The Business of Contracting – How to Ensure Financial Success
Jim Aanderud

MODULE
SLIDE 1-10

SLIDE 1 – Managing Money
As a former business owner, I know firsthand the importance of running a profitable business. Most people have no idea what it's like to manage money in a business environment. It's not something that comes naturally to most of us, especially those who have spent their career becoming really good at something other than managing money.

Understanding business finance is something that takes effort to learn. Few people have a natural knack for it, and those who do tend to become bankers and accountants. As the saying goes: It is better to learn from someone else's mistakes than from your own. In this case, learning from your own mistakes can be very costly, and I am testament to that. But the good news is that making the effort to learn how to manage money can help ensure that you achieve financial success.

Timely Receivables
The fact is that handling business finances can be very stressful. Even healthy, profitable businesses go through difficult times. When money is coming in on time, everyone is happy. But when checks are delayed for whatever reason, meeting obligations can become very challenging.

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REAL DEAL EXAMPLE
As a contractor, my receivables were often delayed beyond the ninety-day period. Even though the company was operating profitably, cash flow would dwindle at times to the point where we stressed over payables, especially payroll. Though my employees never once knew it, there were times when meeting payroll became a huge challenge. Having ten thousand dollars in the bank when a fifty-thousand-dollar payroll is due tomorrow can take years off of your life. I can't tell you how many times I had to get creative in order to meet these obligations. Sometimes I had to beg for payment, other times I cashed in my savings, my stocks and even my life insurance in order to make sure our employees got paid.

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SLIDE 2 – Figuring Out Finances
I have found that most successful contractors have come up through the ranks, learning the operations side of the business hands-on. They are very good at their jobs, and have built a strong client base because of it. However, most have not attended college, instead having attained their knowledge on the job. Because of this, few are versed in the finer points of business finance, and either rely on someone else to handle it or learn it slowly, over a period of time. Unfortunately, most of us who have gone down

this road have made huge mistakes that have cost us thousands, if not hundreds of thousands, of dollars. In some instances, these missteps have even put our companies at severe risk.

Familiarity, Finances and Fear

As contractors—like anyone else—we tend to gravitate toward what we know best when things get tough. When there are financial problems, we would rather avoid the office and concentrate on what we are good at, hoping we can solve the problems from there. The thing is: Financial problems can't be fixed by working harder in the field. These problems need to be looked at, understood, and fixed in the office. If there are financial issues, it's because more is being spent than was planned, or the company isn't charging enough for its services.

Remember, our financial problems can't be resolved until we fully understand our financial situation. So, let's take a close look at business finance, and learn something that can help strengthen each of our companies.

In this course, we will be discussing

- Profit
- Operating Capital or Cash Flow
- Accounting Basics
- How to Determine Cost of Business
- How to Price Jobs Correctly
- Increasing Profit Margins
- Increasing Sales Volume

PROFIT

Let's begin by talking about profit. Unfortunately, this is a word that has been demonized by the media over the past couple of decades. In their lexicon, it has become synonymous with "corporate greed" and "ill-gotten gain." The people who make these assertions are obviously misinformed and in most cases are pushing a different agenda. But be that as it may, there isn't a business in the world that will survive without profit. Well, maybe companies that are receiving government subsidies, but that's another story altogether.

Since money is constantly going out the door in the form of payroll, taxes, materials, supplies, rent, etc., new money must consistently be replacing the money that is being spent. We spend the money performing the work, we bill the customer for our services, and the customer pays us. It all sounds very simple, but it's not. Sometimes payments get held up for extended periods of time, and our cash flow dries up.

Bottom Line: It is profit that builds up our cash reserves, so that we can weather the difficult times. If we aren't making a profit, eventually there won't be money to pay for operating expenses, and soon enough, the company will close down…period!

Profit Must Be Intentional.

Generating a profit is not something that happens automatically. There must be a deliberate effort in order for it to happen. If we "shoot from the hip" and charge our customers a price, without knowing if it is sufficient to cover our costs and a profit, then we won't know if we are making money. One day, we'll be looking to pay our bills, and won't know why there isn't enough cash to cover them.

We must know exactly what it is costs us to do business, before we can know if we are making money or not. We can't bury our heads in the sand and *hope* that it's enough. We must be deliberate and proactive in all that we do.

We will delve deeper into these concepts as we progress through this course.

SLIDE 3 - Proactive or Reactive?
Let me ask you this: How do you think most small businesses operate—proactively or reactively? In my humble opinion, I believe that most operate reactively. And that's dangerous.

What happens when you run your business reactively? Well, it means that you don't take action on things until they become a problem.

Have you ever seen a businessman running around like a chicken with his head cut off? That's because he is running his business reactively. He has no idea what needs to be done, and just reacts to situations. He basically becomes the company fireman. He is constantly putting out fires that result from past problems, and never looks forward in order to prevent them.

SLIDE 4 – Reactive Results
What happens when a business is being run reactively?

To begin with, vehicles are constantly breaking down, because there is no preventative maintenance being performed. It's a "fix it when it breaks" mentality that causes a myriad of other problems. When crews have to be on the job at a certain time, but the vehicles aren't working, what do you think is going to happen? Of course, the customer won't be happy. And if it keeps happening, the customer is going to find someone else to do the job. And when you lose your customers, your profit dries up.

Another thing that happens when a company is reactive is that crews will always be late, because they won't be properly prepared for the job. They won't know where they are supposed go, and at what time they need to be there, and will constantly show up late. The ultimate result will be a soiled reputation for the company, eventual loss of customers, and a loss of profit.

Something else that happens when crews are disorganized is that they show up unprepared for a job, lacking the proper tools to perform the work. Someone will have to drive back to the yard in order to get the right tools, which totally cuts into their productivity. Not only will the customer be lost, but billable hours will be reduced, again cutting into the company profit margin.

When a company works reactively, jobs won't be properly planned. That means that there will be cost overruns. The margins of profitability will be reduced, because of the extra time or extra materials that

were needed for the job. When jobs take longer, other jobs need to be pushed off. This delayed work will cause profits to dwindle.

Basically, a company that operates reactively is always trying to play catch-up. They are constantly patching holes, in order to get things done. Since they are so distracted by the chaos, their work performance deteriorates, and profitability goes out the window.

Lastly, a company that operates like this is always in crisis:

- Customers are angry.
- Workers are out of the materials they need.
- The company didn't get the permits they needed.
- The equipment isn't working.
- A key employee didn't show up.
- A customer is threatening not to pay them for the substandard work they did.

It's a heck of a way to live, and certainly not a way to run a business.

SLIDE 5 – Reactive Bottom Line
The bottom line is that this type of action will result in a loss of income, and ultimately, profits will be down.

SLIDE 6 - Proactive Profitability
On the other hand, a business that operates proactively will run profitably. They will keep their vehicles and equipment operating properly, and they will plan their jobs the right way. The crews will run on time, and jobs will be completed on time and within budget. A company like this will see the demand for their services grow, and ultimately, they will make money and see an increase in their profits.

SLIDE 7 – SLIDE 8 – Making Money
So, what is the key to business success? It's making money. If your finances are underwater, it's because you aren't making enough of a profit. There are some inherent problems with your business that need to be addressed.

SLIDE 8 – Making a Profit
On the other hand, if you are making a consistent profit, your company is probably thriving. That means that you are paying your bills on time and have money left over at the of the month. You're probably growing and looking a new opportunities on the horizon. But Mostly, it means that you don't carry the high level of stress that struggling business do. Your future looks much brighter

SLIDE 9 – Basic Business Principles
At the heart of it, business is very simple. Let's take a look this balloon businessman, for example. His business may be small, but it operates under the same principles that most businesses do.

In this case, his operating capital is tied up in his 100 balloons. Let's say that each balloon costs him $1. If he were to sell the balloons for $1 each, then he would have earned $100. However, if he did that, there wouldn't be any profit. He could use those $100 to buy 100 more balloons, but it wouldn't take long before he ran out of money.

Why? Because he has expenses that need to be paid in order for him to continue to sell balloons. So, not only does he need enough money to replace the balloons he sold yesterday, but he needs to make enough additional money in order to pay his expenses. In this case, he has rent that costs $50 a day, his meals total $30 a day, he has a cell phone that costs $10 a day, and he spends $10 a day on public transportation.

So, what does he do with the $100? He needs to replace the balloons which cost $100, and he needs to cover his daily costs, which amount to $100. The bottom line is that if he doesn't make at least $200 a day, he is out of business.

In this case, our balloon businessman is very astute. He actually charges $4 per balloon, which gives him a daily gross profit of $3 per balloon. So, at the end of the day when he has sold all of the 100 balloons, he has made a total of $400. His gross profit for the day is $300.

The first thing he does is to set $100 aside, so he can buy more balloons tomorrow. Next, he sets another $100 aside in order to cover his daily expenses. That leaves him with $200, which is his net profit.

There is a huge difference between the two: Gross profit is what you make before all of your expenses are paid, and net profit is what you have left after everything has been paid for.

So, what do you think he should do with the $200 net profit?

If he were irresponsible, he would go out and spend it on toys and a good time. But, since he is a good businessman and understands finances, he puts it away in savings. Why? Because he knows that one of these days, there will be rain and no one will buy his balloons on those days. However, he will still have daily expense of $100, but with no income.

During those times, he will need to dip into his savings in order to survive. If he had nothing put away, he would wind up eating up all of his earnings for operating capital, and would be out of business.

Now, think about what would happen if the rain lasted for a few days. In order to survive, he would need a healthy reserve.

Savings = Options

As his savings grow, so do his options. Not only is he able to survive longer periods of rain, but his is also able to look at new ways in which to make more money. With his capital reserve, he could hire someone else to sell balloons at a different location. He could provide them $100 worth of balloons, and pay them 50% of the gross profit, which would come to a total of $250. That means that he would still make an additional $150 each day.

Now that he is making money and his reserves are growing, his options begin to expand. He could hire 10 salespeople and duplicate what he has done with the first salesperson. He would now need to buy $1,000 worth of balloons each day, split the profit with each one, which would give him a daily profit of $1,500. With that kind of income, just think about what else he could do.

SLIDE 10 – Rainy Day Fund

So, as we can see, making a profit is key to achieving financial success. And why is that? Because it allows you to build a reserve, or a rainy day fund, if you prefer. It gives you a cushion, in order to survive unexpected circumstances and even calamity. And mostly, it gives you peace of mind. There is nothing more assuring than knowing that you have backup funds to help you through the tough times. This in itself helps reduce stress levels more than anything else.

Making a profit and having reserves helps you make those unexpected repairs when they happen, and it allows you to invest in new equipment. Making a profit and setting some of that money aside helps you weather those slow-paying customers. When those receivables take weeks, or even months to come in, you are able to continue to perform work, even though money is still going out. And really, most importantly, it helps you weather the slow times, when there is little to no work.

When a business is run properly and a healthy profit is being generated, the business can expand by purchasing new equipment or venturing into new business opportunities. Most important to your employees, it allows you to give raises and even bonuses to reward good performance, which incentivizes more such performance.

Ultimately, making a profit helps build wealth and prosperity, and that is the reward you should achieve for the risk you have taken.

MODULE II –

SLIDES 11 - 25

SLIDE 11 - Operating Capital

Before we go through our next exercise, I'd like to focus for a moment on OPERATING CAPITAL. Operating capital is the money available for the operation of a company. It is, in fact, the life blood of any business. When someone starts a business, they begin with an initial investment of capital. Since there is a limited amount, making money by making a profit is essential to growing the amount of capital a firm has to operate with.

Unfortunately, capital is not always available, because it gets tied up in other areas, such as receivables (money owed by customers). The amount of capital fluctuates continuously; money goes out and comes in, but while money is constantly flowing out, new money doesn't always come in right away.

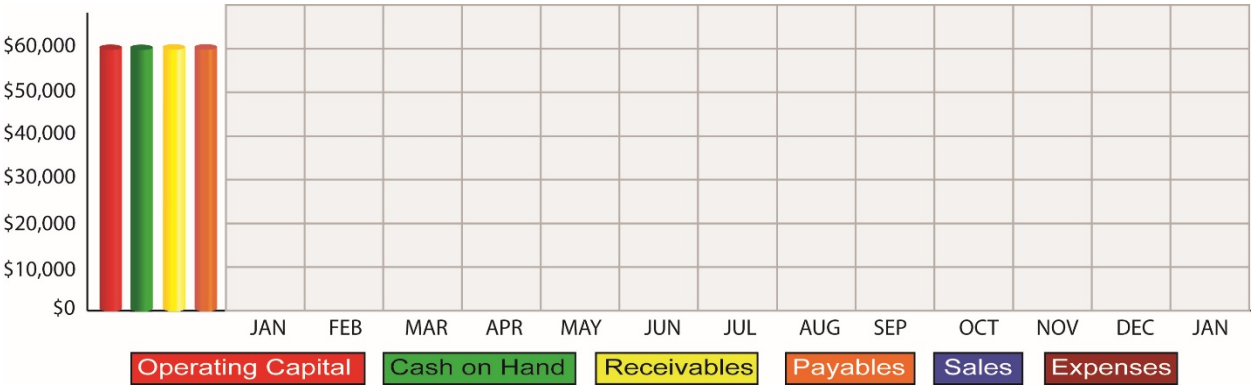
If a company doesn't keep an eye on its operating capital, that pool of capital will shrink and eventually disappear. When there is no more operating capital, a company can no longer function.

SLIDE 12 - Effects On Operating Capital

I'd like to go through an exercise to demonstrate how companies fail, by analyzing how the various financial aspects of business have an effect on operating capital.

Let's look at this chart for a moment. As you can see, we have four color-coded columns.

The red one represents what we have been taking about: our operating capital. This will go up when we make a profit, and our company is worth more. And, it will go down when we aren't making a profit, and the company is losing money.



The green column is our cash on hand. This is tied to our operating capital, but is completely different. It indicates how much money we have to pay our bills. It shows how much money we have. It could be in the form of cash and checks, but mostly, it is the money we have in the bank. When we pay for something, the amount of money we have on hand goes down. Whether it's payroll, loan payments, rent, or anything else we need to pay for, the amount of money we have in the bank will go down. Now, when we are paid by our customers for the services we have performed, our cash on hand is replenished, and it goes up.

The yellow column represents our receivables. This is the amount of money that is owed to us by our customers. When we first start out in business, we haven't done any jobs yet, and no one owes us anything. However, when we start working, things change. As they say, you have to spend money in order to make money.

When a company goes out and performs a job, there is a cost to this work. There may be materials that need to be purchased, there is the equipment that needs to be paid for, and the employees must be paid for their work. So, when that money is spent, our cash on hand does down. However, since we performed a service of value, our receivables go up, because the customer owes us that money. The same thing happens on our next job, as we continue to spend money in order to work, which increases the amount of money that is owed to us.

Now things can get a little scary, when we continue to work and spend money, but our customer delays paying us. This can cause us to run out of cash on hand, which means that we can't pay our bills.

The last column is our payables, or the money we owe. When we first start out in business, we owe no one and no one owes us, so we have all of our operating capital in cash. As we start to work, we begin to accumulate payables. Some payables are due immediately, and some aren't due for thirty days. When we pay off our payables, our cash on hand goes down and our payables disappear. But soon enough, we take on new payables that need to be paid for, and again our cash goes down while our payables are again eliminated.

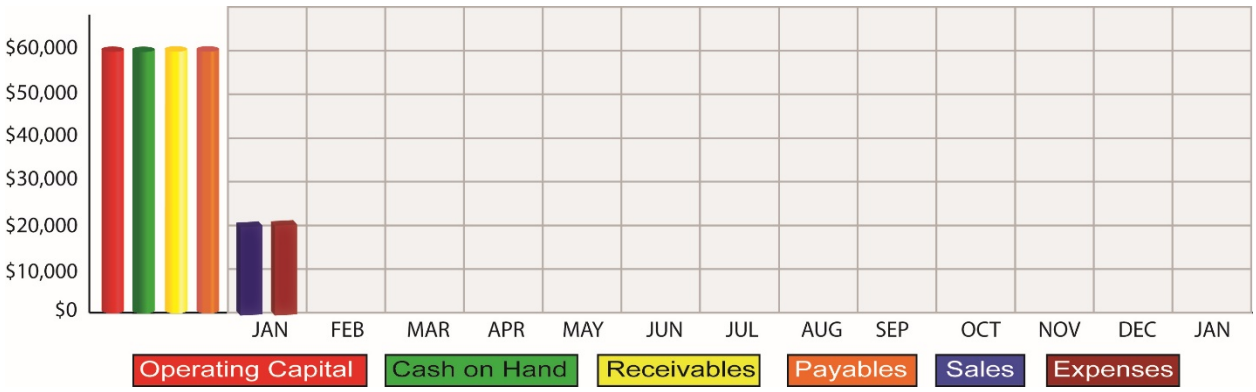
Now, as we continue to work, the money that is owed to us grows, but we continue to have to pay money out in order to perform the work.

The balance between all four of these factors is critical, and someone needs to be keeping a close eye on them as they fluctuate.

SLIDE 13 – Sales and Expenses

So, that is how operating capital, cash on hand, receivables, and payables work.

Let's introduce two more columns. The first one in the blue is sales. This represents how much money we make. The goal is that money will be made every moment the crews are out in the field. For accounting purposes, we will look at the sales generated over the period of a month.

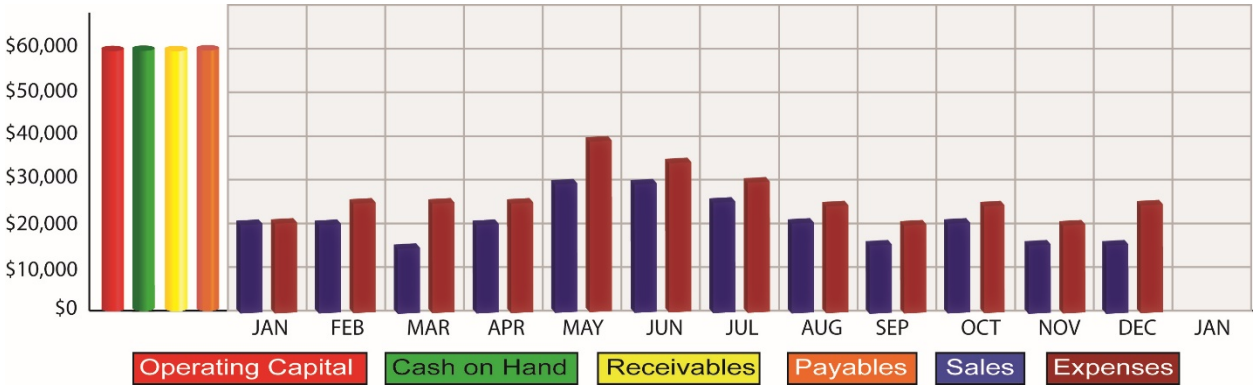


The next column, in maroon, represents expenses. This is what we would refer to as our "cost of business." Every thin dime that we spend during a month adds up to our cost of business. Now, you may be thinking, "I thought that was payables."

Yes, expenses and receivables are directly tied together, but they are different. For example, if you go out and buy a shovel and pay for it with a check, that money is deducted from your cash on hand immediately, and does not move into the payables. column. Only when payment is delayed through a line of credit, or is paid for with a credit card, does it become a receivable. So, our expenses for the month may be $20,000, but our receivables may only be $15,000, since we spent $5,000 with cash.

Another way to explain this is that operating capital, cash on hand, receivables and payables represent the current status of the company; while sales and expenses are a picture of what happened in a given month.

What I would like to do now is go through a year of accounting, in order to demonstrate how businesses fail. Here, we have a company with a clean slate. It starts out with $60,000 in operating capital, which is all in the bank and represented as cash on hand.



As we progress through the year, each monthly performance will be represented by a sales column and an expenses column. They will show exactly how the company has performed that month. Even though we are creating a very simple measure, it depicts exactly what happens financially in a company. We are not talking about a company's operations here, we are simply looking at the bottom line, which is sales and expenses. In other words, how much money was generated by the work performed, and how much it cost to perform that work. And, what kind of effect did it have on the overall financial picture.

JANUARY
We will begin in the month of January. In this month, there were sales of $20K, and our expenses were also $20K. In this case, we billed $20K, which increased our receivables by $20K. $10K of the expenses were paid in cash and $10K went into our payables. That means that we still have the same amount of money in operating capital, our cash on hand is at $50K, our receivables are at $20K, and our payables are at $10K. In this month, the company broke even.

SLIDE 14 – Problems Emerge
FEBRUARY
In this month, some problems begin to emerge. Even though we had the same sales as last month, our expenses exceeded our income. The results were that our cash on hand went down by $10K, our payables went up by $15K and our receivables increased by $20K. However, we receive a $20K payment from the work we performed in January, which reduces our receivables to $20K and helped us pay $20K on our payables. However, what's happened this month is that there was a $5K loss in the company's operating capital. That's just money lost and can't be recovered unless a profit of $5K is made sometime in the future.

SLIDE 15 – Hemorrhaging Continues
MARCH
In March, the hemorrhaging continued. Sales were down to $15K, but expenses were up to $25K. Receivables were now up to $35K. The company paid off their expenses with $10K from the cash on hand, and added $15K to its payables. A payment of $10K came in, which increased the cash on hand to

$40K and reduced the receivables to $25K. Again, though, there was a loss; this time of $10K, which reduced the operating capital to $45K.

SLIDE 16 – More Losses

APRIL

April looked a lot like February. There were $20K in sales, but again, expenses outdid sales by $5K. After everything was accounted for, there was $20K in cash, receivables were at $25K and payables were at $30K. Again, operating capital was reduced by $5K.

SLIDE 17 – Expenses Too High

MAY

Now let's look at May. Sales were up to $30K, but expenses continued to outpace them by $10. If the owner had been keeping an eye on things, he would have been very aware that something was wrong at this point. But unfortunately, most people don't see it yet, because things are not yet critical. There is still money in the bank, and the company is keeping up with its payments. This month, payables (debt) rose, and continued to exceed receivables. As with each of the previous months, the operating capital continued to fall, only this time by $10K.

SLIDE 18 – Loss of Capital

JUNE

In June there were sales of $30K, but again expenses were higher by $5K. The result was that the payables continued to rise to $55K, receivables were up to $45K, and cash was at $30K. But, most importantly, there was a loss of operating capital.

SLIDE 19 – Reaching Critical Point

JULY

In July, expenses are still exceeding sales. The accounting continues to fluctuate, but again, our operating capital has gone down to $20K and we are reaching a critical point. When we started the business in January, we had $60K in operating capital. Now, not only is our operating capital at $20K, but we have a debt of $50K. Even if all of our receivables came in and we paid it all toward our payables, we would still owe $10K.

SLIDE 20 – Still Losing Money

AUGUST

August continues the trend of losing money. There is cash in the bank, so the owner is still unaware that there is a problem. Even though payables are high, they are being serviced and vendors aren't worried. Again, the net result is a reduction in operating capital by $5K, to $15K.

SLIDE 21 – Payables Escalate

SEPTEMBER

Again, the company continues to lose money. They aren't huge losses, so the owner still isn't aware that he's in trouble. There is still $45K in cash, which masks the fact that payables continue to escalate. There are still $30K in receivables, so no one is panicking just yet.

SLIDE 22 – Critical Position

OCTOBER

With a loss of $5K, when operating capital is at only $5K, places the company in a critical position. Since the owner isn't looking at his operating capital, he still thinks that he is making money. Sure, payables are a little high, but there is cash in the bank, there are receivables, and more work is coming next month.

SLIDE 23 – Completely Upside-Down

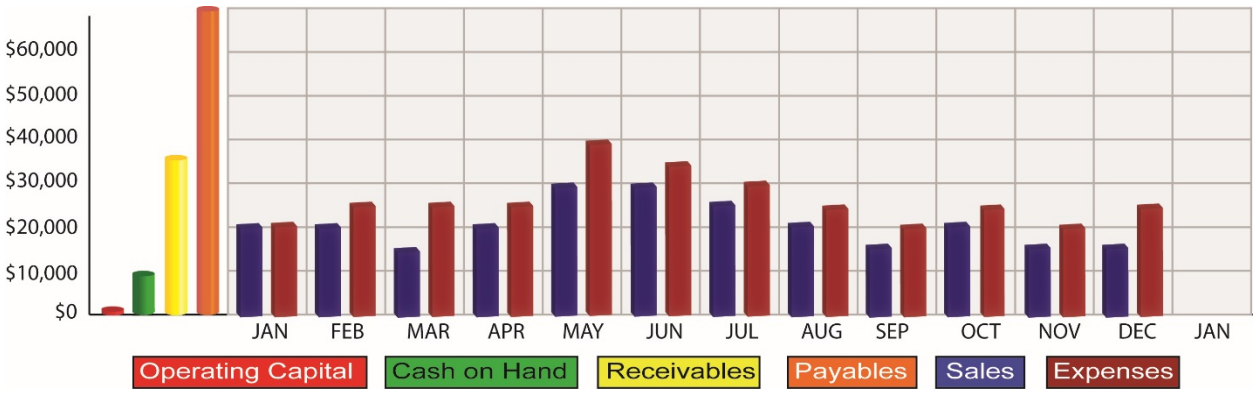
NOVEMBER

Now we are reaching the point of critical mass. With another month where expenses outpaced sales, our operating capital has been reduced to nothing. Now the company is completely upside-down, where payables exceed the combination of both cash on hand and receivables, by $15K.

SLIDE 24 – Panic

DECEMBER

This is where panic usually sets in. Some of the payables are moving into the 90-day period, which is making the vendors and suppliers very nervous. Some are putting the company on a cash-only basis. This, of course, is affecting operations, because now they can't get the supplies they need, or get broken equipment fixed.



SLIDE 25 – Digging A Deeper Hole

JANUARY

Now we've reached a year after the company started. For each of the previous twelve months, the company has been losing money. The operating capital has been wiped out, cash and receivables equal $25K, while payables are at $70K. The company now has a debt of $45K.

It is at this point where owners start doing everything possible to bring in more cash. They take on new lines of credit, they cash in savings, stocks and 401Ks, and they borrow money, sometimes at very high interest rates. However, all they are doing is getting themselves into more debt and postponing the inevitable. Because they are unaware of the root cause, nothing is going to change. Even with a new cash infusion, the company will still be losing money, because the core problem has not been addressed.

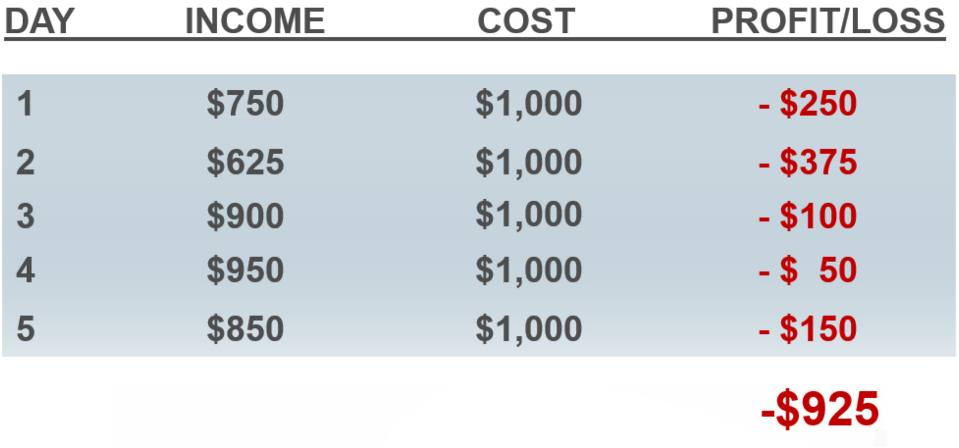
In the next module, we will discuss how the company got here.

MODULE III –
SLIDES 26 – 32

SLIDE 26 – Operational Details
We’ve looked at what happens when a company takes a financial loss, month after month. Their operating capital gets depleted and ultimately, it leads to their demise. Now let’s zoom in and take a closer look at exactly how it happened.

It really doesn’t matter what type of business it is, because most of them are broken down into separate profit centers. In this exercise, I am referring to only one crew working in the field.

In this chart, we will analyze a crew as it performs work during a single week. As you can see, we have the day, the income made that day, and what it cost to earn that income. Lastly, we have the profit/loss column, which shows us how much money was made or lost.



DAY	INCOME	COST	PROFIT/LOSS
1	$750	$1,000	- $250
2	$625	$1,000	- $375
3	$900	$1,000	- $100
4	$950	$1,000	- $ 50
5	$850	$1,000	- $150
			-$925

On day one, the crew goes out and produces an income of $750. As far as they know, they’ve done a great job. They were instructed where to go and what to do, and they performed the job as expected. What they don’t know, though, was the fact that they not only didn’t make any money, they actually lost money. But why should they care? After all, they get paid for the day. Sadly, it’s the company—and the owner, specifically—who should be aware of this fact. If they were, they could make changes in order to ensure that the rest of the week didn’t go the same way.

Unfortunately, on the second day, the crew goes out and makes even less money. Since the cost of business is still the same, the loss is even greater.

During the next three days, the crew's income fluctuates, but there is still a steady loss of income. At the end of the week, that particular crew has lost $925. Those $925 have now eaten into the company’s operating capital, as we learned in the previous module.

Again, I can’t emphasize enough how important this information is. Most companies have no idea it’s happening, and continue to send crews out, even though they are consistently losing money.

SLIDE 27 – Comparing Two Companies

Let's contrast two companies. Each of these companies has five crews that go out on a daily basis. It costs each of the crews $1,000 to mobilize for the day. This threshold covers all of the company expenses.

COMPANY A

	INCOME	COST	PROFIT/LOSS
Crew #1	$750	$1,000	-$250
Crew #2	$1,200	$1,000	$200
Crew #3	$900	$1,000	-$100
Crew #4	$1,050	$1,000	$50
Crew #5	$700	$1,000	-$300
			-$400

Even though a couple of crews eke out a small profit for the day, the other three crews take a loss, with a net loss to the company of $400 per day. If that were to continue to happen for the remainder of the week, Company A would take a financial loss of over $2,000 for the week. Imagine what their books would look like, with this kind of performance. With a steady loss of the operating capital, it would only be a matter of time before they would go bankrupt.

So, what's the problem with Company A? Well, it could be that the jobs are being quoted too low, or it could be that the crews aren't performing to capacity. Either way, it is a management issue that needs to a) be recognized, and b) be fixed.

SLIDE 28 – Company B Performance

Now, Company B is whole different story altogether. Management has priced the jobs adequately, and it appears that the crews are performing to capacity. The bottom line is that the company made a profit of $2,150 that day, and over $10,000 for the week.

COMPANY B

	INCOME	COST	PROFIT/LOSS
Crew #1	$1,200	$1,000	$200
Crew #2	$1,500	$1,000	$500
Crew #3	$1,650	$1,000	$650
Crew #4	$1,475	$1,000	$475
Crew #5	$1,325	$1,000	$325
			$2,150

SLIDE 29 – What's The Difference?
What's the difference between these two companies?

Company A is losing money and will eventually go out of business. Company B is making money and is thriving.

Company B is able to repair its equipment, can invest in new equipment, can expand into new markets, invest into a new facility, offer 401Ks, offer medical benefits, and can even afford to give out raises and bonuses. This is a company that will continue to grow, well into the future.

SLIDE 30 - Company Death Autopsy
Let's look at how Company A got into trouble. First of all, it's obvious that they did not understand business finance. Most likely, they "shot from the hip" when it came to pricing jobs, and gave customers quotes that were way too cheap. They also focused on the income only, and just assumed that they were making a profit.

Another reason they got into trouble was that they gravitated to areas of comfort. This is actually typical of many businessmen in general, and contractors specifically. When things get tough and they don't understand what's going on, they go work on what they know. So, when there are financial problems, they avoid the office and go work on equipment or on jobs, in order avoid dealing with the hard issues. Essentially, they bury their heads in the sand.

In the same way, they tend to avoid areas they don't fully comprehend. Since they don't understand what is happening financially, they avoid dealing with it completely, which is exactly the opposite of what they should be doing.

Many misunderstand income and profit. They don't understand the fundamentals of how business works. They never go through the exercise of knowing what each job needs to charge, in order to make them profitable.

Some just take their eye off the ball. They get so caught up in their area of expertise, that they let someone else deal with the finances. Sometimes, that person just shuffles paper and doesn't have a stake in knowing what's needed. They too may not understand profit and loss and don't pass the right information on to the owner.

Most importantly, they probably didn't have a system in which to track income and profit. They didn't have a job costing system.

SLIDE 31 – Job Costing Systems

I believe that this is a good time to take a close look at a job costing system. This may well be the most important part of business that I will share with you in this course. This can truly make the difference between success and failure.

Both expensive and inexpensive job costing programs are available in abundance, and it is up to each company individually to determine what is right for them.

Obviously, with a larger and more complex company, a more sophisticated system is required. But the bottom line is that it doesn't matter what you use, as long as it is something that gets the job done. Anything that forces you to enter cost and income each day is better than doing nothing. Even if it is just ballpark close, it's still better than riding blind.

When I first started in business, I only had two crews working, and then they weren't working every day. So, keeping track by hand wasn't very difficult or time-consuming. Therefore, in order to keep things simple and understandable, I'm going to go back to the basic means through which I tracked our job costing, and that was on an Excel spreadsheet.

Google offers a free online spreadsheet via Google Docs, if you can't or don't want to invest in your own Office suite software. Now, if you perform an Internet search on Job Costing Templates, you will find an abundance of them, relating to various types of industries. Most are very involved; however, I'd like to keep this exercise as simple as possible.

If you think that it's too expensive to pay someone an hour or two per day to enter this information, you are wrong. I would say that you can't afford not to pay someone to enter the information and track your profitability closely.

In order for this system to work, we must know what our operating cost is. How much does it cost us per hour to roll out a crew? Determining this will help us know exactly where our break-even point is. In other words, when we come up with the right number, we'll know that we are losing money if we fall below it and we will know that we are making money if we are above it.

Here is a simple job costing template. Even though it is very basic, it can be a powerful tool. What's important is that the information being entered must always be as accurate as possible.

Date	Job Num	Fixed Cost Day	Fixed Variable Cost Day	Variable Cost Job	Empl #1 Hour	Empl #1 OT	Empl #2 Hour	Empl #2 OT	Total Payroll	Standard Hours	OT Hours	Total Hours	Hourly Charge	Total Job Cost	Total Billing	Profit	Profit Margin
Mon	16302	$1,000	$250	$50	$20	$30	$15	$22.50	280.00	8	0	8	$185	$1,580	$1,480	-$100	-.07
Tue	16306	$1,000	$250	$20	$20	$30	$15	$22.50	332.50	8	1	9	$250	$1,602.50	$2,250	$647.50	.29
Wed	16307	$1,000	$250	$0	$20	$30	$15	$22.50	280.00	8	0	8	$275	$1,530	$2,200	$670	.30
Thur	16310	$1,000	$250	$50	$20	$30	$15	$22.50	385.00	8	2	10	$275	$1,685	$2,750	$1,065	.39
Fri	16314	$1,000	$250	$100	$20	$30	$15	$22.50	332.50	8	1	9	$285	$1,682.50	$2,565	$882.50	.34
															$11,245	$3,165	.28

We'll start on the far left on the Date column. This is where the actual day of the job would be entered. If there were multiple jobs on that particular day, then there would be a row for each crew.

Next, there is the Job Number column. This is where a unique number is entered that represents each shift of work. Since my company had preprinted work orders that were filled out by the crews at the end of each day, we used that number as the Job Number, the Work Order number and also as the Invoice Number.

Now we will begin to address the critical step of determining what it cost us to perform each job. We will address this in more depth in the next module.
Now, each of these columns represent the three areas that make up our cost of business:

Determining the Fixed Cost Day column is calculated by adding up our monthly cost for rent, equipment payments and salaries. It is called "fixed" because it is the same amount each month. In this case, the monthly cost is $22,000. By dividing that amount by the number of work days in the month, we will know precisely what that cost is per day and per hour.

Now, if we have multiple jobs in a particular day, we can divide that number among them. So, in this case, we have come up with a Fixed Cost per Day of $1,000. If we have four separate jobs on that day, then that cost may be divided by four, and the Fixed Cost for each job would be $250.

The Fixed Variable Cost Day column can fluctuate from month to month. These costs include phones, utilities, insurance, taxes and fuel. Now, this cost may be different from crew to crew because of the fuel cost, or you could just move fuel over to the Variable Cost column.

Now let's look at our variable costs. The area with the dark box around it reflects our variable costs. They include supplies, job materials or anything that is purchased specifically for that job. The biggest cost, of course, is payroll.

Let's go ahead and enter what the employees make. Since salaries and wages are fixed, we can go ahead and input them across the board. Employee number 1 is paid $20 per hour. For any overtime, they will be paid time and a half, or $30 per hour. Employee number 2 makes $15 dollars per hour and $22.50 for overtime.

Let's look at the job for Monday, or job number 16302. Before the work began, the crew had to purchase $50 worth of supplies, which is added to the cost of the job. At the end of the day, the job took

8 hours, with no overtime needed. That means that payroll for the two employees came to a total of $280.00.

What's nice about using a spreadsheet is that, once the required numbers are entered, the pre-programmed cell formulas will automatically tabulate the results.

The Total Hours column now reflects the number of hours that the job took to complete. In this case, it will be the total of the standard hours plus the overtime hours.

Now, the Hourly Charge will have been given to and agreed upon by the client, prior to the job starting. In this case, the job was quoted at $185 per hour.

The next column now indicates exactly how much it is going to cost to perform the job. This cell tabulates the total of the Fixed Cost Day, Fixed Variable Cost Day, Variable Cost Job and Total Payroll. In this case it comes to $1,580. Now we can begin to see how we did financially on this job.

The Total Billing, which multiplies the Total Hours by the Hourly Charge, comes to $1,480. The Profit Margin now shows that there was not only no profit, but there was a loss of $100, or a negative 7% profit, as shown on the Profit Margin column.

This reveals the importance of having a job costing system. You see, if this information was not available, the company would continue to do business in the same way, believing they were profitable. They would continue to under-bid jobs, and could continue to lose money. All they would be focusing on was the fact that they made $1,480 that day, and they would be assuming that everything was okay. Any indication that they were losing money on these jobs wouldn't come to light for months, or even longer.

This system allows us to know immediately whether we are making money or not. If we see that we have lost money, then we can make immediate changes to rectify the losses, instead of having a continuous hemorrhaging of our finances.

I believe that I cover this in another area, but please let me know if you think that I need to work on this. How about mentioning that the Job Costing system could be used as a "what if?" forecasting model to determine a job's break-even point before crews are even sent into the field, so that most jobs (except those with unforeseen cost overruns) are profitable?

Taking Corrective Action

By having this information, we can take corrective measures in order to prevent lost money from continuing to happen. In this case, we realize that we under-bid our previous job, and that we need to raise our prices in order to make money. So, on the next job, we raise our hourly price to $250.

I know what you're thinking. "If we raise our prices, we won't get the job." That may be true, but remember this: You are in business to make, not lose, money. It is better to not do the work, than to do the work and lose money, PERIOD! This is a concept we will certainly revisit in a future module.

Now that we've raised our prices, look how it affects the profitability on the next job. Even though there is an hour of overtime, the higher charge has generated a profit of $647.50. That looks a lot better, doesn't it? And if you look at the Profit Margin, you will see that our Profit Margin is at 29%.

What we should always shoot for is a minimum of 30 percent profit margin. This was a number my accountant gave me many years ago, and it seemed to work pretty well. Why this number specifically? Explain -- otherwise it just seems random. If you can get more, that's great, but try to never fall below the 30 percent.

On Wednesday, we finally achieve the 30 percent profit margin, but as you can see, we raised our prices just a bit more. As the week goes on, we continue to learn what our sweet spot is.

On Thursday, with the same pricing and 2 hours of overtime, our profit margin grows to 39 percent. This is a great place to be.

On Friday, we are able to charge just a bit more for our services, and we wind up with a 34 percent profit margin.

Now let's analyze the week's results:

To begin with, we can see that the company generated a total of $11,245 in billing. Most people will say that the company made $11,245, but that is not accurate. Again, you only make money when you make a profit.

I've sometimes asked businessmen if they are making money, and they tend to reply hesitantly that they are. Folks, you need to know if you are making money or not. This cannot be a guessing game. We need to be dealing with facts.

Now, if we look at the profit column, we see that the company made $3,165. This is great. It means that the company's operating capital has increased by that much. The profit margin for the week was 28 percent. Like I said before, it needs to be over 30 percent, but considering that Monday was a loss, 28 percent isn't bad.

The lesson here is that accurate and timely information are the tools to success. When we are able to make decisions based on accurate information about today, we can make immediate adjustments in order to ensure we stay profitable tomorrow.

So, remember that we must use a *system*, so we know exactly what is happening, each and every day. We can't let months pass before we know that we have been losing money, because it may be too late by then to recover financially.

Most of your jobs may be profitable, but it only takes a bad quote on one project to zap all of the profit you have made to date. So, be sure to track your finances on a daily basis, so that problems can be identified early, and adjustments can be made accordingly.

SLIDE 32 – False Promises and The Bottom Line

Early in my career, I was recruited by a company and hired as an operations manager. I didn't have a lot of experience managing people, and I was thrust into a situation where I had multiple employees under me. At the time, I was on salary, but I also had an incentive package that would pay me additional money if I reached certain financial goals.

The problem was that I didn't understand business finance. I remember when I received my first bonus. It was for over $10,000 and I was ecstatic. I'd never received a check like that in my life. We had just completed a good-sized project, where the margins were really good. My boss was very happy and told me that this was where we needed to be consistently.

Things fell off a bit after that, and some of my employees were complaining that they were struggling because they weren't getting enough hours and therefore weren't making enough money. Out of compassion, I started giving some of my employees extra tasks, in order to help them get more hours. I had them wash the trucks more frequently, I had them run errands for me, and I used some of the time to provide extra training.

Well, the next bonus time came around, and I was expecting another fat check. When I was informed that I wasn't getting one, I was very upset and felt like I was being cheated. However, when the finances were explained to me, it became very clear that I had given my bonus away to my employees.

I would like to think that they were grateful, but I never got a "thank you," and some of them even quit within a short while. To be honest with you, it was one of those life-changing moments for me. As much as it hurt, I learned a very valuable lesson that day, which helped me later on as a business owner.

In fact, that is a mistake that many businesses commit. Not that it is a bad thing to make sure our employees make a decent living, but giving away money for busy work is not healthy for a company's bottom line.

As a business owner, I had another hard lesson that was very costly. I was working for an engineering firm, which had a good-sized contract with a large city. The engineer in charge had negotiated pricing with the city, without consulting with me. The pricing itself looked very enticing, because it was higher than what we normally charged. But when I looked at the contract, I realized that there was so much mobilization throughout the city, that it would be difficult to keep the job profitable.

The engineer explained that there was a huge contract coming up, and that if we would perform well on this one, it would guarantee that we would be awarded it in the future. This was the proverbial carrot on a stick, and I took the bait.

Sure enough, as soon as we started working on the project, I realized that we were in trouble. We began losing money from the onset. Every day and every shift resulted in a deficit. I tried to get out of it, but I had signed a contract accepting the terms. All the while, I was being told that it would all be made up in the next contract.

In retrospect, I should have pulled the plug right away. I knew that it was a loser, but I was blinded by the prospect of the project to come. The final result was that we did get the next contract, which wasn't as great as I thought it would be, but our company lost tens of thousands of dollars on the project. When I think back, I feel so foolish for buying into the promise that it's okay to lose now, because you will make so much later. Let me just say that there is never any justification to the type of thinking.

Sometimes our judgement gets clouded. It happens to all of us, because we have certain vulnerabilities that allow it. Most of the time, we are duped by the prospect of making big money, if we only do this or that. Remember, there are a lot of people much smarter than us who are able to manipulate us, in ways we would never imagine.

Here is the bottom line:

- We should never, ever, take a job that doesn't make a profit. Never!
- We should never, ever, take a job just to keep our crews busy. Never!
- We should never, ever, take a job that is a loss, just because it may lead to a better job in the future. Never!
- And, we should never take a job where we don't understand exactly what the profit margins are. Never!

We must make a profit every day, every week, every month, every quarter and every year. No exceptions. Like I said previously, it is better to not have the crews working, than to send them out to a job where you are losing money.

So, how can we make sure this happens? By making sure we are making a profit on every single job, every single shift and every single hour. Period!

MODULE IV– –
SLIDES 33 – 49

SLIDE 33 – KNOWING OUR OPERATING COSTS

How can we know if we are making a profit? Pure and simple: by knowing our operating costs. When we know exactly what it costs to perform our services, then we know how much to charge, and we know how much **margin** we are making.

In the last module, we created a simple job costing template that helped us analyze how a company gets in trouble. If you recall, the key to knowing whether the company was making money or not was knowing what the operating costs are. In this module, we will begin by taking a closer at operating costs.

SLIDE 34 – THE THREE TYPES OF OPERATING COSTS

Operating costs are broken down into three separate areas. All three of them are similar, because they all add up to the overall cost of business. However, each one is distinct and must be handled differently.

The three types of operating costs are:

- fixed costs
- fixed variable costs, and
- variable costs.

SLIDE 35 – FIXED COSTS

Let's start with Fixed Costs. These are costs that reliably recur every single month. For the most part, they stay predictably the same from month to month, which is why they are considered "fixed." These types of costs include:

- rent or a mortgage payment
- equipment payments or loan payments
- vehicle payments
- interest
- depreciation
- salaries
- employee benefits

It's important not to confuse salaried employees with hourly employees. Even though they are both part of payroll, salaries remain the same each month, while hourly wage-based payroll fluctuates.

Our Fixed Costs can rise or fall when salaried employees get a raise or quit. They can also be affected when a loan is paid off, a company moves into a new facility, or the company begins to offer a new employee benefit. But for the most part, they are the same, month to month.

SLIDE 36 – FIXED VARIABLE COSTS

Next, we have Fixed Variable Costs. These are very similar to Fixed Costs, because categorically, they are also recurring. However, unlike fixed costs, the amount in each category may vary each month. Some examples of these costs are:

- phones & communication plans
- utilities
- insurance
- taxes
- fuel

If the company is very busy and doing a lot of work, then phone usage and fuel consumption may be higher. Conversely, if things are slow, then these costs may be down.

Because sales and wages can vary from month to month, so can taxes. This is why they are considered a variable fixed cost.

Just to be clear here: Not every accountant agrees on what is fixed, and what is a fixed variable. There may be other interpretations, but that's fine. Some of these decisions are subjective, but as long as you and your accountant are clear on why you're treating these costs as one or the other type, and are consistent in applying that logic, it's legal. Work with your accountant to understand these accounting fundamentals clearly.

SLIDE 37 – VARIABLE COSTS
Last, we come to Variable Costs. This is the biggest cost most companies have. They are called variable, because they consistently change from day to day and month to month.

Some of the items that we find in this category are

- supplies
- job materials
- maintenance.

With a few exceptions, most every cost here is associated with operations. For example: When a crew goes out to execute a job, there may be certain things they need in order to perform the work. They may need to buy gravel, gloves, duct tape or even concrete. Since these costs are used directly for a particular job, and the items purchased aren't something that is used regularly, then it is considered a variable cost.

Largest Variable Cost and Stress Point
What is the number one variable cost? You guessed it: It's payroll. Not only is it the number one variable cost; for most companies, payroll is the largest expenditure of any kind they make each month. In fact, for some companies, payroll takes up to seventy-five percent of their cost of business.

For this reason, payroll is probably the biggest stress point for most businesses. To some degree, they are able to push off some of their payables when necessary, but not payroll. The money to fund payroll must be available in the form of cash on hand, on the day it is due. Sure, money could be brought in from other sources; but whatever the case, there must be enough cash on hand to fund payroll.

I am personally grateful that I never missed a payroll. As I said before, there were times when I had to come up with some pretty creative ways in order to get the money, but I was always able to pay for it. I really can't imagine what would have happened if I hadn't. I've known some businesses that have experienced it, and it's nothing you want to go through, believe me.

First of all, can you imagine having tell your employees that they aren't getting a paycheck today? How happy will they be? They have obligations, too, and not getting paid will cause a lot of hardship for them. Unfortunately, most people live paycheck to paycheck, and even a day or two delay can have a negative snowball effect on the quality of their lives.

What's also possible in this situation is that an employee can file a grievance against the company with the Labor Board. Having the government involved is not a pleasant experience. Trust me, you don't want to go down that road.

The most lingering effect of running into a situation in which you can't make payroll is that, once you get behind, it is really difficult to catch up. When you finally get the money you need, not only do you have to pay for last month, but you have to pay for this month as well, and you find yourself constantly being behind.

That's why it's critical to emphasize again that we must always make a profit, and always keep an eye on our finances.

SLIDE 38 – OPERATING COSTS

Wrapping up our accounting basics, we see that fixed costs, fixed variable costs, and variable costs all add up to our total operating cost. Every single cent that we spend should be listed in one of these categories.

Fixed Costs	**= $X,XXX**
Fixed Variable Costs	**= $X,XXX**
Variable Costs	**= $X,XXX**
Operating Cost	**= $X,XXX**

SLIDE 39 – WHY DO WE NEED TO KNOW OUR OPERATING COSTS?

Why do we need to know our cost of doing business? Because each and every day, we need to know if we made money or lost money. Ignorance is not bliss in the case of business. Ignorance will bankrupt you.

The benefits of knowing how much you're spending in relation to what you are making are huge. Just the peace of mind you get from knowing is worth the effort. The awareness that your company is healthy, and that you are on a positive trajectory, will help you sleep well at night.

What's great about tracking these numbers is that we can identify problems as soon as they are evident, and fix them right away. We don't have to wait until things get critical before we can make needed adjustments. Besides, what can you do about a current problem three four months from now? Nothing—it's an unfixable loss.

When we know our financial situation in real time, we can be aware that we are losing money and can stop the bleeding right away. How empowering is that?

In contrast, if we don't know that we are losing money, we will continue to hemorrhage until it all dries up.

These pieces of operating data are wonderful tools to ensure not only the success of your company, but also to make sure that we are positioning ourselves well for retirement.

SLIDE 40 – HOW DO WE KNOW WHAT TO CHARGE?

How do we know what to charge? This is a question I get frequently. All too often, contractors charge whatever it takes to win the job. They assume, or maybe hope, that they are making enough money in the process to profit. Unfortunately, guessing isn't going to cut it.

Business naturally goes through its ebbs and flows. There are times of plenty, when everyone is busy and pricing is less competitive. In these times, we are able to ask for higher prices, because there are less people bidding. But then there are the slow times, when everyone is hungry and getting work is much more challenging. These, are in fact, the most dangerous times for a business. Why? Because owners and managers get desperate and are tempted to take on loser contracts.

Trust me, I am not innocent here. I've swallowed the bait myself. We wind up in a position where there isn't sufficient work to keep our crews working. They are grumbling, so you take on jobs that you regret later. It's a tough position to be in. You have good employees that you don't want to lose, but the longer they sit at home, the more apt they are to start looking somewhere else.

So, what do we do? We find busy work for them to do, which is what? A financial loss. Or, we take a job in order to keep our crews working, knowing that we are bidding it too low. Either way, we lose money and are eating into our operating capital.

Let me just state right now that no one should ever, ever, take a job where money will be lost. You have to look after the best interest of the business. You cannot let employees dictate how you are going to spend your money, especially if it's going into a sinkhole.

Remember the first rule of business: You are in business to make money, not to lose it.

So, everything we have discussed to this point helps us understand how to price jobs correctly. Knowing our exact hourly cost to operate is the foundation to pricing a job correctly. If we do not know what this number is, we are going to be "shooting from the hip" when we price a job. And when we shoot from hip, most of the time, we miss the target.

SLIDE 41 – HOURLY COST

We need to know what our cost per hour is. In order to figure this out, we need to know exactly what our monthly operating cost is. If we know what that is, then we can break it down by dividing it by number of working days in the month, which is typically 22 working days, if we don't include weekends.

When the operating cost per day has been determined, then we can take that number and divide it by the number of hours of work. If a job takes 8 hours, then dividing the daily operating cost by 8 will give us the operating cost per hour.

Cost per hour

Monthly Operating Cost
(Divided by) 22 working days
(Divided by) 8 hours
(Equals) Operating Cost per hour

Or course, all this can be adjusted if there are more or fewer work days in a month. In that case, the same formula applies, except that the 22 work days would be adjusted either up or down. Equally, if more or fewer hours were worked per day, that figure can be adjusted as well, in order to come up with an accurate operating cost per hour.

SLIDE 42 – PRICING JOBS CORRECTLY

This is where our field expertise comes into play, because our knowledge and experience will tell us how long it will take to complete a particular job. So, when we are looking to bid a job, we will need to determine how long it's going to take to complete it. This determination needs to be pretty accurate. If anything, it is better to err on the side of caution—i.e., estimating more time—as opposed to unrealistic

optimism. If you are not sure, find someone who can help you. When your work involves hourly rates, accurately estimating process times is critical.

This reminds me of a project I once had, where we were asked to clean a section of storm drain pipe. At the time, I had little to no experience in that field, and had no idea how long the project would take. I consulted with an associate who claimed to know what he was talking about. Unfortunately, I later learned that he was the type of person who would never let on that he didn't know something. He confidently stated that it could be done in a single day. Regrettably, I ran with his assumption, and it cost me a lot of money because the job actually took a week to complete. So, the motto of the story is to make sure we know what we're doing when it comes to estimating a job.

SLIDE 43 – DETERMINING OUR BID PRICE

Last of all, we need to figure in our profit margin. As I stated before, we should always shoot for a 30 percent or greater profit margin on the total job cost. I'm not sure what you are saying here?

This is our final formula for figuring out what our bid price is:

Cost per hour
X Total hours to complete job
+ Profit Margin (30% minimum)
= Bid Price

If your cost per hour is correct, and your total hours to complete the job are correct, then adding a 30 percent or higher profit margin should work pretty well for you. This will ensure that you are earning a profit on each and every job.

SLIDE 44 – DETERMINING OUR BASE COST PER HOUR

Let's review what we just learned, by going through a simple exercise.

Acme Services is trying to determine what they need to charge for their services on an hourly basis. At this point, they know what their operating costs are. They have a fixed cost of $5,000, a fixed variable cost of $6,000 and a variable cost of $11,000. This gives them a total operating cost of $22,000.

Fixed cost:	$5,000
Fixed variable cost:	$6,000
Variable cost:	$11,000
Total cost:	$22,000
Divided by 22 days =	$1,000
Divided by 8 hours =	$125 base cost per hour

If they divide their operating cost by the number of days they will be working in a month, then they come up with $1,000. This is what they need to make each and every day, in order to just cover their expenses, not including labor.

Next, they take their daily cost of business and divide it into 8 hours. Now they have determined exactly what it costs them to have a crew working each and every hour. Of course, if there was overtime planned, this would need to be taken into account, as well.

SLIDE 45 – DETERMINING OUR BID

There is something else I would like to introduce here, and that is the concept of Margin of Error. This is an additional fee that gives us a bit of a cushion, if there are any cost overruns. It is insurance, if you will, that keeps us from eating into our profit margin if we run into any unexpected complications on a job. It also provides flexibility in pricing. If, for example, we provide a quote to a customer and they ask us to go back and sharpen our pencil, then this is where we would sharpen it without affecting our bottom line. A good rule of thumb is to add a margin of error of between 10 and 15 percent. This will ensure that we are covered if the job takes longer, or there are any unforeseen additional costs.

Now that Acme Services knows their cost per hour is $125.00, they can begin to determine exactly how much they need to charge per hour. First, they figure in a margin of error of 12%, which equals $15. Next they insert a profit margin of 32%, which comes to $40. When each of these items have been added up, the total comes to $180. So, that's it: That is what they need to charge their customer per hour.

Hourly base cost per crew to operate is:	**$125 per hour**
Margin of error +/- 12%	**= $15**
Profit margin +/- 32%	**= $40**
Total:	**= $180**
We have determined that the job will take a totalof 20 hours	**X 20 hours**
Total bid amount:	**= $3,600**

In this case, they have determined that the job is going to take 20 hours. So, they take the $180 and multiply it by 20, and that gives them the total bid for the job.

It doesn't matter if you need to provide a quote for a day, a month or just a lump sum. This is the process you can use to determine what to charge the customer. Once you know what your operating cost is, then it is easy to add the margins that will have a positive effect on your operating capital.

SLIDE 46 – ADJUSTING OUR BID

Now that we've come up with a healthy determination of our hourly charge, we can go back to our numbers and make adjustments if we need to. However, we should never, ever adjust our hourly cost. This number is sacred, and should never be compromised, period.

SLIDE 47 – ADJUSTING OUR BID

What we are able to do, though, is to adjust our margin of error and our profit margin. Again, this should be done very cautiously.

Hourly base cost per crew to operate is:	$125 per hour
Margin of error +/- 12%	= $6
Profit margin +/- 32%	= $12
Total:	= $143
We have determined that the job will take a totalof 20 hours	X 20 hours
Total bid amount:	= $2,860

Acme Services really wants to win this bid and needs to lower its price in order to get it. They go back to their numbers and reduce their margin of error by 5%, which brings it down to $6 per hour. Then they reduce their profit margin to 10%, which comes to $12.

Their total charge per hour is now $143, and the total bid amount comes to $2,860.

SLIDE 48 – COMPARING THE TWO BID AMOUNTS

What they've done is to reduce the amount by $740, from the original bid of $3,600 to $2,860. In other words, they have lowered their bid by 20 percent

Original bid:	= $3,000
Adjusted bid:	= $2,860
Amount reduced:	= $ 740

Bid lowered by 20 percent

The original bid had a daily profit of $800, or 22%, and the new bid has a daily profit of $280, or 10%.

Example 1 = $800 profit (32%)

Example 2 = $280 profit (10%)

Even though the second bid is considerably lower, there is still a profit figured in, and that's great. As long as we know that the company is making money, we are still doing well.

It's fair to discuss when it's actually okay to lower our margins. Sometimes we have the opportunity to bid on a project that will last a significant period of time. I personally was fortunate enough to have won quite a few five-year contracts. If I had stuck to a 10% margin of error and a 30% profit margins, I would

not have won the bids. But because I lowered each of them to reasonable levels, I was able to get the jobs.

Now, why would I do that? Well, a variety of factors played into my decision-making. First of all, having the opportunity to keep crews working on a job for a long period of time helps me forecast on a long-term basis. I was able to make decisions based on projected income, rather than reacting to what was coming in each month. I wasn't afraid to pull the trigger on the purchase of a large piece of equipment, because I knew that I would be making enough money to cover the cost. I was also able to provide better security for my key employees, with assurances that there would be plenty of work for them over the next few years.

But for me, the number one benefit for a long-term project was that it helped me become a better company. Instead of having to schedule jobs two to three weeks out, we were able to respond the next day, or in some instances, immediately. Being able to pull crews off of the long-term project and put them on jobs as needed, helped me build a much stronger customer base.

A huge benefit to have long-term jobs was that I was able to pass on jobs that weren't profitable or convenient.

So, sometimes it is okay to lower your margins, in order to provide steady and predictable work. The profit each day isn't as big, but the regular monthly profit provides stability and a lot of added security.

Some say that bidding is an art. I somewhat disagree: Bidding is coming up with the right quote when we have the right information in front of us. That's not art, that's applied mathematics.

None of us would bid on a project without knowing anything about it. If someone asked you to give them a bid price without telling you where it the job was located and what was expected, you wouldn't bid it. In the same vein, we can't be expected to bid jobs without knowing what it's going to cost us. Shooting from the hip is for the other guys: We need to come up with numbers based on fact.

SLIDE 49 – PRICING PRECAUTIONS

Something else to consider are the unexpected circumstances that often affect our calculations and eat away at profit margins.

Equipment breakdowns are a fact of life, but how you deal with them is what's important. If you don't have a plan in place for those emergencies, then you will lose money as you react to them from a place of weakness, and try to figure out what to do while under the gun.

Project delays are common, but don't be caught flat-footed. If you don't have a backup plan, your crews will stand around on your clock, waiting for someone else to make a decision. Think ahead and have a plan. And, always plan for the worst. You'll be glad you did.

Always be aware when the clock is ticking. When work comes to a halt and the time on the job is no longer billable, make sure that payroll stops as well. Keeping employees on the clock when nothing is happening will cost you dearly. Make adjustments immediately. Your business is not a charity. If you're not making money, neither should your employees.

Lastly, understand how overtime affects your calculations and your bottom line. If you didn't plan for OT and it keeps happening, then there is a problem in your job planning. Either there are operational issues that need to be fixed or modified, or you under-bid the project because your job completion estimates were off.

SLIDE 50 – ALWAYS KEEP YOUR EYE ON THE BALL

I can't emphasize this enough: Always keep your eye on the ball. Always keep your head in the game. You can trust those who work for you, only when you hold them accountable and keep a close eye on what they are doing. If they don't feel like someone is keeping an eye on their work, it won't be long before they start cutting corners and costing you money.

MODULE V –
SLIDES 51 – 67

SLIDE 51 – HOW CAN WE INCREASE OUR PROFIT MARGINS? INCREASE OUR PRICES?

In the last few modules, we have learned how to determine our cost of business, how to come up with our profit margin, and determine what we should charge our customers. But now, I would like to back away from the financial aspect of business and take a closer look at operations.

It Ain't Just About the Numbers

Once a price for our work has been determined—hopefully accurately—we are locked into the pricing and are expected to perform the work as expected. The customer isn't concerned about whether we made a profit or not, they just want the work completed correctly. If we bid incorrectly and are losing money, they will not care. If we miscalculated and are losing money, we will surely care.

The good thing is that we will know that we are losing money. Unlike the guy who shot from the hip and doesn't know that he's losing money, we can know within day whether we are profitable or not.

If it is a job that took a day or two and we lost money, we can swallow our pride and make adjustments accordingly. But if we are locked into a long-term project and the miscalculation was ours, then we will be in trouble.

Some of the following items could be tools to help right the ship, but they are just good tools, in general, to maximize our profit margins.

Imagine if we bid a job to take 8 hours, but because of the efficiency of the crews, it's completed in 6. Suddenly, our profit margin skyrockets. This can actually happen if we take steps to increase the efficiency of our work performance.

So, if we need to increase our profit margins, we could increase our prices, right? Sure, but it's not always practical. After all, we want to win the job, and we want to provide a fair price for our customers. Besides, if our prices are too high, the customer will use our competition instead.

SLIDE 52 – LOWER OVERHEAD?

Another option would be to lower our overhead. In other words, reduce our cost of operation. We could move into a less costly facility, use cheaper material, and use fewer Post-It notes. But, really—that, too, is impractical.

SLIDE 53 – LOWER LABOR RATES?
Since payroll is the biggest expense we have, we could lower our labor rates. Yeah, right! Your key employees will be running for the exit.

SLIDE 54 – INCREASE EFFICIENCY
Could we do it by increasing our efficiency? Yes, absolutely. But how do we do that?

SLIDE 55 – TRAINING
One of the best ways to increase our efficiency is to invest into training for our employees. If they become good at what they do, then the quality of their work will increase and they will be able to complete their jobs in a much more timely manner.

Over the years, I have found that most companies fall short when it comes to training. When employees are sitting in a classroom and not making money for the company, but are still being paid, it's called non-absorbable labor. Since it costs the company money, most companies tend to shy away from it. However, not investing into employees' skill and expertise is a grave mistake.

My first suggestion is to create new category under fixed costs, or fixed cost variable, that is used specifically for training. That way, the cost gets absorbed into the cost margin, and training can be scheduled on a regular basis.

I would suggest that 2 to 4 hours of training take place at least once a month, and a full 8-hour day be scheduled once every six months. This will ensure that all topics of operations are covered on a regular basis. Be sure that safety training is well-represented in that time.

There are multiple benefits to making this kind of commitment. The most obvious one is that the crews will get better at what they do. By increasing their skill level on the equipment and on the process, they will be able to perform at a higher level of efficiency and effectiveness than the competition, reducing job costs.

As the employees get better at their jobs, their self-confidence will increase, which will have a positive impact on how they deal with customers. They will represent the company in a way that reflects positively on it. They will begin to sell themselves, and the company services, as well.

A better-trained employee knows how to care for the equipment. Therefore, breakdowns will be reduced, as will the cost of repairs. Lastly, they will learn how perform repairs in the field, ensuring that lost time is held to a minimum.

As an employee's skill increases, so will their insight into how things can be done more efficiently. The pride they have in their jobs will become more evident when they begin to come up with ideas that can help the bottom line. This causes them to develop a personal investment in the company's success.

All training should be documented. Not only will this generate a written record of what each employee should know and does, but will also provide a training record. Some customers will ask for it. Others may not, but having it available will save you a lot of work when it is requested. Also, being able to quickly provide such documentation will increase the potential customer's confidence in your company's level of professionalism.

Lastly, it provides proof of training in the event of an accident. Being able to prove that your employee was properly trained will be critical during those times to avoiding legal liability or proof of negligence.

A friend of mine experienced a fatality on one of his jobs. Because of it, OSHA descended on him like a starving vulture. Even though it was a long and drawn-out investigation, the fact that he had documented proof that the victim had been properly trained helped him get through it. And then, when the ensuing lawsuits hit, he was able to weather them in a much more favorable manner than if he hadn't had any documentation at all.

The training you provide your employees reflects directly on your company and on its owner. When a customer sees a prepared and skilled worker performing a service, they will be impressed and the confidence they have in the company will grow. The chance of having an on-going relationship with them will grow exponentially.

Remember that customers talk among themselves. They share information about good and bad companies all the time. How you are spoken of will affect your business in many ways.

There is one more thing to consider about training: The quality and value of the training is only as good as the trainer. If the trainer does things incorrectly or inefficiently, then the employees will perform their work incorrectly or inefficiently. Make sure that the person doing the training has the proper knowledge and competence, and is able to impart that to the employees in an effective way.

Good training will reduce your payroll, minimize breakdowns and accidents, and will help increase your bottom line.

SLIDE 56 – METHODOLOGY

How employees perform their work can have a huge effect on a company's finances. If they are slow, there will be cost overruns. If they work quickly and efficiently, jobs will come in under budget.

One of the best ways to do this is to study the methodology being used. Is it effective? Are there better ways to do it? Are there faster ways to do it? Don't get stuck in a rut, thinking that the only way to do things is the way it's always been done.

As an owner or manager, I challenge you to spend time in the field with the crews. Watch how they work, and think of ways in which they could do it better. Discuss their methods, and ask them if they have ideas for a better way to do it.

Always be open to an employee's ideas. After all, they are the ones performing the work, day in, day out. Let them know you have faith in their skills and intelligence by being willing to experiment to a reasonable extent, by implementing their ideas. Reward and acknowledge them when they come up

with a good idea. Incentivize them to become more efficient by giving bonuses when they come in under budget.

Talk to other people who are in the same field, and read industry periodicals to see what others are doing. You may be surprised to find an unexpected golden nugget of an idea you can apply to your own processes.

SLIDE 57 – USING TECHNOLOGY

Technology is a wonderful thing. New equipment and tools are being invented every day to help make our work faster, easier and more effective. Make sure you are aware of what is out there.

I have seen some instances in which a new piece of equipment has increased productivity and reduced costs dramatically. When you can do that, you are able to increase your margins, while reducing the amount you charge your customers. This will give you a leg up on competitive pricing.

Some other tactics to increase your competitive edge include:

- Subscribe to industry periodicals.
- Attend trade shows
- Join associations with like-minded people.
- Develop relationships with your competitors.

I know that last one may be a little hard to swallow for some, but remember: They are just like you. Some of the best friends I have are people who were my competitors. Sure, we competed for work sometimes, but on other occasions, we were able to help each other out. There were times when they were the ones who helped me out with an idea on how to get a particular job done. Having friends in the business give you people you can bounce ideas off of.

Be open-minded about new technology and willing to invest in it. If you see something that could help you, contact the dealer and ask them to give you a demo. I can assure you they will be more than willing to.

SLIDE 58 – BETTER PLANNING

When projects are well-planned, they tend to go a lot smoother than when they aren't. It is my advice that whenever a sizable project comes up, some time and money be invested in its preparation.

Too many companies assume that all they need to do is throw a few crews at a project and everything will go fine. I strongly disagree with this assumption. Each project is unique and has its individual challenges. If these challenges aren't discussed and dealt with beforehand, they can blow up in the middle of a project and cause setbacks and delays, which translate into lost income.

Taking time to discuss a project before it begins with those involved will pay dividends later. Familiarizing everyone with the project details will place everyone on the same page. These may include:

- scope of work
- the environment in which they will working
- timetables for completion

- the particular challenges of the project
- and a myriad of other things.

A planning meeting will empower those involved by bringing them into the process. By letting them know that their input matters, it will help them to buy into the project and the company itself. Remember that even the lowliest employee can have a good idea. This forum should encourage suggestions that improve on the methodology.

I have found it helpful to prepare maps, schematics, pictures and whatever else can help them visualize the project. Putting this information up on screen, where everyone can see it, will help further the discussion.

Taking time to discuss the issues that could go wrong will help mitigate them before they arise. For example, if during a planning meeting, the possibility of an equipment malfunction arises and the solution to the problem is discussed, then if it actually happens, everyone will know what to do and lost time will be minimized.

By taking the time to meet with your crews to discuss upcoming projects, the work will go much smoother. Problems will be minimized, and the customer will see the competence your company has. Don't be afraid to invest time in your greatest asset: your employees.

SLIDE 59 – PROJECT MANAGER

It is my opinion that having a project manager over each job can save time and money. Sure, it's an additional expense, but there will be benefits in the long run. The trick to staying profitable is to determine whether the cost of the manager will outweigh those benefits. And if the manager is the right person, they won't.

When the project is in full swing, crews are engaged in their work and don't need distractions that take away from their productivity. A project manager can work behind the scenes, dealing with things that affect the actual work. For example, the manager can be dealing with the customer, providing updates to the office, getting permits and procuring items the crews need. A manager's ability to look at the project as a whole—rather than what's happening at the moment—is valuable in the overall decision-making process.

It is not necessary to assign a project manager to just one project. They can be running multiple projects simultaneously.

A project manager will give you a leg up on the competition. While other companies have the lead operator dealing with the customer, you will have a management level person, who is trained and intimately familiar with the project. This person will be in a unique position, with the authority to make field decisions that can prevent financial loss.

The project manager should be someone who has come up through the ranks, and has intimate experience with the processes and equipment being used. This is someone who can be instructing the crews and ensuring they are following the scope of work.

Lastly, a project manager will become your best salesperson. They will be in the field, interacting with the customer and building a positive relationship with them. They will have opportunities to suggest ways in which to extend the current contract, and even probe into future work.

SLIDE 60 – PREVENTATIVE MAINTENANCE PROGRAM

There is no doubt that our profit margins are negatively impacted when equipment isn't properly maintained. Whether it is vehicles or equipment, it must be kept in top working order at all times.

In most cases, companies are stuck in a reactive mode. Sure, they may perform oil changes, rotate the tires, but they don't go beyond that point. Company vehicles and equipment must be held to higher standards. The repercussions of neglect can have an impact not only on our bottom line, they can affect the employees, and soil the company's reputation.

When referring to one of my competitors, a customer of mine once said, "Yeah, they do decent work, but it seems like every time they come out, something breaks down." Is this what you want people saying about your company? Is that the ultimate impression you want to leave them with?

A preventative maintenance program is essential for any business to avoid this scenario. Its purpose is to have a schedule in which each and every piece of equipment is inspected and maintained, on a regular basis. If it is a vehicle, then a competent mechanic should check and replace all fluids, lubricate recommended points, and inspect and replace all filters. Tires should be checked and adjusted accordingly.

A vehicle inspection also serves the purpose of providing a glimpse into its overall condition. Wear points, mirrors, lights and latches should all be looked at, and fixed if necessary. And the inspection should give feedback on how the employees have been treating the vehicle. Is it dirty? Is there unnecessary wear, and are there any dents or damage that have not been reported?

Equipment should be inspected even more frequently, especially if it is used on a daily basis. Manufacturer-recommended maintenance should be performed by a trained and competent technician. Worn parts should be replaced immediately. Filters should be inspected, cleaned, and replaced if necessary. Lubrication should be performed as recommended.

The last thing we want to happen is for the vehicles and equipment to break down in the middle of a job, due to neglect. Aside from the lost time and profit this represents, it also reflects negatively on the company because it looks like they just don't care. It indicates a certain lack of pride and professionalism.

When there are breakdowns, an investigation should take place to identify if there were any lapses in the maintenance program, and to determine if the problem could have been prevented. Don't be afraid to make changes in your preventative maintenance program if things are falling between the cracks. Hold the people who are carrying out the program accountable for deficiencies, and reward them for success.

SLIDE 61 - BUILDING RELATIONSHIPS

The relationships you build can have a huge impact on your business, now and well into the future. They can have a positive financial impact by providing well-paying jobs with healthy profit margins.

The relationships we have will vary from customer to customer. With some we will feel tension, with others it will be all business, and with some it will be friendly. But there are those relationships where your personalities click and a friendship develops. These are the relationships that are worth their weight in gold.

Even though these relationships are based on the commonality of the industry you are in, they tend to expand into common points of personal interest, such as fishing, hunting, etc. They also develop because there is a trust and contentment with the work you are providing. I can assure you, if the quality of your work deteriorates, so will your friendship with that person. As long as you continue to make them look good, your relationship will stay strong.

This type of relationship can provide many benefits. First of all, it gives an insight into your customer's inner workings. It helps you understand their side of things, and what is important to them. It can give you a perspective that you wouldn't have had otherwise, and it can help you place yourself and your company in a better position with them.

Building these relationships requires a significant investment of time, but you probably wouldn't be doing it if there weren't a benefit to it. The time invested in conversation can have positive results. For example, your customer relationship may reveal what the company or agency plans to do in the future. This can help you position yourself to be able to take advantage of that information. The customer may even share the fact that projects are coming up that are within the services you offer. Perhaps that insight will motivate you to consider adding to your arsenal the equipment you'd need to do such work.

When trust is built with your customer, it gives them confidence that your word is golden. Since that is comforting to them, they will begin to find ways to get you more work. You may even have the opportunity to be a sole source on some of the projects. They may be able to find a way to forego the normal bidding process. This will allow you to provide a higher price for the service, while saving the overhead of having to promote your services as much.

Another value to having a good relationship with your customer is that they will be more forgiving. When your company makes a mistake, they will be willing to move on, once it has been addressed and corrected.

Business relationships are also valuable because they give you feedback on your company. They will be open to telling you not only what they think, but what their relationships think about your company as well. For a business concerned about its reputation and that wants to be the best it can be, these are valuable insights.

Lastly, this type of relationship can be educational. While they may be learning from you in your area of expertise, you may be learning from them, as well.

SLIDE 62 – MANAGING LABOR COSTS

As I mentioned previously, for most companies, payroll is usually the highest expenditure they have. So, managing labor costs could have the biggest impact on your bottom line.

When employees work in a controlled environment, like a factory, it is much easier to manage their time on the clock. They clock in and clock out at predetermined times, so abuse in that area is more difficult. However, when crews work out in the field, it becomes a little more difficult to monitor what they're doing.

Employees vary in their individual personalities, of course. As some are more motivated than others, while some are more prone to dishonesty. Having come up through the ranks, I have witnessed firsthand the attitudes of those who think they are always being short-changed and therefore justify their abuse of payroll reporting. I have been around those who purposely "milk the clock," and I have seen many who cut corners in order to work less and get paid more. The sad part of it is that those that are dishonest always have a negative effect on their peers. Because of what they are doing, they either affect morale, or wind up negatively influencing those of weaker character.

As previously discussed, managing labor costs is a high priority for any business. I like the quote; "We must keep honest people honest." In other words, it means that we must provide accountability so that no one is tempted to cheat.

In order to manage our labor costs, we must identify our inefficiencies. Look at your method of reporting and determine if it is right for you. Are your forms correct? Is your clock working properly? Is there anything wrong with the way payroll is being entered into the system? Take a few moments to review this process, to ensure that you find your methods acceptable.

As much as we like to think our employees are honest, we need to look at the possibility that abuse is taking place. It may be small and perceived as innocent. Because my crews were in the field and they were filling out payroll records manually, I identified a method of abuse, years too late. Since we had different payment categories, the employees were rounding up their times to benefit the highest paying category. It was only a quarter-hour or a half-hour a day, but this wound up adding up to thousands of dollars each month.

Some employees simply lie. They will either exaggerate the hours they report, or they will purposely spend an extended period in the shop before they punch out. If not checked, some will arrive to work early each day, punch in, and then spend a half-hour more in their vehicle.

Overtime is a company killer. If not checked, employees will do all they can to extend their workday so it will roll into overtime. Some will hold back work during the day, so that when it's not done, OT will be needed. They will also suddenly find additional things that need to be done, just as standard time runs out.

Having someone keep an eye on these abuses can save a company a lot of money. Don't kid yourself that it doesn't happen to you, because there is a high likelihood that it does.

Labor costs can be significantly reduced by assigning jobs based on an employee's skill level. If someone is dispatched to a job site and has minimal skill in the assignment they will be performing, then the job will take longer to complete. On the other hand, if someone who is skilled in the work to be performed is sent, they will be able to complete the work in a timely manner.

There is a lot of technology available to combat abuse. For example, there are smartphone payroll apps that provide a timestamp and a GPS location whenever an entry is made. But for me, the most valuable tool is having GPS on every vehicle. Not only does it give you real-time information on the status of the vehicle itself, but it also gives an insight into driving habits. It will help you identify employees with a heavy foot. It will also let you know exactly where your vehicles are at all times. Employees will no longer be able to tell you that they are on the job when they are actually at the donut shop.

The bottom line is that employees need to be held accountable. If they know that they can't get away with abuse, they won't try. If they know that you are aware of where they are and how long they were there, they won't attempt to deceive you.

The truth is that employees are happier when they know that the boss is happy with them. If they are abusing the system, for whatever reason, they will be unhappy and will begin to poison the other employees' attitudes.

A system of accountability will help keep each employee in line by removing the temptation to cheat. Ultimately, the company will benefit by reducing the cost of abuse, thus increasing the bottom line.

SLIDE 63 – WORKING AT THE MOST EXPEDIENT TIMES

For those who work in public thoroughfares, like I did, consider working at the most expedient times. Having to deal with high volumes of traffic can make work more difficult and slow down productivity. Also, working during off-peak traffic times can be much safer.

Scheduling crews during nighttime hours can be beneficial. After all, having reduced traffic will facilitate the work, and will also make the commute to the jobsite faster.

It may not always be possible, but when it is, having employees report directly to the jobsite can help cut the cost of labor significantly. In many cases, their drive won't be much longer than the one they take to the office.

SLIDE 64 – MARKETING

Most contractors spend very little on marketing. They may have a brochure and a website, but outside of that, they do little to promote their business. Because my client base was limited, advertising would have been a waste of time and money. In my case, business was either derived from relationships, or through competitive bidding.

What worked most effectively for me was getting involved in trade organizations and associations. In other words, I went where the customers congregated. By becoming part of these organizations, I was no longer just looked at as a contractor trying to find work. Instead, I became a fellow worker looking to further the industry. By working side by side with potential customers, they were able to see me from a different perspective. They learned firsthand that I was a man of my word, and that I worked hard on our shared goals.

The truth is that it took a few years of involvement before I could attribute a tangible job coming from it, but that was okay. During the first few years, I was simply about solidifying my relationships with current

customers. Over the years, though, half of my business came from people I had gotten to know through these organizations.

SLIDE 65 – YOUR BACKYARD

I happen to live in the Los Angeles metropolitan area, where there are hundreds and hundreds of cities, municipalities and contractors. At times, we would take on a job that was a long way from home base and, in some cases, took hours to get to. As a result, it was often impractical to have the crews drive home each night, so they would stay in a hotel for the night or for the week.

It became evident that these kinds of jobs were costlier for us. Not only did we have to pay for the drive time and the additional fuel, but were also had to pay for the hotel and the per diem. We continued to take some of these jobs, but we made sure that our costs were covered. Over time, these jobs became more difficult to win, because our pricing was coming in too high.

I began to realize that I needed to get more aggressive in securing work in my backyard. I took out a map and identified an area within 25 miles that would be our primary target. The result was actually quite successful.

To begin with, we must understand that our least expensive area in which to operate is close to home. Fuel costs are less, travel costs are less, and payroll is less. There are no hotel costs and no per diems. There is also less wear and tear on the vehicles. And, as a bonus, the crews are glad to get home earlier.

When a competitor came into my area, his costs were naturally higher than mine and he had to charge more. Therefore, I could trim what I charged my customer in order to win the bids in my area.

That doesn't mean that I stopped going after work outside of my area. I didn't, but I went after the work nearby much more aggressively.

SLIDE 66 - INCREASE YOUR NUMBERS

If we are to maximize our local efforts, it's very important that we become aware of all of the work available in our area. It takes an effort to get onto everyone's bid list, but it's worth it. A few days of making phone calls will ensure that the customers you want know you are out there.

It is also a good idea to subscribe to an online bidding service, as they can provide a plethora of open bids. However, they are not all the same. Make sure the ones you select cover your specific services before you commit to them. Look over the issuer's past notices to see how many of their bids would have worked for you.

Remember, too, that every call that comes in, and every job you do, is an opportunity to build a new relationship.

Whenever a new customer contacted our company, I tried to be there for the job walk or for the first day of work. This gave me the opportunity to meet the customer face to face, understand their needs, and try and forge a future relationship with them. If I was unable to make it, I was sure to send a senior manager.

When you meet a new customer, you never know the potential they have. They may have a lot more work ahead, or have some information you need to know. Always try to interact with them in person, so you can build a dialogue with them. Make yourself available, so they will feel comfortable calling you and your company. Spend time getting to know them on a first-name basis, and talk about things other than the work at hand. Remember: People most prefer doing business with others they know, like, and trust.

When you leave that person, be sure to jot down the things you want to remember about them, such as the names of their spouses and children, their interests, their affiliations and anything that brings a common bond between you. If they happen to mention they are going on a trip, remember to ask them about it the next time you see them. They will appreciate the fact that you cared enough to remember, and it will help build a long-term relationship with them.

If you haven't heard from that customer in a while, give them a call and catch up on things. Be sure and ask if they have any work coming up that you could help with.

Become a resource for them. If they ask you a question that you don't know the answer to, tell them you will find out and let them know. Get back to them with the information as soon as possible, and reassure them that you are always available to help them out. This is Demonstrable Dedication: showing people you're committed, rather than just telling them.

SLIDE 67 – EXPANDING INTO NEW MARKETS

Growing a business and increasing income and profit can also be done by expanding into new markets. They may not necessarily become our primary work, but they could be helpful in filling in some of the slow times, by keeping our crews working and generating revenue that wouldn't have been there otherwise.

Oftentimes this can be done with minimal investment, by using the resources we already have. So ask yourself: What other kind of work can be done with the equipment you already have?

One of the pieces of equipment I owned was what is referred to as a combination unit. This is a large and expensive vehicle that is designed to clean sewers and storm drains. It is called a combo unit because its function is to jet pressurized water down a length of hose into a variety of specialized cleaning nozzles. The other half of the unit sucks up the debris through large vacuum tubes. For years, we used these vehicles to clean thousands of miles of sewer and storm drain pipe.

A few years ago, we identified a related market called hydro-excavation. For years, excavating into the ground was done with backhoes. They are very good and can dig up tons of dirt in a short period of time. However, their digging is indiscriminate, and they often wind up breaking the utilities buried below.

Perhaps you have seen pictures or news stories of backhoes blown to smithereens when they have hit a gas line. Hydro-excavation utilizes water pressure to break up the soil, which the vacuum portion sucks up, without damaging any buried infrastructure underneath or hurting equipment operators. This practice is also called potholing.

Each one of my combination units cost around $400,000, but with an investment of less than $5,000, I was able to create a whole new service my company could offer, which wound up being very lucrative.

Since most of us work within a vertical market, perhaps looking toward some of the horizontal markets that are completely outside your industry could open up new possibilities. In the example above, new markets began to open up not because I was replacing a current contractor, but because when people became aware of the service, they realized it could be a huge benefit to them, too.

Sometimes we need to look at the expertise we have, but aren't using. Is there a service or a product that you can offer that complements your current business? Is there something you can use as an add-on to increase your sales volume?

What about your employees? Do you have certain expertise within your company that can be leveraged to expand and grow your services or products? Take the time to evaluate what you have.

Understanding what is available in your area can go a long way toward identifying what areas to get into. If certain services are not available, or those providing them are coming from long distances, then you may be able to position your company to compete for them. You may be surprised how easily you can get up to speed and begin adding to your profit margin.

We touched on this earlier when we discussed the building of relationships. When you have customers with whom you have a good rapport, they can provide an entry for you to cut your teeth on a new service or product. They will be more flexible and accommodating, and will understand if it doesn't go just right the first time.

These are also the people who can give you insights into products and services you need. Make an effort to connect with them.

All of these are ways in which a company can expand with more services and more products. But let me caution you: Don't get so caught up in the new services that you lose focus on your core competencies. It is not uncommon for owners and managers to become so enamored with what is new, that they neglect their company's primary business.

Again, I reiterate: Keep your eye on the ball. Always.

MODULE VI –
SLIDE 68 – 80

SLIDE 68 - LOOKING TO THE FUTURE
As business owners and managers, we need to begin to look to the future. We can't change what we've done in the past, but we can begin to do things differently right now. By taking action, we can begin to set a course that will lead us toward success and profitability. It's never too late to start. Once we've seen the light and know exactly what we need to do, we need to set our sights and move forward.

The mistakes we made in the past are behind us, and as we look to the future, there will be good decisions that will lead to good results. No longer will we be floundering in the dark, not knowing where we are or where we're going. From now on, we can set our sails in the direction we have chosen, and reach our destination exactly as we planned.

The best way to do so is to stop being reactive in business. When we operate our business in reaction either to our past experiences or to something current someone else has done, we leave a wake of destruction and disorganization behind us. Every part of our business will be in disarray and we will spend most our time trying to catch up and fixing things. This is because operating from a reactive stance means we've turned over the tiller to whoever or whatever situation we're reacting to. In a very real way, we're letting them steer our ship.

On the other hand, if we begin to take a proactive approach, we will be the ones who are controlling our destiny. When we have a handle on things, no one can pull the wool over our eyes, because we will be totally aware of everything around us. We will begin to make decisions ahead of time, and will have protocols in place to deal with any contingencies that might arise.

Operating proactively is freeing. It allows us to enjoy being in business. It takes most of the garbage out of our lives, and makes operating a business fun again. Financial concerns are minimized, operational shortcomings are eliminated, and personnel problems become manageable.

When you become a proactive business manager, the commitment you make today will pay off in many wonderful ways in your future.

SLIDE 69 – CREATING A BUDGET

One of the most effective proactive tools I know of is creating a budget. This is a process that forces you to look at your business in the future.

By creating a budget, we look at the work we have on the books for coming month, we determine the income expected from that work, and we examine all of the anticipated expenses. By going through this exercise, we can begin to anticipate and plan for what we will be dealing with.

A budget will bring to light potential problems that can arise down the road. By being aware of them before they happen, we can deal with them before they become major issues.

Going through the exercise of creating a budget helps us focus on our finances. Just the act of reviewing the current financial status is helpful in itself, but taking the time to look at how our decisions impact our money in the future is extremely valuable.

Often times, we react to the immediate needs of our company in panic mode, and spend money when we shouldn't. Because we perceive certain situations as being emergencies, we take rational thought out of the equation and pull the trigger without further thought. When we instead look ahead and begin to understand the impact these actions have on our finances, we can begin to make educated and informed decisions. Sometimes postponing a large purchase or a major repair makes sense, when we look at the big picture.

By taking the time to look at our financial status down the road, we can begin to make informed decisions that make sense for our company. No longer will we decide to do something without analyzing its impact on other factors that could snowball into chaos.

Some time ago, a friend of mine shared a story with me. His company had received a large check from a project they were working on. The owner decided that he would take that money and use it to pay

down some of the outstanding loans he had. What he didn't take into consideration at the time was that there was very little work on the books, and that the next three months would be very slow.

If, instead, he would have gone through the exercise of creating a budget before making this decision, he would have realized that he would need that money in order to survive the next few months. Instead, he made a knee-jerk decision that put him in a difficult position. Instead of having sufficient cash flow to weather the slow period, he had to borrow money—with interest, I might add—in order to make it through the slowdown.

The budgets we create won't be perfect. They will be off in some areas and adjustments will need to be made. But just the exercise of creating a budget will force us to think through all of our financial moves. Decisions won't be based on current cash flow, it will be based on all the factors that affect that cash flow, such as receivables and payables.

I can assure you that your employees won't understand some of your decisions, and they will certainly second-guess you. However, you will be making decisions based on fact, and what is best for the company, rather than what is expedient at the moment.

It can be very valuable to go back each month and compare your budget with the actual numbers.

- How close were you?
- What could you have done differently?
- What did you miss?
- How can you get better at projecting a budget in the future?

As with anything else, the more you do it, the better you get at it. When your budget becomes more in sync with your actual numbers, you will know that you have mastered it. Not only will it be gratifying, it will also have a very positive result on your business.

SLIDE 70 – INVOLVE EMPLOYEES IN BUDGET PLANNING

What I'm going to speak about now can be very controversial. Most employers don't like to share financial information with their employees. I'm not asking you to open up your books to them, I'm just taking about letting them in on the overall status of your finances.

Let's start with our previous discussion on creating a budget. What if you were to include some of your key employees in the process? Of course, you can decide how much you want to share with them. But what if they had input on some of the aspects of the budget? What if they were allowed to help set some of the goals? How do you think that would affect them? Do you think that perhaps they would feel empowered? Maybe feel like they matter and their input matters? I think so.

When it comes to you budget, you may have a pretty good understanding of the overall picture. However, your employees may have some individual insights that you haven't thought of. They may know about situations coming up that you aren't aware of. And, they may have solutions to problems that you didn't even know existed. By involving them in a health check of your company, you can not only benefit from their valuable insight, but their participation will also increase their morale and commitment to the company.

As this process progresses, you can begin to contrast the budget projection—which they had a hand in—with the actual budget. This will help them get a better understanding of how business works. They will understand how adversity and bad decisions affect the company. They will begin to look at the company in a different light, and will better understand how their part impacts what happens, whether it's positive or negative.

Ultimately, they will begin to think more critically and will bring better and more thought-out ideas to these meetings. And again, this involvement gives them some skin in the game: They will tend to feel a personal investment in the company's success.

SLIDE 71 – LET EMPLOYEES KNOW WHERE YOU STAND FINANCIALLY

I'm a big believer in letting employees know where things stand, especially during difficult times. When money is tight, they will know that something's wrong. You can't hide the fact that some of your vendors have put you on C.O.D., or that certain items that have always been available suddenly aren't being resupplied.

Employees will begin to talk, and the next thing you know, they will be jumping to conclusions that far exceed what is actually happening. Their human nature will drive them to worry about their job security, and some may even start looking for other employment, if things aren't cleared up.

Even without calamity, it a good idea to give them a glimpse into the company's finances. I don't mean that you should completely open up your books to them. Far from it. What I'm suggesting is that you should discuss your financial status and share financial goals. Let them know that in order to be financially sound, the company needs to hit $100,000 each month with a profit margin of 30%, for example. Then let them know when the goals are met, and when they aren't.

It's not a bad idea to teach your employees the fundamentals of finance. Let them know that just because you made $2,000 that day, you didn't necessarily make any money. Help them understand how important profit is, and what it takes to earn it. When they at least get a basic understanding of how money works, perhaps they will at least be more aware of their own wasteful behaviors. Hopefully this exercise will help them feel part of the company and that their actions can have a positive impact on the results.

Incentivizing employees is an option. Setting goals together and then sharing with them the results—positive or negative—can help move the company forward. Perhaps bonuses or a Friday afternoon BBQ can be used as a reward.

Each month, set goals, then take the time to go over the results. Don't be afraid to make changes if necessary.

SLIDE 72 – YOUR WEBSITE

The value of having a quality website is indisputable. It projects an image of your company and it informs the customer about you and your services. It's also the modern version of the Yellow Pages, and if you're not on the Web, you don't exist in most potential customers' minds.

The greatest value a website provided for me was that customers already knew everything they needed to know about our company before they called me. They knew about our services, physical location, our service territory, personnel, experience and everything else they might be curious about. When they called, they had already decided that we met their standards and all they wanted was a quote.

In the past, a customer would call and we would spend a significant amount of time on the phone going over our company's qualifications. Then, I would place marketing material in the mail, or would email it to them. This process took a day, and sometimes weeks before the purchase order was cut. With a good website, the time was reduced exponentially, and we were able to start and finish these projects much sooner.

Today, a professional website is indispensable and must reflect the quality of your company properly. Make sure you take the time to gather and post all of the relevant information. Provide a list of customers, references and experience. Display pictures that show your experience and competence. Write about your skill and dedication. Share your vision and goals. Put it all out there for your customers to see who you are, not only as a company, but as individuals.

My last advice on a website is to hire a professional web designer. Your cousin Otis may be able to do it a lot cheaper, but it won't meet the standards needed. Put your trust in someone who does it for a living, and can project the professionalism you deserve.

SLIDE 73 – HIRE AN ACCOUNTANT

There are a hundred reasons why you should have an accountant on your team, but the main one is that they help keep you out of trouble. There are so many legalities that we can't possibly know them all, but that need to be adhered to without exception, regardless. An accountant can provide the expert advice you need to ensure your company is paying the taxes it should be paying and not paying the ones it shouldn't.

You may not think that it will happen to you, but audits are more common than you think. I can tell you from firsthand experience that when the IRS comes knocking, it's not a lot of fun. Navigating that without an accountant is suicide.

After your bookkeeper submits monthly information to your accountant, they will prepare a monthly financial statement that can help you further understand your financial status. Take the time to read and understand it.

Having someone prepare your company's taxes who understands you and your company is critical. There are numerous important decisions to be made, and an accountant can help you make them in a way that will benefit you tremendously. They may even be able to reduce your tax bill.

Last of all, your company will not be able to get financing, should you need it, without professionally prepared books and taxes from an accountant.

Remember that accounting or tax mistakes can be very costly. The money you spend on an accountant will be money well spent.

SLIDE 74 – UNDERSTANDING P&L STATEMENTS

Unfortunately, there are many business owners who never look at the Profit and Loss (P&L) statements that their accountants prepare. Why? Because they don't understand them.

A P&L is generally what we have been discussing in this course. It is our sales, minus our costs, which equals our profit. Simple as that.

It can, of course, become a little more complicated than that, because there are various categories under each of the items. Sales can be broken down by services, consulting, or products. Cost are broken down into fixed costs, variable fixed costs and variable costs, with each item listed. These reports not only let you see the profit and loss for each month, but they also compare the current month to previous ones.

Another value of a P&L is that we are able to look at each item individually. For example, we can focus in specifically on our fuel costs and see what percentage of our budget that usage represents. We can then determine if it is in line, by comparing it to previous months. This can be done with every line item, helping us identify patterns and spikes.

P&Ls are another valuable tool that provides a detailed glimpse into our earnings, spending habits and profitability. Make sure you understand how to read your P&L, and take the time to review it each month.

SLIDE 75 – WHAT IS YOUR EXIT STRATEGY?

Most business owners don't plan their exit strategy until it's too late. If this decision is made within a few years of an expected retirement, it is probably too late. Deciding on your exit strategy should be done at least five years in advance, if not longer.

The first decision is when are you planning—or, better stated—hoping to retire? Setting that date will help you begin the process of ensuring that the company stays healthy, and that your wishes for the company you perhaps started and definitely nurtured are carried out.

How are you going to retire?

It sounds like a simple question, but it's not. What I mean is: How are you going to finance your retirement? Are you going to flat-out sell the business? Are you going to pass it on to someone, and receive a monthly salary? Or are you going to be removing money in the form of profit distribution, in order to build a retirement fund?

My advice is to retain a financial consultant to help you navigate the process. They will have a lot of safe, legal avenues in which to set you up for retirement. It may be 401Ks, IRAs, life savings accounts, or a plethora of other options that might be right for you.

My last question is: Who is going to take over your business? If you are going to sell it, begin to understand the process. Set yourself up to be able to sell from a point of strength. If your debt load is heavy, it will be more difficult to sell, and you won't be able to get the money you want, because more than likely, the debt will be deducted from the sales price.

Perhaps you plan on having a family member take over. There is nothing wrong with that, but you need to understand what that process entails. Whatever you do, you need to make sure that you set them up for success. Integrate them slowly into the position while you still have plenty of time to mentor them, and have them in full control at least a year before your departure.

Perhaps there are employees who would like the opportunity to take over the business. This is something that should be identified far in advance. Sitting down with a banker to address what would need to be done in order to make it happen would be the first step. Having the employee(s) know the financial position they will need to be in is another good early step.

SLIDE 76 – CONTINUALLY EVOLVE

In business, we need to continually evolve. Finding ways to become more efficient is part of that process. Streamlining our company will help grow the bottom line.

We also need to find ways to do our jobs better, faster and at less cost. If we become complacent, or even arrogant, our companies may continue to perform adequately, but with no progress. Each month and each year, we should become better at what we do. Our crews should be getting better and better, and more efficient in the process. If they are not, then something is wrong.

Be open to new ideas. Maybe the way your company has been performing its work is the same way your grandfather did it. Be open to the fact that there may be new technology or new ideas that can improve your efficiency and reduce the cost of the work you do. Take time to read trade magazines and attend conventions and trade shows that represent your industry.

Seek advice from those who have more experience, and be open to criticism. Too often, our pride keeps us from taking good advice from others. We are afraid to show that we don't know everything. But this is a big mistake. In just one conversation, the person you are speaking with could have a valuable nugget of information that could impact your business in a positive way.

A friend of mine once shared something that his company put into action. Their primary business was inspecting underground pipelines, and the equipment was very expensive and somewhat delicate. The owner of the business was frustrated with the amount of money his company was spending each month for repairs. When he consulted with the repair facility, he was told that ninety percent of the needed repairs were caused by operator error.

He in turn discussed the situation with one of his managers, who asked him just how much the company was spending a year on repairs. After getting the reply, the manager offered a pretty radical suggestion. The owner thought about it, then gave him the green light.

At the next employee meeting, on the white board, the manager wrote in big letters "$30,000." He then said, "Whatever is left of this money at the end of the year is to be divided among all of the employees." There were looks of astonishment and even some cheers. Next, he said, "Every time there is a repair on our inspection equipment, that amount will be deducted from this number. Then, whatever is left at the end of the year, will be yours."

The lesson didn't sink in right away, but over the next few weeks, the employees kept seeing numbers being subtracted from the total. Finally, they realized that something needed to change if they were

going to get any part of that money. Over the next few months, repair costs decreased as the employees began to treat the equipment with more care. At the end of the year, there was money left over, and it was split among the staff. This turned out to be a win-win for both sides. The employees were rewarded for taking greater care of the equipment, and the company reduced its repair costs significantly.

This is a simple example of how new ideas can have positive results.

There are organizations out there that are available to help businesses. Some, such as SCORE (Service Corps Of Retired Executives – score.org), are retired business owners who enjoy sharing their experience and expertise with people. Perhaps there is a particular area you need help with. Don't be afraid to reach out and seek such mentors. Most of them offer their services for free.

I can't emphasize this enough: Stay abreast of new technology. Don't let your competition leave you behind in this area. New technology can help you do your job better, faster, and cheaper. Be the innovator, not the follower. If you are the one who is continually bringing new ideas to the industry, customers will perceive your company as being on the leading edge, and will make it a point to work exclusively with you.

No matter what it is, be the best at it. If it's placing traffic cones on the street, or performing a repair, or installing a long pipeline or building a foundation, be the very best at it. Take pride in what you do and your employees will follow. Set an example with the highest standards, and your company will flourish.

Be honest in the work you do, and your customers will never leave you. If you make a mistake, fix it on your own dime. If your customer complains, make it right. Be known in the industry as being a person and company of integrity. To me, there is no greater compliment than for someone to tell me I am a man of my word. Your company should always strive for that. Your reputation is all you've got, and you must guard it as closely as you can.

It only takes one customer to destroy your reputation. Especially today, when information can be shared with millions over the internet. Make sure your employees represent you well and follow your guidelines.

Remember that the attitude of the people at the top will filter down to everyone below. If top management has disdain for the customer and continually ridicules them, so will the employees. If top management squeezes out extra dollars illicitly, so will the employees. And conversely, if top management treats the customers well and is honest with them, so will the employees.

SLIDE 77 – CAUTION

I'd like to throw out a few notes of caution before we conclude this course. As a former business owner, these are some points of advice that I'd like to pass on to you from personal experience. I can't help but think about the mistakes I made, and to this day, I chastise myself for making them. But perhaps I can help you avoid some of the same mistakes.

When we build a successful business, it makes us feel like we can do anything we put our minds to. Since we were successful building this business, we begin to believe that we can build any other business. While this may be true to some degree, we need to keep in mind how long it took us to build our current business, and how much we sacrificed doing it. And, let's keep in mind that the main reason our

company has succeeded is because we have been intimately involved with it every step of the way, and have managed it and cultivated it to where it is now.

Because of our success, other opportunities come our way. I'm not talking about adding services to our existing company. I'm speaking about starting completely unrelated businesses. As tempting as it is to take on a new challenge in a whole new field, I must caution you about doing so, and not necessarily for the reasons you might think.

Unlike when you started your original company on a shoestring and had to do everything yourself, today you may have the resources and personnel to pull it off. Your chances of succeeding in your new endeavor are probably pretty good, but many people who have been down the same road will advise you to reconsider.

Why? Because you will put so much time and effort into the new venture, that you will begin to neglect your main company. The company, by the way, that pays your bills and has been building your wealth.

Not only will the new company consume your time, it will begin to drain financial recourses from your primary company. Trust me, this is not a good direction in which to go. Continue to build in the area you know best, and don't compromise your capital reserves by chasing a new dream.

My next piece of advice is to hold the people who handle your money accountable. Again, the saying applies; "keep honest people honest." Don't allow temptation to ruin your company or other people's lives.

I was lucky to have a competent wife handling my finances, but not everyone is that fortunate.

Two friends of mine had a successful business for many years. Since it was sales-based, they spent most of their time on the road. Their bookkeeper had been with them for nearly twenty years and handled all of the company finances.

There came a time when the two owners began to scratch their heads, wondering why their cash reserves were so low. Neither one of them ever looked at the books, but they began to suspect that something was wrong.

After hiring someone to do a forensic examination of the company, they found out that the bookkeeper had been embezzling money from the company for the past five years. It came to light later that she had a gambling problem that had gotten her into financial trouble. At first, the amount she took was less than one hundred dollars, but after a while she became bolder and it escalated into the thousands. Of course, she was arrested and ordered to pay restitution, but the damage was done.

The incredible part of this story is that they hired a new bookkeeper who did the same thing just a few years later. Obviously, these guys didn't learn their lesson the first time.

So, the lesson here is that we need to keep an eye on things, even if it is a relative or a lifelong friend. When people are allowed to operate with unfettered access and total lack of accountability, in those moments of weakness, they could make bad decisions.

This next piece of advice is near and dear to my heart, not in a good way, but in one of those head-slappers that you never forget.

When we find a good employee and invest heavily into them over many years, they become pretty valuable to us. When they reach a point where they perform their work to standard, represent the company well, and generate a positive income for our company, the last thing we want is to lose them.

As we all know, for some reason or another, employees can suddenly change. Most of the time it stems from personal problems, but there can be other factors as well. When that employee turns and their attitude and work ethic deteriorate, we try our best to step in and correct the behavior. Sometimes that works, and sometimes it doesn't.

When it doesn't, many of us are reluctant to let that employee go because of the perceived value they bring to the company. And even though that may be the best decision, we drag our feet, hoping that the individual will revert to who they once were. All the while, the employee is damaging the company's reputation and worse, poisoning the other employees.

My advice is to be decisive early. As much as you may like the individual or value the experience they have, holding on to them too long can damage your company beyond repair. If corrective measures aren't working, let them go. Believe it or not, it can sometimes be the best thing you ever did for them.

My last piece of advice is to be careful who you put in a position of authority. Promoting a person into a position that oversees others, just because they are a friend or a family member, can be catastrophic. The people who do deserve it and are qualified for it will be devastated and resentful. Worst of all, you may lose them in the end.

In the same away, someone who lacks managerial skills should never be promoted, just because they have seniority. Tenure should never matter when it comes to the selection of managers. Even if someone has only been with the company for a short while, if they have the ability to lead, then consider them.

The last thing we want to do is to set someone up for failure. When we promote someone who doesn't have the skills, and then have to remove them because of it, it damages that individual and makes us look silly. Promote for aptitude, not reward.

SLIDE 78 – NEVER BECOME COMPLACENT

In order to succeed, never become complacent. As soon as you think you have it in the bag, something is going hit that will humble you. It can come from anywhere and at any time. Just keep your nose clean and never let down your guard.

Business is a continual fight, and you have to ward off all the attacks. Everyone wants to take your money; your customers, your employees, and especially, the government.

Do you know that there are dozens of federal, state and local agencies out to get your money? I'm not talking about the regular bills and tax payments, I'm talking about fines, levies, and fees that can add up to a lot of money.

Trust me, I've had agencies that you are familiar with suddenly appear and want to review my books. These are trained professionals and believe me, they are going to find something wrong, and they are going to fine you for it. And then (this is really true), they are going to share your information with another agency who is going to come audit you as well. They will surely find a way to pick your pocket, too.

Here is a partial list of all the government agencies that had influence over my business:

FEDERAL	FOOD AND DRUG AMINISTRATION
STATE	FORREST SERVICE
COUNTY	LABOR DEPARTMENT
CITY	NATIIONAL PARK SERVICE
WATER DISTRICTS	OSHA
IRS	RAIL ROAD COMMIISION
DEPARTMENT OF TRANSPORTATION	SOCIAL SECURITY ADMIN
CALTRANS	FAIR EMPLOYMENT & HOUSING DEPARMENT
COUNTY FLOOD CONTROL	FRANCHISE TAX BOARD
HEALTH & HUMAN SERVICES	HEALTH & SAFETY AND WORKERS COMPENSATION COMISSION
STATE LICENSE BOARD	HEALTHCARE WORKFORCE DEVELOPMENT DIV.
AQMD (AIR QUALTIY)	HIGHWAY PATROL
DEPT. OF LABOR RELATIONS	INDUSTRIAL RELATIONS DEPARMENT
EMPLOYMENT DEVELOPMENT DEPARTMENT	JUSTICE DEPARTMENT
DMV	PARKS AND RECREATION COMMISSION
LABOR BOARD	PUBLIC HEALTH DEPARMENT
BOARD OF EQUALIZATION	RAILROAD COMMISSION
FISH AND WILDLIFE	SECRETARY OF STATE
BUREAU OF LAND MANAGEMENT	SMALL BUSINESS ADMINISTRATION
DEPARTMENT OF DEFENSE	WATER RESOURCES DEPARTMENT
UNEMPLOYMENT INSURANCE PROGRAM	WILDLIFE CONSERVATION BOARD
WORKERS'S COMPENSATION BOARD	

You need to make sure that you are doing things right. In other words, you need to keep your head in the game at all times. You snooze, you lose.

SLIDE 79 – COUNT THE PENNIES

Benjamin Franklin is quoted as saying, "Watch the pennies, and the dollars will take care of themselves." I'm sure that he didn't mean to just ignore the dollars, but if we are watching closely enough to count the pennies, then we would naturally be keeping an eye on the dollars, too.

I really like this quote, because it summarizes everything we have been talking about in this course. Counting the pennies means to keep an eye on everything, even down to the smallest detail. The company and its finances are yours. No one else will be as passionate and concerned about it as you. If you don't make the effort to be aware of everything that's going on, who else will? You may have employees that really care about you and the company, but their lives aren't as attached to it as yours is.

An employee can quit, or for that matter be fired, and their lives will go on. They may be resentful and their feelings may be hurt, but they can find a job the next day and their lives will continue. But as an

owner, your life is tied up in the business. You can't quit. Failure means bankruptcy, a loss of everything you've invested into the business, and the end of your dream and future. It means walking away with debt you may be paying off for the rest of your life.

You have more at stake than anyone else. You must understand that, and take full possession of your company. The company's money is yours, the company's reputation is yours, the company's debt is yours. You must be in control.

Delegate and put people in charge of areas of your business, but never cede full control. Always be aware of what they are doing and hold them accountable, to make sure they are performing their jobs appropriately. As Ronald Regan once said in regard to a nuclear treaty with the Soviet Union, "Trust, but verify."

Empower your managers and employees, but always be vigilant of their actions.

SLIDE 80 – SUMMARY

We've covered a lot of ground in this course, so let's summarize ten important points:

1. **Determine the cost of business.** We can't know if we are making money if we don't know what our cost of business is. We need to understand what fixed costs are, what fixed variable costs are, and what variable costs are. The combination of those three equals our total cost of business. By determining exactly what these are, we can begin to not only understand our financial picture, but we can start knowing if we are making money or not.

2. **Ensure daily profitability**. We have spent a lot of time on the financial side of business, and determined that the most important thing we could do as a company is to make a profit. If we don't make a profit, then we are not actually in business, we're just playing at a hobby. If we're not making money, we are going in the opposite direction and actually eating into our operating capital. And, of course, we can do that for just so long before our operating capital is completely consumed.

   We need to make sure that we make a profit every hour, every shift and every day. There can be no compromise here. We can't go out and do jobs that are losers, just to keep our crews busy, because then all we're doing is giving our money away. We can't take loss leader work, where we lose money on a job with the hope of getting more work later from the customer. No matter what, we should never compromise the fact that *every job needs to be profitable.*

3. **Implement a job costing program.** This is how we track our daily profitability. Without a job costing program, we are working in the dark. We must have a clear way to see if we are making money or not, and this is a great way of doing it.

   Of course, the information we enter needs to be accurate if it is going to give us the factual information we need to determine our hourly, daily and monthly profit. Through this process, we can also track the profitability of each crew, each job and each project.

   A job costing program can be set up very easily on a spreadsheet. Make sure that all of the categories are listed, so an accurate determination can be made. Enter the job information into the

program as soon as possible, so you can have immediate knowledge of the situation. If you see that there are problems, adjustments can be made immediately and the problems can be resolved before further financial loss is incurred.

4. **Become as efficient as possible.** When we train our crews adequately, we need to make sure we periodically rethink our methodology. When we invest into new technology, the quality of our work will increase, and the time it takes to complete it will decrease. Both of these factors are sure bets for success. When we streamline our operations and become the best we can be, the demand for our services will grow, and so will our profits.

   Make the effort to become informed. Read industry periodicals, attend trade shows, and find classes that help you grow in knowledge. Invest in your employees by providing ongoing training. Pass on relevant information that will help them grow, as well. Remember that this is their career, too. The more they learn, the more valuable they will become.

5. **Become the best at what you do.** Take pride in everything you do. Strive to be the best at it you can be. Challenge those around you to be that way, as well. But you must lead by example. Take a look at your competition, and if they are doing something better than you, then strive to equal or surpass it. Make sure the image you project as a company reflects the competence you have achieved. Empower your employees to represent you well. Encourage them to share their view of the company with others. Make them feel proud to be part of your company. Always share any positive feedback you get with them. Single out those who receive specific accolades.

   A company is a team that should be working together to accomplish a goal. Make sure that everyone knows what the goal is so they can be part of the purpose. Your company will flourish when your employees buy in to your vision.

6. **Operate proactively.** We discussed how some companies are in constant crisis mode. This is because they are in disarray, simply reacting to situations. Try to be as proactive as possible. Plan ahead. Come up with protocols for crisis situations. Get ahead of the game and drive your company, rather than the other way around. Teach others how to manage certain situations, so you aren't constantly running around like the company fireman.

   Create a budget so you can anticipate your financial situation down the road. Meet monthly with your employees and look ahead. Become good a prognosticating the future. Head off potential crisis before it hits.

7. **Be open to new ideas.** Always be open to new ways of doing things. Build relationships with competitors and vendors so you can have someone to learn from and bounce ideas off of. Read about other companies and what they are doing. Keep up with new technology and methodology that can help you grow. Be open to criticism and suggestions. Seek genuine feedback from your customers. Know how they look at your company, and be willing to change what is negative.

   Show respect to your employees by welcoming their suggestions and ideas. They are in the trenches every day, and see things differently than you do. Welcome their ideas and congratulate them when their ideas they are implemented. Show them you value what they have to say.

8. **Remember where you came from.** Many of us came from humble beginnings. Unlike some business people who were fortunate enough to inherit vast sums of money, most of us didn't. We started from nothing and took great risks to get where we are. I can tell you that on many occasions, I found myself completely broke, sometimes not knowing where my next meal would come from.

   Not one of us got where we are without very hard work and a commitment to excellence. For some of us, those humble beginnings were a very long time ago, while for others it was rather recent. Either way, it's important that we remember those times; how it felt to be broke, how we were frightened by the risk, how we were scared to death when we took out that first loan and the feeling of exhilaration when our business began to take off.

   Be compassionate with those around you, as some of them are where you were many years ago. They might be employees and their ambitions may not be as high as yours were, but they are still struggling to make ends meet, they are scared, and they have dreams, too. Try to know each one of your employees' dreams. What is it that makes them happy? Is it a hobby? Maybe it's the dream of going to college. Perhaps it is simply the desire to work hard and take care of their family. Whatever it is, take the time to encourage them. Remember where you once were, and how much it would have meant to have a boss take an interest in you and encourage you. Make a positive difference in the lives of those around you whenever you can. Remember what it was like to be in their shoes.

9. **Be generous.** I encourage you to not make money the god of your life. I can assure you that if you do, you will never, ever have enough. You will never reach a place of contentment in your life because you will always be striving for more. Be thankful for what you have, and be generous to those around you. Give to charity and help friends and family in need.

   Mostly, be generous with your employees. Give out bonuses at Christmas, throw parties for them and their families, and sometimes, surprise them with a few extra bucks in cash. Give of your earnings, and good things will come back to you.

10. **Stay humble.** When we reach a plateau of success, we feel invincible. It's a great feeling of accomplishment and fulfillment. People respect us for what we have achieved, and for the money we have earned. My advice is to stay humble. You may think that you got there all on your own, but believe me, there are others that helped you get there. And, let's face it, there was a little luck involved, as well.

But let me tell you something: All you have attained can be taken away in an instant. The markets can turn, lawsuits can happen, and health issues can arise.

I remember sitting in church one day, and the preacher was praying for those in need. I remember thinking at the time how I had no problems whatsoever. Business was good, my relationships were good, my health was good, and my finances were stellar. That day I needed nothing. However, just a few years later, I went through one of the most trying periods of my life. There were problems that arose that nearly bankrupted me and my company. I was humbled beyond measure.

Don't take things for granted, because tomorrow they could be taken away. Be appreciative that your business is flourishing. But mostly, be thankful for those around you, especially your family. Don't let business consume you so much that you don't have time for them.

SLIDE 81 – THE END