



Industry Report

Market intelligence specific to your industry

Air Conditioning & Refrigeration Installation - 2014

Provided by
Robertson Wouters



Industry Statistics

Sector Overview	4
Industry Statistics	4
Employment Data	5

Key Benchmark Comparison

Income	8
Less Overheads as %'s of Total Income:	8
Net Profit (bos*) per....	8
Total Income per....	8
Gross Profit (Income less Materials and Payments to Sub Contractors) per....	9
Non Personnel-Related Overheads per....	9
Personnel (fte personnel numbers)	9
Other Information	9

KPI Feedback

KPI Feedback	11
--------------	----

ATO Benchmarks

ATO Benchmarks	13
----------------	----

Action List

Increase Revenue	15
Control Overheads and Increase Net Fees	15
Control Liquidity	16

Ratio Definitions

Ratio Definitions	18
-------------------	----

Air Conditioning & Refrigeration Installation - 2014

Benchmark Appendix	22
--------------------	----

1

Industry Statistics

Sector Overview

Industry Statistics

Employment Data

Sector Overview

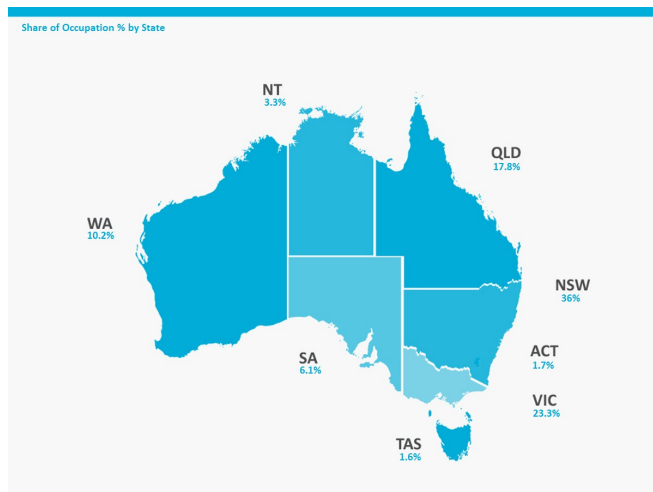
This data is provided by the Australian Bureau of Statistics (ABS) as at November 2012.

The ABS reports that employment numbers for the Construction sector as at 2011 - 2012 was 995,300. This employment figure changed by 3.3% over the past 5 years. Forecasted growth for the sector over the next five years is 10.1% or 100,200.

The percentage of employees for the sector outside of state capital cities was 40% and 35% of all sector employees were aged 45 years or older.

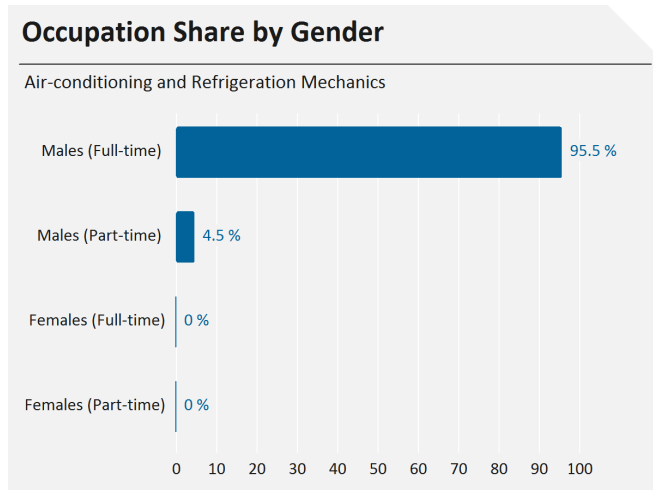
Industry Statistics

The number of Air-conditioning and Refrigeration Mechanics nationwide was reported at 20,700 as at November 2012. The industry has shown an average growth rate of 8.2% over the past five years. Forecasted growth for the industry is strong (between 8.5 to 11.0% per annum) over the next five years.

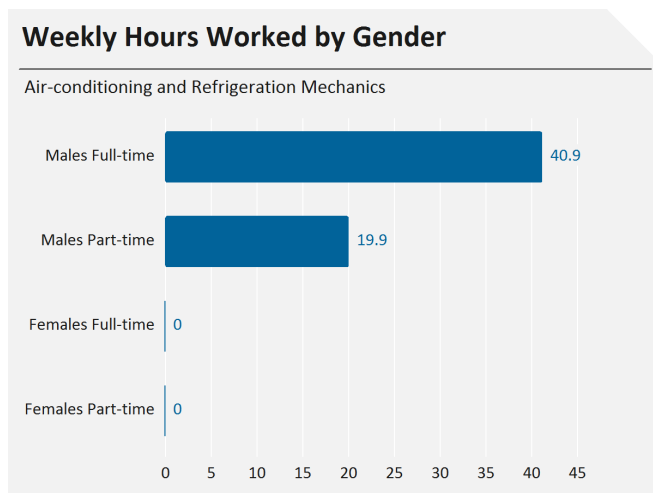


Employment Data

- The following employment data is sourced from the Australian Bureau of Statistics (ABS), dated November 2012.

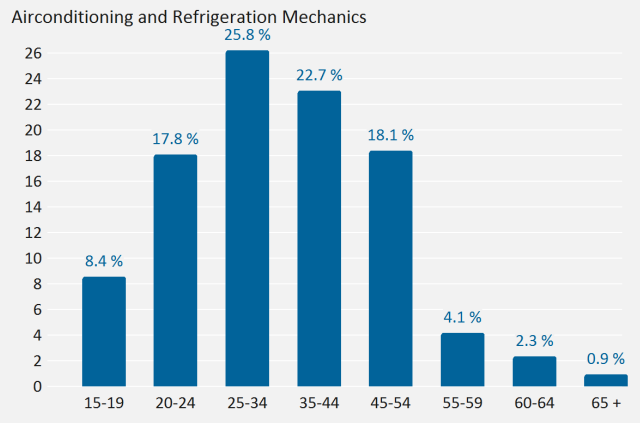


- Weekly income for Air-conditioning and Refrigeration Mechanics (earnings before tax - EBT) is around \$1,000 per week.



- The highest percentage of Air-conditioning and Refrigeration Mechanics employees lies within the 25-34 age bracket, while the median age is 32.

Age Distribution



2

Key Benchmark Comparison

Income

Less Overheads as %'s of Total Income:

Net Profit (bos*) per....

Total Income per....

Gross Profit (Income less Materials and Payments to Sub Contractors)
per....

Non Personnel-Related Overheads per....

Personnel (fte personnel numbers)

Other Information



Your Business:
2013

Turnover: All
businesses
average

Net Profit per
Owner: Less
than \$70,000

Net Profit per
Owner: \$70,000
or more

Income

Total Income	AWAITING YOUR DATA	\$997,716	\$615,248	\$1,380,184
Less Materials Used	AWAITING YOUR DATA	44.31%	49.62%	39.01%
Less Sub Contractors	AWAITING YOUR DATA	3.61%	2.55%	4.67%
Equals Gross Profit	AWAITING YOUR DATA	52.07%	47.83%	56.32%

Less Overheads as %'s of Total Income:

Advertising & Promotion	AWAITING YOUR DATA	1.42%	2.24%	0.60%
Accounting & Legal Fees	AWAITING YOUR DATA	1.35%	1.58%	1.13%
All Insurance	AWAITING YOUR DATA	0.84%	0.80%	0.87%
Interest, Bank Charges etc	AWAITING YOUR DATA	0.54%	0.55%	0.53%
All Occupancy Costs	AWAITING YOUR DATA	1.35%	0.51%	2.20%
Other Depreciation, Lease and HP	AWAITING YOUR DATA	0.43%	0.59%	0.26%
Repairs & Maintenance	AWAITING YOUR DATA	0.40%	0.44%	0.37%
Staff On Costs	AWAITING YOUR DATA	1.99%	2.02%	1.97%
Telephone & Fax	AWAITING YOUR DATA	1.00%	1.03%	0.97%
Employees' Wages & Salaries	AWAITING YOUR DATA	14.81%	11.20%	18.42%
Internal Sub Contractors	AWAITING YOUR DATA	4.68%	9.37%	0.00%
Vehicle Operating Costs	AWAITING YOUR DATA	5.26%	5.62%	4.90%
All Other Expenses	AWAITING YOUR DATA	3.72%	4.43%	3.01%
Total Overheads	AWAITING YOUR DATA	37.80%	40.39%	35.22%
Net Profit (bos*)	AWAITING YOUR DATA	14.27%	7.44%	21.10%

Net Profit (bos*) per...

Working Owner	AWAITING YOUR DATA	\$74,641	\$30,132	\$119,150
Owner Workhour	AWAITING YOUR DATA	\$35.52	\$10.57	\$55.49

Total Income per...

Qualified Trades Person	AWAITING YOUR DATA	\$232,869	\$229,120	\$235,992
\$ of Wages # & Contractor Payments	AWAITING YOUR DATA	\$2.85	\$2.63	\$3.07


 Your Business:
2013

 Turnover: All
businesses
average

 Net Profit per
Owner: Less
than \$70,000

 Net Profit per
Owner: \$70,000
or more

Gross Profit (Income less Materials and Payments to Sub Contractors) per...

Qualified Trades Person	AWAITING YOUR DATA	\$112,704	\$92,912	\$129,197
\$ of Wages # & Contractor Payments	AWAITING YOUR DATA	\$1.46	\$1.25	\$1.67

Non Personnel-Related Overheads per...

Qualified Trades Person	AWAITING YOUR DATA	\$35,033	\$35,792	\$34,401
\$ of Wages # & Contractor Payments	AWAITING YOUR DATA	\$0.45	\$0.48	\$0.42

Personnel (fte personnel numbers)

Working Owners	AWAITING YOUR DATA	1.42	1.33	1.52
Qualified Trades Staff	AWAITING YOUR DATA	3.25	1.67	4.83
Labourers, Apprentices and any Other Staff	AWAITING YOUR DATA	1.33	0.50	2.17
Total Personnel	AWAITING YOUR DATA	6.01	3.50	8.52
Hours Worked per Owner per Year	AWAITING YOUR DATA	2,830	3,810	2,045

Other Information

Owners' Equity as % of Total Assets	AWAITING YOUR DATA	34.19%	n/a	34.19%
Asset Turnover	AWAITING YOUR DATA	\$3.82	n/a	\$2.92
Assets per Person	AWAITING YOUR DATA	\$60,726	n/a	\$68,497
Days' Debtors	AWAITING YOUR DATA	38	23	49
% Revenue drops before Losses Start	AWAITING YOUR DATA	27.64%	18.75%	36.53%
Average Jobs completed per Trades Person per Year	AWAITING YOUR DATA	40	n/a	40
Growth Capacity	AWAITING YOUR DATA	5.83%	4.17%	7.50%
Current ratio	AWAITING YOUR DATA	2.72	2.46	2.89
Acid test	AWAITING YOUR DATA	3.32	4.19	2.74
Stock and WIP turnover	AWAITING YOUR DATA	14.89	n/a	17.58
Liability turnover	AWAITING YOUR DATA	\$6.86	\$7.15	\$6.68
Interest cover: business	AWAITING YOUR DATA	158.24	21.96	267.27

* bos - before owners' salaries and benefits

including owners' notional wage of \$50 per hour

3

KPI Feedback

KPI Feedback

KPI Feedback

Go online or talk to your accountant about having your business results in this report!



Personnel Productivity & Profit

Ratio	Your Business	Feedback	Rating
Gross Profit per Person	\$125.09	This is a tremendous result for your firm - you and your team should be encouraged to keep up the good work!	
Net profit per principal	\$127,930	High net profit per owner reflects a number of strengths in your firm. Don't rest on your laurels, though, as a business which doesn't move forward each year is in fact slipping back.	

Margins

Ratio	Your Business	Feedback	Rating
Total Overheads	18.16%	This is an excellent result. However, don't starve the business with too tight a control on the 'investment' costs such as advertising, equipment etc.	
Net Profit (*bos)	10.25%	A net profit around the middle of the range is not a bad result. You can lift your margin without raising prices - review stock control, see whether bulk discounts are worthwhile etc.	

Major Overheads as a % of Total Income

Ratio	Your Business	Feedback	Rating
Major Overheads as a % of Total Income			

4

ATO Benchmarks

ATO Benchmarks

ATO Benchmarks

Below you will find benchmarks for the air conditioning, refrigeration and heating services industry as compiled by the Australian Taxation Office (ATO) against which you can compare your business performance. In addition to an alternative point of comparison, the ATO benchmarks may be useful for the following reason.

The ATO website states that:

'Benchmarks are key financial ratios developed from information provided by businesses on activity statements and tax returns that can help you compare your business performance against similar businesses in an industry.' (Australian Tax Office, 2014, www.ato.gov.au/General/How-we-check-compliance/Small-business-benchmarks)

'Businesses operating outside the key benchmark may be contacted by us.' (Australian Tax Office, 2014, www.ato.gov.au/General/How-we-check-compliance/Small-business-benchmarks)

'During an audit, if a business does not have records to support their reported income and expenses, we may use benchmarks and other information available to assess the profits of the business.' (Australian Tax Office, 2014, <http://www.ato.gov.au/General/How-we-check-compliance/Small-business-benchmarks>)

Below you will find key KPIs for cost of goods, turnover, labour, rent and motor vehicle expenses as percentages of total income.

Your individual results will flow through from the Data Entry page and have been calculated to match the ATO's benchmark statistics.

ATO Turnover	\$50,000 - \$150,000	\$150,000 - \$600,000	More than \$600,000
Cost of sales/turnover	 27% 43%	 36% 49%	 43% 56%
Total expenses/turnover	 56% 73%	 67% 81%	 82% 91%
Labour/turnover	 18% 28%	 14% 24%	 18% 27%
Rent/turnover	 3% 6%	 2% 4%	 1% 3%
Motor vehicle expenses/turnover	 6% 9%	 4% 6%	 2% 3%

5

Action List

Increase Revenue

Control Overheads and Increase Net Fees

Control Liquidity

Increase Revenue

Strategy - Review Hourly Charge Rates:

- Review existing charge rates;
- Find out what other firms charge, if possible, so that your charges don't get too high;
- Implement policy of quarterly reviews;
- Improve standard of service - quick response times; leave customers' premises in clean and tidy condition.

Strategy - Improve Your 'Merchandising' Skills, To Minimise the Cost Of Materials

- Trace the materials you use on each job and charge the customer a suitable fee to cover the cost - including ordering, handling and so on;
- Minimise the loss of stock through theft, obsolescence, etc;
- Minimise damage to stock items while they are in storage awaiting use;
- Only pay for the goods you actually receive - check quantities ordered vs quantities delivered; check the prices paid for items; return damaged or incorrect items for a credit;
- Negotiate a preferred rate from a small number of suppliers (consolidate your purchases through a few suppliers, to get discounts for volume, rather than buying 'anywhere').

Strategy - Improve Staff Productivity:

- Set weekly targets or expectations of chargeable time;
- Communicate those targets with staff;
- Review actual performance weekly;
- Improve throughput of jobs.

Strategy - Minimise Write-Downs or Non-Charged Productive Time:

- Accurately record starting and finishing times in a log book;
- Identify 'acceptable' reasons why some time might not be charged;
- Improve throughput of jobs;
- Advise customers about your method of charging.

Strategy - Increase Average Revenue Per Customer:

- Prepare a customer register / database (to record work done, and other details about the customer);
- Upgrade marketing to inform clients of your range of services; consider the desirability of a 'check-up' service to identify potential problems before they become 'crises' (eg; preventative checks of drains, etc, for tree-roots and so on);
- Use a mix of marketing aids to keep your name in front of your existing customers.

Strategy - Attract New Customers:

- Improve firm's reputation;
- Develop networks with relevant referrers of business (eg, other trades, real estate agents, etc);
- Utilise your current customers as a source of referrals.

Control Overheads and Increase Net Fees

Strategy - Improve The Firm's Efficiency:

- Review each individual expense item;
- Call quotes or tenders to ensure cost prices are as low as possible, consistent with required quality / standards;
- Maximise effectiveness of growth-based expenses (eg. marketing and training);
- Continually investigate and implement more efficient or less costly ways of operating the firm;
- Ask 'what would happen if we didn't buy / spend this?' to focus attention on incidental expenditures;
- Adopt the 'green theme': reduce, re-use, recycle consumable items.

Control Liquidity

Strategy - Minimise Work-In-Progress:

- Ensure the importance of time recording is fully appreciated by staff;
- Bill jobs immediately on completion;
- Constantly review job schedule list;
- Improve throughput of small jobs;
- Educate customers about your billing methods.

Strategy - Minimise Debtors:

- Set clear policy for debtors follow-up;
- Produce monthly aged debtors' list;
- Chase late payers (over 30 days) immediately by phone;
- Delegate follow-up to one individual - and make sure they have time to do it!;
- Routinely identify bad debts and write-offs (not just at year-end);
- Institute legal action where the debt is big enough to justify it.

6

Ratio Definitions

Ratio Definitions

Ratio Definitions

Total Income consists of all contract earnings, any sales of plumbing items, rebates, discounts, commission received, plus any other trading income of the business

Materials Used as % of total income

$$\frac{(\text{Opening Stock} + \text{Purchases (inc freight in)} - \text{Closing Stock})}{\text{Total Income}} \times 100$$

Sub Contractors is all payments made to *independent* contractors (this specifically excludes any employees who are paid on 'contract' - those costs are treated as part of the 'wages' expense later).

Gross Profit as % of total income

$$\frac{(\text{Total Income} - \text{Materials Used} - \text{Independent Sub Contractors})}{\text{Total Income}} \times 100$$

Aim for a higher Gross Profit margin - it reflects better overall purchasing and pricing policies.

Overheads as %s of total income

$$\frac{\text{Individual Overhead Item}}{\text{Total Income}} \times 100$$

Lower results are generally better here. However, the real issue is to maximise the value from each expense item. Any payments to or for the owners (eg wages, superannuation, FBT, etc) have been omitted from this list - they have been treated as part of the profit figure below.

Net Profit as % of total income

$$\frac{\text{Gross Profit} - \text{Total Overheads}}{\text{Total Income}} \times 100$$

A higher Net Profit will normally reflect a more efficient or profitable operation. It will also be influenced, however, by structural considerations such as the number of employees (whose salaries are included as part of the overhead structure) as opposed to active owners (whose salaries are included as part of 'Net Profit' rather than 'Salaries'). Note that owner wages have been excluded from Overheads to reflect a total Net Profit available to the owners.

Net Profit per Working Owner

This ratio is calculated by dividing the Net Profit by the number of owners actively working in the business. Owners are expressed in terms of Full Time Equivalents - See *Personnel* for the definition of the term.

Net Profit per Owner Workhour

$$\frac{\text{Net Profit}}{\text{Hours Worked by all Owners in the Year}}$$

Higher results are better here. This figure represents your effective 'hourly earning rate' from the business, pre-tax.

Total Income per Qualified Trades Person

This is the Total Income divided by the number of working owners and qualified trades people, in Full Time Equivalents. See *Personnel* for the definition of the term. Total Income per Tradesperson will be higher in those businesses with a large use of sub-contractors. In any event, a higher result is better than a low result.

Total Income per \$ of Wages and Contractor Payments

$$\frac{\text{Total Income}}{\text{Employee Wages} + \text{Contractor Payments} + \text{Notional Owner Wages}\#}$$

the notional owner wages is calculated here and elsewhere by multiplying the hours worked by the owners in the year by a notional hourly rate of \$50. Higher figures are better.

Gross Profit per Qualified Trades Person, and per \$ of Wages and Contractor Payments

The calculations here are basically the same as for the preceding productivity measures but rather than using Total Income as the top line of the calculation, Gross Profit is used instead. Aim for higher results.

Non Personnel-Related Overheads per Qualified Trades Person, and per \$ of Wages and Contractor Payments

Again the calculations are similar to those preceding it but the numerator (the top line of the calculation) is made up by adding together all the non-personnel overheads. Essentially this is all the overheads except wages and staff on-costs. Lower results indicate a lower cost structure.

Personnel

Personnel are calculated in terms of Full Time Equivalents (FTEs). This means that if an employee or owner works in the business, say 2 days per 5-day week, this person has a FTE of 0.4. Similarly if a full time position started half way through the year, the person in it would have an FTE of 0.5. Contract employees are included in the firm's personnel.

Hours Worked per Owner per Year

This is the total hours worked in the business by all owners within the financial year, divided by the number of working owners (in FTEs).

Owners' Equity as % of total assets is the proportion of assets which are funded by the owners.

$$\frac{\text{Total Assets} - \text{Total Liabilities}}{\text{Total Assets}} \times 100$$

When arriving at Total Assets and Total Liabilities both here and elsewhere in the figures, loans to and from owners and related companies are excluded. We treat them as drawings (reduces equity) or as contributed capital (increases equity) respectively.

Asset Turnover is calculated by dividing Total Income by Total Assets. Aim for higher results here - it indicates that you are earning more revenue from each dollar of assets.

Assets per Person are calculated by dividing Total Assets by the total number of employees and working owners (expressed in

FTEs). This figure reflects your investment in the business. Lower results are generally better, but too low a result indicates that you may be under-capitalised.

Days' Debtors represents the average number of days your debtors take to pay their account.

$$\frac{\text{Trade Debtors}}{\text{Contract Earnings and Sales Income}} \times 365$$

Cash flow problems may arise if this figure is too high.

% Revenue drops before Losses Start (Margin of safety)

$$\frac{\text{Net Profit}}{\text{Gross Profit}} \times 100$$

This ratio shows the extent to which your income can fall before the business starts to incur losses. A higher result consequently reflects greater capacity to withstand a sudden fall in contracts.

Average Jobs completed per Trades Person per Year is the total number of jobs completed in the year divided by the total number of qualified trades people, including working owners.

Growth Capacity

$$\frac{(\$ \text{ Net Profit (bos)} - (\text{Current assets} - \text{Current liabil}))}{\text{Total Income}} \times 100$$

This is a ratio which shows whether the firm can afford to fund its growth. If the result here is a large positive number, then 'growth' should be reasonably easy to fund; if the result is negative, then growing the business will demand more working capital than the additional profit which is generated. A negative (or even a low positive result) is therefore a warning sign. To improve this ratio, either work to increase the 'profit' aspect of the equation, or work to reduce the working capital requirements of the business. Your accountant can help you with advice tailored to your own specific situation, if required.

7

Air Conditioning & Refrigeration Installation - 2014

Benchmark Appendix

Benchmark Appendix

Average Results for businesses grouped as indicated

	All Businesses Average	Turnover: Less than \$800,000	Turnover: \$800,000 or more	Net Profit per Owner: Less than \$70,000	Net Profit per Owner: \$70,000 or more
--	------------------------------	-------------------------------------	-----------------------------------	---------------------------------------------------	-------------------------------------------------

Income

Total Income	\$997,716	\$394,809	\$1,841,785	\$615,248	\$1,380,184
Less Materials Used	44.31%	43.54%	45.40%	49.62%	39.01%
Less Sub Contractors	3.61%	5.07%	1.58%	2.55%	4.67%
Equals Gross Profit	52.07%	51.39%	53.03%	47.83%	56.32%

Less Overheads as %'s of Total Income:

Advertising & Promotion	1.42%	1.44%	1.40%	2.24%	0.60%
Accounting & Legal Fees	1.35%	1.67%	0.92%	1.58%	1.13%
All Insurance	0.84%	0.72%	1.00%	0.80%	0.87%
Interest, Bank Charges etc	0.54%	0.65%	0.39%	0.55%	0.53%
All Occupancy Costs	1.35%	0.21%	2.95%	0.51%	2.20%
Other Depreciation, Lease and HP	0.43%	0.30%	0.61%	0.59%	0.26%
Repairs & Maintenance	0.40%	0.41%	0.39%	0.44%	0.37%
Staff On Costs	1.99%	1.67%	2.44%	2.02%	1.97%
Telephone & Fax	1.00%	0.89%	1.15%	1.03%	0.97%
Employees' Wages & Salaries	14.81%	8.96%	23.00%	11.20%	18.42%
Internal Sub Contractors	4.68%	8.01%	0.02%	9.37%	0.00%
Vehicle Operating Costs	5.26%	6.05%	4.16%	5.62%	4.90%
All Other Expenses	3.72%	3.68%	3.77%	4.43%	3.01%
Total Overheads	37.80%	34.66%	42.21%	40.39%	35.22%
Net Profit (bos*)	14.27%	16.73%	10.82%	7.44%	21.10%

Net Profit (bos*) per...

Working Owner	\$74,641	\$54,075	\$103,433	\$30,132	\$119,150
---------------	----------	----------	-----------	----------	-----------

Total Income per....

Qualified Trades Person	\$232,869	\$210,456	\$259,765	\$229,120	\$235,992
\$ of Wages # & Contractor Payments	\$2.85	\$2.42	\$3.45	\$2.63	\$3.07

Gross Profit (Income less Materials and Payments to Sub Contractors) per....

Qualified Trades Person	\$112,704	\$94,376	\$134,698	\$92,912	\$129,197
\$ of Wages # & Contractor Payments	\$1.46	\$1.28	\$1.73	\$1.25	\$1.67

Non Personnel-Related Overheads per....

Qualified Trades Person	\$35,033	\$29,637	\$41,510	\$35,792	\$34,401
\$ of Wages # & Contractor Payments	\$0.45	\$0.36	\$0.58	\$0.48	\$0.42

Personnel (fte personnel numbers)

Working Owners	1.43	1.16	1.80	1.33	1.52
Qualified Trades Staff	3.25	0.71	6.80	1.67	4.83
Labourers, Apprentices and any Other Staff	1.33	0.14	3.00	0.50	2.17
Total Personnel	6.01	2.01	11.60	3.50	8.52
Hours Worked per Owner per Year	2,830	3,484	2,011	3,810	2,045

Other Information

Owners' Equity as % of Total Assets	34.19%	n.a.	n.a.	n.a.	34.19%
Asset Turnover	\$3.82	n.a.	n.a.	n.a.	\$2.92
Assets per Person	\$60,726	n.a.	n.a.	n.a.	\$68,497
Days' Debtors	38	40	36	23	49
% Revenue drops before Losses Start	27.64%	33.09%	20.01%	18.75%	36.53%
Average Jobs completed per Trades Person per Year	40	n.a.	40	n.a.	40
Growth Capacity	5.83%	5.23%	6.68%	4.17%	7.50%
Current ratio	2.72	3.23	2.21	2.46	2.89
Acid test	3.32	4.69	1.95	4.19	2.74
Stock and WIP turnover	14.89	n.a.	14.89	n.a.	17.58
Liability turnover	\$6.86	\$7.13	\$6.60	\$7.15	\$6.68
Interest cover: business	158.24	14.67	273.11	21.96	267.27

* bos - before owners' salaries and benefits

including owners' notional wage of \$50 per hour



Website: benchmarking.com.au **Login:** benchmarking.com.au/login **Phone:** (02) 9262 5564 **Email:** enquiries@benchmarking.com.au

The service provided by Benchmarking.com.au is a service based on statistical analysis of corporate balance sheets and profit and loss information.

Benchmarking.com.au makes every effort to provide a high quality service but does not invite reliance upon, nor accept responsibility for, the information provided to subscribers to this website.

Benchmarking.com.au and its officers, employees and contractors do not give any guarantees, undertakings or warranties concerning the accuracy, completeness or up-to-date nature of the information provided and therefore subscribers of this website should confirm information from another source if considered necessary.

Full terms and conditions are available at <http://www.benchmarking.com.au/terms-and-conditions/>