

# Welcome to Let's Talk Numbers with



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## Class Rules

- Interactive Class with ONE hour-ISH of planned material
- No way I can know what you would like to know, so let me know
- Stop me at any time for any question
- We are all here to learn at least one thing

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## What should your financials tell you?

- Most people look at their financials to see if they made any money so that they can worry about how much taxes they might have to pay
- Financials should tell you how you're managing your business AND
- If you're making enough money to operate AND
- If you're making enough money to replace the trucks that are dying
- If you're making enough money to establish a rainy-day fund
- If you're making enough money to fund future growth

Financials are one tool to measure how well you're on track to accomplish your goals.

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## Company Growth requires Personal Growth

Just as a driver that goes from a quick snatch to a flatbed to a medium duty to a heavy duty to a rotator, he/she must learn new skill sets...

As an owner, you must learn new skill sets as your company grows, such as management skills, HR skills, training skills, time management skills and financial skills

My Goal for Today: Help you learn at least one new skill so that you can better utilize the tool of Managerial Accounting

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## Managerial Acct vs Financial Acct

### Financial Accounting

- Typically used for reporting purposes
- CPA typically sets it up
  - Income
  - Major COGS/Variable Expense
  - Fixed Expenses
  - Other Income/Other Expenses

### Managerial Accounting

- Formatted for decision making and evaluating purposes
- CFO's use this based on Management needs
  - Income
  - ALL Variable Expenses
  - Fixed Expenses
  - Any income and expenses not actively managed in operations

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## Example of Using Managerial Accounting

- First, you should be closing your financials within 10 days after month end and reviewing them before the 15<sup>th</sup> of each month
- Real life example from our Group of 20 or Best Practices Group meets every 4 months (5 minute version)

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## Best Practices Group Initial Evaluation

Analysis of Company A's financials revealed the following:

- Debt and depreciation had increased without the number of trucks increasing indicating they had replaced a truck
- Profitability was low, but all expenses seemed to be in line, except:
- Wage expense was high, so I drill down
- Driver pay is in line, number of calls per driver per day is in line, so we know its not a driver issue

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## Best Practices Group Initial Evaluation

Analysis of Company A's financials revealed the following:

- So, I turn the attention to the ratio of income-earning to non-income earning employees and that number shows a problem
- So, we look at dispatch staff and the number of dispatchers, the number of calls per dispatcher per day and the pay rate for dispatchers is all in line
- This leaves the only other area, accounting staff and there is at least one too many in the back office

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## Best Practices Group Initial Evaluation

Analysis of Company A's financials revealed the following:

- This leaves the only other area, accounting staff and there is at least one too many in the back office based on:
  - Overall cost of labor
  - The ratio of non-income earners to income earning employees
  - The number of invoices being processed vs the number of people

So...what did the owner do when he got home?

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## Best Practices Group Initial Evaluation

So...what did the owner do when he got home?

NOTHING!

Two Reasons Why?

1. It's his company and he can make whatever decision he wants to but, we do follow-up on the decisions and actions at the next meeting.
2. He gradually transitioned his mother-in-law into retirement over the next year.

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## Best Practices Group Initial Evaluation

How Managerial Accounting works:

You evaluate financials and along with other critical data to find problems aka opportunities for improvement

Then you make a decision or a plan for change

Evaluate the impact of that change, then make another decision

THIS is how you should be using your financials!

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## First Requirement of Using Financials

Having **READABLE** financials

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## Revenue / Income / Sales

Income	Location A	Location B	Location C
Light-duty Revenue	\$	\$	\$
Medium-duty Revenue	\$	\$	\$
Heavy-duty Revenue	\$	\$	\$
Road Service Revenue	\$	\$	\$
Transport Revenue	\$	\$	\$
Total Income	\$	\$	\$

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## Coupling with Non-Financial Data

### Financial

Income	Location A	Location B	Location C
Light-duty Revenue	\$	\$	\$
Medium-duty Revenue	\$	\$	\$
Heavy-duty Revenue	\$	\$	\$
Road Service Revenue	\$	\$	\$
Transport Revenue	\$	\$	\$
Total Income	\$	\$	\$

### Non-Financial

Number of Calls	Location A	Location B	Location C
Light-duty Revenue	x	x	x
Medium-duty Revenue	x	x	x
Heavy-duty Revenue	x	x	x
Road Service Revenue	x	x	x
Transport Revenue	x	x	x
Total Income	x	x	x

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## COGS aka Variable Expenses

- Those expenses that go into the creation of revenue
- Every call takes a certain amount of driver's time, fuel, maintenance, tire wear
- As sales increase, so do COGS items and usually along the same percentage, if it takes \$0.08 of fuel to create \$1 of sales, \$1MM of sales will equal \$80K worth of fuel (same 8%)

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Cost of Goods Sold	Loc A	Loc B	Loc C	Total
Damage Claims	12,950	14,800	9,250	37,000
Fleet Repairs	122,500	140,000	87,500	350,000
Fuel	245,000	280,000	175,000	700,000
Liability - Truck	87,500	100,000	62,500	250,000
Payroll Taxes				
Dispatch	1,680	1,920	1,200	4,800
Drivers	15,225	17,400	10,875	43,500
Total Payroll Taxes	16,905	19,320	12,075	48,300
Shop Supplies	33,250	38,000	23,750	95,000
Toll Fees	4,200	4,800	3,000	12,000
Towing Supplies	9,100	10,400	6,500	26,000
Uniforms	43,568	18,000	11,250	45,000
Wages				
Light Duty	262,500	300,000	187,500	750,000
Medium duty	168,693	100,000	62,500	250,000
Heavy duty	196,000	224,000	140,000	560,000
Dispatch	28,000	32,000	20,000	80,000
Total Wages	574,000	656,000	410,000	1,640,000
<b>Total COGS</b>	<b>1,121,155</b>	<b>1,281,320</b>	<b>800,825</b>	<b>3,203,300</b>

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Cost of Goods Sold		Loc A	Loc B	Loc C	Total
	Damage Claims	12,950	14,800	9,250	37,000
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Cost of Goods Sold		Year 1	Year 2	Year 3
	Damage Claims	0.3%	1.1%	4.2%
	Fleet Repairs	2.9%	10.2%	39.8%
	Fuel	5.8%	20.4%	79.5%
	Liability - Truck	2.1%	7.3%	28.4%
	Payroll Taxes	0.0%	0.0%	0.0%
	Dispatch	0.0%	0.1%	0.5%
	Drivers	0.4%	1.3%	4.9%
	Total Payroll Taxes	0.4%	1.4%	5.5%
	Shop Supplies	0.8%	2.8%	10.8%
	Toll Fees	0.1%	0.3%	1.4%
	Towing Supplies	0.2%	0.8%	3.0%
	Uniforms	1.0%	1.3%	5.1%
	Wages	0.0%	0.0%	0.0%
	Light Duty	6.2%	21.8%	85.2%
	Medium duty	4.0%	7.3%	28.4%
	Heavy duty	4.7%	16.3%	63.6%
	Dispatch	0.7%	2.3%	9.1%
	Total Wages	13.6%	47.7%	186.4%
	Total COGS	26.7%	93.2%	364.0%
	Gross Profit	73.3%	6.8%	-264.0%

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	Year 1	Year 2	Year 3
<b>Shop Supplies</b>	<b>0.8%</b>	<b>2.8%</b>	<b>10.8%</b>

- The %s are always derived from the Cost of the category divided by Total Sales and is expressed as Percent of Sales
- Look at the change from Year 1 to Year 2
- It's only a 2% change from 0.8% to 2.8%
- So, what does that translate to if it's only 2%?
- If total sales = \$5,000,000 then a 2% change (percent of sales) =  $\$5,000,000 \times 0.02 = \$100,000$

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Income	Total	
L/D Towing	1,468,520	27.0%
H/D Towing	2,950,200	54.1%
M/D Towing	1,030,280	18.9%
Total Income	5,449,000	100.0%
Cost of Goods Sold	Total	
Damage Claims	37,000	0.7%
Fleet Repairs	350,000	6.4%
Fuel	545,000	10.0%
Liability - Truck	310,000	5.7%
Payroll Taxes		
Dispatch	4,800	0.1%
Drivers	76,775	1.4%
Total Payroll Taxes	81,575	1.5%
Shop Supplies	37,000	0.7%
Toll Fees	150,700	2.8%
Towing Supplies	41,200	0.8%
Uniforms	47,980	0.9%
Wages		
Light Duty	352,000	6.5%
Medium duty	188,275	3.5%
Heavy duty	836,855	15.4%
Dispatch	190,000	3.5%
Total Wages	1,567,131	28.8%
Total COGS	3,167,586	58.1%
Gross Profit	2,281,416	41.9%

What does this picture tell us?

- Makeup of sales LD, HD, MD
- COGS is 58.1%
- Gross Profit is 41.9%
- Makeup of COGS %

What could we do with this info plus fixed expenses?

- Breakeven point
- Determine Cost of Service for LD, HD, MD

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		Location A		Location B		Location C		Total	
Income									
	L/D Towing	918,520	32.2%	500,000	21.1%	50,000	22.7%	1,468,520	27.0%
	H/D Towing	1,105,200	38.7%	1,750,000	73.7%	95,000	43.2%	2,950,200	54.1%
	M/D Towing	830,280	29.1%	125,000	5.3%	75,000	34.1%	1,030,280	18.9%
	Total Income	2,854,000	100.0%	2,375,000	100.0%	220,000	100.0%	5,449,000	100.0%
Cost of Goods Sold		Loc A		Loc B		Loc C		Total	
	Damage Claims	12,950	0.5%	14,800	0.6%	9,250	4.2%	37,000	0.7%
	Fleet Repairs	122,500	4.3%	140,000	5.9%	87,500	39.8%	350,000	6.4%
	Fuel	245,000	8.6%	280,000	11.8%	20,000	9.1%	545,000	10.0%
	Liability - Truck	187,500	6.6%	100,000	4.2%	22,500	10.2%	310,000	5.7%
	Payroll Taxes								
	Dispatch	1,680	0.1%	1,920	0.1%	1,200	0.5%	4,800	0.1%
	Drivers	48,500	1.7%	17,400	0.7%	10,875	4.9%	76,775	1.4%
	Total Payroll Taxes	50,180	1.8%	19,320	0.8%	12,075	5.5%	81,575	1.5%
	Shop Supplies	12,950	0.5%	14,800	0.6%	9,250	4.2%	37,000	0.7%
	Toll Fees	122,500	4.3%	26,000	1.1%	2,200	1.0%	150,700	2.8%
	Towing Supplies	32,000	1.1%	8,000	0.3%	1,200	0.5%	41,200	0.8%
	Uniforms	29,600	1.0%	16,800	0.7%	1,580	0.7%	47,980	0.9%
	Wages								
	Light Duty	211,000	7.4%	95,000	4.0%	46,000	20.9%	352,000	6.5%
	Medium duty	160,000	5.6%	17,400	0.7%	10,875	4.9%	188,275	3.5%
	Heavy duty	520,855	18.3%	224,000	9.4%	92,000	41.8%	836,855	15.4%
	Dispatch	146,000	5.1%	32,000	1.3%	12,000	5.5%	190,000	3.5%
	Total Wages	1,037,855	36.4%	368,400	15.5%	160,875	73.1%	1,567,131	28.8%
	Total COGS	1,853,035	64.9%	988,120	41.6%	326,430	148.4%	3,167,586	58.1%
	Gross Profit	1,000,965	35.1%	1,386,880	58.4%	-106,430	-48.4%	2,281,416	41.9%

Now what can we see?

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		Location A	Location B	Location C	Total
Income					
	L/D Towing	32.2%	21.1%	22.7%	27.0%
	H/D Towing	38.7%	73.7%	43.2%	54.1%
	M/D Towing	29.1%	5.3%	34.1%	18.9%
	Total Income	100.0%	100.0%	100.0%	100.0%
Cost of Goods Sold					
	Damage Claims	0.5%	0.6%	4.2%	0.7%
	Fleet Repairs	4.3%	5.9%	39.8%	6.4%
	Fuel	8.6%	11.8%	9.1%	10.0%
	Liability - Truck	6.6%	4.2%	10.2%	5.7%
	Payroll Taxes				
	Dispatch	0.1%	0.1%	0.5%	0.1%
	Drivers	1.7%	0.7%	4.9%	1.4%
	Total Payroll Taxes	1.8%	0.8%	5.5%	1.5%
	Shop Supplies	0.5%	0.6%	4.2%	0.7%
	Toll Fees	4.3%	1.1%	1.0%	2.8%
	Towing Supplies	1.1%	0.3%	0.5%	0.8%
	Uniforms	1.0%	0.7%	0.7%	0.9%
	Wages				
	Light Duty	7.4%	4.0%	20.9%	6.5%
	Medium duty	5.6%	0.7%	4.9%	3.5%
	Heavy duty	18.3%	9.4%	41.8%	15.4%
	Dispatch	5.1%	1.3%	5.5%	3.5%
	Total Wages	36.4%	15.5%	73.1%	28.8%
	Total COGS	64.9%	41.6%	148.4%	58.1%
	Gross Profit	35.1%	58.4%	-48.4%	41.9%

How about now?

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Income	Location A	Location B	Location C	Total	
L/D Towing	918,520	32.2%	500,000	21.1%	50,000
H/D Towing	1,105,200	38.7%	1,750,000	73.7%	95,000
M/D Towing	830,280	29.1%	125,000	5.3%	75,000
Total Income	2,854,000	100.0%	2,375,000	100.0%	220,000
Cost of Goods Sold	Loc A	Loc B	Loc C	Total	
Damage Claims	12,950	0.5%	14,800	0.6%	9,250
Fleet Repairs	122,500	4.3%	140,000	5.9%	87,500
Fuel	245,000	8.6%	280,000	11.8%	20,000
Liability - Truck	187,500	6.6%	100,000	4.2%	22,500
Payroll Taxes					
Dispatch	1,680	0.1%	1,920	0.1%	1,200
Drivers	48,500	1.7%	17,400	0.7%	10,875
Total Payroll Taxes	50,180	1.8%	19,320	0.8%	12,075
Shop Supplies	12,950	0.5%	14,800	0.6%	9,250
Toll Fees	122,500	4.3%	26,000	1.1%	2,200
Towing Supplies	32,000	1.1%	8,000	0.3%	1,200
Uniforms	29,600	1.0%	16,800	0.7%	1,580
Wages					
Light Duty	211,000	7.4%	95,000	4.0%	46,000
Medium duty	160,000	5.6%	17,400	0.7%	10,875
Heavy duty	520,855	18.3%	224,000	9.4%	92,000
Dispatch	146,000	5.1%	32,000	1.3%	12,000
Total Wages	1,037,855	36.4%	368,400	15.5%	160,875
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Gross Profit	1,000,965	35.1%	1,386,880	58.4%	-106,430

  

Number of Calls	Loc A	Loc B	Loc C
Light-duty Revenue	x	x	x
Medium-duty Revenue	x	x	x
Heavy-duty Revenue	x	x	x
Total Income	x	x	x

- Now, we can pick apart the numbers to identify and address problems/opportunities and increase profitability.
- If we can split the data for Fleet Repairs, Fuel and Liab Ins by truck, we can know the Revenue, Cost and Profit Contribution of each type of call in each location.

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## Call Matrix – the non-financial data

- In order to completely analyze your operations, you need the non-financial data that makes up your operations, the Call Matrix which should be able to be gathered through any GOOD dispatch system

Calls by Category	Motor Club	Police	Commercial	Retail/Cash	IAA	Total
Light Duty	1992	816	1899	2808	8760	16275
Light Duty Road Service	192	3	30	48	0	273
Heavy/Medium Duty	198	45	1824	639	117	2823
Heavy duty Road Service	12	0	39	24	0	75
Trucking/Hauling/Transport	0	6	285	39	45	375
Shop Repairs	0	0	0	0	0	0
Total Number of Invoices	2394	870	4077	3558	8922	19821

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## Once your financials are readable you can:

- Have a better understanding of your results
- Identify target areas of opportunity in sales and needed cost controls
- Calculate Breakeven sales
- Calculate Price, Cost and Profit per call
- Breakeven call volume
- Develop daily KPI's for minimum and goal-based sales and call volumes
- Build proformas for What-if analyses

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## Thank you all for coming. Please fill out your survey for Tow Times

If you would like information on CFO consulting services or if you're interested in joining our Best Practices Group, I can be reached at:

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