WHAT YOU NEED TO KNOW TO RUN

A PROFITABLE BUSINESS

Grandy & Associates

877-202-8891 • Sales@GrandyAssociates.com
GrandyAssociates.com • facebook.com/GrandyAssociates
We Teach Contractors How to Build Profitable Businesses.

WHAT YOU NEED TO KNOW TO
RUN A PROFITABLE BUSINESS

Over the past 30 years, I've traveled hundreds of thousands of miles and trained over 20,000 contractors how to run successful companies. Guess what I found out? The 80/20 rule really does apply.

20% OF CONTRACTORS ARE MAKING
80% OF THE PROFIT IN THE INDUSTRY

Of those 20% highly profitable companies,
nearly all the owners understood the basic business principles of running a company.

As a matter of fact, some of the most profitable company owners knew very little about how to fix or repair a furnace or security system! But what they did understand was the "business side" of their business!

As we get started, I'm going to share a story many of you have heard before. I share it at every seminar and workshop I present. The reason I share it is so everyone will realize they are NOT unique.

Every contractor, in every trade, faces the same problems and fears, and most have a common history.

See if this sounds familiar.

95% of current owners in the trades industry today used to be a tech working for someone else.

One day, you're out in the field working, this little light bulb goes off. This seemingly unique thought enters your mind:

You know what? The company is paying me $18/hour and they're charging the customer $75.00/hour. I'm working hard and the boss is the one getting rich. If I went into business for myself, I could charge those high rates and I'd be rich.

The thought rolls around in your mind for a few weeks, months, or years! Then one day, it happens.

You make the break and start your own company. Most people start out by themselves, or with one other person. They're usually based out of their house, garage, or a small facility somewhere.

It's not too long into the process before the first major challenge pops up. "How much do I charge?"

Now, this isn't as big a problem as you might think. Most new company owners simply **call all over town and find out what everyone else is charging.** That's what they charge, or even a little bit less, and bingo... you're in business!

The irony is that things generally go along pretty well the first 3-5 years.

You're making more money than you did at your last job, even though you're probably working twice as many hours. Things aren't as great as you thought they would be. But, you still have a clear vision of building this thing into a real money machine over the coming years.

It'll just take a little longer than you expected.

What happened?

Let's digress a bit and look at the seeds that are being planted that will eventually produce failure.

Let's look at those first **3-5 years** a bit more closely.

You're likely making some money. The question is "Why?" The answer is pretty simple when you think about it. You're working out of your house or garage and have very little overhead. Sure, you have some gas, maintenance, and insurance costs. But, your costs of doing business pale in comparison to the other large trade companies in town. They have lots of employees and overhead to cover.

The irony is that you, and the large trade companies in town, are both charging the customer about the same thing! The net result should be that your profit margins should be out of this world, but they're not – They're actually pretty slim.

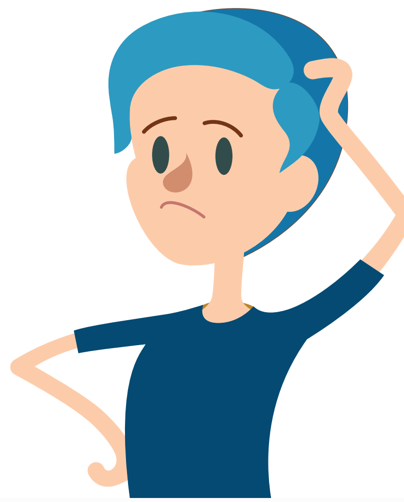
Your company continues to grow, adding techs and generating more and more work. If we can only grow things faster, profits will grow as well. Things "seem" pretty good until you reach that **3-, 4-, 5-, or 6-year mark.**

At this point, there seems to be a strange phenomenon taking place. You find yourself **doing more and more work while making less and less money!**

Sales were up **20% last year**, but you made less money than you did the year before.

You find yourself scratching your head, wondering,

"What's going on?"



In a nutshell...

The company's overhead is going up faster than its pricing.

Does the average contractor understand what's going on? **The answer is a resounding NO**!

The reason most don't understand what is going on is that the process of going out of business is a very slow process. It often takes 1-4 years before most contractors even realize they have a problem.

Most companies follow a similar pattern when going out of business. Over that 1-4 year period while they're going out of business, three distinct stages take place.

Let's review the stages in case you might be in one of them. Or, maybe have a friend who is a contractor and you notice they're in the middle of the process and don't even know it!

3 STAGES OF GOING
OUT OF BUSINESS

STAGE 1

The first problem is that cash flow is tight and profitability has vanished.

What's the solution for the average contractor? That's right — they do more work. Rather than working 8 hours a day, you start working 10 or 12 hours a day. Rather than working 5 days a week, you start working 6 or 7 days a week.

The result is that cash flow increases and everything "seems" okay for another 6, 12, or 18 months. But then you find yourself right back in the same situation again. Now, you're ready for stage two of going out of business.

STAGE 2

During stage two, cash flow again becomes tight and profit disappears. But the company is growing.

Sales are up, you've added techs, and your reputation in town is getting stronger. But you think to yourself...

"If I could hold on a little while longer, I know everything will be great."

Again, with the pressure on, the solution becomes clear. You need more money, more cash flow. Now, remember those first years you were in business?

During those initial years, you were making money and smart enough to put some of it aside in a savings account. But it's time to use that rainy day savings.

So, you put your savings back into the company and again, everything seems "okay." The pressure is off. You can pay your bills and the company continues to grow. All is well once again for another 6, 12, or 18 months. This is when you enter stage three, which is often the final stage before you go out of business.

STAGE 3

Stage three is a bit confusing. The company seems to be doing well. Sales are up, you're doing quality work, you have great techs, and the customers love you. The only problem is that you aren't making any money!

But again, your mind plays tricks on you. You think to yourself...

"We have everything going for us, and we're growing. If I could hold on a little while longer, I know that everything will be fine."

With this in mind, the curtain opens for stage three to begin. To hold on longer means you'll need more cash, so off you go to the bank to get that second or third mortgage on the house. You also extend your line of credit as far as you can, sell unnecessary inventory, and get rid of any old equipment you don't absolutely need. Oh, by the way, did I mention you also used your distributors as bankers and that you're currently on COD?!

At this point, you've generated some extra cash. This will buy you a little more time, and soon you'll be over the hump and everything will be okay. Right?

Wrong!

Yes, the extra cash flow did buy you some more time, but it didn't solve the problem.

Do I have your attention yet?

Does any of this sound familiar?

It does to most contractors I talk to.

By the time I finish this discussion at most of my programs, it's time for a break and — without fail — at least a couple of contractors in the room will come up to me. They'll say, "You described our company to a T. Did someone tell you about us before we came to the program?"

NO.

No one told me about their company. The reality is that the process I described is familiar to many contractors, in every trade, across the country.

So now that we know the situation, we have to answer the question:

What do contractors REALLY need to know to run profitable businesses? Every successful company I know understands the following items.

5 THINGS SUCCESSFUL
BUSINESSES HAVE IN COMMON

LABOR PRICING

They understand how much they need to charge per hour in each department. Their rate covers the real costs of doing business while generating a reasonable profit.

FLAT-RATE PRICING

They've made the transition to flat-rate pricing in their service department.

CASH FLOW BUDGETS

They've created month-by-month, department-by-department cash flow budgets. The budgets determine if one department is subsidizing another. Then they use that budget to track their progress each month to be sure they're on target.

MAINTENANCE AGREEMENTS

They have a vibrant and growing maintenance agreement program.

MARKETING

They have a well-developed, continuous marketing program.

SUCCESSFUL
BUSINESSES DO'S

USE FLAT-RATE PRICING

When you begin to look at the cost of doing business in your service department, you'll find yourself forced into flat-rate pricing. When you look at the cost of running a service department, the hourly rate ends up being more than $75.00 to $100 per hour. When service rates begin to exceed $75 to $100 an hour (depending on where you are), it's a tough sell to the customer if you're on time and materials. When your "real" rate needs to be $144/hour, it's nearly impossible to charge on a time and material basis.

DEVELOP CASH FLOW BUDGETS

The next business principle deals with budgeting. To be profitable, you need to develop month-by-month, department-by-department cash flow budgets. First, it will project overall profitability. Second, it will project monthly cash flow needs. What months will be negative and when will that occur? Third, you'll find out if one department is subsidizing another department. This often happens with more mature companies.

Budgeting is essential as the company grows since costs change. Tracking costs against the budget each month will tell you if the company is on track, and if not, why not.

Most companies that go out of business go out of business for one of two reasons.

It's either due to improper labor pricing or cash flow problems.

You can price your services perfectly and still go out of business because of cash flow issues. When your company is growing, developing a budget and tracking the results on a monthly basis is essential. It's what will allow you to maintain profitability and stay open.

HAVE THE RIGHT LABOR PRICING

The number one cause of failure is improper labor pricing. Most contractors set their hourly rates based on what others are charging, which is a big mistake.

Most owners don't understand what they MUST charge per hour to cover costs while generating reasonable profit. You may have a great marketing program, the best techs in town, and growing at 20% a year. If you aren't priced right, it's all for naught!

Proper pricing starts with knowing your real costs of doing business from a cash flow perspective, NOT an accounting perspective. Setting rates based on accounting information can put you out of business.

Your profit and loss statement will lie to you every day of the week.

Most of us understand the basic costs of doing business: rent, utilities, insurance, and telephone. Besides the "normal" costs of doing business, you need to consider a couple more, "major" expenses that are often overlooked. That's the cost of non-billable time and equipment replacement costs. These two costs aren't just overlooked — they're also the two highest costs of doing business!

OFFER MAINTENANCE AGREEMENTS

Maintenance agreements are the foundation stone for profitable growth in the 21st century.

Why? Because maintenance agreements are the feeder system for everything else the company does. Here's why.

Cash Flow

A well-run maintenance agreement program will provide consistent monthly income. This is because you're both selling and renewing maintenance agreements every month.

Reduces Non-Billable Time

Another huge benefit of selling a maintenance agreement is that YOU get to schedule the work. That means if your tech is only scheduled for 4 hours' worth of service calls for the day, you can send him on a couple maintenance agreement calls to fill the schedule. Using those hours reduces the company's non-billable time. This results in increased profit, and the tech gets a full day's pay instead of going home early on slow days.

Your Company Does All Needed Service Work Throughout the Year

One provision of most maintenance agreements is that the customer gets a discount on labor and/or material if they need extra service work done during the year. So guess what happens when your maintenance agreement customer needs more work done during the year? They're going to call you!

Replacement of Equipment

The biggest long-term benefit of having a maintenance agreement program is the eventual replacement of equipment. Customers buy from you not because of the type of equipment you carry, but because they trust you. You've been in the maintenance agreement customer's home once or twice a year for years. When it comes time to replace their equipment, who are going to call? You again. The neat part is that most of the time they will not even get competing bids. That means they'll buy at a higher profit margin than new customers.

Happier Customers

The next benefit is that you have happier customers. That's because you're going to their homes to maintain equipment when everything is running fine. That's a lot better than the tech having to go to the home when there is no heat or hot water. In times like these, the customer is usually not pleasant! Well-maintained equipment will break down less often, so you'll have happier customers.

Techs Gain Confidence in Selling Add-Ons

Are your techs fearful of selling in general? Selling maintenance agreements builds your techs' confidence, especially if you're on flat-rate pricing. When they've completed the diagnostic survey, the tech shows the customer the repair price in the manual. Next to the repair price is the discounted maintenance agreement customer's price.

The tech then can explain that an annual maintenance agreement will be much cheaper than a regular repair. This saves the customer money and increases your profits. Maintenance agreements are easy to sell when you're on flat-rate pricing. Once techs get comfortable selling maintenance agreements, they'll be confident talking about other add-on sales, too!

Space for New Customers

We all want to increase our customer base. The best time to do that is during weather extremes. When it's hot or cold, is your phone ringing? Sure it is. Is the phone ringing at your competitor's office, too? You bet it is. Now, if you walk into the office and have 10 messages, and 8 are from current customers, who will you take care of first? Your current customers, of course.

If most of your customers are on maintenance agreement programs, their equipment probably won't fail during extreme temperatures. With this in mind, you may have 10 calls, but now only a couple are your current customers. This gives you the space and opportunity to add new customers. It's all thanks to your maintenance agreement program.

Time to Sell

When it comes time to sell your company — and that time will come someday — normal profit is valued at 2-3x its value. Maintenance agreement profit is valued at 6-7x its value.

Would you rather have $100,000 in profit from retrofit, new construction, or remodeling. Or, would you rather have the same $100,000 profit come from your maintenance agreement program? In the end, the maintenance agreement income is a lot more valuable when it comes time to sell the company.

MARKETING

Marketing keeps your name in front of the customer. Consistent marketing is necessary because your customer doesn't need you every month, or even every year. When they do need service, or equipment replaced, however, it's who they remember that counts.

You may have marketed well for two years but the customer didn't have a need, so they didn't call you. Six months after you stopped marketing, someone else is marketing to your customer. Guess who your customer will call when their equipment finally does break down? Your competition who's currently marketing to them.

I heard a statistic one time that said 60% of your past customers who liked you would've called you again but didn't because they couldn't remember who made the last repair. Remember, it isn't just marketing that's needed — it's consistent marketing. When your customer does need work done, it's who they REMEMBER that counts. In America, we're geared for instant success, instant results.

Think about a farmer for a moment. He plants the seeds, fertilizes the ground, plows up the weeds, and waits for the rain to come. It's a while before he sees the fruit of his labor. Most things of value do not have instant success, and that's true of a well-run marketing plan, too. It'll take some time to show consistent fruit, but the fruit will come!

SUCCESSFUL
BUSINESSES DONT'S

IGNORE THE COST OF NON-BILLABLE TIME

Non-billable time is the time we pay the techs that we can't charge the customer for, or at least not directly. Non-billable time includes:

- ✔ Shop time
- ✔ Travel time
- ✔ Vacation
- ✔ Holidays
- ✔ Sick days
- ✔ Call backs
- ✔ Warranty work
- ✔ Company meetings
- ✔ Customer no-show

If you add all those up, the normal service tech will have about 50% non-billable time. The average installer will be in the 20-30% range. If your tech makes $18.00/hour, and half of his time is non-billable, you non-billable time costs nearly $20K per year per tech. That's after you add in the company matching taxes.

Two service techs will generate $40,000 in non-billable time, while five would add up to a cost of $100,000 a year. That's not only a lot of money, but it's the company's single highest cost of doing business. And guess what? Most contractors overlook the cost of non-billable time when determining profitable hourly rates.

FORGET ABOUT EQUIPMENT REPLACEMENT COSTS

Equipment replacement costs take the place of depreciation. Equipment replacement costs will always be higher than depreciation. That's because depreciation deals with what the company paid for a piece of equipment several years in the past. Equipment replacement costs deal with what the equipment will cost the company several years in the future. The future equipment replacement cost is then built into today's pricing.

To be profitable, you must understand exactly what it costs to do business from a cash flow perspective. Then, you need to set your rates based on what you have to charge, not what everyone else is charging.

WRAPPING IT ALL UP

Now you know what it takes to run a profitable business. For more help, join us at an upcoming workshop. We offer a 100% satisfaction guarantee. Plus, we've helped thousands of contractors like you build and maintain a profitable business.

Visit grandyassociates.com/pfp to learn more or click the button below to register for a workshop.

REGISTER NOW