

AI DECISION ALPHA / REVENUE AND PROFIT / DECISION BRIEF

Why Your Company's Revenue Grew but Profit Barely Increased

You own a commercial cleaning company in New Jersey. Revenue grew from \$4 million to \$5 million, but operating profit rose from \$400,000 to \$420,000, after your salary and before interest and tax. More work has brought more customer and staffing problems.

YOUR STARTING DECISION

Defer the submitted \$115,000 salesperson and marketing package. Confirm cash and recurring profit, then investigate the contracts with the largest unexplained costs and recurring service failures. Continue individually justified selling through your current team.

REQUIREMENT	WHAT THE NEXT DECISION MUST PRESERVE
Annual operating profit	Reach a sustainable annual rate of at least \$570,000 by the end of 12 months. This is a year-end rate, not a requirement to earn \$570,000 during implementation.
Spending and cash	Commit no more than \$100,000 in additional cash spending during the year, while keeping at least \$250,000 available.
Service and timing	Maintain agreed service standards, address recurring failures and choose the initial course within 30 days.

Where the Additional \$1 Million Went

CHANGE FROM THE PRIOR YEAR	EFFECT ON OPERATING PROFIT
Additional revenue	+\$1,000,000
Additional cleaning labor and employer costs	-\$700,000
Additional other direct delivery costs	-\$100,000
Additional overhead	-\$180,000
Net increase in operating profit	+\$20,000

Contribution means revenue after direct delivery costs, before overhead. Contribution rose by \$200,000, but overhead absorbed \$180,000 of that gain. This explains the financial movement; it does not establish which costs were unnecessary.

Keep the Work That Contributes to Profit

New standard contracts contributed \$150,000 and new complex contracts \$130,000 before overhead. Changes in retained and departed customers reduced those gains by \$80,000. New standard work earned a 37.5% contribution margin, compared with 21.7% for new complex work. Review weak existing contracts as well as new ones; stopping all sales would discard useful growth.

WHAT COULD CHANGE THE EMPHASIS

The latest quarter earned \$139,000. Multiplying by four gives \$556,000, only \$14,000 below the goal. Seasonal work and partial-year contracts prevent treating that figure as a forecast. If recurring results remain strong, prioritize cash, retention and specific service defects instead of broad changes.

Basis: the owner's question, the Revenue and Profit Decision Dossier, and the Confidence Audit. Business records and added case details are illustrative. Proposed repairs have not been tested in operation. All amounts are US dollars.

CAUSES / CONTRACTS AND SERVICE

Find Out Which Work Costs More Than the Price Allows

Start With the Largest Unexplained Differences

The seven new complex contracts without individual detail 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. Obtain these records early, but do not assume every contract is weak or that every extra hour can be removed.

CONTRACT OR PATTERN	WHAT TO ESTABLISH BEFORE CHANGING IT
E01: 1,000 hours above quote; \$15,000 contribution on \$120,000 revenue.	Additional daily tasks were requested without a supplied signed price change. Compare the agreement, sales promises, task logs and paid hours. Do not assign the entire overrun to the added tasks.
E02: 450 hours above quote, including 240 setup and training hours.	Determine whether startup work has ended. Compare recent equivalent work before reducing the recurring cost estimate or imposing permanent changes.
E03: 150 hours above quote and eight access incidents.	Measure paid waiting time and test a customer-approved access change. Its 32.3% contribution margin does not support assuming a pricing failure.
Retained complex work contributed \$20,000 less despite \$80,000 more revenue.	Identify the affected accounts and changes in tasks, staffing, price and schedule. The problem extends beyond recently won work.

Different Causes Require Different Repairs

Compare customer requirements with the quote, sales handoff, agreed changes and actual delivery. Poor customer fit may require different qualification; omitted tasks may require better estimates; later additions may require revised customer terms; avoidable waiting or repeat work may require operational changes. Compare weak sites with healthy sites of similar size, schedule and service requirements.

The managers' explanations can each be partly correct. Suitable new work contributes toward overhead; excess hours warrant investigation; startup costs may fade. None of those observations alone proves that more selling, uniform price increases or broad cost cuts are the right response.

EXCESS HOURS ARE NOT ALL OVERTIME SAVINGS

Of the \$700,000 labor increase, \$650,000 comes from 26,000 more hours at the \$25 base rate; only \$50,000 comes from additional overtime premiums. Moving 1,000 hours from \$35 overtime to \$25 regular time saves \$10,000 if coverage costs do not rise. Removing 1,000 genuinely unnecessary paid hours is a different change.

Repair Service Failures While the Review Proceeds

Complaints rose from 48 to 96. Per 1,000 recorded cleaning hours, the rate rose from about 0.56 to 0.86, an increase of about 54%. Repeat cleaning visits rose from 30 to 75. Prioritize severity, recurrence and paid rework; compare visit counts and recording practices where available. More recorded hours can include rework, so the rate alone cannot establish service quality.

Maintain required tasks, frequency and quality during disputes and tests. Preserve useful supervision and capable staff until duties and shift coverage show what can safely change. One fully occupied supervisor week does not establish annual capacity.

PROFIT OPPORTUNITIES / CASH AND SALES

Compare Specific Improvements Before Committing More Cash

The Analysis Identifies Several Ways to Increase Profit

POTENTIAL CHANGE	ILLUSTRATIVE BENEFIT	WHAT MUST BE TRUE
Improve delivery on new complex contracts.	\$50,000 more contribution.	At \$600,000 revenue, reduce paid direct costs from \$470,000 to \$420,000 while maintaining service.
Raise prices on that same work.	About \$71,429 more contribution.	With \$470,000 costs unchanged, customers accept about \$671,429 revenue and remain; the margin becomes 30%.
Improve retained complex delivery.	\$42,000 more contribution.	At \$880,000 revenue, achieve a 27.5% margin through feasible cost reductions.
Convert separate overtime hours.	\$10,000 per 1,000 hours.	Regular shifts absorb the work without added coverage costs; hours are outside other savings.
Win suitable standard contracts.	\$37,500 per \$100,000 revenue, before added overhead.	Prospect-specific costs, staffing, sales effort and collections support the assumed 37.5% margin.

These illustrations are not additive as presented. Price and delivery changes may affect the same work; overtime may already be included in a margin improvement. Record each benefit once, with its start date, implementation cost and customer agreement. Collection of an already-recorded invoice improves cash without adding profit.

The Submitted Sales Package Fails the Spending Requirement

The \$85,000 salesperson cost plus \$30,000 marketing totals **\$115,000**, exceeding the allowance by \$15,000 before added delivery funding. At the proposed 32% contribution margin, \$600,000 of revenue earned during the year adds \$77,000 after the package, before further overhead. Demand and the margin remain unverified.

A salesperson-only illustration at a higher 37.5% margin adds \$140,000 on the same \$600,000 revenue, leaving \$15,000 of the spending allowance. Removing marketing and achieving that higher margin both need support. Assess a complete revised proposal rather than treating the smaller price as approval.

CASH MAY PREVENT EVEN A SMALLER COMMITMENT

The base forecast reaches \$270,000 in Month 2. Delaying an unconfirmed \$40,000 receipt to Month 3 reduces Month 2 cash to \$230,000, or \$20,000 below your minimum before new spending. Confirm dated receipts, payroll and other payments, including balances between month ends. The \$100,000 annual allowance is not cash available to spend now.

Ending a Weak Contract Can Reduce Profit

E01 contributes \$15,000 after \$105,000 direct costs. Ending it loses \$15,000 if all direct costs cease. If its \$87,000 payroll remains and only \$18,000 of other costs cease, profit falls \$102,000 before transition costs or replacement work. Compare agreed repricing, scope or access changes and actual redeployment before exit.

FIRST 30 DAYS / ACTION AND RECONSIDERATION

Use the Review to Choose a Funded, Measurable Next Step

The roles and deadlines below are proposed. Before assigning work, confirm managers' available hours, displaced duties and any paid support. Prioritize cash, recurring profit and the most consequential contract gaps; narrow the review if capacity is insufficient. No separate review budget is assumed.

WHEN / RESPONSIBLE ROLE	REQUIRED RESULT
By Day 3 / Finance	Confirm the \$40,000 receipt and other expected collections. Build 13 weeks of dated cash movements, then monthly forecasts for the rest of the year. Identify any breach of \$250,000.
By Day 10 / Finance	Rebuild recurring profit from active contracts, seasonal work and ongoing costs. Replacing historical supervision and systems costs gives a partial \$405,000 reference; it is not a forecast and already removes the included startup costs.
By Day 10 / Operations	Design one targeted service repair with a named owner, defined cost and staff time, comparable measures, required service and stop conditions.
By Day 21 / Sales and operations	Reconcile all ten new complex contracts, weak retained accounts and healthy comparisons. Link quotes, tasks, paid hours, complaints, customer starts and departures. Prioritize the seven missing files.
By Day 25 / Operations	Prepare E01's scheduled customer review using reconciled tasks and costs. Compare agreed price, scope and access changes with continued service.
By Day 30 / Owner, finance and operations	Choose a specific repair, narrower test, supported growth proposal or continued deferral. Record resources, the reason, the responsible manager and the next review date.

Set Conditions for Continuing, Changing or Stopping

WHAT THE REVIEW SHOWS	WHAT TO DO NEXT
Cash falls below \$250,000.	Resolve collections or agreed payment changes; defer discretionary commitments that cannot be funded.
Recurring profit already meets \$570,000.	Concentrate on cash, retention and recurring service failures; preserve productive growth.
Unpriced tasks or avoidable hours persist.	Test one customer-approved price, scope, access or staffing change. Retain it only if actual results support the benefit.
Excess hours were temporary startup work.	Update recurring profit and future startup allowances; avoid unnecessary permanent repairs.
A repair worsens required service or paid effort.	Stop or redesign it. Expand only tested changes under comparable conditions.
A revised sales proposal has supported economics.	Confirm demand, full costs, shifts, service and dated cash against the remaining allowance before approval.

A separate review of recurring profit should test whether recent improvement warrants fewer repairs. A costed operating trial should test whether a specific change reduces paid costs or improves service under comparable conditions. Neither result is established by the illustrations.

DECISION SUMMARY

Defer the submitted sales package and confirm cash first. The analysis identifies credible profit opportunities, but their value depends on the causes of excess work, customer response and costs that can actually change. Preserve suitable sales and agreed service. Use the first 30 days to authorize the next supported step, with defined resources and a review date.