

THE COST OF DOING BUSINESS



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PETER F. DRUCKER (1909–2005)

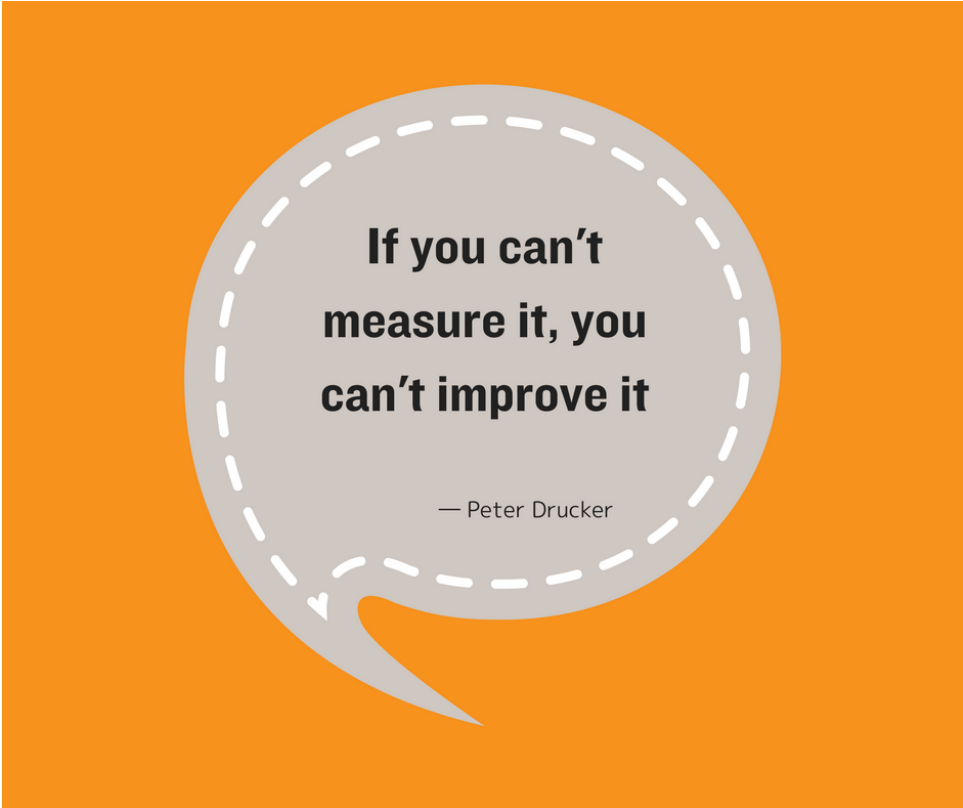
THE FATHER OF MODERN MANAGEMENT



You can't manage what
you don't measure.

Peter F. Drucker

quotation



**If you can't
measure it, you
can't improve it**

— Peter Drucker

WHILE YOU MAY KNOW YOUR **PRICE**,
DO YOU REALLY KNOW YOUR ACTUAL **COST**?

Cost

The expense incurred for providing a service that the Company sells.

Price

The amount a customer is willing to pay for that service.

OVERVIEW OF FINANCIAL STATEMENTS

Balance Sheet

The US Small Business Administration (SBA) calls this document “the foundation of managing your finances.”

$$\text{Assets} = \text{Liabilities} + \text{Capital}$$

Assets

Cash
Accounts Receivable
Trucks
Rental Equipment
Inventory
Etc.

Liabilities

Accounts Payable
Short-term Loan
Taxes Payable
Long-term Debt

Capital

Owner Funding
Retained Earnings

OVERVIEW OF FINANCIAL STATEMENTS

Profit and Loss (P&L) / Income Statement

The US SBA calls this statement “the most important financial report” as it reflects business decisions on the basic buying and selling process.

SALES – COST OF GOODS SOLD = GROSS PROFIT

GROSS PROFIT – OVERHEAD = NET PROFIT

“Cost of Goods Sold” is the total expenditure for inventory items which customers purchase. Labor, supplies, and transportation are the major categories in our industry.

OVERVIEW OF FINANCIAL STATEMENTS

Statement of Cash Flow

Flow of Cash both “In” and “Out” of the Company. Useful in determining short-term viability of being able to pay the bills.

Eliminates non-cash transactions such as depreciation, amortization, bad debt writes, and similar transactions.

CASH INFLOWS OR INCOME  **AVAILABLE
CASH BALANCE**

CASH OUTFLOWS OR EXPENSES  **ENDING
CASH VALUE**

“How much cash is on hand at the end of the day?”

TAILORED FINANCIAL STATEMENTS SHOULD TELL THE STORY OF YOUR COMPANY

- Your Company's Financial Statements should not look "generic" like other companies in other industries
- One should be able to look at your Company's Financials and tell the type of industry to which you belong.
- The Financial Condition of the Company can be assessed from the company-specific details and categories measured in these reports.

FACTORS TO CONSIDER WHEN “TELLING THE STORY OF YOUR COMPANY”

Be aware of generic account names that appear on Financial Statements, such as:

- Income or Revenue
- Inventory
- Equipment
- Supplies
- Repairs
- Fuel
- Labor
- Miscellaneous or “Other”

Determine how you would like to categorize your business results based on the way your business is organized.

- Consider “Construction” and “Special Events” as separate business divisions?
- Delineate between “Field” and “Administrative” employees?
- If there are multiple locations, designate each location as a standalone entity?

EXAMPLE: BALANCE SHEET

CURRENT ASSETS Cash, A/R, Pre-Paid Expenses, Inventory	FIXED ASSETS Building, Furniture & Fixtures, Equipment
INVENTORY: Separate by Units, Sinks, Holding Tanks, Restroom Trailers, etc.	EQUIPMENT: Separate by individual route truck, delivery and pickup vehicle, pickup truck, etc.
“UNITS” could be further subdivided into “Construction” and “Event”	Other categories could include “Office Equipment,” “Computers,” etc.

EXAMPLE: INCOME STATEMENT/PROFIT AND LOSS

$$\text{SALES} - \text{COST OF GOODS SOLD} = \text{GROSS PROFIT}$$

SALES	MEASUREMENT METHODS
Measure on a consistent basis	Track as one Cumulative Number?
Compare Month-to-Month / Quarterly / Yearly	Track “Construction Sales” and “Event Sales?”
Compare one period this year to the similar period the previous year	Track “Construction” / “Residential” / “Events?”
Look for TRENDS	Track by “Geographical Area” / “Multiple Offices?”

COST OF GOODS SOLD (COGS)

Cost of Goods Sold (COGS) is a necessary and vital category to include on any Income Statement.

Be as specific as needed to gain an accurate indication of your costs and business performance.

GOOD EXAMPLES OF COGS CATEGORIES

Depreciation Expense	Disposal
Insurance (Vehicles, not Medical, etc.)	Labor (not including “Salary & Admin Exp”)
Restroom Trailers	Supplies
Unit Expense	Vehicle Expense

BETTER EXAMPLES OF COGS CATEGORIES

Depreciation Expense (Units & Vehicles)	Disposal
Insurance (Vehicles, not Medical, etc.)	Labor (not including “Salary & Admin Exp”)
Restroom Trailers (Parts & Repairs)	Supplies (Chemical & Paper)
Unit Expense	Vehicle Expense (Fuel & Repairs)

BEST EXAMPLES OF COGS CATEGORIES

Depreciation Expense

- Restroom Trailers
- Units
- Vehicles
 - By Route Truck
 - By P&D Truck

Supplies (Cleaner, Deodorizer, Hand Sanitizer/Soap, PPE, Paper Towels, Toilet Paper)

Insurance: Liability, Vehicle, Workers Comp

Labor: Full-Time / Contract (if applicable)

Restroom Trailers (Parts & Repairs)

Disposal

- By County or Location

Unit Expense

Vehicle Expense (Fuel & Repairs by Truck)

Sink Expense

OTHER USEFUL
ANALYSIS TOOLS:
NET PROFIT

Net Profit can be calculated as:

GROSS PROFIT – OVERHEAD

OVERHEAD = ALL EXPENSES NOT IN COGS SUCH AS:

Advertising	Bad Debt
Computers and Supplies	Interest Expense
Licenses and Permits	Medical Expense
Rent	Salary and Wages (Admin, Officers)
Travel	Utilities
Office Supplies	Professional Fees (CPA, Legal, etc.)

GROSS PROFIT MARGIN: An Income Statement with a second column of percentages. Each number on the Income Statement is shown as a % of Sales.

EXAMPLE		
	Dollar Amount	Percentage of Sales
Sales	\$200.00	
COGS		
Labor	\$60.00	33%
Fuel	\$20.00	10%

CONCLUSIONS

- A “Top-Down” approach to the Cost of Doing Business is based on solid numbers such as Sales Receipts, Invoices, Bills, Paychecks, etc.
- Keep information as detailed you need. Most financial software packages allow for compression of detailed categories back to more generic categories which is more useful for bankers, loan officers, etc.
- Examine and analyze this data on a regular basis.
- Consult with an Accountant or CPA as you “tailor your financials” since laws vary by State and/or municipality. In addition, have this person double check your work because, as previously stated, your Presenter is NOT a CPA or a Financial Analyst.