

Determining Your Cost of Doing Business

ACTUAL WORK DAYS	
YEAR TOTAL	365
Sundays	-52
2 of 4 Saturday	-26
Vacation	-15
Training	-3
Sick Days	-2
Christmas	-2
Thanksgiving	-2
July 4th	-1
Labor Day	-1
New Years	-2
Other	-14
TOTAL	245

NUMBER OF VAN-MACHINES

1

ANNUAL MACHINE HOURS:

1,000

(Per Van-Machine)

ANNUAL MILES VAN IS DRIVEN:

14,000

(Per Van-Machine)

Determining Your Cost of Doing Business

• **BASE DATA:**

(AA)	1	NUMBER OF VAN-MACHINES
(A)	245	CLEANING DAYS PER YEAR PER VAN
(B)	5.0	ACTUAL PRODUCTION HOURS PER DAY PER VAN (Machine Hours/Cleaning Days)
(C)	5	LIFE OF CLEANING EQUIPMENT-YRS
(D)	5	LIFE OF TRANSPORTATION EQUIPMENT-YRS
(E)	10	"MPG" OF TRANSPORTATION EQUIPMENT
(F)	100	AVERAGE MILES DRIVEN PER DAY PER VAN (Annual Miles/Cleaning days)

• **COST DATA:**

(G)	\$22,000	COST TO REPLACE CLEANING EQUIPMENT (Machine, Hoses, Wand, etc.)
(H)	\$28,000	COST TO REPLACE TRANSPORTATION EQUIPMENT
(I)	\$5,000	COST OF CHEMICALS PER YEAR
(J)	\$3.98	COST OF GASOLINE (\$/Gal)
(K)	\$500	COST OF MAINTENANCE OF CLEANING EQUIPMENT PER YEAR
(L)	\$5,000	COST TO RUN CLEANING EQUIPMENT (Gasoline, Kerosene, Propane, Electricity, et
(M)	\$1,800	COST OF MAINTENANCE TO TRANSPORTATION EQUIPMENT PER YEAR

• **OPERATING (VARIABLE) COSTS:**

\$/PRODUCTION HOUR

1. CLEANING EQUIPMENT $(G \times AA) / (A \times B \times C) =$	<u>\$3.59</u>
2. TRANSPORTATION EQUIPMENT $(H \times AA) / (A \times B \times D) =$	<u>\$4.57</u>
3. CHEMICALS $(I \times AA) / (A \times B) =$	<u>\$4.08</u>
4. FUEL FOR TRANSPORTATION $[(F/E) \times (J) \times AA] / (B) =$	<u>\$7.96</u>
5. MAINTENANCE OF CLEANING EQUIPMENT $(K \times AA) / (A \times B) =$	<u>\$0.41</u>
6. MAINTENANCE OF TRANSPORTATION EQUIPMENT $(M \times AA) / (A \times B) =$	<u>\$1.47</u>
7. RUNNING EQUIPMENT $(L \times AA) / (A \times B) =$	<u>\$4.08</u>
SUB-TOTAL	<u>\$26.16</u>

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• **COST DATA:**

(N)	\$10,000	ANNUAL COST OF ADVERTISING
(O)	\$5,000	ANNUAL COST OF INSURANCE
(P)	\$100,000	ANNUAL COST OF SALARIES
(Q)	\$200	ANNUAL COST OF UTILITIES
(R)	\$2,400	ANNUAL COST OF TELEPHONE
(S)	\$0	ANNUAL COST OF RENT/MORTGAGE
(T)	\$500	ANNUAL COST OF OTHER - UNIFORMS
(U)	\$500	ANNUAL COST OF OTHER - OFFICE SUPPLIES
(V)	\$2,000	ANNUAL COST OF OTHER - "TRAINING"
(W)	\$600	ANNUAL COST OF OTHER - CPA/LEGAL
(X)	\$0	ANNUAL COST OF OTHER - MISC
(Y)	\$0	Gifts to Scott Warrington
(Z)	\$0	Franchise Fee/Other

• **Operating (FIXED) COSTS:**

	<u>\$/PRODUCTION HOUR</u>	
7. ADVERTISING (N)/(AxB)=	<u>\$8.16</u>	
8. INSURANCE (O)/(AxB)=	<u>\$4.08</u>	
9. SALARIES (P)/(AxB)=	<u>\$81.63</u>	
10. UTILITIES (Q)/(AxB)=	<u>\$0.16</u>	
11. TELEPHONE (R)/(AxB)=	<u>\$1.96</u>	
12. RENT/MORTGAGE (S)/(AxB)=	<u>\$0.00</u>	
13. OTHER (Uniforms) (T)/(AxB)=	<u>\$0.41</u>	
14. OTHER (Office Supplies) (U)/(AxB)=	<u>\$0.41</u>	
15. OTHER Training) (V)/(AxB)=	<u>\$1.63</u>	
16. OTHER (CPA) (W)/(AxB)=	<u>\$0.49</u>	
17. OTHER (Misc) (X)/(AxB)=	<u>\$0.00</u>	
18. OTHER (Postage) (Y)/(AxB)=	<u>\$0.00</u>	
19. OTHER (Franchise Fee) (Z)/(AxB)=	<u>\$0.00</u>	(\$7.00)
SUB-TOTAL	<u>\$98.94</u>	

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SUMMARY

• OPERATING ("VARIABLE") EXPENSES:

\$26.16

• OTHER ("FIXED") EXPENSES:

\$98.94

TOTAL

\$125.10

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Relationship of Cost, Productivity To "PRICE"

$$\text{Price} = \text{Cost} / \text{Productivity}$$

$$\text{Price} = (\$/\text{Hr}) / (\text{Sq. Ft.} / \text{Hr})$$

\$125.10 / 500

Typical residential
(500 Per Van-
Mach)

\$0.250

\$125.10 / 1000

Typical Commercial
(1000 Per Van-
Mach)

\$0.125

Determining Your Cost of Doing Business

COST, PRODUCTIVITY, PRICE, and "PROFIT"

CALCULATION:

- A.** "YOUR" TOTAL COST PER HOUR
- B.** "YOUR" PROFIT PER HOUR
- C.** "QUALITY " CLEANED CARPET PER SQ. FT.
- D.** "YOUR" PRICE (CENTS PER SQ. FT.)

EXAMPLE:

$$(A + B) / C = D$$

	<u>A</u>	<u>B</u>	<u>C</u>	<u>D</u>	<u>PROFIT MARGIN</u> (Income/Sales) = B/(C x D)	
RESIDENTIAL	1	\$125.10	\$0	500	\$0.250	0.0%
	2	\$125.10	\$5	500	\$0.260	3.8%
	3	\$125.10	\$10	500	\$0.270	7.4%
	4	\$125.10	\$15	500	\$0.280	10.7%
	5	\$125.10	\$20	500	\$0.290	13.8%
	6	\$125.10	\$25	500	\$0.300	16.7%
	7	\$125.10	\$50	500	\$0.350	28.6%
COMMERCIAL	1	\$125.10	\$0	1000	\$0.125	0.0%
	2	\$125.10	\$5	1000	\$0.130	3.8%
	3	\$125.10	\$10	1000	\$0.135	7.4%
	4	\$125.10	\$15	1000	\$0.140	10.7%
	5	\$125.10	\$20	1000	\$0.145	13.8%
	6	\$125.10	\$25	1000	\$0.150	16.7%
	7	\$125.10	\$50	1000	\$0.175	28.6%

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COST, PRODUCTIVITY, PRICE, and "PROFIT"

CALCULATION:

- A.** "YOUR" TOTAL COST PER HOUR
- B.** "YOUR" PROFIT PER HOUR
- C.** "QUALITY " CLEANED CARPET PER SQ. FT.
- D.** "YOUR" PRICE (CENTS PER SQ. FT.)

EXAMPLE:

$$(A + B) / C = D$$

A B C D PROFIT MARGIN (Income/Sales) = B/(C x D)

RESIDENTIAL	1	\$125.10	\$0	400	\$0.313	0.0%
	2	\$125.10	\$5	400	\$0.325	3.8%
	3	\$125.10	\$10	400	\$0.338	7.4%
	4	\$125.10	\$15	400	\$0.350	10.7%
	5	\$125.10	\$20	400	\$0.363	13.8%
	6	\$125.10	\$25	400	\$0.375	16.7%
	7	\$125.10	\$50	400	\$0.438	28.6%

COMMERCIAL	1	\$125.10	\$0	750	\$0.167	0.0%
	2	\$125.10	\$5	750	\$0.173	3.8%
	3	\$125.10	\$10	750	\$0.180	7.4%
	4	\$125.10	\$15	750	\$0.187	10.7%
	5	\$125.10	\$20	750	\$0.193	13.8%
	6	\$125.10	\$25	750	\$0.200	16.7%
	7	\$125.10	\$50	750	\$0.233	28.6%

Determining Your Cost of Doing Business

- **FINALLY**

1	1	NUMBER OF VAN-MACHINES
2	245	ANNUAL WORK DAYS
3	1000	ANNUAL MACHINE HOURS
4	5.0	MACHINE HOURS PER DAY
5	85%	% RESIDENTIAL BUSINESS
6	15%	% COMMERCIAL BUSINESS
7	\$0.270	PRICE (\$/SQ. FT.) FOR RESIDENTIAL
8	\$0.135	PRICE (\$/SQ. FT.) FOR COMMERCIAL
9	500	PRODUCTIVITY (SQ. FT.) FOR RESIDENTIAL
10	1000	PRODUCTIVITY (SQ. FT.) FOR COMMERCIAL
11	\$10	PROFIT (\$/HR) FOR RESIDENTIAL
12	\$10	PROFIT (\$/HR) FOR COMMERCIAL

- **"BOTTOMLINE"**

GROSS SALES

- RESIDENTIAL	<u>\$140,676</u>	[1 x 2 x 4 x 5 x 7 x 9]
- COMMERCIAL	<u>\$24,825</u>	[1 x 2 x 4 x 6 x 8 x 10]
TOTAL	\$165,501	

GROSS PROFIT

- RESIDENTIAL	<u>\$10,413</u>	[1 x 2 x 4 x 5 x 11]
- COMMERCIAL	<u>\$1,838</u>	[1 x 2 x 4 x 6 x 12]
- TOTAL	\$12,250	

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- **FINALLY**

1	1	NUMBER OF VAN-MACHINES
2	245	ANNUAL WORK DAYS
3	1000	ANNUAL MACHINE HOURS
4	5.0	MACHINE HOURS PER DAY
5	85%	<u>% RESIDENTIAL BUSINESS</u>
6	15%	<u>% COMMERCIAL BUSINESS</u>
7	\$0.338	PRICE (\$/SQ. FT.) FOR RESIDENTIAL
8	\$0.180	PRICE (\$/SQ. FT.) FOR COMMERCIAL
9	500	PRODUCTIVITY (SQ. FT.) FOR RESIDENTIAL
10	1000	PRODUCTIVITY (SQ. FT.) FOR COMMERCIAL
11	\$35	PROFIT (\$/HR) FOR RESIDENTIAL
12	\$40	PROFIT (\$/HR) FOR COMMERCIAL

- **"BOTTOMLINE"**

GROSS SALES

- RESIDENTIAL	<u>\$175,845</u>	[1 x 2 x 4 x 5 x 7 x 9]
- COMMERCIAL	<u>\$33,100</u>	[1 x 2 x 4 x 6 x 8 x 9]
TOTAL	<u>\$208,945</u>	

GROSS PROFIT

- RESIDENTIAL	<u>\$36,444</u>	[1 x 2 x 4 x 5 x 11]
- COMMERCIAL	<u>\$7,350</u>	[1 x 2 x 4 x 6 x 12]
- TOTAL	<u>\$43,794</u>	