MINDING YOUR BUSINESS

SURVEYING FOR PROFITS

By Wayne Newell, C.M.A.

The Continuing Education Committee of the AOLS hosted April seminars in London, Toronto, Ottawa and Sudbury for the express purpose of assisting its members to increase profits and improve cash flow. This article will highlight the key strategies discussed at each four-hour course.

Two components of profits, risk and return on investment would be mandated if I was your financial manager.

Risk: the return you get for securing your assets and investments to ensure the success of your business. You are entitled to earn some recognition for these risks and that comes in the form of profits. Consider that employees take few or no risks and therefore do not share in this profit component.

Return: the return you get for investing your assets in your business; these come in the form of start-up capital, shareholder loans and re-invested profits. When you invest assets in other businesses you expect a good rate of return – ensure you make a good return on your invested assets in your firm.

When bidding new work, owners are prone to let their entrepreneurial emotions dictate their bid prices. While I understand this rationale, I suggest that all identifiable costs be included in each estimate and then a "BUY" amount be determined to set the final price. With this identification the actual results of the job can be compared to the original estimated costs, a necessary tool to discover the reasons behind good and poor results on a job. Your price must include ALL costs of the job. Simply defined, they are costs that would not be incurred if you were not awarded the job.

One of the problems in any business is labour productivity. We certainly cannot arbitrarily reduce the size of our workforce by laying off employees but we can implement procedures and controls that increase productivity in 15-minute segments. Look for 15-minute time savers each day. The results will be significant. You have no doubt heard of Murphy's Law but have you heard of Parkinson's Law, "Work expands to fill the time available."

I particularly enjoy discussing negotiation techniques with the key strategy being to "flinch" when prices are offered to you even though they may meet your planned prices. Flinching very subtly sends the message that you wish to enter into negotiations. Remember, that by negotiating with a given offer, you can only improve your position.

The subject of contract extras must be raised with a **Pre-Engagement Understanding.** Prior to signing a new contract, a pre-job meeting should be held with the owner and professional surveyor. You should assure them that your firm will fully abide by the contractual agreement, but that it is an absolute necessity that all parties to the contract completely agree upon how changes and additions to the work will be handled. Gross profit is defined as revenue earned from a project less the direct costs incurred to complete that project. It is prior to any overhead expenses such as management salaries, professional fees, marketing, utilities, etc.

Determining your gross profit factor

Revenue	**3,000**	**4,000**	**5,000**
Cost of sales	**2,000**	**3,000**	**4,000**
Gross margin	**1,000**	**1,000**	**1,000**
%	**33%**	**25%**	**20%**
Factor	**3**	**4**	**5**

Consider that your company determines it needs to hire a clerical assistant for your office at an annual cost of $24,000. At a gross profit factor of 3, you must increase your annual revenues by $72,000 to maintain your current level of profits. You now have the opportunity to reinforce your decision with an additional factor – the need to increase revenue by $72,000. Will the addition of this assistant lead to the sales required to cover the additional cost?

Gross margin	Factor	New Expense	Revenue Increase Monthly	Revenue Increase Annually
33%	3	2,000	6,000	72,000
25%	4	2,000	8,000	96,000
20%	5	2,000	10,000	120,000
10%	10	2,000	20,000	240,000

I suggest you take the time to review your administration expenses from your last financial statement. Apply your GP factor to these expenses for a realization of what revenues are needed to cover these expenses. Such an exercise allows you to re-examine the need for all your expenses. When faced with the monthly or annual revenues necessary to pay these expenses, you may have good cause to review and perhaps reduce some of them.

Expense	Annual	Factor	Revenue Required	Factor	Revenue Required
Salaries	50,000	3	150,000	4	200,000
Phone	2,000	3	6,000	4	8,000
Office	2,000	3	6,000	4	8,000
Auto lease	6,000	3	18,000	4	24,000
Insurance	4,000	3	12,000	4	16,000
Interest	2,000	3	6,000	4	8,000
Prof. fees	2,000	3	6,000	4	8,000
Rent	9,000	3	27,000	4	36,000
Depreciation	2,000	3	6,000	4	8,000
	79,000		237,000		316,000

With three numbers you can develop your profit plan and revenue requirements for a year. Let's make a basic assumption - you could get a stress free, 40 hour a week job with a land surveying firm in your area with annual salary and perks around $70,000. However, for various reasons – independence, community standing, and desire to earn more – you are determined to own your own firm.

Forecasting profits and revenue

Annual overhead expenses	100,000	100,000
Profit goal	50,000	50,000
	150,000	150,000
Gross profit factor	3	4
Revenue required	**450,000**	**600,000**

When your annual overhead is $100,000 and your profit plan is to make $50,000 **AFTER** your salary, your annual revenue is quickly identified.

Discussions with many of the participants convinced me that your prices are too low – and most recognized that fact. Reluctance to charge a price that includes all costs plus a contribution to overhead costs plus a planned profit is mandatory to stay in business. If you charge only enough to make a reasonable salary your path is clear – get a job and eliminate your risk, your headaches and your sleepless nights.

I demonstrated that a 10% across the board increase in prices with a 40% decrease in revenue would leave you a bit better off. So why not raise prices, reduce your workload and maintain your same profits? Consider the bottom line increases if you don't lose 40% of your business – it will be significant. On every $100,000 you improve profitability by $10,000!

Are you willing to cut your prices to increase your volume and thus earn more profit? Charts showed an extraordinary case where you double your volume, reduce your price by 50% and actually lose money. Price cutting does not work.

Everyone learned the basic procedures required to develop a 4-week cash flow forecast, the potential problems that could be revealed and the decisions to be made to avert those problems.

The courses concluded with my thoughts on how I would manage your business.

…I would ensure the following key strategies were implemented and used in order to maintain and improve your profits: an aggressive revenue drive, timely billings, assertive account collections, determined negotiating skills, timely cost reports, cash flow forecasts, practical internal controls, and post-completion job reviews.

…I would look at your billable hours and billing rates to ensure that they were adequate to achieve your profit expectations.

…I would ensure that all billings were prepared and delivered in a timely manner - after I had reviewed each one to determine if all costs were included. When I reviewed the contracts for extras I would ask, "Is it free to me?" If not, it must be billed.

…I would ensure billings are monitored for timely payments and would aggressively pursue all accounts past their due dates. Emphasis would be placed on Unbilled Revenue.

…I would ensure that we negotiated all major material and equipment purchases for best price and delivery dates. Negotiating skills take time and practice but I am certain that job profits will improve by employing the Flinch, Refer to a Higher Authority, Split the Difference, Low Ball, Show no Emotion and Know Strengths and Weaknesses techniques.

…I would insist on employees recording their daily time by cost code and then prepare timely, effective cost reports that would guide me to corrective action prior to the job completion.

…I would forecast weekly cash flows for the next eight weeks and the following three months, since cash flows are critical to every business. These forecasts will serve as useful guides to cash shortfalls and surpluses.

…I would implement internal controls to safeguard your assets with the most notable being: signing all cheques after viewing supporting documentation, reviewing all billings, open and view all bank statements and review gross profits and cash flows on bids prior to their submission.

…I would conduct post-mortems on completed jobs to discover what went wrong, what caused the problems and how the company will avoid those issues during the next job. If a job went well, we would use this time to identify what went right and ways to recreate that experience on the next project.

…I would accept that my primary responsibility as your manager is to earn a profit. By following these strategies, I will meet that responsibility.

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