
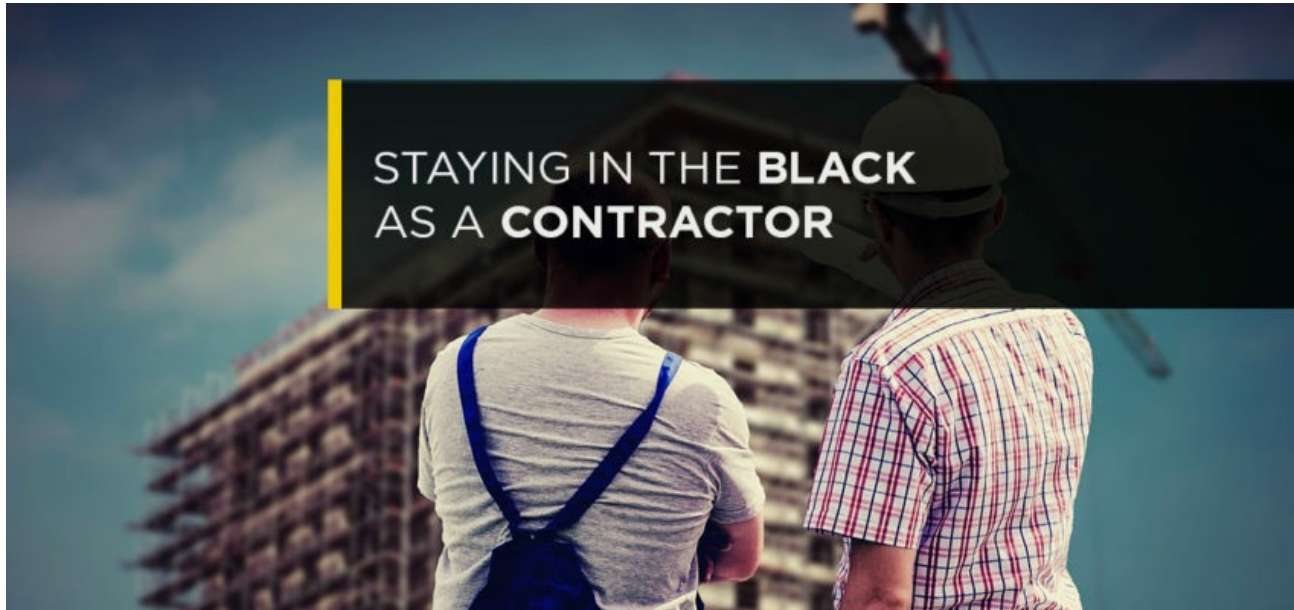


Staying In The Black As A Contractor

 homeprosuccess.com/staying-in-the-black-as-contractor

September 23, 2017



Being a successful contractor (or any business owner) is difficult.

Not only do you have to be a master of your trade, you are also responsible for every other aspect of your business – including your employees . Whether it's marketing, budgeting, accounting, or managing clients, there's always something that has to be done.

Unfortunately, all of these responsibilities often lead to contractors mismanaging their money.

There's a saying among accountants that goes, "If you pay a contractor \$10,000, they've already spent \$15,000."

While it's great to joke about this kind of thing with accountants at a bar over some drinks, it's a major concern both for contractors and for their clients. We've all heard the stories of clients, who have lost thousands of dollars in deposits to a contractor, hell some of us might have even been a victim of it when sub-contracting work (and hopefully you haven't been one of those contractors). While everyone is quick to label the contractor as a con-man, I usually don't believe it is ill-intent on the part of the contractor, rather a series of poor financial decisions and lack of financial education.

That's why I've put together some of the key points that I've learned over the years that keep my business working on a profit instead of a loss.

Contractors and Home Service Business Owners, let's talk about that elephant in the room. Nobody knows how difficult it is to run, and grow a business where you send your guys out to your customers homes, in your company trucks, representing your name, to complete

services. That's why we created this group.

Exclusively For Contractors & Home Service Business Owners

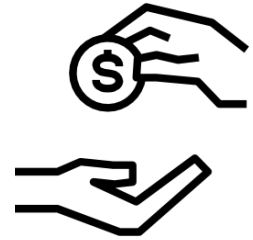
[Join Our Private FB Group \(It's 100% Free\). Verified Owners Only.](#)

Learn the Difference Between Cash and Accrual Accounting

Although I'm somewhat lucky in that I have an academic background in accounting, not all contractors are well-versed in the different types of bookkeeping.

In my experience, it's important for contractors to understand the difference between cash and accrual accounting.

In a cash accounting system, you report your revenue on the income statement in the period in which the customer pays cash (think deposit) to you. Expenses are then reported in the period in which cash is paid out.



However, in an accrual accounting system, you report revenue on the income statement in which it is earned. This means that you report your expenses on the income statement in which they occur.

In other words, just because you have cash in the bank, doesn't mean it's yours to disburse to yourself as a profit. In the case of deposits, there is always expenses that will need to be incurred to physically 'earn' that money.

What has been most helpful to me is that I keep a separate bank account that I use strictly for deposits. When a customer pays a deposit to me, I put it directly into this separate account and only move that money into an operating account once I begin working on the project. The cost of a second checking account is essentially free at most banks, and this gives you a clean cut picture of your working capital, and unearned revenue (a liability)

Be Aware of Your Labor Efficiency Rate

As a contractor, one of the best ways to maximize your profit is to create an efficient business. A big part of doing that is understanding your labor efficiency rate. Labor, including payroll taxes, and workers comp, is usually the largest expense you will have and it is the quickest to get out of control. Think of this, one day of lost productivity due to not having the right materials on hand, or scheduling errors can easily equate to a couple thousand dollars. Having one untrained new guy can easily cost you \$1,000+ per week. Yet most business owners will focus on reducing trivial costs such as lowering the cell phone bill, which may result in saving \$20 a month. Keeping your labor costs in check is key to staying in the black



Your labor efficiency rate calculates the amount of labor that you're using against the amount of revenue that you're bringing in.

A good rate to aim for in trade contracting or home service operations would be to spend around \$1 on labor for every \$3 of revenue (ahem on an accrual basis) that your company brings in. If your rate goes below \$1 of labor for every \$2 of revenue, you're likely going to run into serious cash flow problems.

Don't Waste Money On Ineffective Marketing

A quick search online reveals that many home service businesses spend over 10% of sales on marketing, and many over 20%. That's too much (unless you have a ridiculously high margin). It makes me cringe. It makes the people that sell marketing services to contractors laugh.

If you can't put a dollar amount on every inbound inquiry you get, you're wasting money. Its 2017, and we can easily get the numbers needed to run lean and effective marketing campaigns. I've got an entire blog post on [Hammering Down Marketing Costs](#).



Personally speaking, I get the highest ROI from Facebook ads. Unlike other forms of advertising which are littered with ads from your competitors (like the yellow pages, and Adwords), Facebook is relatively untapped by contractors — although many have tried, and failed. I'm currently working on an in depth, 6 week online course, teaching the exact campaigns I run to generate leads at \$10-15 a pop for services that average beyond \$3000. You can get more information and [sign up for launch updates here](#). I'm working to have the course done in early 2018.

Avoid Debt at All Costs

I don't say all debt is bad. If you're in the business of running chain stores and have the ability to scale up quickly and open multiple more, taking on debt to leverage your scalability is a sound idea. In the contracting business, debt is bad.

That's why I made it my mission to build my company from the ground up without taking on any debt. I stand by that goal to this day.

Here's why.

As a contractor, you know that business can be quite cyclical and unpredictable, it is also difficult to scale successfully and/or quickly. For example, in Florida a string of hurricanes lingering around in the ocean, could detrimentally impact sales for a couple months. If the economy starts to head south, home maintenance services are one of the first to go for many people. When dealing with a slow economy, most people just don't want to spend the money on home improvements.



That's why you don't want to be too leveraged.

Businesses like restaurants can pull it off a little bit better because a good restaurant generally keeps steady business all throughout the year. However, that just isn't the case for contractors.

Which brings me to my next point.

Keep Cash on Hand

Once you have yourself out of debt, it's important that you build up a cash reserve to sustain your company in the event that business slows significantly.

If business dries up for whatever reason, you can't just fire your employees. If you're constantly firing and hiring workers, it costs you more money in the long run and word gets around that you aren't reliable.



That's why I recommend that you keep *at least* one month of cash on hand to cover all of your fixed expenses and staff. Add up all your overhead costs such as the gas bill for the trucks, phone bill, facilities, etc, your total payroll, and your average monthly expenditure. This ensures that if you have absolutely no revenue coming in for an entire month, which is extremely rare, you can sustain.

That way, you don't have to panic every time there's a lull in business.

Put Money Aside for Savings and Investment

I see it all the time with contractors. Their money goes out as fast as it comes in, and they have nothing saved by the time that they retire. Too many think that they'll be able to hand over the business to one of their kids or remain in the company as a sort of figurehead.

But you can't count on that.

Since you're in business for yourself, you don't have anyone contributing money to an IRA or 401k. That's all your responsibility.

No matter how old you are right now, you need to be putting money away into a low-cost, low-risk fund (at minimum) so that your money can grow and help you retire comfortably.



If you haven't already started, the time to get started is today. Fortunately investing is easier with companies like Betterment which offer a high quality portfolio, and financial advice made available to small time investors (like those with as little as \$100)

Sign Up for Cash Back Credit Cards

This is one of the most overlooked aspects of running a business. Think about all of the expenses that you do or could put on a credit card.

Now, think about the kind of money that you could get back just by signing up for a free credit card that gives you 2% cashback on all of your purchases.

If you're company puts \$200,000 worth of expenses on a credit card each year, that's already \$2,000 that you get back just for putting it on a certain card. For bigger companies, those cashback rewards add up fast.

Stop Being the Butt of a Joke

Although contractors as a whole have a bad reputation in terms of money management, you don't have to be one of them.

All that it takes to become someone who is good with money is a little bit of planning and responsibility.

Let me know what problems you and your business face on a daily basis in the comments section below!

Other Great Blog Posts On Financial & Cashflow Management

Finances and cash seem to be a popular topic, as this post is by far the most read post on the site! Here are some of the others which are very popular.

Boosting Profits: Here's Where You Can Really Save Some Money

Most business owners take the wrong approach to 'cutting' expenses.

5 Mistakes You Might be Making With Your Accounts Receivable

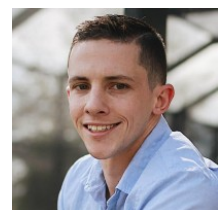
Ah good ole A/R. If collecting is a problem, this one is for you!

Is One Number Throwing Off Your #1 Key Performance Indicator?

Cause your labor efficiency rate is useless if you're calculating it wrong.

Corey Philip [Edit profile](#)

President and co-founder of a home service / specialty trade contracting company (think patio's and deck) with a focus on customer experience. Runner. Instructor of a Facebook marketing course, exclusively for home service businesses. Learn more about it [here](#).



Settings