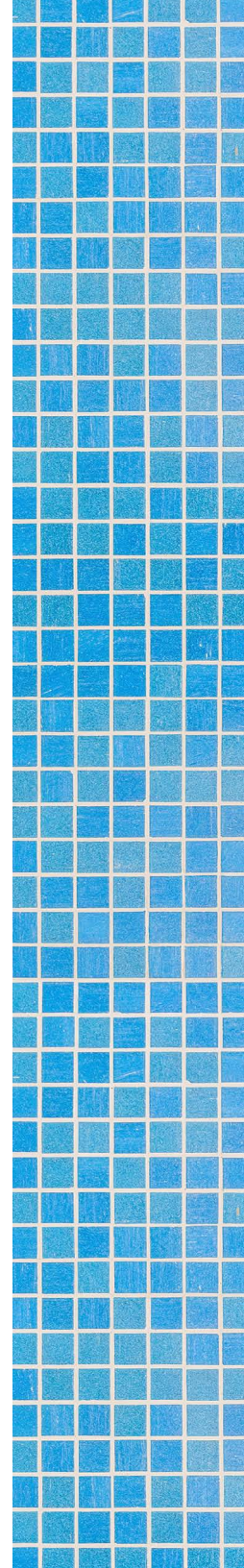




FINANCIAL MANAGEMENT: 4 THINGS EVERY POOL SERVICE OPERATOR SHOULD KNOW





Financial Management:
4 Things Every Pool Service
Operator Should Know

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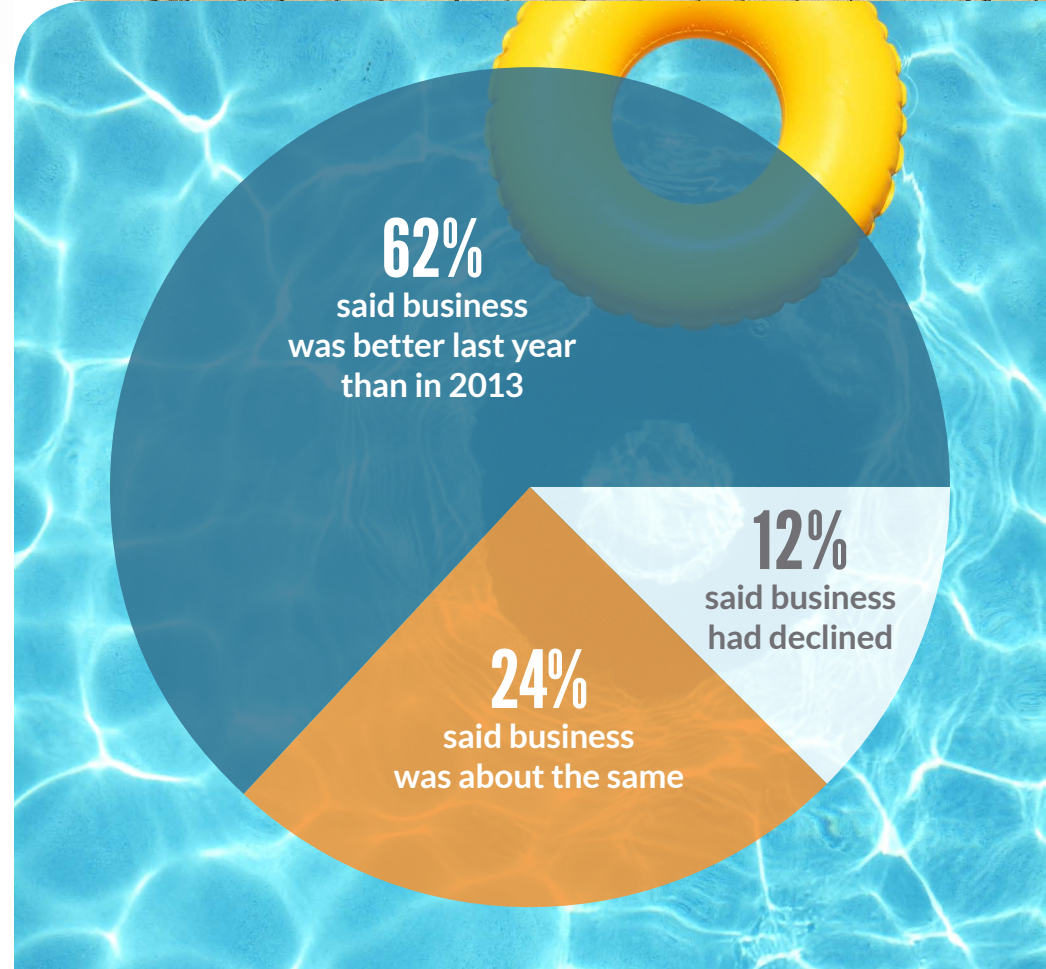
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INTRO

Today, the business of selling, installing, and servicing pools and hot tubs is on a roll. According to the Association of Pool & Spa Professionals, overall revenue for the industry was up 17 percent last year, with all three segments — in-ground pool, above-ground pool, and hot tubs — all growing in sales for the first time since 2010.

The state of your industry is mainly a function of the real estate business. As home sales and housing starts increase, so goes the pool and spa industry. While existing-home sales dipped slightly in 2014, new housing starts climbed to 1.06 million last year, the most since 2007 and up 8.8 percent over 2013.

And sure enough, AQUA Magazine’s most recent State of the Industry **Builders Survey** suggests that the pool business is slowly and steadily improving since 2009’s economic fallout. Of those surveyed, 62 percent of builders said 2014 was better for business than 2013.





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INTRO

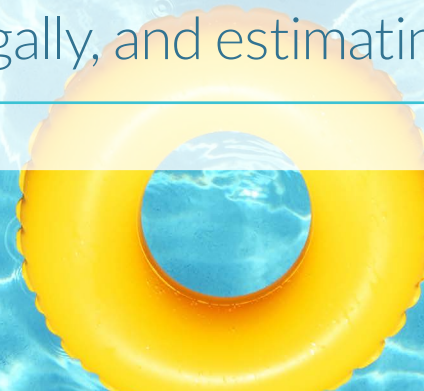
Yet growth remains a bit slower than it was in the early 2000s, when the real estate market was soaring. Those conditions prompted a wave of new pool companies to enter the pool and spa market, and many remain. So competition for today's market is still relatively thick.

That means newcomers and industry veterans alike will have to work hard and be smart to thrive.

One thing that most business owners need is some small-business financial management acumen, including handling cash flow issues, managing target margins, protecting yourself legally, and estimating jobs. We'll cover these key topics in this eBook, plus offer some guidance on setting up your payroll system, as well as familiarize you with some of the more basic financial terms and forms.



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#1



CASH FLOW

In principle, cash flow is a simple concept to understand. It refers to the movement of money into and out of your company based on its operating activities.

So your statement of cash flow is the document that reflects your net increase or decrease in cash over a specific time period, such as a fiscal quarter.

While cash flow may seem a basic concept to understand, managing it effectively bedevils thousands of business owners. Profitable companies can and often do go out of business when they fail to manage their cash flow correctly.



Cash-flow projection is essential to operating your business successfully.

Cash flow versus profit

One reason independent business operators struggle is because they often misunderstand the difference between cash flow and profits. The latter actually refers to your earnings after revenue and expenses are accounted for — but revenue, in that calculation, includes your accounts receivable: money you haven't yet been paid. Slow-paying or deadbeat clients can wreak havoc on your business because you still have to make payroll and meet your other expenses.

That's why cash-flow projection — the art of knowing your cash needs for certain time periods and how to meet these needs — is essential to operating your business successfully.

That's even more important in the pool and spa industry than it is for other like-sized businesses. The reason is the seasonality of the business. Unless you're in a hot climate, your company most likely experiences a huge influx of business between May and September. The rest of the year, business is thin.



#1



CASH FLOW

Here are some ideas for managing your cash flow despite the seasonality of your industry:

Make cash flow projection part of your budgeting process.

Include a cash flow projection template as part of your financial planning process. Plan your cash flow over a year. Take a look at your last three to five years to base your revenue forecast. What were your average sales in each month? Do the same on the expense side, especially when it comes to your variable expenses like labor. How many of your staff are with you year-round, and how many only during the busy season?

Use credit to your advantage. Small business loans and lines of credit can help during slow times. For example, the Small Business Administration's **CAPLine Loans** help businesses meet their short-term and seasonal financial needs. You may find that you need significant capital early in the pool season so that you can hire staff and purchase supplies, but it's a



challenge if you don't have much revenue yet. Another option is a revolving line of credit. A revolving line of credit has an established credit limit so you don't go in deeper than you should.

Make sure you get paid. Diminish the biggest cash flow-destroyer in business — the slow- or non-paying client — by securing a deposit on each job in advance or getting paid immediately when work is completed by using **an app** with a mobile payment option that allows customers to pay on the spot.

Make good use of your downtime. Your off season is when you should be busy marketing your services, searching for new suppliers, recruiting potential seasonal hires, and analyzing your budget.



#2 GROSS MARGIN

Gross margin refers to the money you have left after you have covered all of your costs (such as wages) associated with the service you provide. Put simply, it's your gross profit expressed as a percentage of your revenue.

Here's the calculation for a typical single in-ground pool installation job:

REVENUE	\$30,000
EXPENSES	\$17,400
GROSS PROFIT	\$12,600
GROSS PROFIT MARGIN	42%

Average gross profit margins for the swimming pool and spa industry are between 35 percent and 40 percent, **according to recent figures**. If you're hitting that margin percent range, you're doing pretty well.



Many in the pool and spa industry don't consider their target gross margin when estimating for a job.

So what's the problem? Gross margin is an important number to keep in mind when estimating the price you charge for a job, but many in the pool and spa industry don't consider their target gross margin when estimating for a job, relying instead on a dollar-figure they hope to make with each job, according to Lew Akins, an expert in pool-construction job estimation.

"That's a foolish way to do things," he explained to AQ magazine, "because what happens then is when you get into high-level projects, the potential for cost overruns and errors is greatly increased. So you can't just arbitrarily say you want to make a certain amount on the pool."



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#2 GROSS MARGIN

Some in the industry will also undercut their margins in order to win the work in a competitive market.

That's a bad idea, too. While it's true that price is an important factor that homeowners consider when selecting a pool builder or service company — after all, the average cost of an installation of a new in-ground pool is \$22,000, and can often climb above \$50,000, depending on the size and shape of the pool, the economics of the market you're in, and the topography — it isn't the only factor.

Your track record, references, trustworthiness and transparency matter just as much or more to most buyers.



Some in the industry will undercut their margins in order to win the work in a competitive market.



#3

ESTIMATING PROJECTS

Building a pool is obviously a big and expensive job, so estimating accurately is essential. If you estimate a job too high, your clients may go elsewhere; if you go too low, you could end up in the red.

Your estimate or bid will take into account how many hours a project will take to complete, your labor cost (*salary and subcontractor rates, which average \$15-17 per hour per worker*), raw materials costs, and your own operating costs (materials, salaries, liability insurance and office rent). Also, you must consider whether differences in topography and pool size and shape will influence a project's timetable — and make a project take longer to complete — and how that would influence costs such as labor rates.



Ask the right questions

Are you the designer of the pool, or just the builder? If it's the latter, you'll need to have as much information from the designer as possible, yet builders often submit bids without having seen detailed drawings or specifications.

What sort of materials will you use? Will you line the pool with vinyl (*less expensive*), concrete (*more expensive*), or some other material (*potentially very expensive*)?

What sort of add-ons will the owner want? A diving board? A slide? What kind of motor for the filter? Will the pool be heated? Will it include a built-in cover? What about its shape? Will it be a simple rectangle, or something more elaborate?

Accuracy is essential: estimate a job too high, your clients may go elsewhere, estimate too low and you could end up in the red.

#3 

ESTIMATING PROJECTS

Finally, what is the nature of the ground you'll be digging into? When conducting estimates, most builders use their previous jobs as a starting point. And that makes sense. But while builders understand that each job is different, they sometimes fail to consider that soil type is one of those differences — one that could have a big impact on costs.

Keeping track of the details

To get all the details right, you'll want to use a dynamic electronic form that helps you gather all such information so you can walk through your estimates systematically (*always bearing in mind your target margin*).

Some in the pool industry advise against submitting ordinary bids at all. James Robyn, president of Rin Robyn Pools in New Jersey, argues instead for a "negotiated contract," in which the budgeting for the project is done as part of the project, and it's paid for by the client.

To get all the details right, you'll want to use a dynamic electronic form that helps you gather all the information.

In **an article** he wrote for *Aqua Magazine*, Robyn explained that in a negotiated contract process, "the builder develops a detailed, line-item budget for the project and negotiates with suppliers and trade subcontractors for the best prices commensurate with the specifications. The builder and client review the budget line items, identify any items that are vague or incomplete and intelligently decide how the project will proceed."



The client is not obligated to hire the builder for the actual construction, and may in fact initiate the same process with more than one contractor. "The negotiated contract ensures the project has been completely thought through with the client by the professionals. It minimizes any surprises and confusion during the project execution and allows for project management that brings the mutually agreed upon project to completion, on time and on budget."

Of course, such arrangements are most common on higher-end projects that have large budgets.

#4 LEGAL LIABILITY



Pool builders and service companies are at legal risk. Unhappy customers frequently file lawsuits over pricing disputes; an alleged problem with the construction that the customer believes needs to be fixed after the job is complete; unexpected delays or difficulties related to the construction process itself; or when someone is injured and the owner blames the builder or the last service technician on site.

To limit your exposure to litigation, you should:

-  **Be present during initial, on-site meetings with clients.** Make sure it's you, and not an associate or seasonal contractor, who is on site during client meetings. Doing this gives clients the opportunity to air their concerns, and feel as if they're establishing a relationship with you before work begins. It also gives clients peace of mind.
-  **Have a system in place to respond to complaints.** According to attorney Steven Getzoff, outside national counsel for the



Association of Pool & Spa Professionals, a huge number of lawsuits in the pool and spa industry are related to complaints that could have been avoided if a company had returned phone calls or email messages from consumers. Taking the time to listen to complaints makes customers feel validated, safe, and less in the mood to sue.

-  **Make sure documents are up to date.** Pool operators should periodically check to ensure their contracts are up-to-date by having any attorney review them every five years.
-  **Make sure you're familiar with and are following codes.** The International Swimming Pool and Spa Code is the only comprehensive model of residential and commercial swimming pool and spa code. Your state will write its own building regulations for pool construction, but regulators will use the ISPSC as their guide, so you should be familiar with it, and keep up to date on any changes. An updated version of the ISPSC is released annually.



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MOVING FORWARD

In addition to having the right knowledge base, having tools to help you improve your business can give your business a competitive advantage.

Mobile applications are making it easier to manage the financial and operational components of your pool business. You can use them for **estimates, invoicing**, managing cash flow, and job checklists of all kinds.

One example for pool servicers is the **Pool and Spa Inspection Operators Mobile App** by Canvas, which provides detailed checklists you can complete in a mobile device *for the following areas: signs, safety features, chemicals, water clarity and general pool conditions, water circulation, pool facilities, and general operation.* Use it to collect valuable data and document how your techs are performing their jobs.

Builders can use the **Swimming Pool Construction Contract Specifications Mobile App** which includes common contract specifications and can be modified for your own needs.



Both apps are excellent tools in your efforts to reduce your liability exposure. And because records for all the apps are retained in the cloud, you can access any record at any time from any mobile device. And now you can **try Canvas for free for 30 days.**

While managing your pool and spa construction business well is no easy feat, knowing the right financial terms and how to manage to them, as well as understanding your legal liability and how to mitigate it, are great ways to start.

**THE RIGHT TOOLS,
FROM FINANCIAL SOFTWARE TO
MOBILE APPS, CAN HELP MAKE RUNNING
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