

Make Money
and
Have Fun Doing It!



ANTITRUST POLICY STATEMENT FOR SPRAY POLYURETHANE FOAM ALLIANCE MEETINGS

- ▶ It is and shall remain the policy of the Spray Polyurethane Foam Alliance ("SPFA"), and it is the continuing responsibility of every SPFA member company, SPFA meeting or event participant, as well as SPFA staff and leadership to comply in all respects with federal and state antitrust laws. No activity or discussion at any SPFA meeting or other function may be engaged in for the purpose of bringing about any understanding or agreement among members to (1) raise, lower or stabilize prices; (2) regulate production; (3) allocate markets; (4) encourage boycotts; (5) foster unfair or deceptive trade practices; (6) assist in monopolization; or (7) in any way violate or give the appearance of violating federal or state antitrust laws.
- ▶ Any concerns or questions regarding the meaning or applicability of this policy, as well as any concerns regarding activities or discussions at SPFA meetings should be promptly brought to the attention of SPFA's Executive Director and/or its legal counsel.

Eight nuggets to improve your business

1. The Basic Tenets of the Spray Foam business
2. The Job Board
3. Know your Numbers
4. The Budget
5. Arriving at the Price
6. The Right Customer
7. Beware of the Wall
8. Going Forward

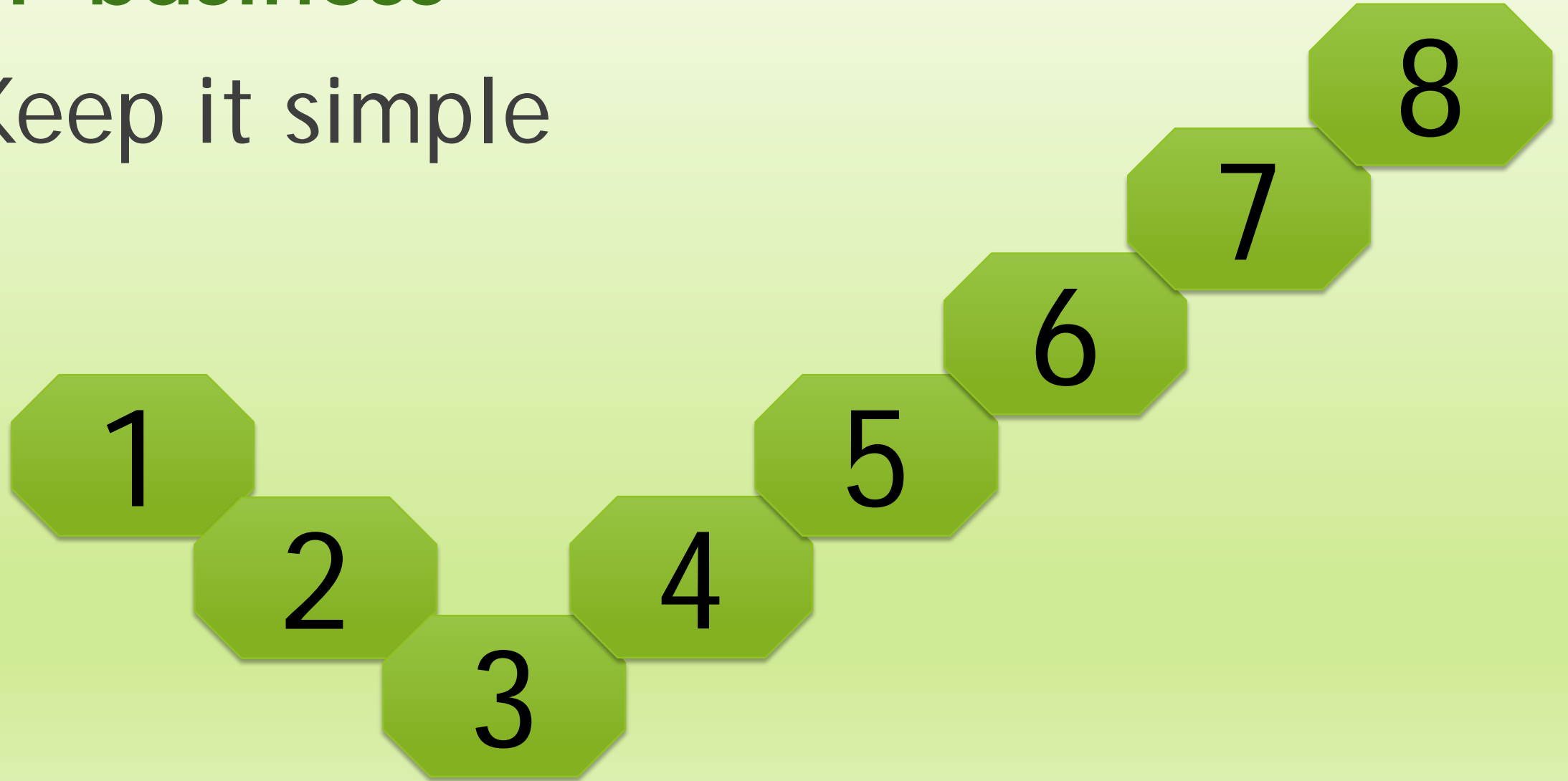


The basic tenets of the SPF business

- Keep It Simple
 - ▶ Billings Out
 - ▶ Collections In
 - ▶ Take Care of the Customer

The basic tenets of the SPF business

- Keep it simple



The basic tenets of the SPF business

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

No One Makes Money in
the Spray Foam Business
Unless Someone is
Pulling the Trigger!

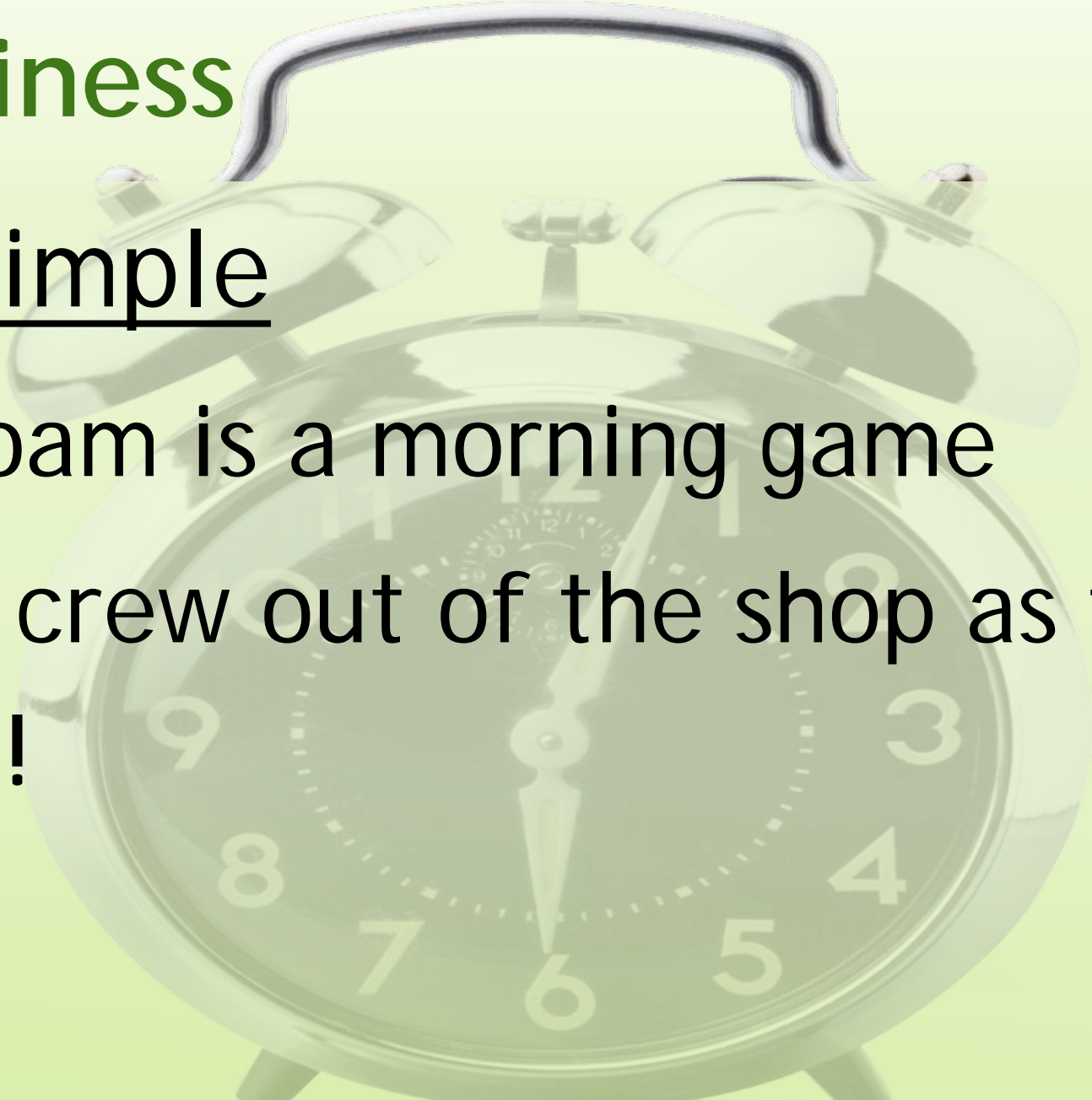
Mac Sheldon - 2002

The basic tenets of the SPF business



The basic tenets of the SPF business

- Keep It Simple
 - Spray Foam is a morning game
 - Get the crew out of the shop as fast as possible!



The basic tenets of the SPF business

- Keep it simple
 - ▶ Drive time plus 10 minutes
 - ▶ Get to the job, pull the hoses and pull the trigger.

Discipline is Required for a Profitable Business



Specific



Methodical



Consistent

January						
				X	X	3
4	X	X	X	X	X	10
11	X	X	X	X	X	17
18	X	X	X	X	X	24
25	X	X	X	X	X	31

Specific, Methodical and Consistent

▶ SMaC

The Job Board

Jobs sold

MONDAY	TUESDAY	WEDNESDAY	THURSDAY 9	FRIDAY 10	SATURDAY 11
<p>Lot 58 ✓ CAROL FISHER G/D 12x7, 16x7</p>		<p>Lot 38, CUNNANE SPRINGFIELD BLOW</p>	<p>MERGE ① PROP.</p> <hr/> <p>CLINE BUILDERS ✓ 1642 ESSEX HALL G/D 16x7.5</p> <hr/> <p>Cline</p>	<p>MADISON ① BUILDERS</p> <hr/> <p>John Klausik BATT</p> <hr/> <p>KEYSTONE ①</p> <hr/> <p>Merge Properties Batt Seal</p>	

"The Board"

The Job Board

- ▶ Great for Worker Morale
- ▶ Short Term Projections
- ▶ Helpful for Operations
- ▶but the Business Owner Needs Different Information

The Job Board

Customer	Date Sold	Amount	Start
Sherry Jones	12/20/13	\$8,250	1/30/14
Smith Remodeling	1/6/14	\$4,725	1/31/14
Simons GC	1/8/14	\$16,220	2/2/14
Fredricks Construction	1/9/14	\$4,475	2/1/14
Williams Manor Apts	1/9/14	\$33,621	2/6/14
Franklin County HA	1/11/14	\$17,429	2/7/14
ABC Custom	1/14/14	\$41,945	2/16/14
Powell Blvd Condos	1/18/14	\$11,927	2/16/14
All American Production Homes	1/19/14	\$1,670	2/1/14
All American Production Homes	1/19/14	\$1,670	2/4/14
All American Production Homes	1/19/14	\$1,670	2/7/14
All American Production Homes	1/19/14	\$1,670	2/10/14
All American Production Homes	1/19/14	\$1,670	2/13/14
All American Production Homes	1/19/14	\$1,670	2/16/14
Fredricks Construction	1/26/14	\$3,362	2/28/14
Smith Remodeling	1/30/14	\$1,790	2/28/14

Know your numbers

- ▶ Stay ON RATIO
- ▶ Know your Ratios
- ▶ Divide and Conquer

Know your sales numbers

- **Leads Ratio**

- ▶ The ratio of presentations to sales leads generated
- ▶ Expressed as percentage

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

Know your sales numbers

- **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 sales numbers

- Pipeline Ratio

- ▶ The ratio of closed contracts to sales leads generated
- ▶ Expressed as percentage

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

Know your sales numbers

- Example

- ▶ Steve has an 80% ratio of presentations to qualified leads
- ▶ 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
- ▶ $15 \text{ jobs} \div 0.75 = 20$ sales presentations needed
- ▶ $20 \text{ sales presentations} \div 0.80 = 25 \text{ qualified leads to meet goals}$
- ▶ The volume of work is directly proportional to the sales leads and presentations, provided the quality of leads is the same.

Know your liquidity numbers

- Quick Ratio

- ▶ An indicator of a company's ability to pay short-term obligations.
- ▶ A measurement of liquidity.
- ▶ Current assets = Cash + Receivables
- ▶ Current Liabilities = Everything you owe in the next month, quarter or year

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

Know your numbers

- ▶ 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	<u>\$70,000</u>
Current AR	<u>\$90,000</u>
LOC Available	<u>\$100,000</u>
Aging AR	<u>\$10,000</u>

Payroll	<u>\$15,000</u>
Taxes	<u>\$5,000</u>
Chemical	<u>\$40,000</u>
Other	<u>\$20,000</u>

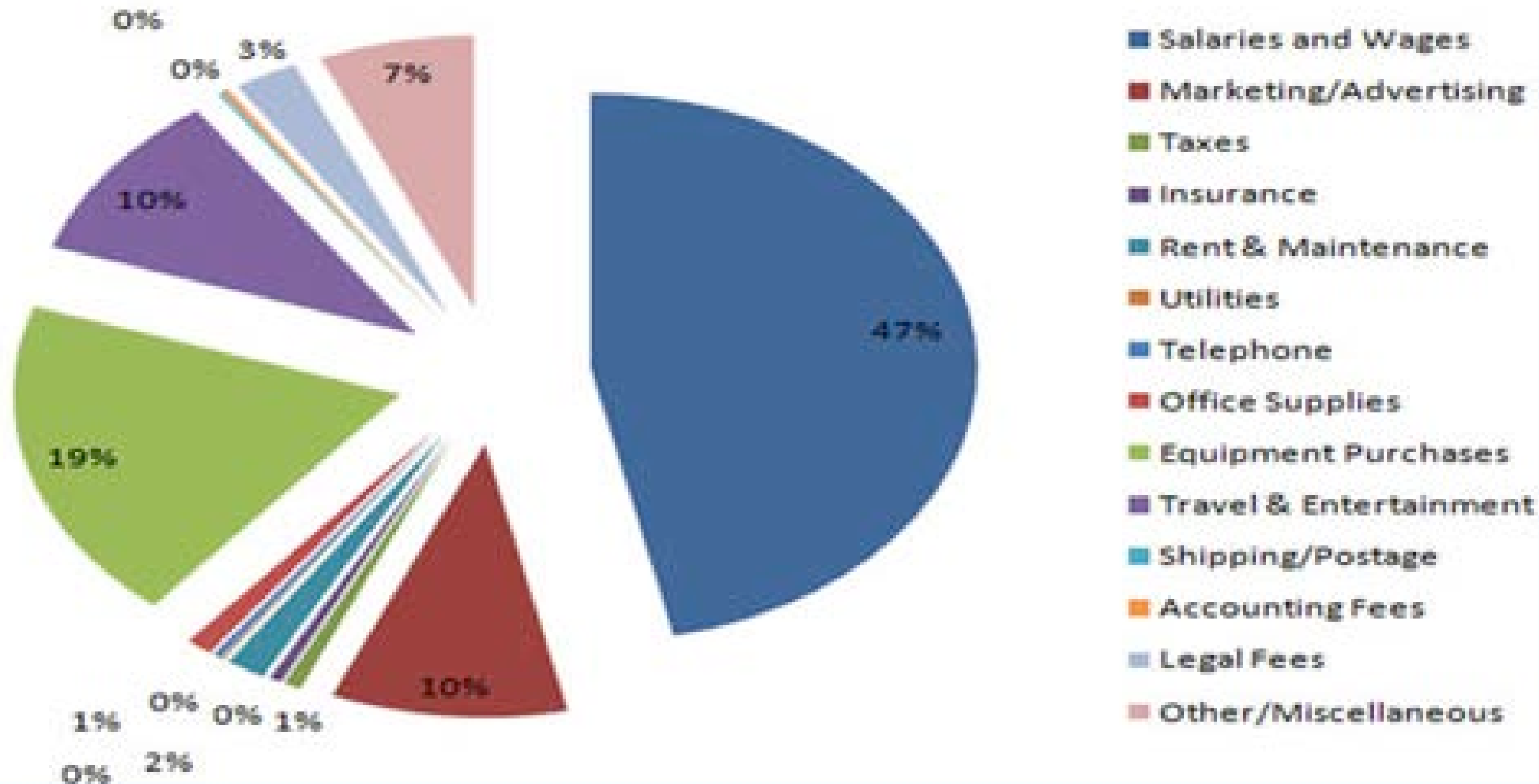
Leads	<u>40</u>
Appointments	<u>36</u>
Proposals Out	<u>8</u>
Booked Sales	
30 days	<u>15 / \$115K</u>
60 days	<u>5 / \$36K</u>

Ratios:	
Quick Ratio	<u>2:1</u>
Leads Ratio	<u>80%</u>
Pipeline Ratio	<u>60%</u>

The Budget

How do I distribute the money I collect?

Expenses



Budget

► Who, How Much, When and Why?

- 1 Labor - Pay your workers and subcontractors
- 2 Taxes - Payroll tax, sales tax, property tax, etc.
- 3 Supplier - Chemicals and job materials
- 4 Everything Else - Vehicles, office, all overhead items
- 5 Cash Reserve - Critical to Survival and Growth
- 6 Yourself - Pay yourself handsomely!

The basic tenets of the SPF business

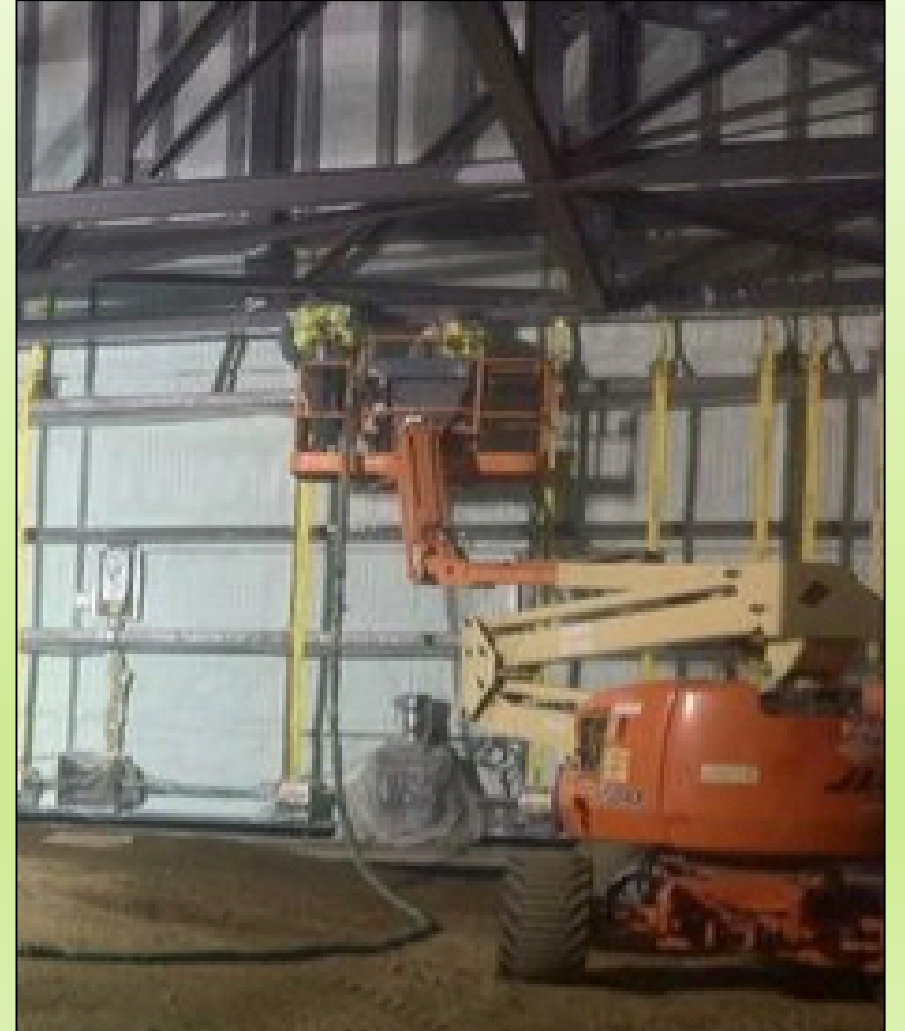
- Keep it simple
 - ▶ Pay your labor
 - ▶ Pay your taxes
 - ▶ Pay your supplier
 - ▶ Pay everything else
 - ▶ Pay your growth fund
 - ▶ Pay yourself

Arriving at the Price

How much do I charge for my work?

How do you price your job?

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



How do you price your job?

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



How do you price your job?

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

Estimating job cost

- ▶ 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

- ▶ 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

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

Adding 40% of Cost = Mark-Up

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

Job Cost = \$10,000

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

Another Approach

- ▶ 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

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

Job Cost = \$10,000

**Margin =
\$6,666**

Now let's compare the two methods

Job Cost = \$10,000

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

Job Cost = \$10,000

**Margin =
\$6,666**

So, what's the right price?

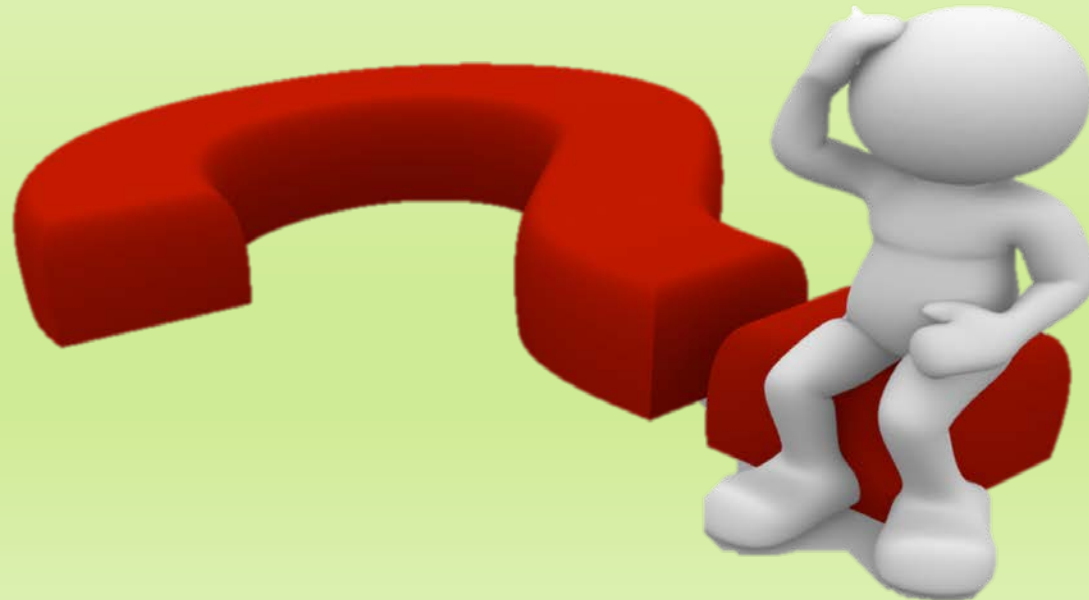
- ▶ It would be an easier sale for Frank Foamer, but is he making the 10% net profit he thinks he is?
- ▶ The key to understanding the difference between pricing and profitability is to realize that mark-up is based on the cost of the job, and margin is based on the revenue or selling price.

Who's making money?

- ▶ 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...

- ▶ 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

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

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**

Job cost analysis

Understanding the cost of doing business

Know and control your job cost

- “Job-Cost” every job
 - ▶ Track profitability by builder, market segment (new construction, retro, commercial, residential), crew & salesman

Print Save & Close

Job Cost Sheet

Job Number **26192**

Customer: Jim Kettler Job Address: 3477 Helena Ave
Job Name: Unit #:

Projections: Projected Total Cost \$ 1,183.00 Projected GP \$ 513.60 Projected GP Margin 30.27

Material		Job Totals	
Total Material Price \$	1,324.40	Total Revenue \$	1,696.00
Delivered Material Cost \$	1,068.00	Pre-Commission Overhead \$	0.00
Use Tax \$	0.00	Freight \$	0.00
Material Profit \$	456.40	Total Cost \$	1,183.00
Material Margin %	29.93	Gross Profit \$	513.60
		Gross Profit Margin %	30.27
		Sales 1 Commission \$ <u>Pay</u>	102.72
		Sales 2 Commission \$ <u>Pay</u>	0.00
		Net Profit \$	410.88
		Net Profit Margin %	24.23

Labor	
Total Labor Price \$	97.20
Total Labor Cost \$	70.00
Labor Profit \$	27.20
Labor Margin %	27.98

Other Lines	
Other Line Price \$	75.00
Other Line Cost \$	45.00
Other Line Profit \$	30.00
Other Line Margin %	40.00

View Paid Commissions

Commission Group	Sales
Commission Paid Salesperson 1 \$	0.00
Commission Paid Salesperson 2 \$	0.00
Total Unpaid Commission \$	102.72

Line Items						
Description	Qty Sold	Qty Ordered	Total Cost	Total Price	Gross Profit	Margin
HOLD ME TIGHT ADOOR 12	40.00	40.00	1,006.80	1,481.20	444.40	30.00
1/2 inch 6lb Crush Resistor Pad	40.00	40.00	31.30	43.30	12.00	27.78
Install Carpet	40.00	40.00	70.00	97.20	27.20	27.98
Shipping Charge	1.00	1.00	45.00	75.00	30.00	40.00

Copyright (C) Kishmoo, Inc. 2012

Know and control your job cost

- “Job-Cost” every job
 - ▶ Keep score and compensate accordingly



Know and control your job cost

- “Job-Cost” every job
 - ▶ Controlling costs drives profit
 - ▶ Correctly estimating and tightly controlling labor affects profit more than anything else



What's the Right Price?

- Example:
 - ▶ Estimated Job Cost = \$10,000
 - ▶ Company Overhead = 30%
 - ▶ Desired Profit Margin = 10%
 - ▶ $\$10,000 \div .6 = \$16,666$
 - ▶ Cost plus Overhead = \$15,000
 - ▶ Net Profit = \$1,666
- Your competition quoted \$14,000!
- What are you going to do?

Finding The right customer

People Buy From Companies They Trust



Marketing Plan

Finding the right customer

- Reward referrals generously



Finding the right customer

- Post yard and site signs on every job



Finding the right customer

- Put your company name and phone number on the back of your rig along with the words “Spray Foam”



FOAM INSULATION SOLUTIONS

2010 Commercial Vehicle of the Year

(775) 786-0769

FoamInsulationSolutions.com

MANUFACTURED BY

HEAT



Agribalance

100% Pure Polymers

SPRAY FOAM INSULATION

- Energy Savings
- Enhanced Comfort
- Environmentally Friendly



Finding the right customer

- Leave flyers around the neighborhood you're working in
- Go around and tell the neighbors what you're doing.



Finding the right customer

- Stop every time you see “new wood”



Finding the right customer

- Train your crew to “sell foam” using the 30 - second speech



Finding the right customer

- When you're really busy, raise your selling price



Finding the right customer

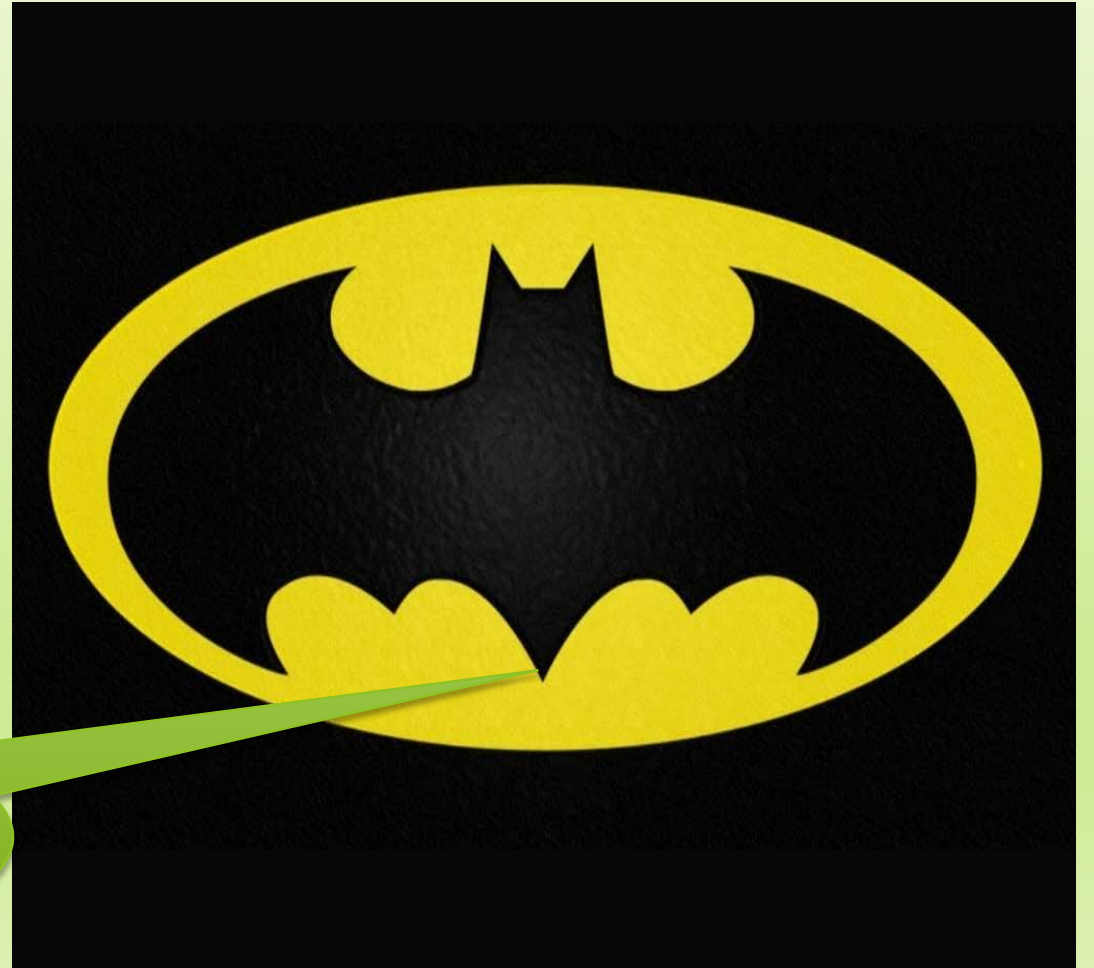
- When your rig's not spraying, get it out of the shop and parked where people can see it



Finding the right customer

- Find fiberglass-only contractors and teach them how to sell for you.

Battman



Finding the right customer

- Pass out a thousand business cards a year



Finding the right customer

- Protect your receivable by exercising your lien rights



CLAIM OF LIEN FORM

IN THE (STATE) _____ COURT OF _____ COUNTY, _____ ACTION-LAW.
Plaintiff/Petitioner: _____
vs
Defendant/Respondent: _____

QUALIFIED ORDER

AND NOW, THIS _____ day of _____
it appears to the court as follows. _____ in conjunction with a final decree dated (_____

Finding the right customer

- Fire any customer who doesn't pay.....Immediately!



Beware the walls

The Million Dollar Wall

Beware of the Walls

- New guy in business



Beware of the Walls

► Working away



Beware of the Walls

- ▶ Adds an employee
- ▶ And another



Beware of the Walls



Beware of the Walls

- ▶ Business is great!
- ▶ Then BAM!!!
He's losing money.
- ▶ He just hit the **Million Dollar Wall**....



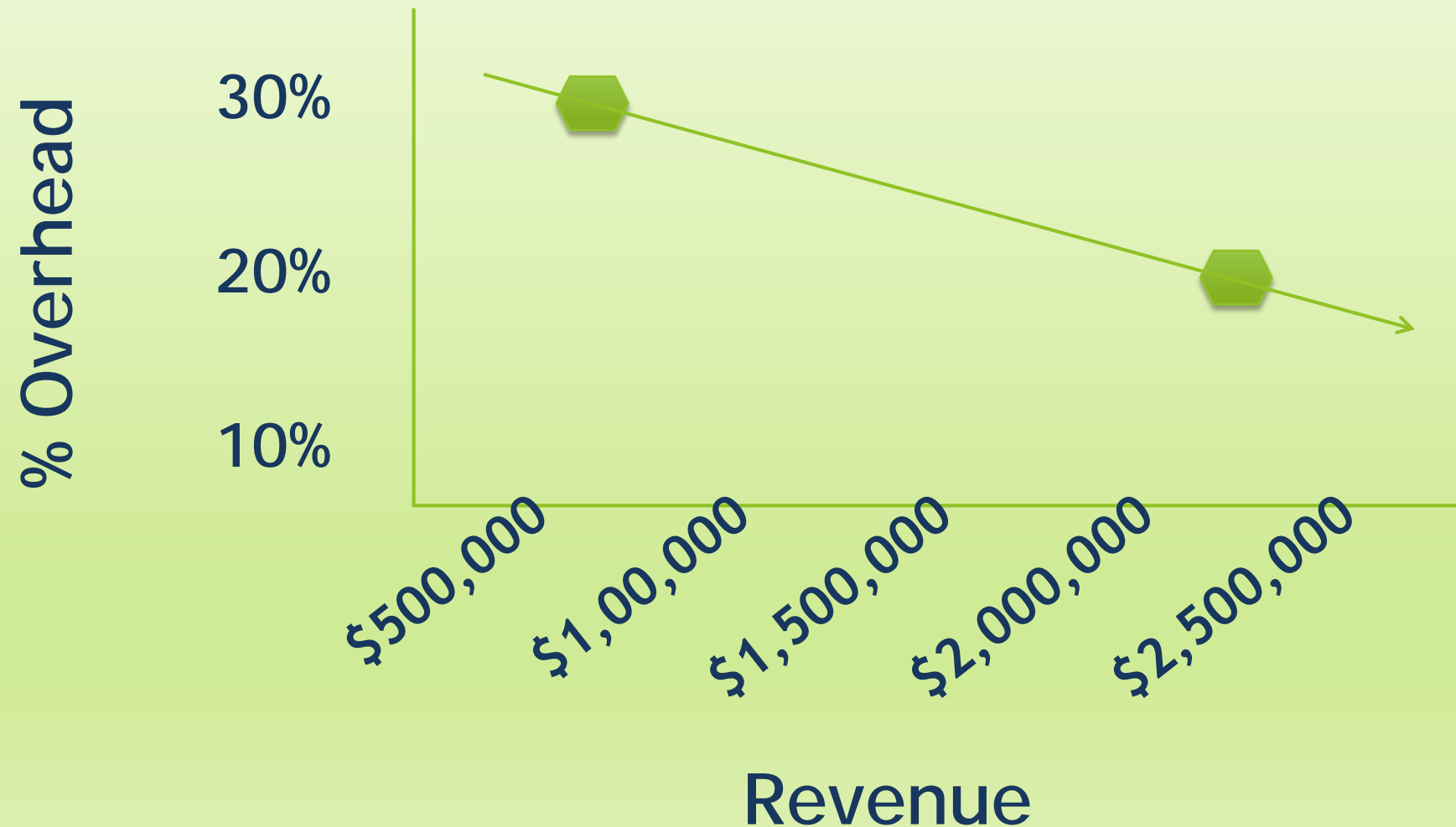
MONEY

\$1,000,000 WALL

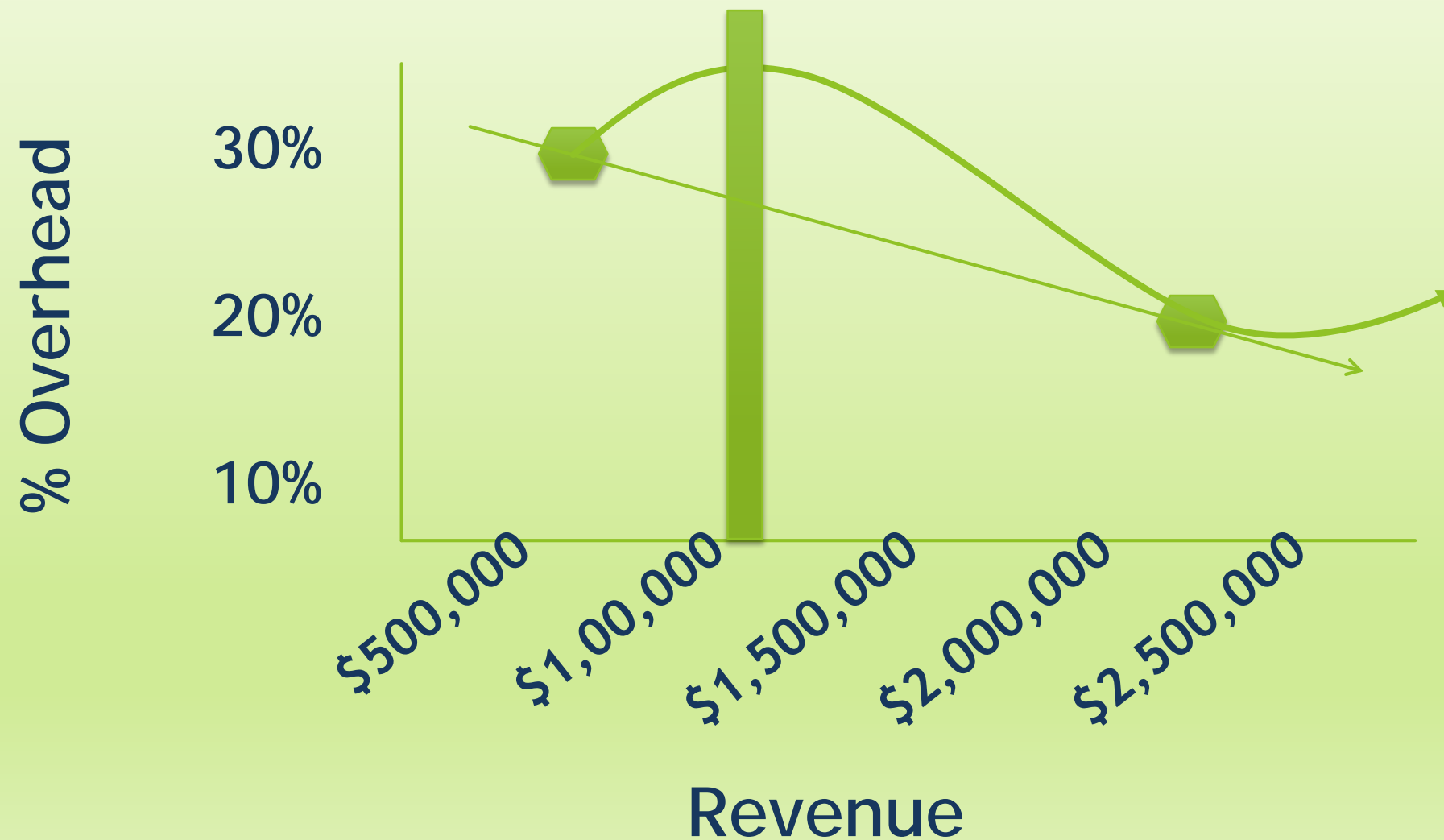
THE \$1,000,000 WALL

EXIT

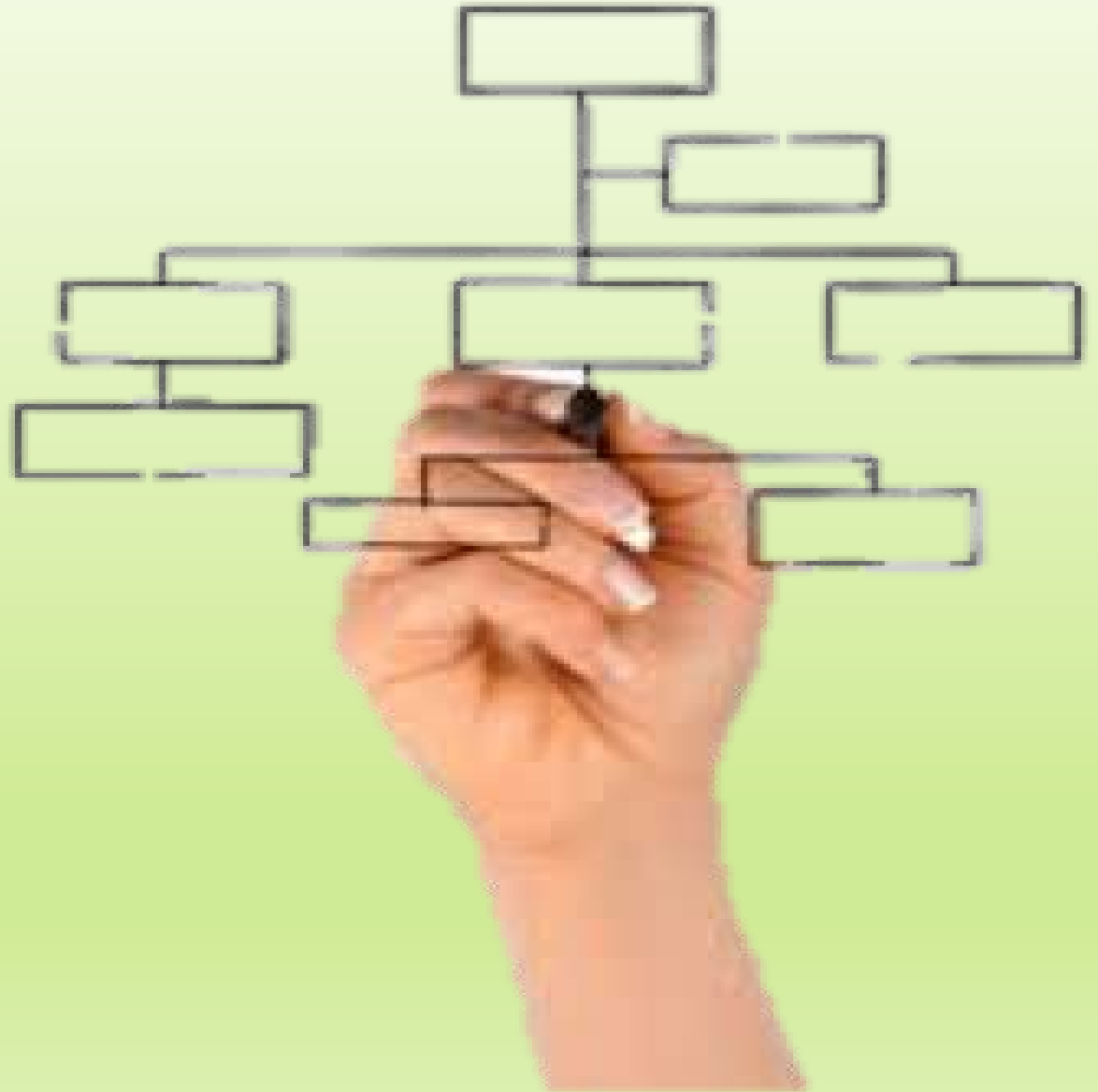
Beware of the Walls



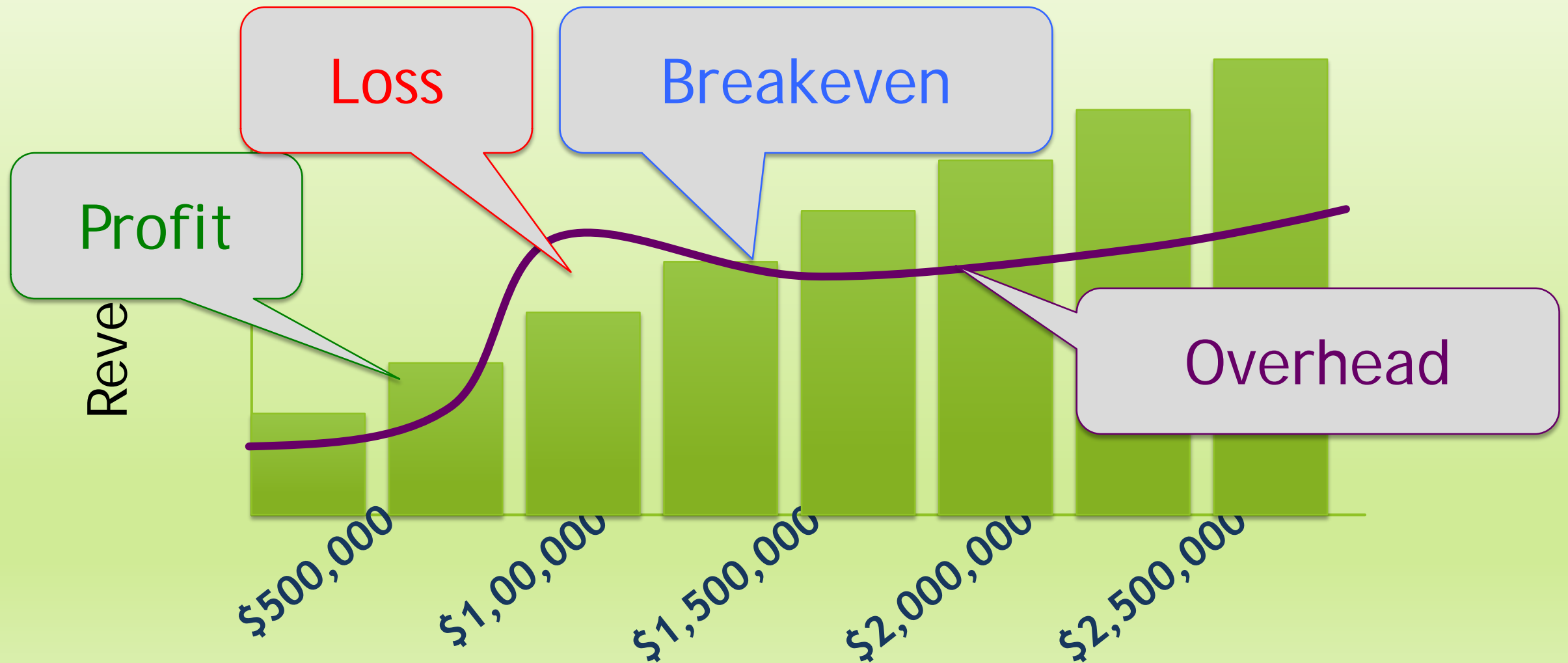
Beware of the Walls



Company Owner is Changing Roles



Beware of the Walls









Choices

- Shrink back to a manageable size
- Acquire investment capital to grow
- Sell



Market Cycles

- Expanding and Contracting Market is very hard on small business



The background features a light green gradient on the left and a series of overlapping dark green triangles on the right, creating a modern, geometric aesthetic.

Build it tight and....

One final thought



Build it tight and....
Ventilate Right!!!

One final thought

Ventilate X 3

1. Ventilate During the Job

- ▶ Cross-flow ventilation according to the CPI Best Practice Guide

2. Ventilate Shortly After the Job

- ▶ Continue ventilation for 24 hours after the foam is sprayed

3. Ventilate Forever Thereafter

- ▶ Install a Balanced, Filtered and Distributed mechanical ventilation system

Ventilate Right!

During and
Shortly
Thereafter

Forever
Thereafter

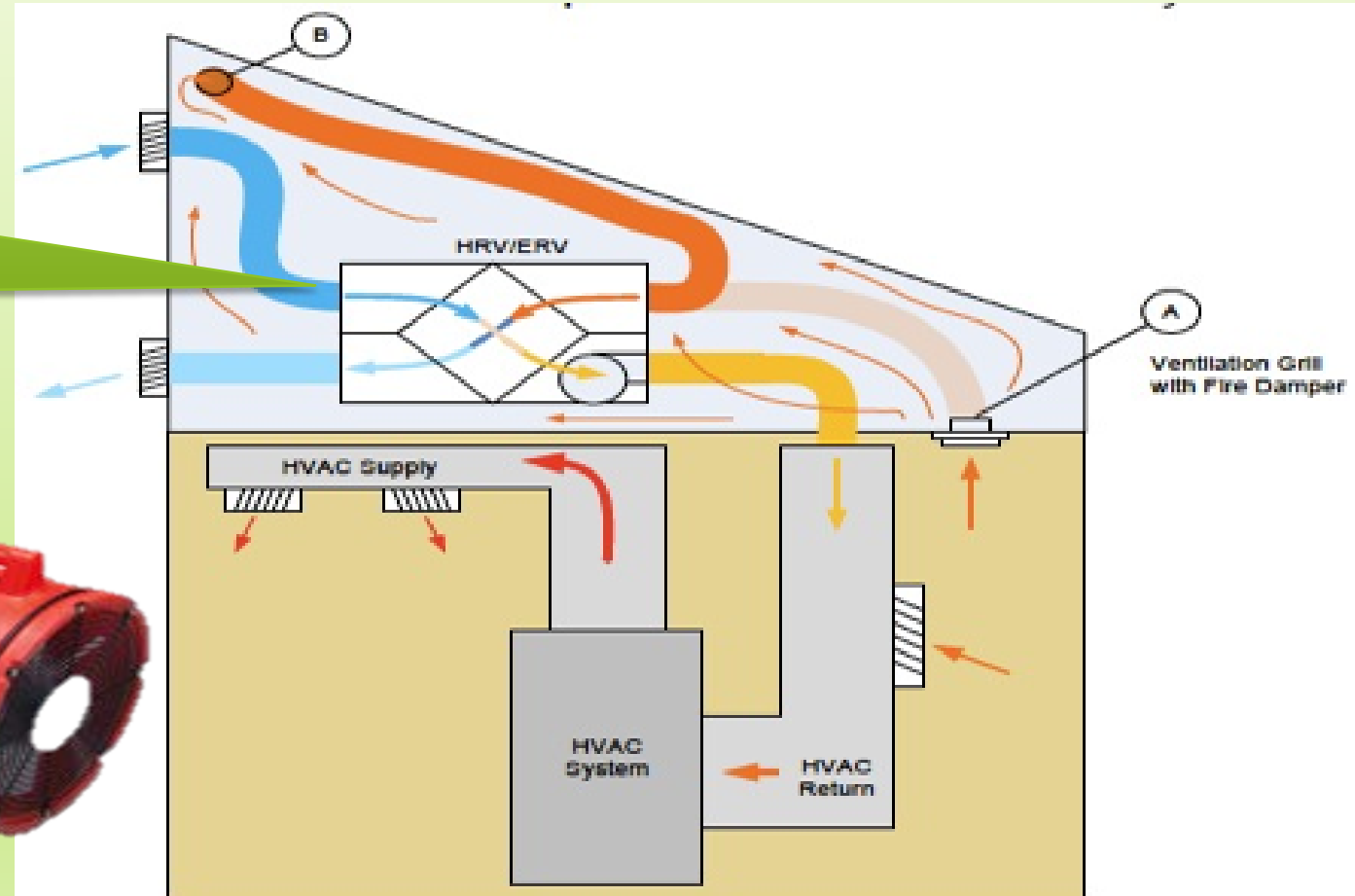


FIGURE 9 - Extended Ventilation using HRV/ERV System

Promise!



May your Profits Soar, Your Equity Grow, and May You.....

CLASSY COMPANY Balance Sheet December 31, 20X3

Assets

Current assets

Cash	\$100,000	
Short-term investments	50,000	
Accounts receivable	75,000	
Inventories	200,000	
Prepaid insurance	<u>25,000</u>	\$450,000

Long-term investments

Stock investments	\$ 40,000	
Cash value of insurance	<u>10,000</u>	50,000

Property, plant & equip.

Land	\$ 25,000	
Buildings and equipment	\$150,000	
Less: Accum. depreciation	<u>(50,000)</u>	125,000

Intangible assets

Goodwill

Other assets

Receivable from employee

Total assets

Liabilities

Current liabilities

Accounts payable	\$ 80,000	
Salaries payable	10,000	
Interest payable	15,000	
Taxes payable	5,000	
Current portion of long-term liabilities	<u>40,000</u>	\$150,000

Long-term liabilities

Notes payable	\$110,000	
Bank loan	35,000	
Deferred income taxes	75,000	
	<u>80,000</u>	300,000
		<u>\$450,000</u>

Equity

Common stock	\$300,000	
Retained earnings	<u>160,000</u>	460,000
		<u>\$910,000</u>
Total liabilities and equity		\$910,000



Make Money
and Have Fun
Doing It!

Mac Sheldon

Mac@SheldonConsulting.com

www.SheldonConsulting.com

503-650-9833

Make Money
and
Have Fun Doing It!

