



Are *You* Making \$\$\$

Wayne Page
For
SPMABC Conference 2011

Are *You* Making \$\$\$

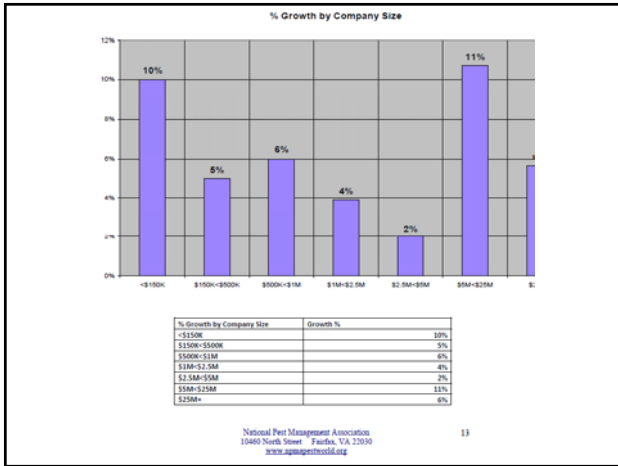
My objectives today are to get you to think about ...

- Revenue
 - Expenses
 - Profit
- *Calculating *Real* charge-out rates

Are *You* Making \$\$\$

Top 10 Reasons to Run your Own Business
(source: Inc. Magazine E-version January 25, 2011)

1. You Control Your Own Destiny
2. You Can Find Your Own Work/Life Balance
3. You Choose the People You Work With
4. You Take on the Risk – And Reap the Rewards
5. You Can Challenge Yourself
6. You Can Follow Your Passion
7. You Can Get Things Done – Faster
8. You Can Connect With Your Clients
9. You Can Give Back to Your Community
10. You Feel Pride in Building Something of Your Own



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 - How much profit do you want/need?

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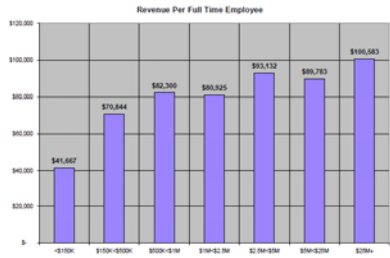
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 - What will you do with it?
 - Invest it ... buy equipment ... give staff more benefits ... buy more inventory ... go on a vacation ... hit the casino bar ...



National Pest Management Association
 12480 North Street - Fairfax, VA 22030
www.npmna.org

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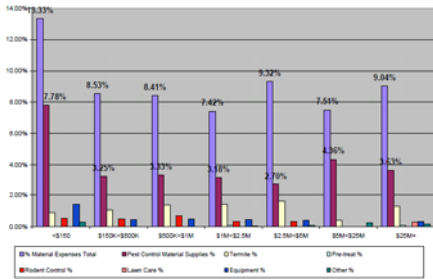
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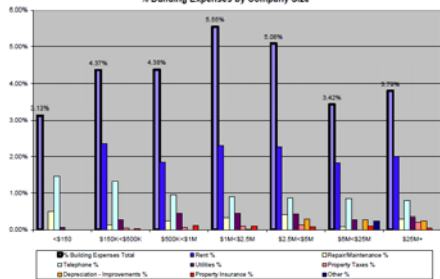
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 - technology, new equipment may reduce large maintenance bills, volume purchase of inventory, etc.

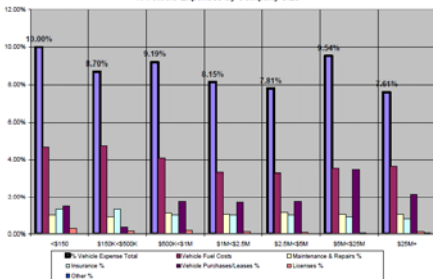
% Material Expenses by Company Size



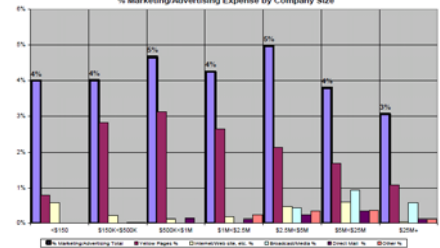
% Building Expenses by Company Size



% Vehicle Expenses by Company Size

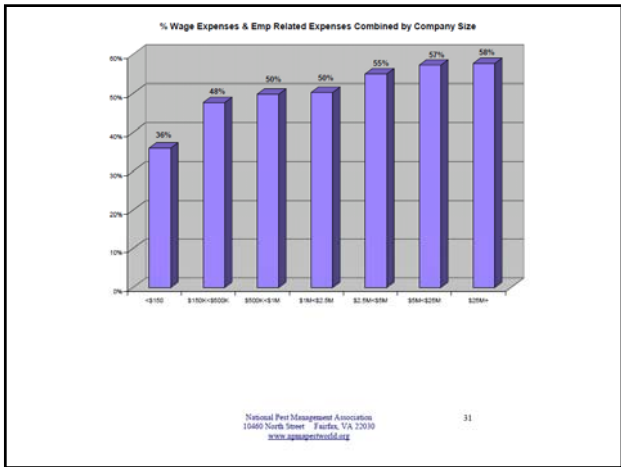
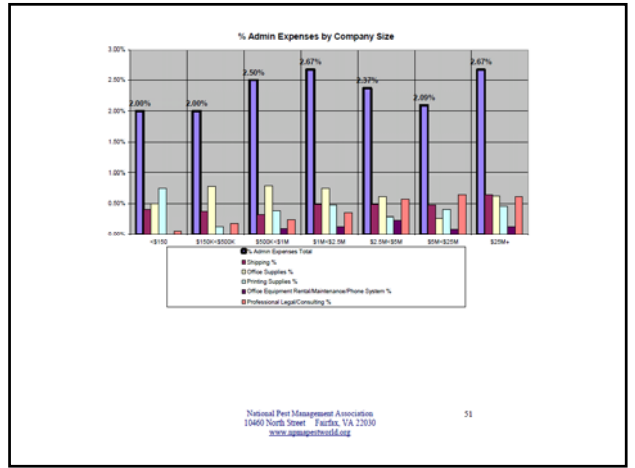
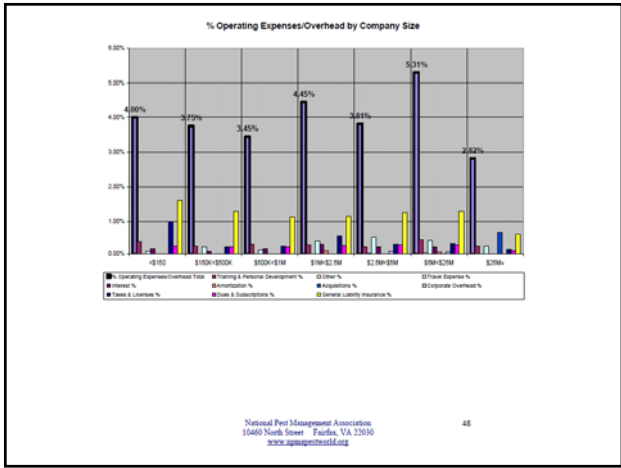


% Marketing/Advertising Expense by Company Size



The chart below details the median percent of marketing expenses by category by region.

Marketing/Advertising	Total	Yellow Pages	Internet/Web site	Broadcast/Media	Direct Mail
≤ 150	4.00%	0.80%	0.55%	0.00%	0.00%
$150K-500K$	4.02%	2.82%	0.19%	0.00%	0.02%
$500K-1M$	4.87%	3.14%	0.30%	0.00%	0.13%
$1M-2.5M$	4.25%	2.65%	0.16%	0.00%	0.11%
$2.5M-5M$	4.97%	2.13%	0.40%	0.42%	0.23%
$5M-10M$	3.80%	1.68%	0.58%	0.34%	0.37%
$10M-25M$	3.07%	1.08%	0.04%	0.55%	0.10%



How are other companies doing in Canada?

<http://www.ic.gc.ca/eic/site/pp-pp.nsf/eng/Home>

code for 'Exterminating and Pest Control Services' is 56171

Expenses		
Cost of Sales	Wages & Benefits	9.5
	Purchases, Materials & Sub-contracts	17.6
	Opening Inventory	2.2
	Closing Inventory	2.8
Operating Expenses (Indirect Expenses)	Labour & Commissions	27.0
	Amortization & Depletion	2.8
	Repairs & Maintenance	1.5
	Utilities & Telephone	3.1
	Rent	2.5
	Interest & Bank Charges	.7
	Professional & Business Fees	2.0
	Advertising & Promotion	4.4
	Delivery, Shipping & Warehouse Expenses	.1
	Insurance	1.8
	Other Expenses	18.1
Total		90.5

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Profit

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- Provides capital for new equipment, new technology, new opportunities ...

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- Provides a comfort for owners, managers, employees ...

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Profit

- Provides capital for new equipment, new technology, new opportunities ...
- Contributes to Business Equity in the future
- Provides a comfort for owners, managers, employees ...
- IS NOT A SIN! You earned it ... you deserve it ...

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No Profit?

- Prolonged periods of losses will “red flag” your company with CCRA (Canada Customs & Revenue Agency) – you are allowed carry forward a loss for up to 7 years.
- Restricts abilities to progress – no money for equipment, inventory, advertising, acquisitions ...
- Put pressure on owners, managers & employees – additional time spent watching cash flow, dragging bill payments, getting anxious when bidding on work, cutting staff, cutting corners...

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Calculating Your *Real* Charge-out Rates

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Steps:

1. What's your Break-Even Rate?
2. What are your plans for the future?
3. Adjust Break-Even Rate.

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Process:

Divide total annual expenses (from previous year's Income Statement or Profit & Loss Statement) by the number of hours used to produce your total revenue.

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Example: Full Time Revenue Producing Individual and \$125,000 in Expenses

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- 40 hours per week X 52 weeks = 2,080 hours/yr

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Example: Full Time Revenue Producing Individual and \$125,000 in Expenses

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- Less Vacation – 2 weeks/year 40 hrs/week = 80 hours
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- Sick Time – 4 days/year @ 8 hours/day = 32 hours

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- Travel Time – 25% (?) of 1928 hours 482 hours

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- Non Productive Time – 10%(?) 193 hours

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- **Total Number of Hours Available to Produce \$ (Billable Hours) 1214 hours/yr**

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- **Total Number of Hours Available to Produce \$ (Billable Hours) 1214 hours/yr**
- **Total Expenses \$125,000 / 1214 hours = \$102.97 per hour of revenue to BREAK EVEN.**

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(Example continued ...)

Break Even = \$102.97

Look Into The Future:

- » Profit
- » Employee costs – benefits, salaries, wages
- » Advertising plans
- » Chemical & material costs
- » Inventory needs
- » Vehicle costs – replacement, maintenance, fuel, insurance, depreciation
- » Bad debts
- » Taxes

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Let's Pretend ...

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Break Even	\$102.97	102.97
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Break Even	\$102.97	102.97
Profit		

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Break Even	\$102.97	102.97
Profit	9.5%	9.78

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Employee Increase		

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Break Even	\$102.97	102.97
Profit	9.5%	9.78
Employee Increase	2%	2.06

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Break Even	\$102.97	102.97
Profit	9.5%	9.78
Employee Increase	2%	2.06
Operating Costs Increase		

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Break Even	\$102.97	102.97
Profit	9.5%	9.78
Employee Increase	2%	2.06
Operating Costs Increase	4%	4.12

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Break Even	\$102.97	102.97
Profit	9.5%	9.78
Employee Increase	2%	2.06
Operating Costs Increase	4%	4.12
Vehicle Costs		

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Let's Pretend ...

Break Even	\$102.97	102.97
Profit	9.5%	9.78
Employee Increase	2%	2.06
Operating Costs Increase	4%	4.12
Vehicle Costs	5%	5.15

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Let's Pretend ...

Break Even	\$102.97	102.97
Profit	9.5%	9.78
Employee Increase	2%	2.06
Operating Costs Increase	4%	4.12
Vehicle Costs	5%	<u>5.15</u>
New Rate		124.08

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OK, Now What ...

- If costs/expenses rise, then revenue must rise to maintain profitability
- Price your work reasonably
- Get a bang for your expense buck
- Be careful with extending credit, collections and write-offs
- Keep key personnel productive, minimize overtime
- Embrace technology
- Plan ahead – Budget & Strategic

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Thank you to :

SPMABC
NPMA Operating Survey Results
Industry Canada

Contact: wayne.page@shaw.ca

