



PMP

2014 Business Planner

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What's in Your Accounting?

By Daniel S. Gordon, CPA, Contributor

Accounting is the language used to communicate the health of a business. When many think about accounting, they think of Tax Day, April 15. But there's much more to the accounting function with respect to pest management company owners than taxes. A competent Certified Public Accountant (CPA) should be able to file your taxes and prepare statements for banks, creditors and other stakeholders in your business. The overall goal of an accountant should be to help accumulate and preserve wealth. Saving taxes is just a small part of this task. Competent accountants recognize the need to be valuable members of their client's management team, providing many more added value services than solely tax preparation.

As a business grows, internal structure and financial controls to support growth are required. This aspect of accounting is called management accounting, which has to do with compiling and reporting information you need to improve the results of your operations. Many CPAs are in a unique position to help by setting up procedures to record the daily transactions associated with doing business — and by making observations about the company and comparing that information to other clients for whom they work. The accountant should be a trusted member of the management team, providing information about ways to improve the efficiency of the business. The following are essential

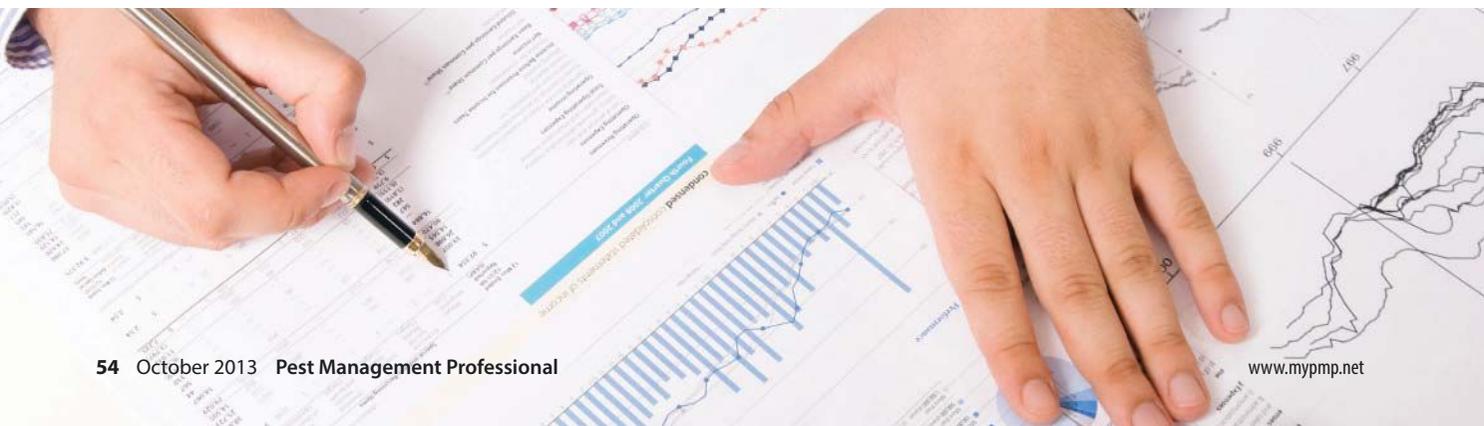
elements of the inside accounting function required to run a successful service business.

Financial statement preparation

Financial statements, the culmination of the accounting process, are used to convey a concise picture of the profitability and financial position of a company. The two most important financial statements that provide an accurate snapshot of the results of your business are the profit-and-loss statement (P&L) and the balance sheet. The P&L shows how much profit or loss a company made during a period and how that profit or loss was derived by category of expense and revenue. It's imperative the accountant understand the service industry because of industry-specific terminology and financial benchmarks for rating businesses using this terminology.

A growing pest management company using a generic chart of accounts is at a distinct disadvantage compared to the larger players in the industry that use their chart of accounts to generate financial statements that allow them to analyze their businesses and answer important questions:

- Is my material expense in line with my revenue?
- Is my direct labor cost in line with my overall revenue?
- Am I spending more or less as a percentage of revenues on advertising than the average company?



- What percentage of my revenue do I spend on operating my office?
- What are my vehicle costs as a percentage of revenue?
- Do I spend too much on overtime?

The balance sheet shows the financial position of a company on a given date (assets, liabilities, net worth, etc.). One way to distinguish the P&L from the balance sheet is to think of the P&L as a statement showing business performance in terms of revenue, profit and growth for a given period, while the balance sheet shows what a company is worth as a result of all cumulative P&Ls and financing activities.

Bookkeeping

An accountant should be able to help prepare financial statements by providing bookkeeping services or overseeing the person who performs the bookkeeping. With the proliferation of the Internet, many accountants offer online bookkeeping services, which is an outstanding way for a company to have its internal accounting supervised by a qualified accounting professional for a reasonable cost.

Budgeting

Budgeting is nothing more than formulating a coherent financial plan for some period in the future, usually one or two years. As the plan is implemented, you're able to rate your efforts compared to the budget that was created. Budgeting creates the ability to predict the amount of technicians, vehicles, equipment, etc., needed in the future based on revenue projections.

Many business owners think they're too busy to budget. Often, most small business owners don't budget because they're concerned about meeting payroll and rarely plan. Lack of planning continues a vicious cycle that underscores a relationship between the failure of a business to maximize its profits and the absence of planning. Businesses can't afford not to budget.

During the budgeting process, determine the areas of spending to reduce. Revenues are analyzed to determine which are the most profitable and whether there are other sources of revenue that can contribute profitably to

the bottom line. Budgeting should be done annually, and results should be compared to budgets monthly.

Accounts receivable management

Accounts receivable management is another important area of management accounting. A business that doesn't have control of its accounts receivable usually has poor cash flow and trouble meeting its expenses in a timely fashion. Accounts receivable management starts with laying out a formal procedure for collection — an accounts receivable aging report that categorizes the company's receivables by age, with columns for current, 30, 60 and more than 90 days. At each point along the way, a collection effort should be made. For example, at 30 days, perhaps a phone call to the customer; at 60 days, perhaps a letter; and at 90 days, perhaps a stronger effort. A company shouldn't allow a large percentage of its receivables to extend to the 60-day column. History shows the older a receivable is, the more difficult it is to collect.

More than tax returns

The accounting function is far more than filling out tax returns. The accounting function for a successful pest management company allows the owner to make sound business decisions about expansion, cost reduction and efficient operation. The management accounting function provides controls that ensure financial transactions are recorded properly and provides the information that allows the successful owner to make those decisions based on facts. Minimally, the internal procedures within a service company should include the use of financial statements, a well-supervised bookkeeping function, a formal budgeting procedure and an aggressive accounts receivable management program.

As a company grows, several aspects of management accounting should be explored and implemented. But the company that successfully uses the aforementioned principles of management accounting will accumulate much more wealth than one operating from the hip. **PMP**

Gordon, a CPA in New Jersey, owns an accounting firm that caters to pest management professionals throughout the United States. He can be reached at daniel.gordon@wealthdepot.com or 973-300-0288.

Sales & Service

My In-House Marketing Summit

By Ray Johnson, Contributor

As pest management professionals (PMPs), we wear many hats, one of which is marketing manager. Every year we analyze our marketing campaigns and try to budget for the upcoming season by figuring out what works. Typically, our Yellow Pages salesperson appears at the door like a wolf on the prowl. He always asks for and expects an increase in the size of our ads. He pushes info-graphics with huge amounts of data to show Yellow Pages users why my company has been able to stay in business for 30 years.

That's the way it was, but now I'm dealing with several new phone directories in my area. They're all telling me that, to stay in business, I'll need to advertise with them. This gave me pause to ask myself, are the Yellow Pages and other phone directories outdated in a world with newer technologies and new means of communicating with potential customers, or do they still work in some markets?

With this in mind, I decided to have my own in-house marketing summit. To do this you must gather the data you'll need.

Several years ago I began to track where our sales leads come from. We have different tracking numbers for every advertisement we use. Even if we have more than one ad in a phone book, each ad has a different number. Additionally, we advertise via radio, newspapers, sports team sponsorships, social media ads and our website. When a call comes in, we pay a bonus to our customer service representatives who ask the customer what number they dialed and where they heard about us. But getting good marketing-based data is difficult. A customer might say they got the number out of the phone book, but the real reason might be they saw our trucks or heard our name on the radio and used the phone book to get the number to call.

Your in-house marketing summit will have to focus on more than where your leads are coming from. You'll also need to examine the cost per lead and per sale. Drilling down to zip codes where the leads are coming from and closely examining the types of sales that resulted from those leads all will help you determine your strategy for upcoming marketing efforts in each service area.

The challenge is collecting all the relevant data all year to help you decide where to spend your advertising dollars. Knowing where each lead is located, what ads drove your customer to call you, drilling down deeper to find out why they called you, tracking your closing percentages, and knowing why they bought from you are all key elements. Spreadsheets will have to be created to run the numbers to put the data together so you can wrap your head around all this vital information. It always helps me to put them into graphs and charts, just like the phone directory folks do.

So what are you waiting for? Start collecting your data, and schedule your own in-house marketing summit. **PMP**

You can reach Johnson, a past president of the National Pest Management Association (NPMA) and current president of Sevierville, Tenn.-based Johnson Pest Control, at ray@johnsonpestcontrol.com





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The State of Pest Management Economics

By Daniel S. Gordon, CPA, Contributor

For most of the new economic era the pest management industry has been a beacon of steady returns. When the banking industry was crushed, the bed bug produced revenue from customers with no choice but to treat, recession or not. As the economy slowly began to mend, the bed bug pandemic helped provide a smoother return to prosperity.

How has the pest management professional (PMP) fared over the past year? And what does the future hold? As accountants and consultants to the pest industry, our firm works with PMP's all over the country, compiling and presenting them with financial and operational data needed to manage for growth and profit. The following observations are based on data from our nationwide client base.

The Big Picture

Most areas of the country were hit hard by the housing crisis and their recoveries will be filled with fits and starts as mortgage rates normalize. Rising home prices are helping to relieve some of the pain felt by home owners buried under mortgages.

The stock market has had a tremendous resurgence, which affects many Americans with pensions invested in the markets. Even though most pensions can't be distributed until retirement, there's a "wealth effect" many Americans feel when their retirement accounts are increasing. This is actually how we came out of the last economic slowdown. It was the wealth effect of the rising stock market and increase in real estate that allowed the consumer to borrow their way to a feeling of prosperity. This is the

way economic cycles work. Despite current headwinds, things appear to be warming up.

With the passage of the Affordable Care Act ("Obamacare") the business community became cautious about hiring due to uncertainty of its impact on bottom lines. While most business leaders are not fans of the national health care plan, Americans have a unique way of figuring things out once rules are established. While the plan will take its toll on hiring most understand compliance is mandatory and life goes on.

Business people have learned to become much more efficient. This is partially born of the economic meltdown that began in 2008, but technology also plays a role. Mobile technology allows PMPs to access information in the field and complete administrative tasks that once took much longer with pen and paper. It's seeming likely there will be no turning back and it will be a long time until we see 5 percent unemployment again. However, the new norm will be a non-recessionary economy with a higher unemployment rate. Having pointed this out for the economy as a whole, we still see PMP firms continuing to hire.

The State of the Industry

In 2013, there's been modest growth in pest and termite control. However, the year didn't start off as robust as in 2012. Some blame the weather, but

as spring turned to summer there was a compressed demand that resulted in increased summer revenue. Contracts signed last year are also fueling growth.

Profit margins continue to get better as PMPs pay close attention to expenditures due to lessons learned during "the great recession."

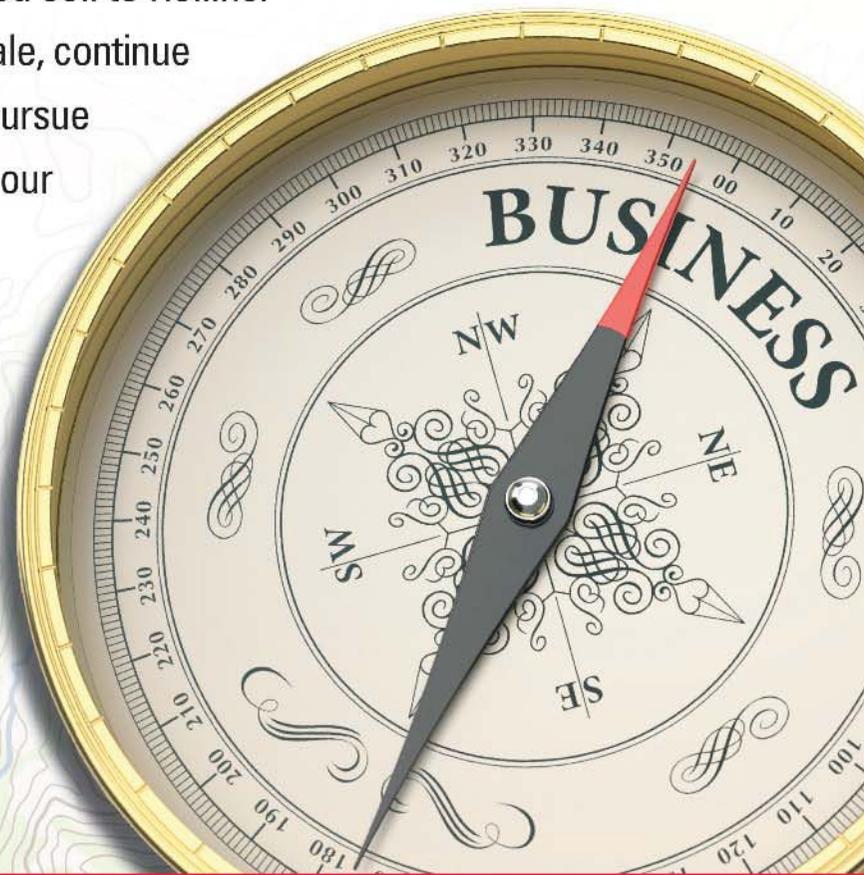
In an environment where price increases aren't always feasible,

Continued on page 60

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Continued from page 58

efficiency is blossoming. This has the same effect as raising prices and is a result of improvements in routing software PMP's now use.

Residential Services

Years ago it was almost taboo to mix pest management contracts with termite contracts.

The two services were different in terms of required skills, service schedules and potential liability. Termite pressure was once greater and many businesses made substantial returns from work they secured due to termite swarms. It seems that swarms aren't as prevalent today, and the materials and baits available are much more effective. Treatments are working better,

but the potential customer base is shrinking. With better treatment results comes fewer termite jobs. This is evident in the past decade's termite revenues. However, consumers still want termite protection, which results in PMPs bundling termite coverage in their premium pest programs.

These companies are seeing greater retention as customers who have pest coverage don't want to lose termite coverage. The effect is increasing termite revenue (embedded in the total price for the premium contract), in a shrinking pool of termite work. The companies offering these premium programs are selling them at a brisk pace.

Commercial Services

Commercial business pricing is still challenging. Commercial customers must be tended to and service schedules reduced while maintaining a pest-free environment. As in the past, very large commercial cleanouts result from the customer pushing cost cutting too far thereby creating emergency situations.

While commercial work is steady, it's also yielding lower dollar-per-hour revenues than residential work. Therefore efficiency should be optimized to ensure profit through routing and reducing drive time.

In every area of pest management the theme continues to be 'doing more with less and still prospering.' **PMP**

Daniel S. Gordon is a CPA in New Jersey and owns an accounting firm that caters to PMPs throughout the U.S. He can be reached at daniel.gordon@wealthdepot.com or 973-300-0288.





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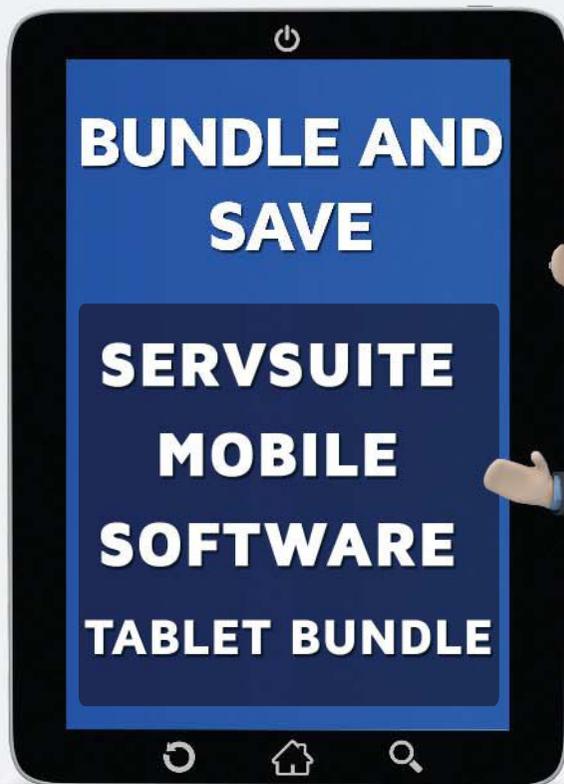
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Reignite Your Motivational *Flame*

How to keep the fires of business ambition burning

By Lloyd Merritt Smigel, Contributor

I've received many calls from owners whose leadership flame is burning out. They've been in the game for decades and are tired of the people problems, constant changes in laws and regulations, lawsuits and potential lawsuits, government interference at every level, and the in-house bickering, especially if when family involved.

Often, they call to ask whether it's time to sell. They realize the good ol' days are gone and the future doesn't look as bright as it used to. They're thinking about another season with new problems and chaos. They wonder if they're working too many hours for their age.

If this sounds familiar, your motivational fire might be burning out. Here are possible solutions.

Seller's remorse

Often, when you ask former owners a few years after selling their businesses whether they're sorry they sold, most say yes. They sold because they felt they were sinking in quicksand with no way out. I've lent a hand to many companies like this. It can be easier for people in the industry to accept the advice from someone in the industry. If the timing is right, they'll listen to advice and try to accept the fact they'll have to change – organize and/or begin

the delegation process. But they need someone to show them how to transition.

Additionally, many of these companies need structure, but the owners don't know where to begin. I've worked with hundreds of pest management companies that have been through this and understand the processes and what it takes to make a transition. The owners need to reach the point where they're able sit down and conclude they need help.

Case in point

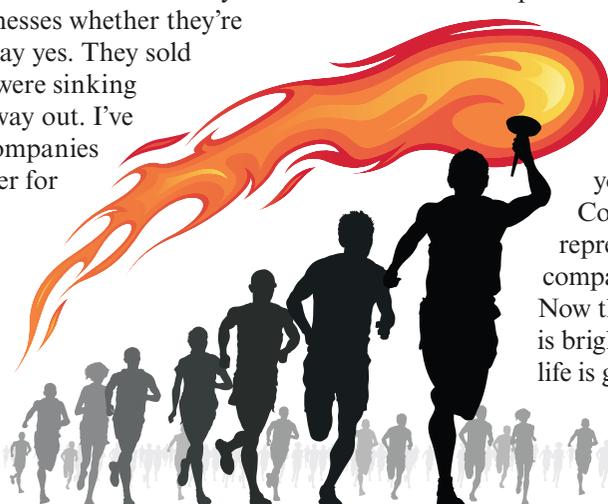
A few months ago, I received a call from an owner who'd done well for himself during his career. His company has family members but not much structure. Although everyone tells him he needs structure, he's getting advice from too many people and isn't sure what to do.

He said he'd heard me speak at conferences and read my articles but didn't see the need to hire someone like me because he could do all the things I'd suggested on his own. He soon realized he knows what to do, but not how to begin.

Now I'm working with him on a two-year conversion. His company has direction and the beginning of order and priorities. It takes time, but he's relaxing because the pressure is now disseminated throughout the company's leadership program. There's new structure, accountability and timelines, and no changes are being made without his input. Now the next generation has the

opportunity to prove itself through deeds instead of wants, promises or desires.

It's difficult to set new programs in motion if you're *inside* the problem. Coming from outside, I represent what's best for a company, not what's most popular. Now the client's motivational flame is brighter. We're on the way, and life is good. **PMP**



You can reach Smigel, a 35-year industry veteran, at lloydcare@aol.com.

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Old Habits Die Hard

By Lloyd Merritt Smigel, Contributor

Reorganization requires strategy, time and lots of hard work. Many people say they want to change, even though their management practices contradict them.

There comes a time when you have to walk the walk.

It's a hard fight. Are you ready to rumble?

I've had a few clients who started off ready to rumble but saw minimal change after a few months. They developed a plan but were too busy to implement many of the changes I suggested or have meetings with the leadership team I proposed they put together. Everyone agreed we were going to make

the changes but old habits took over.

Committing to those changes could mean working harder and longer for the first few years. Why does it take so long? Because the new plan has to go into effect while you're still running your company. You can't wave a magic wand and — POOF! — You're there. You must do more than pay lip service because saying you'll change and actually doing the things that ensure you change are two different things.

If you're serious about improving your company and changing with the times, make the commitment to work hard to achieve your goals. **PMP**



You can reach Smigel, a 35-year industry veteran, at lloydcare@aol.com.

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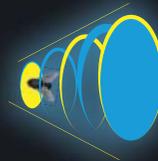
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Marketing Matters

When Strategies Match Tactics

By Harvey F. Goldglantz, Contributor

Strategy and tactics must work in tandem. Without this synergy, a company can't achieve its goals. If strategy exists without tactics, the result is big thinkers and no action. If tactics exist without strategy, the result is disorder. People often confuse tactics with strategy and vice versa; however, they're distinct and separate entities.

A strategy identifies and clarifies broader goals that advance an organization. It's a plan of action or policy designed to achieve a long-term goal. To create a successful strategy, one must envision the end point. Once one knows where he wants to go, he can determine how to get there. Strategy, which is big-picture stuff, happens when you think about something deeply over a period of time and make a deliberate decision. These deliberate decisions or goals are what drive everything else. To create a strategy, it's useful to ask and answer the following questions:

- What do you want to achieve, and by when?
- Why do you want to do that?
- What do you need to do to achieve your desired goals?
- How do you best support your activities and resources to improve odds of succeeding?
- What are the different ways of allocating resources and efforts to achieve desired results?
- What external and internal factors could affect your ability to achieve your objectives?

Tactics are the means used to help achieve a strategic intent, using specific resources to achieve subgoals that support the defined mission. Tactics, the

meat and potatoes of the strategy, are the doing aspect that follows the planning. Tactics, which refer specifically to action, need to be evaluated and adjusted constantly, based on what's learned along the way. Random tactics without a strategy lead to short-term actions with unpredictable long-term results. Every tactic needs to deliver on a strategy. Advertising to grow a Facebook page is a tactic, but what's its purpose? Once more fans are gained, then what? How does Facebook fit in with everything else?

Strategic marketing starts with understanding who the customers are and what's important to them. Once you understand what's important to the target market, you can put together a strategy that results in more qualified prospects calling, which increases your conversion ratios. The tactical portion of marketing is the execution of a marketing (strategic) plan, such as:

- how to generate leads;
- where to place media;
- which marketing tools to use; and
- implementing a follow-up system.

It's the medium in which the message is delivered. Just like a marriage needs love to grow and flourish, strategy and tactics need one another to sustain success. **PMP**

You can reach Goldglantz, president of Pest Control Marketing Co. and author of "Marketing Matters," at hgpcmcinc@aol.com.

