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

<table>
<thead>
<tr>
<th>Balance Sheet</th>
<th>Income Statement (P&amp;L)</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Assets</td>
<td>• Sales</td>
</tr>
<tr>
<td>– Cash</td>
<td>– (Cost of Goods Sold)</td>
</tr>
<tr>
<td>– Accounts Receivable</td>
<td>– Gross Margin</td>
</tr>
<tr>
<td>– Inventory</td>
<td>– (Operating Expenses)</td>
</tr>
<tr>
<td>– Fixed Assets</td>
<td>• Net Income Before Tax</td>
</tr>
<tr>
<td>• Liabilities</td>
<td>– (Income Tax)</td>
</tr>
<tr>
<td>– Accounts Payable</td>
<td>• Net Income</td>
</tr>
<tr>
<td>– Notes Payable</td>
<td></td>
</tr>
<tr>
<td>• Equity</td>
<td></td>
</tr>
<tr>
<td>– Stock (or Capital)</td>
<td></td>
</tr>
<tr>
<td>– Retained Earnings</td>
<td></td>
</tr>
<tr>
<td>– Less (Distributions/Draws/Dividends)</td>
<td></td>
</tr>
<tr>
<td>– Net Income</td>
<td></td>
</tr>
</tbody>
</table>
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

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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)
  - Current Assets - Inventory / 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)*
Lessons Learned: Making Decisions Based on False Profits

Are You Happy With Your Gross Margin?

Which year was more profitable?

<table>
<thead>
<tr>
<th>Year 1</th>
<th>Year 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income</td>
<td>400,000</td>
</tr>
<tr>
<td>COGS</td>
<td>250,000</td>
</tr>
<tr>
<td>Gross Profit</td>
<td>150,000</td>
</tr>
</tbody>
</table>

Gross Margin = 37.5%  
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

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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!
What Should Your Dashboard Contain?

- **Financial information**
  - Current month, year to date

- **Other departments**
  - Sales, HR, production

- **Forecasts**
  - Future goals, pipelines

- **Customize to your needs**

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Financial Concerns & Issues

- Accounts Receivable
- Customer deposits
- WIP (Work in Progress)
- Accounts Payable
- Cash flow
- Long term debt trends

Balance Sheet
### Sales/Marketing Components

<table>
<thead>
<tr>
<th>Number of leads</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of proposals</td>
</tr>
<tr>
<td>Bid/close ratio</td>
</tr>
<tr>
<td>Backlog</td>
</tr>
<tr>
<td>Service/warranty tracking</td>
</tr>
</tbody>
</table>

### 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
Lessons Learned: Making Decisions Based on False Profits

Sample Balance Sheet Dashboard

Measure sustainability

Snapshot and ratios

Sample P&L Dashboard

Measure profitability

Snapshot and ratios
Lessons Learned: Making Decisions Based on False Profits

P&L Dashboard Details

• Gross Margin
  – Sales – COGS = Gross Profit ($)
  – Gross Profit / Sales = Gross Margin (%)

• Breakeven Volume
  – Overhead / Gross Margin = 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**
  - \( \frac{365}{A/R\ Turnover} \)
  - What does 60 mean? (Good or bad?)

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**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
Lessons Learned: Making Decisions Based on False Profits

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

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### Business Development Program

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

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### 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\textsuperscript{th} 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:
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

<table>
<thead>
<tr>
<th>Potential topics:</th>
<th>Pre-requisite: file assessment and clean up</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Analyze trended Profit and Loss Statement</td>
<td></td>
</tr>
<tr>
<td>• Evaluate profitability, gross, net</td>
<td></td>
</tr>
<tr>
<td>• Evaluation overhead and markup</td>
<td></td>
</tr>
<tr>
<td>• Review fully burdened labor costs</td>
<td></td>
</tr>
<tr>
<td>• Review process for job costing</td>
<td></td>
</tr>
<tr>
<td>• Analyze business plan, mission statement and vision statement</td>
<td></td>
</tr>
<tr>
<td>• Perform ratio analysis</td>
<td></td>
</tr>
<tr>
<td>• Create Key Performance Indicators (KPI) metrics for your company</td>
<td></td>
</tr>
<tr>
<td>• Review internal controls</td>
<td></td>
</tr>
<tr>
<td>• Create and manage a cash flow projection</td>
<td></td>
</tr>
<tr>
<td>• Investigate productivity reports and charge-out rates</td>
<td></td>
</tr>
<tr>
<td>• Reconcile your books to the latest tax return</td>
<td></td>
</tr>
</tbody>
</table>

$300 per meeting after ETO match

## How to Get Started

<table>
<thead>
<tr>
<th>How to Get Started</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>• Complete the participation agreement and send to Jeni Hall at Energy Trust of Oregon. <a href="mailto:Jeni.Hall@energytrust.org">Jeni.Hall@energytrust.org</a></td>
<td></td>
</tr>
<tr>
<td>• 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</td>
<td></td>
</tr>
<tr>
<td>• You can also contact Annie Kendrick at <a href="mailto:Annie@AnnieKendrick.com">Annie@AnnieKendrick.com</a> or 541-926-6438 and she will help you navigate the start up process</td>
<td></td>
</tr>
</tbody>
</table>
Thank You

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

<table>
<thead>
<tr>
<th>Checking Account</th>
<th>Line of Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consolidated</td>
<td></td>
</tr>
<tr>
<td>235,200</td>
<td>235,200</td>
</tr>
<tr>
<td>1 - 30</td>
<td>1 - 30</td>
</tr>
<tr>
<td>126,900</td>
<td>126,900</td>
</tr>
<tr>
<td>31 - 60</td>
<td>31 - 60</td>
</tr>
<tr>
<td>45,100</td>
<td>45,100</td>
</tr>
<tr>
<td>61+</td>
<td>61+</td>
</tr>
<tr>
<td>18,400</td>
<td>18,400</td>
</tr>
<tr>
<td>Total A/R</td>
<td>Total A/P</td>
</tr>
<tr>
<td>455,800</td>
<td>455,800</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Receivables</th>
<th>Payables</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current</td>
<td>Current</td>
</tr>
<tr>
<td>265,400</td>
<td>244,700</td>
</tr>
<tr>
<td>1 - 30</td>
<td>1 - 30</td>
</tr>
<tr>
<td>126,900</td>
<td>23,800</td>
</tr>
<tr>
<td>31 - 60</td>
<td>31 - 60</td>
</tr>
<tr>
<td>45,100</td>
<td>13,000</td>
</tr>
<tr>
<td>61+</td>
<td>61+</td>
</tr>
<tr>
<td>18,400</td>
<td>43,900</td>
</tr>
<tr>
<td>Total A/R</td>
<td>Total A/P</td>
</tr>
<tr>
<td>455,800</td>
<td>325,400</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Inventory</th>
<th>Plus PR Taxes &amp; Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>68,200</td>
<td>12,500</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Prepaid &amp; Other</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>21,900</td>
<td>0.0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Other</th>
<th>Cust Deposits/Overbillings</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>152,500</td>
</tr>
</tbody>
</table>

Total Current Assets: 781,100
Total Current Liabilities: 535,400

**Current Ratio**
(Should be > 1.25)
(Higher is better)
Current Assets: 781,100
Current Liabilities: 535,400
Current Ratio: 1.46

**Debt to Equity**
(Should be < 1)
(Lower is better)
Total Liabilities (all): 785,000
Total Equity: 910,000
Debt to Equity: 0.86
## Profit and Loss Items

### (measure of profitability)

<table>
<thead>
<tr>
<th></th>
<th>Last Completed Month</th>
<th>Year-To-Date 3 Months</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>459,100</td>
<td>1,304,000</td>
</tr>
<tr>
<td>COGS</td>
<td>305,700</td>
<td>848,452</td>
</tr>
<tr>
<td>Gross Profit ($)</td>
<td>153,400</td>
<td>455,548</td>
</tr>
<tr>
<td>Overhead</td>
<td>143,000</td>
<td>350,000</td>
</tr>
<tr>
<td>Net Profit</td>
<td>10,400</td>
<td>105,548</td>
</tr>
<tr>
<td>Average # Employees</td>
<td>28</td>
<td>29</td>
</tr>
<tr>
<td>Average # Field Employees</td>
<td>24</td>
<td>25</td>
</tr>
</tbody>
</table>

### Gross Margin - %

- **Company Goal=35%**
  - **Gross Profit**
    - **Revenue**: 33% 35%

### Breakeven

- **Revenue Costs**
  - Overhead Costs: 427,975 1,001,870
  - Gross Margin: 196,757 179,862

### Revenue per Emp (annualized)

- **# Employees**
  - Total Revenue: 229,550 208,640

### Revenue per Field Emp (annualized)

- **# Field Employees**
  - Total Revenue: 31 44%

### Closing Ratio (current year only)

- **Total # Job Closed**
  - Total # Jobs Quoted: 768,000

### Backlog to be completed in next 3 months

- 768,000

### Backlog to be completed in next 6 months

- 1,410,000

### Backlog to be completed in next 12 months

- 2,570,000

### Accounts Receivable Turnover:

- **Revenue**
  - A/R Balance: 12.09

### Days in Receivables

- **A/R Turnover**: 30

### Inventory Turnover

- **COGS**
  - Inventory: 53.79

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