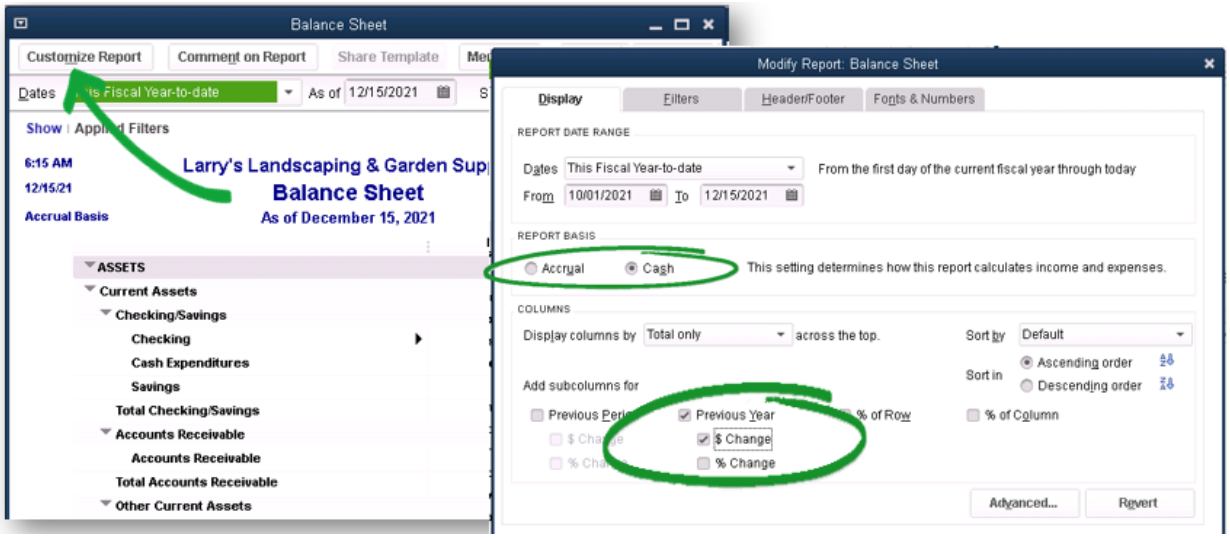
Cash Basis Accounting

Cash basis accounting is different. In this format, revenue is not recorded until the money arrives. For Example, if you generate an invoice in your accounting program on October 8th and the customer pays you on November 27th, cash-based accounting will record this as a November sale. Now you are looking at sales only when the money arrives.

Keep in mind, both accrual-based accounting and cash-based accounting are both accounting. They just report the revenue at different times. Neither one of these is cash flow. We still need to adjust these to get true numbers. As long as you are relatively current, the difference between these two bottom line profits is often an indication of your receivables.

Profit & Loss Statement





The Profit & Loss statement is also referred to as the Income Statement. These terms can be used interchangeably. To run your Profit & Loss statement in QuickBooks™, you will find it under **Reports**, then **Company & Financial**, then **Profit & Loss Standard**.

Most accounting programs will default to generating reports using accrual-based accounting. Before you start looking at your report, you need to adjust it for cash basis accounting.

To do this in QuickBooks™, click on Customize Report in the upper left of your QuickBooks™ window. Then choose a Report Basis of cash. It may also help to turn on comparisons to the previous year as shown here.

As you look over the profit & loss statement, don't just look at the numbers. Look over each category. If you don't know what something is, find out. If you don't have enough detail in your reports, add more general ledger accounts to give you the detail you need.

As you compare this year with last year, strive to understand why there are differences. If sales are up, do you know why they are up? If you don't know what you did to increase sales, you can't replicate it. If they are down, do you know why?

Do the same for each account category.
If there are items that don't make sense, or are in the wrong account, correct that immediately. If your book keeper is involved, they can just log the errors and correct them after the meeting.

	Jan 17	Jan 16		
Income				
4000 · Installations	123,330.00	108,000.00	+$15,330	Why the sales increase?
4100 · Service	43,940.02	42,125.00	+$ 7,815	
4990 · Discounts	-3,279.99	-3,279.99		
Total Income	163,990.03	146,845.01	+$17,145	
Expense				
5010 · Insurance	3,884.27	3,457.00		
5020 · Travel Exp	1,519.46	1,201.00		
5030 · Reimbursed Material Expenses	0.00	0.00		
5080 · Meeting/Class/Product Expenses	5,271.35	4,874.00		
5085 · Subcontractors	26,700.00	28,400.00	-$ 1,630	Why the decrease?
5090 · Office Supplies	150.00	150.00		
5500 · Payroll Expenses	14,830.32	13,370.00		
5605 · Health Insurance Premiums	550.00	550.00		
5610 · HSA Contributions	500.00	750.00		
7000 · Office Expenses	6,307.47	4,222.00	+$ 2,085	
7030 · Merchant & Credit Card Fees	376.46	2,321.00	-$ 1,945	
7140 · Depreciation Expense	211.46	211.46		
7142 · Amortization Expense	1,750.00	2,547.00		What did we do to make this happen?
7300 · Miscellaneous Expenses	320.00	200.00		
Total Expense	62,370.79	62,253.46	+$ 117	
Net Income	101,619.24	84,591.55	+17,028	

Equipment Replacement costs – This takes the place of depreciation and will always be higher than depreciation. Go to the Monthly Cash Flow report and find your monthly equipment replacement costs for All Departments.

Line of Credit – Your profit & loss statement will only show the interest that you paid towards your line of credit. You need to adjust for any principle payments you made.

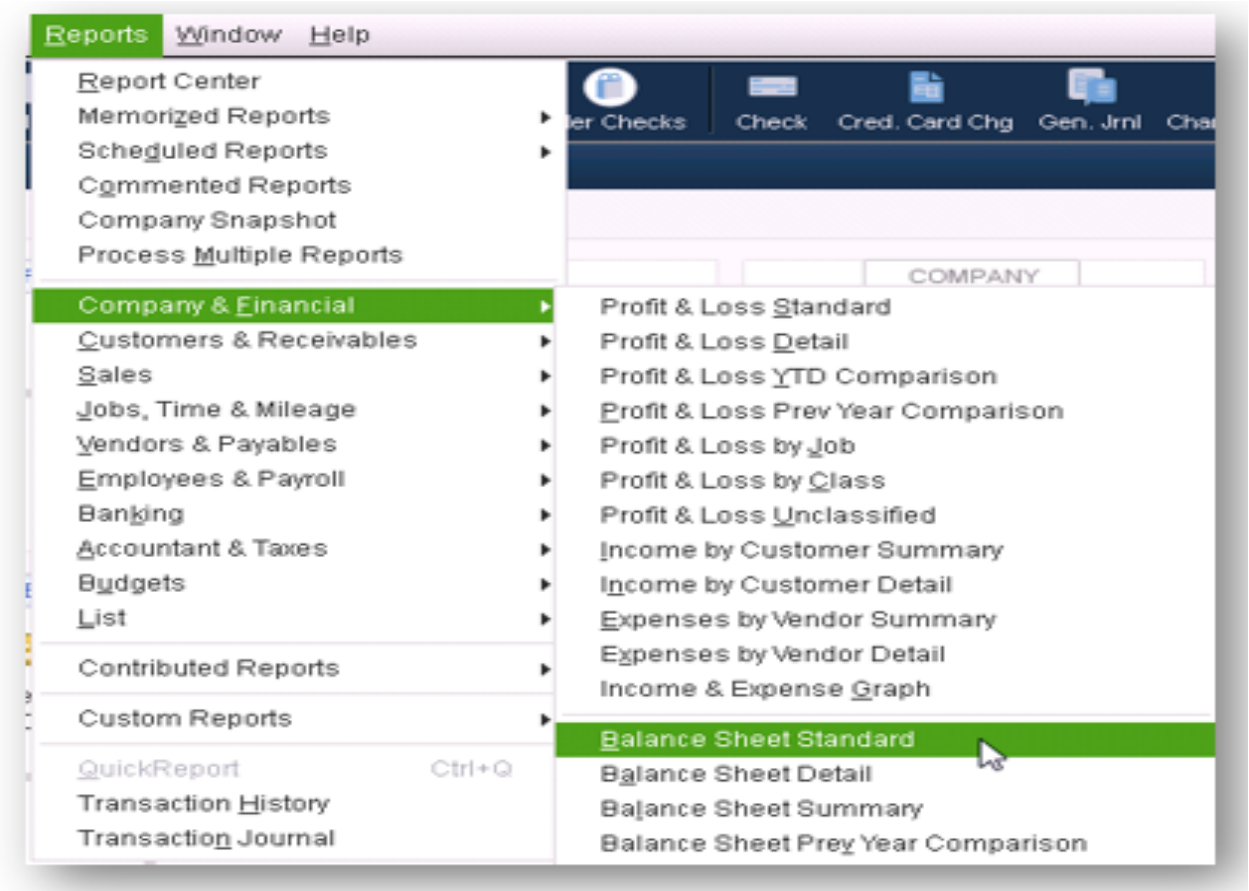
Loan Principle – Your P&L statement will only show interest paid towards loans. Total all principle payments made on all loans.

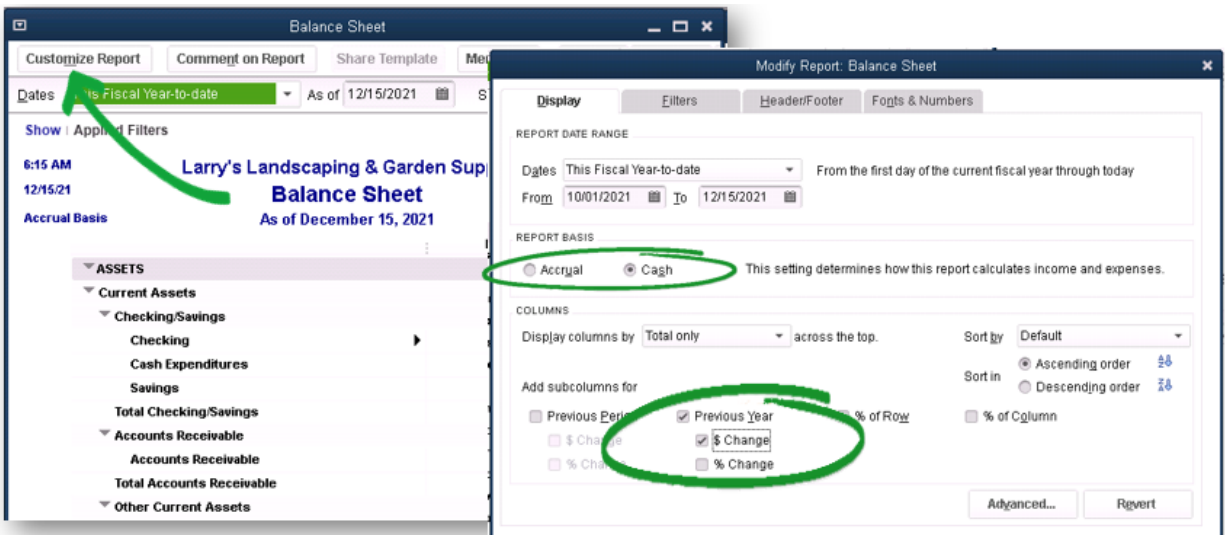
Hill & Valley – You will have slow times. During good times, when you have a profit, you should be putting money aside to cover those slow times. Make a transfer to a separate account. When you are short on cash flow, you can draw money from the Hill & Valley account. Subtract the subtotal of these items form the accounting profit. This is your true cash flow profit. Makes a difference, doesn't it?

Item		Amount	
Income		**$159,000**	
Expense		**$ 91,000**	
Profit		**$ 68,000**	Accounting Profit
Equipment Replacement Costs	$1,500		
Line of Credit	$3,000		
H & V	$1,500		
Loan Principle	$2,479		
Extras		**$8,479**	
Cash Flow Profit		**$59,521**	True Cash Flow Profit

Balance Sheet

The balance sheet is a summary of the financial state of the company. In short, it is a summary of what you own, what you owe, and what is invested by the shareholders. The balance sheet is divided into three sections. These are Assets, Liabilities, and shareholder equity.





Assets

Your assets are what you own. This included all your bank accounts including checking, savings and money market accounts. It also includes receivables. Sure, this money is not in yet but it is owed to you and therefore is considered an asset.

Your inventory is also an asset. The value of what you have in stock is something you own. For this reason, you want to make sure what is listed is accurate. If you're not sure, maybe it's time to do a physical count to see what the value of your inventory really is. If you have any prepaid expenses, this is also an asset.

Last, if you have any other current assets. This would include your tools and trucks, any stocks or any other items the company owns.

On your balance sheet, your assets will be listed first. In the example here, you can see that there are several bank accounts, receivables and fixed assets (trucks & equipment) that the company owns.

ASSETS	
Current Assets	
Checking/Savings	
1000 · Checking Account	1,509.87
1010 · Main checking	24,587.83
1020 · Savings	
1030 · Savings - Prepayments	11,200.00
1034 · Savings - H+V	17,326.47
Total 1020 · Savings	28,526.47
Total Checking/Savings	54,624.17
Accounts Receivable	
1200 · Accounts Receivable	56,517.77
Total Accounts Receivable	56,517.77
Other Current Assets	
1500 · Security Deposit	700.00
Total Other Current Assets	700.00
Total Current Assets	111,841.94
Fixed Assets	
1700 · Equipment/Computers	27,834.90
1710 · Acc. Depr-Equipment	-27,834.90
1800 · Trucks & Equipment	315,000.00
1802 · Accumulated Amortization	-105,000.00
Total Fixed Assets	210,000.00
TOTAL ASSETS	321,841.94

Liabilities

Liabilities are what you owe. This would include any loans, credit cards, and balances owed to your suppliers.

Wages that are due to your employees are also a liability. Payroll may not hit until later this week but you still owe your team for the hours they have already worked. Also, any withholding and company matching taxes are a liability that is due.

Last, any customer prepayments. You may recall that customer prepayments also showed up as an asset but if they paid you and you have not done the work yet; you owe the customer for this. It's a liability.

Equity

Equity is what the shareholders own. If you are a sole proprietor, then you are the only shareholder. This includes stock in the company and any retained earnings.

Equity	
3000 · Capital Stock	615.00
3200 · Member Distributions	-196,112.47
3900 · Retained Earnings	326,958.11
Net Income	5,086.90
Total Equity	136,547.54
TOTAL LIABILITIES & EQUITY	327,804.94

Retained Earnings

Retained earnings are earning from previous years left in the company. These funds serve three purposes. They are intended for maintaining cash flow during slow times. Earlier I we covered the Hill and Valley account and that you needed to be intentional about building this account.

Retained earnings are also intended to fund future growth of the company as well as take advantage of opportunities that may come up. Very often companies will have a large balance that has built up over the years, but in reality, there is no money sitting in an account. It has been spent. Pay attention to this number. Know where your dollars are going.

A second line item in the equity section is Member Distributions. Distributions are profit dollars that the owner is taking out of the company. These should be tracked as the IRS states that any moneys taken in the form of dividends or rent are not subject to FICA withholding. You will notice that the distributions is a negative number meaning the money was taken out of the company. At the end of the year, your accountant should be making an adjustment to zero out distributions and debit, or take the money out of retained earnings. In the example above, there is not $326,958 in retained earnings but only $130.846 since $196,112 was taken out in the form of distributions.

The final line on the balance sheet is Total Liabilities and Equity. This is the total of all liabilities plus the total of all equity. This amount must equal your total assets. If they don't, you have an error somewhere in your books. Start digging to find where this is. If you are doing this each month, it will be much easier to find the error. You know it has to be something that happened over the last few weeks.

Total Liabilities	191,257.40
Total Equity	136,547.54
TOTAL LIABILITIES & EQUITY	327,804.94

The balance sheet is a snapshot in time. It's does not give you trends as to whether things are getting better or worse. You will want to compare this to previous months to see the changes. There is one more great number to look at on your balance sheet. That is the Debt to Equity Ratio. This is the comparison of the company's total debt compared to what you own.

D/E Ratio	Rating / Score
< 1	1 - Super Strong
< 1.5	2
< 2.0	3
< 2.5	4
< 3.0	5
< 3.5	6
< 4.0	7
> 4.0	8 - High

Debt to Equity Ratio is calculated by dividing your total liabilities by your total equities. In the case above, the D/E ratio is 1.4 or 140%. If you are looking to borrow money, all commercial lender will look at your D/E ratio. It gives them an indication of how aggressive you are in financing the growth of the company. It's an indication of how much risk there is related to your company.

Most people think that the most important thing to provide a lender is proof of collateral. While that is important, it's not the most important thing. Most lenders will want to know three things. Do you have the cash flow to support the loan, how much risk in involved and then do you have collateral?

Depending on your D/E ratio, bankers will give you a point score. If your D/E ratio is less than 1, you are given 1 point and rated "super strong". If your D/E ratio is between 1 and 1.5, you are given 2 points. This continues up to a D/E ratio of 4 or higher. In this case you receive 8 points and are seen as high risk.

I want this number to be as low as possible. Remember, debt adds risk to the company and adds pressure to the cash flow. When things slow down, it's those companies that are least leveraged that will weather the storm the easiest.

Payables

Payables are who you owe money to. As with the balance sheet, it's a snapshot in time. It does not give you a trend over time. Your payables report should have categories for Current, 1-30 days, 30-60 days and 60-90 days. Keep the majority of your payables in the first three columns. The farther out you get, the harder it will be to get this balance paid off.

If you are falling behind, call your supplier and have a conversation. Just like when a customer doesn't call you when they don't pay a bill, your supplier gets nervous if you're not paying your bill and not talking to them.

To run the payables report in QuickBooks™, click on Reports, then Vendors & Payables, then AP Aging Summary. Below is an example of the aging summary. Try to keep balances in the first three columns.

Paul's Plumbing

A/P AGING SUMMARY

As of September 30, 2016

	CURRENT	1 - 30	31 - 60	61 - 90	91 AND OVER	TOTAL
Brosnahan Insurance Agency		241.23				$241.23
Diego's Road Warrior Bodyshop	755.00					$755.00
Norton Lumber and Building Mat...		205.00				$205.00
PG&E			86.44			$86.44
Robertson & Associates		315.00				$315.00
TOTAL	**$755.00**	**$761.23**	**$86.44**	**$0.00**	**$0.00**	**$1,602.67**

Receivables

Receivables are the monies your customers owe you. Just like the last two reports, it's a snapshot in time and does not give you trends. Pay attention to these total balances to make sure things are not getting out of hand.

Your receivables report should have categories for Current, 1-30 days, 30-60 days and 60-90 days. Keep the majority of your customers in the first two columns. The best thing you can do for your customers is to help them stay current. You have to pay your suppliers and the only place you have to get money from is your customers. It will get pretty hard to pay your suppliers if you're not collecting the money from your customers.

To run the receivables report in QuickBooks™, click on Reports, then Customers & Receivables, then A/R Aging Summary. Here is an example of a receivables report. Keep the majority of your customer balances in the first two columns.

Paul's Plumbing

A/R AGING SUMMARY

As of September 30, 2016 (1)

(2)	CURRENT	1 - 30	31 - 60	61 - 90	91 AND OVER	TOTAL
Amy's Bird Sanctuary		239.00				$239.00
Bill's Windsurf Shop			85.00			$85.00
Freeman Sporting Goods	477.50	4.00	81.00			$562.50
Geeta Kalapatapu	629.10					$629.10
Jeff's Jalopies		81.00				$81.00
John Melton		450.00				$450.00
Kookies by Kathy			75.00			$75.00
Mark Cho	314.28					$314.28
Paulsen Medical Supplies	954.75					$954.75
Red Rock Diner	70.00			156.00		$226.00
Rondonuwu Fruit and Vegi	78.60					$78.60
Shara Barnett		274.50				$274.50
Sonnenschein Family Store	362.07					$362.07
Sushi by Katsuyuki	80.00	80.00				$160.00
Travis Waldron	414.72					$414.72
Weiskopf Consulting	375.00					$375.00
TOTAL (3)	$3,756.02	$1,128.50	$241.00	$156.00	$0.00	$5,281.52

The Time Value of Money Eats Up Your Profits!

Based on the time value of money, the U.S. Department of Commerce says your money is only worth 97 cents after 30 days. After 90 days, it is only worth 83 cents which means you have not only lost your profit, but you are probably in the position to lose some of your cost as well. You need to collect your monies as quickly as possible. If you don't, it can literally put you out of business!

Now that you have reviewed your financials, hopefully you ended up with a profit for the month. Be intentional about what happens to these profit dollars.

Some contractors will throw every extra dollar at debt. Reducing debt is a good thing but remember that any principle that is paid off is looked at as profit by the IRS and you will need to pay taxes on those dollars. In other cases, some try to follow the suggestion of building a Hill and Valley account. There too are challenges. How do we pay off debt while building a hill and valley account and while having the money to pay taxes?

It's also important to remember that the success you realized last month was not a solo effort. Your team played a part in it as well. What if you shared some of the success with them? Following is an idea what that might look like.

Profit Sharing Bonus

The company is successful because of the work that everyone involved did. Consider rewarding everyone when there is a profit. Many companies will look at a year-end bonus. The problem with this is that the carrot is too far down the road to be motivating for most people. It's for this reason that we recommend doing something on a monthly basis.

Item		Amount
Income		$159,000
Expense		$ 91,000
Profit		$ 68,000
Equipment Replacement Costs	$1,500	
Line of Credit	$3,000	
H & V	$1,500	
Loan Principle	$2,479	
Extras		$8,479
Cash Flow Profit		$59,521

If you will recall, when we did our review of the profit & loss statement, we adjusted the accounting profit that was shown at the bottom for cash flow. This gave us our true cash flow profit. Notice in our example, we accounted for our regular monthly loan payments, past due payments to our suppliers and a monthly payment into the hill and valley account. Be intentional here. We ended up this month with a cash flow profit of $59,521.

For the profit-sharing bonus, consider giving 5% of the cash flow profit back to the team. The 5% just goes into a profit-sharing pool. In our example, that's a total of $2,976.
How you split up the pool is totally up to you. In the example above, every person in the company received a percentage of the pool. Not all are equal. Percentages are based on responsibilities and motivation, but everyone from the owner on down receives a piece of the profit bonus pie.

Category	Amount
Total Profit	$59,521
5% Profit Sharing Pool	$2,976

Person	Percentage Of Pool	Amount
Owner	20%	$595.20
Office Manager	18%	$535.68
Field Manager	17%	$505.92
Tech #1	11%	$327.36
Tech #2	10%	$297.60
Dispatcher / CSR	10%	$297.60
Receptionist /Admin	8%	$238.08
Runner	6%	$178.56

The profit-sharing bonus accounts for 5% of the monthly cash flow profits. For the other 95% consider this.

Pay 40% of the monthly cash flow profit towards debt reduction. This is on top of your regular monthly payment already accounted for in your monthly expenses.

Category	Amount
Total Profit	$59,521
5% Profit Sharing Pool	$2,976
40% Debt Reduction	$23,808
40% H & V	$23,808

Next pay another 40% of the monthly cash flow profit into your hill and valley account. This will help you build a hill and valley account in balanced way. Go a little slower in paying off the debt but remember you will need some moneys to maintain cash in the slow times and to pay the taxes on the principle for the debt you paid off.

The remaining 15% can stay in the check book for day to day operations.

This entire review should take you no more than 30 minutes per month. Don't get stressed over it but don't forgo it either. It's important to keep your finger on the pulse of the financial side of the company. **Make sure you do it!**

QUARTERLY LIVE CLASSROOM - MAINTENANCE AGREEMENTS

Now it is time to develop a maintenance agreement program for your company. Maintenance agreements are literally the foundation stone for profitable growth. We will discuss how maintenance agreements add value to the eventual sale of the company. Each company will learn how to market maintenance agreements while developing pricing using the software program.

Maintenance Agreements are literally the foundation stone for profitable growth in the 21st Century!

The Benefits of Having A Maintenance Agreement Department

A well-run maintenance agreement program will create consistent, month-by-month cash flow since each customer's renewal lands at different times during the year. Maintenance agreements also reduce non-billable time since you, the company, determine when the work will be done. This transforms non-billable time to becoming profitable (and billable) time instead.

Part of the maintenance agreement program includes a 5% to 20% discount on labor and/or materials if repair work is needed during the year. Guess who your customer is going to call if service is needed – right, your company! And when the time comes to replace equipment, the maintenance agreement provider is normally the one who gets the job, usually at above average profit margins and often without competing bids.

With a maintenance agreement program, technicians have greater job security and happier customers since calls are made on a routine basis, not because of emergency breakdowns. Once your technicians learn how to sell maintenance agreements, their confidence often improves to the point they are able to sell other products and services as well.

The company's customer base also grows. On those hot days and cold nights, when everyone's phone is ringing, the maintenance agreement company is able to take the calls since their maintenance agreement customer's equipment is running in tip top condition.

Increases the Selling Price of the Business

Selling a company requires the ability of the company to run without the owner. Future owners are also looking for significant, profitable, nearly guaranteed income, which is just what maintenance agreements provide.

To be able to sell a company requires two things:

Must run without you

Must have significant monthly guaranteed income

Placing A Value on Your Company

Take the net pre-taxed company profit.

Add owner's base salary.

Add owner benefits (i.e. insurance, car, life insurance, retirement, etc.)

Take the total and multiply it by two or three, add the market value of equipment and building - that's the rough value of your company if you want to sell it.

One method of determining the selling price of a company is to add the pre-taxed net profit to the owner's base salary plus any direct, or indirect, benefits the owner may receive. The total of the above items is then multiplied by a factor of 2 or 3 after which the market value of the equipment, and/or building, is added in. That figure is the rough value of your company on the open market. To clarify the company valuation, let's look at an example.

ABC Company Valuation

ABC Company has gross sales of $750,000 per year. They generate a 6% pre-taxed profit of $45,000, and the owner's base salary is $50,000 a year. The owner's indirect benefits (things paid for by the company but used by the owner) include a monthly vehicle payment plus insurance.

Additional owner benefits include vehicle gas and maintenance, life and medical insurance, and $500 a month into a retirement plan. In addition to the normal perks, the owner also takes out an average of about $300 a month for everything from club dues to entertainment.
The value of the owner's annual benefits, in addition to his salary, is $23,400 a year.

Real Profit
Real profit is what the new owner might expect to take out of the company on an annual basis. Our example shows an adjusted owner income of $73,400 plus a 6% net profit equaling $45,000 a year. The total "equivalent profit" for the company is $118,400 for the year.

Owner's Income
Based on several studies, the average trades company owner takes out a cumulative total of about 10% of gross sales. How does our sample company owner compare? With gross sales at $750,000 a year, the 10% mentioned would equal $75,000 a year. Our sample owner takes out $73,400 and, therefore, is right in line with the norm!

Estimated Selling Price of The Company

The company profit (owner's income, owner's benefits and normal profit) is $118,400. If we multiply that figure by 2.5 that creates a value of $296,000. Now, if we add in the market value of the equipment and building, the total estimated selling price for the business is $406,000, plus something for the customer base.

Maintenance Agreements Greatly Impact the Value of The Company

Unlike normal profit, maintenance agreement profit is considered to be much more valuable since it is essentially what we would call "guaranteed" income. Normal profit is valued at 2 to 3 times its face value. Maintenance agreement profit, on the other hand, is normally valued at 6-7 times its face value. That is a big difference!

Value from Maintenance Agreements

Let's carry our example a step further. Let's assume a company has 500 maintenance agreements in place and each agreement creates a $50 profit. That means the estimated profit for the year would be $25,000.

If the maintenance agreement profit were "normal profit" it would generate an additional $62,500 in selling value for the company. It is not, however, considered "normal profit". As we stated earlier maintenance agreement profit is typically valued at 6-7 times its face value.

The bottom line is that the $25,000 of annual profit from maintenance agreements will create $162,500 in additional value for the company if you decided to sell. It is well worth the effort to create as much maintenance agreement profit as possible.

Added Maintenance Agreement Benefits

Consistent cash flow

You schedule work (less non-billable)

Guarantees service work during year

Eventual replacement of equipment (sales and labor)

Employee job security

Happier customers

Technician who learns to sell M/A - can sell anything

Ability to increase customer base

Should It Be A Separate Department?

It is suggested that the initial service agreement work be part of the normal service department. As more and more maintenance agreements are sold, you will want to create a separate maintenance agreement department.

A good rule of thumb is to create an additional department when the maintenance agreement sales volume reaches 5% to 10% of the company's total gross sales.
Don't forget how dangerous it is **not** to break out costs by department!

As the maintenance agreement work grows, you will want to create a separate department to be sure it is not subsidizing the normal service work. The opposite could also be true!

Three Things Affect the Selling Price of The Maintenance Agreement

What services will be included in the agreement

How much time it will take?

What overhead costs will increase or be added?

How the program will be marketed?

What other costs will increase?

The first consideration is what will be covered by the maintenance agreement. The procedures performed will have a direct impact on the amount of time spent on a service call. The amount of time the technician spent maintaining the equipment (once or twice a year) will be a significant factor in the final retail price to the customer.

Additional overhead costs are the next consideration. If we do additional service agreement work, some overhead costs will stay the same such as rent. Others however, like gasoline, will increase. How the maintenance agreement program is marketed will also have a major impact on pricing. Getting the program off the ground will require a substantial investment in marketing. As we all know by now, costs have a direct impact on what we charge. Thus, the number of dollars invested in marketing will have a substantial impact on the eventual selling price to the customer!

Time Spent on The Job

HVAC	1 hr.	twice/year	2.0 hours/year
Plumbing	2-3 hr.	once/year	2.5 hours/year
Irrigation	2 hr.	once/year	2.0 hours/year
Electrical	2 hr.	once/year	2.0 hours/year
Chimney	1 hr.	once/year	1.0 hour/year
Pool & Spa	1 hr.	once/year	1.0 hour/year

Many trades will be represented in the class. Each company must determine what specific duties will be performed when their technician performs the annual, or semi-annual, maintenance. The above chart represents "rough" industry norms. Your times may vary depending on the specific tasks performed.

Estimating the Time It Will Take To Perform The Annual Agreement

The first step is to create a detailed list of what tasks you want the technician to perform. Take a blank piece of paper and make a list.

Once the list of tasks has been created, it is time to estimate how long it will take the technician to perform them. The objective here is to come up with the actual time on the job. Do not include travel time. Keep in mind the number of times you will be in the customer's home each year.

A plumbing maintenance agreement generally is done once a year while most HVAC companies will work on the customer's furnace in the fall, and then will return to maintain their air conditioning system in the spring. How often you are at the customer's home has a direct impact on the "total" annual time needed to maintain the agreement.

Additional Overhead Costs

More gasoline

More vehicle maintenance

Less "non-billable time"

Commissions

Marketing

Most companies will begin their program gradually, using existing technicians. Fixed overhead should remain about the same, but some variable overhead costs will increase. Items like gasoline and vehicle maintenance will go up.

The overhead cost called “non-billable time” should, however, go down since some of the previously non-billable time will now be filled doing maintenance agreements. There are two more major, additional, overhead items in the areas of commissions and marketing costs. We will cover them shortly.

Sales Commissions

It is suggested that every maintenance agreement sold have a sales commission built into it. Most companies provide from $10.00 to $15.00 in commissions for the sale of the agreements.

Estimating Total Commissions for The Year

To develop accurate pricing for our maintenance agreements, we will need to estimate the cost of commissions. The commission cost is, of course, directly linked to how many maintenance agreements you estimate will be sold over the next 12 months.

Estimate high!

It is always better to overestimate costs than it is to underestimate them. If pricing is developed on higher costs, and the costs don’t come to fruition, then the company makes more money. If costs are underestimated when developing pricing, and they do occur, then the company will be in trouble.

Paying Commissions

Get everyone involved in selling maintenance agreements. Pay commissions to everyone in the company. The person answering the telephone talks to people all day long. Every employee has friends, neighbors and relatives – all of whom could use maintenance agreements. Get everyone involved.

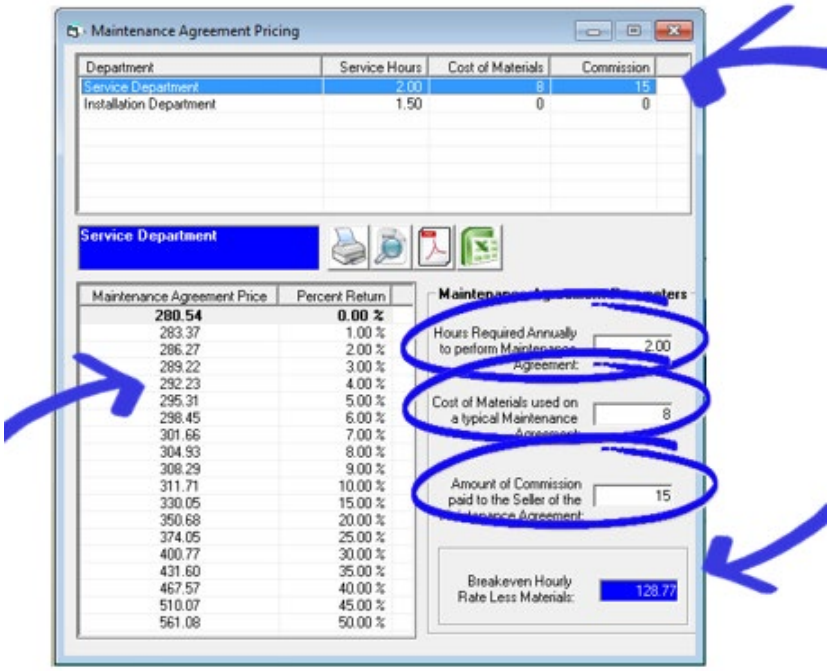
Require Something Before You Pay

Many companies require some type of follow up prior to paying the seller a commission (I.e., calling the customer that evening to thank them personally or writing a personal thank you note). Try requiring something from the seller that will positively impact the customer who bought it.

Make Payment A Big Deal

Don't just put the commission in the employee's check. Presenting the money at a company meeting or other company event would also give them recognition.

Your Labor Pricing for a Profit Software contains a Maintenance Agreement Pricing Calculator to help you properly price your maintenance agreements based on your cost of operation.



Maintenance Agreements MUST Fill the Slow Times!

Most technicians have 90 slow days a year. Based on the above example, the average technician must fill 240 hours a year with maintenance agreement work. Use the following formula to calculate how many maintenance agreements **your** company needs to fill the slow time.

Step one: Each teach needs to fill 240 hours a year with maintenance agreement work.

Step two: Actual time on the job, not travel, to perform your maintenance agreement?

Step three: Divide 240 hours by the total time it takes to perform one maintenance agreement. That will tell you how many maintenance agreements must be sold to keep **each** service technician busy all year.

Maintenance Agreement Calculator

This calculator is part of your Labor Pricing software. After your data is entered, the calculator will tell the user how many maintenance agreements must be in place in order to fill the 90 slows days a year that each company experiences.

Marketing in General

Most of us are familiar with the fact that the customer has to see, or hear something at least nine times before they will buy. That means the company needs to develop a marketing plan.

A customer needs to hear or see something at least nine times before they buy!

Marketing Plan

A marketing plan involves three major steps. First, you have to decide **what** marketing vehicle you are going to use. Will it be newsletters, radio, online, social media, and/or direct mail etc.? How will you get the message out?

Second, **when** will it take place? Will it be done monthly? Twice a year? What specific dates do you want the marketing vehicle to address in order to reach your target customer? Timing is important. But equally important is "**who**" will be responsible to see that it gets done. If assignments are not made, with built in accountability, the job never gets done.

The final step is to **determin**e the cost. This is important since the total cost will help define the final pricing to the customer.

How Long Before You Will See Results?

Most marketing plans take at least 9 to 12 months before the company will see any really positive results. Keep in mind your customer doesn't normally need your product, or service, every month. They may not have a need for a year.

The important thing is this. When your customer does have a need, who do they remember? A marketing plan is designed to keep your company's name in front of the customer so that when they do have a need, it's your company that comes to mind!

Suggestions

Develop a lead tracking method so the person answering the phone can record "why" people called your company. It is vitally important that you understand what type of marketing is working and what isn't. You will really know your marketing program is working when the customer can't tell you why they called, they just remembered your name. Then, you will know your plan is working!

Design your marketing plan to be continuous and overlapping. As one program is phasing out, the next one needs to be starting. Stay in front of your customer on a regular basis.

Marketing Tools

Give some serious thought to developing a newsletter. Newsletters are by far your most effective marketing tool. Newsletters allow you to convey to your customers all kinds of information from moving to a new location, to special deals and/or new product offerings.


Inside...
Sausage Cheese Ball Recipe
Kitchen Conversions
Free Humidifiers
Special Offer
Let's End NIMBY
The Comfort Corner

COMFORT NEWS

Hold Down The High Cost Of Heating & Cooling

Air Infiltration

Annual Maintenance

Home Energy Use

Also, consider a company brochure. Company brochures convey to the customer a certain degree of "professionalism". Like newsletters, it conveys what the company does. Include one with every presentation you make.

Unless you are large and can hire someone full time for marketing, get your materials developed and printed by an outside agency. In most cases they will do a higher quality job, and often at a lower cost. Best of all, outside agencies get the job done! We all have great expectations, but somehow things get in the way and the what suffers the most is often our marketing efforts. Outside firms are paid to "get the job done!"

Remember, principles are timeless, but methods continually change and improve the way we do things. All of the ideas in this section work if you send physical copies or move to a "Greener" approach and send them digitally.

What Is Important?

Consistency is what is important. Keep in the back of your mind that the customer only needs your products and/or services every few months, or perhaps, years. When they do need service, however, it is who they remember that counts. Consistency pays off – eventually!

When the customer is ready to buy it's who they ***REMEMBER*** that counts!

Marketing Maintenance Agreements

Marketing begins at home (or in this case at the office). Begin your marketing program by giving each employee an annual maintenance agreement. Put them right on the normal schedule to be sure it gets done.

You cannot impart what you don't possess, and your employees cannot sell what they don't believe in. The theory is simple. Let your employees experience, first hard, the benefits of an annual maintenance agreement.

Then, when the customer asks, "Do you have an annual maintenance agreement on your equipment?" they can respond with great enthusiasm. "Yes, I do have one….and let me tell you what it has done for me!"

Enthusiasm always makes up for selling skills that may not be polished. People buy from people that are excited about what it is they have to offer.

People Buy for One Of Two Reasons

Nearly all sales are made based on the customer's understanding of what they will lose if they don't buy, or what they will gain if they do buy.

When we start developing your tri-fold brochure, it is important to phrase things in a way that invokes one of the two reasons they purchase. They buy because of "fear of loss" or "hope of gain!"

What Will Your Customer Gain or Lose?

Gain:

Discount on labor and materials

Equipment lasts longer

Lower energy bills

Consistent operation

Priority service

Routine maintenance

Safety

Lose:

Must pay normal repair pricing

Must replace equipment faster

Higher energy bills

Can't get serviceman when you need them

The above list shows several items the customer needs to consider if they are considering an HVAC Maintenance Agreement. Each trade has its own points, and they need to be clearly conveyed as marketing materials are developed.

When all is said and done, what the customer is really buying is peace of mind. They are purchasing an annual maintenance agreement in the hope that their equipment will run trouble free over the coming months (gain).

Why Haven't People Purchased Maintenance Agreements in The Past?

One reason customers do not purchase maintenance agreements is because the presentation materials are too complicated. The lengthy small print looked more like a legal document than a service agreement. If the customer cannot understand the program, or if it looks "legal", they won't commit. Keep things simple, and clear.

Sometimes customers don't believe they are really getting the discounts they deserve. Upfront pricing removes that obstacle since the savings are printed right before the customer, in black and white. Others have not purchased an agreement simply because they have not been offered one. That is changing, and changing fast. Your customer will buy an agreement sooner or later. The question is who they will buy it from!

Keep It Simple!

Your maintenance agreement should offer three things, period! The customer should receive annual maintenance on their equipment, a discount on labor and/or materials, if work is needed during the year, and priority service if a breakdown does occur.

Offer Three Things:

Annual or semi-annual maintenance of equipment

Discount on labor and/or materials if additional work is needed during the year

Priority service if a breakdown occurs

If the customer cannot understand your maintenance agreement program in 30 seconds or less, **it is too complicated.**

Guidelines for Your Brochure

Your brochure must clearly state the benefits the customer will receive. It must clearly show the cost of the program (not 16 different options), and it must have a simple way to enroll. Design your brochure on "bug level" --which means you need to keep it simple. After you have finished your design, ask yourself the question "So What?" In other words, "What's in it for me?"

The USA TODAY newspaper is written at a 5th grade reading level. Why do they write it at this level? Most Americans read, and comprehend on a 6th grade level, or below. When you have completed your design show it to a 6th grader and see if they understand it. If they don't, it's time to redesign!

Sample HVAC Maintenance Agreement Brochure

Why Join our Comfort Club Maintenance Agreement Program to protect your Heating & Cooling System?

Have Questions? We Have Answers!

Call us today 555-123-4567

ORDER FORM

☐ YES—We would like to sign up for the Comfort Club Maintenance Agreement.

☐ YES-We are interested in signing up for the Comfort Club Maintenance Agreement but would like more information first. Please call us.

Our Comfort Club Maintenance Agreement program provides you with routine maintenance of your equipment which yields the highest efficiency and lowest overall operating costs.

Relax knowing your Heating & Cooling system is properly maintained!

Name_____
Address_____
City_____ ST____ Zip____
Phone_____
Email_____

Your "Maintenance Agreement" will:

- **Reduce your utility bills:** By properly maintaining your equipment on a regular basis, the use of energy will be maximized, thereby keeping your utility bills to a minimum.
- **Prolong Equipment Life:** Routine maintenance keeps your equipment in top operating condition. This prolongs equipment life, and lowers the life-cycle cost of your equipment.
- **Maximize Safety:** Routine maintenance assures the safe operation of your equipment by correcting potential problems before they occur.

Your Comfort Club Membership entitles you to:

- ✓ **Semi-Annual Maintenance of your Equipment**
- ✓ **xx % Discount on Parts and Labor**
- ✓ **Priority Emergency Service**

Method of Payment:

☐ Check Enclosed

☐ Please Invoice

☐ Credit Card

☐ Annual ☐ Monthly

___ VISA ___ MasterCard
___ AmEx ___ Discover

Credit Card#_____

Expiration ___/___ CVV Code _____

Name on Card_____

Signanature_____

Plumbing Example:

Helpful Hints to Save Water

- Compare your water usage between taking a bath and a shower. Take a bath and mark the water level with a piece of masking tape. Next time you take a shower stop up the drain and compare your water usage. Which takes less water?

Have Questions?
We Have Answers!

Call us today
555-123-4567

ORDER FORM

☐ YES—We would like to sign up for the Annual Plumbing Maintenance Agreement.

☐ YES-We are interested in signing up for an Annual Plumbing Maintenance Agreement but would like more information.

Save Water...
Save Money!

Relax knowing your plumbing system is properly maintained!

Name_____

Address_____

City_____ ST_____ Zip_____

- When taking a bath, or using your sink for dish washing, put in the stopper as you begin to draw water. It will begin as cold water but the addition of the hot water will give you the proper temperature while reducing your water usage!
- The difference in a five minute and ten minute shower is about 45 gallons of water. Shorten your time and save water!
- A dishwasher uses three to five times more water than doing dishes by hand. More labor, less water. You choose!
- Don't run tap water waiting for it to get cool. Keep a jug of water in the refrigerator. You will have a cooler drink and save water!

When purchasing our Maintenance Agreement, you will receive:

- **Annual check-up of plumbing system including minor faucet repairs -** (washers only)
- **XX% discount** on labor and materials should additional service work be required during the year
- **Priority emergency service -** Move to the front of the line if you have problems during the year.
- **Peace of mind** knowing your system is operating safely and efficiently.

Method of Payment:

☐ Check Enclosed

☐ Please Invoice

☐ Credit Card

☐ Annual ☐ Monthly

___ VISA ___ MasterCard
___ AmEx ___ Discover

Credit Card#_____

Expiration ___/___ CVV Code _____

Name on Card_____

Signanature_____

Electrical Example:

Why Join our Electrical Maintenance Agreement Program to protect your Home?

Your Agreement Includes:

- Inspect all outlets and repair or replace as necessary
- Check all light switches for proper operation and repair or replace as necessary
- Replace any damaged outlet or switch plate covers
- Test all smoke alarms and replace batteries if necessary

ORDER FORM

☐ YES—We would like to sign up for the Electrical Maintenance Agreement.

☐ $ xxx.xx Annually

☐ $ xx.xx / month*

* charged to a credit/debit card

Have peace of mind by reducing potential electrical hazards in your home.

Our trained technicians will perform a full safety inspection of your electrical system.

Name_____
Address_____
City_____ ST____ Zip____
Phone_____
Email_____

The National Fire Protection Association (NFPA) indicates an annual average of:

- More than 53,000 electrical structure fires in the home
- 450 lives claimed
- More than 1,400 people injured
- More than $1.4 billion in property damage.

A properly maintained electrical system reduces the chance of these problems affecting your family. Electricity is such a standard part of our daily lives that it is often taken for granted, but electrical failures or malfunctions are a leading cause of home fires every year. The risk of home electrical fires can be reduced by assuring your electrical system is in good working order.

One of our highly trained professional electricians will do a full inspection of your homes electrical system to be sure everything is safe and in proper working order.

If an unexpected problem does come up during the year you will receive:

- 20% discount on all labor and materials necessary to make the repair.
- Priority Service
- No additional trip charge for electrical failure repairs during normal business hours
- The advantage of knowing your professional electrician personally

Method of Payment:

☐ Check Enclosed

☐ Please Invoice

☐ Credit Card

☐ Annual ____ ☐ Monthly ____

___ VISA ___ MasterCard
___ AmEx ___ Discover

Credit Card#_____

Expiration ___/___ CVV Code _____

Name on Card_____

Signature_____

Brochures

Company brochures have several uses. Their initial use should involve a direct mailing to your company's current customer base. This is an excellent way to begin marketing since your current customers know you, like you, and will be the most receptive group in terms of purchasing the agreements.

Secondly, the brochure should become part of the standard presentation packet for customers. Sales people generally quote options with each proposal. Maintenance agreements should simply become another option for the customer to consider.

The third use involves the technicians. Service technicians should leave a brochure with every customer they visit during the day. If the customer is at home, the information should be presented to them. If they are not home, the brochure should be left in an area where it will be easily seen by the customer upon their return. Brochures also make great handouts at trade shows, fairs and malls.

Sample Letter

First, the letter has a header statement. Every letter to your customers should quickly tell the customer what the letter is about.

The letter also has a P.S. If the customer reads nothing else, they will read the header and the P.S. Be sure each one clearly conveys the message you want your customer to receive.

The last thing is the coupon. People love coupons. If you will remember, we built in a $10.00 commission for the sale of each maintenance agreement. Since the letter is the "seller" in this case, the coupon represents the commission, and therefore costs the company nothing!

Grandy & Associates has developed a new *Maintenance Agreement Program* to better serve our customers. Our new annual maintenance agreement program will save you money, extend the life of your equipment and guarantee that annual maintenance is performed on your equipment without your even having to remember it - we call you!

Please read enclosed brochure for all the details. We look forward to hearing from you soon.

Sincerely,

John Doe, Owner

As a valued past customer use the coupon to the right to save you money!

Sample Letter

This is a sample mailing from Culligan Water. Notice on the letter "that they provide a link to sign up for a maintenance agreement right on-line.

Culligan
better water. pure and simple.

WATER CARE
We Make Water Good for Life.

310 S Oneida Street
Green Bay, WI 54303
920-494-7401

1250 Bellevue Street
Green Bay, WI 54311
920-468-5734

William Kinnard
2995 Essen Rd
Green Bay, WI 54311

Reverse Osmosis (RO) Filter Changed and Sanitization

In order to continue to have clear, fresh water, it is very important to change and sanitize your WaterCare Reverse Osmosis Drinking Water System on a regular annual basis. That is why Culligan WaterCare Services is tracking all of our customers and will automatically notify them when their system is due for filter changes and maintenance.

The cost of the annual filter change and sanitization is minimal and includes all the filters except the membrane. A 15% discount is also given to customers that receive their salt from us no matter if it is delivered or picked up at either location.

The procedure of annual sanitization for your RO includes:

1. Replacing all the filters except the membrane
2. Sanitization the system:
   - The canisters
   - The bladder bag inside the pressure tank
   - The product lines to your RO faucet and
   - The membrane
3. Checking and recharging (when necessary) the air in the pressure tank
4. Checking all RO lines and changing any that are in need of repair
5. Testing the quality of your RO water

The sanitization process takes about 60 to 90 minutes.

To schedule an appointment please call our office at 920-494-7401 or 1-877-427-8496; or email info@culligangb.com.

Culligan WaterCare Services Conditioning
1250 Bellevue Street
Green Bay WI 54311
info@culligangb.com

Does A Direct Mailing to Your Customer Base Make Economic Sense?

The cost of the letter, tri-fold brochure, envelop, bulk postage and stuffing cost is about $.65 each. Assuming the company has a customer base of 3,000, the total investment will be about $2,000.

A 5% return (which is not unrealistic for one's own customer base) would produce 150 sales at a cost of $129.95 each. This one mailing would generate sales of nearly $20,000 not to mention the repair work that will be generated by inspecting 150 homes. The economics work!

Keep in mind how valuable your current customer base is. Mailing to strangers usually generates a .5% to 1.5% return, which is not too good. A mailing to your current customers typically generates a 3% to 5% response. If the mailing to your customers is followed up by a phone call, the response can easily top 15% or more. You do the math – it works!

Bulk Mail Response

Strangers
.5% to 1.5%

Current customers
3%-5%

Current customer with a follow-up call
15% or higher!

Postcards Work Too!

Another great marketing tool is postcards. Use colorful card stock (bright orange, yellow or green are great) and divide it into four sections. One section will be a cartoon, or joke, just to be sure the customer looks at it. Two more sections will offer products, or services. The final quarter of the card will contain a coupon good for the two items listed.

Be sure to use the same color stock each time. Over time the customer will see the "color" in their mail and will immediately associate the colored postcard as a message from ABC Company. Mail postcards at least four times a year. Remember, we are not so much selling here, as we are marketing (keeping the company name in front of the customer).

Cost of Cards

The cost of the card and postage should be no more than 65 cents each.
Send them out four times a year

3000 cards x .65 x 4 per yr. = $7,800 yr

Even if the cards were sent out first class mail, the cost for four mailings a year will be less than $5,000. If bulk mail is used, the cost will be significantly less.

Telephone on Hold

This is another great marketing tool. A professionally produced system will cost about $400/year. With **Commercials on Hold,** the $400 includes professional scripting/recording and the machine. You can customize your messages and change them anytime. For slightly more, they will record a custom message specifically for you. You may not be busy, but put the customer on hold anyway. Your message will be conveyed perfectly every time!

More Maintenance Agreement Marketing Ideas

Insert brochure with each proposal

Section on your Customer Response Card

Mention in your quarterly newsletter

Printed block on your standard invoice

Furnace or Equipment Stickers

Insert a brochure with every proposal made. Also, dedicate a small portion of your Customer Response Card for promoting service agreements.

Dedicate a quarter page of each newsletter to promote maintenance agreements (always offer the $10.00 off coupon). Also, the next time you print your invoices, and/or envelops, dedicate a portion to promoting service agreements.

Furnace stickers are a wonderful promotional tool. Use big stickers with a place to record when the maintenance agreement was performed. It will become a constant reminder to your customer that “they need to purchase a service agreement.”

Incentive Programs Are Like Marketing Plans

Incentive programs need to be continuous and overlapping, just like your marketing plan. Give a bonus to the top individuals, groups or departments that sell the most.

Set department goals and create unique incentive programs such as gifts, ball tickets, dinners out or vacations. Keep something going all the time to keep the interest.

Whenever possible, make the giving of the reward a "public" presentation, before other peers in the company. Public recognition goes a long way.

Pricing Strategy

Now, it's time to consider your overall pricing strategy. Some companies price low with the idea of simply getting into the customer's home to "find work that needs to be done". It is kind of like the old service stations when they used to check your oil. Sooner or later someone would need a quart of oil and/or an oil change.

Did you know you can even sell maintenance agreements at a loss – and make money! Here's how. Assume you want to price your service agreements $20.00 below your competitors. If you sell 500 service agreements a year, that would be a loss of $10,000! To make up the difference you simply build the $10,000 in as an "additional" overhead cost in the other departments so that it becomes part of <u>their</u> hourly rate.

My preference is to **Price for a Profit**. I don't mean gouge the customer. Provide a reasonable service, at a fair profit, based on your actual cost of doing business.

Your Final Price

Before you set your final maintenance agreement price, consider this. Many studies have been done that prove the typical customer thinks in $5.00 increments. That means the customer sees no difference, mentally, in $53.00 versus $54.95. They see no difference in $116.00 versus $119.95! With that in mind, round your maintenance agreement price up to the nearest $4.95.

By the way, it works in the service department as well. If you are charging $72/hour, change it to $74.95. If you have three service technicians, each with 1,000 billable hours, it will make a big difference in the bottom-line profit. Actually, it increases the profit margin by $8,850 (3000 billed hours x $2.95/hour). Make this one change and you just paid for your workshop and will go home with money in your pocket!

Upfront Pricing Is "The" Tool for Selling Maintenance Agreements!

Upfront pricing is a great tool for selling maintenance agreements since the customer gets an immediate savings. They can "see" what they are saving since the normal price and the service agreement price are printed in black and white!

Easy for the technician to talk about

Easy for the customer to understand

Customer sees REAL savings

Customer gets immediate savings!

Technician earns a commission for selling the agreement!

How You Bill Makes A Difference

Invoicing is kind of like making a proposal to your customer. You never make a proposal (or shouldn't) with only one option – "take it or leave it". Give the customer choices.
Invoicing is like that. Some customers want to pay annually, while others want to pay quarterly.

Some will want to put it on their credit card while others will want to pay cash.
Your best option is to have their payment automatically charged to their credit card (monthly, quarterly or whatever the customer chooses). Why? People are creatures of habit. They tend not to change. To stop the service, they would have to call you, explain why, etc. In most cases, they won't call; therefore, automatically agreeing to continue your service.

Offer many billing options

Bill monthly

Quarterly

Semi-annually

Annually

Charged directly to the customer's credit card

Renewals

When it comes time for renewal, assume they are going to renew and handle it accordingly. Simply invoice them for the renewal cost and/or schedule the maintenance telling them "it's that time again."

Commissions on Renewals?

Some companies pay commission on renewals, and some don't. If you are not going to pay a renewal commission, then you can offer the customer $10.00 off for renewing, since they have been a loyal customer. Remember, it won't cost the company anything since the commission is built into your pricing!

If you are going to pay for renewals, then once a month give each person who sold the original service agreement a list of "their" customers that are coming up for renewal. Suggest they call each person about renewing. If they say yes, and most will, they will again earn the commission. Again, the money is built into the cost and the personal contact is great customer relations.

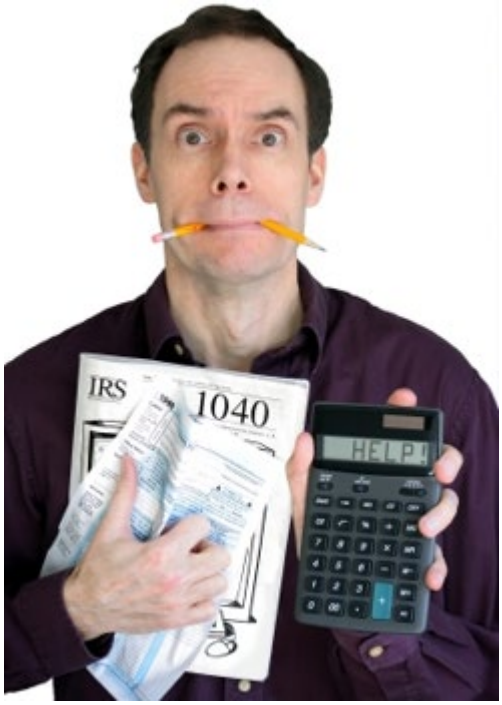
The Law of Money

The law of money states that any significantly sized budget, whether business or personal, will absorb every dollar that is deposited in it. If you had a great month, you tend to spend the money. If you had a bad month, somehow you made it. People tend to spend what they have, whatever the amount.

Put the New Profit Aside

Hopefully, your company was making a profit before you started selling maintenance agreements. If that is true, all your costs of doing business are already being covered. The profit you make on your new maintenance agreement program is just that – profit!
If we start selling maintenance agreements, and leave the money in the checkbook, guess what will happen? Right, the law of money kicks in and you spend it. Consider depositing your service agreement checks into your checkbook each day, but the same day, write a check for the profit portion of the agreement and put it in a savings account. Have the person who writes the checks do this, since you will make excuses, and it will never get done. Over time, the money grows and you will actually begin to "see" the fruit of your labor!

QUARTERLY LIVE CLASSROOM - TAX TIPS



Objective

Our objective is to find deductions you were not aware of, to reduce your taxes. We will talk about shifting income to rent and dividends and ways to accelerate depreciation. Children are another great deduction. Did you know the government even encourages you to use your kids to reduce taxes?

We want to do all of the above to reduce our taxes, while increasing our benefits and nearly eliminating the possibility of getting audited! You are going to like this section. And it's all 100% legal. You will probably learn enough in this section to pay for your trip!

Lower overall taxes paid by:

The benefits of Incorporation

Finding additional deductions

Shifting income to rental and dividends

Increasing depreciation

Using your children as a tax deduction

Understanding audit triggers

The Structure of Your Company Greatly Affects Taxes!

We all know the self-employed person, or partnership, pays the most taxes. The good news is that if you are one of the above you can now structure your company properly right off the bat.

Being Incorporated Has Some Wonderful Benefits

Corporations are "required" to have an annual meeting. The meeting, however, can be held anywhere in the 48 states (not Alaska or Hawaii – sorry). Plan your meeting around your vacation and write a bunch of it off!

A corporation also must have a physical location for its corporate office. You can have several company locations, but make the corporate office your home. It opens up all kinds of home deductions! Keep in mind that a home office is now on the "dirty dozen" when it comes to red flags. Make sure you are working with your accountant to make sure that this makes sense for you. The space you designate for home office must be dedicated to a home office and not shared space.

Self Employed/Partnership – Pays most taxes

Incorporated:

Annual meeting required anywhere in US

Take minutes

Write off travel expenses

Corporate office can be anywhere

Make your home the "corporate office"

Opens home deductions

Deductions based on square footage

Do Not Depreciate Your Home

If you depreciate your home you are no longer eligible for the $500,000 deduction the government allows on the profit you make on the home. You are eligible for this deduction every two years.

You Can Deduct Home Improvements

If you do any maintenance (painting, light fixture, furniture, etc.) to the room you are using as the office, it is 100% deductible. Any maintenance to the home, in general (painting, landscaping, roofing, etc.), is deductible as a percentage of the total square feet your office space occupies compared to the total square footage of the home.

Set Up More Than One Corporation

Set up a separate corporation, with only you and your family in it, as employees. Now you can offer any benefits you wish to "all" the employees. The company can pay all the medical, vision and/or dental expenses. The company can even have a policy that it will pay for all education expenses (including college) for its employees!

Credit Cards

Use separate credit cards for personal use and corporate use:

Personal use – Interest NOT deductible

Corporate use – Interest IS deductible

Have totally separate credit cards for the company. Interest on your personal credit card is not a tax deduction – but interest on a company credit card is deductible!

Keep A Vehicle Log Book

I realize few of us want to keep log books on our company vehicles. Most simply take a percentage as business use. But be sure you keep log books for other family vehicles. When your wife goes to the grocery to get food, but buys paper towels for the office, the mileage is deductible. The same holds true when cleaning is picked up or coffee is purchased for the office. How about when she picks up office supplies or parts for one of your jobs? It is all deductible and it adds up quickly.

If you reduced your salary by $20,000 and took the $20,000 as dividends and rent saves $3,060 ($20,000 x 15.3%)

Dividends and Rent

Did you know that money you receive from a corporation for dividends, or rent, is not subject to the 15.3% social security and Medicare tax?

If you received $20,000 from the corporation for rent and dividends, you just saved $3,060. I always wondered why people bought buildings and equipment and then rented it back to the company. Now, we both know!

Depreciation

A normal vehicle purchase (under 6,000 pounds) is subject to a maximum first year write-off limit of $11,060. Guess how much the larger SUV's weigh? Right, over 6,000 pounds. Vehicles over 6,000 pounds are considered "commercial vehicles" and, therefore, qualify for the accelerated depreciation. Section 179 of IRS Code.

Kids Make Great Deductions

In 2019, children can earn $12,2000 per year and only pay social security and Medicare taxes (no federal tax). You can have your kids mow the lawn and pay them $200 an hour if you wish.

As long as they are performing some service, it is legal. A baby can even earn money by posing for one of your advertisements. You don't even have to use the picture.

After age 5, the government seldom asks what function they perform. Every dollar you can funnel through in this way saves you 15% to 40% in federal and/or state taxes, depending on what tax bracket you fall into.

You Can Keep Their Earnings?

Up until age 18, parents have the legal right to collect 100% of what Johnny or Suzie earns. It may not be fair, but it's legal! So, what does that mean to you?

Pay Johnny his $4,450 a year for some service he performs and keep his check. Take the money and put it back for college. You just saved 15% to 40% of your money. I wish I had known this before my kids when to college!

Better yet, remember the separate company we set up earlier with the family as employees? If the "company policy" is to pay for education, Johnny can have the company pay for college, and it's all deductible!

Stay Out of Jail

Your position needs to be that you are very aggressive on deductions but that you report all of your income. Failure to report income is a federal offense that can put you in jail. Be wise.

Did You Know?

If you paid the maximum on Social Security eight years during your working career you will receive ***MAXIMUM*** social security benefits

Did you know your Social Security income is based on your best eight years of work, not your last eight, or necessarily your highest income years? The maximum limits for Social Security have gone up each year. Twenty years ago, a salary of $16,000 may have paid out the maximum for social security tax.

If you have hit the max eight times in your lifetime, you are now eligible for maximum Social Security benefits, even if your income is low over the next few years. Once you have eight max years, it is time to begin taking small salaries and to begin receiving as much of your income as possible as rent and dividends.

Max Out Rates for Social Security:

As was said earlier, once you hit the maximum limit for social security limit for the year, you are no longer subject to the social security tax for that year. How to you know when that happens?

How Much Did You Earn in Past Years?

The government sends to every citizen a statement of their past earning, usually 30-60 days before their birthday each year. Now you know how much you have earned in each and every past year.

What were Social Security "Maxed Out" Numbers in the Past?

Social Security maximums change each year, normally increasing.

To get the current and past years rates go to the following website:

http://www.ssa.gov/OACT/COLA/cbb.html

Tracking Trends

Contrary to Popular Belief:

The IRS does NOT look at year-to-year trends. There are about 280 million returns each year that would have to be compared

Many individuals are concerned about sudden changes in their income, from the standpoint of the government "watching" and asking questions. That should not be a concern. The government processes over 280 million tax returns a year. They neither have the capability, nor the time or resources, to track individual trends from year to year!

How to Avoid Being Audited

There are three conditions the government uses to trigger audits. We will discuss each and how to be sure you are NOT audited.

Compliance Audits

Most individuals receive envelopes from the government to send their returns back in. That is very thoughtful of the government, and it guarantees we, as American citizen, place the correct address on the front. Besides, it saves us time and money, so we use them.

DO NOT USE THE ENVELOPES THE GOVERNMENT SENDS YOU!

What they did not tell you is that each envelope is randomly "pre-coded" for audits. That's right, the envelope you receive may be pre-coded for you to be audited. If you want to guarantee you will not be selected for a random audit…***don't use their envelopes!***

Audit Due to A Red Flag

The government has what they call a Red Flag system. Each business category has a percentage range based on your volume of business. For example, a company doing "x" amount of gross sales should have not more that "x"% of its dollars in the office supply category.

Each return is checked for red flags. One or two red flags generates a letter saying: "Your return was checked and we find you owe us an additional $xxx.xx". If you are like most Americans who get the letter you are a bit concerned about Uncle Sam watching you. The letter, says you owe an additional $230.00 so you pay it, no questions asked." In fact, 98% of the population pays it, no questions asked.

The reality is that most could fight the extra charge……and win. But, most simply pay the invoice and heave a sigh of relief that it wasn't worse. If they find 7, 8 or more red flags, it will generate an audit. Avoiding this audit is easy. Simply be sure you and your accountant break cost into lots of different catalogs so no one category will seem out of line!

Audit Triggered by The Economic Reality Test

The government uses an economic reality test, which basically says the individual seems to be living a lifestyle that would not seem to be supported by their reported income. Again, the government has a red flag test for economic reality.

Red Flag

To determine your economic reality, the government adds up your reported mortgage interest, real estate taxes, and property tax. They are aware that most banks lend money based on a 5 to 1 ratio of your income, if the total interest and taxes grossly exceeds the 5 to 1 ratio, it creates a "red flag" and then you get audited.

The IRS Is Coming – Be Prepared!

Has your business ever been audited by the IRS? Just hearing those words can send a shiver of fear down any entrepreneur's spine. Unfortunately, small business owners have more reason than usual to be nervous about opening their mail for the next few years thanks to the IRS's Employment Tax National Research Project (NRP).

The NRP is a comprehensive audit that will hit 2,000 small companies each year at random. The goal is to see how well businesses are complying with employment tax regulations. The last NRP was conducted 25 years ago, and with the federal government seeking all possible sources of revenue it can, the IRS is looking to make sure it's getting all the money it's owed by small business taxpayers.

Be Sure You Are in Compliance

The IRS has stated these audits will be "comprehensive," and, if you are hit with one, be ready to open all your records. However, you don't have to get audited to be affected by the NRP: The results of the completed study will be used to adjust tax regulations and tighten up compliance in these four areas above. Don't wait to get audited—make sure your company is in compliance. Have your accountant take a look at your finances and ensure any problems are corrected sooner, not later.

Big Bottom Line Differences

The example below vividly points out the difference in cash flow and accounting. Note that accounting shows $20,000 in depreciation. From a cash flow perspective, however, the company will be required to put aside $35,000 in order to be properly funded when it comes time to replace the current pieces of equipment.

The company also has five loan payments. The interest portion of the loan payments (the only part Uncle Sam allows you to show as an expense) totals $6,000. The total loan payments, including principle and interest, is $24,000. Now ask yourself, how many dollars actually flowed out of the company? Right, checks were written for $24,000, not simply the $6,000 accounting is allowed to show.

So, when it is all said and done in our above example, what do we see? We see an accounting income statement that says we made a $14,000 profit, when in reality the company lost $19,000 from a cash flow perspective. That is a total difference of $33,000.

That's a big difference! Now, you may understand why contractors sometime "appear" to be profitable from an accounting standpoint when in reality they are in the process of going out of business.

	Accounting	Cash Flow
Sales	$800,000	$800,000
Cost of Materials	- $320,000	-$320,000
Cost of Labor	-$160,000	-$160,000
Overhead:		
Depreciation	-$ 20,000	
Equipment Replacement Cost		-$ 35,000
Interest on five loans	- 6,000	
Full loan payment on five loans		- 24,000
Other Overhead Costs	- 280,000	- 280,000
Profit	+ $ 14,000	- $ 19,000

Debt Reduction Without Going Broke

Item		Amount
Income		**$159,000**
Expense		**$ 91,000**
Profit		**$ 68,000**
Equipment Replacement Costs		$1,500
Line of Credit		$3,000
Loan Principle		$2,479
H & V		$1,500
Extras		**$8,479**
Cash Flow Profit		**$59,521**

Category	Amount
Total Profit	**$59,521**
5% Profit Sharing Pool	**$2,976**
40% Debt Reduction	**$23,808**
40% H & V	**$23,808**

QUARTERLY LIVE CLASSROOM - CASH FLOW & COLLECTIONS

Cash Flow Problems

Next to improper labor pricing, cash flow is the biggest killer of small businesses. A significant portion of our cash flow problems are often rooted in a poor collection's policies. We are going to take some time to talk about cash flow and collections. Cash flow is the lifeblood of your company.

The Differences

There are significant differences in cash flow and accounting. Cash flow deals with the "real" dollars that flow in and out of a company on a daily basis. Accounting, on the other hand, tends to work with paper dollars.

Accounting isn't bad. It can tell a company owner a lot about what is going on within the company, but when it comes to setting hourly rates, those need to be determined using cash flow dollars. All the calculations we do over the next couple of days will be with cash flow dollars. The software program we will be using will also use cash flow dollars.

ABC Sample Company

To get an idea of what kind of information a budget can provide, let's look at the sample company. If the above company's projected budget was simply looked at for the year, everything would look pretty good. The company is projected to show a $17,000 profit for the year. Now, however, let's look at what's happening on a month-by-month basis.

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
Gross Sales	2	1	3	12	30	25	20	10	18	22	10	3
Less Cost of Sales	6	5	7	10	20	18	16	9	16	17	9	6
Net Profit/Loss	-4	-4	-4	2	10	7	4	1	2	5	1	-3
Cum. Profit/Loss	-4	-8	-12	-10	-	7	11	12	14	19	20	17

The budget tells us we are projected to lose $4,000 in January, February and March. It is telling us we will go $12,000 in the hole before things turn around. That is critical information. Every company needs to know if they are going to have any negative months and if so, how many will there be and when will they occur.

Guess what? If our sample company doesn't make it through the first three months of the year, they will go out of business BEFORE they get to the profitable part of the year. Cash flow projections are critical. Outside of improper labor pricing, cash flow problems put more companies out of business than any other single factor.

Your Budget Assumes

All bills are paid

All customers have paid you

Avoid collections from the start

Improve Receivables

Get a deposit

Offer financing

Accept credit cards

Collect at the conclusion of the call

Get A Deposit on Every Job

Only about 20% of contractors get a deposit on most jobs. The reason they get a deposit is quite simple……they ask! Most have no problem securing a deposit and get anywhere from 10% to 50% down!

What Do You Do with The Deposit?

The deposit allows the contractor to take the 1-3% discounts that are usually available from your suppliers. If the discounts are not offered, ask. You will be surprised how negotiable suppliers are with companies that pay on time.

Lose Less Jobs

Have you ever sold a job but were so busy you had to put the customer off for a couple weeks? Then the day comes to start the job and what has happened? The job has already been done by someone else! I can almost promise you your customer will not have anyone else do the job but you……. if you have 10% to 50% of their money in your pocket.

Offer Financing

Most won't ask for it

Will spend 32% more with credit

Many customers do not want to part with the cash even if they have it.

Customers will buy the option they want, not the one they have to settle for.

Credit Cards

Believe it or not, fewer than 20% of trades contractors offer their customers the option of paying by credit card. That's a mistake. Most customers today expect the option of paying with credit card. Some will even shop with other companies if they can't use their cards!

Use of Cards in The Past and Present

In the past, people used credit cards because they didn't have any money. Some still use credit cards for this purpose today, however, many customers who formerly used cash are now using their credit cards. Why? Simple--they get perks. Most credit card companies now offer frequent flyer points, cash back incentives and gift catalogs, etc. when you use their card.

What Cards Should You Set Up?

Set up all credit cards but only advertise the use of Visa and MasterCard. Visa and MasterCard are normally through your local bank. The discount is lower and you get your money "that night". With American Express, Discover and others, it can take several days or weeks before the money is transferred to your account. They also have higher discount rates.

Purpose of A Line Of Credit

Every company needs to set up a line of credit with their bank, even if they don't need it! Why? Someday you will need it; however, at that point they won't give it to you! A line of credit is to be used for short-term borrowing against receivables. If you are using it for any other reason, take it as a "red flag" that there is a problem somewhere else in your company.

How Much?

A "normal" line of credit to ask for is about 5% to 7% of your gross sales. If you do $500,000 in gross sales ask for a line of $25,000 to $35,000. If you do a million in sales, try for at least $50,000 to $75,000.

Repayment Goal

A bank wants to see you use the line of credit often – but they also want to see it paid back to zero at least once or twice a year.

Potential Problems

Be aware a line of credit is easy to use. Be sure you use it for its intended purpose, or you can get into deep trouble!

Purpose of a Line of Credit

Short-term borrowing against receivables!

Fixed Overhead Entry

Fixed Overhead Description: Line Of Credit Pay Off
Method to Apply Cost: Monthly
Cost Starts in: January
Monthly Amount: 3,000
Comments: Goal is to pay off in 15 months.

Fixed Overhead Allocation

Allocation Method: Manual
Service Department 34.00 %

Department	Allocation %
Service Department	34.00
Installation Department	33.00
Retail Store	33.00

Total Allocated 100.00 %

Monthly Allocation

January:	3,000
February:	3,000
March:	3,000
April:	3,000
May:	3,000
June:	3,000
July:	3,000
August:	3,000
September:	3,000
October:	3,000
November:	3,000
December:	3,000
Total Cost	36,000

Accept Cancel

Factor this into the software so you can manage, track, and pay off in timely fashion.

A plan is always better than a good intention.

Collections Objective

Our goal, when it comes to collections, is this: Collect as much as possible, as soon as possible, at the least possible cost, without losing important customers you wish to keep, and with little or no stress. Yes, it is possible. No, it's not easy. You need a plan!

Two Concerns

Many companies are afraid to tell their customers how they want to be paid for fear of losing them. But guess what? If you don't spell out the terms – they will! Be professional, tell your customer what you expect in terms of payment. It won't be a problem, and it will increase your cash flow.

Create A Collections Policy

Every company, large or small, needs a written collections policy. First, have a stated time for invoicing. Make it your goal to have all completed work invoiced within 24 hours.
If payment is past due, send out a second notice immediately. Don't send it at the end of the month, but when the original invoice terms are exceeded. If payment is not received at that point, forget the paperwork and have someone in the office call the customer.

Normally 70% of the customers will pay after a call. You will hear every excuse in the book, but they will pay. If they still have not paid, then it is time for the owner, or manager, to call the customer. There is something magical about the owner or manager calling. They get results no one else is able to get. If all else fails, it is time to get a lawyer or collections agency involved.

The Time Value of Money Eats Up Your Profits!

Based on the time value of money, the U.S. Department of Commerce says your money is only worth 97 cents after 30 days. After 90 days, it is only worth 83 cents which means you have not only lost your profit, but you are probably in the position to lose some of your cost as well.
You need to collect your monies as quickly as possible. If you don't, it can literally put you out of business!

Collections Policy

Be sure the customer understands your collections policy. Your policy should include the points listed above. Once you have designed your collections policy statement, have it printed up in a professional manner. While the job is being sold, explain your collections policy to your customer going over the written policy, line-by-line. After you have clearly explained the policy, have the customer sign it.

When the invoice is presented to the customer, either in person or through the mail, enclose a copy of the "signed" policy. Simply being professional about collections will avoid a lot of problems later on. If you have a problem up front, the chances are pretty good you will have a problem when it is time to collect as well. If a problem is going to occur, it is better to find out before you have invested the company's time and money into the job.

- Explain your collections policy when the job is being sold
- Have Customer sign it noting they understand the policy
- Include a copy of the signed policy with the invoice

Check Lists to Improve Cash Flow

We are going to look at several things you can do before a job begins, while it is being done, and after it is completed, to help cash flow. The points to look at before a job begins are listed above. If you will notice, most of what is being discussed here involves simply communicating with your customer. Again, if you don't set the terms, the customer will.

Before the Job Begins

Are all the payment arrangements settled up front while the job is being sold?

Is it clear whether payment will be made by cash, credit card, personal check, or billed to an open account?

Does the property owner, or responsible party, fill out a company credit application BEFORE credit is extended?

Has a credit limit been set on each open account?

Is the status of an account checked BEFORE additional credit is extended?

Have you established a target amount of credit our company will extend? (20% of sales is max.)

Does the contract include a schedule of dates or when progress payments are to be made?

Do we get a deposit?

While the Job Is Being Done

Customer authorization in writing before completing repair work?

Are change orders written up and signed within 48 hours?

Are change orders invoiced separately and billed immediately?

Did you tell them delay in staged disbursements will halt production?

One big item on your checklist is change orders. Be sure all change orders are written up and signed within 24 hours of the agreed change. The actual goal is not to begin the work until the change order is signed. If you start the work without getting the proper signatures, you may end up eating a lot of work (and money) that should have been paid for by your customer.
If they don't sign – you don't work. It's that simple. By the way, you can invoice for the change order as soon as the work is completed; it is not part of the original contract.

When the Job Is Done

Service tickets and installation paperwork filled out completely, legibly, and accurately.

Print a promissory note on the back of the Service Ticket to avoid unauthorized charges.

Send charge customers a bill immediately.

Stipulate a finance charge on the bill to motivate timely payment.

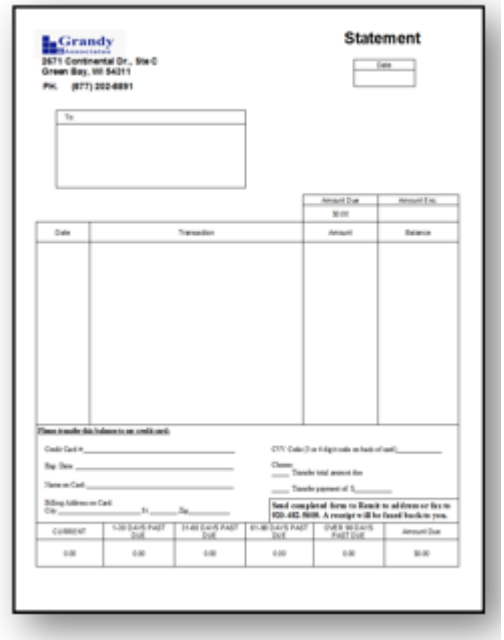
Follow-up on monies held in retention rigorously!

Paperwork is nearly as important as the job. If the service technician or installer does not turn in the time and materials used on the job, it will be impossible to correctly bill the customer. It is also impossible to cost a job if all the information is not available. Several other suggestions are also listed above that will be of concern when the job is completed.

Fax Reminders

If you have commercial customers, try faxing reminder notices. Unlike the mail, there is no denying it was received. Fax reminders are faster, and often less costly, especially for local customers.

Invoices



Next time the company has invoices printed have a box, like the one above, printed somewhere on the page. It is not unusual for customers to “intend” to pay a bill but before the invoice arrives something happens. The car breaks down, the refrigerator quits or a sudden illness occurs that involves unexpected cash outlays.

Statements

Do you send monthly statements to your customers? If you do not, chances are, your customers have forgotten about the balance owed. They may also think that if it’s not important to you, it’s not going to be a priority for them. Some customers will opt to putting their account on a credit card, in lieu of not paying it. Even if only a few more pay via credit card, you are that much farther ahead.

Cash Discounts

Offer cash discounts for invoices paid within a certain period of time. People love a bargain. This doesn’t even have to cost you anything. Simply build the extra cost into your overhead. That way, all customers pay a piece of the expense and it covers any discounts in pricing customers may take.

Log the time worked

Some customers tend to question how long a technician was really on the job. If that is a problem for you, try this. Have the technician the arrive time and leave time on the work order. Before the technician leaves the jobsite, have the customer review the time and sign the work order. When the invoice is sent, enclose a copy of the signed work order. All questions of this nature will stop.

If there is a question, it will come up when the technician is reviewing the work order with the customer and it can be handled at that point.

People Relocate

On the average, 20% of the population moves each year. Be sure to print on the upper left of your invoice envelope the words “Address Correction Requested” or “Forwarding Postage Guaranteed”.

Amnesty

Accounts over nine months old have less than a 20% chance of being collected. For these old accounts offer an amnesty plan. Offer a 30%, 40% or 50% discount if the bill is paid by a certain date. It’s cheaper than a collections agency and may bring in some money that would not have flowed in otherwise.

Post Dated Checks

If the customer wants to make payments, be sure to get posted dated checks from them with the agreement that you will call the day before you deposit them.

Do Not Negotiate

If the customer offers to pay less than the face about of the invoice, simply say "no". Blame it on your accountant. Generally, people who make this kind of offer are telling you it is the least they will settle for. Say no!

State the Facts Firmly

"Hi, this is Bill Kinnard calling from Grandy & Associates. Are you Jim Smith, the accounts payable manager? Good. I am calling you about the $500 balance due on the job we completed on September 14, 2017. The invoice needs to be paid in full at this time.
Would you rather handle payment via check, credit card"?

Use the above suggestions when talking on the phone. Be firm and nail down the response. Use the co-op of "Our account said we….". It gets the person off of your back and the blame on someone else. Even if you don't have an accountant, say it anyway.

Nail down the agreement to pay by whatever method agreed:
If the check goes out that day, it should be in our office by …
To be sure you are credited properly, put my name on the envelope.

If payment does not come that day – call them back and say:
"Hi, this is Bill Kinnard from Grandy & Associates. Remember that check you said you were going to send me…. we didn't get it!"

Now be quiet and wait for them to respond. Then nail down the "new promise".
If payment still does not come, call again, but finish with "If payment is not received, we are required by our accountant to turn it over to collections!"

You Can Run but You Can't Hide

Collections agencies are supposed to be good at finding people who don't want to be found.
That's the good news. The bad news is that they will charge you 25% to 50% of the balance due. Use the collections agencies as a last resort. At that point you are looking at writing off the whole amount so recouping 25% to 50% of what is owed you is not too bad.

What If I Am Accused of Harassment?

You can call the debtor at home 8 am to 9 pm adjusted for shift work.

Commercial debtors can be called on job.

Consumer debtors may be called at work, but call home first.

If someone else at office answers, you cannot identify why you are calling.

Request the debtor call you at this number.

If you reach them at work – get down to business.

If they tell you Don't ever call me here again, you can't.

Handle it quickly!

Fear tends to paralyze us. It is important to know your legal rights since people who do not intend to pay will accuse you of all sorts of things, not the least of which is harassment. Commit the above information from the Federal Fair Debt Collections Practices Act to memory so you are aware of your rights.

Collect as much as possible, as soon as possible, at the least possible cost, without losing important customers you wish to keep, …

with little or no stress!