



own it.

# Service Financials

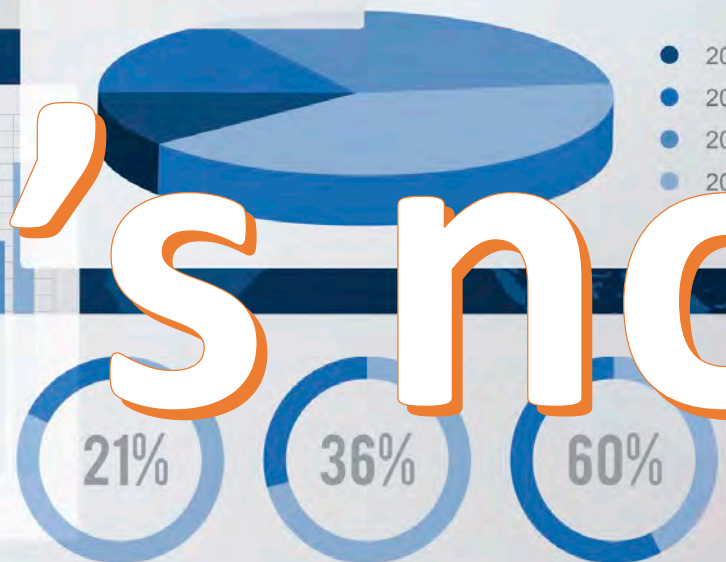
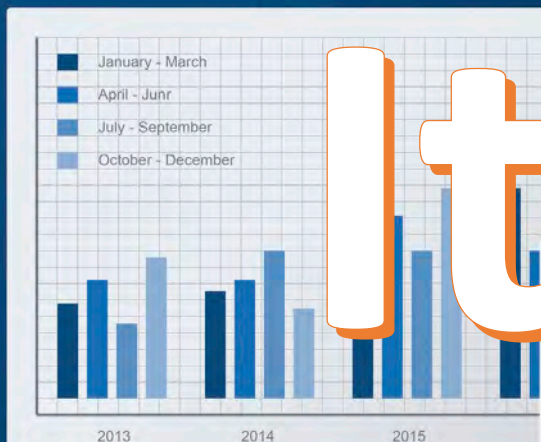
What you should know

With Paul MacDonald  
Service Lead @ ServiceSource &  
Coach @ Expert Service Program, [PMDgroup.ca](http://PMDgroup.ca)

**CONVENTION 2022**



# ACCOUNTING



It's not

## Ratios

### Liquidity

Current Ratio

Quick Ratio

### Safety

Debt to Equity Ratio

Debt-Service Coverage Ratio - DSCR

### Profitability

Sales Growth

COGS to Sales

Gross Profit Margin

SG&A to Sales

Net Profit Margin

Return on Equity (ROE)

Return on Assets

Owner's Compensation to Sales

### Efficiency

Days in Receivables

Accounts Receivable Turnover

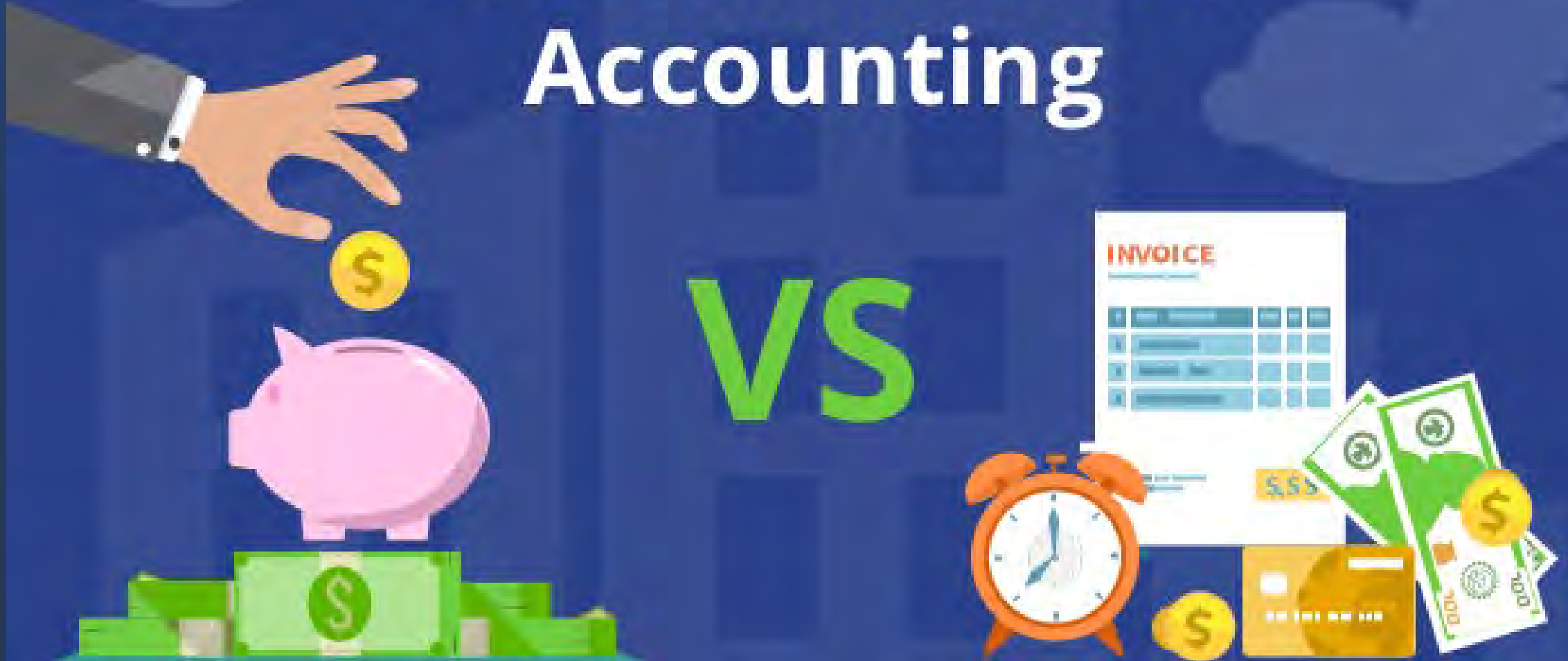
Days in Inventory

Inventory Turnover

Sales to Total Assets

# Cash vs. Accrual Accounting

VS



# CASH VS. ACCRUAL BASIS ACCOUNTING

## Cash



Tracks cash, expenses, and income.



Does not track long-term liabilities, loans, or inventory.



Record expenses when you pay and income when you receive it.



Not all businesses can use cash-basis accounting due to size restrictions.

## Accrual



Uses more advanced financial accounts, such as accounts payable.



Tracks long-term liabilities, loans, and inventory.



Record income when the transaction takes place and expenses when you receive the bill.



Larger businesses must use accrual basis, according to the IRS.

# Tools for Profitable Service

- Income statement
- Balance Sheet
- Accounts Receivable
  - Warranty Parts Credits
- Cash Flow Statement
- Budgets
- Inventory Turns

**own it.**





*Balance Sheet*

*Income Statement*

*Financial Statements*

*Cash Flow*

*Equity*

- If we made or lost money
- To determine our CODB
- To set Service Rates



**Maytag® Metallic Slate Front Load Laundry Pair**

Model #: MALAUMED8630HC

**\$2,949.90**

[ADD TO CART](#)

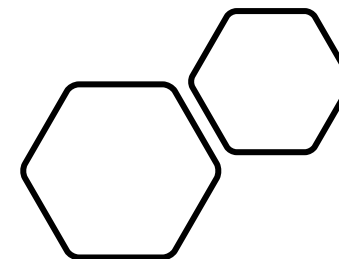


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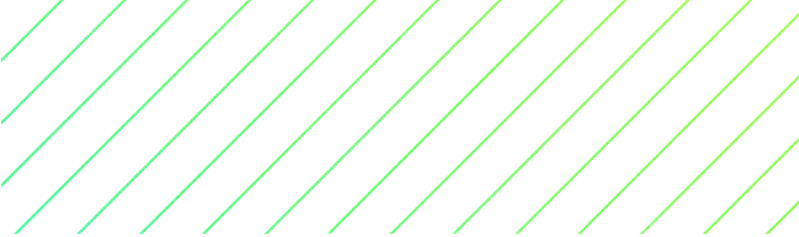
[ADD TO CART](#)



How do you set appliance prices?

**own it.**





# Appliance Retail =



Or we use  
MAP, URMP

KitchenAid KRSF505ESS  
**Side-by-side Refrigerator**  
24.8 cu. ft.  
Stainless steel  
**KEY FEATURES**  
- In-door Ice System  
- Preserva® Food Care  
- LED Lighting

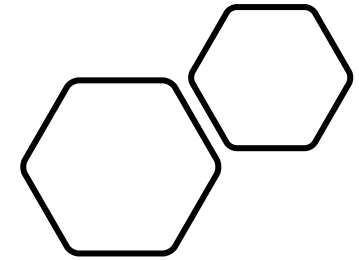
4.5/5 12 reviews

SCAN ME!

NFC

**1999.00**





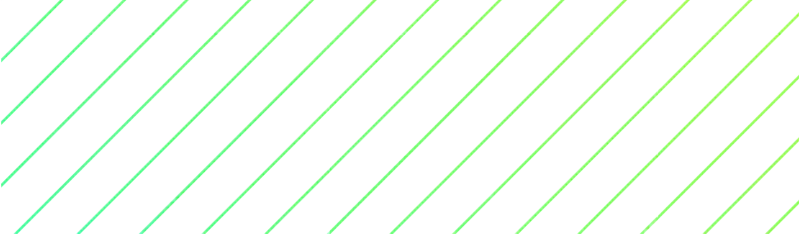
How do  
you set  
Service  
rates?

own it.

You can't set service rates  
without knowing your hourly  
cost to operate your service  
business

own it.





# Service Rates =

$$\text{Tech wage} + \text{Overhead} + \text{Profit} \times \text{Efficiency} =$$



# Cost of Doing Business Calculator

Download from Backroom  
Or  
CODBCalculator.com

own it.

5	Days in the year		365
6	Less Weekends		-104
7	Less holidays		-10
8	Less vacations (comp aver)		-13.0
9	Less sick days		-4
10	Less training		-3
11	<u>Days available per Tech</u>		<u>231</u>
12			
13	Days available per Tech		231
14	X hours worked per day		8
15	Hours per year per Tech		1848
16			
17	Hours company wide		9240
18	(1848 X nbr of Techs)		
19			
20	<b>Average cost per hour of labour</b>		
21			
22	Tech #1 hourly rate	\$	25.00
23	Tech #2 hourly rate	\$	26.75
24	Tech #3 hourly rate	\$	28.90
25	Tech #4 hourly rate	\$	30.00
26	Tech #5 hourly rate	\$	35.00
27	<u>Total salaries per hour</u>		<u>145.65</u>
28			
29	Total Salaries	\$	145.65
30	Number of Techs		5
31			
32	Average hourly rate for salaries	\$	29.13
33			
34			
35	Average hourly rate for salaries	\$	29.13
36	X 40 hrs/week X 52 weeks		2080
37	<u>gives Average yearly labor cost</u>	\$	<u>60,590.40</u>
38			
39	Average yearly labor cost	\$	60,590.40
40	divided by available hours per		1848
41	<u>gives Average labor cost/hour</u>	\$	<u>32.79</u>
42			

50	<b>Total expenses (not including labour)</b>		<b>\$450,150.</b>
51			
52	Total available Labor Hours		9240
53			
54	Dollars per hour to cover expenses	\$	48.
55			
56	Average cost per hour for labour	\$	32.
57			
58	Dollars per hour necessary to	\$	81.
59	cover operating expenses and labor		
60			
61	Average parts income per hour	\$	8.
62			
63	Break even point per hour	\$	72.
64	at 100% efficiency		
65			
66	Desired profit margin		0.15
67	Divider factor 1.00-.15=.85		0.85
68			
69	Gross Billable rate per hour	\$	85.
70			
71	<b>EFFICIENCY FACTOR</b>		
72			
73	Divide the average number of completed calls per day by the hour		
74	1 Tech = 8		
75	2 Techs = 16		
76	3 Techs = 24		
77			
78	Average number of completed calls per day		25
79	Tech hours per day		40
80	Efficiency Factor		63%

# Income Statement or P&L:

shows a company's revenues, expenses and profitability over a period of time.

own it.



ABC CO

## Income Statement

For the Years Ending [Dec 31, 2020 and Dec 31, 2019]

Revenue	2020	2019
COD Labor Sales	430,213	
Warranty Labor Sales	137,337	
Extended Warranty Labor Sales	24,387	
Parts Slaes	155,969	
(Less sales returns and allowances)	(10,000)	
<b>Net Sales</b>	<b>737,906</b>	-

Cost of Goods Sold		
Parts Costs	110,000	
Technician Wages	305,223	
Cost of Goods Sold	415,223	-
<b>Gross Profit (Loss)</b>	<b>322,683</b>	-

Expenses		
Advertising	2,500	
Bad debt	15,000	
Commissions		
Depreciation	16,616	
Employee benefits	72,000	
Furniture and equipment	500	
Insurance	3,000	
Interest		
Legal fees		
Office supplies		
Postage		
Repairs and maintenance		
Travel		
Utilities		
Web hosting and domains		
Other	16,192	
<b>Total Operating Expenses</b>	<b>233,283</b>	-

<b>Operating Income (Loss)</b>	<b>89,400</b>	-
Non-operating revenues, expenses, gains, losses	2,250	
(Less interest expense)	(6,113)	
Income Before Taxes	85,537	-
(Less income tax expense)	(1,069)	
<b>Income From Continuing Operations</b>	<b>84,468</b>	-

Below-the-Line Items		
Income from discontinued operations		
Extraordinary items		
Cumulative effect of accounting changes		

<b>Net Income</b>	<b>84,468</b>	-
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# Why do I need a Profit & Loss Statement

- **to answer questions about your business strategy:**
  - Do I have enough revenue to cover my costs and expenses?
  - Do I have a high return on investment for my expenses?
- **insights about the details of your day-to-day operations:**
  - Your gross margin (ratio of your costs of goods sold to revenue)
  - Your top spending categories
  - Where you can reduce your spending

# Don't have Service P&L ?

## Create one.

# Use % of service to business

The image shows a collage of tax forms. The primary form is the 2021 U.S. Individual Income Tax Return (Form 1040). It includes sections for Filing Status (Single, Married filing jointly, etc.), Standard Deduction, and Dependents. A secondary form, Schedule C (Form 1040), is also visible, detailing business income and expenses. The forms are partially overlapping and tilted.

own it.





# Balance Sheet

“book value”

of an organization, as calculated by subtracting all of the company's liabilities and shareholder equity from its total assets.

A snapshot at any given time.

own it.



ABC CO

Balance Sheet

Date: 8/1/2020

Assets	2020	2019
<b>Current Assets</b>		
Cash	11,296	-
Accounts receivable	4,315	-
Inventory	10,396	-
Warranty Parts Credits	2,500	-
Short-term investments	2,450	-
<b>Total current assets</b>	<b>\$ 30,957</b>	<b>\$ -</b>
<b>Fixed (Long-Term) Assets</b>		
Service trucks	87,500	-
Property, plant, and equipment (Less accumulated depreciation)	60,782 (19,387)	-
Intangible assets	-	-
<b>Total fixed assets</b>	<b>\$ 128,895</b>	<b>\$ -</b>
<b>Other Assets</b>		
Deferred income tax	-	-
Other	-	-
<b>Total Other Assets</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Total Assets</b>	<b>\$ 159,852</b>	<b>\$ -</b>

Liabilities and Owner's Equity		
<b>Current Liabilities</b>		
Accounts payable	4,600	-
Short-term loans	2,565	-
Income taxes payable	600	-
Accrued salaries and wages	2,800	-
Unearned revenue	-	-
Current portion of long-term debt	4,355	-
<b>Total current liabilities</b>	<b>\$ 14,920</b>	<b>\$ -</b>
<b>Long-Term Liabilities</b>		
Long-term debt	35,000	-
Deferred income tax	-	-
Other	-	-
<b>Total long-term liabilities</b>	<b>\$ 35,000</b>	<b>\$ -</b>
<b>Owner's Equity</b>		
Owner's investment	65,000	-
Retained earnings	29,572	-
Other	15,360	-
<b>Total owner's equity</b>	<b>\$ 109,932</b>	<b>\$ -</b>
<b>Total Liabilities and Owner's Equity</b>	<b>\$ 159,852</b>	<b>\$ -</b>

Common Financial Ratios	
Debt Ratio (Total Liabilities / Total Assets)	0.31
Current Ratio (Current Assets / Current Liabilities)	2.07
Working Capital (Current Assets - Current Liabilities)	16,037
Assets-to-Equity Ratio (Total Assets / Owner's Equity)	1.45
Debt-to-Equity Ratio (Total Liabilities / Owner's Equity)	0.45

Outstanding warranty parts credits  
are an asset

Record them as such in your  
accounts receivables



own it.



# Why do I need a Balance Sheet?

- operational management, the balance sheet provides insights
- cash needs to be collected, - AR
- inventory managed, - Turns
- bills paid, - AP

# Cash Flow Statement:

• **Cash received.** Income from sales, loan proceeds, or interest income.

• **Cash paid out.** This includes inventory and other purchases, payroll, rent, utilities, taxes, loan payments, and more.

• Subtract cash paid out from cash received, and you have your **cash position** for the end of the month.

## ABC Company

### 12-Month Cash Flow

Period Beginning	1/1/22	2/1/22	3/1/22	4/1/22	5/1/22	6/1/22	11/1/22	12/1/22
Period Ending	1/31/22	2/28/22	3/31/22	4/30/22	5/31/22	6/30/22	11/30/22	12/31/22
Cash at Beginning of Period	15,700	17,325	29,413	(17,912)	(17,261)	2,164	2,164	2,164
Cash at End of Period	17,325	29,413	(17,912)	(17,261)	2,164	2,164	2,164	2,164

### Operations

	Jan'22	Feb'22	Mar'22	Apr'22	May'22	Jun'22	Nov'22	Dec'22
Cash receipts from								
Customers	57,767	63,253	59,111	65,125	72,000			
Other operations								
Cash paid for								
Inventory purchases	(22,000)	(25,000)	(24,000)	(26,778)	(28,200)			
General operating and admin expenses	(9,333)	(10,232)	(10,222)	(22,000)	(10,000)			
Wage expenses	(10,250)	(12,000)	(11,250)	(12,321)	(11,000)			
Interest	(1,125)	(1,000)	(999)	(875)	(875)			
Income taxes	(2,733)	(2,933)	(5,400)	(2,500)	(2,500)			
Net Cash Flow from Operations	12,325	12,088	7,240	651	19,425		0	0

### Investing Activities

Cash receipts from								
Sale of property and equipment	2,800							
Collection of principal on loans								
Sale of investment securities								
Cash paid for								
Purchase of property and equipment	(6,250)							
Making loans to other entities								
Purchase of investment securities								
Net Cash Flow from Investing Activities	(3,450)	0	0	0	0		0	0

### Financing Activities

Cash receipts from								
Issuance of stock								
Borrowing								
Cash paid for								
New Service truck			(54,565)					
Repayment of loans	(2,833)							
Dividends	(4,417)							
Net Cash Flow from Financing Activities	(7,250)	0	(54,565)	0	0	0	0	0

Net Cash Flow	1,625	12,088	(47,325)	651	19,425	0	0	0
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own it.



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# Technician Budget or Quota

An estimate of technician sales for following year

Tech	Year	Multiplier	Jan	Feb	Mar	Nov.	Dec.	Total	2022
Demisio	2021		\$14,519	\$11,592	\$12,336	\$11,592	\$12,336	\$9,687	\$146,423
	2022	10%	\$15,971	\$12,751	\$13,570	\$12,751	\$13,570	\$10,656	\$160,864
Martin	2021		\$13,212	\$16,237	\$14,800	\$16,237	\$14,845	\$17,480	\$187,343
	2022	10%	\$14,533	\$17,861	\$16,330	\$17,861	\$16,330	\$19,228	\$205,876
Ruben	2021		\$9,016	\$12,554	\$13,053	\$12,554	\$13,053	\$11,924	\$141,662
	2022	10%	\$9,918	\$13,809	\$14,358	\$13,809	\$14,358	\$13,116	\$155,627
Luke	2021		\$7,516	\$8,514	\$7,756	\$7,516	\$8,514	\$7,756	\$97,165
	2022	12%	\$8,418	\$9,536	\$8,687	\$8,418	\$9,536	\$8,687	\$108,583
								\$572,593	\$630,951

# The sales Budget becomes basis for tech Scorecard

KPIs measured

Sets expectations well in advance

own it.

2021 Dashboard Parts & Service			
Department P&L	21-Jan	21-Feb	21-Mar
Last Year Sales 2018	\$329,991.00	\$290,579.00	\$315,526.00
2019 Budgeted Sales	\$367,245.00	\$312,084.00	\$357,561.00
2019 actual	\$498,079.00	\$488,965.00	\$382,847.82
Variance from budget	\$130,834	\$176,881	\$25,287
Actual Warranty labor	\$93,776.00	\$90,547.00	\$68,609.62
Actual COD labor Sales	\$225,990.00	\$218,511.00	\$172,581.00
Actual Ext W Labor Sales	\$32,410.00	\$29,133.00	\$20,949.75
Sales Discounts	\$32,897.00	\$34,737.52	\$24,879.25
Actual COD parts Sales	\$143,475.00	\$144,358.76	\$115,742.57
Actual P&L	\$465,181.00	\$454,226.78	\$357,968.73
Harry Potter	21-Jan	21-Feb	21-Mar
Budgeted Labor Billings	\$ 17,344	\$ 11,216	\$ 14,148
Actual Labor Billings	\$18,734	\$13,659	\$14,722
Differential	\$1,389	\$2,443	\$574
VAC/ ETO/SICK		training	COVID19
Completed Calls	106	56	67
Avg Labor \$/call	\$131.00	\$133.91	\$145.76
Avg Parts \$/call	\$42.61	\$66.52	\$43.54
Avg Total \$/call	\$173.61	\$200.43	\$189.30
First Call complete	74%	55%	66%
Call Back (Recall)	4	2	1
Total invoices/Walk/ =%	10	62-13-21%	62-7-11%
Conversions to sale	6	3	0
Blue Book Quotes		18avg/9	5
Reviews			
Leak Detector	14	37	49
Speeding Alerts			
Accessories Sold 8 Avg month	16	14	9
SA Sold 8 Avg month	19	11	6
Department KPI	21-Jan	21-Feb	21-Mar
Budgeted Labor Billings	\$278,463.00	\$238,551.00	\$256,114.00
Actual Labor Billings	\$354,603.00	\$344,605.54	\$267,105.41
Actual Parts Billings	\$143,475.00	\$144,359.00	\$115,743.00
Completed Calls	66	60	47
Avg Labor \$/call	\$125.58	\$130.48	\$127.86
Avg Parts \$/call	\$54.82	\$51.50	\$58.77
Avg Total \$/call	\$180.40	\$181.98	\$186.63
Avg First Call Complete	63%	63%	61%
Call Back (Recall)	3.28	3.6	3.4
Walk	12%	6	6

# Balance Sheet

“book value”

of an organization, as calculated by subtracting all of the company's liabilities and shareholder equity from its total assets.

A snapshot at any given time.

own it.



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Debt-to-Equity Ratio (Total Liabilities / Owner's Equity)	0.45



own it.

# Parts Inventory Turns



# Inventory Turns – Stock Turns – Stock Turnover

---

**Inventory turnover** is a ratio that measures the number of times inventory is sold or consumed in a given time period.

The inventory turnover formula is calculated by dividing the cost of goods sold (COGS) by average inventory.

**own it.**



- Determine the total cost of goods sold (cogs) from your annual income statement.
- Calculate the cost of average inventory, by adding together the beginning inventory and ending inventory balances for a period and divide by two.
- Finally, divide the cost of goods sold (cogs) by average inventory

$$\frac{\text{Cost of goods sold}}{\left[ \frac{\text{Beginning inventory} + \text{Ending inventory}}{2} \right]}$$

**Start by adding your data above**

**own it.**



# Turnover to measure performance

## overall efficiency of a business

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- higher turnover indicates - better performance - not overspending replenish cashflow
- lower turnover, inefficiency overstock incurring carrying costs eats cash reserve

But there's an exception.

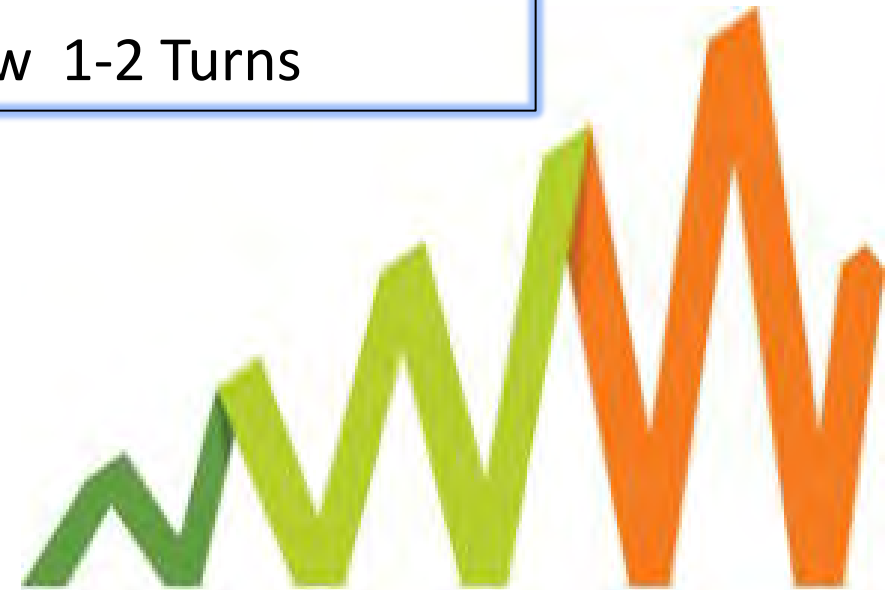
An exceptionally high turnover rate may point to strong sales *or* ineffective buying, ultimately leading to a loss in business as the inventory is too low. This can result in stock shortages and, eventually, lower sales.

**own it.**

Parts Inventory Turns

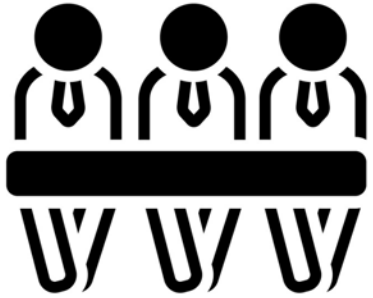
High 5-6 Turns

Low 1-2 Turns



**measure what  
matters**

## Your Panelists Today



**SERVICE**  
**SOURCE**



TOWNHALL

1. What caused the shortage of repair parts, and when will it end?
2. Should warranty service be profitable for SSDs? Yes or no, why?
3. 1-800 tech support lines are essential but wait times are unacceptable. What is your company doing to improve this vital service?
4. SSDs are often not recognized as authorized by manufacturers' CS call centers. Would you consider a dedicated number for SSD to call for assistance on warranty calls?
5. Factory training too is essential. When will your company return to in-person, if not virtual technical training?
6. The warranty process in America is laborious and inefficient. Are you taking steps to improve it? Would your company consider a one-pay parts and labor reimbursement system?
7. Fist Call Completes are essential to customer satisfaction and service profits. Repair parts play a significant role in the repair cycle time. Having the proper inventory is a challenge for all. Would your company consider a repair parts program beneficial to all, such as the ability to exchange old parts stock for new?
8. What advice can you offer to help SSDs in their annual warranty rate negotiations?

# Service Resources

1. Facebook groups
  - BrandSource Service Dealer
  - Appliance Alliance
  - Appliance Pro Talk
  - United Servicers Association
  - Professional Service Association
2. Chat USA - \$199/Yr.
3. Appliantology.org - \$297/Yr.
4. YourSourceNews.com & ServiceSource Newsletter
- 5. Brand Source Service Play Book**
- 6. Brand Source Service Scorecard**
7. The Expert Service Program
8. Appliance Service Training Institute ASTI & NASC
9. YouTube - Free
10. ApplianceVideo.com - \$39.99/Month





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**SERVICE**  
**S** **OURCE**



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