

Profit Is Important But Cash Flow Is Critical!

Did you know cash flow puts more contractors out of business than any other single thing....except improper labor pricing! It's true. You can be priced absolutely perfectly and cash flow can still put you out of business. The basics of cash flow will be reviewed by using a Sample Company. You will also find out how one department can be subsidizing another department without the company management ever knowing it.....until it is to late.

We will also learn the ABC's of how to create a month-by-month, department-by-department, cash flow budget. Projecting cash flow needs is critical for any company. Are you going to lose money? If so, how much and when?. You need to know that.



“Cash flow is the #2 killer of small businesses today!”.

Tom Grandy, Founder

Seminar Special

Check out the last page of this handout for savings of over 50%
on four(4) of Grandy & Associates most popular
business building tools!

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Welcome



"Profit Is Important But Cash Flow Is Critical"

"Grandy & Associates has trained over 14,000 contractors (coast to coast and in Canada) how to run profitable businesses!"

Tom Grandy, Founder

What Will We Cover?

We will talk about:

- Three periods of growth that can put you out of business!
- Why month-by-month (as opposed to annual) cash flow budgeting is important
- How to create a month-by-month, department-by-department cash flow budget to project profitability and monthly cash flow needs
- Monthly tracking

Three Points Of Growth That Can Put You Out Of Business!

Growth = Increased Profit?


- Owner moving from the field into the office
- Gross sales approach \$1,000,000/year
- Any period of rapid growth (over 15% a year)



Cash Flow vs. Accounting

There are significant differences in cash flow and accounting. Most company owners have already experienced the differences!

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.

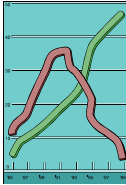


Cash Flow Vs. Accounting


Cash flow and accounting will show significantly different bottom-line profit margins!

Two major differences in cash flow and accounting:

1. Equipment replacement costs vs. depreciation.
2. How loan payments are handled.



Equipment Replacement 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)

Loan Payment Differences



If you have a \$500 loan payment and \$100 is interest:

- Accounting only shows the \$100 interest on the Income Statement.
- Cash Flow shows “all” \$500 as flowing out of the company.

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!

To Really Understand What Is Going On Within A Company You Have To Create A Budget

What will a budget do for you?

- Forces you to understand what the “real” costs of doing business are
- Provides accountability within the company
- Helps you make good economic decisions
- Helps the company begin to PLAN for the future - not simply evolve
- Basis for tracking profitability

Every Company Needs To Be Departmentalized To Understand What Is Going On



“Overall profitability can look good with one or more departments actually losing money.”

- When the company first started, it did only one thing (just new construction, design build, etc.)
- Now, 5-10 years later, the company does lots of things.
- One department can easily be subsidizing another and the owner not even know it!

Overall Company Income Statement



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

Everything “appears” to be in good shape. The company is producing a 15% overall profit.

It Is Important To Look At Departmental Profitability?



<u>Department</u>	<u>Profit</u>
Landscaping	\$ 80,000
Lawn Maintenance	<\$ 20,000>
Irrigation	\$ 90,000
Profit	= \$ 150,000

What If A Department is Losing Money?

REMEMBER

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



It May Be Okay To Lose Money In A Department If The Department Is:

- Absorbing a significant amount of fixed overhead cost therefore allowing the other departments to be profitable
- Creates profitable work for other departments (service, S/A, replacement work, etc.)

Watch what can happen if you automatically eliminate a department that is losing money!

Watch What Can Happen When a Department Is Eliminated!

	<u>Landscape</u>	<u>Lawn Maint.</u>	<u>Irrigation</u>	
Sales	\$ 150,000	\$ 250,000	\$200,000	
- 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	<u>37,000</u>	<u>62,000</u>	48,000	← What happens if we eliminate Irrigation?
Net Profit	\$ 18,000	\$23,000	\$ -5,000	
% profit	12%	9.2%	-2.5%	

Watch What Happens When the New Construction Department Is Eliminated!

	<u>Landscape</u>	<u>Lawn Maint.</u>	
Sales	\$ 150,000	\$ 250,000	
- Labor	45,000	65,000	
- Materials	30,000	85,000	
- Department Overhead	20,000	15,000	
- General Fixed Overhead	55,125	91,875	← 48,000
Net Profit	- \$ 125	- \$ 6,875	
% profit	- .08 %	- 2.8%	

Cash Flow Can Put You Out Of Business!

Question

Is it necessary to do a month-by-month cash flow budget – as opposed to a simple annual budget?

Cash flow is the #2 killer of small businesses today. We must know what is projected to happen each month during the year!

Let's look at a sample company.


ABC Sample Company

	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

Line of Credit

Items Unique To Cash Flow Budgeting


- Equipment replacement costs vs. depreciation
- Loan payments
- Matching payroll taxes
- Cost of accounts receivable



Matching Payroll Taxes

These are dollars paid by the employer over and above normal gross wages:

- Social Security/Medicare- 7.65%
- State Unemployment ----- 2-10%
- Federal Unemployment -- .8%



Matching Payroll Taxes

Consider a separate checking account for payroll:

Example: Gross wages= \$2,500

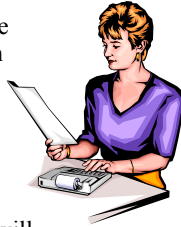
 Matching tax 12.5%

 = \$ 2,500 x 1.125

 = \$ 2,812.50

Estimating Gross Sales

- Past History - Look at last three (3) years on a month-by-month basis.
- Market conditions and general economy
- Planned changes in marketing strategy
- New products or services that will be offered.



Budgeted Gross Sales

Gross Sales Estimate

	Previous	Previous	Previous	Budgeted for Next Year
Jan	\$ 26,700	\$ 28,000	\$ 32,000	\$ 35,200
Feb	22,200	25,300	24,000	26,400
Mar	28,000	31,500	35,000	38,500
Apr	35,000	41,000	46,500	51,150
May	42,000	43,000	49,000	53,900
Jun	41,000	46,000	53,000	58,300
Jul	33,000	36,000	39,000	42,900
Aug	30,000	28,000	33,000	36,300
Sep	27,000	29,000	37,000	40,700
Oct	29,500	33,350	33,400	38,940
Nov	33,000	34,000	37,200	40,920
Dec	<u>24,000</u>	<u>26,000</u>	<u>24,500</u>	<u>26,950</u>
	\$371,400	\$401,750	\$445,600	\$ 490,160
		+8.1%	+10.9%	

Budgeted Labor Costs

Two Types of Labor

1. Overhead Labor Costs
2. Field Labor Costs

Consider planned increases in wages over the next twelve months

If the estimated gross sales have increased, field labor must increase



Estimating Field Labor Costs

Look at last years field labor figures as a percent of gross sales:

$$= \text{Total Field labor} / \text{Gross Sales}$$

$$= \% \text{ labor of gross sales}$$

Once the percentage (%) is known, multiply the estimated gross sales for each month by the percentage, to get an estimated field labor cost for the month.



Estimated Field Labor Costs

Example

Field labor dollars for last year = \$65,000

Last years Gross Sales = \$356,000

January estimated sales for the coming year = \$26,000

Step 1:

$$\text{Field labor \%} = \$65,000 / \$356,000$$

$$= 17.8\%$$

Step 2:

$$\text{Estimated January field labor costs} = \$26,000 \times 17.8\%$$

$$= \$4,628 \text{ for January}$$



Estimated Material Costs

Step 1:

Example

Last years gross sales = \$ 365,000

Last years material costs= \$ 89,500

Material as a percentage of sales:


$$= \$89,500 / \$365,000$$

$$= 24.5\%$$

Step 2:

$$\text{Estimated January sales} = \$ 26,000 \times 24.5\%$$

$$= \$ 6,370$$




Estimating Overhead Costs

NOT

Departmentalizing

Method:

1. Look at last years overhead (how much and when paid)
2. Estimate next years costs based on last years costs
3. Add additional costs that were not part of last years budget.
4. Keep in mind - INCREASE IN PROJECTED SALES WILL CAUSE AN INCREASE IN OVERHEAD!




Estimating Overhead Costs

Departmentalizing

Method:

1. Is the overhead cost DEPARTMENT SPECIFIC?
2. Is there a LOGICAL breakdown?
3. Remaining "General Overhead" must be spread to each department as well

General overhead costs need to be spread by department



How To Spread General Overhead Costs

Spread by Gross Sales

Method 1:

Dept A	= \$ 155,000
Dept B.....	= 89,000
Dept C	= <u>25,000</u>
	\$ 269,000

Total General Overhead= \$28,456



How To Spread General Overhead

Calculation of General Overhead Going To Department A To

Department "A" Percent (%) of sales:

$$= \$155,000 / \$269,000$$

$$= 57.6\%$$

Dollars of General Overhead Going To Department "A"

$$= \$28,456 \times .576$$

$$= \$16,390$$



Completed Budget

	Jan	Feb
Sales	\$ 35,200	\$ 30,400
Cost of Sales:		
Field labor dollars	6,550	5,800
Salesmen Commission --	2,200	2,000
Matching taxes (above)-	895	792
Materials	12,575	11,690
Overhead:		
Total overhead	9,600	9,200
Net Profit/Loss for month =	3,380	918
Less Non-Cash Items:		
Equipment Replacement	450	450
Cost of Account Rec....	120	120
Cost of Inventory	150	150
"TRUE" profit/loss	= 2,600	198



Projected Budget Is Complete

Ask Ourselves:

1. Is the projected Profit/Loss of our company acceptable AS A WHOLE (all departments combined)?
2. Are all the INDIVIDUAL DEPARTMENTS profitable?
3. Even if each department, and the company as a whole, is profitable? CAN YOU LIVE WITH THE MONTH-BY-MONTH CASH FLOW?

Reviewing The Completed Budget

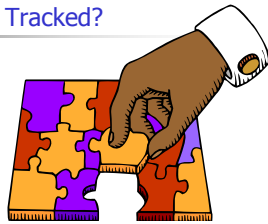
If the answer to any of the previous questions is **NO** then management needs to determine what changes need to be made!

REMEMBER

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

What Needs To Be Tracked?

- Month-by-month Cash Flow Budget
- Tracking payables and receivables
- Tracking billable hours
- Create a Cash Flow Summary Statement



"Think of your company as a large jigsaw puzzle. In order to know what's going on you need to have all the pieces in front of you!"

Tracking Overhead Costs

The first step in tracking overhead costs is to get key employees involved in the budgeting process!

- Get employees involved in the budgeting process
- Hold them accountable for the monthly results
- Reward those that "stay within, or under, budget"



"Get everyone involved in creating and tracking the budget numbers"

Monthly Budget Vs. Actual Summary Report

If you can't put your budget figures directly into your current accounting system, create a report like this:

	Monthly		Year-To-Date	
	Budget	Actual	Budget	Actual
Owners Salary-----	3,500	3,500	14,000	14,000
Secretary -----	1,000	1,100	4,000	4,300
Clerical Help -----	850	850	3,400	3,400
Yellow pages -----	500	500	2,000	2,000
Insurance -----	800	-	1,600	800
Gasoline -----	600	750	2,400	3,000

Create a report like this for:

- Gross sales
- Materials
- Fixed overhead
- Variable overhead

Accounts Payable

A companies "Budget Vs. Actual" can be right in line and the company still be in serious trouble because a cash flow budget.....

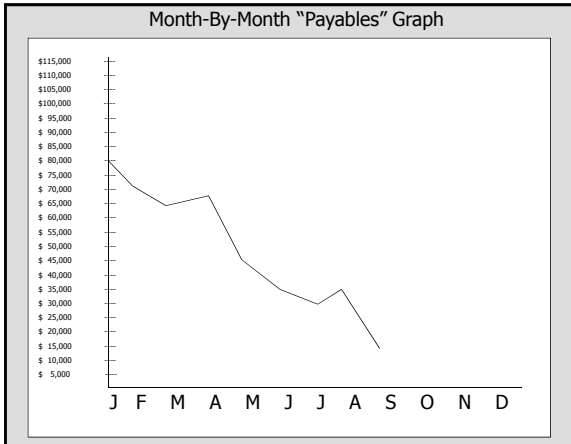
Assumes all the bills have been paid!

Payables increasing - Unable to pay bills (could be a receivable problem, a pricing problem or something else)

Payables decreasing - Cash flow may be tight but you are gradually getting out of debt

Month-By-Month "Payables" Status

Month	Current "Total Payables"	Change From Last Month
January	80,000	
February	73,000	- 7,000
March	67,000	- 6,000
April	70,000	+ 3,000
May	48,000	- 22,000
June	37,000	- 11,000
July	34,000	- 3,000
August	38,000	+ 4,000
September	20,000	- 18,000
October		
November		
December		



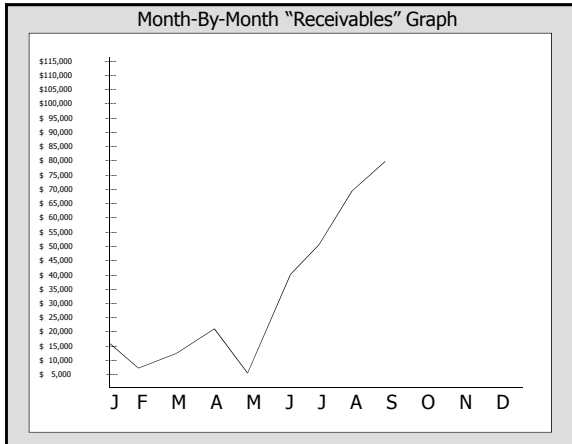
Accounts Receivable

Pay close attention to receivables, especially during period of rapid growth or normal busy seasons

Remember:
Most companies that go out of business, go out during their highest volume most profitable year!
Cash Flow Killed Them

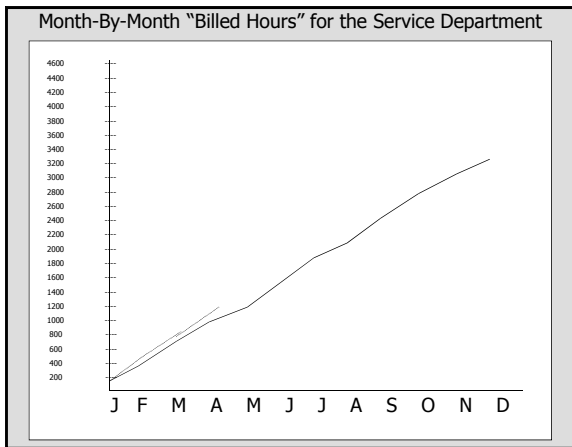
Month-By-Month "Receivables" Status

Month	Current "Total Receivables"	Change From Last Month
January	19,000	
February	11,000	- 8,000
March	17,000	+ 6,000
April	24,000	+ 7,000
May	10,000	-14,000
June	44,000	+34,000
July	55,000	+11,000
August	75,000	+20,000
September	82,000	+ 7,000
October		
November		
December		



Month-By-Month "Billed Hours" for the Service Department

Month	Cumulative "Budget" Hours	Cumulative "Actual" Hours
January	286	280
February	582	600
March	870	950
April	1166	1300
May	1365	
June	1691	
July	1968	
August	2288	
September	2490	
October	2787	
November	3084	
December	3350	





Cash Flow Summary Statement

A Cash Flow Summary Statement is like taking a picture of your business on a regular basis and then watching the changes day to day, week to week or month to month.



Cash Flow Summary Statement (daily, weekly or monthly)

For: _____

	4/1/19	4/8/19	4/15/19	4/27/19...
Cash in checkbook \$	_____	_____	_____	_____
Cash in savings \$	_____	_____	_____	_____
Total payables \$	_____	_____	_____	_____
Total receivables \$	_____*	_____*	_____*	_____*
Inventory in dollars \$	_____	_____	_____	_____

* Attach a detailed list of all invoices over 30 days old. List the account name, date due and the amount owed broken down by 30, 60, 90 and 120 days or more past due.



Great Opportunities to Grow and Prosper!

Seminar Special

- "Labor Pricing for a Profit with Cash Flow Projections"** Software - This user friendly Windows software is the ideal tool for modeling your company for maximum profitability. Check included you will know what to charge in each department, you will have a month-by-month cash flow budget at your finger tips and you will have your monthly cash flow projections for the coming year. **\$499.95** (includes cash flow & profit info you need to charge for all your products, materials, labor, you also have the ability to charge for all your overheads, what if overhead is changing? It is included in your investment. Price includes the detailed Federal CD's and Lifetime Support in FREE! All for only \$399.95 + \$10.00 shipping) ----- **\$424.95**
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- Service Managers' University Training CDs** This CD set contains eight (8) Staff/Peer Training Modules. Each CD contains Knowledge Checks and a Final Quiz to help you retain the information. If you want to learn how to "manage" a profitable service department, this program is for you. The investment is only \$149.95 + \$10.00 shipping/handling. ----- **\$159.95**

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I will come to your location, meet your secretary (by appointment) and create a "Business Plan" for your company. We are going through our "Company" for FREE! Also, I will give you a personal tour of our state-of-the-art facility. The total investment is **Just \$199.95 + Travel**. One night dinner would cover your investment. **Travel cost will be with some details of meeting you come to our location for a complete Company Overview.**

Method of payment: _____ Check enclosed _____ **CC** _____ **USA/CAN/INTL**
 Card number: _____ Exp. date: _____ Exp. date: _____
 Company Name: _____
 Address: _____
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This user friendly Windows software is the ideal tool for modeling your company for maximum profitability. Once modeled you will know what to charge in each department, you will have a month-by-month cash flow budget at your finger tips and you will have your monthly cash flow projections for the coming year! In addition to labor pricing and cash flow it also tells you what to charge for an annual maintenance agreement. When you are done, make as many copies as you wish and start the “what if” process of changing things to MAXIMIZE your profitability. Price includes two detailed Tutorial CD’s and **Lifetime Support is FREE!** All for only \$399.95 + \$15.00 shipping → **\$414.95**
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~~\$1,042.80~~
\$ 499.95

One-On-One Company Overview (**\$500 Discount**)

I will come to your location, model your company (by department) and create a financial “Business Plan” for your organization. It’s like going through our two-day Planning for Profit class.....but on a personal, more detailed level. The overview takes two days. The total investment is ~~\$4,500~~ \$4,000 + travel. One right decision would cover your investment many times over!

Please call us with more details of having you come to our location for a personal **Company Overview.**

Method of payment: ___ Check enclosed ___ COD ___ VISA/MC/AMEX
Card Number _____ Exp. Date _____ Code _____
Signature _____
Company Name _____
Address _____
City _____ State _____ Zip _____
Phone () _____
FAX Number: _____
E-mail: _____
Send attention _____

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