

Contractor's SCHOOL, Inc.

Continuing Education for Contractors

3191 South Valley Street, Suite 154, Salt Lake City, UT 84109
(801) 467-1900 • (866) 467-9955 • www.contractor-seminars.com

Thrive, Survive or Dive

What You Need to Know to Build a
Thriving Business

Thrive, Survive or Dive

Keys to Building a Profitable Business

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Would you expect someone without the proper tools and adequate training to successfully build a home?

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Is it reasonable to expect someone to build and manage a successful business without the right tools and knowledge?

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90% of Business Failures are Directly Linked to Management Mistakes

- | Go into business for the wrong reason
- | Little or no record keeping skills or knowledge
- | Do not know how to set the right price
- | Can't manage cash
- | Owner takes too much money from the business
- | No real plan for the business
- | Chasing unprofitable business
- | Seeking business in areas with little or no expertise
- | Poor marketing
- | Lack of real sales skills
- | Growing too quickly
- | Don't know how to manage employees
- | Get bad advice about running a business

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Which business are most likely to fail?

6. Local trucking firms
5. Security brokers and dealers
4. Eating places
3. Grocery stores
2. Single-family housing construction
1. Plumbing and HVAC

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There is some very good news

- Likelihood of success is much greater if you:
 - Realize you lack important knowledge & skills
 - Are humble enough to seek help
 - Take responsibility for your business today
 - Don't leave things to chance
- Knowledge and skills to run a successful business can be learned
- Resources are available to help you
- Successful businesses follow this pattern

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Thrive, Survive or Dive?

- | Diving companies
 - | Losing money
 - | Sales are dropping
- | Surviving companies
 - | Covering costs with revenues
 - | Sales are unstable
- | Thriving companies
 - | Making strong profits
 - | Growing Sales

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What Makes the Difference?

Thriving companies understand the concept of Profit Point and manage their business around the key driving principles.

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What is Profit Point?

- | The single most critical factor to understand and manage in a profitable business
- | Point where gross profit equals fixed costs
- | Can be measured in sales dollars or units
- | Can be utilized to measure performance of separate business units or revenue types

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Key Profit Point Factors

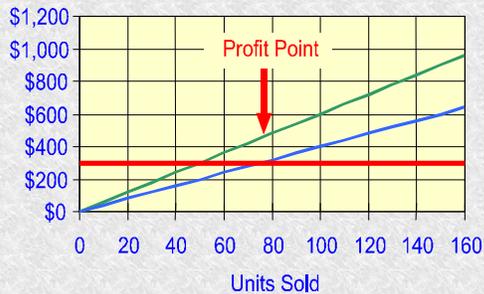
- **Gross Profit**
 - Revenue less all Direct Costs
 - Variable profit
- **Revenue: Amount billed to customer**
- **Direct Costs**
 - Costs directly associated with a specific sale
 - Labor, commissions and related costs
 - Goods and materials included in the sale
 - Other costs such as permits and licenses

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Key Profit Point Factors

- **Gross Margin:**
 - Gross Profit expressed as a percent of revenue
- **Fixed Costs (Overhead)**
 - Costs that do not fluctuate with sales volume
 - Semi-variable costs that cannot be attributed directly to a sale

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— Revenue — Gross Profit — Fixed Costs

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Profit Point Question

What revenue is needed for gross profit to equal fixed costs?

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Profit Point Revenue Formula

Fixed Cost \$

Gross Margin %

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Profit Point Example

$$\frac{\$10,000 \text{ (Fixed Costs)}}{50\% \text{ (Gross Margin)}} = \$20,000$$

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Test Yourself

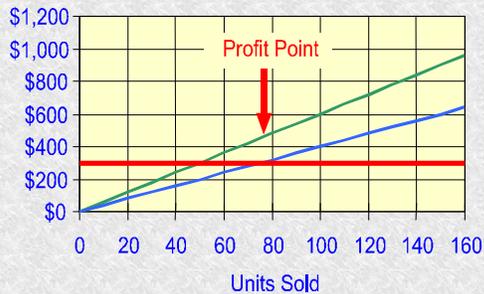
- Unit Selling Price: \$6
- Unit Costs: \$2
- Gross Profit per Unit: \$4
- Gross Margin: 67%
- Fixed Costs: \$300
- What is the Profit Point in Dollars?
- What is the Profit Point in Units?

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How Did You Do?

Selling Price	\$6
Gross Profit	67%
Fixed Costs	\$300
Profit Point Revenue	\$450
Profit Point Units	75

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— Revenue — Gross Profit — Fixed Costs

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Furnaces, Inc.

	80% SS	•What is the Gross Profit?
Furnace	\$600	
Labor	\$320	•What is the Gross Margin?
Commission	\$200	
Burden	\$130	•Fixed Costs = \$20,000
Materials	\$100	
T-Stat	\$50	•What is the profit point revenue?
Permit	\$50	
Warranty	\$50	
Total Costs	\$1,500	•How many furnaces do you need to sell to reach the profit point?
Sales Price	\$2,500	

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Profit Point Example

$$\begin{array}{r} \$20,000 \text{ (Fixed Costs)} \\ \hline 40\% \text{ (Gross Margin)} \end{array} = \$50,000$$

$$\begin{array}{r} \$50,000 \text{ (Sales)} \\ \hline \$2,500 \text{ (Unit Price)} \end{array} = 20 \text{ Furnaces}$$

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But I don't want to just break even!

I want to make money!!

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Profit Dollar Revenue Target

Fixed Cost \$ + Profit \$

Gross Margin %

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Furnaces, Inc.

\$20,000 + \$5,000 (Profit)
----- = \$62,500
40%

\$62,500
----- = 25 Furnaces
\$2,500

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Profit Percent Revenue Target

Fixed Cost \$

Gross Margin % - Profit %

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Furnaces, Inc.

$$\frac{\$20,000}{40\% - 10\% \text{ (Profit)}} = \$66,667$$

$$\frac{\$66,667}{\$2,500} = 27 \text{ Furnaces}$$

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Managing the Profit Point

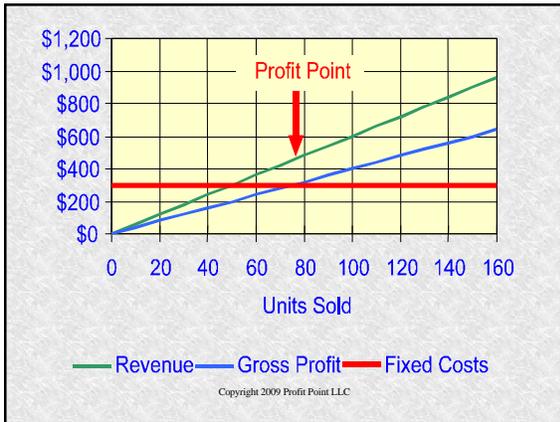
- | Increase Number of Unit Sales (Volume)
 - More sales opportunities
 - Increase the close rate on sales opportunities
- | Increase the Gross Margin Percentage
 - Increase selling price
 - Reduce direct costs
- | Reduce fixed costs

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Profit Point Exercise

Managing Variables

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Comparing Competing Products

	80% SS	80% VS	90% VS
Sales Price	\$2,500	\$3,300	\$4,400
Gross Margin	40%	37%	33%
Fixed Costs = \$20,000			
Desired Profit = \$5,000			

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Let's Take a Closer Look

	80% SS	80% VS	90% VS
Sales Price	\$2,500	\$3,300	\$4,400
Gross Margin	40%	37%	33%
Revenue Needed	\$62,500	\$67,568	\$75,758
Units Needed	25	20.48	17.22

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Items that must be considered

- Capacity
- Availability of leads
- Cost per lead
- Sales closing rate

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It's About Profit

- Get there quickly
- Maximize every opportunity
- Every sale after the goal is gravy

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Profit Point Mastery

- Know Your Numbers
- Create Opportunities
- Sell for Profit
- Manage the Work

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Step 1: Know Your Numbers

- What they are
- Where they come from
- How to use them

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Numbers You Need to Know

- Accounting
- Marketing
- Sales
- Production

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Why You Need to Know Accounting

- Historical data used for starting point and forecasting
- Measures current performance (scorecard)
 - By Product
 - By division
 - By revenue type
 - By job
- Measures financial health
- Signals problems

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What you need to know about Accounting

- What goes where
 - Assets versus expenses
 - Fixed costs versus variable costs
 - Liabilities versus revenue
 - Job costing
 - Revenue and expense classifications
- Basic Financial analysis

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Accounting Tools

- Income Statement
- Balance Sheet with supporting schedules
- Statement of change in financial position
- Budget and forecast
- Daily performance trackers

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Marketing Numbers

- Market share
- Advertising
 - Cost of advertising by medium
 - Response rate by medium
 - Lead conversion rate by medium
 - Cost per response by medium
 - Sales close rate by medium
 - Cost per sale by medium
- Inbound call conversion rate

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Sales Numbers

- Average ticket
 - Individual
 - Revenue type
 - Period
- Sales Closing rate
 - Individual
 - Revenue type
 - Lead source
 - Product
- Sales Inclusion Rate
 - Accessories
 - Add-ons
- Financing rate
- Referrals

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Production Numbers

- On-time completions
- Call backs
- Labor efficiency rates
- Material and equipment cost (usage) rates
- Gross profit per man-day

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Profit Point Exercise

[C:\Point Files\Profit Point Classes\Bryon Presentation\Revenue Estimator.xls](#)

Estimating Revenue

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Step 2: Create Opportunities

- Increase the number of new customer opportunities
- Increase the number of opportunities from existing customers
- Increase perception of value

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We Call it Marketing

- Creating, communicating, and delivering goods and services that satisfy customer needs
- Developing an identity with customers
 - Positive
 - Distinguishable
 - Memorable

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What You Need to Know

- The need you are planning to satisfy
- Who your customer is
- How your customer thinks
- Your product features and benefits
- How your product meets the needs of your customer
- How to reach your customer

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The Marketing Process

- 1) Develop a strategy
- 2) Create the product
- 3) Create a marketing plan
- 4) Communicate message to customer

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Strategic Planning

- Situation analysis
 - Customers
 - Vendors
 - Competitors
 - Economy
 - Regulatory issues
 - Competitive products
 - Barriers to entry
- Internal Analysis
 - Market share
 - Image
 - Capabilities
 - Products
 - Culture
 - Goals

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Strategic Direction

- Grand Focus
 - Customer
 - Product
- Basis of Competition
 - Low price
 - Differentiation

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Create the Product

- Image
- Uniforms
- How you answer the phones
- Logo
- Scripts
- Vehicles
- Product Lines
- What you think of the customer
- The work you will do
- How you do the work
- Literature
- Policies and procedures

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Marketing Plan

- Who will we market to?
- How do we reach our customer?
- When?
- How much will we spend?
- What will the message be?
- How frequently will market?

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Tools for Communicating with Customers

- Advertising
- Public relations
- Top-of-the-mind awareness
- Referrals
- Repeat customers
- Cross selling
- Educating

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Establishing a Marketing Culture

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Step 3: Sell for Profit

- Increase the rate that opportunities are converted to sales (Close Rate)
- Get more profit from every sales
- Get more sales opportunities

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What is Selling?

- Building value
- Identifying wants and needs
- Attaching emotion
- Providing solutions
- Differentiating
- Gaining commitment

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Getting a customer to buy

- Purchase decision is made when price is less than or equal to perceived value
- Value is established by the customer
- Move customer to buying decision by
 - Lowering price
 - Increasing perceived value

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What You Need to Know

- Why people buy
- Your product's benefit
- You and your company
- How your product meets a customer's needs
- How to logically and effectively present ideas
- How to encourage a customer to make a decision
- How to overcome objections

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The Sales Process

- Establishing selling opportunity
- Establish explicit needs
- Demonstrate capability to meet need
- Offer to satisfy need
- Gain commitment

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Formal Sales Presentation

- Introduction and warm up
- Customer assessment
- Company presentation
- Needs resolution
- Commitment

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Sales Tools

- Selling culture
- Lead tracker
- Sales process
- Formal presentation
- Commission

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Sales Process

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Step 4: Manage the Work

- Maximize amount of work performed
- Ensure quality of work meets or exceed standards
- Minimize costs
 - Labor
 - Materials
 - Other

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The Key is Labor Management

Systems for getting the right people to do the right thing at the right time for the right price again and again

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Labor Management and Profit Point

- Labor is a primary resource in every marketable product
- Quantity of labor time (Capacity)
- Quality of labor time (Productivity)
- Cost of labor

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What You Need to Know about Labor Management

- Motivation
- Planning
- Training
- Hiring
- Retention
- Team building
- Compensation
- Employment laws and regulations

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Employment Tools

- Management Systems
- Clearly understood job expectations
- Competitive compensation
- Safe working environment
- Management systems
- Time sheets
- Employee reviews
- Commissions and bonuses

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Profit Point Exercise

[Profit Point Classes/Event Presentation/Topic Board Templates etc](#)

Daily Performance Tracking

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Get to the Point!

- Find your profit point
- Make changes needed to get there quicker
- Track your performance daily
- Make daily management decisions

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