

HOW TRUSTWORTHY IS OUR ANALYSIS

The owner asks why revenue grew faster than profit, what the cleaning business should change first, and what the business should keep. A proposed additional salesperson and extra marketing require a decision within 30 days.

WHAT THE CURRENT FINDINGS JUSTIFY

The financial diagnosis and deferral of the proposed salesperson and extra marketing are well supported. The cleaning-business analysis identifies credible ways to increase profit. Selecting the best repairs requires better contract records; committing to expansion requires supported demand, cash and staff capacity.

The Trust Levels Describe the Support for Each Conclusion

- Well supported.** The available information strongly supports the conclusion within its stated scope.
- Partly supported.** Useful support exists, but an unresolved issue could materially change the conclusion.
- Not established.** The available information is insufficient to rely on the conclusion.
- Contradicted.** The available information directly conflicts with the conclusion. The rating is marked CONFLICT.
- These ratings assess the reasoning within the case records. The ratings are not probabilities.

CONCLUSION ASSESSED	TRUST LEVEL	REASON FOR THE RATING
Delivery costs and overhead explain the small profit increase.	Well supported	Annual, monthly and customer totals reconcile. The financial explanation holds.
The proposed salesperson and marketing spending should be deferred.	Well supported	The \$115,000 proposal exceeds the \$100,000 allowance by \$15,000 before further delivery costs.
Pricing and delivery problems explain weak contract results.	Partly supported	Excess hours are visible. Startup work, omitted tasks and inefficient delivery remain competing causes.
Pricing, labor changes and selective sales could increase profit.	Partly supported	The potential benefits are quantified. Achievable savings and customer acceptance remain unresolved.
The proposed contract review is a practical first step.	Partly supported	Roles and dates are specified. Available management time and review costs are unverified.
The forecast of \$600,000 in additional annual sales is feasible.	Not established	Demand, delivery costs, staff capacity and receipt timing lack sufficient support.

TRUST ASSESSMENT / FINANCIAL DIAGNOSIS

Delivery Costs and Overhead Explain the Small Profit Increase

Revenue rose by \$1 million while operating profit rose by \$20,000. Recalculation supports the explanation: direct delivery costs absorbed \$800,000 of the extra revenue, and overhead absorbed another \$180,000.

Contribution is revenue after direct delivery costs, before overhead. **Contribution margin** is that amount divided by revenue. The case separates standard office contracts from contracts with complex scheduling requirements.

FINANCIAL COMPARISON	RECOMPUTED RESULT	AUDIT JUDGMENT
Revenue and operating profit.	Revenue rose from \$4m to \$5m; profit rose from \$400,000 to \$420,000.	Revenue grew 25%; profit grew 5%. The starting problem is correctly described.
Direct costs and overhead.	Contribution rose from \$1.4m to \$1.6m. Overhead rose from \$1m to \$1.18m.	The difference explains the \$20,000 profit increase. The totals do not establish that the costs were avoidable.
New customers.	New standard contracts contributed \$150,000; new complex contracts contributed \$130,000.	New work added \$280,000 before overhead. Dividing the company-wide \$20,000 profit increase by \$1m gives 2%; that is not a new-contract margin.
Existing and departed customers.	Retained standard work added \$30,000; retained complex work lost \$20,000; departed customers contributed \$90,000 less.	The combined \$80,000 decline offset part of the new contribution. A diagnosis focused only on new contracts would be incomplete.
Cleaning labor.	26,000 more hours at \$25 explain \$650,000; additional overtime premiums explain \$50,000.	The \$700,000 labor increase reconciles. Overtime premiums explain only part of the increase.

The Customer Results Support Selective Sales and Targeted Cost Review

The analysis correctly preserves profitable selling and examines weaker existing accounts alongside new contracts. Broadly stopping sales or cutting supervision would disregard the differences between customers and the possibility that some overhead supports useful capacity.

Excess Hours Justify Reviewing Contract Tasks and Staffing

The analysis identifies plausible causes across pricing, customer requirements, scheduling, staffing and management. The records support investigating those causes, but do not establish which cause explains most of the lost margin. Several concrete findings help narrow the investigation.

OBSERVATION IN THE CASE	WHAT THE OBSERVATION SUPPORTS	WHAT COULD CHANGE THE REPAIR
Seven new complex contracts lack individual detail. Together they used 7,750 hours against 4,750 quoted.	Their 3,000 excess hours account for about 65% of the new complex group's total overrun. Reviewing these contracts is a justified priority.	Group subtraction cannot show which contracts are weak or which hours can be avoided. Individual task and payroll records are needed.
One detailed contract used 1,000 hours above quote; added tasks were requested without a signed price change.	A mismatch between delivered tasks and agreed pricing is plausible.	The added tasks have not been timed or fully compared with the agreement. The whole overrun cannot be assigned to unpaid extra work.
A second contract includes 240 setup and training hours; a third has eight access incidents.	Temporary startup work and access restrictions could explain some excess effort.	Startup work may have ended; waiting time is unmeasured. A uniform price or staffing response would be premature.
Complaints rose from 48 to 96; the rate per 1,000 cleaning hours rose from 0.558 to 0.857.	Service problems warrant attention. The rate increase is about 54%, after allowing for more recorded hours.	Hours can include rework. Missing visit counts, severity and logging consistency prevent a precise comparison of service quality.
Acquisition sources and early cancellations are incompletely linked to customer results.	Customer fit and sales qualification deserve examination alongside delivery.	The records cannot identify a failing marketing channel or establish that all cancelled work could have been retained profitably.

The Managers' Explanations Remain Partly Unresolved

Sales is correct that suitable new work can contribute toward overhead. Operations has support for concern about excess hours, but underpricing has not been isolated from other causes. Finance has support for temporary startup effects, but future recurring costs and usable capacity remain uncertain. The analysis appropriately retains all three explanations.

Pricing, Labor Changes and Sales Could Increase Profit

The analysis identifies specific opportunities and calculates their potential value. Recalculation confirms the examples below. The dollar amounts depend on stated assumptions and do not establish which changes customers and staff can deliver.

POTENTIAL CHANGE	ILLUSTRATIVE BENEFIT	CONDITION FOR RELYING ON THE BENEFIT
Improve delivery on new complex contracts.	At \$600,000 revenue, a 30% contribution margin gives \$180,000, up from \$130,000: a \$50,000 gain.	Paid delivery costs must fall by \$50,000 while agreed service is maintained. A lower hours estimate alone produces no saving.
Increase prices on new complex contracts.	With direct costs of \$470,000, revenue of about \$671,429 gives a 30% margin: about \$71,429 more contribution.	Customers must accept the prices and stay. Scope and delivery costs must remain unchanged.
Restore the margin on retained complex contracts.	A 27.5% margin on \$880,000 revenue gives \$242,000 contribution, up from \$200,000: a \$42,000 gain.	The required cost reduction must be feasible. Raising prices would change the revenue base and requires a different calculation.
Replace overtime with regular hours.	Moving 1,000 hours from \$35 to \$25 saves \$10,000.	The same work must fit available regular shifts without added coverage cost. Count only hours outside other cost-saving estimates.
Win suitable standard contracts.	\$100,000 of added revenue at a 37.5% contribution margin provides \$37,500 before further overhead.	Prospect-specific delivery costs, sales effort, staffing and collections must support the assumed margin and cash needs.

Profit Gains Depend on Customer and Cost Assumptions

The analysis answers the owner's request for areas to improve profit. The remaining work is to determine which benefits are achievable, how quickly benefits begin, and whether the required spending and service commitments fit together.

WHAT COULD OVERSTATE THE PROFIT GAINS

The five benefits cannot be added into a forecast as presented. Price and delivery changes may affect the same contracts; overtime savings may already be included in a margin improvement. Each benefit needs one cost record, an effective date and any offsetting expense.

Recent Profit Growth Could Justify Fewer Operating Changes

The owner seeks a sustainable \$570,000 annual operating profit rate by the end of 12 months. The latest quarter earned \$139,000; multiplying by four gives \$556,000, only \$14,000 below the goal. That improvement could justify fewer repairs, but seasonal work and partial-year contracts prevent treating the annualization as a forecast.

Recurring costs also matter. Replacing historical supervision and systems costs with their expected ongoing annual costs gives $\$420,000 + \$385,000 - \$400,000 = \$405,000$, with all other items unchanged. The replacement already removes the included startup costs. The \$405,000 figure is an incomplete reference, not a second forecast or the lower end of a proven range.

Monitoring Contract Profit Could Justify Fewer Repairs

If comparable contract results remain strong after startup and seasonal effects are separated, the owner could concentrate on cash collection and specific service failures while continuing suitable sales. Passive waiting remains weaker because disputed scope and recurring service failures already require attention.

A Salesperson Without Extra Marketing Needs a Separate Forecast

SALESPERSON-ONLY ILLUSTRATION

At an assumed **\$600,000 of revenue earned during the year** and a **37.5% contribution margin**, an \$85,000 salesperson would add \$140,000 before further overhead. Adding that amount to historical profit gives \$560,000. The illustration leaves \$15,000 of the spending allowance for other added outlays.

The original sales forecast assumes \$600,000 of earned revenue at a 32% margin, adding \$77,000 after the full package. The smaller proposal above assumes a higher margin and removes marketing. Both changes need support. Added delivery funding and management demands may also exceed available resources. The smaller proposal remains worth assessing even though the illustration falls short of the profit goal.

Broad Cost Cuts and Contract Exits Need Stronger Support

An occupied supervisor week does not prove that every supervisor is essential or that spare capacity exists. Duties, shifts and disruption cover must be examined before reducing overhead or assuming growth can use existing resources.

Ending a low-margin contract can reduce profit. For the detailed contract with \$120,000 revenue and \$105,000 direct costs, ending service would lose \$15,000 contribution if all direct costs ceased. If the \$87,000 payroll remained and only \$18,000 of other costs ceased, profit would fall by \$102,000 before transition costs or replacement work. The analysis correctly treats exit as a contract-specific decision.

Cash and Staff Capacity Determine Which Actions Can Proceed

The sales proposal consists of \$85,000 for the additional salesperson, including employer costs and commission, plus \$30,000 for marketing. The spending excess justifies deferral regardless of which operating explanation proves strongest. A smaller proposal must also preserve at least \$250,000 in available cash and maintain agreed service.

WHAT COULD RESTRICT EVEN A SMALLER COMMITMENT
Cash could restrict even a smaller commitment. The forecast reaches \$270,000 in Month 2. Delaying an unconfirmed \$40,000 receipt reduces that balance to \$230,000, which is \$20,000 below the required minimum. A delay is a scenario; the payment date and lowest balance between month-ends remain unverified.

Cash Review Can Begin; Repair Trials Need Defined Resources

ACTION STATUS	WHAT THE OWNER CAN RELY ON
Justified now	Defer the submitted sales package. Confirm dated cash and recurring profit. Maintain agreed service, address recurring failures and continue individually justified selling through available resources.
Suitable for a limited trial	Test a specific scope, access, scheduling or service repair once its cost, staff time, permissions and measures are defined. Expand only when the observed benefit and continuing service performance support expansion.
Requires further confirmation	A new sales role, broad rollout or contract exit needs supported demand or avoidable costs, dated cash, usable capacity and customer obligations. A favorable calculation alone does not establish readiness.

The 30-Day Review Needs an Estimate of Staff Time and Cost

The analysis proposes cash confirmation by Day 3, recurring-profit reconstruction by Day 10, contract and service comparison by Day 21, and a decision by Day 30. Day 1 is the start of the review. The roles and dates provide direction, but managers' available hours, displaced duties and paid support have not been established.

The practical weakness is the amount of investigation assigned. Cash and recurring profit deserve early attention; missing contract detail should be prioritized by financial and service consequence. Broader customer, reporting and technology studies should be scheduled only when their findings could change the next commitment. Current service repairs should continue during the review.

The Audit Supports Reviewing Cash and Weak Contracts First

The examination used the owner's question and the business's accounts, customer summaries, payroll, quotes, service observations and cash forecast, together with the added contract and workload details.

COMPLETED AUDIT WORK	RESULT AND MEANING
Recomputed the financial relationships used in this audit.	Monthly and customer totals reconcile to annual results. The profit movement, labor variance, opportunity amounts, cash scenario and alternative illustrations reproduce without arithmetic discrepancies.
Compared the diagnosis with competing explanations.	Excess hours support investigation, while startup work, required tasks and delivery problems remain distinguishable possibilities. Recent profit improvement provides a substantive reason to consider fewer changes.
Examined whether the proposed actions are ready to carry out.	The spending decision is clear. The investigation has proposed roles and dates, but no verified resource estimate. Growth and contract exit remain dependent on cash, capacity and costs that can actually change.

The Audit Evaluates Reasoning From the Business Records

This audit includes fresh recalculation and a review of the reasoning from the case inputs. The same records underlie the diagnosis and the audit; agreement between the two provides no independent confirmation of business facts. No operating trial or separate review of this completed audit was performed. The examination does not certify every printed figure or prior review activity.

Two Further Reviews Would Address the Remaining Weaknesses

- 1. A separate reviewer should test the case for prioritizing contract repairs.** Starting from the owner's question and case records, the reviewer should test whether recent profit improvement or a different cause of excess hours would make a smaller repair effort preferable.
- 2. A costed operating trial should test a specific repair.** Compare paid cost, service performance and customer response before and after a defined change, using comparable tasks and staffing. The trial should establish whether the proposed benefit survives actual delivery conditions.

WHAT THE READER SHOULD TAKE AWAY

The financial diagnosis is dependable on the supplied records, and deferring the submitted sales package is justified. The analysis identifies credible profit opportunities and explains what to preserve. The principal uncertainties concern the causes of excess work, achievable benefits and the resources needed to act. A focused review and a measured repair trial are supported next steps; larger commitments depend on the results.