
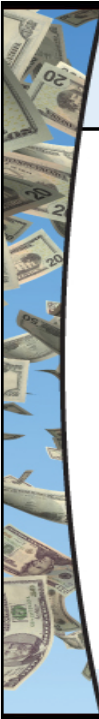


# Lessons Learned: Making Decisions Based on False Profits

**Leslie C. Shiner**  
The ShinerGroup  
LShiner@ShinerGroup.com

**Annie Kendrick**  
Kendrick Business Services  
Annie@AnnieKendrick.com





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## Introductions

### Leslie Shiner



- Owner of The ShinerGroup
  - Financial & management consultant for over 25 years
  - MBA in Accounting and Finance from U.C. Berkeley
- Certifications
  - QuickBooks Advanced ProAdvisor
  - Sage Certified Consultant
- Author:
  - A Simple Guide to Turning a Profit as a Contractor

### Annie Kendrick



- Owner of Kendrick Business Services
  - Over 20 years experience in construction accounting
  - B.S. University of Utah
- Certifications & Software
  - QuickBooks Advanced ProAdvisor
  - Developer Method CRM for Solar
- Business Development Programs
  - Port of Portland Mentor Protégé Program contracted trainer since 2012 for Estimating and Construction Accounting

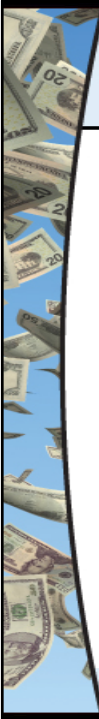
## From the Blog: Lessons Learned – Making Decisions Based on False Profits



- No Clouds Solar
  - Luke's company grew significantly from \$2M to \$5M in sales
  - He bought 5 new trucks
  - He bought and improved a new shop for the crew
  - Some of Luke's jobs are slow to pay, but he knows they are good for it
  - He decided to increase his line of credit
  - He was shocked when his friend, the banker, refused
  - He couldn't figure out why because his sales were so much better!


Read the blog at:

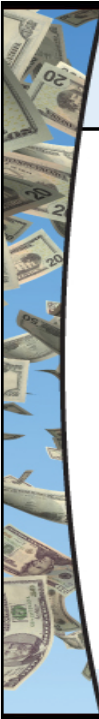
<https://insider.energytrust.org/programs/solar/business-development/#lessons-learned>



### What Did Luke Do Wrong?


My sales improved substantially, but where is all the cash?

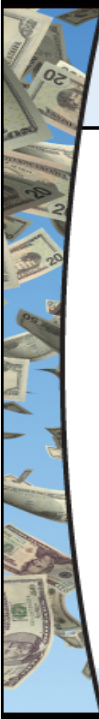




### Have You Ever Said?

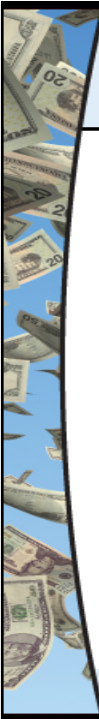
"I thought we were going to have a great year because I increased my volume. But instead of increasing my profit, I lost my shirt!"





## Learning Objectives

- Determine Key Performance Indicators (KPI's) needed to run your company
- Understand the nature of costs: Fixed, Variable, and Capitalized
- Learn how to utilize this information create a Flash Report



## Back to Basics – Two Financial Statements

<u>Balance Sheet</u>	<u>Income Statement (P&amp;L)</u>
<ul style="list-style-type: none"><li>• Assets<ul style="list-style-type: none"><li>– Cash</li><li>– Accounts Receivable</li><li>– Inventory</li><li>– Fixed Assets</li></ul></li><li>• Liabilities<ul style="list-style-type: none"><li>– Accounts Payable</li><li>– Notes Payable</li></ul></li><li>• Equity<ul style="list-style-type: none"><li>– Stock (or Capital)</li><li>– Retained Earnings</li><li>– Less (Distributions/Draws/Dividends)</li><li>– Net Income</li></ul></li></ul>	<ul style="list-style-type: none"><li>• Sales<ul style="list-style-type: none"><li>– <u>(Cost of Goods Sold)</u></li></ul></li><li>• Gross Margin<ul style="list-style-type: none"><li>– <u>(Operating Expenses)</u></li></ul></li><li>• Net Income Before Tax<ul style="list-style-type: none"><li>– <u>(Income Tax)</u></li></ul></li><li>• Net Income</li></ul>



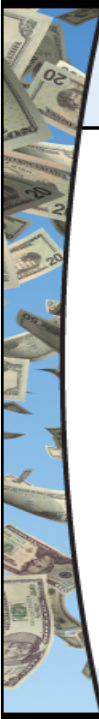
## Two Different Statements

- Profit and Loss (P&L) vs. Balance Sheet
  - “Period of Time” vs. “Point in Time”
  - “Temporary” vs. “Permanent” accounts
- Consequences of errors
  - The Balance Sheet is just as important as P&L
  - Fixing errors on the Balance Sheet will affect the P&L (and the bottom line!)
- Use both for historical review, future projections, internal and external statements



## The Balance Sheet

- Formula:
  - $Assets = Liabilities + Equity$
- Assets are categorized by time frame
  - Current assets (Cash, A/R, Inventory)
  - Long-term assets (Notes Receivable)
  - Fixed assets (Equipment)
- Liabilities are categorized by time frame
  - Current liabilities (A/P, PR Taxes Payable)
  - Long-term liabilities (Notes Payable)
- Equity
  - Stock or Capital
  - Retained Earnings



## Benchmark Ratios from Balance Sheet – Working Capital

- Working Capital = Current Assets minus Current Liabilities
- Capital is another word for money and working capital is the money available to fund day to day business operations
- A company's Cash plus Accounts Receivable should be greater than Accounts Payable!
- A company with little or no working capital may not be in business for long



## Working Capital Converts to Current Ratio

- Need a credit line?
  - *What does the bank look for?*
- Current ratio (Working Capital Ratio)
  - *Current Assets / Current Liabilities*
  - *Should be at least 1.25*
  - *If less than 1, it indicates cash flow troubles*



## Current Ratio Converts to Quick Ratio (Acid Test)

- Quick Ratio is same as Current Ratio except it takes out inventory
  - Reason? *Inventory can not always be converted to cash as easily as Account Receivable*
  - *If you have all your money tied up in inventory, how are you going to get the cash you need to run the business?*
- Quick Ratio (Acid Test)
  - $\text{Current Assets} - \text{Inventory} / \text{Current Liabilities}$
  - Should be at least 1.00
  - If less than 1, it indicates cash flow troubles



## How Can I Increase My Current Ratio?


- Ways to improve current ratio
  - Switch short term debt to long term debt
  - Sell useless fixed assets for cash
  - Control your overhead expenses
  - Reduce personal draws on the business
  - Delay any capital purchases that would require cash payments
  - Earn more profit
- Ways to improve quick ratio
  - Sell inventory (convert to cash)





## Debt to Equity

- Debt to Equity Ratio = Total Liabilities/Total Equity
- Measures how much debt you use to run your business
  - *The ratio tells you for every dollar of equity, how much debt you have*
- Lower is better
  - *Lender will want to see less than 1 (varies by industry)*
- This is a way for lenders and potential creditors to assess the riskiness of the company's financial structure
  - *This will also reveal when monitored if the company is using debt to pay other debt*



## How Can I Decrease My Debt to Equity Ratio?

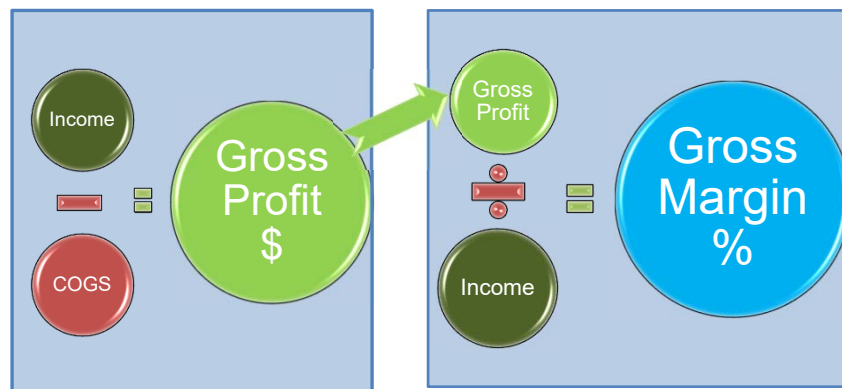
- Ways to improve Debt to Equity Ratio:
  - *Increase profit*
  - *Keep the money in the company (less draws)*
  - *Add assets*
  - *Pay down debt*



## Benchmark Ratios from Income Statement – A/R Turnover

- A/R turnover
  - *Sales / Average Accounts Receivable balance*
  - *The higher the better*
  - *6 means that A/R Is outstanding for 2 months*
  - *Shows how quickly invoices are paid to generate more cash for the business*

## The Key Income Statement Metric: Gross Margin





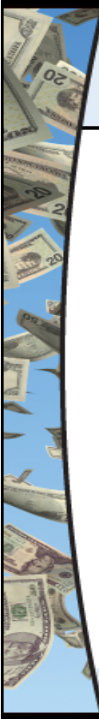
## Why Is Gross Profit (\$) So Important?

- Gross profit is the money left over after you subtract all the job specific expenses
  - *Typically job cost reports don't show overhead*
- Gross profit (\$) are used to cover overhead and leave money for profit
  - *A job report that shows gross profit doesn't mean all that money goes into the owner's pocket*
- If a job produced a good gross profit...
  - That's **not** the same as net profit!



## Why Is Gross Margin (%) So Important?

- Gross margin (%) should be consistent across jobs
- Need to review gross margin
  - *For company across time*
  - *On a job by job basis*
  - *By type of sale (panels vs. labor)*
  - *By size of job (small house vs. large house vs. office building)*
  - *By type of job (residential vs. commercial)*



### Are You Happy With Your Gross Margin?

Which year was more profitable?

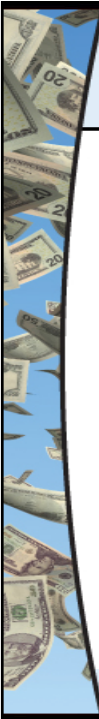
Year 1	
Income	400,000
COGS	(250,000)
Gross Profit	150,000

Gross Margin = 37.5%

Year 2	
Income	600,000
COGS	(420,000)
Gross Profit	180,000


Gross Margin = 30%

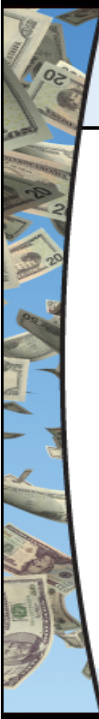
Was the growth profitable?



### Rethink Your Business!

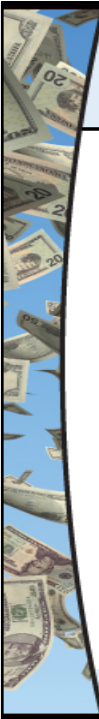
- Make strategic decisions
- Create an Executive Dashboard
  - Find a way to look at the big picture
  - Don't get lost in the weeds of data
  - Determine information needed
    - Daily, weekly, monthly, quarterly, yearly





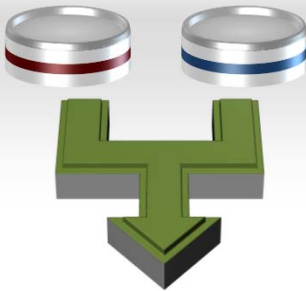
## Relevant and Timely!

- Determine what is **relevant**
  - Sit down with your staff and decide the metrics that are most important
  - Determine who is responsible for gathering information
  - Assign accountability for analyzing, reporting, and then managing the metric
- Then determine how to obtain the metrics in a **timely** fashion



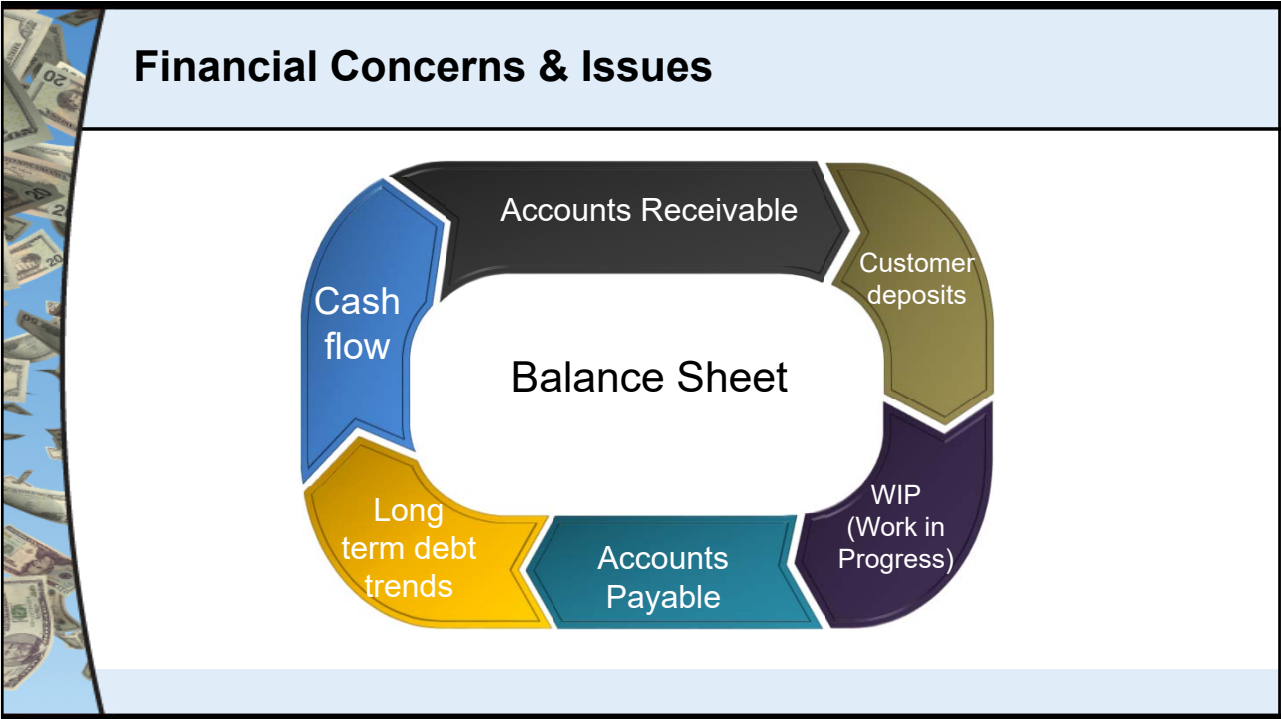
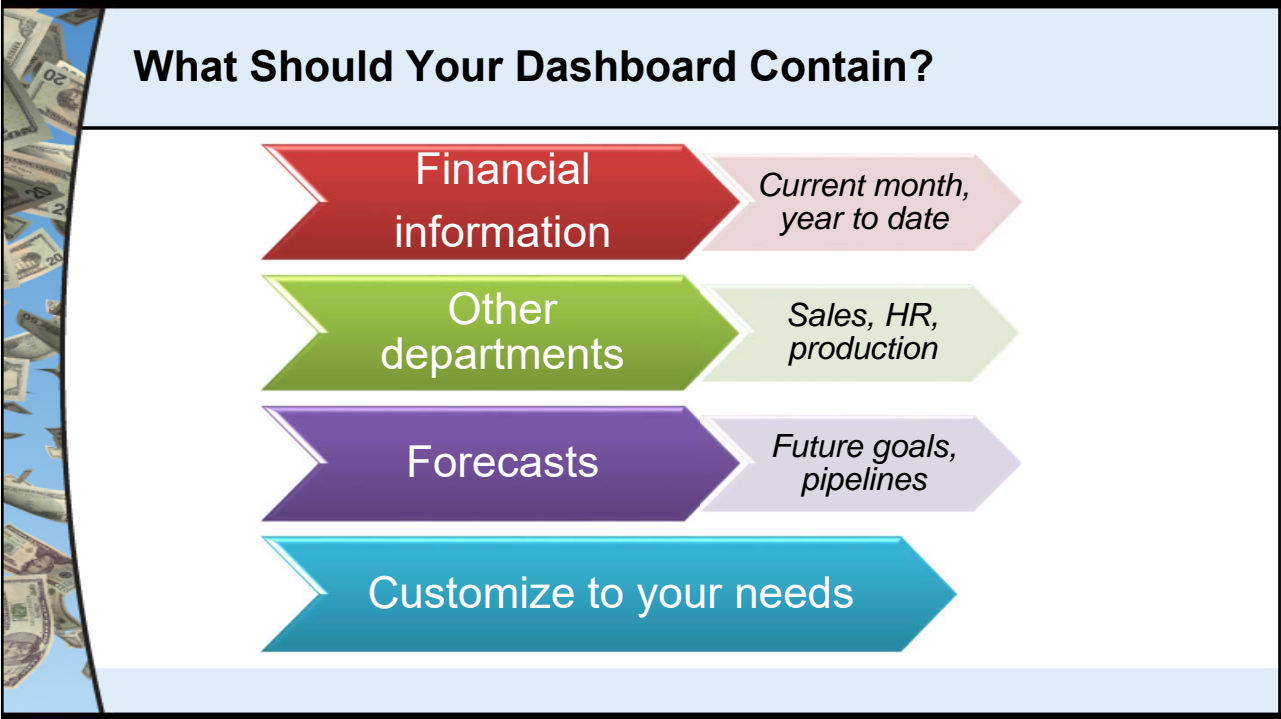
## Purpose of a Dashboard


**Create KPI's**  
**Key Performance**  
**Indicators**  
Objective  
(not subjective)  
measurements



**Create targets for**  
**individuals**  
Each position can  
have its own  
dashboard


**Determine who is responsible for what measurement**  
Look to see what jumps out at you!





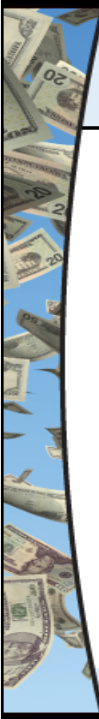
### Sales/Marketing Components

- Number of leads
- Number of proposals
- Bid/close ratio
- Backlog
- Service/warranty tracking



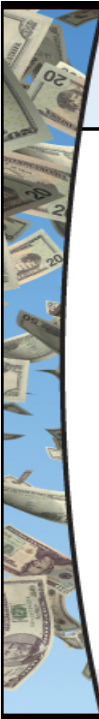
### Other Components of a Dashboard

- Operations and production components
  - Employee efficiency
  - Warranty
  - Schedules
- Human resources components
  - Employee retention
  - Safety records
- What else do you need to track?

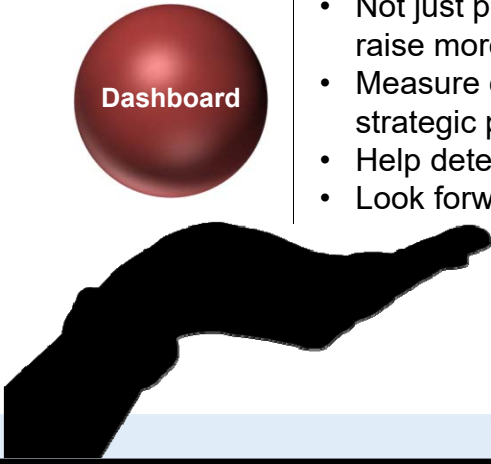


## Put It All Together

- Create a one- or two-page Executive Summary
- Overview for management purposes
- Include everything you need to know
- Include:
  - *Dollars*
  - *Percentages and Ratios*
  - *Forecasts*



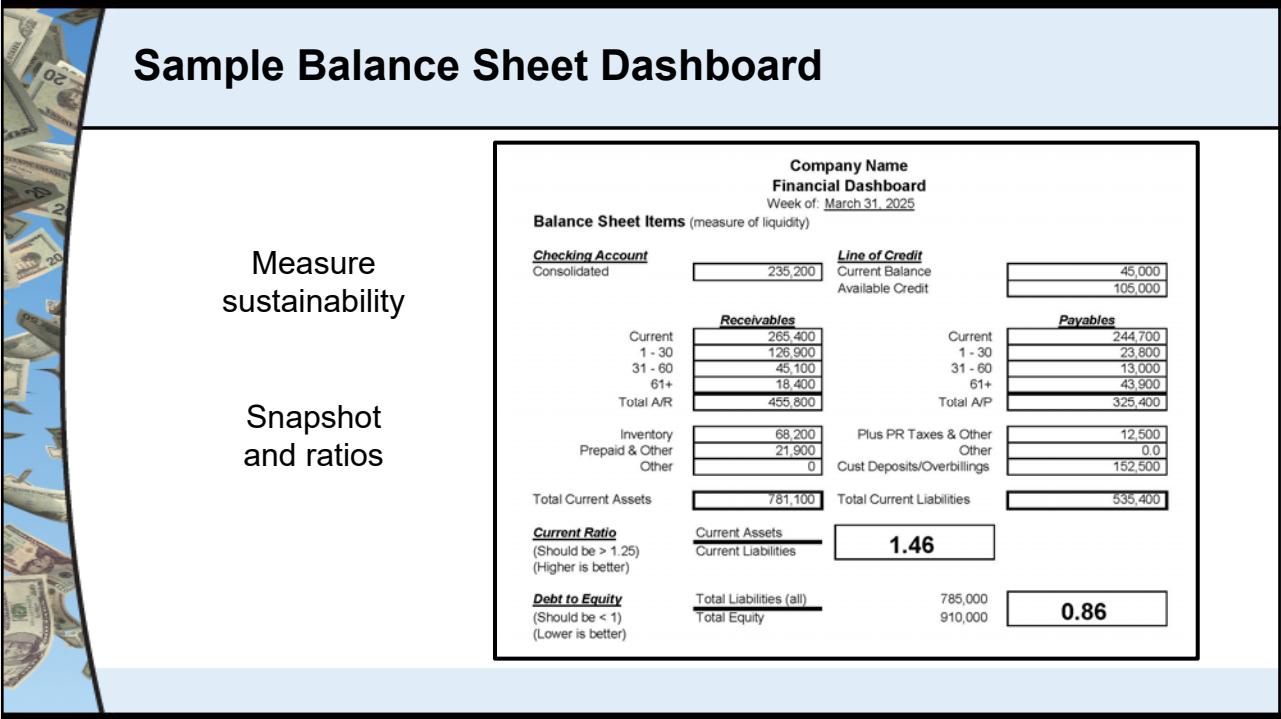
## Use to Drill Down

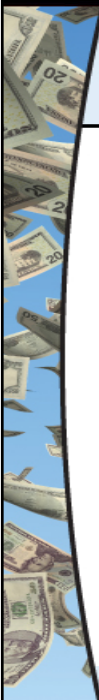


### Executive Dashboard should...

- Not just provide answers but raise more questions
- Measure outcomes from strategic plan
- Help determine priorities
- Look forward and back

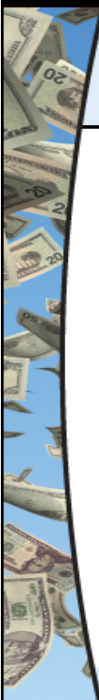






### P&L Dashboard Details

- Gross Margin
  - $\text{Sales} - \text{COGS} = \text{Gross Profit } (\$)$
  - $\text{Gross Profit} / \text{Sales} = \text{Gross Margin } (\%)$
- Breakeven Volume
  - $\text{Overhead} / \text{Gross Margin} = \text{Sales needed to cover overhead}$
- Closing Ratio
  - *How do you track sales?*
  - *Do you have a dedicated sales person?*



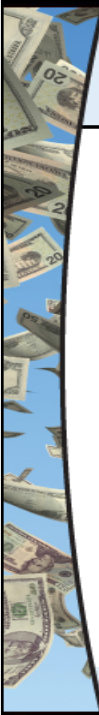
### P&L Dashboard Details

- Revenue per Employee
  - *Do you track these numbers?*
  - *Make staffing decisions more precise!*
- Track levels
  - *Revenue per total employees*
  - *Revenue per field employees*
  - *Revenue per each employee*



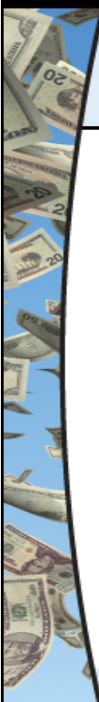
## P&L Dashboard Details

- A/R Turnover
  - *Total revenue divided by average accounts receivable balance*
  - *What does 6 mean? (Good or bad?)*
- Days in Receivables
  - *365 / A/R Turnover*
  - *What does 60 mean? (Good or bad?)*



## Manage Your Numbers

- Determine your core competency
- Use your core competency to cover overhead...
  - *And the rest is gravy*
- Now is the time to:
  - *Explore new business opportunities*
  - *Explore different billing models*
    - T&M vs. Progress
  - *Explore different markup rates*
    - Test the market




## Tips

Analyzing the numbers can help you better manage your company


- Delegate financial tasks, but don't abdicate financial responsibility
- Assign accountability by functions

Manage from top level down

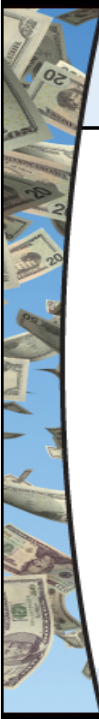
- Get the big picture first, then drill down to the detail
- Don't get buried in the weeds of data



## WSIC?



- Why should you care about a dashboard?
  - *Analyzing the numbers can help you better manage your company*
  - *Allows you to delegate financial tasks, without abdicating financial responsibility*
  - *Assign accountability by functions*
- Manage from top level down
  - *Get the big picture first, then drill down to the detail*



## Summary

Create a process	• Follow the process
Manage resources	• Manage employees, material procurement, subcontractors...
Focus on profitability	• Make strategic decisions on accurate data
Use a dashboard to manage your company	• Create accountability



## Thank You



### Leslie C. Shiner, MBA



LShiner@ShinerGroup.com  
(415) 383-6255  
www.ShinerGroup.com  
www.facebook.com/TheShinerGroup  
Twitter: @TheShinerGroup



### Annie Kendrick

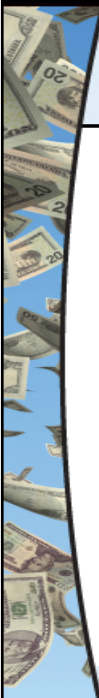


Annie@AnnieKendrick.com  
(541) 926-6438  
www.AnneKendrick.com




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20




## Business Development Program



- Blog Posts and Webinars
- QuickBooks Assessment or Re-assessment
- Ongoing help with QuickBooks and business questions
- Remote CFO Meetings



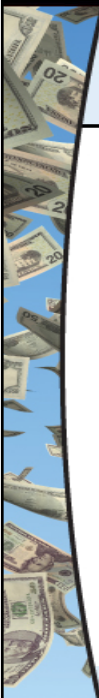
## Lessons Learned – Blog and Webinar Program




- Making Decisions Based on False Profits webinar and blog post
  - *This was the fourth webinar in the series of six*
- 5<sup>th</sup> webinar and blog post: Paying too much in taxes
- Watch for the Energy Trust newsletter for more information
  - *Or check the website*

Learn more about other Lessons Learned at:

<https://insider.energytrust.org/programs/solar/business-development/#lessons-learned>




## QuickBooks Assessment




- Analyze current business processes and compare to best practices for the solar industry:
  - *Chart of Accounts setup and reporting*
  - *Project set up for tracking profitability – estimate vs actual*
  - *Project set up for managing projects and change orders*
  - *Use of cost codes for the solar industry*
  - *Entering of transactions associated with production and overhead*
  - *Best use of time tracking*
  - *Handling of inventory stock for job costing*
  - *Use of the matching principle*
  - *Accuracy of posting procedures*
  - *Many more review items summarized in 35-40 page report*
  - *Suggested improvements checklist*
  - *Follow up with meeting to discuss findings with key team members and outline for assistance*

\$500 after ETO match



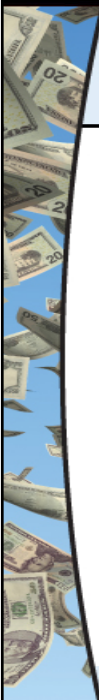
## Ongoing Help with Your Business




- Assistance with...
  - *Payroll for good job costing set up*
  - *Forecasting and budgets*
  - *Labor burden calculations*
  - *Asset and Loan setup*
  - *3rd party program integration and implementation*
  - *Work in Progress Reports*
  - *Tracking key performance indicators*
  - *Much more, just ask*

\$100 per hour after ETO match





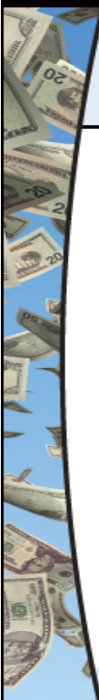
## Remote CFO Meetings




Pre-requisite: file assessment and clean up

- Potential topics:
  - *Analyze trended Profit and Loss Statement*
  - *Evaluate profitability, gross, net*
  - *Evaluation overhead and markup*
  - *Review fully burdened labor costs*
  - *Review process for job costing*
  - *Analyze business plan, mission statement and vision statement*
  - *Perform ratio analysis*
  - *Create Key Performance Indicators (KPI) metrics for your company*
  - *Review internal controls*
  - *Create and manage a cash flow projection*
  - *Investigate productivity reports and charge-out rates*
  - *Reconcile your books to the latest tax return*

\$300 per meeting after ETO match



## How to Get Started



- Complete the participation agreement and send to Jeni Hall at Energy Trust of Oregon. [Jeni.Hall@energytrust.org](mailto:Jeni.Hall@energytrust.org)
  - *Once approved you will be directed to Survey Monkey to answer a few questions about your business and then you will be contacted to set up your first meeting*
  - *You can also contact Annie Kendrick at [Annie@AnnieKendrick.com](mailto:Annie@AnnieKendrick.com) or 541-926-6438 and she will help you navigate the start up process*



# Thank You



## Leslie C. Shiner, MBA



LShiner@ShinerGroup.com  
(415) 383-6255  
www.ShinerGroup.com  
www.facebook.com/TheShinerGroup  
Twitter: @TheShinerGroup



## Annie Kendrick



Annie@AnnieKendrick.com  
(541) 926-6438  
www.AnneKendrick.com



**Company Name**  
**Financial Dashboard**

Month Ending: March 31, 2025

Note: Only enter data in fields that are yellow

**Balance Sheet Items** (measure of liquidity)

**Checking Account**

Consolidated 235,200

**Line of Credit**

Current Balance

Available Credit

	45,000
	105,000

**Receivables**

Current	265,400
1 - 30	126,900
31 - 60	45,100
61+	18,400
<b>Total A/R</b>	<b>455,800</b>

**Payables**

Current	244,700
1 - 30	23,800
31 - 60	13,000
61+	43,900
<b>Total A/P</b>	<b>325,400</b>

Inventory	68,200
Prepaid & Other	21,900
Other	0

Plus PR Taxes & Other	12,500
Other	0.0
Cust Deposits/Overbillings	152,500

Total Current Assets 781,100

Total Current Liabilities 535,400

**Current Ratio**

(Should be > 1.25)  
(Higher is better)

Current Assets  

---

Current Liabilities

1.46

**Debt to Equity**

(Should be < 1)  
(Lower is better)

Total Liabilities (all)  

---

Total Equity

785,000  
910,000

0.86

**Company Name**  
**Financial Dashboard**

Month Ending: March 31, 2025

**Profit and Loss Items** (measure of profitability)

Completed Months 3

**Last Completed Month**

**Year-To-Date  
3 Months**

Revenue	459,100	1,304,000
COGS	305,700	848,452
Gross Profit (\$)	153,400	455,548
Overhead	143,000	350,000
Net Profit	10,400	105,548
Average # Employees	28	29
Average # Field Employees	24	25

**Gross Margin - %**  
Company Goal=35%

Gross Profit  
Revenue

**33%**

**35%**

**Breakeven**

Overhead Costs  
Gross Margin

**427,975**

**1,001,870**

**Revenue per Emp**  
(annualized)

Total Revenue  
# Employees

**196,757**

**179,862**

**Revenue per Field Emp**  
(annualized)

Total Revenue  
# Field Employees

**229,550**

**208,640**

**Closing Ratio**  
(current year only)

Total # Job Closed  
Total # Jobs Quoted

31

70

**44%**

Backlog to be completed in next 3 months  
Backlog to be completed in next 6 months  
Backlog to be completed in next 12 months

768,000  
1,410,000  
2,570,000

**Accounts Receivable Turnover:**  
(Higher is better)

Revenue  
A/R Balance

**12.09**

**Days in Receivables**  
(Lower is better)

365  
A/R Turnover

**30**

**Inventory Turnover**  
(Higher is better)  
(annualized)

COGS  
Inventory

**53.79**