

# Structuring for Profit and Growth

MAC SHELDON – DEMILEC USA





# Ten nuggets to improve your business

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1. Know who you are and where you're going.
2. The basic tenets of the Spray Foam business
3. Know your numbers
4. Price your jobs for the right reasons
5. Know and control your job cost
6. Be a detective
7. Use "OPM" to your advantage
8. The right customer for your company
9. Beware of the Walls
10. Guiding principles

# Question everything.....

Euripides (400 BC)

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- Who am I now?
- Who do I want to be in
  - 5 years?
  - 10 years?
  - 15 years?
- Why am I in business?
- What is the meaning of life?

# Who are you? And who do you want to be?

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- **Working for wages**
- **Building a legacy**
- **Building equity**

**Who are you?  
And who do you want to be?**

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**“If you don’t know where you’re  
going, any road will get you  
there.”**

Lewis Carroll,

*Alice in Wonderland, 1865*

# Who are you? And who do you want to be?

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- **Working for wages?**
  - Comfortable living
  - Total control
  - Independent
  - Master of your own destiny

# Who are you? And who do you want to be?

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- **Working for wages?**
- **What's the end game?**
  - Close the business
  - Sell the assets

# Who are you? And who do you want to be?

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- **Building a legacy**
  - Family business
  - Working shoulder-to-shoulder with sons and daughters
  - Hand the reigns down to the next generation

# Who are you? And who do you want to be?



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- **Building a legacy**
- **What's the end game?**
  - Next generation operates the business
  - Conditional buy-out?
  - Retirement income stream?
    - Is there enough profit to support you and the kids?
    - Kids-in-law?
    - Who's responsible for taxes, suppliers and bank loans?

# Who are you? And who do you want to be?

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- **Building equity**

- Operating for profitability
- Strategic planning and positioning
- Building the balance sheet
- Intent on selling the business for a multiple of earnings

# Who are you? And who do you want to be?

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- **Building equity**

- Are you profitable every year?
- Are your assets growing?
- Can you show increasing current and retained earnings?
- Is your cash growing?

**CLASSY COMPANY**  
**Balance Sheet**  
**December 31, 20X3**

| <b>Assets</b>                       |                 |                |                         | <b>Liabilities</b>           |                |                         |  |
|-------------------------------------|-----------------|----------------|-------------------------|------------------------------|----------------|-------------------------|--|
| <b>Current assets</b>               |                 |                |                         | <b>Current liabilities</b>   |                |                         |  |
| Cash                                | \$100,000       |                |                         | Accounts payable             | \$ 80,000      |                         |  |
| Short-term investments              | 50,000          |                |                         | Salaries payable             | 10,000         |                         |  |
| Accounts receivable                 | 75,000          |                |                         | Interest payable             | 15,000         |                         |  |
| Inventories                         | 200,000         |                |                         | Taxes payable                | 5,000          |                         |  |
| Prepaid insurance                   | <u>25,000</u>   | \$450,000      |                         | Current portion of note      | <u>40,000</u>  | \$150,000               |  |
| <b>Long-term investments</b>        |                 |                |                         | <b>Long-term liabilities</b> |                |                         |  |
| Stock investments                   | \$ 40,000       |                |                         | Notes payable                | \$110,000      |                         |  |
| Cash value of insurance             | <u>10,000</u>   | 50,000         |                         | Bank Loan                    | 35,000         |                         |  |
| <b>Property, plant &amp; equip.</b> |                 |                |                         | Mortgage obligation          |                |                         |  |
| Land                                | \$ 25,000       |                |                         | Deferred income taxes        | <u>80,000</u>  | <u>300,000</u>          |  |
| Buildings and equipment             | \$150,000       |                |                         | <b>Total liabilities</b>     |                | <b>\$450,000</b>        |  |
| Less: Accum. depreciation           | <u>(50,000)</u> | <u>100,000</u> | 125,000                 | <b>Stockholders' equity</b>  |                |                         |  |
| <b>Intangible assets</b>            |                 |                |                         | Capital stock                |                |                         |  |
| Goodwill                            |                 |                | 275,000                 | Retained earnings            | <u>160,000</u> |                         |  |
| <b>Other assets</b>                 |                 |                |                         | Total stockholders' equity   |                |                         |  |
| Receivable from employee            |                 |                | <u>10,000</u>           | Total liabilities and equity |                | <u>460,000</u>          |  |
| <b>Total assets</b>                 |                 |                | <u><b>\$910,000</b></u> |                              |                | <u><b>\$910,000</b></u> |  |

# Who are you? And who do you want to be?

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- **All three have their place.**
- **You'll never achieve goals you don't set.**
- **All three operate roughly the same day-to-day.**



# The basic tenets of the SPF business

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- **Keep it simple**
  - Billings Out
  - Collections In
  - Take Care of the Customer



# The basic tenets of the SPF business

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- **Keep it simple**
  - Pull the trigger 8 hours every day

# The basic tenets of the SPF business

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- **Keep it simple**
  - Pay your labor
  - Pay your taxes
  - Pay your supplier
  - Pay everything else
  - Pay yourself



**Know your numbers**

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**Divide and Conquer!!!**

# Know your numbers



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- **Current Ratio**

An indicator of a company's ability to pay short-term obligations.

A measurement of liquidity.

**Current assets = Cash + Inventory + Receivables**

**Current Liabilities = Everything you owe in the next month, quarter or year**

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

# Know your numbers



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- **Quick Ratio**

A more conservative liquidity ratio that measures a company's ability to meet short-term obligations.

$$\text{Quick Ratio} = \frac{\text{Current Assets} - \text{Inventory}}{\text{Current Liabilities}}$$

# Know your numbers



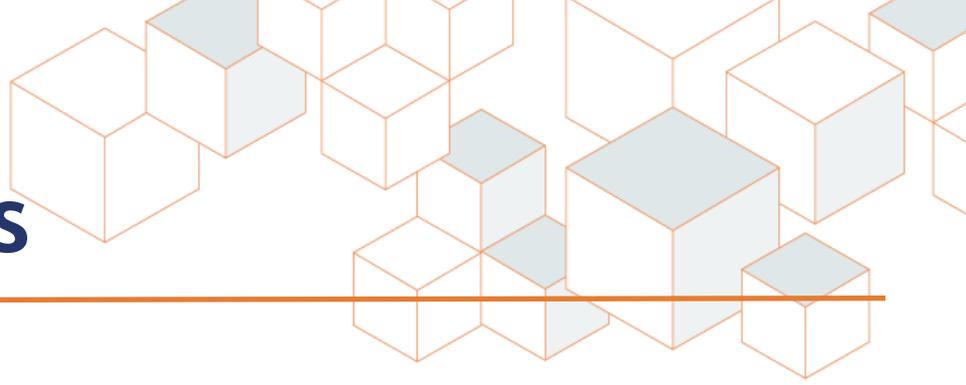
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- **Closing Ratio**

The ratio of closed contracts to sales presentations delivered

Expressed as percentage

$$\text{Closing Ratio} = \frac{\text{Closed Sales}}{\text{Sales Presentations}}$$



# Know your numbers

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- **Lead Ratio**

The ratio of closed contracts to sales leads generated

Expressed as percentage

$$\text{Lead Ratio} = \frac{\text{Closed Sales}}{\text{Sales Leads}}$$



# Know your numbers

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- **Sales or Pipeline Ratio**

The ratio of closed contracts to sales leads generated

Expressed as percentage

$$\text{Sales Ratio} = \frac{\text{Number of Closed Sales}}{\text{Number of Sales Leads}}$$

# Know your numbers



- **Example**

- Steve Sprayer has a 75% closing ratio
- Steve's average sale is \$8,000
- The company needs \$120,000 in monthly sales to meet goals
- $\$120,000 \div \$8,000 = 15$  jobs
- $15 \text{ jobs} \div 0.75 = \underline{20 \text{ Sales presentations needed}}$
- The volume of work is directly proportional to the sales leads and presentations provided the quality of leads is the same.

# Know your numbers



- **Daily or Weekly Dashboard**

- Cash
- Current receivables
  - Long term receivables (past due AR and “retention” valued at 50%)
- Bank Line of credit - How much is available and how much is out
- Payroll - How much and when?
- Taxes - Payroll tax, Sales tax, Income tax, Property tax, etc.
- Chemical supplier payable
- Active leads
- Sales appointments
- Job proposals out - Number and value
- Sales on the books
  - Within 30 days
  - Beyond 30 days

# Daily Dashboard

Cash \_\_\_\_\_

Current AR \_\_\_\_\_

LOC Available \_\_\_\_\_

Aging AR \_\_\_\_\_

Payroll \_\_\_\_\_

Taxes \_\_\_\_\_

Chemical \_\_\_\_\_

Other \_\_\_\_\_

Leads \_\_\_\_\_

Appointments \_\_\_\_\_

Proposals Out \_\_\_\_\_

Booked Sales

    30 days \_\_\_\_\_

    60 days \_\_\_\_\_

Ratios:

Quick Ratio \_\_\_\_\_

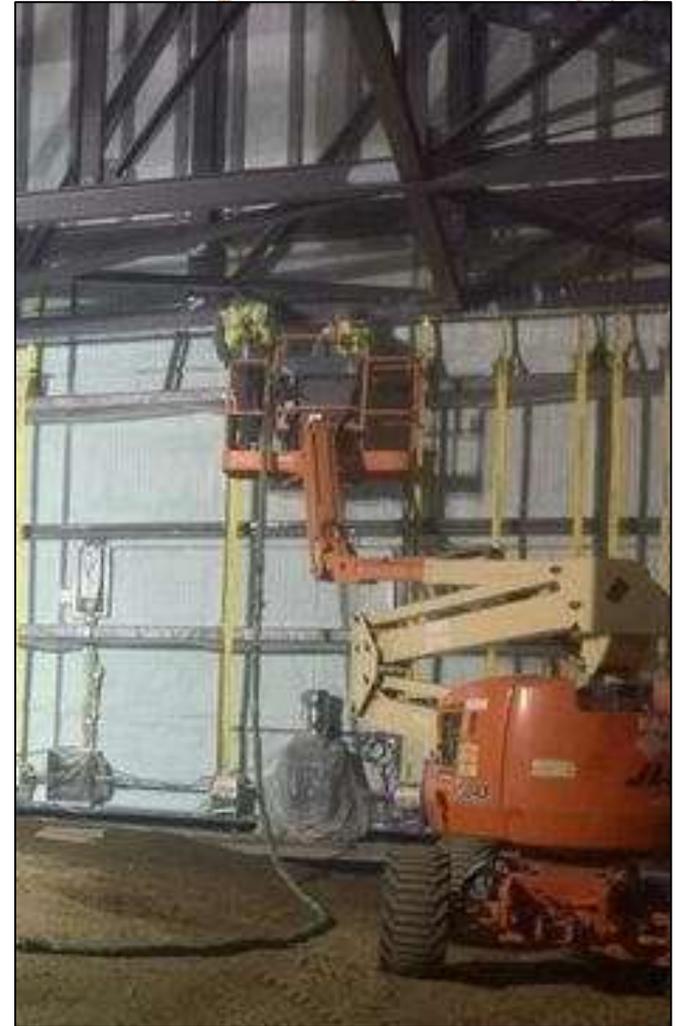
Leads Ratio \_\_\_\_\_

Pipeline Ratio \_\_\_\_\_

# How do you price your job?

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- Have a reason for your price
  - Know your costs
  - Account for job difficulty



# How do you price your job?

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- **Have a reason for your price**
  - Add in maintenance and replacements
  - Accommodate for waste





# How do you price your job?

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- **Have a reason for your price**
  - Do you set your price using *Mark-Up* or *Margin*?



# Estimating job cost

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Do a “Take-Off” from plans or walk-through

Calculate gross wall area  
(usually including doors and windows)

Will scaffolding be needed?

Are there any special conditions?

# The estimated job cost



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Let's assume for the sake of simplicity that a job was estimated to cost \$10,000.

We'll also assume that our company overhead is 30% and we'd like to make a 10% net profit.

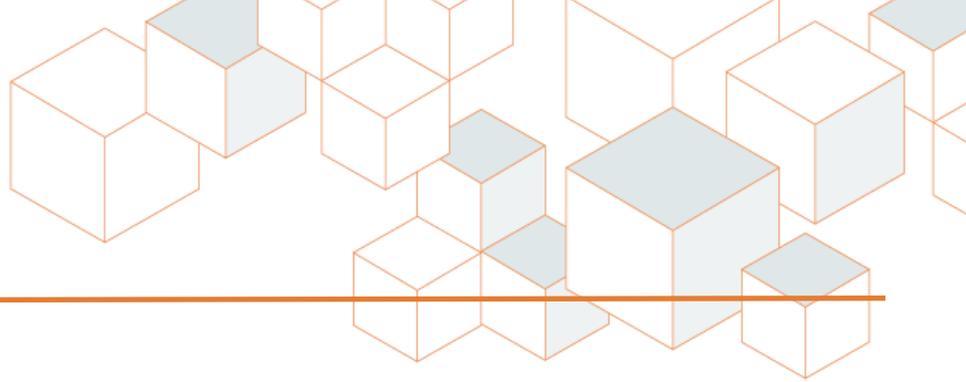
# Adding our profit to the job cost

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Frank Foamer uses Mark-Up to figure his jobs. He wants to make a 10% profit, so he adds his overhead (30%) and desired profit and comes up with 40%.

Frank then adds a 40% mark-up (\$4000) to the \$10,000 job cost for a selling price of \$14,000, or

$$\text{\$10,000} \times 1.4 = \text{\$14,000}$$



# 40% Mark-Up

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$$\$10,000 \times 1.4 = 14,000$$

**Job Cost = \$10,000**

**Mark-Up =  
\$4,000**



# Another Approach

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Steve Sprayer also estimated the job and determined the same job cost.

Steve also has a 30% overhead and wants to net 10% on every job, but instead of multiplying, he divides to find his selling price.

The formula is:

1 - expected gross margin = divisor

In this case the margin is 40% or .40,

so  $1 - .40 = .60$

$\$10,000 / .60 = \$16,666$

# **.60 Divisor to determine gross margin**

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$$\$10,000 / .60 = 16,666$$

**Job Cost = \$10,000**

**Margin =  
\$6,666**



# Now let's compare the two methods

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**Job Cost = \$10,000**

**Mark-Up =  
\$4,000**

**Job Cost = \$10,000**

**Margin =  
\$6,666**



# So, what's the right price?

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It would be an easier sale for Fred Foamer, but is he making the 10% net profit he thinks he is?

The key to understanding the difference between pricing and profitability is to realize that mark-up is based on the cost of the job, and margin is based on the revenue or selling price.

# Who's making money?



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For simplicity's sake, let's say that both Frank and Steve did 100 jobs, all priced using the same estimated job cost and the same overhead and profit projections.

Both had a busy year and since they both priced their jobs to make 10% they'd now like to buy another spray rig to expand their business.



# Oooooops...

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**Steve orders his new rig and writes a check for it when it arrives, but Frank realizes he's done a lot of work and churned a lot of cash, but he has no money in the bank, so he asks his accountant to analyze his books and tell him what went wrong.**

# Here are their profit and loss statements at the end of the year

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| <b>Sales:</b>       | <b>Frank</b>                     | <b>Steve</b>                   |
|---------------------|----------------------------------|--------------------------------|
| Foam Jobs           | 1,400,000                        | 1,666,000                      |
| <b>Expenses:</b>    |                                  |                                |
| Labor               | 300,000                          | 300,000                        |
| Materials           | 600,000                          | 600,000                        |
| Cost to run the rig | 100,000                          | 100,000                        |
| <b>Overhead:</b>    |                                  |                                |
| 30%                 | 420,000                          | 499,800                        |
| <b>Net Profit:</b>  | <b>-20,000</b><br><b>(-1.4%)</b> | <b>166,200</b><br><b>(10%)</b> |

# What went wrong?



Frank incorrectly based his mark-up on his job cost rather than calculating a mark-up based on revenue.

It's OK (and often easier) to use mark-up as long as it's derived from the profit and loss statement. What is the right mark-up for Frank to use to get a 40% gross Margin?

66% or 1.66 X estimated job cost

# Know and control your job cost

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- **“Job-Cost” every job**
  - Track profitability by builder, market segment (new construction, retro, commercial, residential), crew and salesman
  - Keep score and compensate accordingly
  - Controlling costs drives profit
  - Correctly estimating and tightly controlling labor affects profit more than anything else

# Mac's 1% Caper



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- **Example**

- Increase selling price by 1%
- Sell one more job every month
- Reduce your chemical cost by 1% by paying with your order
- Reduce waste
- Reduce overhead by 1%

# Mac's 1% Capser

| For Example Only |                            |  |
|------------------|----------------------------|--|
| 16000            | Yield (Board Feet per Set) |  |
| 5.5              | Wall Thickness             |  |
| \$ 2.00          | Cost per Pound             |  |
| \$ 1,948.00      | Cost per Set               |  |
| 2909             | Square Feet of Spray       |  |
| \$ 2.00          | Selling Price per Sq Ft    |  |
| \$ 5,818.18      | Selling Price per Set      |  |
| \$ 20.00         | Head Sprayer               |  |
| \$ 12.00         | Apprentice Sprayer         |  |
| \$ 10.00         | Helper                     |  |
| \$ 10.00         | Helper                     |  |

# Mac's 1% Capex

|               | Per Set     | Days | Month     | Year         |
|---------------|-------------|------|-----------|--------------|
| Revenue       | \$ 5,818.18 | 15   | \$ 87,273 | \$ 1,047,273 |
| Chemical Cost | \$ 1,948.00 | 15   | \$ 29,220 | \$ 350,640   |
| Waste         | \$ 292.20   | 15%  | \$ 4,383  | \$ 52,596    |
| Labor         | \$ 594.29   | 22   | \$ 13,074 | \$ 156,891   |
| Rig           | \$ 75.00    | 15   | \$ 1,125  | \$ 13,500    |
| Commission    | 10%         |      | \$ 8,727  | \$ 104,727   |
| Gross Margin  | 35%         |      | \$ 30,743 | \$ 368,918   |
| Overhead      | 25%         |      | \$ 21,818 | \$ 261,818   |
| Net Profit    | 10%         |      | \$ 8,925  | \$ 107,100   |

# Mac's 1% Capex

|               |             |     |           |              |
|---------------|-------------|-----|-----------|--------------|
| Revenue       | \$ 5,876.95 | 16  | \$ 94,031 | \$ 1,128,375 |
| Chemical Cost | \$ 1,928.52 | 16  | \$ 30,856 | \$ 370,276   |
| Waste         | \$ 192.85   | 10% | \$ 3,086  | \$ 37,028    |
| Labor         | \$ 594.29   | 22  | \$ 13,074 | \$ 156,891   |
| Rig           | \$ 75.00    | 16  | \$ 1,200  | \$ 14,400    |
| Commission    | 10%         |     | \$ 9,403  | \$ 112,837   |
| Gross Margin  | 39%         |     | \$ 36,412 | \$ 436,942   |
| Overhead      | 24%         |     | \$ 22,567 | \$ 270,810   |
| Net Profit    | 15%         |     | \$ 13,844 | \$ 166,132   |

# Mac's 1% Capex

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**\$ 59,033**

**Be a detective!**

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**MSRP \$59,000**



# The wisdom of using OPM

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- Using Other People's Money can be the most profitable or most costly segment of your business
- For Example:
  - \$100,000 Line of Credit
  - 8% Interest
  - \$0.22 Daily cost of money per \$1,000



# Finding the right customer



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- **The perfect customer:**
  - Is honest with you
  - Values you
  - Trusts you
  - Well organized
  - Understands your need to be on the jobsite alone
  - Pays his bills according to terms
  - Is loyal

# Finding the right customer

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- **Residential new house construction**
  - **Production builder**
    - Foam is standard
    - Foam is used only for air sealing rim joists and difficult areas
    - Often low bidder gets the work
    - Can consume all the SPF contractor's resources
    - Often extended payment terms
    - Tight schedule
  - **Semi-custom builder**
    - Foam is standard
    - Foam is an option
  - **Custom builder**
    - Foam is standard
    - Foam is an option and you get the chance to make the sale to the end user

# Finding the right customer



- **Residential retrofit**
  - Attics and crawlspaces
    - Requires the homeowner to be vacant
    - Requires heavy ventilation
    - Low-pitch roofs are very difficult
    - Crawlspaces are sometimes cramped
  - Different kind of crew
  - Working around the homeowners belongings
    - How do you get iso off of stained concrete?

# Finding the right customer



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- **Commercial**
  - Requires licensing
  - Requires bond
  - Often requires first aid cards and written safety program
  - Sometimes extended payment terms
    - You get paid when we get paid?
    - Retention
  - Sometimes difficult working conditions and difficult to estimate
  - SPF is sometimes only spec'd for the hardest air-seal areas so many trips are required

# Finding the right customer

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- **Fire any customer who doesn't pay.....Immediately!**
- **Protect your receivable by perfecting your lien**
- **Reward referrals generously**
- **Post yard and site signs on every job**
- **Put your company name and phone number on the back of your rig along with the words "Spray Foam"**
- **Leave flyers around the neighborhood you're working in**
- **Stop every time you see "new wood"**
- **Train your crew to "sell foam" - 30 second speech**

# Finding the right customer

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- **When you're really busy, raise your selling price**
- **When your rig's not spraying, get it out of the shop and parked where people can see it**
- **Find fiberglass-only contractors and teach them how to sell for you**
- **Work with your competitors in the area and offer to help with overload when you're slow**
- **Pass out a thousand business cards a year**

# Beware of the Walls

New guy in business





# Beware of the Walls

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Working away



# Beware of the Walls

Adds an employee

And another



# Beware of the Walls

Adds a rig





# Beware of the Walls

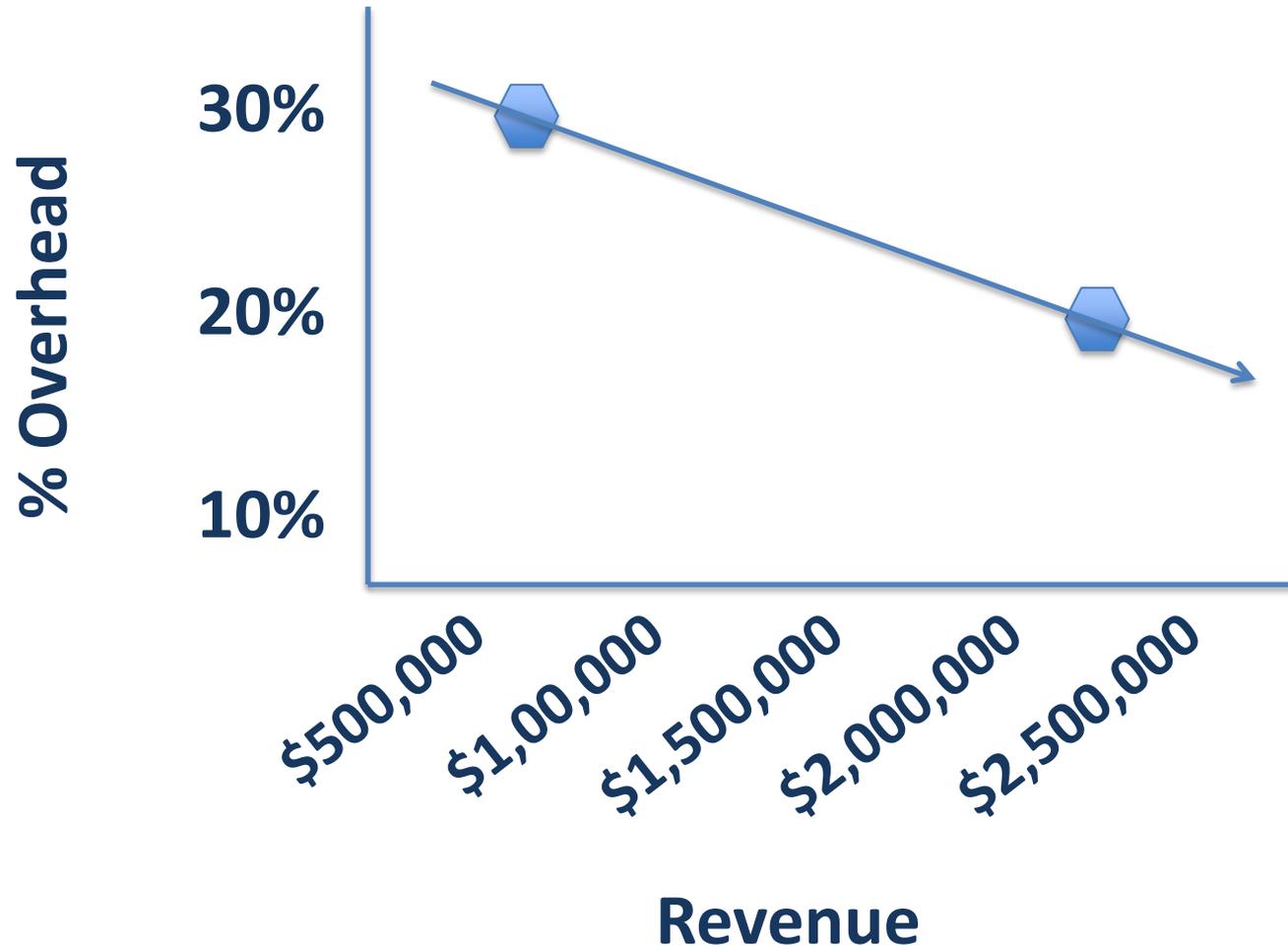
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**Business is great!**

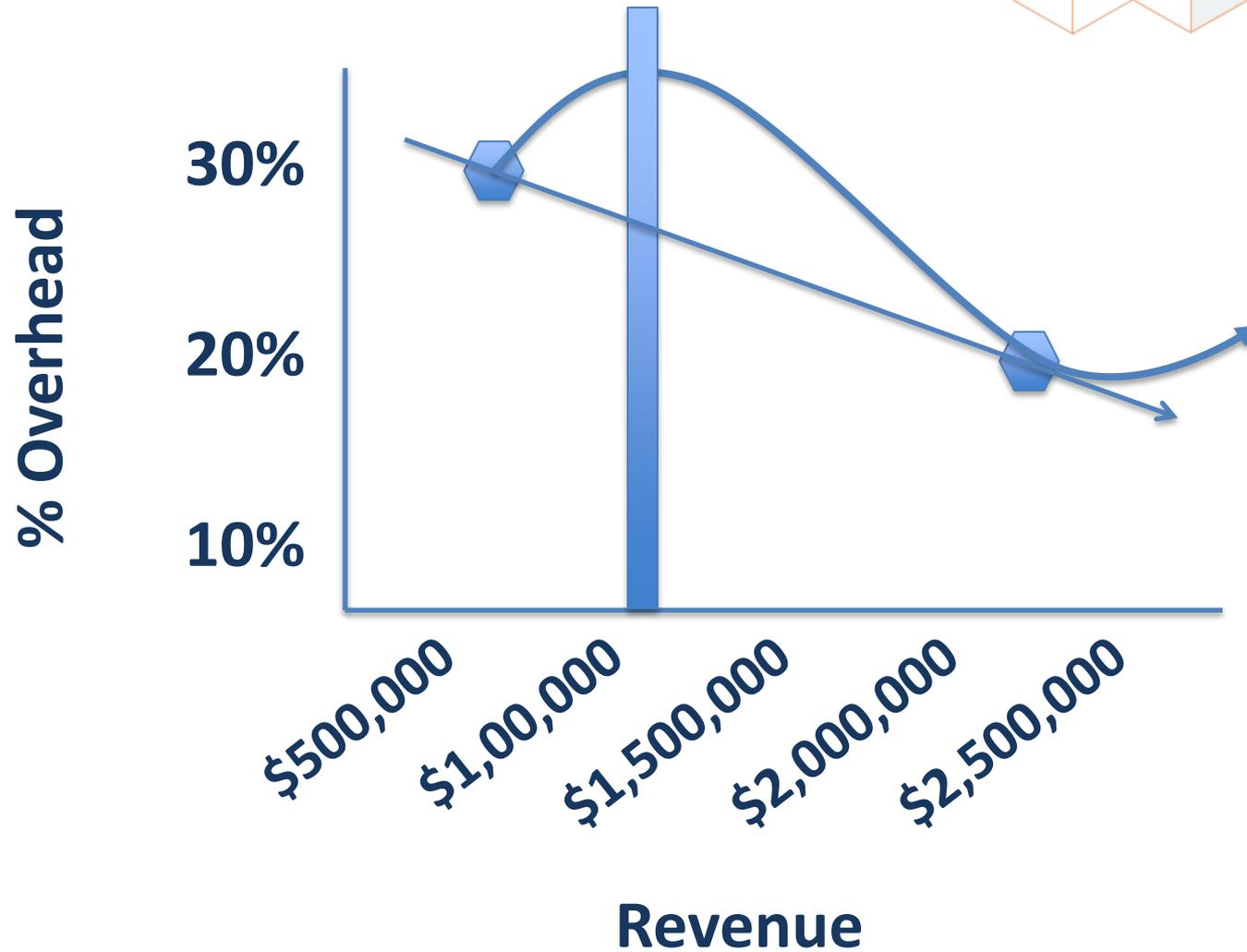
**Then BAM!!! he's losing money.**

**He just hit the Million Dollar Wall....**

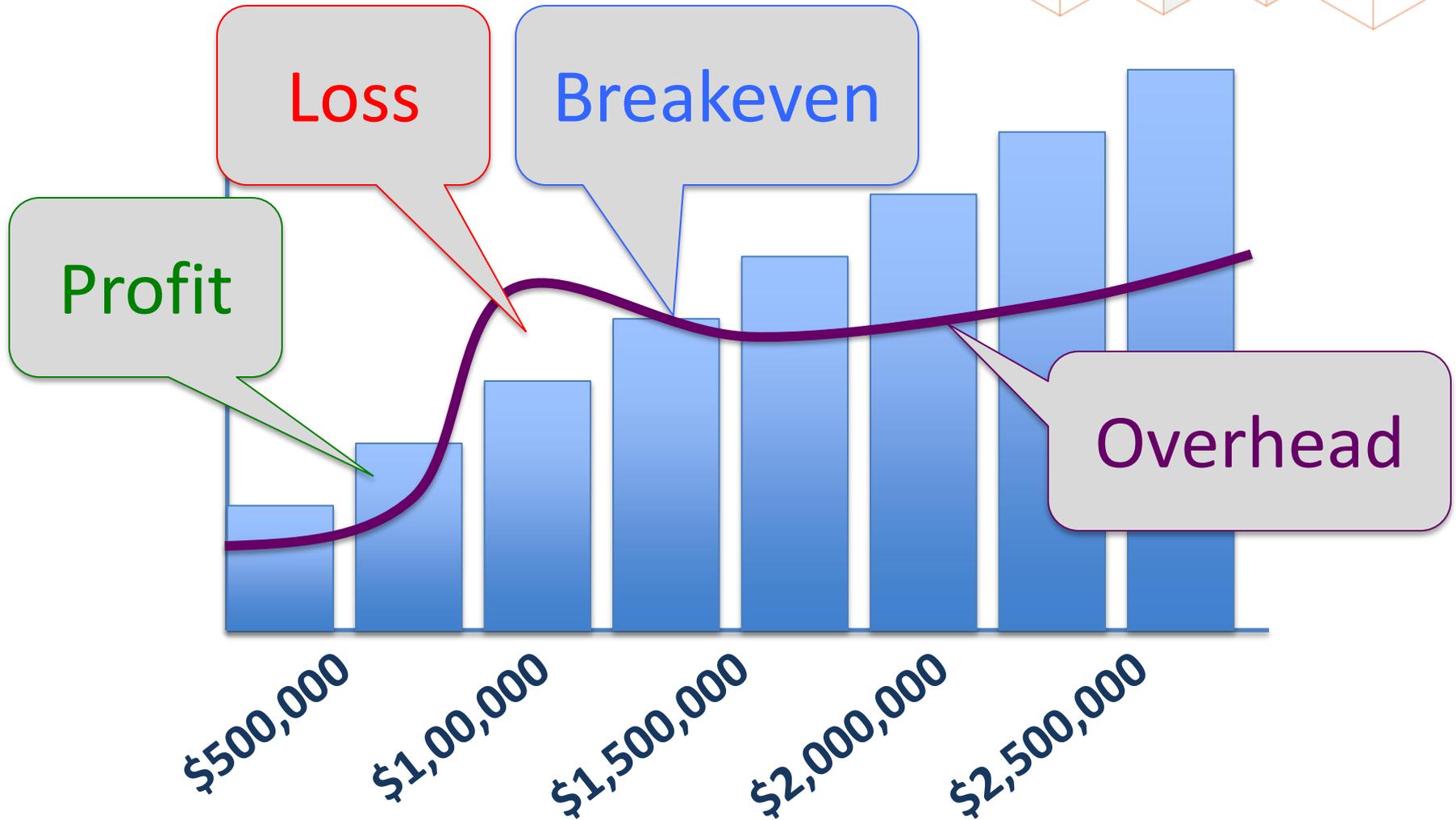
# Beware of the Walls



# Beware of the Walls



# Beware of the Walls



# Guiding principles

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## Five Main Principles of Toyoda

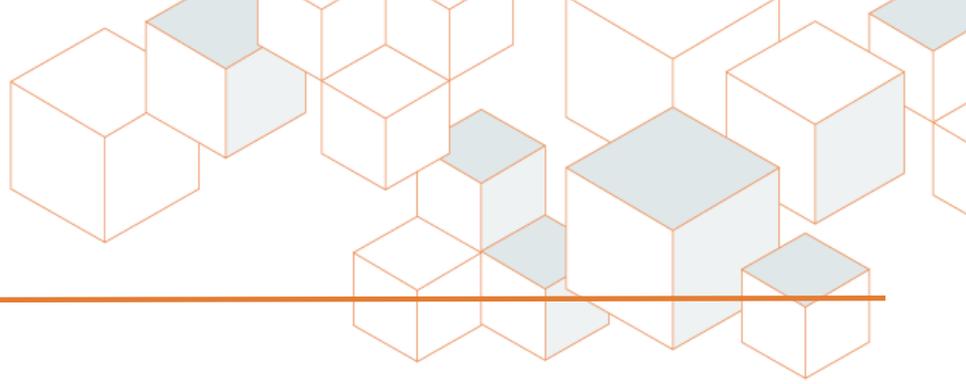
1. Always be faithful to your duties, thereby contributing to the company and to the overall good.
2. Always be studious and creative, striving to stay ahead of the times.
3. Always be practical and avoid frivolousness.
4. Always strive to build a homelike atmosphere at work that is warm and friendly.
5. Always have respect for spiritual matters, and remember to be grateful at all times.



*Sakichi Toyoda,  
1867-1930  
Founder of Toyota*

# Guiding principles

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- **Wow the customer**
- **No Surprises**
- **Cheer!**

**Company Slogan**

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**Make Money  
and Have Fun Doing It!**

# Structuring for Profit and Growth

MAC SHELDON – DEMILEC USA

