

2005- Time to Get the Business Going

Maybe for many years you wondered, "Where is the Money?" Life as a contractor can be frustrating, exhausting, and unprofitable. Day after day, year after year we wait for the perfect hot summer or the coldest winter on record to start us moving to prosperity and wealth, only to find it rarely happens.

Profit is a state of mind, an attitude about yourself, your business and your relationships with family, co-workers, and customers. You REALLY can make a profit in the contracting business if you do the RIGHT things. Just like a magic pill for losing weight, we want to make a profit in the HVAC or Plumbing business, but won't make the effort to succeed. We work, but not work for profit. Let's change your approach this year and make the hard earned monies you deserve. Proper budgeting, cash flow projections, and breakeven sales values are critical for business growth.

Great contractors in the U.S. are not greedy nor do they overcharge: however they have grown to realize that profit is a necessity in any business to take care of the demands of their family, co-workers and customers. If you are not making enough monies to take care of these individuals, you will fail as an owner and fail as a business. Your goal in 2005 should be to pay yourself at least 8% of your sales in salary and benefits and leave at least 8% left over for profits. The salary should provide for your family and the profit should be enough to grow the business.

Each year you should start with an Annual Budget that is broken down into twelve monthly budgets. Approach each month as you would the whole year. Think about opening your business on the first day of each month and closing it on the last day of each month. Focus on monthly sales goals, not yearly. If you need to sell at least \$30,000 per month, determine how you are going to get that money. Maybe you just sell service, so you

need \$7500 per week or \$1500 per day to meet your goal. If you go on 5 calls per day, they need to average \$300 per day. At the end of each week, you need to see if your sales are on track.

The issue is not just selling, but collecting. Personally as a consultant, I have never seen a company go out of business because of a lack of sales or customers. Contractors are busy and contractors sell, but they do not bill or collect in a timely fashion. Most contractors have their customers trained not to pay when service is rendered. You cannot pay your bills with accounts receivables, so a cash flow projection is necessary for you to pay your overhead and make a profit. Cash flow, not selling, is what is important. Your budget may say you anticipate selling \$30,000 per month, but how much do you need to collect each month or week to pay the costs of sales and overhead? With any good budget, a cash flow projection should be prepared to show your monetary obligations.

In order to meet these monetary obligations you must know your breakeven on all jobs. The breakeven price for a job is the price that covers all costs of a job, covers all overhead associated with that job, and yields a net profit of zero. That value is really the most important number to have calculated before you quote a job to a customer. If my breakeven for a replacement job is \$3000, I cannot sell the job for less than that number. If I do, I have lost money before I even do the replacement. How many times do you underestimate the cost of a job? Underestimate the cost of labor on that job? So keep in mind the breakeven price is the price if my estimate is exactly the same as my actual costs. Typical the breakeven costs for labor, is determined by multiplying the wage per hour of a field person by 2.5. The breakeven for materials or equipment is determined by multiplying the costs of parts, materials and equipment by 1.25. A cautionary note here; these are national averages and you must

specifically calculate breakeven for your company. Always, always know what your breakeven is before you start selling.

You need a plan for 2005 to earn the monies necessary to operate your company and take care of your family and coworkers. You need to not be dependent on the weather for success, you need to determine your own success by taking control and planning for profitability. Our newest business software, ProfitTracker, gives you the tools to plan for success in 2005. With it, you can develop a strategy for sales revenue generation, cost control, cash flow and breakeven pricing. You can run monthly budgets, cash flow projections, what-if scenarios, and price jobs for a profit. Get on board, take control with this new software, it's all there with ProfitTracker and support from the Collier Consulting Group.

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