# Simple Numbers 2.0 The Profit Cube

by
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FOREWORD BY VERNE HARNISH, CEO. GAZELLES, INC. SIMPLE NUMBERS, STRAIGHT TALK. PROFITS! **GREG CRABTREE** 

WITH BEVERLY BLAIR HARZOG

#### Simple Numbers 2.0 – The Profit Cube

- Laying the Groundwork Quick Overview of Foundation Principles from Simple Numbers, Straight Talk, Big Profits!
- Profit Cube examples that show Profitability and Labor Efficiency
  - By Company
  - By Division
  - By Location
  - By Customer
  - By Employee



- Your data is lying! The way you deal with Owner's compensation is distorting your data
- Profit matters more than you think How to set the right profit targets for your business
- Labor Productivity drives your profit engine How to measure it and improve it
- 4 Forces of cash flow Get the priorities right to set your business on a solid foundation



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## Why Owner Salaries Matter

- You get
  - a salary for what you do and
  - a return on what you own
- Why Your Net Income is lying!
- Be a More Demanding Employee
- Be a More Demanding Shareholder
- Can distort profits from start up to over \$60 million in revenue

Rowe & Berger

# Breaking Even Isn't Good Enough Why 10% is the New Breakeven

Profitability Percentages (Pre-Tax):

5% - You're on Life Support

10% - When you're a good business

15% - When you're a great business

• Anything over 15%, take it while you can!

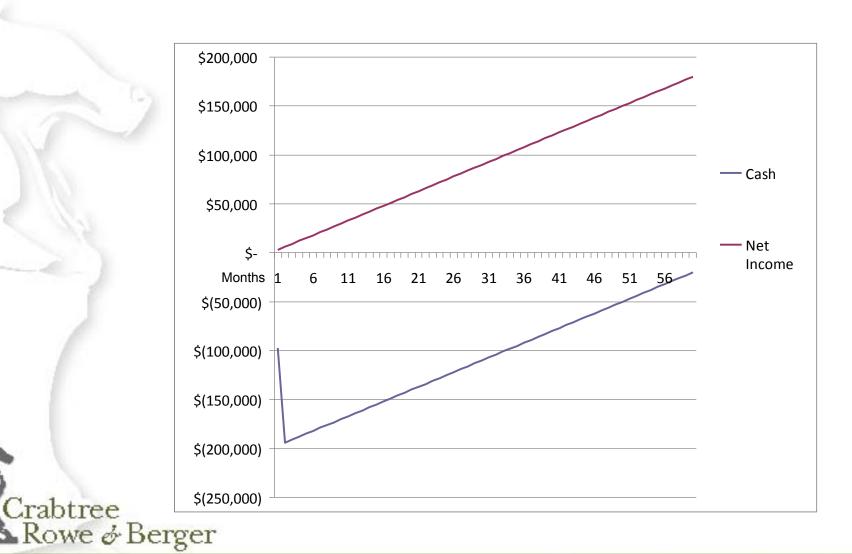
Rowe & Berger

### Cash Flow versus Profit

- Why profit matters more than you think!
  - Examples at 5%, 10% & 15%
  - Revenue at \$100,000 per month
  - Tax Rate 40%
  - Assume service-based business that bills at the end of the month and gets paid in an average of 45 days



## Cash Flow versus Profit 5%



## Cash Flow versus Profit 10%



## Cash Flow versus Profit 15%



## Cash Flow versus Profit Recap



# Profit Terms – Watch your language!

Weak

EBITDA - Earnings before: Interest, Taxes,
 Depreciation and Amortization – the most abused term in finance

**Best** 

• **Pre-tax profits** – easier to define and more traceable to true cash flow

Weak

• **Revenue** – This is the vanity number

Better

**Gross profit** – Revenue less direct costs (the true economic engine) – my definition excludes labor

Best

Crabtree

• Contribution margin – my definition is gross profit minus direct labor

Rowe & Berger

	Construction Company	Services Company
Revenue	\$20,000,000	\$3,750,000
Cost of Goods Sold: Materials Subcontractors	5,000,000 12,150,000	900,000
Total Cost of Goods Sold	<u>17,150,000</u>	900,000
Gross Profit	2,850,000	2,850,000
Direct Labor  Direct LER (GP/DL)  Contribution Margin	1,000,000 2.85 1,850,000	1,000,000 2.85 1,850,000
Operating expenses: Facilities Marketing Salaries (management and admin) Payroll taxes and benefits Other operating expenses	150,000 75,000 750,000 100,000 150,000	150,000 75,000 750,000 100,000 150,000
Total operating expenses  Management LER (CM/Mgmt Labor)	<u>1,225,000</u> <u>2.46</u>	1,225,000 2.46
Net operating Income Overall LER	625,000 1.63	625,000 1.63
Other expenses: Depreciation Interest Expense	75,000 <u>25,000</u>	75,000 25,000
Total other expenses	100,000	100,000
<b>Pre-tax Net Income</b> as a % of Revenue as a % of Gross Profit	\$525,000 2.63% 18.42%	\$525,000 14.00% 18.42%

		Construction Company	Services Company
	Revenue	\$20,000,000	\$3,750,000
	Cost of Goods Sold: Materials Subcontractors	5,000,000 _12,150,000	- <u>900,000</u>
Business engine	Total Cost of Goods Sold	<u>17,150,000</u>	900,000
	Gross Profit	2,850,000	2,850,000
	Direct Labor  Direct LER (GP/DL)	<u>1,000,000</u> 2.85	<u>1,000,000</u> 2.85
	Contribution Margin	1,850,000	1,850,000
	Operating expenses: Facilities Marketing Salaries (management and admin) Payroll taxes and benefits Other operating expenses	150,000 75,000 750,000 100,000 <u>150,000</u>	150,000 75,000 750,000 100,000 <u>150,000</u>
Business chassis	Total operating expenses  Management LER (CM/Mgmt Labor)	1,225,000 2.46	<u>1,225,000</u> <u>2.46</u>
	Net operating Income Overall LER Other expenses:	<u>625,000</u> <u>1.63</u>	<u>625,000</u> <u>1.63</u>
	Depreciation Interest Expense	75,000 <u>25,000</u>	75,000 <u>25,000</u>
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	Gross Profit	2,850,000	2,850,000	
	Direct Labor	1,000,000	1,000,000	
	Direct LER (GP/DL)  Contribution Margin	2.85 <u>1,850,000</u>	2.85 <u>1,850,000</u>	
Business chassis	Operating expenses:     Facilities     Marketing     Salaries (management and admin)     Payroll taxes and benefits     Other operating expenses  Total operating expenses     Management LER (CM/Mgmt Labor)	150,000 75,000 750,000 100,000 <u>150,000</u> 1,225,000 2.46	150,000 75,000 750,000 100,000 <u>150,000</u> 1,225,000 2.46	
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	Direct Labor	1,000,000	1,000,000	
	Direct LER (GP/DL)	2.85	2.85	
	Contribution Margin	1,850,000	1,850,000	
	Operating expenses:			
	Facilities	150,000	150,000	
	Marketing	75,000	75,000	
	Salaries (management and admin)	750,000	750,000	
	Payroll taxes and benefits	100,000	100,000	
	Other operating expenses	<u>150,000</u>	<u>150,000</u>	
Business chassis	Total operating expenses	1,225,000	<u>1,225,000</u>	
	Management LER (CM/Mgmt Labor)	<u>2.46</u>	<u>2.46</u>	
	Net operating Income	625,000	625,000	
	Overall LER	1.63	1.63	
	Other expenses:			
	Depreciation	75,000	75,000	
	Interest Expense	<u>25,000</u>	25,000	
	Total other expenses	100,000	100,000	
	Pre-tax Net Income	\$525,000	<u>\$525,000</u>	
	as a % of Revenue	2.63%	14.00%	
	as a % of Gross Profit	18.42%	18.42%	

# Labor Efficiency Ratio (LER) By Company

- Company-wide example of an underperforming business
- Watch for LER movement across time



### The Road to 15% Pre-Tax Profit

- Know your current labor model
- Hold labor dollars constant while driving to profitability
- Holding labor dollars constant does not mean you can't change staff
- Use the "baffle" concept to grow to 15% in profit before you add more labor

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	Original
Revenue	450,000.00
Direct Costs excluding labor	130,000.00
Gross Profit	320,000.00 <i>71.1%</i>
Direct Labor	90,000.00
Contribution Margin	230,000.00
Management/Admin Labor	75,000.00
Sales Labor	35,000.00
Other Operating Costs	100,000.00
Pre-tax Profit	20,000.00
Pre-tax Profit as % of Revenue	4.44%
CM as % of Revenue	51.11%
Other Operating Costs as % of Rev	22.22%
Labor Effciency:	
Direct Labor (GP/DL)	\$3.56
Sales Labor (CM/SL)	\$6.57
Management Labor (CM/ML)	\$3.07

	Original	Step #1 10%
Revenue	450,000.00	492,195.19
Direct Costs excluding labor	130,000.00	142,195.19
Gross Profit	320,000.00 <i>71.1%</i>	350,000.00 <i>71.1%</i>
Direct Labor	90,000.00	90,000.00
Contribution Margin	230,000.00	260,000.00
Management/Admin Labor	75,000.00	75,000.00
Sales Labor	35,000.00	35,000.00
Other Operating Costs	100,000.00	100,000.00
Pre-tax Profit	20,000.00	50,000.00
Pre-tax Profit as % of Revenue	4.44%	10.16%
CM as % of Revenue	51.11%	52.82%
Other Operating Costs as % of Rev	22.22%	20.32%
Labor Effciency: Direct Labor (GP/DL) Sales Labor (CM/SL)	\$3.56 \$6.57	\$3.89 \$7.43
Management Labor (CM/ML)	\$3.07	\$3.47

	Original	Step #1 10%	Step #2 15%
Revenue	450,000.00	492,195.19	534,383.35
Direct Costs excluding labor	130,000.00	142,195.19	154,383.35
Gross Profit	320,000.00 <i>71.1%</i>	350,000.00 <i>71.1%</i>	380,000.00 <i>71.1%</i>
Direct Labor	90,000.00	90,000.00	90,000.00
Contribution Margin	230,000.00	260,000.00	290,000.00
Management/Admin Labor	75,000.00	75,000.00	75,000.00
Sales Labor	35,000.00	35,000.00	35,000.00
Other Operating Costs	100,000.00	100,000.00	100,000.00
Pre-tax Profit	20,000.00	<u>50,000.00</u>	80,000.00
Pre-tax Profit as % of Revenue	4.44%	10.16%	14.97%
CM as % of Revenue	51.11%	52.82%	54.27%
Other Operating Costs as % of Rev	22.22%	20.32%	18.71%
Labor Effciency:	+2.54	+2.00	+4.00
Direct Labor (GP/DL)	\$3.56	\$3.89	\$4.22
Sales Labor (CM/SL)	\$6.57	\$7.43	\$8.29
Management Labor (CM/ML)	\$3.07	\$3.47	\$3.87

	Original	Step #1 10%	Step #2 15%	Step #3 back to 10%
Revenue	450,000.00	492,195.19	534,383.35	534,383.35
Direct Costs excluding labor	130,000.00	142,195.19	154,383.35	154,383.35
Gross Profit	320,000.00 <i>71.1%</i>	350,000.00 <i>71.1%</i>	380,000.00 <i>71.1%</i>	380,000.00 <i>71.1%</i>
Direct Labor	90,000.00	90,000.00	90,000.00	98,333.33
Contribution Margin	230,000.00	260,000.00	290,000.00	281,666.67
Management/Admin Labor	75,000.00	75,000.00	75,000.00	83,333.33
Sales Labor	35,000.00	35,000.00	35,000.00	43,333.33
Other Operating Costs	100,000.00	100,000.00	100,000.00	101,666.67
Pre-tax Profit	20,000.00	50,000.00	80,000.00	53,333.33
Pre-tax Profit as % of Revenue	4.44%	10.16%	14.97%	9.98%
CM as % of Revenue	51.11%	52.82%	54.27%	52.71%
Other Operating Costs as % of Rev	22.22%	20.32%	18.71%	19.03%
Labor Effciency:				
Direct Labor (GP/DL)	\$3.56	\$3.89	\$4.22	<b>\$3.86</b>
Sales Labor (CM/SL)	\$6.57	\$7.43	\$8.29	\$6.50
Management Labor (CM/ML)	\$3.07	\$3.47	\$3.87	\$3.38

	Original	Step #1 10%	Step #2 15%	Step #3 back to 10%	Step #4 back to 15%
Revenue	450,000.00	492,195.19	534,383.35	534,383.35	587,821.68
Direct Costs excluding labor	130,000.00	142,195.19	154,383.35	154,383.35	169,821.68
Gross Profit	320,000.00 <i>71.1%</i>	350,000.00 <i>71.1%</i>	380,000.00 <i>71.1%</i>	380,000.00 <i>71.1%</i>	418,000.00 <i>71.1%</i>
Direct Labor	90,000.00	90,000.00	90,000.00		98,333.33
Contribution Margin	230,000.00	260,000.00	290,000.00	281,666.67	319,666.67
Management/Admin Labor Sales Labor	75,000.00 35,000.00	75,000.00 35,000.00	75,000.00 35,000.00	•	83,333.33 43,333.33
Other Operating Costs	100,000.00	100,000.00	100,000.00	101,666.67	105,000.00
Pre-tax Profit	20,000.00	50,000.00	80,000.00	53,333.33	<u>88,000.00</u>
Pre-tax Profit as % of Revenue CM as % of Revenue	4.44% 51.11%	10.16% 52.82%	14.97% 54.27%	9.98% 52.71%	14.97% 54.38%
Other Operating Costs as % of Rev	22.22%	20.32%	18.71%	19.03%	17.86%
Labor Effciency:		_			
Direct Labor (GP/DL) Sales Labor (CM/SL) Management Labor (CM/ML)	\$3.56 \$6.57 \$3.07	\$3.89 \$7.43 \$3.47	\$4.22 \$8.29 \$3.87	\$6.50	\$4.25 <b>\$7.38</b> \$3.84

#### Thinking model

Tilliking model	Actual	Change	Target
Revenue	6,234,494.04	1,122,567.98	7,357,062.02
Non Labor Direct costs	815,714.64		962,590.25
Gross Profit	5,418,779.40		6,394,471.77
as % to Sales	86.92%		86.92%
Direct Labor	1,980,924.25	356,863.52	2,337,787.77
Contribution Margin	3,437,855.15		4,056,684.00
as % to Sales	55.14%		55.14%
Direct LER	2.74		2.74
Operating Expenses:			
Facilities	370,655.12		370,655.12
Marketing	199,181.28		235,045.38
Management Labor	1,104,400.00	200,000.00	1,304,400.00
Payroll taxes & benefits	230,607.08		272,368.59
Other operating expenses	819,406.72		966,947.12
Total Operating Expenses	2,724,250.20		3,149,416.22
as % to Sales	43.70%		42.81%
Management LER	3.11		3.11
Net Operating Income	713,604.95		907,267.78
as % to Sales			12.33%
Marketing as % of Revenue	3.19%		3.19%
PR Taxes & Benefits as % of All Labor	20.88%		20.88%
Other Operating Expenses as % of Revenue	13.14%		13.14%

## Adding \$200k Labor Recap

### Adding \$200,000 of Management Labor

- Requires \$1.1M increase in revenue!
  - Assumes you maintain Direct LER
  - Assumes you maintain Management LER
- To produce less forces you to pay for wage increase out of YOUR PROFITS!

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## 4 Forces of Cash Flow

### Prioritized In Order:

- Taxes
- Repay debt
- Build Working Capital (Core Capital Target)
- Dividends (Distributions)



# Labor Efficiency Ratio by Division

- Landscaping Business with 4
   Divisions
- Drill Down on Turf Division



		TOT	AL	Irriga	tion	Lands	саре	Sno	w	Tur	f
Revenue		10,61	15,483.28	3,09	5,230.08	2,58	9,640.76	1,79	2,433.28	3,138	3,179.16
COGS		3,10	07,190.44	80	9,436.08	78	8,253.16	69	0,436.44	819	9,064.76
Gross Profit		7,50	08,292.84	2,28	5,794.00	1,80	1,387.60	1,10	1,996.84	2,31	9,114.40
	GP%		70.73%		73.85%		69.56%		61.48%		73.90%
Direct Labor		1,87	71,249.08	56	4,850.36	41	6,542.28	28	5,192.56	604	4,663.88
Contribution Margin		5,63	37,043.76	1,72	0,943.64	1,38	4,845.32	81	6,804.28	1,714	4,450.52
	Direct LER	\$	4.01	\$	4.05	\$	4.32	\$	3.86	\$	3.84
Management Labor		72	24,663.56	16	3,196.80	20	0,336.36	15	8,262.40	202	2,868.00
	Mgmt LER	\$	7.78	\$	10.55	\$	6.91	\$	5.16	\$	8.45
Net Division income		4,91	12,380.20	1,55	7,746.84	1,18	4,508.96	65	8,541.88	1,51 <sup>-</sup>	1,582.52
As %	6 of Revenue		46.28%		50.33%		45.74%		36.74%		48.17%
	As % of GP		65.43%		68.15%		65.76%		59.76%		65.18%
Corporate Labor		75	50,000.00								
Other Opex		3,11	10,336.44								
Net income	_	1,05	52,043.76								
As %	6 of Revenue		9.91%								
	As % of GP		14.01%								
Corporate LER		\$	6.55								

		TOTA	۱L	Irrigation		Landscape		Snow		Tur	rf	
Revenue		10,61	5,483.28	3,09	5,230.08	2,589,640.76		1,792,433.28		3,138,179.16		
COGS		3,107,190.44		809,436.08		788,253.16		690,436.44		81	9,064.76	
Gross Profit		7,508,292.84 <b>70.73%</b>				1,801,387.60 <b>69.56%</b>		1,101,996.84 <b>61.48%</b>		2,319,114.40 <b>73.90</b> %		
	GP%											
Direct Labor		1,871,24		564,850.36		416,542.28		285,192.56		604,663.88		
Contribution Margin		5,637,043.76		1,720,943.64		1,384,845.32		816,804.28		1,714,450.52		
	Direct LER	\$	4.01	\$	4.05	\$	4.32	\$	3.86	\$	3.84	
Management Labor		72	4,663.56	16	3,196.80	200	0,336.36	15	8,262.40	20:	2,868.00	
	Mgmt LER	\$	7.78	\$	10.55	\$	6.91	\$	5.16	\$	8.45	
Net Division income		4,912,380.20		1,557,746.84		1,184,508.96		658,541.88		1,511,582.52		
As % of Revenue		46.28%		50.33%		45.74%		36.74%		48.17%		
As % of GP			65.43%		68.15%		65.76%		59.76%		65.18%	

 Corporate Labor
 750,000.00

 Other Opex
 3,110,336.44

Net income <u>1,052,043.76</u> **As % of Revenue 9.91%** 

As % of GP 14.01%

Corporate LER \$ 6.55

	TOTAL	lr lr	rrigation	Lands	Landscape		Snow			
Revenue	10,615,48	3.28	3,095,230.08	2,58	2,589,640.76		1,792,433.28		3,179.16	
COGS	3,107,19	0.44	809,436.08	78	788,253.16		690,436.44		819,064.76	
Gross Profit	7,508,29	2.84	2,285,794.00	1,80	1,387.60	1,101,996.84		2,319	9,114.40	
GP%	70.	73%	73.85%		69.56%		61.48%		73.90%	
Direct Labor	1,871,24	9.08	564,850.36	41	416,542.28		285,192.56		604,663.88	
Contribution Margin	5,637,04		1,720,943.64		1,384,845.32		816,804.28		1,714,450.52	
Direct LER	\$	4.01	\$      4.05	\$	4.32	\$	3.86	\$	3.84	
Management Labor	724,66		163,196.80		200,336.36		158,262.40		202,868.00	
Mgmt LER	\$	7.78	\$ 10.55	\$	6.91	\$	5.16	\$	8.45	
Net Division income	4,912,38	30.20	1,557,746.84	1,18	34,508.96	658	8,541.88	1,511	,582.52	
As % of Revenue	46.	28%	50.33%		45.74%		36.74%	48.17%		
As % of GF	65.	43%	68.15%		65.76%		59.76%		65.18%	
Corporate Labor	750,00	00.00								
Other Opex	3,110,33	<u> 6.44</u>								
Net income	1,052,04	3.76								
As % of Revenue	9.	91%								
As % of GF	14.	01%								
Corporate LER	\$	6.55								

	TOTAL		Irrigation		Landscape		Snow		Turf	
Revenue	10,61	5,483.28	3,095,230.08		2,589,640.76		1,792,433.28		3,138	,179.16
COGS	3,10	7,190.44	809,436.08		788,253.16		690,436.44		819,064.76	
Gross Profit	7,50	8,292.84	2,285,794.00		1,801,387.60		1,101,996.84		2,319,114.40	
GP%	70.73%		73.85%		69.56%		61.48%		73.90%	
Direct Labor	1,87	1,249.08	564,850.36		416,542.28		285,192.56		604,663.88	
Contribution Margin	5,63	37,043.76	1,720,943.64		1,384,845.32		816,804.28		1,714,450.52	
Direct LER	\$	4.01	\$	4.05	\$	4.32	\$	3.86	\$	3.84
Management Labor	724,663.56		163,196.80		200,336.36		158,262.40		202,868.00	
Mgmt LER	\$	7.78	\$	10.55	\$	6.91	\$	5.16	\$	8.45
Net Division income	4,91	2,380.20	1,55	7,746.84	1,184	1,508.96	658,541.88		1,511	,582.52
As % of Revenue		46.28%	50.33%		45.74%		36.74%			48.17%
As % of GP		65.43%	68.15%		65.76%		59.76%		65.18%	
Corporate Labor	750,000.00									
Other Opex	3,11	0,336.44								
Net income	1,052,043.76									
As % of Revenue	evenue 9.91%									
As % of GP	14.01%									
Corporate LER	\$	6.55								

		TOTAL		Irrigation		cape	Snow		Tur		
Revenue	10,6	615,483.28	3,095,230.08		2,589,640.76		1,792,433.28		3,13	8,179.16	
COGS	3,	107,190.44	809,436.08		788,253.16		690,436.44		819,064.7		
Gross Profit	7,	508,292.84	2,28	2,285,794.00		1,801,387.60		1,101,996.84		9,114.40	
GP?	6	70.73%		73.85%		69.56%		61.48%		73.90%	
Direct Lohor	4.0	074 040 00	F.C	504.050.00		440 540 00		F 100 FC	604 662 06		
Direct Labor	1,0	871,249.08	30	564,850.36		416,542.28		5,192.56	604,663.88		
Contribution Margin	5,6	637,043.76	1,72	1,720,943.64		1,384,845.32		816,804.28		1,714,450.52	
Direct LE		4.01	\$	4.05	\$	4.32	\$	3.86	\$	3.84	
	ŕ		ŕ		r		·		ŕ		
Management Labor	-	724,663.56		163,196.80		200,336.36		158,262.40		202,868.00	
Mgmt LEI	₹ \$	7.78	\$	10.55	\$	6.91	\$	5.16	\$	8.45	
_											
Net Division income	4,9	912,380.20	1,55	7,746.84	1,184	4,508.96	658,541.88		1,51	1,582.52	
As % of Revenu	e	46.28%		50.33%		45.74%	36.74%		48.17%		
As % of G	Þ	65.43%	68.15%		65.76%		59.76%		65.18%		
Corporate Labor	-	750,000.00									
Other Opex	3,	110,336.44									
Net income	1,0	1,052,043.76									
As % of Revenu	е	9.91%									
As % of G	D	14.01%									
Corporate LER \$		6.55									
•											

	ТОТ	AL	Irriga	tion	Landso	ape	Sno	w	Tur	<u> </u>
Revenue	10,6	15,483.28	3,09	5,230.08	2,589	9,640.76	1,79	2,433.28	3,138	3,179.16
COGS	3,10	07,190.44	80	9,436.08	788	3,253.16	69	0,436.44	819	9,064.76
Gross Profit	7,50	08,292.84	2,28	5,794.00	1,801	1,387.60	1,10	1,996.84	2,319	9,114.40
GP%		70.73%		73.85%		69.56%		61.48%		73.90%
Direct Labor	1,87	71,249.08	56	4,850.36	416	5,542.28	28	5,192.56	604	1,663.88
Contribution Margin	5,63	37,043.76	1,72	0,943.64	1,384	1,845.32	81	6,804.28	1,714	1,450.52
Direct LER	\$	4.01	\$	4.05	\$	4.32	\$	3.86	\$	3.84
Management Labor	72	24,663.56		3,196.80		0,336.36		8,262.40		2,868.00
Mgmt LER	\$	7.78	\$	10.55	\$	6.91	\$	5.16	\$	8.45
Net Division income		12,380.20	1,55	7,746.84	1,184	1,508.96	65	8,541.88	1,511	1,582.52
As % of Revenue		46.28%		50.33%		45.74%		36.74%		48.17%
As % of GF		65.43%		68.15%		65.76%		59.76%		65.18%
Corporate Labor		50,000.00								
Other Opex	3,1	10,336.44								
Net income		52,043.76								
As % of Revenue		9.91%								
As % of GF		14.01%								
Corporate LER	\$	6.55								

		TOTA	\L	Irriga	tion	Landsca	ре	Sno	ow	Turf	f
Revenue		10,61	5,483.28	3,09	5,230.08	2,589,	640.76	1,79	<mark>2,433.28</mark>	3,138	3,179.16
COGS	_	3,10	7,190.44	80	9,436.08	788,	253.16	69	00,436.44	819	9,064.76
Gross Profit		7,50	8,292.84	2,28	5,794.00	1,801,	387.60	1,10	0 <mark>1,996.84</mark>	2,319	9,114.40
	GP%		70.73%		73.85%	(	69.56%		61.48%		73.90%
Direct Labor		1,87	1,249.08	56	4,850.36	416,	542.28	28	35,192.56	604	I,663.88
Contribution Margin		5,63	7,043.76	1,72	0,943.64_	1,384,	845.32	81	6,804.28	1,714	1,450.52
	Direct LER	\$	4.01	\$	4.05	\$	4.32	\$	3.86	\$	3.84
Management Labor		72	4,663.56	16	3,196.80	200,	336.36	15	8,262.40	202	2,868.00
	Mgmt LER	\$	7.78	\$	10.55	\$	6.91	\$	<u>5.16</u>	\$	8.45
Net Division income		4,91	2,380.20	1,55	7,746.84	1,184,	508.96	65	<mark>8,541.88</mark>	1,511	,582.52
As	s % of Revenue		46.28%		50.33%	4	15.74%		36.74%		48.17%
	As % of GP		65.43%		68.15%	(	65.76%		<b>59.76%</b>		65.18%
Corporate Labor		75	0,000.00			Best					
Other Opex		3,11	0,336.44			Worst					
Net income		1,05	2,043.76								
As	s % of Revenue		9.91%								
	As % of GP		14.01%								

#### **Turf Division**

	_	2011	2012	_ Diff
Revenue		3,326,469.91	3,138,179.16	(188,290.75)
COGS	-	877,982.16		_
Gross Profit		2,448,487.75		
	GP%	•		
Direct Labor	-	755,829.85		_
Contribution Margin		1,692,657.90		
	Direct LER	\$ 3.24		
Management Labor		213,011.40		_
	Mgmt LER	\$ 7.95		
Net Division income	_	1,479,646.50		_
As %	of Revenue	44.48%		_
	As % of GP	60.43%		

What happens when you cut to grow?

#### **Turf Division**

	_	2011	2012	Diff
Revenue		3,326,469.91	3,138,179.16	(188,290.75)
COGS	_	877,982.16	819,064.76	_
Gross Profit		2,448,487.75	2,319,114.40	(129,373.35)
	GP%	73.61%	% 73.90%	
Direct Labor	_	755,829.85	604,663.88	_ (151,165.97)
Contribution Margin		1,692,657.90	1,714,450.52	21,792.62
	Direct LER	\$ 3.24	\$ 3.84	
Management Labor	_	213,011.40	202,868.00	(10,143.40)
	Mgmt LER	<b>\$</b> 7.95	\$ 8.45	
Net Division income	_	1,479,646.50	1,511,582.52	31,936.02
As %	of Revenue	44.48%	6 48.17%	, )
	As % of GP	60.43%	65.18%	

Great example of when a decline can be an increase!

# Labor Efficiency Ratio by Location

- Multi-location Business
- Largest versus smallest
- Likely pattern for growth
- Company-wide what-if model



2012	Total Company	Location 1	Location 2	Location 3	Location 4	Corporate
Revenue	10,353,683.14	5,421,643.61	2,046,839.24	563,565.11	2,321,635.18	-
Non labor cost of sales	2,760,638.81	1,487,360.34	457,298.92	64,394.25	751,585.30	
Gross Profit	7,593,044.33	3,934,283.28	1,589,540.31	499,170.86	1,570,049.88	_
as % to Sale.	73.34%	72.57%	77.66%	88.57%	67.63%	
Direct Labor	3,506,405.74	1,914,299.93	629,067.51	188,096.10	774,942.19	
Contribution Margin (CM)	4,086,638.60	2,019,983.35	960,472.80	311,074.76	795,107.69	_
as % to Sale.		37.26%	46.92%	55.20%	34.25%	
Direct LEF	2.17	2.06	2.53	2.65	2.03	
Corporate Expenses:						
Management Labor	1,369,976.41	435,352.00	260,978.00	90,012.00	155,789.00	427,845.41
Payroll taxes & benefits	1,047,581.08	414,040.96	234,194.81	77,191.73	240,762.41	81,391.18
Other operating expenses	865,267.08	342,383.78	147,346.10	33,952.29	142,323.60	199,261.31
Total Operating Expenses	3,282,824.57	1,191,776.74	642,518.90	201,156.02	538,875.01	708,497.89
as % to Sale	31.71%	21.98%	31.39%	35.69%	23.21%	
Management LER to CN	1 2.98	4.64	3.68	3.46	5.10	-
Net Operating Income	803,814.03	828,206.61	317,953.90	109,918.74	256,232.68	(708,497.89)
as % to Sales		15.28%	15.53%	19.50%	11.04%	
as % to GR	10.59%	21.05%	20.00%	22.02%	16.32%	
Other Income (Expense):						
Interest expense	(139,854.66)	(74,597.62)	(3,367.63)	(20,169.05)	(11,458.28)	(30,262.07)
Depreciation	(320,237.01)	(215,058.31)	(17,158.71)	(20,477.47)	(57,090.62)	(10,451.89)
Other income	892.51	-		-	-	892.51
Total Other Income (Expense)	(459,199.16)	(289,655.94)	(20,526.34)	(40,646.52)	(68,548.91)	(39,821.46)
Net Income	344,614.87	538,550.67	297,427.56	69,272.22	187,683.77	(748,319.35)
as % to Sale.	3.33%	9.93%	14.53%	12.29%	8.08%	

2012	Total Company	Location 1	Location 2	Location 3	Location 4	Corporate
Revenue	10,353,683.14	5,421,643.61	2,046,839.24	563,565.11	2,321,635.18	-
Non labor cost of sales	2,760,638.81	1,487,360.34	457,298.92	64,394.25	751,585.30	_
Gross Profit	7,593,044.33	3,934,283.28	1,589,540.31	499,170.86	1,570,049.88	
as % to Sale	s 73.34%	72.57%	77.66%	88.57%	67.63%	
Direct Labor	3,506,405.74	1,914,299.93	629,067.51	188,096.10	774,942.19	_
Contribution Margin (CM)	4,086,638.60	2,019,983.35	960,472.80	311,074.76	795,107.69	_
as % to Sale Direct LE		37.26% 2.06	46.92% 2.53	55.20% 2.65	34.25% 2.03	
Corporate Expenses:	2.17	2.00	2.00	2.00	2.00	
Management Labor	1,369,976.41	435,352.00	260,978.00	90,012.00	155,789.00	427,845.41
Payroll taxes & benefits	1,047,581.08	414,040.96	234,194.81	77,191.73	240,762.41	81,391.18
Other operating expenses	865,267.08	342,383.78	147,346.10	33,952.29	142,323.60	199,261.31
Total Operating Expenses	3,282,824.57	1,191,776.74	642,518.90	201,156.02	538,875.01	708,497.89
as % to Sale	s 31.71%	21.98%	31.39%	35.69%	23.21%	
Management LER to Cl		4.64	3.68	3.46	5.10	-
Net Operating Income	803,814.03	828,206.61	317,953.90	109,918.74	256,232.68	(708,497.89)
as % to Sale		15.28%	15.53%	19.50%	11.04%	
as % to G	P 10.59%	21.05%	20.00%	22.02%	16.32%	
Other Income (Expense):						
Interest expense	(139,854.66)	(74,597.62)	(3,367.63)	(20,169.05)	(11,458.28)	(30,262.07)
Depreciation	(320,237.01)	(215,058.31)	(17,158.71)	(20,477.47)	(57,090.62)	(10,451.89)
Other income	892.51	-	-	-	-	892.51
Total Other Income (Expense)	(459,199.16)	(289,655.94)	(20,526.34)	(40,646.52)	(68,548.91)	(39,821.46)
Net Income	344,614.87	538,550.67	297,427.56	69,272.22	187,683.77	(748,319.35)
as % to Sale	s 3.33%	9.93%	14.53%	12.29%	8.08%	

2012	Total Company	Location 1	Location 2	Location 3	Location 4	Corporate
Revenue	10,353,683.14	5,421,643.61	2,046,839.24	563,565.11	2,321,635.18	-
Non labor cost of sales	2,760,638.81	1,487,360.34	457,298.92	64,394.25	751,585.30	_
Gross Profit	7,593,044.33	3,934,283.28	1,589,540.31	499,170.86	1,570,049.88	_
as % to Sales	73.34%	72.57%	77.66%	88.57%	67.63%	
Direct Labor	3,506,405.74	1,914,299.93	629,067.51	188,096.10	774,942.19	_
Contribution Margin (CM)	4,086,638.60	2,019,983.35	960,472.80	311,074.76	795,107.69	-
as % to Sales	39.47%	37.26%	46.92%	55.20%	34.25%	
Direct LER	2.17	2.06	2.53	2.65	2.03	
Corporate Expenses:						
Management Labor	1,369,976.41	435,352.00	260,978.00	90,012.00	155,789.00	427,845.41
Payroll taxes & benefits	1,047,581.08	414,040.96	234,194.81	77,191.73	240,762.41	81,391.18
Other operating expenses	865,267.08	342,383.78	147,346.10	33,952.29	142,323.60	199,261.31
Total Operating Expenses	3,282,824.57	1,191,776.74	642,518.90	201,156.02	538,875.01	708,497.89
as % to Sales	31.71%	21.98%	31.39%	35.69%	23.21%	
Management LER to CM	2.98	4.64	3.68	3.46	5.10	-
Net Operating Income	803,814.03	828,206.61	317,953.90	109,918.74	256,232.68	(708,497.89)
as % to Sales	7.76%	15.28%	15.53%	19.50%	11.04%	
as % to GP	10.59%	21.05%	20.00%	22.02%	16.32%	
Other Income (Expense):						
Interest expense	(139,854.66)	(74,597.62)	(3,367.63)	(20,169.05)	(11,458.28)	(30,262.07)
Depreciation	(320,237.01)	(215,058.31)	(17,158.71)	(20,477.47)	(57,090.62)	(10,451.89)
Other income	892.51	-	-	_	-	892.51
Total Other Income (Expense)	(459,199.16)	(289,655.94)	(20,526.34)	(40,646.52)	(68,548.91)	(39,821.46)
Net Income	344,614.87	538,550.67	297,427.56	69,272.22	187,683.77	(748,319.35)
as % to Sales	3.33%	9.93%	14.53%	12.29%	8.08%	
Corporate LER (All CM per Corp Labor)	9.55					

2012	Total Company	Location 1	Location 2	Location 3	Location 4	Corporate
Revenue	10,353,683.14	5,421,643.61	2,046,839.24	563,565.11	2,321,635.18	-
Non labor cost of sales	2,760,638.81	1,487,360.34	457,298.92	64,394.25	751,585.30	_
Gross Profit	7,593,044.33	3,934,283.28	1,589,540.31	499,170.86	1,570,049.88	_
as % to Sales	73.34%	72.57%	77.66%	88.57%	67.63%	
Direct Labor	3,506,405.74	1,914,299.93	629,067.51	188,096.10	774,942.19	_
Contribution Margin (CM)	4,086,638.60	2,019,983.35	960,472.80	311,074.76	795,107.69	_
as % to Sales	39.47%	37.26%	46.92%	55.20%	34.25%	
Direct LER	2.17	2.06	2.53	2.65	2.03	
Corporate Expenses:						
Management Labor	1,369,976.41	435,352.00	260,978.00	90,012.00	155,789.00	427,845.41
Payroll taxes & benefits	1,047,581.08	414,040.96	234,194.81	77,191.73	240,762.41	81,391.18
Other operating expenses	865,267.08	342,383.78	147,346.10	33,952.29	142,323.60	199,261.31
Total Operating Expenses	3,282,824.57	1,191,776.74	642,518.90	201,156.02	538,875.01	708,497.89
as % to Sales	31.71%	21.98%	31.39%	35.69%	23.21%	
Management LER to CM	2.98	4.64	3.68	3.46	5.10	-
Net Operating Income	803,814.03	828,206.61	317,953.90	109,918.74	256,232.68	(708,497.89)
as % to Sales	7.76%	15.28%	15.53%	19.50%	11.04%	
as % to GF	10.59%	21.05%	20.00%	22.02%	16.32%	
Other Income (Expense):						
Interest expense	(139,854.66)	(74,597.62)	(3,367.63)	(20,169.05)	(11,458.28)	(30,262.07)
Depreciation	(320,237.01)	(215,058.31)	(17,158.71)	(20,477.47)	(57,090.62)	(10,451.89)
Other income	892.51	<del>-</del>	-			892.51
Total Other Income (Expense)	(459,199.16)	(289,655.94)	(20,526.34)	(40,646.52)	(68,548.91)	(39,821.46)
Net Income	344,614.87	538,550.67	297,427.56	69,272.22	187,683.77	(748,319.35)
as % to Sales	3.33%	9.93%	14.53%	12.29%	8.08%	
Corporate LER (All CM per Corp Labor)	9.55					

2012	Total Company	Location 1	Location 2	Location 3	Location 4	Corporate
Revenue	10,353,683.14	5,421,643.61	2,046,839.24	563,565.11	2,321,635.18	-
Non labor cost of sales	2,760,638.81	1,487,360.34	457,298.92	64,394.25	751,585.30	_
	,,	, - ,	,	, , , , ,	- <b>,</b>	
Gross Profit	7,593,044.33	3,934,283.28	1,589,540.31	499,170.86	1,570,049.88	-
as % to Sales	73.34%	72.57%	77.66%	88.57%	67.63%	
Direct Labor	3,506,405.74	1,914,299.93	629,067.51	188,096.10	774,942.19	_
			·			
Contribution Margin (CM)	4,086,638.60	2,019,983.35	960,472.80	311,074.76	795,107.69	_
as % to Sales	39.47%	37.26%	46.92%	55.20%	34.25%	
Direct LER	2.17	2.06	2.53	2.65	2.03	
Corporate Expenses:						
Management Labor	1,369,976.41	435,352.00	260,978.00	90,012.00	155,789.00	427,845.41
Payroll taxes & benefits	1,047,581.08	414,040.96	234,194.81	77,191.73	240,762.41	81,391.18
Other operating expenses	865,267.08	342,383.78	147,346.10	33,952.29	142,323.60	199,261.31
Total Operating Expenses	3,282,824.57	1,191,776.74	642,518.90	201,156.02	538,875.01	708,497.89
as % to Sales		21.98%	31.39%	35.69%	23.21%	
Management LER to CM	2.98	4.64	3.68	3.46	5.10	-
Net Operating Income	803,814.03	828,206.61	317,953.90	109,918.74	256,232.68	(708,497.89)
as % to Sales		15.28%	15.53%	19.50%	11.04%	
as % to GP	10.59%	21.05%	20.00%	22.02%	16.32%	
Other Income (Expense):						
Interest expense	(139,854.66)	(74,597.62)	(3,367.63)	(20,169.05)	(11,458.28)	(30,262.07)
Depreciation	(320,237.01)	(215,058.31)	(17,158.71)	(20,477.47)	(57,090.62)	(10,451.89)
Other income	892.51		-	-		892.51
Total Other Income (Expense)	(459,199.16)	(289,655.94)	(20,526.34)	(40,646.52)	(68,548.91)	(39,821.46)
					4 <b>2-</b> 22	/= .
Net Income	344,614.87	538,550.67	297,427.56	69,272.22	187,683.77	(748,319.35)
as % to Sales	3.33%	9.93%	14.53%	12.29%	8.08%	
Corporate LER (All CM per Corp Labor)	9.55					

2012						
	Total Company	Location 1	Location 2	Location 3	Location 4	Corporate
Revenue	10,353,683.14	5,421,643.61	2,046,839.24	563,565.11	2,321,635.18	-
Non labor cost of sales	2,760,638.81	1,487,360.34	457,298.92	64,394.25	751,585.30	-
Cross Brofit	7 502 044 22	2 024 202 20	4 500 540 24	400 470 00	4 570 040 00	
Gross Profit  as % to Sale.	7,593,044.33 s 73.34%	3,934,283.28 72.57%	1,589,540.31 77.66%	499,170.86 <i>88.57%</i>	1,570,049.88 <i>67.63%</i>	_
as // to sale.	75.5476	12.51 /6	77.00%	00.51 /6	07.0378	
Direct Labor	3,506,405.74	1,914,299.93	629,067.51	188,096.10	774,942.19	_
Contribution Margin (CM)	4,086,638.60	2,019,983.35	960,472.80	311,074.76	795,107.69	-
as % to Sale.	s 39.47%	37.26%	46.92%	55.20%	34.25%	
Direct LEF	R 2.17	2.06	2.53	2.65	2.03	
Corporate Expenses:						
Management Labor	1,369,976.41	435,352.00	260,978.00	90,012.00	155,789.00	427,845.41
Payroll taxes & benefits	1,047,581.08	414,040.96	234,194.81	77,191.73	240,762.41	81,391.18
Other operating expenses	865,267.08	342,383.78	147,346.10	33,952.29	142,323.60	199,261.31
Total Operating Expenses	3,282,824.57	1,191,776.74	642,518.90	201,156.02	538,875.01	708,497.89
as % to Sale.		21.98%	31.39%	35.69%	23.21%	100,101.00
Management LER to CN		4.64	3.68	3.46	5.10	_
Net Operating Income	803,814.03	828,206.61	317,953.90	109,918.74	256,232.68	(708,497.89)
as % to Sale	7.76%	15.28%	15.53%	19.50%	11.04%	,
as % to GR	10.59%	21.05%	20.00%	22.02%	16.32%	
Other Income (Expense):						
Interest expense	(139,854.66)	(74,597.62)	(3,367.63)	(20,169.05)	(11,458.28)	(30,262.07)
Depreciation	(320,237.01)	(215,058.31)	(17,158.71)	(20,477.47)	(57,090.62)	(10,451.89)
Other income	892.51	-	-	-	-	892.51
Total Other Income (Expense)	(459,199.16)	(289,655.94)	(20,526.34)	(40,646.52)	(68,548.91)	(39,821.46)
Net Income	344,614.87	538,550.67	297,427.56	69,272.22	187,683.77	(748,319.35)
as % to Sale	s 3.33%	9.93%	14.53%	12.29%	8.08%	
Corporate LER (All CM per Corp Labor)	9.55					
, ,						

2012	Total Company	Location 1	Location 2	Location 3	Location 4	Corporate
	Total Company	Location	Location 2	Location 5	Location 4	Corporate
Revenue	10,353,683.14	5,421,643.61	2,046,839.24	563,565.11	2,321,635.18	-
Non labor cost of sales	2,760,638.81	1,487,360.34	457,298.92	64,394.25	751,585.30	
Gross Profit	7,593,044.33	3,934,283.28	1,589,540.31	499,170.86	1,570,049.88	
as % to Sales		72.57%	77.66%	88.57%	67.63%	
as 70 to dates	70.0470	12.0170	77.0070	00.0170	07.0070	
Direct Labor	3,506,405.74	1,914,299.93	629,067.51	188,096.10	774,942.19	-
Contribution Margin (CM)	4,086,638.60	2,019,983.35	960,472.80	311,074.76	795,107.69	
as % to Sales	39.47%	37.26%	46.92%	55.20%	34.25%	
Direct LER	2.17	2.06	2.53	2.65	2.03	
Corporate Expenses:						
Management Labor	1,369,976.41	435,352.00	260,978.00	90,012.00	155,789.00	427,845.41
Payroll taxes & benefits	1,047,581.08	414,040.96	234,194.81	77,191.73	240,762.41	81,391.18
Other operating expenses	865,267.08	342,383.78	147,346.10	33,952.29	142,323.60	199,261.31
Total Operating Expenses	3,282,824.57	1,191,776.74	642,518.90	201,156.02	538,875.01	708,497.89
as % to Sales		21.98%	31.39%	35.69%	23.21%	·
Management LER to CM	2.98	4.64	3.68	3.46	5.10	-
Net Operating Income	803,814.03	828,206.61	317,953.90	109,918.74	256,232.68	(708,497.89)
as % to Sales	7.76%	15.28%	15.53%	19.50%	11.04%	
as % to GP	10.59%	21.05%	20.00%	22.02%	16.32%	
Other Income (Expense):						
Interest expense	(139,854.66)	(74,597.62)	(3,367.63)	(20,169.05)	(11,458.28)	(30,262.07)
Depreciation	(320,237.01)	(215,058.31)	(17,158.71)	(20,477.47)	(57,090.62)	(10,451.89)
Other income	892.51	-	-	-	-	892.51
Total Other Income (Expense)	(459,199.16)	(289,655.94)	(20,526.34)	(40,646.52)	(68,548.91)	(39,821.46)
Net Income	344,614.87	538,550.67	297,427.56	69,272.22	187,683.77	(748,319.35)
as % to Sales		9.93%	14.53%	12.29%	8.08%	(1.10,010.00)

LER Calculation by Location 2012	Best Worst					
	Total Company	Location 1	Location 2	Location 3	Location 4	Corporate
Revenue	10,353,683.14	5,421,643.61	2,046,839.24	563,565.11	2,321,635.18	-
Non labor cost of sales	2,760,638.81	1,487,360.34	457,298.92	64,394.25	751,585.30	-
0 7 7	7.500.044.00	0.004.000.00	4 500 540 04	100 170 00	4 570 040 00	
Gross Profit	7,593,044.33	3,934,283.28	1,589,540.31	499,170.86	1,570,049.88	-
as % to Sales	73.34%	72.57%	77.66%	88.57%	67.63%	
Direct Labor	3,506,405.74	1,914,299.93	629,067.51	188,096.10	774,942.19	
Contribution Margin (CM)	4,086,638.60	2,019,983.35	960,472.80	311,074.76	795,107.69	_
as % to Sales		37.26%	46.92%	55.20%	34.25%	
Direct LEF	2.17	2.06	2.53	2.65	2.03	
Corporate Expenses:						
Management Labor	1,369,976.41	435,352.00	260,978.00	90,012.00	155,789.00	427,845.41
Payroll taxes & benefits	1,047,581.08	414,040.96	234,194.81	77,191.73	240,762.41	81,391.18
Other operating expenses	865,267.08	342,383.78	147,346.10	33,952.29	142,323.60	199,261.31
Total Operating Expenses	3,282,824.57	1,191,776.74	642,518.90	201,156.02	538,875.01	708,497.89
as % to Sales	31.71%	21.98%	31.39%	35.69%	23.21%	
Management LER to CN	2.98	4.64	3.68	3.46	5.10	-
Net Operating Income	803,814.03	828,206.61	317,953.90	109,918.74	256,232.68	(708,497.89)
as % to Sales		15.28%	15.53%	19.50%	11.04%	
as % to GF	10.59%	21.05%	20.00%	22.02%	<u>16.32%</u>	
Other Income (Expense):						
Interest expense	(139,854.66)	(74,597.62)	(3,367.63)	(20,169.05)	(11,458.28)	(30,262.07)
Depreciation	(320,237.01)	(215,058.31)	(17,158.71)	(20,477.47)	(57,090.62)	(10,451.89)
Other income	892.51	-	-	-	-	892.51
Total Other Income (Expense)	(459,199.16)	(289,655.94)	(20,526.34)	(40,646.52)	(68,548.91)	(39,821.46)
Net Income	344,614.87	538,550.67	297,427.56	69,272.22	187,683.77	(748,319.35)
as % to Sales	3.33%	9.93%	14.53%	12.29%	8.08%	

Better Worse

	2011	2012
Revenue	9,965,998.98	10,353,683.14
Non labor cost of sales	2,622,606.87	2,760,638.81
Gross Profit	7,343,392.12	7,593,044.33
as % to Sales		73.34%
Direct Labor	3,083,085.45	
Contribution Margin (CM)	4,260,306.67	
as % to Sales		
Direct LER	2.38	
Corporate Expenses:	4 204 477 50	
Management Labor Payroll taxes & benefits	1,301,477.59 995,202.03	
Other operating expenses	813,003.72	
	,	
Total Operating Expenses	3,109,683.34	
as % to Sales		
Management LER to CM	3.27	
Net Operating Income	1,150,623.33	
as % to Sales		
as % to GP	15.67%	
Other Income (Evnence):		
Other Income (Expense): Interest expense	(132,861.93)	
Depreciation	(304,225.16)	
Other income	847.88	
Total Other Income (Expense)	(436,239.20)	
· · /	, . ,	
Net Income	714,384.13	
as % to Sales	7.17%	

10.48

Let's grow!

PR Taxes as a % of all labor 22.70% 406,453.14 Corporate Labor Corp LER (corp CM per Corp Labor\$)

PR Taxes as a % of all labor

Corp LER (corp CM per Corp Labor\$)

Corporate Labor

Better Worse

	2011	2012
Revenue	9,965,998.98	10,353,683.14
Non Johan and of solar	2 622 606 87	2.700.020.04
Non labor cost of sales	2,622,606.87	2,760,638.81
Gross Profit	7,343,392.12	7,593,044.33
as % to Sales	73.68%	73.34%
Direct Labor	3,083,085.45	3,506,405.74
Contribution Margin (CM)	4,260,306.67	
as % to Sales		
Direct LER	2.38	
Corporate Expenses: Management Labor	1,301,477.59	1,369,976.41
Payroll taxes & benefits	995,202.03	.,000,01011
Other operating expenses	813,003.72	
Total Operating Expenses	3,109,683.34	
as % to Sales		
Management LER to CM	3.27	
Net Operating Income	1,150,623.33	
as % to Sales	11.55%	
as % to GF	15.67%	
Other Income (Expense):		
Interest expense	(132,861.93)	
Depreciation	(304,225.16)	
Other income	847.88	
Total Other Income (Expense)	(436,239.20)	
Net Income	714,384.13	
as % to Sales		

22.70% 406,453.14

10.48

If we grow, we have to add labor, right?

Corp LER (corp CM per Corp Labor\$)

Better Worse

	2011	2012
Revenue	9,965,998.98	10,353,683.14
Non labor cost of sales	2,622,606.87	2,760,638.81
Gross Profit	7,343,392.12	7,593,044.33
as % to Sales	73.68%	73.34%
Direct Labor	3,083,085.45	3,506,405.74
Contribution Margin (CM)	4,260,306.67	4,086,638.60
as % to Sales	42.75%	39.47%
Direct LER	2.38	2.17
Corporate Expenses:  Management Labor  Dayrell toward & bornefits	1,301,477.59	1,369,976.41
Payroll taxes & benefits Other operating expenses	995,202.03 813,003.72	1,047,581.08 865,267.08
Total Onewating Funcines	2 400 602 24	2 202 024 57
Total Operating Expenses  as % to Sales	3,109,683.34 31.20%	3,282,824.57 31.71%
Management LER to CM	31.20% 3.27	2.98
Net Operating Income	1,150,623.33	803,814.03
as % to Sales	11.55%	7.76%
as % to GP	15.67%	10.59%
Other Income (Expense):		
Interest expense	(132,861.93)	(139,854.66)
Depreciation	(304,225.16)	(320,237.01)
Other income	847.88	892.51
Total Other Income (Expense)	(436,239.20)	(459,199.16)
Net Income	714,384.13	344,614.87
as % to Sales	7.17%	3.33%
PR Taxes as a % of all labor	22.70%	21.48%
Corporate Labor	406,453.14	427,845.41
0 1 ( 011 0 1 1 4)	40.40	0.55

10.48

9.55

Classic example of growth with no profit!

#### Hold Constant Growth Required

		Growth Required		
			Options	
	2011	2012	Grow	Cut
	2011	2012	0.011	out
Revenue	9,965,998.98	10,353,683.14	11,326,337.75	10,179,153.09
	-,,	,,	.,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,	, ,
Non labor cost of sales	2,622,606.87	2,760,638.81	2,981,092.09	2,679,153.09
	, , , , , , , , , , , , , , , , , , , ,	,,	, ,	, , , , , , , , , , , , , , , , , , , ,
Gross Profit	7,343,392.12	7,593,044.33	8,345,245.65	7,500,000.00
as % to Sales	73.68%	73.34%	73.68%	73.68%
Direct Labor	3,083,085.45	3,506,405.74	3,506,405.74	3,000,000.00
Contribution Margin (CM)	4,260,306.67	4,086,638.60	4,479,822.85	4,251,000.00
as % to Sales	42.75%	39.47%	39.55%	41.76%
Direct LER	2.38	2.17	2.38	2.50
Corporate Expenses:				
Management Labor	1,301,477.59	1,369,976.41	1,369,976.41	1,300,000.00
Payroll taxes & benefits	995,202.03	1,047,581.08	1,047,446.88	923,640.00
Other operating expenses	813,003.72	865,267.08	865,267.08	865,267.08
Total Operating Expenses	3,109,683.34	3,282,824.57	3,282,690.37	3,088,907.08
as % to Sales	31.20%	31.71%	28.98%	30.35%
Management LER to CM	3.27	2.98	3.27	3.27
Net Operating Income	1,150,623.33	803,814.03	1,197,132.48	1,162,092.92
as % to Sales	11.55%	7.76%	10.57%	11.42%
as % to GP	15.67%	10.59%	14.35%	15.49%
00				
Other Income (Expense):	(400,004,00)	(400.054.00)	(400.054.00)	(400.054.00)
Interest expense	(132,861.93)	(139,854.66)	(139,854.66)	(139,854.66)
Depreciation Other income	(304,225.16) 847.88	(320,237.01) 892.51	(320,237.01) 892.51	(320,237.01) 892.51
Other income	041.00	092.31	692.51	092.51
Total Other Income (Expense)	(436,239.20)	(459,199.16)	(459,199.16)	(459,199.16)
Total Other Income (Expense)	(430,239.20)	(459, 199.10)	(439, 199.10)	(459, 199.10)
Net Income	714,384.13	344,614.87	737,933.32	702,893.76
as % to Sales	7.17%	3.33%	6.52%	6.91%
as /o to Sales	1.11/0	3.33/0	0.32/0	0.9176
PR Taxes as a % of all labor	22.70%	21.48%	21.48%	21.48%
Corporate Labor	406,453.14	427,845.41	427,845.41	357,869.00
Corp LER (corp CM per Corp Labor\$)	10.48	9.55	10.47	11.88
23.P ==: ((3.P 3.11 pa. 33.P = 223.14)	10.10	0.00	10.77	11.00

Cut Increase

		increase		
			Options	
	2011	2012	Grow	Cut
Revenue	9,965,998.98	10,353,683.14	11,326,337.75	10,179,153.09
Non labor cost of sales	2,622,606.87	2,760,638.81	2,981,092.09	2,679,153.09
Gross Profit	7,343,392.12	7,593,044.33	8,345,245.65	7,500,000.00
as % to Sales	73.68%	73.34%	73.68%	73.68%
Direct Labor	3,083,085.45	3,506,405.74	3,506,405.74	3,000,000.00
Contribution Margin (CM)	4,260,306.67	4,086,638.60	4,479,822.85	4,251,000.00
as % to Sales	42.75%	39.47%	39.55%	41.76%
Direct LER	2.38	2.17	2.38	2.50
Corporate Expenses:	4 004 477 50	4 000 070 44	4 000 070 44	4 200 000 00
Management Labor	1,301,477.59	1,369,976.41	1,369,976.41	1,300,000.00
Payroll taxes & benefits	995,202.03 813,003.72	1,047,581.08 865,267.08	1,047,446.88 865,267.08	923,640.00
Other operating expenses	813,003.72	805,207.08	805,267.08	865,267.08
Total Operating Expenses	3,109,683.34	3,282,824.57	3,282,690.37	3,088,907.08
as % to Sales	31.20%	31.71%	28.98%	30.35%
Management LER to CM	31.20%	2.98	3.27	3.27
Net Operating Income	1,150,623.33	803,814.03	1,197,132.48	1,162,092.92
as % to Sales	11.55%	7.76%	10.57%	11.42%
as % to GP	15.67%	10.59%	14.35%	15.49%
30 / 10 5/				
Other Income (Expense):				
Interest expense	(132,861.93)	(139,854.66)	(139,854.66)	(139,854.66)
Depreciation	(304,225.16)	(320,237.01)	(320,237.01)	(320,237.01)
Other income	847.88	892.51	892.51	892.51
Total Other Income (Expense)	(436,239.20)	(459,199.16)	(459,199.16)	(459,199.16)
Net Income	714,384.13	344,614.87	737,933.32	702,893.76
as % to Sales	7.17%	3.33%	6.52%	6.91%
DD T	00.700/	04.4007	04.4007	04 400/
PR Taxes as a % of all labor	22.70%	21.48%	21.48%	21.48%
Corporate Labor	406,453.14	427,845.41	427,845.41	357,869.00
Corp LER (corp CM per Corp Labor\$)	10.48	9.55	10.47	11.88

# Labor Efficiency Ratio by Employee

- Service business example
  - Able to track revenue generated by person
  - More precise than typical Utilization
     Rate method
  - Dynamic of productivity between fulltime staff and part-time staff
  - How to determine target performance



Employee	Revenue	Labor Cost	LER	Contribution Margin	CM Rank
FT Emp 1	162,799.19	44,437.91 \$	3.66	118,361.28	3
FT Emp 2	133,953.67	38,588.30 \$	3.47	95,365.37	4
FT Emp 3 (Less than 1 year)	47,516.97	13,849.28 \$	3.43	33,667.69	14
FT Emp 4 (Less than 1 year)	64,973.73	20,370.65 \$	3.19	44,603.08	11
FT Emp 5	234,034.69	76,984.49 \$	3.04	157,050.20	1
FT Emp 6 (Less than 1 year)	32,396.81	10,783.46 \$	3.00	21,613.35	17
FT Emp 7	209,126.69	71,026.71 \$	2.94	138,099.98	2
FT Emp 8	107,565.30	38,937.72 \$	2.76	68,627.58	6
PT Emp 1	124,621.11	45,518.45 \$	2.74	79,102.66	5
PT Emp 2	106,448.53	39,524.59 \$	2.69	66,923.94	7
PT Emp 3	110,586.12	45,714.41 \$	2.42	64,871.71	8
PT Emp 4	103,976.10	48,436.28 \$	2.15	55,539.82	9
PT Emp 5	65,362.72	37,403.99 \$	1.75	27,958.73	16
PT Emp 6	88,704.35	60,627.90 \$	1.46	28,076.45	15
Owner 1	157,598.42	110,422.47 \$	1.43	47,175.95	10
Owner 2	154,531.61	110,662.48 \$	1.40	43,869.13	12
Owner 3	168,266.38	127,570.34 \$	1.32	40,696.04	13
Total	2,072,462.39	940,859.43 \$	2.20	1,131,602.96	

#### Below Avg

Employee	Revenue	Labor Cost	LER	Contribution Margin	CM Rank
FT Emp 1	162,799.19	44,437.91 \$	3.66	118,361.28	3
FT Emp 2	133,953.67	38,588.30 \$	3.47	95,365.37	4
FT Emp 3 (Less than 1 year)	47,516.97	13,849.28 \$	3.43	33,667.69	14
FT Emp 4 (Less than 1 year)	64,973.73	20,370.65 \$	3.19	44,603.08	11
FT Emp 5	234,034.69	76,984.49 \$	3.04	157,050.20	1
FT Emp 6 (Less than 1 year)	32,396.81	10,783.46 \$	3.00	21,613.35	17
FT Emp 7	209,126.69	71,026.71 \$	2.94	138,099.98	2
FT Emp 8	107,565.30	38,937.72 \$	2.76	68,627.58	6
PT Emp 1	124,621.11	45,518.45 \$	2.74	79,102.66	5
PT Emp 2	106,448.53	39,524.59 \$	2.69	66,923.94	7
PT Emp 3	110,586.12	45,714.41 <b>\$</b>	2.42	64,871.71	8
PT Emp 4	103,976.10	48,436.28 <mark>\$</mark>	2.15	55,539.82	9
PT Emp 5	65,362.72	37,403.99 <mark>\$</mark>	1.75	27,958.73	16
PT Emp 6	88,704.35	60,627.90 <mark>\$</mark>	1.46	28,076.45	15
Owner 1	157,598.42	110,422.47 <mark>\$</mark>	1.43	47,175.95	10
Owner 2	154,531.61	110,662.48 <mark>\$</mark>	1.40	43,869.13	12
Owner 3	168,266.38	127,570.34 <mark>\$</mark>	1.32	40,696.04	13
Total	2,072,462.39	940,859.43 <mark>\$</mark>	2.20	1,131,602.96	

#### Target

Employee	Revenue	Labor Cost	LER	Contribution Margin	CM Rank
FT Emp 1	162,799.19	44,437.91 \$	3.66	118,361.28	3
FT Emp 2	133,953.67	38,588.30 \$	3.47	95,365.37	4
FT Emp 3 (Less than 1 year)	47,516.97	13,849.28 \$	3.43	33,667.69	14
FT Emp 4 (Less than 1 year)	64,973.73	20,370.65 \$	3.19	44,603.08	11
FT Emp 5	234,034.69	76,984.49 \$	3.04	157,050.20	1
FT Emp 6 (Less than 1 year)	32,396.81	10,783.46 \$	3.00	21,613.35	17
FT Emp 7	209,126.69	71,026.71 \$	2.94	138,099.98	2
FT Emp 8	107,565.30	38,937.72 \$	2.76	68,627.58	6
PT Emp 1	124,621.11	45,518.45 \$	2.74	79,102.66	5
PT Emp 2	106,448.53	39,524.59 \$	2.69	66,923.94	7
PT Emp 3	110,586.12	45,714.41 \$	2.42	64,871.71	8
PT Emp 4	103,976.10	48,436.28 \$	2.15	55,539.82	9
PT Emp 5	65,362.72	37,403.99 \$	1.75	27,958.73	16
PT Emp 6	88,704.35	60,627.90 \$	1.46	28,076.45	15
Owner 1	157,598.42	110,422.47 \$	1.43	47,175.95	10
Owner 2	154,531.61	110,662.48 \$	1.40	43,869.13	12
Owner 3	168,266.38	127,570.34 \$	1.32	40,696.04	13
Total	2,072,462.39	940,859.43 \$	2.20	1,131,602.96	

Employee	Revenue	Labor Cost	LER	Contribution Margin	CM Rank
FT Emp 1	162,799.19	44,437.91 \$	3.66	118,361.28	3
FT Emp 2	133,953.67	38,588.30 \$	3.47	95,365.37	4
FT Emp 3 (Less than 1 year)	47,516.97	13,849.28 \$	3.43	33,667.69	14
FT Emp 4 (Less than 1 year)	64,973.73	20,370.65 \$	3.19	44,603.08	11
FT Emp 5	234,034.69	76,984.49 \$	3.04	157,050.20	1
FT Emp 6 (Less than 1 year)	32,396.81	10,783.46 \$	3.00	21,613.35	17
FT Emp 7	209,126.69	71,026.71 \$	2.94	138,099.98	2
FT Emp 8	107,565.30	38,937.72 \$	2.76	68,627.58	6
PT Emp 1	124,621.11	45,518.45 <mark>\$</mark>	2.74	79,102.66	5
PT Emp 2	106,448.53	39,524.59 <mark>\$</mark>	2.69	66,923.94	7
PT Emp 3	110,586.12	45,714.41 <mark>\$</mark>	2.42	64,871.71	8
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Total	2,072,462.39	940,859.43 \$	2.20	1,131,602.96	

Be careful with Part-time staff!

### Recap



- If you do not have it historically, commit to start tracking
- Find the best, the worst and the average
- Get the bottom up to middle
- Then.....



# Company Performance by Year

Revenue

**COGS** 

**Gross Profit** 

**Direct Labor** 

**Contribution Margin** 



#### By Location

Revenue

**COGS** 

**Gross Profit** 

**Direct Labor** 

**Contribution Margin** 



#### By Line of Business

Revenue

**COGS** 

**Gross Profit** 

**Direct Labor** 

**Contribution Margin** 



#### By Customer/Project

Revenue

**COGS** 

**Gross Profit** 

**Direct Labor** 

**Contribution Margin** 



#### By Employee

Revenue

**COGS** 

**Gross Profit** 

**Direct Labor** 

**Contribution Margin** 

#### **Contact info**

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FOREWORD BY VERNE HARNISH, CEO. GAZELLES, INC. SIMPLE NUMBERS, STRAIGHT TALK. PROFITS! GREG CRABTREE