Make Money and Have Fun Doing It!
ANTITRUST POLICY STATEMENT FOR SPRAY POLYURETHANE FOAM ALLIANCE MEETINGS

- It is and shall remain the policy of the Spray Polyurethane Foam Alliance ("SPFA"), and it is the continuing responsibility of every SPFA member company, SPFA meeting or event participant, as well as SPFA staff and leadership to comply in all respects with federal and state antitrust laws. No activity or discussion at any SPFA meeting or other function may be engaged in for the purpose of bringing about any understanding or agreement among members to (1) raise, lower or stabilize prices; (2) regulate production; (3) allocate markets; (4) encourage boycotts; (5) foster unfair or deceptive trade practices; (6) assist in monopolization; or (7) in any way violate or give the appearance of violating federal or state antitrust laws.

- Any concerns or questions regarding the meaning or applicability of this policy, as well as any concerns regarding activities or discussions at SPFA meetings should be promptly brought to the attention of SPFA's Executive Director and/or its legal counsel.
Eight nuggets to improve your business

1. The Basic Tenets of the Spray Foam business
2. The Job Board
3. Know your Numbers
4. The Budget
5. Arriving at the Price
6. The Right Customer
7. Beware of the Wall
8. Going Forward
The basic tenets of the SPF business

- Keep It Simple
  - Billings Out
  - Collections In
  - Take Care of the Customer
The basic tenets of the SPF business

• Keep it simple
The basic tenets of the SPF business

• Keep it simple
  ▶ Pull the trigger 8 hours every day
No One Makes Money in the Spray Foam Business Unless Someone is Pulling the Trigger!

Mac Sheldon - 2002
The basic tenets of the SPF business
The basic tenets of the SPF business

• Keep It Simple
  – Spray Foam is a morning game
  – Get the crew out of the shop as fast as possible!
The basic tenets of the SPF business

- Keep it simple
  - Drive time plus 10 minutes
  - Get to the job, pull the hoses and pull the trigger.
Discipline is Required for a Profitable Business
Specific
Methodical
Consistent
Specific, Methodical and Consistent SMaC
The Job Board

Jobs sold
The Job Board

- Great for Worker Morale
- Short Term Projections
- Helpful for Operations

- ...but the Business Owner Needs Different Information
<table>
<thead>
<tr>
<th>Customer</th>
<th>Date Sold</th>
<th>Amount</th>
<th>Start</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sherry Jones</td>
<td>12/20/13</td>
<td>$8,250</td>
<td>1/30/14</td>
</tr>
<tr>
<td>Smith Remodeling</td>
<td>1/6/14</td>
<td>$4,725</td>
<td>1/31/14</td>
</tr>
<tr>
<td>Simons GC</td>
<td>1/8/14</td>
<td>$16,220</td>
<td>2/2/14</td>
</tr>
<tr>
<td>Fredricks Construction</td>
<td>1/9/14</td>
<td>$4,475</td>
<td>2/1/14</td>
</tr>
<tr>
<td>Williams Manor Apts</td>
<td>1/9/14</td>
<td>$33,621</td>
<td>2/6/14</td>
</tr>
<tr>
<td>Franklin County HA</td>
<td>1/11/14</td>
<td>$17,429</td>
<td>2/7/14</td>
</tr>
<tr>
<td>ABC Custom</td>
<td>1/14/14</td>
<td>$41,945</td>
<td>2/16/14</td>
</tr>
<tr>
<td>Powell Blvd Condos</td>
<td>1/18/14</td>
<td>$11,927</td>
<td>2/16/14</td>
</tr>
<tr>
<td>All American Production Homes</td>
<td>1/19/14</td>
<td>$1,670</td>
<td>2/1/14</td>
</tr>
<tr>
<td>All American Production Homes</td>
<td>1/19/14</td>
<td>$1,670</td>
<td>2/4/14</td>
</tr>
<tr>
<td>All American Production Homes</td>
<td>1/19/14</td>
<td>$1,670</td>
<td>2/7/14</td>
</tr>
<tr>
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<td>1/19/14</td>
<td>$1,670</td>
<td>2/10/14</td>
</tr>
<tr>
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<td>1/19/14</td>
<td>$1,670</td>
<td>2/13/14</td>
</tr>
<tr>
<td>All American Production Homes</td>
<td>1/19/14</td>
<td>$1,670</td>
<td>2/16/14</td>
</tr>
<tr>
<td>Fredricks Construction</td>
<td>1/26/14</td>
<td>$3,362</td>
<td>2/28/14</td>
</tr>
<tr>
<td>Smith Remodeling</td>
<td>1/30/14</td>
<td>$1,790</td>
<td>2/28/14</td>
</tr>
</tbody>
</table>
Know your numbers

► Stay ON RATIO
► Know your Ratios
► Divide and Conquer
Know your sales numbers

- Leads Ratio
  - The ratio of presentations to sales leads generated
  - Expressed as percentage

Leads Ratio = \( \frac{\text{Number of Sales Leads}}{\text{Number of Presentations}} \)
Know your sales numbers

• Closing Ratio
  ▶ The ratio of closed contracts to sales presentations delivered
  ▶ Expressed as percentage

\[
\text{Closing Ratio} = \frac{\text{Closed Sales}}{\text{Sales Presentations}}
\]
Know your sales numbers

- Pipeline Ratio
  - The ratio of closed contracts to sales leads generated
  - Expressed as percentage

\[
\text{Pipeline Ratio} = \frac{\text{Number of Closed Sales}}{\text{Number of Sales Leads}}
\]
Know your sales numbers

- Example

- Steve has an 80% ratio of presentations to qualified leads
- Steve Sprayer has a 75% closing ratio
- Steve’s average sale is $8,000
- The company needs $120,000 in monthly sales to meet goals
  - $120,000 ÷ $8,000 = 15 jobs
  - 15 jobs ÷ 0.75 = 20 sales presentations needed
  - 20 sales presentations ÷ 0.80 = 25 qualified leads to meet goals

- The volume of work is directly proportional to the sales leads and presentations, provided the quality of leads is the same.
Know your liquidity numbers

• **Quick Ratio**
  ▶ An indicator of a company’s ability to pay short-term obligations.
  ▶ A measurement of liquidity.
  ▶ Current assets = Cash + Receivables
  ▶ Current Liabilities = Everything you owe in the next month, quarter or year

\[
\text{Quick Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}
\]
Know your numbers

- Cash
- Current receivables
  - Long term receivables (past due AR and “retention” valued at 50%)
- Bank Line of credit - How much is available and how much is out
- Payroll - How much and when?
- Taxes - Payroll tax, Sales tax, Income tax, Property tax, etc.
- Chemical supplier payable
- Active leads
- Sales appointments
- Job proposals out - Number and value
- Sales on the books
  - Within 30 days
  - Beyond 30 days
## Daily Dashboard

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
<th>Category</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$70,000</td>
<td>Payroll</td>
<td>$15,000</td>
</tr>
<tr>
<td>Current AR</td>
<td>$90,000</td>
<td>Taxes</td>
<td>$5,000</td>
</tr>
<tr>
<td>LOC Available</td>
<td>$100,000</td>
<td>Chemical</td>
<td>$40,000</td>
</tr>
<tr>
<td>Aging AR</td>
<td>$10,000</td>
<td>Other</td>
<td>$20,000</td>
</tr>
<tr>
<td>Leads</td>
<td>40</td>
<td>Ratios:</td>
<td></td>
</tr>
<tr>
<td>Appointments</td>
<td>36</td>
<td>Quick Ratio</td>
<td>2:1</td>
</tr>
<tr>
<td>Proposals Out</td>
<td>8</td>
<td>Leads Ratio</td>
<td>80%</td>
</tr>
<tr>
<td>Booked Sales</td>
<td></td>
<td>Pipeline Ratio</td>
<td>60%</td>
</tr>
<tr>
<td>30 days</td>
<td>15 / $115K</td>
<td></td>
<td></td>
</tr>
<tr>
<td>60 days</td>
<td>5 / $36K</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
The Budget

How do I distribute the money I collect?
Budget

Who, How Much, When and Why?

1. Labor - Pay your workers and subcontractors
2. Taxes - Payroll tax, sales tax, property tax, etc.
3. Supplier - Chemicals and job materials
4. Everything Else - Vehicles, office, all overhead items
5. Cash Reserve - Critical to Survival and Growth
6. Yourself - Pay yourself handsomely!
The basic tenets of the SPF business

• Keep it simple
  ► Pay your labor
  ► Pay your taxes
  ► Pay your supplier
  ► Pay everything else
  ► Pay your growth fund
  ► Pay yourself
Arriving at the Price

How much do I charge for my work?
How do you price your job?

- Have a reason for your price
  - Know your costs
  - Account for job difficulty
How do you price your job?

• Have a reason for your price
  ▶ Add in maintenance and replacements
  ▶ Accommodate for waste
How do you price your job?

• Have a reason for your price
  ▶ Do you set your price using Mark-Up or Margin?
Estimating job cost

- Do a “Take-Off” from plans or walk-through
- Calculate gross wall area (usually including doors and windows)
- Will scaffolding be needed?
- Are there any special conditions?
Let’s assume for the sake of simplicity that a job was estimated to cost $10,000.

We’ll also assume that our company overhead is 30% and we’d like to make a 10% net profit.
Adding our profit to the job cost

- Frank Foamer uses Mark-Up to figure his jobs. He wants to make a 10% profit, so he adds his overhead (30%) and desired profit and comes up with 40%.

- Frank then adds a 40% mark-up ($4000) to the $10,000 job cost for a selling price of $14,000, or

  $10,000 \times 1.4 = $14,000$
Adding 40% of Cost = Mark-Up

$10,000 \times 1.4 = 14,000

Job Cost = $10,000

Mark-Up = $4,000
Another Approach

- Steve Sprayer also estimated the job and determined the same job cost.
- Steve also has a 30% overhead and wants to net 10% on every job, but instead of multiplying, he divides to find his selling price.
- The formula is:
  \[ 1 - \text{expected gross margin} = \text{divisor} \]
  In this case the margin is 40% or .40, so \[ 1 - .40 = .60 \]
- \[ $10,000 / .60 = $16,666 \]
.60 Divisor to Determine Gross Margin

\[ \frac{10,000}{.60} = 16,666 \]

Job Cost = $10,000

Margin = $6,666
Now let’s compare the two methods

<table>
<thead>
<tr>
<th>Method</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Job Cost</strong></td>
<td><strong>$10,000</strong></td>
</tr>
<tr>
<td><strong>Mark-Up</strong></td>
<td><strong>$4,000</strong></td>
</tr>
<tr>
<td><strong>Job Cost</strong></td>
<td><strong>$10,000</strong></td>
</tr>
<tr>
<td><strong>Margin</strong></td>
<td><strong>$6,666</strong></td>
</tr>
</tbody>
</table>
So, what’s the right price?

- It would be an easier sale for Frank Foamer, but is he making the 10% net profit he thinks he is?

- The key to understanding the difference between pricing and profitability is to realize that **mark-up** is based on the **cost** of the job, and **margin** is based on the **revenue** or **selling price**.
Who’s making money?

For simplicity’s sake, let’s say that both Frank and Steve did 100 jobs, all priced using the same estimated job cost and the same overhead and profit projections.

Both had a busy year and since they both priced their jobs to make 10% they’d now like to buy another spray rig to expand their business.
Ooooops…

Steve orders his new rig and writes a check for it when it arrives, but Frank realizes he’s done a lot of work and churned a lot of cash, but he has no money in the bank, so he asks his accountant to analyze his books and tell him what went wrong.
Here are their profit and loss statements at the end of the year

<table>
<thead>
<tr>
<th></th>
<th>Frank</th>
<th>Steve</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sales:</strong> Foam Jobs</td>
<td>1,400,000</td>
<td>1,666,000</td>
</tr>
<tr>
<td><strong>Expenses:</strong> Labor</td>
<td>300,000</td>
<td>300,000</td>
</tr>
<tr>
<td>Materials</td>
<td>600,000</td>
<td>600,000</td>
</tr>
<tr>
<td>Cost to run the rig</td>
<td>100,000</td>
<td>100,000</td>
</tr>
<tr>
<td><strong>Overhead:</strong> 30%</td>
<td>420,000</td>
<td>499,800</td>
</tr>
<tr>
<td><strong>Net Profit:</strong></td>
<td>-20,000 (-1.4%)</td>
<td>166,200 (10%)</td>
</tr>
</tbody>
</table>
What went wrong?

- Frank incorrectly based his mark-up on his job cost rather than calculating a mark-up based on revenue.
- It’s OK (and often easier) to use mark-up as long as it’s derived from the profit and loss statement. What is the right mark-up for Frank to use to get a 40% gross Margin?
- 66% or 1.66 X estimated job cost
Job cost analysis

Understanding the cost of doing business
Know and control your job cost

• “Job-Cost” every job
  ▶ Track profitability by builder, market segment (new construction, retro, commercial, residential), crew & salesman
Know and control your job cost

- “Job-Cost” every job
  - Keep score and compensate accordingly
Know and control your job cost

• “Job-Cost” every job
  ▶ Controlling costs drives profit
  ▶ Correctly estimating and tightly controlling labor affects profit more than anything else
What’s the Right Price?

- Example:
  - Estimated Job Cost = $10,000
  - Company Overhead = 30%
  - Desired Profit Margin = 10%
  - $10,000 ÷ .6 = $16,666
    - Cost plus Overhead = $15,000
    - Net Profit = $1,666

- Your competition quoted $14,000!
- What are you going to do?
Finding The right customer
People Buy From Companies They Trust
Marketing Plan
Finding the right customer

- Reward referrals generously
Finding the right customer

- Post yard and site signs on every job
Finding the right customer

- Put your company name and phone number on the back of your rig along with the words “Spray Foam”
FOAM INSULATION SOLUTIONS
(775) 786-0769
FoamInsulationSolutions.com

SPRAY FOAM INSULATION
- Energy Savings
- Enhanced Comfort
- Environmentally Friendly
Finding the right customer

- Leave flyers around the neighborhood you’re working in
- Go around and tell the neighbors what you’re doing.
Finding the right customer

• Stop every time you see “new wood”
Finding the right customer

• Train your crew to “sell foam” using the 30-second speech
Finding the right customer

• When you’re really busy, raise your selling price
Finding the right customer

- When your rig’s not spraying, get it out of the shop and parked where people can see it.
Finding the right customer

- Find fiberglass-only contractors and teach them how to sell for you.
Finding the right customer

• Pass out a thousand business cards a year
Finding the right customer

• Protect your receivable by exercising your lien rights
Finding the right customer

• Fire any customer who doesn’t pay……Immediately!
Beware the walls
The Million Dollar Wall
Beware of the Walls

- New guy in business
Beware of the Walls

- Working away
Beware of the Walls

- Adds an employee
- And another
Beware of the Walls
Beware of the Walls

Business is great!
Then BAM!!!
He’s losing money.
He just hit the Million Dollar Wall....
HE $1,000,000 WALL

MONEY MONEY

THE $1,000,000 WALL
Beware of the Walls

% Overhead

$500,000 $1,000,000 $1,500,000 $2,000,000 $2,500,000

Revenue

10% 20% 30%
Beware of the Walls

% Overhead

10%
20%
30%

Revenue

$500,000
$1,000,000
$1,500,000
$2,000,000
$2,500,000
Company Owner is Changing Roles
Beware of the Walls

- **Revenue**
- **Profit**
- **Loss**
- **Breakeven**
- **Overhead**

- Revenue: $500,000, $1,000,000, $1,500,000, $2,000,000, $2,500,000
Choices

- Shrink back to a manageable size
- Acquire investment capital to grow
- Sell
Market Cycles

- Expanding and Contracting Market is very hard on small business
Build it tight and....

One final thought
Build it tight and.....
Ventilate Right!!!

One final thought
1. Ventilate **During the Job**
   - Cross-flow ventilation according to the CPI Best Practice Guide

2. Ventilate **Shortly After the Job**
   - Continue ventilation for 24 hours after the foam is sprayed

3. Ventilate **Forever Thereafter**
   - Install a Balanced, Filtered and Distributed mechanical ventilation system
Ventilate Right!

During and Shortly Thereafter

Forever Thereafter
Promise!
May your Profits Soar, Your Equity Grow, and May You......

CLASSY COMPANY
Balance Sheet
December 31, 20X3

<table>
<thead>
<tr>
<th>Assets</th>
<th>Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current assets</strong></td>
<td><strong>Current liabilities</strong></td>
</tr>
<tr>
<td>Cash</td>
<td>Accounts payable</td>
</tr>
<tr>
<td>$100,000</td>
<td>$80,000</td>
</tr>
<tr>
<td>Short-term investments</td>
<td>Sales tax payable</td>
</tr>
<tr>
<td>50,000</td>
<td>10,000</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>Income tax payable</td>
</tr>
<tr>
<td>75,000</td>
<td>15,000</td>
</tr>
<tr>
<td>Inventories</td>
<td>Sales payables</td>
</tr>
<tr>
<td>200,000</td>
<td>5,000</td>
</tr>
<tr>
<td>Prepaid insurance</td>
<td>Current portfolio</td>
</tr>
<tr>
<td>$25,000</td>
<td>$40,000</td>
</tr>
<tr>
<td>$450,000</td>
<td>$150,000</td>
</tr>
<tr>
<td><strong>Long-term investments</strong></td>
<td><strong>Long-term liabilities</strong></td>
</tr>
<tr>
<td>Stock investments</td>
<td>Notes payable</td>
</tr>
<tr>
<td>$40,000</td>
<td>$110,000</td>
</tr>
<tr>
<td>Cash value of insurance</td>
<td>Bank Loan</td>
</tr>
<tr>
<td>10,000</td>
<td>35,000</td>
</tr>
<tr>
<td></td>
<td>Mortgage obligation</td>
</tr>
<tr>
<td></td>
<td>$80,000</td>
</tr>
<tr>
<td></td>
<td>Accounts receivable</td>
</tr>
<tr>
<td></td>
<td>$160,000</td>
</tr>
<tr>
<td><strong>Property, plant &amp; equip.</strong></td>
<td><strong>Total liabilities</strong></td>
</tr>
<tr>
<td>Land</td>
<td>$450,000</td>
</tr>
<tr>
<td>$25,000</td>
<td></td>
</tr>
</tbody>
</table>
Make Money and Have Fun Doing It!
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