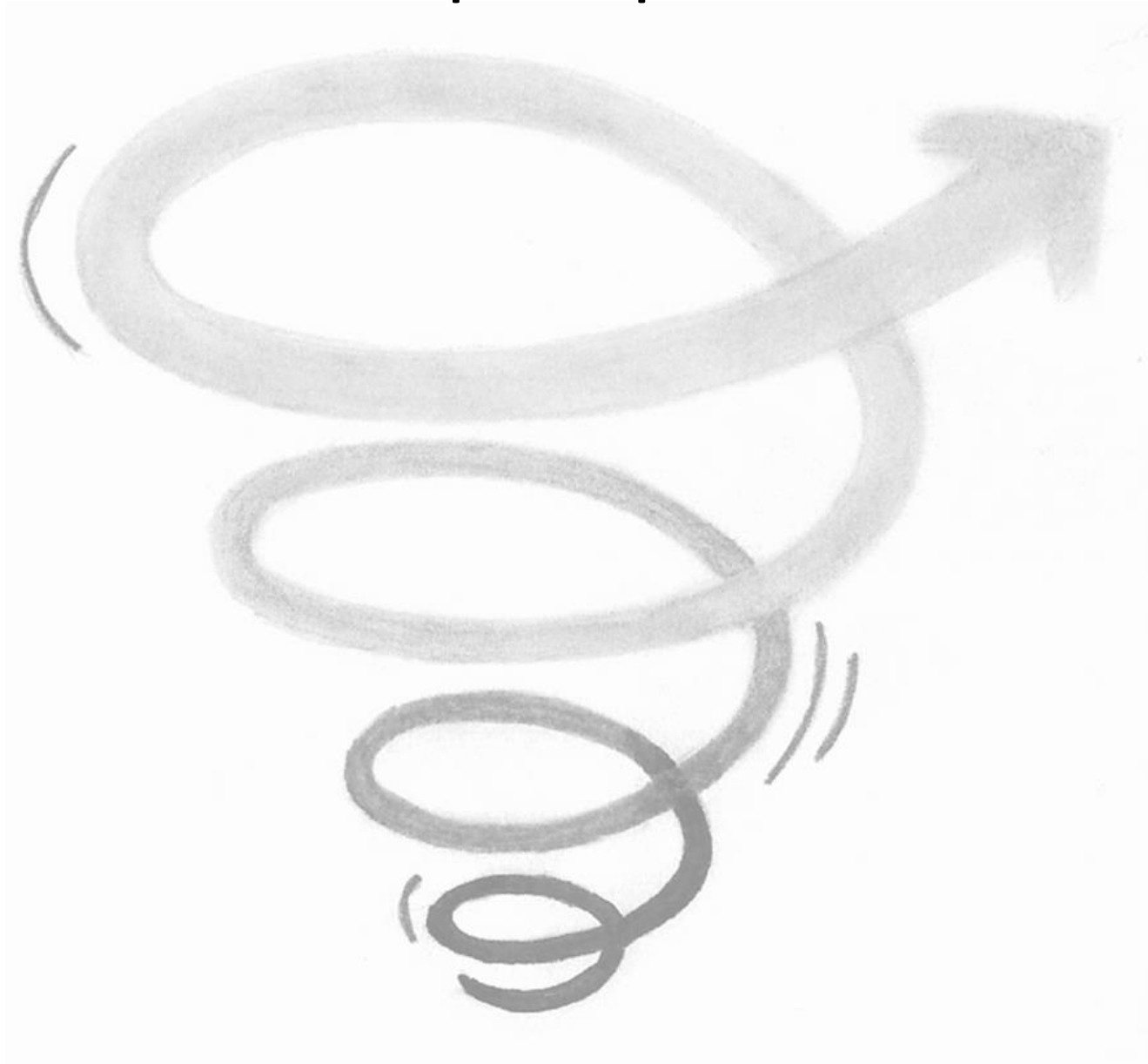


Upward Spiral



Beyond the P&L, Estimating, Overheads & Back-costing



Ian Featherstone provides specialist business support & leadership coaching for the kitchen, bathroom, joinery and retail fit-out sectors.

Ian started as a cabinetmaking & machining apprentice in the 1980's and gained a broad range of practical and business experience in both private business and corporate roles.

He has been operating his own business since 2012.



Smetric helps business leaders make smarter decisions faster through advanced analytics and business intelligence software and services.

Today's Topics & Agenda

• Job Costing / Beyond the P&L	• Pricing for Profit
• Getting more help	• Discussion, next steps

Please use the zoom chat box to make comments and ask questions, we can then answer and discuss at the end



First things first

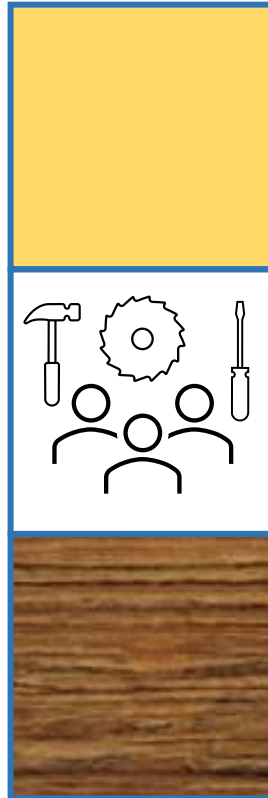
I'm going to start with a simple look at some fundamentals to get us on the same page.

Pricing elements

3. Gross Margin

2. Labour

1. Materials



Sell Price

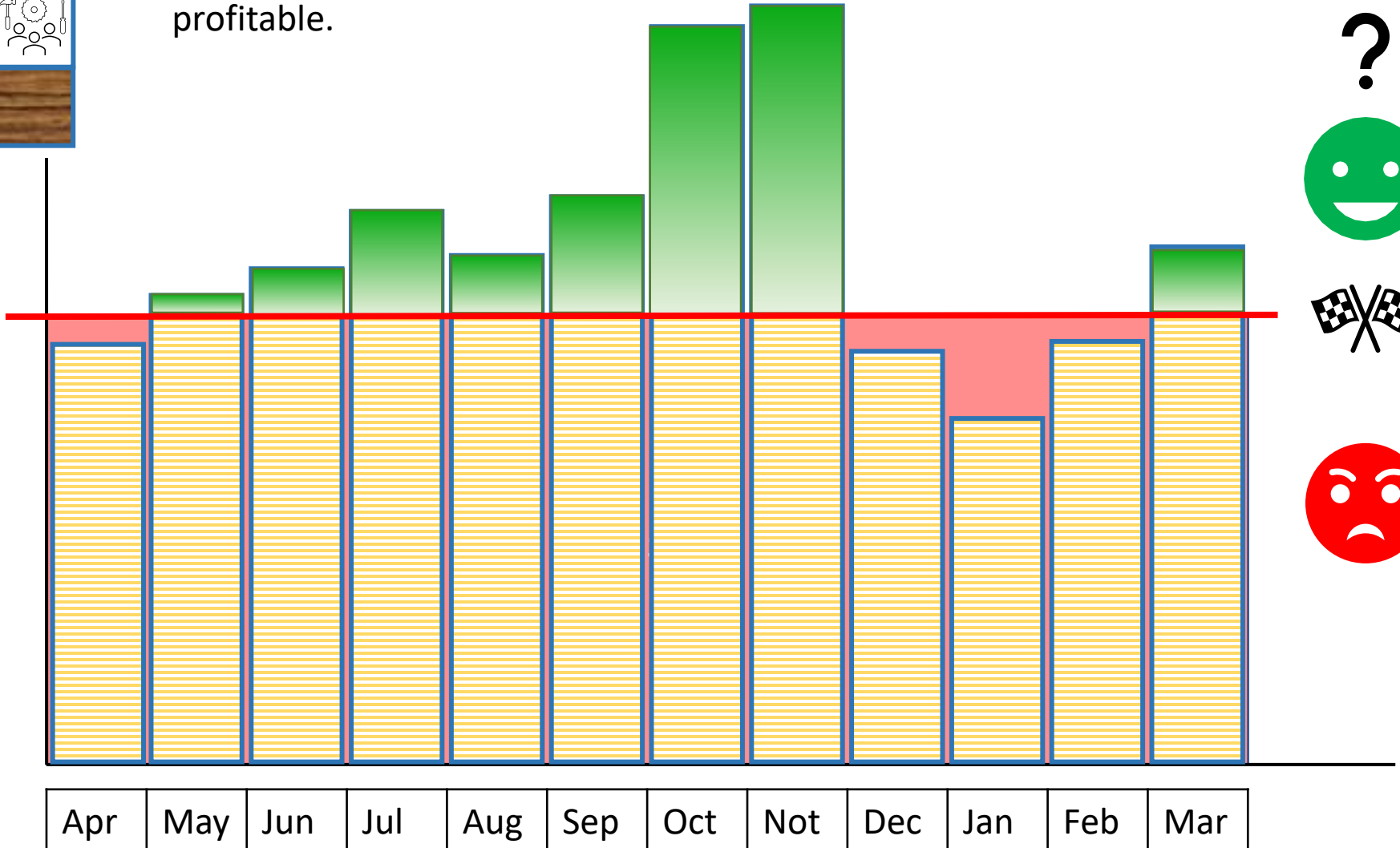
Job Cost



The Aim is to keep labour and material costs at, or below the estimate, to achieve the target gross margin

It's a Job by Job Game

It's only the Gross Margin on every job that contributes to a company's profit. The company must generate enough margin to cover all of its costs, before it is profitable.



?



Begin with the end in mind

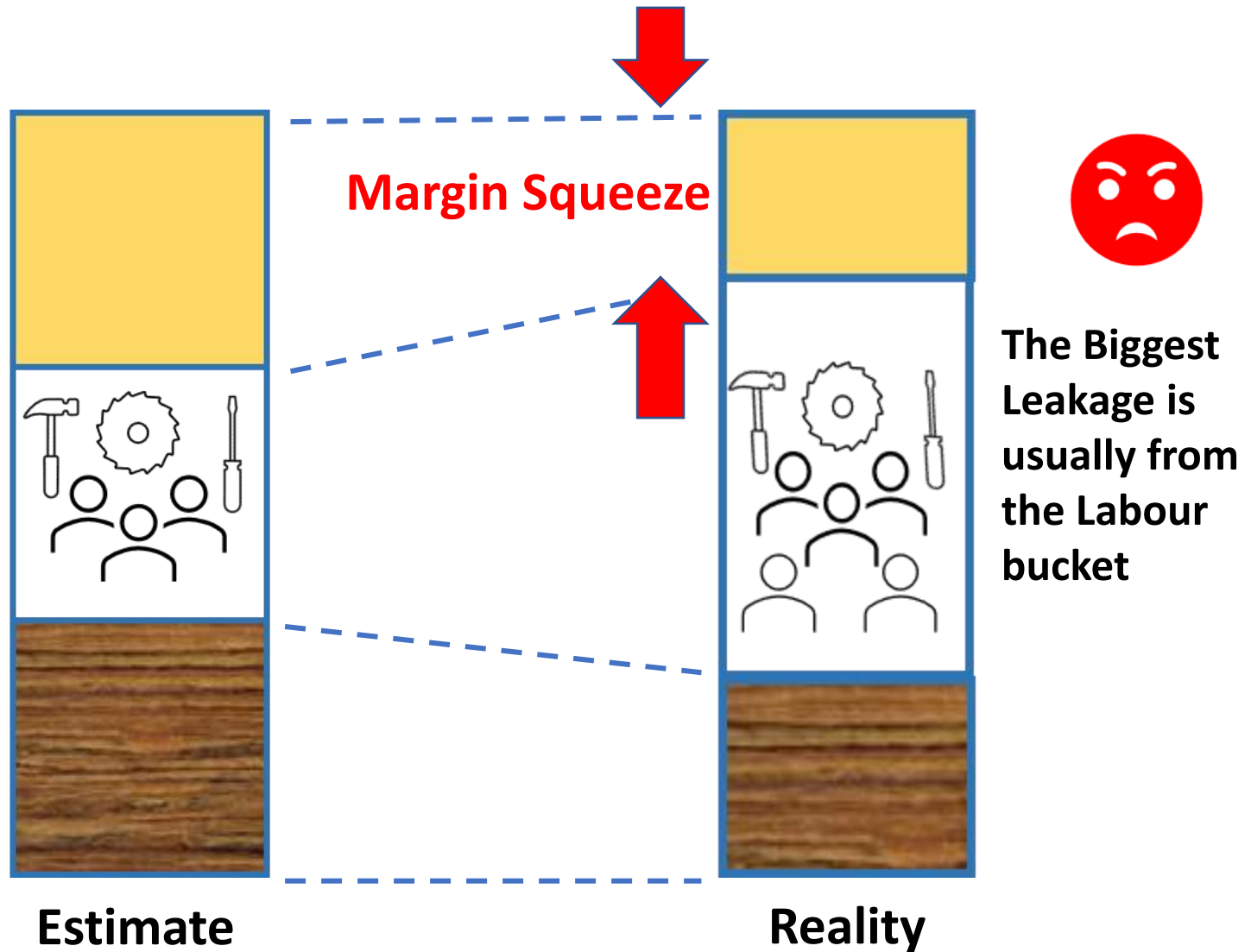
All things are created twice. There is a mental (first) creation, and a physical (second) creation. The physical creation follows the mental, just as a building follows a blueprint.

Stephen R Covey



Beware of assumptions

Increase your focus on Margin during the estimating process.



Traditional (all in) View

Company: ABC Joinery		Turnover	\$ 4,000,000
Costs (Materials & Labour, incl subcontractors)			
Materials		\$ 1,676,000	42%
Labour		\$ 896,000	22%
COG		\$ 2,572,000	
Gross Margin \$		\$ 1,428,000	
Gross Margin %			36%
Fixed Costs		\$ 910,160	23%
EBITDA (earnings before Interest, Tax, Depreciation, Amortisation		\$ 517,840	
% of Sales			13%

Establish the Margin Needed for the Company as a %

Not all things are equal

Company: ABC Joinery	Turnover	\$ 4,000,000
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Sales Mix		%	\$
		Revenue	Revenue
Category A		50%	\$ 2,000,000
Category B		30%	\$ 1,200,000
Category C		20%	\$ 800,000
		100%	\$ 4,000,000

Separating sales and costs into separate groups (product groups or customer types for example) provides a much better level of understanding, where margin is coming from and leads to better decision making.

For some businesses, some of the fixed costs can be allocated to different categories as well

Costs (Materials & Labour, incl subcontractors)			
	%	%	
	Direct Materials	Direct Labour (no o/head)	Gross Margin
Category A	42%	21%	37%
Category B	39%	25%	36%
Category C	46%	22%	32%
	\$	\$	
	Materials	Direct Labour	COG
Category A	\$ 840,000	\$ 420,000	\$ 1,260,000
Category B	\$ 468,000	\$ 300,000	\$ 768,000
Category C	\$ 368,000	\$ 176,000	\$ 544,000
	\$ 1,676,000	\$ 896,000	\$ 2,572,000
Avg % of Sale	42%	22%	64%

Gross Margin	Gross Margin	Gross Margin
Category A	37%	\$ 740,000
Category B	36%	\$ 432,000
Category C	32%	\$ 256,000
		\$ 1,428,000
Avg Gross Margin %		36%

Fixed Costs	
Rent, IT, Comms, ACC, Utilities, Advertising, Fees, etc	\$ 750,000
Admin / Sales Wages	\$ 160,160
	\$ 910,160
% of Sales	23%

EBITDA (earnings before Interest, Tax, Depreciation, Amortisation)	\$ 517,840
% of Sales	13%

Calculate the cost per chargeable hour – how many hours?

10

HOURS AVAILABLE (table below is for one person only)



Hours Paid (1 person example)

40 hours x 52 weeks = **2,080**

Less Non Work days

Days	Type	hours (8 hr day)
11.00	Public Holidays	88
20.00	Leave	160
5.00	Sick leave	40
2.00	Other leave	16
38.00	Total	304

Number of chargeable hours at 100% Productivity **1,776**

Less Downtime (examples only)

Maintenance, factory cleaning tasks	3%
H&S / toolbox meetings / training	2%
Re-work, errors & unaccounted time	2%
Other, leadership tasks, improvement projects	2%
Total	9%

160

Number of chargeable hours per person per year **1,616**

% of Chargeable Hours of Hours Paid **78%**

Calculate the cost per chargeable hour



PAYROLL INFO (assume for this example, all full time 40 hours per week)

Direct	qty	avg cost p/hr	Total Cost per year
Production / Detailing	2	\$ 33.00	\$ 137,280
Factory	9	\$ 27.50	\$ 514,800
Installation	2	\$ 32.00	\$ 133,120
Contract (installers)	1	\$ 48.00	\$ 99,840
	14		\$ 885,040
Indirect (in fixed costs)			
Admin	1	\$ 25.00	\$ 52,000
Sales	2	\$ 26.00	\$ 108,160
			\$ 160,160
Total Wages			\$ 1,045,200

Total Wages	\$ 1,045,200
Fixed Costs (excl wages)	\$ 750,000
Total	\$ 1,795,200
Available Hours Per Year (14 people X 1616 hours)	22,626
Cost per Chargeable hour	\$ 79.34

This is **COST**
Not charge out

So how much to charge, to get to the profit target?

so now we know this, how do we know what to charge out and how to make the \$500k?

- \$ **22.89** is the profit target divided by the number of chargeable hours available, so;
- \$ **102.23** is the average charge out rate required to make \$ **517,840** with no margin on materials.

however, most of you will be marking up materials by some factor and having a lower hourly rate than this

	Materials (incl subcontractors)				
	Material Cost	Mark up	Sell	Margin	Margin %
Category A	\$ 840,000	15%	\$ 966,000	\$ 126,000	13%
Category B	\$ 468,000	20%	\$ 561,600	\$ 93,600	17%
Category C	\$ 368,000	22%	\$ 448,960	\$ 80,960	18%
	\$ 1,676,000	18%	\$ 1,976,560	\$ 300,560	15%

Labour			
Cost		Charge	Total Margin
\$ 79.34		\$ 90.00	\$ 241,162

Grand Total	\$ 541,722
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*Note difference
between mark-up
and margin*

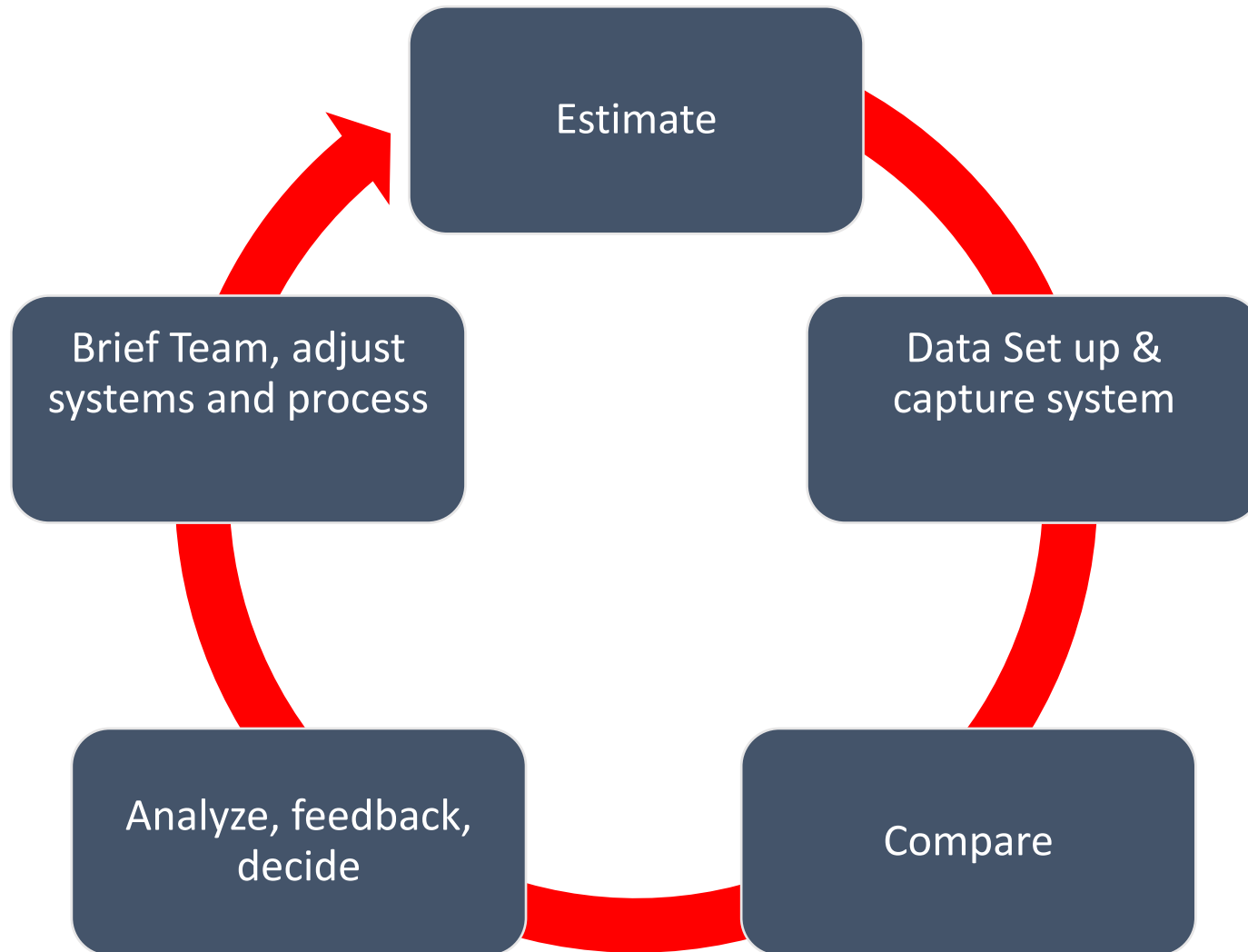
Set up the Estimate to make the Margin and Target Hours Visible Right From the Start

			Melamine	Standard Lacquer	Framed Lacquer	Veneer	Vinyl
PROJECT	COST		13,147.87	14,085.97	14,378.47	14,875.06	14,069.38
PROJECT	PRICE		19,509.68	20,853.63	21,406.13	22,051.69	20,659.80
PROJECT	MARGIN		6,361.81	6,767.65	7,027.65	7,176.63	6,590.42
PROJECT	MARGIN %		33%	32%	33%	33%	32%
Design/ Admin/ Project Management Hours			20.00	20.00	20.00	20.00	20.00
Factory Labour Hours			36.50	43.00	49.50	49.50	36.50
Installation Hours			30.00	30.00	30.00	30.00	30.00
Total Hours			86.50	93.00	99.50	99.50	86.50

[Example XL](#)

Apply an improvement cycle to your estimating process

14



Also refer Action Centred Leadership Model [here](#)

Key elements of a robust system – do this in a way that suits your business

1. Estimating

- Include a calculation for Gross Margin, know this for every quote the company does
- Capture Labour & Materials % of sales at quote, be mindful of how this compares to the numbers in your P&L Model.

2. Job & Task Time Monitoring

- Put a system in place to capture time spent on jobs, down to major task level if you can (processing, machining, assembly, installation. be sure to add a re-work task too.
- include "down time" tasks. Define what they are, they are only for tasks that do not directly relate to a customer order. i.e. machine maintenance, general workshop cleaning (like the big end clean ups, not cleaning up after a job, that time is in the job, long meetings, some H&S, some training.

3. After a job is invoiced complete a **back costing process** to compare the **actual vs estimate**.

- materials total and specifics on major items.
- total time spent vs estimate for each task.
- amount of re-work time.

Calculate the totals for each month and understand the root cause of the top 3-4 variances and put improvement plans in place.

4. **Monitor downtime** monthly, weekly if possible, by team, by individual. compare this against what your assumptions are. You maybe surprised the first time you measure this, if you have not already.

5. Monitor the **sales mix** between different customers and categories of work.

6. **Use good leadership**, coaching and learning to brief, support, monitor, review, learn and then "do-better"

In Summary

- Establish Margin Needed for Company as a %
- Markup Estimates Correctly and check Gross Margin %
- Estimate time and materials in job phases or tasks, ensure you brief the team doing the job on what the targets are.
- Set up an electronic system in the same way as the estimate
- Use Reports to Compare Actual vs Estimate
- Review, Learn, Adjust and Brief your team as Needed
- Understand your Profit and Loss by Job and For the Company
- Make a Profit!

*This Summary adapted from
Ken Kumph
Premier Builders, Inc*

Getting Help

Smetric's COVID-19 Cashflow Management and Business Support

The Government is providing full funding nationwide of \$5000 for advice to businesses which employ people, were financially sound preCovid-19, are negatively affected by the virus, and who anticipate continuing in a viable manner and hiring people post-Covid-19.

We have a team of very experienced advisors on our team ready to help (our team can be found here.) They have a mix of senior financial and operational experience and are accustomed to working with businesses under stress in order to get the best outcomes.

Smetric can provide fully funded advice for:

Financial review and cash flow forecasting

- Actions to stabilise cash flow during the lock down for 1 to 2 months
- Scenario planning for the business post lockdown and operations in place

Operational strategies impact on cash flow

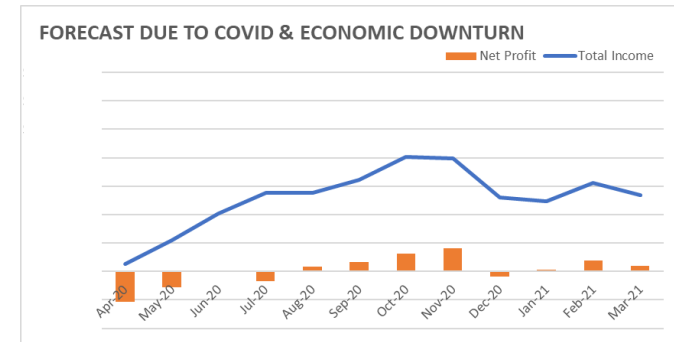
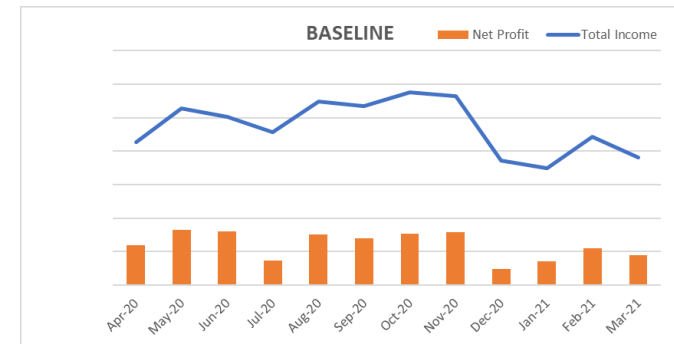
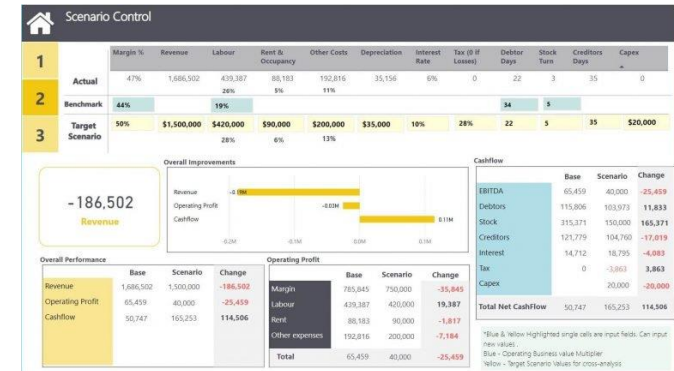
- Review of customer base to keep as many customers during lock down and post lockdown and exploring any quick win new opportunities and business pivots
- Review supply chain continuity risks and mitigation
- Review operational and capacity requirements post lock down

Outcomes

- Stabilise cash flow during and post lockdown
- Prioritise risks and quick wins
- Develop a 90-day plan to execute quickly and effectively

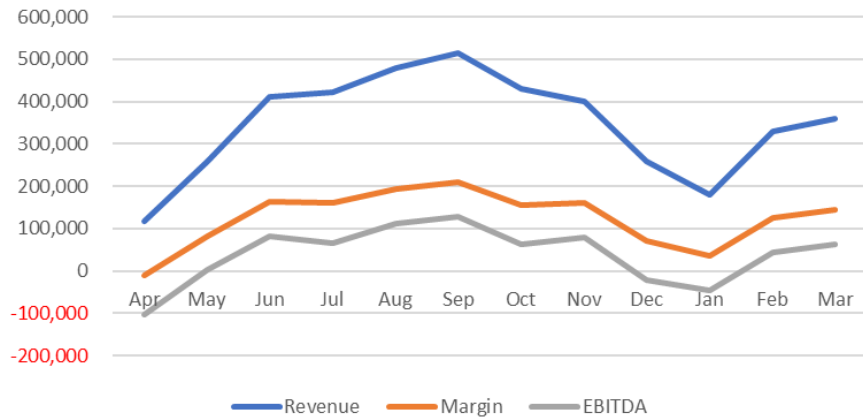
Get Fully Funded Business Support Now

<https://www.smetricinsights.com/covid-19-business-support/>

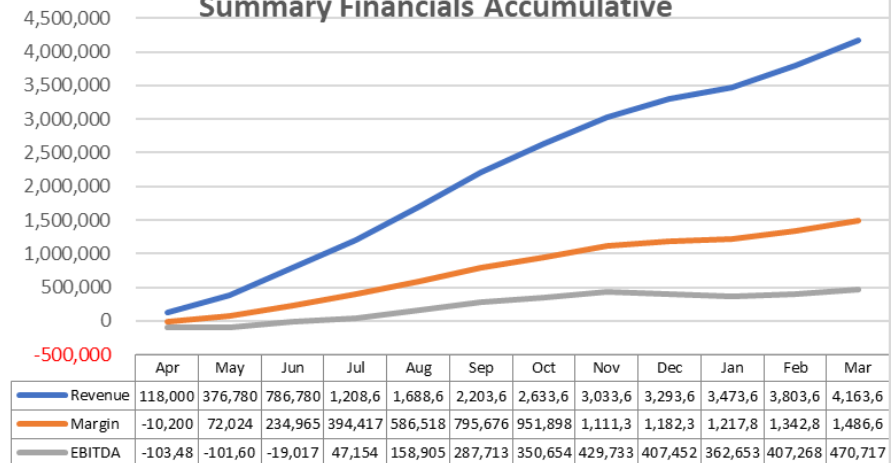


Track Progress and Adjust

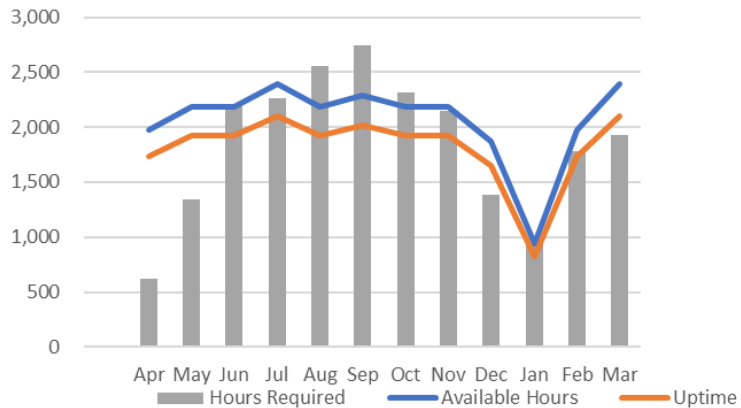
Summary Financials Monthly



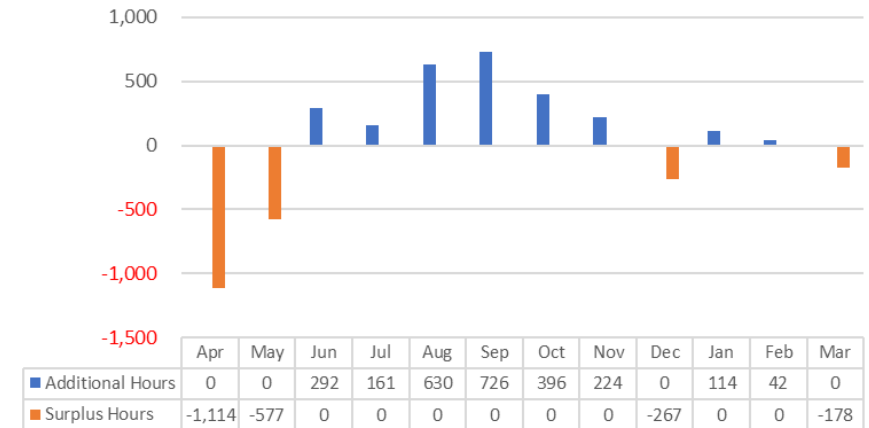
Summary Financials Accumulative



Capacity Planning



Additional and Surplus Hours



Thank you

If would like a complementary, no obligation follow up session, more information, or just to reach out for a chat, contact Ian.

A copy of this presentation will be made available to attendees.

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