

Finance Departments That Rock

In previous articles we have discussed the “Three Legged Stool” approach to organizing a successful door dealership. This refers to an organization chart that looks something like this:



The premise is that there are four basic functions needed to operate a business. This model works for a small, medium or large business. Each department operates as a “leg” supporting the leadership and the organization. As long as the three legs are solid and attached to the seat and to each other, the stool can do its job and hold a lot of weight.

In a smaller organization, you, the owner may need to head each, or more than one function. But as you grow your business, you will be able to find managers for each area who will run the day to day business. This will allow you, the leader, to focus on growth and direction for the organization.

This article focuses on how to build a strong and successful Finance “leg” of the business. This starts with a description of what the owner should be able to expect from the Finance Department to help you run the business. Then we will discuss what it takes to make this happen.

WHAT THE OWNER SHOULD EXPECT FROM A FINANCE DEPARTMENT

A finance department generally takes care of many areas, especially those categorized as General and Administrative duties. Some of these are:

- i. Maintaining the general ledger and financial reporting
- ii. Systems/Procedures/Internal Controls
- iii. Accounts Receivable/Accounts Payable
- iv. Payroll
- v. Insurance
- vi. Information Systems
- vii. Banking
- viii. Cash Management
- ix. Human Resources

I want to first cover some financial reporting that the owner should expect in order to run the business, which will alert him to trends, areas of concern, areas of strength, and suggestions for taking care of some problem areas. This reporting needs to be often and timely. Let’s start with weekly reporting.



1) Weekly Updates:

In our organization we generated a weekly report that we called our “Flash” report, showing key figures that we felt were important to evaluating our performance as the month progressed. Items that we included were:

1. Cash position
 - a. Cash balance
 - b. Cash expected to be received in the next week
 - c. Cash expected to be spent in the next week
 - d. Expected cash balance at the end of the week
 - e. Suggestions to cover any shortfalls, which hopefully are none!
2. Accounts Receivable aging
 - a. This included a report showing collection efforts on past due accounts
3. Accounts Payable aging
4. # of people paid – just to make sure we were within the headcount limits we had set to support our sales budgets
5. Payroll and overtime paid vs. prior pay period
6. Month to date sales with projection for the entire month. This was compared to budget for the month and sales for the previous month.

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Such a report may look something like this:

| XYZ DOOR COMPANY WEEKLY FLASH REPORT 03/13/15 | | | | | | | | | |
|---|------------|---------------|-------------|----------------------|------------------|-------------------------|----------------------------------|----------------------------|------------------------|
| SEE NOTES BELOW | | | | | | | | | |
| | CASH BAL. | EST. RECEIPTS | EST. DISB. | EST. BAL. | Sales FEB | Billings Thru 3/13/2015 | MTD Budget | Total Month Sales Estimate | Days Billed This Month |
| CASH | \$ 109,248 | \$ 57,927 | \$ (40,000) | \$ 127,175 | \$ 320,642 | \$ 97,495 | \$ 391,666 | \$ 292,485 | 7 Days |
| A/R | | | | | | | | | |
| | CURRENT | 30 DAYS | 60 DAYS | 90 DAYS+ | Pre Pmt CREDITS | TOTAL | Total w/o credits | | |
| A/R | 152,168 | 59,538 | 15,714 | 7,521 | (41,307) | 193,634 | 234,941 | | |
| %s w/o crec | 78.6% | 30.7% | 8.1% | 3.9% | -21.3% | 100.0% | 100.0% | | |
| A/P | | | | | | | | | |
| | CURRENT | 30 DAYS | 60 DAYS | 90 DAYS+ | TOTAL | | | | |
| A/P | 91,085 | 1,936 | 0 | 0 | (2,592) | 90,429 | | | |
| | 100.7% | 2.1% | 0.0% | 0.0% | | 100.0% | | | |
| PAYROLL AND OVERTIME | | | | | | | | | |
| | O-TIME \$ | REG. \$ | TOTAL \$ | O-TIME AS % OF TOTAL | O-TIME 2/28/2015 | # OF PEOPLE PAID | # OF PEOPLE PAID STILL ON PAYDAY | | |
| 3/14/2015 | \$ 2,677 | \$ 40,645 | \$ 43,322 | 6.2% | \$ 1,848 | 38 | 35 Full Time 2 Part Time | | |
| NOTES: | | | | | | | | | |
| Collections I spoke with owner at length about aging report. We reviewed current week- all Customers called- 16 Accounts. Updated Collection report will go out first of next week. Continued successes one day at a time. Sales folks also making calls. | | | | | | | | | |



There is a lot of information here, you may select different criteria for your weekly updates, some parameters that are more meaningful to your organization. But this will give you a weekly look at what you deem important for running your business.

2) MONTHLY FINANCIAL STATEMENTS BY THE 15TH OF THE FOLLOWING MONTH

For financial information to be meaningful, it should always be shown compared to something else. This applies to both income statements and balance sheets. It also should be timely, to allow quick reaction to areas of concern.

INCOME STATEMENTS

We reported our income statements compared to budget and to previous year. We showed each line item as a percentage of sales to allow comparison to industry parameters as well as to budgets and previous periods. The Dealer FIT reports accumulated and prepared by IDA are a wonderful guideline of how others in the industry make and spend their money. I would encourage all of you to participate in this exercise. The work involved in submitting your data is more than offset by the benefit of knowing how you are doing versus others in the same

sales range as your company. It is very helpful if your financial statements are arranged in a pattern similar to the Dealer FIT, this is a very good way to categorize and report income and expenses. The one shown below focuses more on operating income than EBITDA (Earnings before interest, taxes, depreciation and amortization) that the IDA Fit report shows. That means we allocated depreciation and amortization to the operational areas using the assets being depreciated.

A typical financial statement compared to budgets may look like what is shown below.

XYZ DOOR COMPANY, INC.
Profit/Loss
Actual Vs. Budget
20XX

| | Actual Dec 20XX | | Dec Budget 20XX | | Actual vs. Budget | Actual YTD 20XX | | Budget YTD 20XX | | Actual vs. Budget |
|--------------------------------|-----------------|--------|-----------------|--------|-------------------|-----------------|--------|-----------------|--------|-------------------|
| Ordinary Income/Expense | | | | | | | | | | |
| Income | | | | | | | | | | |
| 30100 - Sales | \$ 291,667 | | \$ 250,000 | | \$ 41,667 | \$ 3,600,000 | | \$ 3,000,000 | | \$ 600,000 |
| Total Income | 291,667 | 100.0% | 250,000 | 100.0% | 41,667 | 3,600,000 | 100.0% | 3,000,000 | 100.0% | 600,000 |
| Cost of Goods Sold | | | | | | | | | | |
| Total COGS | 172,588 | 59.2% | 139,166 | 55.7% | 33,422 | 2,047,325 | 58.5% | 1,655,490 | 55.5% | 381,836 |
| Gross Profit | 119,079 | 40.8% | 110,834 | 44.3% | 8,245 | 1,452,675 | 41.5% | 1,334,510 | 44.5% | 118,164 |
| Warehouse Expense | | | | | | | | | | |
| Total Warehouse Expense | 30,626 | 10.5% | 16,750 | 6.7% | 15,126 | 236,951 | 6.8% | 200,700 | 6.7% | 49,751 |
| Sales Expenses | | | | | | | | | | |
| Total Selling Expenses | 27,736 | 9.5% | 25,943 | 10.4% | 1,794 | 288,367 | 8.2% | 311,509 | 10.4% | (23,142) |
| General & Administrative | | | | | | | | | | |
| Total General & Administrative | 41,442 | 14.2% | 32,718 | 13.1% | 8,724 | 460,720 | 13.2% | 403,339 | 13.4% | 57,381 |
| Occupancy Expenses | | | | | | | | | | |
| Total Occupancy Expenses | 8,167 | 2.8% | 9,041 | 3.6% | (874) | 96,600 | 2.8% | 109,431 | 3.6% | (12,831) |
| Total Operating Expenses | 107,971 | 37.0% | 84,452 | 33.8% | 23,520 | 1,082,638 | 31.0% | 1,024,979 | 34.1% | 57,659 |
| Net Operating Income | 11,108 | 3.8% | 26,382 | 10.5% | (16,525) | 370,036 | 10.5% | 309,531 | 10.4% | 47,005 |
| Other Income/Expense | | | | | | | | | | |
| Net Other Income | \$ 875 | 0.3% | \$ 292 | 0.1% | 583 | \$ 3,600 | 0.1% | \$ - | 0.0% | 3,600 |
| Net Income before income taxes | \$ 11,983 | 4.1% | \$ 26,674 | 10.6% | (15,942) | \$ 373,636 | 10.6% | \$ 309,531 | 10.4% | 60,505 |
| Income Taxes: | | | | | | | | | | |
| Total Income Taxes | - | 0.0% | - | 0.0% | - | - | 0.0% | - | 0.0% | - |
| Net Income After Taxes | \$ 11,983 | 4.1% | \$ 26,674 | 10.6% | \$ (15,942) | \$ 373,636 | 10.6% | \$ 309,531 | 10.4% | \$ 60,505 |

The actual statements showed each line item within the broad categories, with all comparisons. That level of detail should allow you to evaluate your operation regularly. If presented in a timely manner, it allows you to make modifications to areas or expenses you see are out of line with expectations. You can do this in a more timely manner than if you find out about issues six months later, when it is too late to mitigate the damage, or to enhance the areas where performance is good.

We actually used our general ledger and thus our financial statements to gather expenses per truck. This allowed us to see if technicians were getting periodic oil changes, what trucks were nearing the end of life due to high repairs, etc. Our truck expenses looked like this:

| | Actual Dec 20XX | Dec Budget 20XX | Actual vs. Budget | Actual YTD 20XX | Budget YTD 20XX | Actual vs. Budget |
|----------------------------|-------------------|--------------------|-------------------|---------------------|---------------------|----------------------|
| 30100 - Sales | \$ 291,667 | \$ 250,000 | \$ 41,667 | \$ 3,500,000 | \$ 3,000,000 | \$ 500,000.00 |
| Truck Repairs | | | | | | |
| 52538 - Truck Repairs #38 | 100 0.03% | 67 0.03% | 33 | 542 0.02% | 800 0.03% | (258) |
| 52550 - Truck Repairs #50 | 200 0.07% | 67 0.03% | 133 | 1,405 0.04% | 800 0.03% | 605 |
| 52552 - Truck Repairs #52 | - 0.00% | 67 0.03% | (67) | 1,395 0.04% | 800 0.03% | 595 |
| 52553 - Truck Repairs #53 | - 0.00% | 67 0.03% | (67) | 809 0.02% | 800 0.03% | 9 |
| 52554 - Truck Repairs #54 | 75 0.03% | 67 0.03% | 8 | 1,055 0.03% | 800 0.03% | 255 |
| 52555 - Truck Repairs #55 | - 0.00% | 67 0.03% | (67) | 290 0.01% | 800 0.03% | (510) |
| 52556 - Truck Repairs #56 | - 0.00% | 67 0.03% | (67) | 239 0.01% | 800 0.03% | (561) |
| 52557 - Truck Repairs #57 | - 0.00% | 67 0.03% | (67) | 88 0.00% | 800 0.03% | (712) |
| 52558 - Truck Repairs #58 | - 0.00% | 67 0.03% | (67) | 51 0.00% | 800 0.03% | (749) |
| 52559 - Truck Repairs #59 | 63 0.02% | 67 0.03% | (4) | 73 0.00% | 800 0.03% | (727) |
| 52560 - Truck Repairs #60 | 500 0.17% | 67 0.03% | 433 | 2,210 0.06% | 800 0.03% | 1,410 |
| 52561 - Truck Repairs #61 | - 0.00% | 67 0.03% | (67) | 383 0.01% | 800 0.03% | (417) |
| 52562 - Truck Repairs #62 | - 0.00% | 67 0.03% | (67) | 792 0.02% | 800 0.03% | (8) |
| 52563 - Truck Repairs #63 | 50 0.02% | 67 0.03% | (17) | 272 0.01% | 800 0.03% | (528) |
| 52564 - Truck Repairs #64 | - 0.00% | 67 0.03% | (67) | 314 0.01% | 800 0.03% | (486) |
| 52565 - Truck Repairs #65 | - 0.00% | 67 0.03% | (67) | 172 0.00% | 800 0.03% | (628) |
| 52569 - Truck Repairs #69 | - 0.00% | 67 0.03% | (67) | 795 0.02% | 800 0.03% | (5) |
| Total Truck Repairs | 988 0.34% | 1,000 0.40% | (12) | 10,888 0.31% | 13,600 0.45% | (2,712) |

We had an income statement comparing current periods to previous year's month and year to date information. Both statements offer insight into how things are running, and may point out areas of concern or success!!

BALANCE SHEETS

Financial statements also include the Balance Sheet with each reporting period compared to the same period the year before. This statement is very important as it tells you your cash position, along with other assets and liabilities. The overall statements are reflective of the financial health of the organization. The big items you will review are cash, accounts receivable, inventory, liabilities and owner's equity. Your weekly Flash report have kept you informed about many of these numbers, so seeing the whole picture compared to previous periods will solidify your understanding of the whole picture.

A balance sheet may look like what is on the right:

3) SALES AND MARGIN DATA THROUGHOUT THE MONTH

To keep up to date on how the month is progressing, it is helpful to have access to sales data throughout the month. This should be easily manipulated to show sales by salesman, by territory, by technician and truck. Ideally, reports should include margins on each job, and in total. This depends on proper software and quality data input on a daily basis.

WHAT IT TAKES TO MAKE ALL THIS HAPPEN

1) PERSONNEL

Leadership in each area of your three stooled approach is key to the success of each department, and the entire organization. Your Finance Manager should possess the education and training to be able to do more than enter transactions. They should ideally have an accounting degree and at least three years of experience. Each individual will vary in the exact work history during the three years of experience, but it should include preparation of financial statements with the ability to analyze the results and offer suggestions for improvements. If you feel you cannot afford an accountant on staff, it is important to have outside help that can provide you with

current information, and who would help establish procedures and controls that would guide your internal staff through daily, month end closing and year end closing processes. In researching, using salary.com, I found the salary range for an Accountant III is \$57,000 - \$84,000, with the median being \$70,000. This level of accountant should be able to lead your department successfully, given good managerial skills in addition to the accounting skill. An accountant II salary range is \$46,000 - \$69,000, with the median salary of \$57,000. This may

be adequate, also, depending on the education and experience of the individual. You can read more about this at the website mentioned, salary.com, where it describes requirements for

| XYZ DOOR COMPANY, INC. | | | |
|--|-------------------|-------------------|-------------------|
| Balance Sheet | | | |
| As of December 31, 2014 | | | |
| | Dec 31, 14 | Dec 31, 13 | \$ Change |
| ASSETS | | | |
| Cash | 150,000.00 | 125,000.00 | 25,000.00 |
| Accounts Receivable | 160,000.00 | 130,000.00 | 30,000.00 |
| Reserve for Bad Debts | -10,000.00 | -10,000.00 | 0.00 |
| Inventory | 80,000.00 | 75,000.00 | 5,000.00 |
| Prepays and other current assets | 15,000.00 | 12,000.00 | 3,000.00 |
| Total Current Assets | 395,000.00 | 332,000.00 | 63,000.00 |
| Fixed Assets | | | |
| Vehicles and Equipment | 650,000.00 | 600,000.00 | 50,000.00 |
| Accumulated Depreciation | -380,000.00 | -325,000.00 | -55,000.00 |
| Net Fixed Assets | 270,000.00 | 275,000.00 | -5,000.00 |
| Other assets including loans to officers | 25,000.00 | 23,000.00 | 2,000.00 |
| TOTAL ASSETS | 690,000.00 | 630,000.00 | 60,000.00 |
| Liabilities | | | |
| Current Liabilities | | | |
| Accounts Payable | 80,000.00 | 75,000.00 | 5,000.00 |
| Credit Cards and other notes | 40,000.00 | 30,000.00 | 10,000.00 |
| Current portion of LT Debt | 15,000.00 | 25,000.00 | -10,000.00 |
| Accruals, deposits and other curr. Liab. | 55,000.00 | 60,000.00 | -5,000.00 |
| Total Current Liabilities | 190,000.00 | 190,000.00 | 0.00 |
| Total Long Term Liabilities | 185,000.00 | 200,000.00 | -15,000.00 |
| Total Liabilities | 375,000.00 | 390,000.00 | -15,000.00 |
| Total Equity | 315,000.00 | 240,000.00 | 75,000.00 |
| TOTAL LIABILITIES & EQUITY | 690,000.00 | 630,000.00 | 60,000.00 |

various levels. While this may sound like a large amount, this position is as important as your sales or operations manager in supporting your “stool.”

In addition to a strong manager, you need good accounting clerks to fulfill the day to day duties. The number you need will depend on the size of your organization. Salary range for an accounting clerk I is \$27,000 - \$42,000. Each region will have varying degrees of pay ranges for this type of personnel, but without good support, the Finance Manager will be challenged to have time to fulfill all duties.

2) SOFTWARE and HARDWARE TO SUPPORT IT

There is no replacement for a good software that integrates the sales, operations and financial aspects of your company. There are many brands available, but without this, your employees can use a lot of time trying to come up with ways (Excel spreadsheets, manual schedules, sticky notes, etc.) to track all the information you need to efficiently run your business.

Ideally, your software should allow you to track a transaction from the first telephone call through the collection of payment for the job, through the general ledger and into financial statements. With adequate software and input of data, you will collect marketing information about your customers, how they came to call you versus your competitor, their geographic information, email address, etc. This is just the beginning- the person taking the call should be able to schedule an appointment with a salesman using scheduling functions available in the software. Just think of the time saved in being able to do this in one transaction instead of writing down a message, handing it to a salesman, and having him call the customer. If customer service people are adequately trained, the salesman should get all he needs to know from their input so that he goes to the job prepared with the right literature and samples to meet the customer's needs. He may be able to provide a quote onsite, print the contract from the software using portable printers and laptops or notebooks, get signatures, collect a deposit check and be on his way. He should be able to order special order material by creating a purchase order in the system which tracks all material to a specific job, then tracks the specific door to the customer for future repairs, etc. Generally, you can retrieve the data in the system in a variety of reporting formats.

Here are the modules in a typical ERP (Enterprise Resource Planning) software:



While this type of software may be expensive, it should pay for itself in helping manage your margins by job from the quote through the end product. This feature alone can be a huge boost in improving your profits and cash flow. A system with hardware and software may cost between \$15,000 and \$50,000, depending on the hardware, number of modules purchased, and number of people using the software at any one time. But without good software, it will be more difficult to get the reporting you need to run an efficient operation.

Good software and hardware must be accompanied by adequate support for both. There are good outside support organizations that aid small businesses in areas where special expertise is needed. This cost must be anticipated and built into the budget.

3) SUPPORT FROM THE PRESIDENT AND OTHER AREA MANAGERS

No department acts independently, all depend on each other doing their jobs and following procedures to allow the entire operation to run smoothly and maximize results. Here are some specific areas where support from other areas is crucial.



1) Good Warehouse organization and controls

Controls over issuing doors, operators, parts, etc. on a daily basis help minimize lost or misplaced inventory, which aids a smooth month end count and comparison to book inventory.

A well organized and controlled warehouse helps expedite the monthly counts required for a clean closing each month. Our organization used bins for storing doors and related hardware. The warehouse manager prepared a bin schedule listing the item in each bin. At month end, we verified the bin schedule data, making the process flow very well. Our bins looked like the picture above.

Our monthly count included stock doors and operators, and special order material. We made a year-end count of everything in the warehouse. Don't forget to include material that may be on the technicians' trucks.

Accountability in a warehouse manager is crucial to a smooth operation. A responsible warehouse manager will know his inventory and closely monitor the daily ins and outs. This should minimize discrepancies during cycle counts or help with understanding any differences between physical and book inventories.

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MANAGEMENT (continued from page 30)

2) Operations Department with good paper flow (Service and Dispatch)

It helps for work orders to be processed each day. Usually completed work orders involve payments, either checks or credit cards. Daily processing helps maintain a continuous and smooth cash flow.

Some month end closings can get very difficult if there is a backlog of paperwork to process on the last day of the month. Nobody likes staying late on that day to catch up, so keeping the flow going during the month will prevent this.

3) Sales Department that keeps order entry and purchasing up to date, and open orders listing current.

Sales are the lifeblood of any company. It helps the entire organization when sales orders are entered and scheduled promptly.

In some organizations, salesmen order special order material for their jobs. Accurate purchase orders aid every other department that uses them, such as warehouse people who receive the material and Accounts Payable people who process bills for payment.

Good software will generate a report showing open orders by salesman. When salesmen review their open order listings, they are often reminded of orders that need follow up, or cancellation. It is a reminder to them of possible business the company may be missing.

While many items listed above involve the month end process, which allows a clean cut-off date and accurate financial statements, these procedures also allow smooth operations throughout the days and months, which benefit everyone.

SUMMARY

While the subject of accounting is usually regarded as boring and dry (and it can be), the financial area shows the results of all the hard work that each employee puts forth each and every day. You can consider it a report card for the success of the business. In the end, most of us are working in business to make money. So having a good handle on how successful we are in that regard depends on a strong Finance Department, with the help of every other department. The best news we ever get is that we are having a bonanza of a year which allows year-end bonuses to everyone!! What a nice reward!! Without accurate records, we may never have that realization and may miss a great opportunity to reward everyone for their dedication and diligence day after day. Building a strong financial department allows all this to happen.

 IDA

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