

CONTRACTOR QUICK TOOLS

BY  BREAKTHROUGH ACADEMY

BUDGET



BUDGET

QUICK WIN:

MOST CONTRACTORS MAKE INCORRECT ASSUMPTIONS ABOUT WHERE THEIR PROFIT IS COMING FROM. THIS BUDGET TOOL WILL ALLOW YOU TO CLEARLY SEE WHERE YOU COULD BE MORE PROFITABLE OR WHY YOU AREN'T – YOU CAN'T CHANGE WHAT YOU DON'T SEE.

Our Contractor Quick Tools are ready-made resources specifically developed to help you professionalize and systemize your company. This tool includes simple directives to get you started, a completed example file to reference, and an editable template to start using immediately.

Contractors often run their companies for years without analyzing the year-end financials in a meaningful way; only getting a sense of things when they do their taxes. Sound familiar?

When you don't know what you don't know, it's hard to confidently move the company forward in new (read: expensive) ways. Should we hire a new Project Manager? Should we bring on a new CRM? Should we invest in digital marketing? All of these questions can be answered with confidence when you have a well-thought-through budget in place.

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HOW TO USE THE TOOL:

STEP 1: INPUT LAST YEAR'S FINANCIALS

Using Quickbooks or your financial statements from the last fiscal year, input your numbers in the corresponding blue cells: revenue, variable expenses, fixed expenses.

Generally, you can pull all this data from your income statement that your accountant or bookkeeper prepared for your last fiscal year's taxes.

HINT:

It's unlikely that your expense categories from last year will line up to your nice new Budget Tool, that's okay. Take this opportunity to clean up your chart of accounts using the line items suggested in the example tool. The updates you make in Column A will carry over to Columns E & I automatically.

STEP 2: REVIEW LAST YEAR'S DATA

Based on the data you now have in front of you, what is the story the numbers are telling you?

- Was profitability more/less than expected (Gross and Net)?
- Did you produce the revenue you expected?
- Where did you overspend?
- Where did you underspend?

STEP 3: SET YOUR NET PROFIT GOAL FOR THIS FISCAL YEAR

Write down your Net Profit (NP) goal and set it aside.

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Focusing only on top-line revenue can at times be ego based, by making NP the benchmark you are working toward, you are setting yourself up for long-term sustained success.

Think of the year ahead; what is the amount of money you'd like to make for yourself personally and to re-invest in your company for the future?

HINT:

A healthy net profit in the contracting space ranges between 10% - 20%: If you are falling below this range it is a warning sign; if you are above this range you've likely found a unique offering in your marketplace.

STEP 4: BUILD THIS FISCAL YEAR'S BUDGET

A - REVENUE:

Start with revenue; this can be split by type of work (i.e., commercial, residential, maintenance, etc.)

Look at last year's revenue objectively and decide for each category if you will be doing more, less, or the same amount as last year, and by how much?

B - VARIABLE EXPENSES:

These are the variables in your budget that most greatly impact net profit %; this is often where businesses succeed or fail.

Think about last year's variable expenses:

- If they felt healthy and efficient, hold the percentages.
- If they felt unhealthy and inefficient, adjust them to improve (within 1% - 5% change).

In areas that require adjustments, capture notes on what you will do to impact change.

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EXAMPLES:

- Introduce incentive-based pay.
- Talk to suppliers about discounts on supplies you buy large quantities of.
- Introduce sub-contractor agreements to mitigate over-billing.

HINT:

The most critical factor here is the % of total revenue that you spend on each variable expense, rather than the total dollar amount itself.

C - GROSS PROFIT:

This is arguably the most important number in your business; it clearly indicates the health of your business. This money is used for three things: to run the company, to pay the owner, to re-investment into future development.

HINT:

As little as 1% burned up on jobsites in a \$1M company equates to \$10,000 of potential profit lost before it's ever realized.

D - FIXED EXPENSES:

Line-by-line, analyze each number and decide if it will be the same, more, or less than last year, and why?

Based on recurring monthly/annual costs, anticipated percentile increase/decrease, and your expectations as an owner; think through this year's fixed expenses.

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EXAMPLES:

- Vehicle: Same/more/less (same vehicle as last year; running well)
- Vehicle fuel: Same/more/less (cost of fuel has increased dramatically recently)
- Vehicle insurance: Same/more/less (premiums went down)

HINT:

Once you've listed all fixed expenses, step back and think about any new expenses or categories you will be adding and any old categories that are no longer relevant and should be cut.

HINT:

This section of the budget is long, just go through it line-by-line.

E - NET PROFIT:

Check the Net Profit calculated after all revenue, variable, and fixed expenses have been input. Does it match the original Net Profit goal you wrote at the beginning of this exercise?

If adjustments are needed, you have four options:

1. Increase charge rate
2. Increase revenue sold
3. Decrease variable expenses
4. Decrease fixed expenses

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STEP 5: REVIEW AND PLAN FOR CHANGE

Now that you've found the right combination of revenue, variable expenses, and fixed expense for your business, document the numerical and tactical changes to set this plan in motion

HINT:

We recommend a monthly financial review to compare the plan versus actual spending to see where changes are taking effect, and where more focus needs to be placed.

TERMINOLOGY:

- "NEW REVENUE" Revenue generated from first time customers. "ATTAINMENT" The preference to set and hit goals.
- "RECURRING REVENUE" New Revenue generated from previous customers.
- "VARIABLE COSTS" A cost that changes directly with the level of Revenue.
- "GROSS PROFIT (GP)" The amount of money left over to cover Fixed Costs and Net Profit. Calculated as the difference between Revenue and Variable Costs, and often expressed as a percentage of Revenue.
- "FIXED COSTS/OVERHEAD" A cost that is constant regardless of Revenue.
- "NET PROFIT (NP)" The amount of profit after Variable and Fixed Costs.

EXAMPLE TOOL BELOW



BREAKTHROUGH ACADEMY

BUDGET (EXAMPLE)									
Last Fiscal Year (Actual)					This Fiscal Year (Budget)				
Revenue					Revenue				
Commercial	\$	1,873,856.00			Commercial	\$	2,000,000.00		
Residential	\$	227,450.00			Residential	\$	1,000,000.00		
Maintenance	\$	398,694.00			Maintenance	\$	500,000.00		
Cumulative Revenue Produced		\$	2,500,000.00		Cumulative Revenue Produced		\$	3,500,000.00	
			Revenue Produced	\$ 2,500,000.00				Revenue Produced	\$ 3,500,000.00
Variable Expenses					Variable Expenses				
Staff Labour (incl Burdens)	\$	956,050.00	38.2%		Staff Labour (incl Burdens)	\$	1,165,500.00	33.3%	
Subs	\$	255,585.50	10.2%		Subs	\$	357,819.70	10.2%	
Materials	\$	337,807.50	13.5%		Materials	\$	472,930.50	13.5%	
Rental Fees, Dump, Delivery	\$	53,075.00	2.1%		Rental Fees, Dump, Delivery	\$	74,305.00	2.1%	
Total Variable Expenses		\$	1,602,518.00	64.1%	Total Variable Expenses		\$	2,070,555.20	59.2%
			Variable Expenses	\$ 1,602,518.00				Variable Expenses	\$ 2,070,555.20
Gross Profit				\$ 897,482.00	Gross Profit				\$ 1,429,444.80
				35.90%					40.84%
If you'd like to change your expenses to match a P&L statement you can do so using column A (below)									
Fixed Expenses					Fixed Expenses				
Vehicle Expenses					Vehicle Expenses				
Vehicle	\$	37,658.00	1.5%		Vehicle	\$	56,000.00	1.6%	
Vehicle Fuel	\$	26,542.00	1.1%		Vehicle Fuel	\$	35,000.00	1.0%	
Vehicle Insurance	\$	20,560.00	0.8%		Vehicle Insurance	\$	24,500.00	0.7%	
Vehicle Repair + Maintenance	\$	12,864.00	0.5%		Vehicle Repair + Maintenance	\$	17,500.00	0.5%	
Parking	\$	5,464.00	0.2%		Parking	\$	10,500.00	0.3%	
Operational Expenses					Operational Expenses				
Management Staff Salary and Bonuses	\$	252,876.00	10.1%		Management Staff Salary and Bonuses	\$	415,341.50	11.9%	
Bank Charges	\$	698.00	0.0%		Bank Charges	\$	698.00	0.0%	
Interest	\$	1,392.00	0.1%		Interest	\$	2,282.00	0.1%	
Miscellaneous (incl Damages)	\$	7,234.00	0.3%		Miscellaneous (incl Damages)	\$	7,609.00	0.2%	
Liability Insurance	\$	4,784.00	0.2%		Liability Insurance	\$	7,609.00	0.2%	
Bookkeeping	\$	3,892.00	0.2%		Bookkeeping	\$	4,564.00	0.1%	
Payroll Processing	\$	1,784.00	0.1%		Payroll Processing	\$	3,045.00	0.1%	
Professional Fees (Legal, Accounting)	\$	1,482.00	0.1%		Professional Fees (Legal, Accounting)	\$	2,282.00	0.1%	
Consulting and Development	\$	10,500.00	0.4%		Consulting and Development	\$	15,218.00	0.4%	
Home Office	\$	4,382.00	0.2%		Home Office	\$	4,900.00	0.1%	
Utilities	\$	1,291.00	0.1%		Utilities	\$	1,400.00	0.0%	
Office Supplies	\$	593.00	0.0%		Office Supplies	\$	3,045.00	0.1%	
Meals and Entertainment	\$	6,784.00	0.3%		Meals and Entertainment	\$	7,609.00	0.2%	
Business License	\$	254.00	0.0%		Business License	\$	254.00	0.0%	
Recruitment	\$	644.00	0.0%		Recruitment	\$	644.00	0.0%	
Amortization (CCA)	\$	1,938.00	0.1%		Amortization (CCA)	\$	2,282.00	0.1%	
Equipment	\$	23,946.00	1.0%		Equipment	\$	28,000.00	0.8%	
Equipment Repair & Maintenance	\$	4,766.00	0.2%		Equipment Repair & Maintenance	\$	11,413.50	0.3%	
Production Incentives	\$	3,456.00	0.1%		Production Incentives	\$	7,609.00	0.2%	
Cell Phone	\$	7,056.00	0.3%		Cell Phone	\$	11,413.50	0.3%	
Technology	\$	5,382.00	0.2%		Technology	\$	5,775.00	0.2%	
Marketing Expenses					Marketing Expenses				
Branding	\$	3,856.00	0.2%		Branding	\$	3,856.00	0.1%	
Networking and Associations	\$	4,800.00	0.2%		Networking and Associations	\$	4,800.00	0.1%	
Homeshow	\$	6,445.00	0.3%		Homeshow	\$	6,445.00	0.2%	
Client Events	\$	9,964.00	0.4%		Client Events	\$	9,964.00	0.3%	
Digital Marketing Adspend	\$	56,856.00	2.3%		Digital Marketing Adspend	\$	91,304.50	2.6%	
Cold Calling	\$	22,000.00	0.9%		Cold Calling	\$	38,000.00	1.1%	
Telemarketing	\$	21,000.00	0.8%		Telemarketing	\$	38,000.00	1.1%	
Flyer Printing	\$	4,784.00	0.2%		Flyer Printing	\$	4,784.00	0.1%	
Signs	\$	1,784.00	0.1%		Signs	\$	1,784.00	0.1%	
Business Cards	\$	498.00	0.0%		Business Cards	\$	498.00	0.0%	
Misc 1			0.0%		Misc 1			0.0%	
Marketing Expenses				\$ 131,987.00	Marketing Expenses				\$ 199,435.50
			Fixed Expenses					Fixed Expenses	
Total Fixed Expenses		\$	580,209.00	23.2%	Total Fixed Expenses		\$	885,929.00	25.3%
			Fixed Expenses	\$ 580,209.00				Fixed Expenses	\$ 885,929.00
Net Profit				\$ 317,273.00	Net Profit				\$ 543,515.80
				12.69%					15.53%



It is our mission to transform honest, hardworking contractors into well-balanced leaders & thriving entrepreneurs.



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