

# Door Dealer Accreditation

## Section 1

### Accounting and General Business Principles



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## Section One

# Balance Sheets

The *balance sheet* is a financial statement that shows a company's financial position at a specific point in time. It is essentially a snapshot of what the business owns, what it owes, and the owner's equity on a given date.

Many garage door dealers confuse the balance sheet with the income statement. Both are very essential tools, but they serve very different purposes. The easiest way to keep them straight is to remember:

- The balance sheet shows where the company stands on a specific date.
- The income statement shows what the company earned and spent over a period of time.

A typical balance sheet format is as follows:

<b>ASSETS</b>	
<u>CURRENT ASSETS</u>	
Cash	
Marketable Securities/Other	
Receivables - Net	
Inventories	
Prepaid Expenses	
<b>TOTAL CURRENT ASSETS</b>	\$110,000
<u>FIXED ASSETS:</u>	
Property & Equipment – Net	
Other Assets	
<b>TOTAL FIXES ASSETS</b>	\$100,000
<b>TOTAL ASSETS</b>	\$210,000
<b>LIABILITY &amp; EQUITY</b>	
<u>CURRENT LIABILITIES</u>	
Notes Payable-Short Term	
Accounts Payable	
Customer Deposits Payable	
Taxes Payable	
Accrued Expenses & Sundry Payable	
<b>TOTAL CURRENT LIABILITIES</b>	\$55,000
Long Term Debt	
Deferred Taxes on Income	
Equity	\$155,000
<b>TOTAL LIABILITY &amp; EQUITY</b>	\$210,000

A typical balance sheet is organized into three major sections:

1. Assets – What the company owns
2. Liabilities – What the company owes
3. Owner's Equity – The owner's claim on the business after liabilities are subtracted from assets. Sometimes listed as Total Liabilities and Net Assets.

These three sections must always balance according to the fundamental accounting equation:

$$\text{Assets} = \text{Liabilities} + \text{Owner's Equity}$$

This structure allows a dealer to quickly assess financial strength, liquidity, and long term stability.

## Assets

*Assets* are economic resources owned or controlled by the company that are expected to provide future benefit. Common examples include cash, accounts receivable, inventory, marketable securities, and property and equipment. Inventory may be owned outright or financed through a manufacturer or supplier, with the related amount appearing in accounts payable.

Assets are generally divided into two major categories: *Current Assets* and *Fixed Assets*.

**Current Assets** are assets that are already cash or can reasonably be converted to cash within one year. These assets represent the company's short term financial strength and liquidity.

Current Assets typically include:

- **Cash:** Money held in checking, savings, payroll, or other cash accounts.
- **Marketable Securities:** Short term investments such as stocks, bonds, or money market instruments that the company intends to sell within a year.
- **Accounts Receivable:** Amounts owed by customers for completed work or delivered products. For balance sheet reporting, receivables must be shown net of doubtful accounts, where Net Accounts Receivable is the Accounts Receivable minus Allowance for Uncollectible Accounts.
- **Inventory:** Materials and products owned by the dealer, including stock in warehouses, material on job sites, and material in transit if the dealer has been invoiced. If the invoice is included in accounts payable, the related material should be counted as inventory. Inventory is often one of the hardest items for garage door dealers to track because materials are constantly being received and installed. Without physical count each period, inventory must be estimated.
- **Prepaid Expenses:** Payments made in advance for goods or services to be used in the future. Examples include prepaid insurance, rent, worker's compensation premiums, taxes, medical insurance, and interest. Only the unused portion is recorded as a prepaid asset.

All current assets are added together on the balance statement to form *Total Current Assets*.

**Fixed Assets** are long term assets used in the operation of the business that are expected to last more than one year and are not held for resale. These assets are recorded at cost and depreciated over their useful lives. Examples include buildings, trucks and service vehicles, machinery and tools, office equipment, furniture, and leasehold improvements.

All fixed assets are subject to depreciation (or amortization for certain intangible assets). The

cumulative total of depreciation taken over time is called *Accumulated Depreciation*.

**Other Assets:** Some companies use a third category, *Other Assets*, for long term items that are not current assets or fixed assets. These may include long term investments, security deposits, intangible assets (patents, trademarks, goodwill), and notes receivable collectable after one year.

**Total Assets** represent the sum of all current assets, fixed assets, and other assets. This total reflects everything the company owns or controls as of the balance sheet date.

## Liabilities

*Liabilities* are company's financial obligations – amounts it owes to suppliers, lenders, employees, governments, or customers. Liabilities are grouped into two categories: Current Liabilities and Long Term Liabilities.

**Current Liabilities** are obligations that must be paid within one year. These represent the company's short term financial commitments.

Typical current liabilities include:

- **Notes Payable-Short Term:** Short term loans or portions of loans that must be repaid within one year.
- **Accounts Payable:** Amounts owed to suppliers for goods or services already received. For garage door dealers, this often includes doors, operators, hardware, and materials purchased on account.
- **Customer Deposits Payable:** Money collected from customers before the product is delivered or installed. Until the work is completed, this amount is a liability, because the company still owes the customer the product or service. Customer deposits appear in Cash (asset), because the money has been received, and in Liabilities because the obligation is not yet fulfilled. When the job is completed, the deposit is applied against the customer's invoice, reducing Accounts Receivable.

- **Taxes Payable:** Amounts owed to local, state, or federal governments, such as payroll taxes, sales tax collected, or income taxes due.
- **Accrued Expenses and Sundry Payables:** Expenses that have been incurred but not yet paid. Examples include commissions earned by salespeople, wages owed but not yet paid, and utilities or services used but not yet billed.

All current liabilities are added together to form Total Current Liabilities.

**Long Term Liabilities** are obligations that will be paid more than one year in the future.

Typical long term liabilities include:

- **Long Term Debt:** Loans, mortgages, vehicle notes, or other financing arrangements with repayment terms extending beyond one year. Only the portion due after the next 12 months is classified as long term; the portion due within the next year is shown under current liabilities.
- **Deferred Taxes on Income:** Income taxes that have been accrued but will not be paid until a future period. This is common when the balance sheet date falls before tax payments are due.

**Total Liabilities** represent the sum of all short term and long term obligations, including notes payable (short term), accounts payable, customer deposits payable, taxes payable, accrued expenses and sundry payables, and long term liabilities. This total reflects everything the company owes as of the balance sheet date.

## Equity

*Equity*, also known as net worth, represents the owner's residual interest in the business. It is calculated as:

$$\text{Equity} = \text{Assets} - \text{Liabilities}$$

Equity reflects owner investments, accumulated profits, and the impact of business operations over time. If equity is positive, the company owns more than it owes. If equity is negative, liabilities exceed assets, indicating financial stress or accumulated losses.

Equity is labeled differently depending on the structure of the business. In a sole proprietorship, equity is referred to as *Owner's Equity*. In a partnership, it is referred to as total *Partners' Capital* (one capital account per partner). In a corporation it is called *Stockholders' (Shareholders') Equity*.

In a corporation, equity typically includes:

- **Capital Stock:** The initial investment made by shareholders to start or capitalize the business.
- **Paid-in-Surplus (Additional Paid-in Capital):** Additional contributions from owners above the par value of stock.
- **Retained Earnings:** The accumulated total of net income after taxes minus dividends paid to shareholders. Retained earnings increase when the company earns a profit and decrease when it incurs a loss.

*Tangible Net Worth* is a more conservative measure of equity. It is calculated as:

$$\text{Tangible Net Worth} = \text{Total Assets} - \text{Total Liabilities} - \text{Intangible Assets}$$

Intangible assets include items such as goodwill, patents, trademarks, and customer lists.

Goodwill, for example, represents the value of a company's reputation, customer base, and brand recognition. If a business is purchased for more than the fair value of its identifiable assets, the excess is recorded as goodwill.

For example, if a company was purchased for \$1,000,000, and the total identifiable assets were \$800,000, then the remaining \$200,000 would be recorded as goodwill, and reported

on the balance sheet in an account titled intangible assets.

## Balance Sheet Examples

The purpose of a Balance Sheet is to tell the financial status of a business as of a certain date. This section will discuss a few examples and show their impact on the balance sheet. Remember, the balance sheet must always satisfy the accounting equation:

$$\text{Assets} = \text{Liabilities} + \text{Owner's Equity}$$

**Starting Point:** Company XYZ has \$100 of assets, \$50 of liabilities, and \$50 of equity on January 1<sup>st</sup>.

$$\text{Starting Balance Sheet: } \$100 = \$50 + \$50$$

**Example a:** XYZ installs a door on a customer's home and earns \$100. The completed job creates revenue, which increases assets and ultimately equity. Assets increase by \$100, liabilities do not change, and so equity increases by \$100 because revenue increases net income, which flows into equity:

$$\text{Assets} = \$100 + \$100 = \$200$$

$$\text{Liabilities} = \$50$$

$$\text{Owner's Equity} = \$50 + \$100 = \$150$$

$$\text{Updated Balance Sheet: } \$200 = \$50 + \$150$$

Owner's equity increased because revenue increased while liabilities and expenses did not change.

**Example b:** XYZ now purchases a new truck with a book value of \$100 and finances \$150. Assets are increased by the book value of the truck, and liabilities increased by the financed amount. Therefore, the equity in XYZ decreased by \$50 to balance the equation.

$$\text{Assets} = \$200 + \$100 = \$300$$

$$\text{Liabilities} = \$50 + \$150 = \$200$$

$$\text{Owner's Equity} = \$150 - \$50 = \$100$$

$$\text{Balance Sheet: } \$300 = \$200 + \$100$$

**Example c:** Next, XYZ incurs a \$50 increase in its monthly gas expense due to rising fuel prices. Because an expense reduces net income, and net income flows into equity, this transaction decreases equity by \$50 if the expense is paid immediately.

$$\text{Assets} = \$300 - \$50 = \$250$$

$$\text{Liabilities} = \$200$$

$$\text{Owner's Equity} = \$100 - \$50 = \$50$$

$$\text{Balance Sheet} = \$250 = \$200 + \$50$$

**Final Position:** Thus, as of January 31<sup>st</sup>, XYZ Company has \$250 of Assets, \$200 of Liabilities, and \$50 of Equity.

$$\text{Balance Sheet} = \$250 = \$200 + \$50$$

This section shows basic examples of how routine business transactions are reflected on the balance sheet and the impact on owner's equity.

## Bringing the Balance Sheet Together

The balance sheet provides a clear picture of a company's financial position at a single point in time. By understanding how assets, liabilities, and equity interact, a dealer can evaluate financial strength, identify risks, and make informed business decisions. Every transaction, whether earning revenue, purchasing equipment, or paying expenses, flows through the accounting equation:

$$\text{Assets} = \text{Liabilities} + \text{Owner's Equity}$$

Mastering this relationship helps business owners understand not only where their company stands today, but how everyday operational decisions shape long term financial health.

## Section Two

# The Income Statement

The income statement measures the company's financial performance over a specific period of time. Unlike the balance sheet, which shows a snapshot on a single date, the income statement summarizes how the business earned revenue and incurred expenses during a month, quarter, year, or any other reporting period.

The income statement shows how net sales flow through the business: Net Sales minus Cost of Goods Sold (COGS) = Gross Margin.

Gross Margin represents the profit available to cover operating expenses. From there, Gross Margin minus Administrative, Sales, and General Expenses (operating expenses) plus Other Income minus Provision for Taxes equals Net Profit After Taxes.

Net Profit After Taxes is the bottom line, or the amount the company earned for the period after all expenses and taxes have been accounted for.

Following is an example income statement:

<b>NET SALES</b>	
Gross Sales	\$300,000
Less Returns and Allowances	<u>\$5,000</u>
Net Sales	\$295,000
<b>COST OF SALES</b>	
Material Cost	\$90,000
Direct Labor	\$50,000
Contract Labor	<u>\$5,000</u>
TOTAL COSTS OF GOODS SOLD	\$145,000
<b>GROSS PROFIT OF MARGIN</b>	\$150,000
<b>Admin, Sales &amp; General Expenses</b>	
Warehouse & Delivery	\$60,000
Selling Expenses	\$15,000
General & Administrative	<u>\$20,000</u>
Total Admin, Sales & Gen Exp	\$95,000
<b>OPERATING INCOME</b>	\$55,000
OTHER INCOME (EXPENSE) NET	\$15,000
<b>NET PROFIT BEFORE TAXES</b>	\$70,000
PROVISION FOR INCOME TAXES	\$10,000
<b>NET PROFIT AFTER TAXES</b>	\$60,000

This example income statement shows how the company's net profit is calculated by starting with net sales, subtracting the cost of goods sold to determine gross profit, and then deducting administrative, sales, and general operating expenses to arrive at operating income. After adding other income and subtracting the provision for income taxes, the statement arrives at the company's net profit after taxes – the true bottom line earnings for the period.

## Key Components of the Income Statement

**Net Sales:** Net Sales are the company's sales after deducting returns, refunds, rebates, sales adjustments, and cash discounts. This represents the actual revenue earned from customers.

**Costs of Goods Sold (COGS):** COGS includes all costs directly associated with producing or installing the product. For garage door dealers, this typically includes material costs, direct labor, and contract labor.

**Material Costs:** Material cost is often the largest and most important component of COGS, and also the most difficult to calculate accurately.

Material cost is determined by the following formula:

$$\begin{array}{r} \text{Beginning Inventory} \quad \$200,000 \\ + \text{Purchases} \quad \quad \quad \$90,000 \\ - \text{Ending Inventory} \quad \quad \$175,000 \\ \hline = \text{Materials Used} \quad \quad \quad \$115,000 \quad (39\%) \end{array}$$

The percentage (39% in this example) is calculated by dividing Materials Used by Net Sales.

You can state materials used as a decimal or percent, by taking the dollars of material used and dividing it by net sales. Inventory is difficult because some dealers buy extra materials when they order from the factory. Therefore, they have inventory in their warehouse not yet used. If the beginning inventory is incorrect, the ending inventory and the amount of materials used will be incorrect.

In addition to taking care to determine the correct beginning inventory, it is equally important to account for materials used and purchased in determining ending inventory.

If the beginning inventory is correct, but the ending inventory is not, two things can happen:

1. If the ending inventory is stated as less than it really is, material cost will appear greater, and profit will be understated.
2. If ending inventory is *overstated*, profit is overstated, and the dealer could end up overpaying taxes on income that was not actually earned.

**Direct Labor:** Direct labor includes wages and benefits paid to installers, such as FICA, workers' compensation, unemployment insurance, and medical benefits. These costs are directly tied to performing installations.

**Contract Labor:** Contract labor includes payments to subcontractors for installation or service work. The full amount paid to the subcontractor is recorded as contract labor expense.

**Gross Profit or Gross Margin:** Net sales minus COGS. This represents the amount left to cover operating expenses and generate profit.

**Sales, General Expenses and Administrative (SG&A):** SG&A includes all non-production costs, or expenses not directly tied to installing or producing the product. These include warehouse costs, delivery expenses, administrative wages, office expenses, sales expenses, and advertising.

Examples of SG&A include:

- Warehouse Expenses: Rent, utilities, insurance, depreciation, repairs, security, and related costs.
- Delivery Expenses: Truck rental, depreciation, insurance, fuel, tolls, and maintenance.
- Administrative Expenses: Wages and benefits for office staff, payroll taxes, rent, utilities, banking and legal fees, and general office costs.
- Sales Expenses: Wages and benefits for sales staff, payroll taxes, credit card fees, and sales-related costs.
- Advertising Expenses: Print, broadcast, digital advertising, trade shows, and community visibility efforts.

**Operating Income:** Operating Income represents profit from core business operations.

$$\text{Operating Income} = \text{Net Sales} - \text{COGS} - \text{SG\&A}$$

**Net Other Income/Expense:** Income or expenses from activities outside normal operations, such as investment income, foreign exchange gains/losses, or gains/losses from selling non-inventory assets.

**Net Profit before Taxes:** Is equal to operating income  $\pm$  net other income.

**Provision for Income Tax:** The estimated amount of income tax owed for the period. These taxes are typically paid quarterly or annually and are separate from payroll taxes paid on behalf of employees.

**Net Profit After Taxes:** The final result of the income statement—profit remaining after all expenses and taxes have been deducted. This is the company's bottom line.

This section explains the key components that make up an income statement and how each contributes to measuring a company's financial performance over a period of time. Net Sales represent actual revenue earned, while Cost of

Goods Sold captures the direct costs of producing and installing products, including materials, direct labor, and contract labor. Subtracting COGS from Net Sales yields Gross Profit, the amount available to cover operating expenses. Sales, General, and Administrative expenses reflect the non-production costs required to run the business day-to-day. After accounting for operating income, other income or expenses, and the provision for income taxes, the statement arrives at Net Profit After Taxes, which is the true bottom-line result. Understanding these terms helps dealers interpret financial performance, identify cost drivers, and make informed decisions that strengthen profitability.

## **Understanding Performance Over Time**

The income statement provides a clear picture of how well the business performed during a specific period by showing whether the company operated at a profit or a loss. Rather than focusing on individual terms, the income statement as a whole reveals the relationship between sales, the cost of installing doors, and the operating expenses required to run the business. By reviewing these results over time, dealers can spot trends, evaluate pricing and labor efficiency, monitor material usage, and understand how operational decisions affect profitability. Ultimately, the income statement helps owners judge whether the business is generating enough profit to support growth, reinvestment, and long term financial stability.

## Section Three

# Ratios and Averages

As covered in earlier sections, the balance sheet shows where a business stands financially at a specific point in time, and the income statement shows how it performed over a period. Financial ratios take this information a step further by turning raw numbers into meaningful indicators of performance, strength, and efficiency. These ratios act as diagnostic tools – quick tests that reveal how well the company is managing liquidity, debt, profitability, and operational effectiveness. By analyzing measures such as the current ratio, working capital, key performance averages and others, a dealer can evaluate financial health, identify trends, and compare results to industry benchmarks. Understanding these ratios helps owners make informed decisions, anticipate problems, and improve overall business performance.

## Current Ratio

The current ratio measures a company's short term liquidity, or its ability to pay current debts using current assets. It is calculated by dividing Total Current Assets by Total Current Liabilities. A door and access systems dealer should generally target a current ratio of 2:1 or better, meaning the business has twice as many short term assets as short term obligations.

Example:

Total Current Assets	\$110,000	
Total Current Liabilities		\$55,000

$$\$110,000 \div \$55,000 = 2:1 \text{ Current Ratio}$$

A 2:1 ratio indicates that the company has two dollars of current assets for every one dollar of current liabilities, which is considered a strong liquidity position for most dealers.

## Working Capital

Working capital represents the amount of funds available for a company to operate day-to-day and support future growth. It is calculated by subtracting Current Liabilities from Current Assets, and is sometimes referred to as the company's net current position.

Because businesses vary in size, structure, and operating needs, there is no single "ideal" dollar amount of working capital. However, working capital should always be positive, meaning Current Assets exceed Current Liabilities. If working capital equals current liabilities, the company would have a 1:1 Current Ratio, indicating limited flexibility to handle unexpected expenses or opportunities.

Example:

Total Current Assets	\$110,000	
Total Current Liabilities		\$55,000

$$\$110,000 - \$55,000 = \$55,000 \text{ Working Capital}$$

This means the company has \$55,000 available to support operations, pay short term obligations, and fund ongoing business activity.

## Quick Ratio

The quick ratio measures a company's ability to pay its current liabilities without relying on the sale of inventory. It is calculated by subtracting Inventory from Current Assets, then dividing the result by Total Current Liabilities. Because it excludes inventory, the quick ratio is often called the *acid test* of liquidity.

A ratio of 1:1 or better is considered favorable. This means the company has enough cash and receivables – assets that can be quickly

converted to cash – to cover all current liabilities.

Bankers pay close attention to this ratio because it indicates how easily a business can meet its short term obligations. Cash and accounts receivable can be collected and used to pay debts, but inventory must first be sold. Since most lenders are not experts in the door and access systems industry, they prefer a liquidity measure that does not depend on how quickly inventory can be turned into cash.

Example:

Current Assets	\$110,000	
Inventory	\$55,000	
Current Liabilities		\$55,000
$\$110,000 - \$55,000 = \$55,000$		
$\$55,000 \div \$55,000 = 1:1$ Quick Ratio		

A 1:1 quick ratio shows that the company has enough liquid assets – cash and receivables – to pay all current liabilities without depending on inventory sales.

## Debt to Equity Ratio

The debt to equity ratio measures how a company is financed, i.e., how much of its assets are funded by debt versus the owner's equity. It is calculated by dividing Total Liabilities by Shareholders' Equity (also called net worth or partners' capital). The goal is to maintain a ratio of 1:1 or lower, meaning the business has at least as much equity as debt.

A lower ratio indicates a stronger financial position. For example, if a company has \$100,000 in equity and \$80,000 in total liabilities, the debt to equity ratio is 0.8, which is considered healthy. On the other hand, if a company has \$200,000 in debt and only \$50,000 in equity, the ratio becomes 4.0, indicating the business is highly leveraged and carries significant financial risk.

Example:

Total Liabilities	\$55,000
Equity (Net Worth/Partners Capital)	\$155,000

$$\$55,000 \div \$155,000 = 0.4:1 \text{ Debt to Equity Ratio}$$

A ratio of 0.4:1 is strong. It means the company has significantly more equity than debt, giving it financial stability and flexibility.

## Inventory Turns

Inventory is one of the most critical items on a garage door dealer's financial statement. As covered in earlier sections, *beginning inventory* represents the dollar value of materials on hand at the start of the accounting period, while *ending inventory* reflects what remains at the end. The accuracy of these numbers directly affects material cost, profitability, and the ability to measure how efficiently inventory is being managed. One of the most useful tools for evaluating inventory performance is the *Inventory Turns* ratio.

Inventory Turns shows how many times per year a company uses and replaces its inventory. To calculate it, three pieces of information are needed:

1. Percentage of materials used during the accounting period. For purposes of demonstrating how to calculate inventory turns, assume a typical garage door dealer has material costs to 53.2% of sales.
2. Average monthly sales for the accounting period.
3. Amount of inventory on hand as shown on the balance sheet.

To determine inventory turns, take the average month's sales and multiply it by the percentage of material used to find the average monthly material usage. Divide the inventory on hand by this monthly usage to determine how many months of inventory the company is carrying. Dividing 12 by the months of inventory to calculate annual inventory turns.

A higher number of turns indicates that inventory is being used and replenished more frequently. A lower number suggests excess inventory or slow moving stock.

The following is an example of how to calculate inventory turns:

Annual Sales: \$720,000

Average Monthly Sales:  $\$720,000 \div 12 = \$60,000$

Average Materials Cost: 53.2% (0.532)

Average Materials Used per Month:  
 $\$60,000 \times 0.532 = \$31,920$

Inventory on Hand: \$56,339

Months of Inventory on Hand:  
 $\$56,339 \div \$31,920 = 1.765$  months

Inventory Turns per Year:  $12 \div 1.765 = 6.8$  turns

Days of Inventory on Hand:  $365 \div 6.8 = 53$  days

This means the dealer is carrying approximately 53 days of inventory, or turning inventory 6.8 times per year.

Inventory turns, and the related measure of days of inventory on hand, are essential indicators of operational efficiency. The ideal number of turns varies by dealer, depending on product mix, lead times, and stocking strategy. Whether a company prefers to keep a large inventory on hand or operate with leaner stock levels, this calculation provides a reliable gauge of performance and helps identify opportunities to improve cash flow and profitability.

## Return on Assets

*Return on Assets (ROA)* measures how effectively a company uses its assets to generate profit. It connects the income statement and the balance sheet by comparing Net Profit Before Taxes to Total Assets. The result shows how many dollars of profit the company earns for every dollar invested in

assets. To calculate ROA, divide Net Profit Before Taxes by Total Assets.

Example:

Net Profit Before Taxes: \$70,000

Total Assets: \$210,000

$\$70,000 \div \$210,000 = 33\%$  ROA

An ROA above 20% is generally considered a strong performance for a garage door dealer. Bankers frequently evaluate this ratio because it indicates how efficiently the business is using its assets and whether those assets are generating an acceptable return. A consistently low ROA may suggest that the company's resources could earn more if invested elsewhere, while a strong ROA shows that the business is using its assets productively.

ROA should be reviewed annually to track performance trends and ensure the company is making effective use of its equipment, inventory, vehicles, and other assets.

## Return on Equity

*Return on Equity (ROE)* measures how effectively a company uses the owner's investment, its equity, to generate profit. It is calculated by dividing Net Profit Before Taxes by Equity. ROE shows the rate of return the business is earning on the capital invested by its owners or partners.

A return on equity of 25% to 30% or higher is generally considered desirable for a garage door dealer. A strong ROE indicates that the company is using its resources efficiently and generating a healthy return on the owners' investment. A low ROE may signal that profits are not keeping pace with the amount of capital tied up in the business.

Example:

Net Profit Before Taxes: \$70,000

Equity: \$155,000

$\$70,000 \div \$155,000 = 45\%$  ROE

A 45% return on equity indicates excellent performance, showing that the business is generating a strong return relative to the owners' investment.

## Average Collection Period / Daily Sales Outstanding

Accounts receivable management is a critical issue for garage door dealers, especially for businesses that extend credit to customers. Dealers must monitor how quickly they collect payments, because slow collections can strain cash flow and limit the company's ability to operate efficiently.

Traditionally, accounts receivable are reviewed by aging them into categories such as 0-30 days, 31-60 days, 61-90 days, and over 90 days based on the invoice due date. Most dealers will have balances in each category, but the goal is to keep the majority of receivables in the 0-30 day range and as little as possible in the over 90 days category.

Another way to evaluate receivables is by calculating *Daily Sales Outstanding (DSO)*, which expresses accounts receivable in terms of the number of days' worth of credit sales that remain uncollected. DSO helps a dealer understand how long, on average, it takes to convert credit sales into cash.

### Steps to Calculate DSO:

1. Annual Sales – C.O.D. Sales = Annual Credit Sales
2. Annual Credit Sales ÷ 365 = Average Credit Sales per Day
3. DSO = Accounts Receivable ÷ Average Credit Sales per Day

### Example:

Annual Sales: \$790,000  
C.O.D. Sales: \$70,000  
Annual Credit Sales: \$720,000

Average Daily Credit Sales:  
 $\$720,000 \div 360 = \$2,000$  Daily Credit Sales  
(Note: Some dealers use 360 days for simplicity)

Accounts Receivable = \$100,200

DSO Calculation:  
 $\$100,200 \div \$2,000 = 50.1$  Days

This means the dealer is carrying 50.1 days of credit sales in accounts receivable.

When calculating DSO, it is essential that the accounts receivable balance is accurate. If receivables include amounts that will never be collected, the DSO will be misleading. Bad debt should always be deducted before calculating DSO so the company can understand its true collection performance.

A well-managed garage door dealership should strive to have a DSO of 40 days or less, and have less than 20% of all receivables in the "over 60 days" column. Once an account exceeds 60 days, the likelihood of collecting it drops significantly. Monitoring DSO and aging categories helps dealers identify collection problems early and maintain healthy cash flow.

## Performance Averages

Performance averages help garage door dealers evaluate productivity, efficiency, and staffing needs over time. By comparing these averages year-to-year, or against industry benchmarks, dealers can identify strengths, spot inefficiencies, and make informed decisions about staffing, fleet size, and operational capacity.

### Average Sales per Employee

This measure evaluates overall company productivity by dividing total annual sales by the total number of employees. All employees are included – installers, service technicians, office staff, salespeople, and management.

For example, if annual sales are \$1,200,000 and there are a total of 10 people in the

company, average sales per employee would be \$120,000. ( $\$1,200,000 \div 10 = \$120,000$ ).

The average sales per employee is shown in this example as an annual figure. Depending on the needs or strategic objectives of management, this average can be further broken down into smaller segments, such as quarterly, monthly or as little as hourly.

### **Average Yearly Sales per Field Personnel**

Another way to evaluate company-wide productivity is to measure the average yearly sales generated per field employee, that is, per installer or service technician. For this calculation, all field labor is included, including contract labor.

To determine this average, divide total annual sales by the number of technicians. Because staffing levels may change throughout the year, the technician count may not be a whole number; in those cases, use the average number of technicians for the period being evaluated.

This metric helps dealers understand how effectively their field workforce is supporting revenue and whether staffing levels are aligned with sales volume.

### **Average Yearly Sales per Technician Vehicle**

This performance measure evaluates how effectively the company's fleet of installation and service vehicles supports revenue. To calculate it, divide total annual sales by the number of technician vehicles in service during the year.

If vehicles were added or removed during the year, use the average number of vehicles for the period. Because fleet size can fluctuate, this average may not be a whole number.

This metric helps dealers understand whether their fleet is appropriately sized for their sales volume and whether vehicle utilization is efficient.

## **Turning Financial Data into Action**

The ratios and performance averages in this section help a garage door dealer move beyond raw financial statements and understand what those numbers truly mean. Liquidity ratios such as the Current Ratio, Working Capital, and Quick Ratio show whether the business can meet its short term obligations and maintain financial stability. Leverage and efficiency measures like the Debt to Equity Ratio, Inventory Turns, Return on Assets, and Return on Equity reveal how effectively the company is using its resources and whether it is generating an acceptable return on the owner's investment.

The chapter also highlights operational performance through Daily Sales Outstanding (DSO) and key productivity averages, including Sales per Employee, Sales per Technician, and Sales per Technician Vehicle. These indicators help dealers evaluate staffing levels, fleet utilization, and the overall efficiency of their operations.

Together, these ratios and averages provide a clear, practical framework for monitoring financial health, identifying trends, and making informed decisions. By reviewing these measures regularly, a dealer can strengthen profitability, improve cash flow, and ensure the business remains competitive and resilient over time.

## Section Four

# Markup and Margin

*Markup* and *Margin* are two methods businesses use to set and manage prices in order to achieve desired profitability. Although they are closely related, they express profit in two different ways. Understanding both and using them consistently is essential for accurate pricing, financial analysis, and long term success.

Markup expresses profit as a percentage of *cost*, while Margin expresses profit as a percentage of the *selling price*. Because they use different bases, the percentages are not interchangeable, and confusing the two can lead to underpricing or overpricing.

## Markup

Markup is the amount added to the cost of a product or service to determine the selling price. It is expressed as a percent of cost.

To determine selling price using markup, multiply cost by the markup percentage and add that amount to the cost.

Example:

Cost of Product: \$10.00  
(Includes all costs and labor)

Selling Price with 50% Markup:  
 $\text{Selling Price} = \text{Cost} + (\text{Cost} \times 0.50)$   
 $= 10.00 + (10.00 \times 0.50) = \$15.00$

To Calculate Markup from Selling Price:  
 $\text{Markup} = (\text{Selling Price} - \text{Cost}) \div \text{Cost}$   
 $= (15.00 - 10.00) \div 10.00 = 0.50$  or 50%

Markup is commonly used by dealers because it is simple and intuitive, simply add a percentage to cost and you have your price. However, markup does not directly reflect how the financial statement measures profitability, which is based on margin, not markup.

## Margin

Margin, also called Gross Margin, is the percentage of the selling price that is profit. A 40% margin means that 40% of the selling price is profit, and the remaining 60% covers cost. To determine the selling price for a given margin, divide cost by the portion of the selling price that represents cost, or  $1 - \text{Margin}$ .

Example:

Cost of Product: \$10.00  
(Includes all costs and labor)

Selling Price for 40% Margin:  
 $\text{Selling Price} = 10.00 \div (1 - 0.40) = \$16.67$

To Calculate Margin from a Selling Price:  
 $\text{Margin} = (\text{Selling Price} - \text{Cost}) \div \text{Selling Price}$   
 $\text{Margin} = (16.67 - 10.00) \div 16.67 = 0.40$  or 40%

Margin is the method used in financial statements and is the most accurate way to analyze profitability. It shows how much of each sales dollar is available to cover overhead and generate net profit.

## Markup vs. Margin

Although markup and margin are related, they are not the same, and using them interchangeably leads to pricing errors. Markup is based on cost while Margin is based on selling price. Because the selling price is always higher than cost, a given margin will always be lower than the equivalent markup.

For example:

- A 50% markup results in only a 33% margin.
- A 40% margin requires a 67% markup.

This difference is one of the most common sources of pricing mistakes in the garage door industry.

Many dealers markup material and labor separately, similar to auto repair shops. Others markup material and then add labor as a separate line item. While these methods can work, they do not align neatly with how financial statements measure profitability.

The financial statement evaluates performance based on margin, not markup. Therefore, the most reliable pricing method is to:

1. Determine the desired margin,
2. Know the material and labor cost, and
3. Divide total cost by the cost portion of the selling price ( $1 - \text{margin}$ ).

This ensures that the selling price produces the margin needed to cover overhead and generate profit.

## Margin and Overhead

Margin represents the dollars left after subtracting material and direct labor from sales. These dollars must cover all overhead expenses, including:

- Rent and utilities
- Office staff wages
- Insurance
- Vehicles and fuel
- Advertising
- Tools and equipment
- Administrative costs
- Professional services
- Technology and software

Only after overhead is covered does the remaining margin become net profit.

Dealers who misunderstand margin often underprice jobs, leaving too little margin to cover overhead, resulting in low or negative profitability even when sales appear strong.

## Essential Concepts for Accurate Pricing

**Margin Compression:** Margin compression occurs when costs rise but selling prices do not rise with them. In the garage door industry, this can happen quickly – material surcharges, freight increases, rising labor rates, fuel costs, and insurance premiums all erode margin if pricing is not adjusted. Because many dealers operate on relatively tight margins, even small increases in cost can have a significant impact on profitability. A 3% increase in material cost, for example, can reduce margin by far more than 3% if prices remain unchanged.

Dealers often feel pressure to hold prices steady due to competitive concerns, but failing to adjust pricing is one of the most common reasons margins decline over time. Margin compression is rarely obvious in the moment; it tends to accumulate gradually, showing up months later as disappointing financial results. Dealers who monitor costs regularly and adjust pricing proactively are far better positioned to maintain healthy margins.

Another challenge is that cost increases are not always uniform across product categories. Some items may rise sharply while others remain stable. This uneven movement can distort blended margins and make certain job types less profitable than before. Dealers should review margin performance by category to identify where compression is occurring.

Ultimately, preventing margin compression requires discipline: tracking costs, reviewing vendor pricing, updating price books, and training staff to understand why price adjustments are necessary. Dealers who stay ahead of cost changes protect their profitability and avoid the downward spiral caused by delayed price increases.

**Blended Margin:** Blended margin refers to the overall margin achieved on a job that includes multiple components – doors, operators, hardware, accessories, and labor. Each

component may carry a different margin, and the combination of these margins determines the profitability of the entire job. A high margin service call, for example, can significantly improve blended margin, while a low margin commercial installation can pull it down.

Understanding blended margin is essential because it reflects the real profitability of the work being performed. Dealers sometimes focus on the margin of individual items, but what matters most is the margin of the complete job. A job with a low margin door but high margin accessories may still meet the company's target. Conversely, a job with a high margin door but excessive labor hours may fall short.

Blended margin also helps dealers evaluate which job types contribute most to profitability. Service work typically carries the highest margins, while new construction and commercial bid work often carry the lowest. By analyzing blended margin across job categories, dealers can identify opportunities to shift their product mix toward more profitable work.

Finally, blended margin is a powerful tool for pricing strategy. Dealers who understand how different components interact can design pricing structures that encourage higher margin addons, reduce the impact of low margin items, and ensure that the overall job meets the company's financial objectives.

**Consistency is Critical:** Consistency in pricing is essential for maintaining predictable margins and ensuring that similar jobs produce similar financial results. Switching between markup and margin, whether intentionally or accidentally, creates inconsistent pricing that can confuse customers, frustrate employees, and erode profitability. A dealer who uses markup for some items and margin for others may unintentionally underprice certain jobs while overpricing others.

A consistent pricing method also helps ensure fairness and transparency. Customers talk,

compare quotes, and share experiences. When pricing varies widely for similar work, it undermines trust and can damage the company's reputation. A structured, margin based pricing system ensures that every customer receives a price that reflects the company's true costs and desired profitability.

Consistency also simplifies training. When technicians, salespeople, and office staff all use the same pricing logic, the company avoids errors and reduces the risk of misquoting jobs. This is especially important in fast paced environments where estimates must be produced quickly and accurately.

Finally, consistent pricing supports better financial analysis. When pricing is based on a uniform method, the dealer can more easily evaluate performance, identify trends, and make informed decisions. Consistency is not just a pricing preference; it is a foundational element of a profitable business.

### **Margin Targets Should Reflect Reality:**

Margin targets must be grounded in the actual economics of the business. A margin that is too low will not cover overhead, while a margin that is unrealistically high may price the company out of the market. Successful door dealers typically operate with margins in the 35% to 45% range, but the appropriate target depends on product mix, labor efficiency, market competition, and overhead structure.

Dealers should review their margin targets annually, especially when costs or market conditions change. Rising labor costs, increased fuel expenses, or higher insurance premiums may require higher margins to maintain profitability. Conversely, improvements in efficiency, such as reduced callbacks or better scheduling, may allow the dealer to maintain margins while remaining competitive.

Margin targets should also reflect the company's strategic goals. A dealer seeking growth may accept slightly lower margins in exchange for increased volume, while a dealer

focused on stability and cash flow may prioritize higher margins. The key is to ensure that margin targets align with the company's financial needs and long term objectives.

Ultimately, margin targets are not arbitrary. They are a direct expression of what the business requires to operate profitably. Dealers who set realistic, data driven margin targets are better equipped to weather cost increases, competitive pressures, and economic fluctuations.

**Overhead Absorption:** Overhead absorption refers to the process of covering all non-material, non-labor expenses through the margin generated by sales. Overhead includes rent, utilities, office staff wages, insurance, vehicles, fuel, advertising, technology, and administrative costs. These expenses must be paid regardless of how many doors are sold or how many service calls are completed.

If margins are too low, overhead cannot be absorbed, even if sales volume is high. This is why some dealers experience strong sales but weak profits. They are not generating enough margin dollars to cover their overhead structure. Understanding overhead absorption helps dealers set pricing that ensures long term sustainability.

Dealers should regularly review their overhead to determine whether it is aligned with their sales volume and margin performance. If overhead grows – through added vehicles, new employees, or expanded facilities – margin targets may need to increase accordingly. Conversely, improving efficiency or reducing waste can lower overhead and improve profitability without raising prices.

Overhead absorption also ties directly into break-even analysis. The more overhead a company carries, the higher its break-even point becomes. Dealers who understand this relationship can make better decisions about staffing, fleet size, and operational investments. Overhead absorption is not just

an accounting concept; it is a practical tool for managing the financial health of the business.

**Impact of Discounts:** Discounting is one of the fastest ways to erode margin, often far more dramatically than dealers realize. A small discount or 5% or 10% may seem harmless, but because margin is calculated on the selling price, even a modest reduction can eliminate a significant portion of profit.

For example, a 10% discount on a job with a 40% margin can reduce the actual margin to less than 30%, depending on cost structure. Dealers who discount frequently or without analysis may unintentionally give away the very dollars needed to cover overhead.

Discounts also create long term expectations. Once customers become accustomed to receiving a discount, they may resist paying full price in the future. This can trap a dealer in a cycle of habitual discounting that undermines pricing integrity and reduces profitability across the board. Over time, this behavior can weaken the company's financial position and make it difficult to invest in staff, equipment, or growth.

Dealers should evaluate the purpose of each discount. Strategic discounts, such as those used to win a large commercial contract or to resolve a customer service issue, can be appropriate when used sparingly and intentionally. However, routine or reactive discounting, especially by technicians or salespeople under pressure, should be avoided. Training staff to understand the true cost of discounting helps prevent unnecessary margin loss.

Ultimately, discounts should be used with caution and supported by clear policies. Dealers who track the impact of discounting on margin and profitability can make informed decisions and maintain stronger financial performance. Protecting margin begins with understanding that every discount has a cost, and that cost is almost always higher than it appears.

**Labor Efficiency and Job Costing:** Labor efficiency is one of the most important drivers of margin in a garage door dealership. Even when material margins are strong, excessive labor hours, callbacks, or scheduling inefficiencies can quickly erode profitability. Labor is often the most variable component of job cost. Small inefficiencies, such as an extra hour here or a second trip there, can add up quickly across dozens or hundreds of jobs.

Accurate job costing allows dealers to understand how labor is actually being used. By tracking labor hours per job, per technician, and per job type, dealers can identify patterns that reveal training needs, process bottlenecks, or equipment issues. For example, if certain technicians consistently require more time to complete similar jobs, additional training or support may be needed. If certain job types routinely exceed estimated labor, pricing adjustments may be necessary.

Callbacks are another major source of margin loss. A callback not only consumes labor that cannot be billed, but also displaces revenue producing work. Dealers who track callbacks by technician, product type, or installation method can identify root causes and implement corrective actions. Reducing callbacks is one of the most effective ways to improve margin without raising prices.

Strong labor efficiency also improves scheduling, customer satisfaction, and overall operational performance. When technicians complete jobs within estimated timeframes, the company can handle more work per day, reduce overtime, and improve profitability. Labor efficiency is not just a cost issue – it is a strategic advantage that directly influences margin and long term success.

**Price Integrity:** Price integrity refers to the consistency, fairness, and reliability of a company's pricing system. When customers receive consistent pricing for similar work, it builds trust and reinforces the professionalism of the dealership. Conversely, inconsistent pricing, caused by ad-hoc discounts,

inconsistent markup practices, or unclear pricing guidelines, can damage credibility and lead to customer dissatisfaction.

Maintaining price integrity requires a structured pricing system that is applied uniformly across the organization. Technicians, salespeople, and office staff should all use the same pricing logic and tools. This ensures that customers receive accurate, predictable pricing regardless of who prepares the estimate. A margin based pricing system is particularly effective because it aligns with financial statements and ensures that each job contributes appropriately to overhead and profit.

Price integrity also protects the company from internal confusion. When employees understand how prices are determined, they are more confident in presenting them to customers. This reduces the temptation to discount unnecessarily and helps prevent misquoting. Clear pricing guidelines empower staff to stand behind the company's value rather than negotiating away margin.

Finally, price integrity supports long term profitability. A company that prices consistently can analyze performance more accurately, forecast revenue more reliably, and make better strategic decisions. Price integrity is not just about fairness; it is a foundational element of a financially healthy and professionally run dealership.

## Ethical Pricing

Ethical pricing is the practice of setting and presenting prices in a way that is fair, transparent, and consistent with the values of the business. For garage door dealers, ethical pricing is not just a moral choice, it is a strategic advantage. Customers today have access to more information than ever before, and they quickly recognize when pricing feels arbitrary, inconsistent, or manipulative. Ethical pricing builds trust, strengthens reputation, and supports long term customer relationships. It

ensures that the dealer earns a fair profit while providing customers with honest value.

At its core, ethical pricing means charging customers based on the true cost of delivering quality products and services, not on what can be extracted from them in the moment. It means avoiding practices such as inflating prices only to offer “discounts,” quoting different prices to similar customers without justification, or using high pressure tactics to upsell unnecessary products. Ethical pricing also means being transparent about what is included in the price – materials, labor, warranties, and any additional fees – so customers understand exactly what they are paying for.

Ethical pricing is especially important in service based industries like garage doors, where customers often rely on the dealer’s expertise to diagnose problems and recommend solutions. A customer may not know whether a spring replacement should cost \$200 or \$600, or whether a new opener is truly necessary. Dealers who prioritize ethical pricing take the time to explain the work, justify the cost, and provide options when appropriate. This approach not only protects the customer, but it also protects the dealer’s reputation and reduces the likelihood of disputes, negative reviews, or chargebacks.

Ethical pricing also supports internal consistency. When a company has clear, principled pricing guidelines, technicians and sales staff are less likely to improvise or make decisions that undermine margin or credibility. Ethical pricing policies help prevent favoritism, arbitrary discounts, or inconsistent quotes. They create a culture where employees understand that the company’s pricing is fair, defensible, and aligned with its values. This clarity empowers staff to confidently present prices and reduces the temptation to negotiate away margin.

**Fairness and Transparency:** Fairness is the foundation of ethical pricing. Customers should feel confident that they are being charged a

reasonable price for the work performed, and that similar customers would receive similar pricing under similar circumstances.

Transparency reinforces fairness by making pricing understandable. When customers know how prices are determined, based on material cost, labor time, overhead, and desired margin, they are more likely to trust the dealer and approve the work.

Transparency also means avoiding hidden fees or surprise charges. If a job requires additional work beyond the original estimate, the dealer should communicate this clearly and obtain approval before proceeding. Ethical dealers do not rely on ambiguity or confusion to increase revenue. Instead, they use clarity and communication to build trust and long term loyalty.

**Consistency and Professionalism:** Ethical pricing requires consistency across the organization. A customer should receive the same price whether they speak to a technician, a salesperson, or the office staff. Inconsistent pricing not only undermines trust, but it also creates operational chaos. Ethical pricing systems rely on standardized price books, margin based formulas, and clear policies that guide employees in every situation.

Professionalism also plays a role. Ethical pricing means presenting prices confidently and without apology. When employees understand that the company’s pricing is fair and based on sound financial principles, they are better equipped to communicate value rather than negotiating price. This professionalism reinforces the company’s brand and helps customers feel confident in their purchase.

**Avoiding Manipulative Practices:** Ethical pricing means avoiding tactics that mislead or pressure customers. Examples of unethical practices include:

- Inflating prices to create the illusion of a “deep discount”.

- Charging different prices based on perceived customer wealth.
- Using fear-based language to upsell unnecessary repairs.
- Quoting low prices initially and adding excessive fees later.
- Offering “limited-time” pricing that is not truly limited.

These practices may generate short term revenue, but they damage long term trust and can lead to complaints, negative reviews, or legal issues. Ethical pricing focuses on value, not manipulation.

**Ethical Pricing and Profitability:** Ethical pricing does not mean low pricing. In fact, ethical pricing supports strong profitability because it is grounded in accurate cost analysis, realistic margin targets, and consistent application. Customers are willing to pay fair prices when they trust the dealer and understand the value being provided. Ethical pricing also reduces the need for discounting, which protects margin and strengthens financial performance.

Dealers who adopt ethical pricing often find that their close rates improve, customer satisfaction increases, and repeat business grows. Ethical pricing builds a reputation for honesty and professionalism, which are qualities that differentiate a dealer in a competitive market.

**Ethical Pricing as a Competitive Advantage:** In the garage door industry, where many customers are unfamiliar with pricing norms, ethical pricing becomes a powerful differentiator. Dealers who communicate clearly, price consistently, and treat customers fairly stand out from competitors who rely on aggressive sales tactics or inconsistent pricing. Ethical pricing builds trust, and trust builds referrals, which is one of the most valuable sources of new business.

Ethical pricing also strengthens relationships with employees. When technicians and salespeople know that the company’s pricing is

fair and defensible, they feel more confident and less pressured. This leads to better customer interactions, fewer disputes, and a more positive work environment.

## Using Pricing to Strengthen Your Business

Markup and Margin are essential tools for setting prices and evaluating profitability. Markup expresses profit as a percentage of cost, while Margin expresses profit as a percentage of the selling price. Although both methods can be used, Margin aligns with financial statements and provides a clearer picture of how much money is available to cover overhead and generate profit.

Dealers who understand the difference, and who price consistently using a margin based approach, are better equipped to maintain profitability, avoid underpricing, and make informed decisions about costs, overhead, and growth. Regularly reviewing margin performance and adjusting pricing when costs change helps protect profitability and ensures long term financial stability.

Equally important is the commitment to ethical pricing. Ethical pricing reinforces trust, supports transparency, and ensures that customers receive fair, consistent pricing based on real costs and desired margins – not on guesswork or pressure. When pricing is both financially sound and ethically grounded, dealers strengthen their reputation, improve customer satisfaction, and build long term loyalty.

By combining disciplined margin based pricing with ethical practices, a dealer creates a pricing system that is profitable, defensible, and aligned with the company’s values. This balanced approach not only strengthens the financial health of the business but also enhances credibility in the marketplace, positioning the dealer for sustainable success.

## Section Five

# Break-Even Analysis

Dealers need to know their break-even sales, or the amount of revenue required to cover all overhead expenses without generating a profit or a loss. *Break-even analysis* is one of the most important financial tools available to a garage door dealer because it shows the minimum level of sales needed to keep the business operating.

Break-even can be calculated for an entire fiscal year, a quarter or month, a single department, and individual project or job, or even per day for dealers who want to track daily performance targets. Regardless of the time period, the formula for calculating break-even remains the same:

$$\text{Break-Even} = \text{Overhead divided by Margin}$$

To use this formula, the dealer must know the total overhead for the period, and the margin expressed in decimal form (e.g., 28% = 0.28).

Example:

Sales		\$760,000
Material	(0.56)	\$425,000
Labor	(0.16)	\$121,600
Margin	(0.28)	\$212,800

If the company's overhead is \$155,800, break-even is calculated as follows:

$$\text{Break-Even} = \$155,800 \div 0.28 = \$556,429$$

This means the company must generate \$556,429 in sales to cover all overhead expenses. Any sales above this amount contribute to profit.

**Determining Profit Using Break-Even:** Once break-even is known, profit can be calculated by subtracting break-even from sales and multiplying the result by margin.

Using the same example:

Sales	=	\$760,000
Break-Even	=	<u>\$556,429</u>
Sales over Break-Even	=	\$203,571
X Margin	=	<u>0.28</u>
Profit	=	\$57,000

When calculating break-even, it is not unusual to vary slightly from the financial statement, due to rounding.

Break-even analysis requires the dealer to understand sales, overhead, and margin – the three pillars of profitability. It is traditionally the centerpiece of financial planning because it allows dealers to:

- Set realistic sales goals
- Evaluate whether current pricing supports profitability
- Understand how overhead changes affect required sales
- Measure the impact of margin improvements
- Determine whether staffing levels and expenses are sustainable
- Assess the financial viability of new products, services, or locations

Knowing break-even gives the dealer a clear target. Once break-even is reached, every additional sale contributes directly to profit at the company's margin rate.

## Applying Break-Even Analysis

Break-even analysis becomes far more powerful when it is applied to real world decisions inside a garage door dealership. Beyond calculating annual break-even, dealers

can use the same principles to evaluate daily performance, assess individual departments, measure the impact of margin or overhead changes, and plan for seasonal fluctuations. By applying break-even analysis in these practical ways, a dealer gains clearer insight into operational needs, profitability drivers, and the sales levels required to sustain and grow the business.

**Daily Break-Even:** Some dealers calculate break-even per day to set daily sales goals for technicians and sales staff. This helps identify slow days early and adjust scheduling or promotions accordingly.

**Departmental Break-Even:** Installation, service, and commercial divisions may have different margins and overhead allocations. Calculating break-even by department helps identify which areas are profitable and which need improvement.

**Impact of Margin Changes:** Small increases in margin significantly reduce break-even sales. For example, raising margin from 28% to 32% can lower break-even by tens of thousands of dollars.

**Impact of Overhead Growth:** Adding vehicles, employees, or facilities increases overhead. Break-even analysis shows whether projected sales will support these additions.

**Seasonal Planning:** Door dealers often experience seasonal fluctuations. Break-even helps determine how much must be earned during peak months to offset slower periods.

## The Benefits of Break-Even Analysis

Break-even analysis is one of the most powerful tools a dealer can use to understand financial performance. By calculating the sales required to cover overhead and applying margin correctly, a dealer can set informed goals, evaluate pricing, and make confident decisions about staffing, expenses, and growth. Knowing break-even, and reviewing it regularly, greatly increases the likelihood of operating profitably year after year.

## Section Six

# Product Mix

Many door dealers offer a wide range of products and services such as residential doors, commercial doors, operators, accessories, service work, installations, and specialty items. Each of these categories typically carries a different margin, influenced by competitive pressures, customer expectations, labor intensity, and market dynamics. The combination of these categories, and the percentage of total sales each represents, is known as the *product mix*.

Because margins vary across product types, the product mix has a direct impact on a dealer's overall margin and therefore on the company's profitability. A dealer with a strong mix of high margin service work will have a very different financial profile than one whose sales are dominated by low margin new construction or commercial bid work.

If, for example, a door company with sales of \$910,000 generates an overall margin of 33.8%, the breakdown might look something like this:

Sales and Margin by Product Type				
Product Type	Sales (% of total)	Sales \$	Margin	Margin \$
Residential	50%	\$455,000	33 %	\$150,150
Commercial	25%	\$227,500	24 %	\$54,600
Service	15%	\$136,500	52 %	\$79,980
Other	10%	\$91,000	25 %	\$22,850
Total	100%	\$910,000	33.8 %	\$307,580

This type of analysis helps the dealer understand which categories contribute most to profitability and which may be dragging down the overall margin.

While a complete study of product mix is beyond the scope of this text, every dealer should understand that shifts in product mix can significantly change the company's margin. Even small changes to the percentage of sales

in high margin categories can meaningfully improve profitability.

For example, if the dealer observes that service work carries the highest margin, increasing service volume, even modestly, can lift the blended margin for the entire company.

Understanding product mix allows a dealer to:

- Identify high margin categories that deserve more focus.
- Recognize low margin categories that may require price adjustments.
- Evaluate whether staffing and fleet resources align with profitable work.
- Make informed decisions about marketing, promotions, and sales strategy.
- Improve forecasting and budgeting accuracy.
- Strengthen overall profitability without raising prices.

Dealers who regularly analyze product mix can spot opportunities for growth and correct imbalances before they affect financial performance.

## Safety Margin

*Safety Margin* measures how much sales can decline before the company reaches its break-even point. It is calculated as:

$$\text{Safety Margin} = (\text{Sales} - \text{Break-Even}) \div \text{Sales}$$

For example, if a company had a break-even of \$500,000, and its sales were \$600,000, it would have a safety margin of 16.7% (\$100,000 in sales over break-even divided by sales).

This represents the “cushion” between current sales and the point at which the company would no longer be profitable. Larger safety margins are preferred, and a safety margin above 20% is generally considered healthy.

Product mix directly affects safety margin: Higher margin mixes increase the cushion; lower margin mixes reduce it.

## Product Mix is More Than Products and Services

Product mix is far more complex than simply listing the products and services a dealer offers. In a garage door business, profitability is shaped not only by what is sold, but by whom it is sold to, how the work is performed, how labor is utilized, and how different categories of work interact with one another. Customer type, job type, labor intensity, accessory sales, and the balance between high volume and high margin work all influence the company’s blended margin and overall financial performance. Understanding these broader dimensions of product mix allows a dealer to make more informed decisions, strengthen pricing strategy, and identify opportunities for growth and improved profitability.

**Margin by Customer Type:** Different customer types generate different levels of profitability, and understanding these patterns is essential for managing product mix. Homeowners typically produce the highest margins because they value responsiveness, convenience, and quality. They are often willing to pay for trusted service, fast turnaround, and professional installation. Builders and contractors, by contrast, tend to be more price sensitive and may negotiate aggressively, resulting in lower margins. Commercial accounts may offer steady volume but often require competitive pricing, extended payment terms, or additional administrative work.

Recognizing these differences helps dealers allocate resources more effectively. For

example, a dealer may choose to prioritize homeowner service calls during peak season because they generate higher margins and require fewer administrative steps. Conversely, commercial accounts may be more valuable during slower periods when volume is needed to keep technicians busy. Understanding customer type margins allows the dealer to balance profitability with workload and capacity.

Customer type also influences marketing strategy. High margin customer groups may justify targeted advertising, premium service offerings, or enhanced customer experience initiatives. Lower margin groups may require efficiency improvements, standardized pricing, or tighter job costing to remain profitable. By analyzing margin by customer type, dealers can make informed decisions about where to focus their efforts.

Ultimately, customer type margin analysis helps dealers understand which segments drive profitability and which require careful management. This insight supports better pricing, scheduling, and strategic planning, ensuring that the company’s product mix aligns with its financial goals.

**Margin by Job Type:** Not all job types contribute equally to profitability. Service calls typically carry the highest margins because they require minimal material, rely heavily on skilled labor, and often include accessory sales. Retrofit residential installations also tend to produce strong margins, especially when paired with high quality products and efficient installation practices. Commercial service work may offer moderate margins but can provide steady, recurring revenue.

New construction and bid work, however, often produce the lowest margins due to competitive pressures, standardized pricing, and tight labor requirements. These jobs may still be strategically valuable – for example, to maintain relationships with builders or to keep technicians busy during slow periods – but they

must be managed carefully to avoid dragging down overall profitability.

Understanding margin by job type allows dealers to evaluate whether their current mix of work supports their financial objectives. If low margin job types dominate the schedule, the dealer may need to adjust pricing, improve efficiency, or shift marketing efforts toward higher margin categories. Conversely, if high margin work is consistently available, the dealer may choose to reduce reliance on low margin segments.

Margin by job type also helps identify training needs. If certain job types consistently underperform, the issue may be related to labor efficiency, product selection, or installation methods. By analyzing job type margins, dealers can pinpoint opportunities for improvement and strengthen overall performance.

**Labor Intensity and Margin:** Labor intensity plays a major role in determining margin. Some products and job types require significantly more labor than others, and even small variations in labor hours can have a large impact on profitability. Heavy commercial doors, custom wood doors, and high cycle operator systems often require specialized skills, additional equipment, or multiple technicians. These factors increase labor costs and reduce margin unless pricing is adjusted accordingly.

Dealers who track labor hours by product type gain valuable insight into which categories are truly profitable. A product that appears profitable based on material markup alone may actually underperform once labor intensity is factored in. Conversely, a product with modest material margin may still be highly profitable if it requires minimal labor and can be installed efficiently.

Labor intensity also affects scheduling and capacity. High labor jobs reduce the number of jobs a technician can complete in a day, which affects revenue potential. Dealers who

understand labor intensity can schedule more effectively, balance workloads, and ensure that technicians are assigned to jobs that match their skill levels.

By incorporating labor intensity into pricing decisions, dealers can ensure that each job contributes appropriately to margin and overhead. This approach supports more accurate pricing, better job costing, and improved overall profitability.

**Accessory and Add-On Sales:** Accessory and add-on sales often carry exceptionally high margins. These items require minimal labor to install and can significantly increase the profitability of a job. For example, adding a keypad or upgraded spring cycle life for a service call can dramatically improve the blended margin without increasing job count or technician time.

Encouraging accessory sales requires training and awareness. Technicians should be taught to identify opportunities for add-ons based on customer needs, product condition, and safety considerations. When presented ethically and professionally, accessory recommendations enhance customer satisfaction by improving convenience, performance, and reliability.

Accessory sales also help offset the impact of low margin items. A job that includes a low margin door can still meet the company's margin target if paired with high margin accessories or upgrades. Dealers who understand the role of accessories in blended margin can design pricing structures and sales processes that support consistent profitability.

Finally, accessories strengthen customer relationships. Customers appreciate solutions that improve their experience, and accessory sales often lead to repeat business and referrals. By integrating accessory sales into the overall product mix strategy, dealers can increase revenue, improve margins, and enhance customer satisfaction.

**Volume vs. Margin Trade-Off:** The relationship between volume and margin is a critical consideration in product mix management. Some categories, such as new construction, generate high volume but low margin. Others, like service work, generate high margin but lower volume. A healthy product mix balances these two forces to ensure both profitability and operational stability.

High volume, low margin work can be valuable when it keeps technicians busy, absorbs overhead, or supports strategic relationships. However, relying too heavily on low margin categories can weaken overall profitability and increase financial risk. Dealers must evaluate whether the volume generated by these categories justifies the margin sacrifice.

High margin, low volume work, such as service calls, can significantly improve profitability but may not provide enough consistent workload to support staffing and fleet requirements. Dealers who rely heavily on service work must ensure that demand remains steady and that scheduling is efficient.

Understanding the volume margin tradeoff allows dealers to make informed decisions about marketing, staffing, and pricing. By balancing high margin and high volume categories, dealers can create a product mix that supports both short term performance and long term growth.

## **Strengthening Profitability Through Product Mix**

Product mix is one of the most important drivers of profitability in a garage door dealership. While many dealers think of product mix simply as the blend of products and services they offer, the reality is far more complex. Profitability is shaped not only by what is sold, but by who it is sold to, how the work is performed, the labor intensity involved, the accessories and add-ons included, and the

balance between high volume and high margin categories. These deeper dimensions of product mix have a powerful influence on blended margin and overall financial performance.

Because each product, service, customer type, and job category carries a different margin, the composition of the work a dealer performs directly determines the company's financial results. Dealers who understand these dynamics can identify high margin opportunities, correct low margin imbalances, and make informed decisions about pricing, staffing, marketing, and scheduling. This broader view of product mix allows a dealer to shape the business intentionally, rather than reactively, and focus on the types of work that strengthen profitability.

By reviewing product mix regularly and aligning it with strategic goals, a dealer can significantly improve profitability without raising prices or increasing volume. Small shifts, such as increasing service work, improving accessory sales, or reducing low margin bid work, can meaningfully lift blended margin and strengthen the company's financial position. When product mix is understood in its full scope, it becomes a powerful tool for guiding growth, improving operational decisions, and building a more resilient and profitable dealership.

## Section Seven

# Independent Contractors

Many garage door dealers use independent contractors, often referred to as *subcontractors*, to perform installation, service, or specialized work. Subcontracting can be an appropriate and effective business practice, especially in construction related trades where project based labor, specialized skills, or fluctuating workloads make flexible staffing beneficial. Door dealers themselves are frequently subcontractors on larger construction projects. Nothing in this study guide suggests that subcontracting is inherently improper; when used correctly, it is a legitimate and valuable part of the industry.

However, the use of independent contractors is governed by strict federal and state laws, and misclassification carries significant tax, insurance, and legal consequences. Many companies turn to subcontractors with the expectation of reducing payroll taxes, workers' compensation premiums, unemployment insurance, and administrative burden. While subcontracting can reduce certain costs, it must be done within the boundaries of the law. A dealer must understand the rules thoroughly before classifying any worker as an independent contractor.

Under current regulations, including the U.S. Department of Labor's 2024 "economic reality" test and long standing IRS standards, workers are classified based on the actual relationship, not on what the company or worker prefers to call it. Attempting to classify workers as subcontractors primarily to avoid payroll taxes, unemployment insurance, or workers' compensation premiums is contrary to public policy and exposes the dealer to substantial liability. Misclassification can result in back taxes, penalties, unpaid overtime claims, workers' compensation exposure, and even personal liability for owners.

The key point is this: using subcontractors is appropriate when the worker truly operates an independent business, controls their own work, and bears the risk of profit or loss. It is not appropriate when the worker functions like an employee but is labeled a subcontractor for convenience or cost savings. Dealers who understand the legal framework can use subcontracted labor effectively while avoiding the serious risks associated with misclassification.

## IRS 20-Factor Test for Independent Contractor Classification

Misclassifying an employee as an independent contractor can expose a garage door dealer to substantial tax, insurance, and legal liabilities. To help determine whether a worker is truly an independent contractor or should be treated as an employee, the Internal Revenue Service developed a 20-factor test. These factors evaluate the degree of control and independence in the working relationship. Although the IRS no longer uses this list as a strict scoring system, it remains a widely recognized and influential tool for evaluating worker classification.

The IRS emphasizes that no single factor is determinative. Instead, the entire relationship must be evaluated, and the weight of each factor depends on the specific circumstances. However, as a general guideline:

- "Yes" to all of the first four questions suggests the worker may be an independent contractor.
- "Yes" to any of questions 5 through 20 suggests the worker is more likely an employee.

These factors are especially important for garage door dealers, where the line between subcontracted labor and employee labor can easily blur. Dealers must understand these criteria before classifying any worker as an independent contractor.

### **IRS 20-Factor Checklist:**

1. Profit or loss: Can the worker make a profit or suffer a loss as a result of the work, aside from the money earned from the project? This should involve real economic risk, not just the risk of not getting paid.
2. Investment: Does the worker have an investment in the equipment and facilities used to do the work? The greater the worker's investment, the more likely they are to be an independent contractor.
3. Works for more than one firm: Does the person work for more than one company at a time? This tends to indicate independent contractor status, but isn't conclusive since employees can also work for more than one employer.
4. Services offered to the general public: Does the worker offer services to the general public?
5. Instructions: Do you have the right to give the worker instructions about when, where, and how to work? This shows control over the worker.
6. Training: Do you train the worker to do the job in a particular way? Independent contractors are already trained.
7. Integration: Are the worker's services so important to your business that they have become a necessary part of the business? This may show that the worker is subject to your control.
8. Services rendered personally: Must the worker provide the services personally, as opposed to delegating tasks to someone else? This indicates that you are interested in the methods employed, and not just the results.
9. Hiring assistants: Do you hire, supervise, and pay the worker's assistants?
10. Continuing relationship: Is there an ongoing relationship between the worker and yourself? A relationship can be considered ongoing if services are performed frequently, but irregularly.
11. Work hours: Do you set the worker's hours? Independent contractors are masters of their own time.
12. Full-time work: Must the worker spend all of his or her time on your job? Independent contractors choose when and where they will work.
13. Work done on premises: Must the individual work on your premises, or do you control the route or location where the work must be performed? Answering no doesn't by itself mean independent contractor status.
14. Sequence: Do you have the right to determine the order in which services are performed? This shows control over the worker.
15. Reports: Must the worker give you reports accounting for his or her actions? This may show lack of independence.
16. Pay schedules: Do you pay the worker by hour, week, or month? Independent contractors are generally paid by the job or commission, although by industry practice, some are paid by the hour.
17. Expenses: Do you pay the worker's business or travel costs? This tends to show control.
18. Tools and materials: Do you provide the worker with equipment, tools, or materials? Independent contractors generally supply the materials for the job and use their own tools and equipment.
19. Right to fire: Can you fire the worker? An independent contractor can't be fired without subjecting you to the risk of a breach-of-contract lawsuit.
20. Worker's right to quit: Can the worker quit at any time, without incurring liability? An independent contractor has a legal obligation to complete the contract.

## Department of Labor 2024 “Economic Reality” Test

In January 2024, the U.S. Department of Labor (DOL) implemented a revised rule for determining whether a worker is an employee or an independent contractor under the Fair Labor Standards Act (FLSA). This rule replaced the 2021 version and restored a multi-factor “economic reality” test that examines the totality of the circumstances. The central question is whether the worker is economically dependent on the employer for work, or whether the worker is truly operating an independent business.

The DOL’s test includes six core factors, none of which carry predetermined weight. Instead, all factors must be considered together. These factors include:

1. Opportunity for profit or loss depending on managerial skill
2. Investments by the worker and the employer
3. Degree of permanence in the working relationship
4. Nature and degree of control over the work
5. Extent to which the work is integral to the employer’s business
6. Skill and initiative required for the work

For garage door dealers, several of these factors are especially important. Installers or technicians who work exclusively for one dealer, use the dealer’s tools or trucks, follow the dealer’s schedule, or perform work that is central to the dealer’s business are likely to be considered employees. Conversely, a subcontracted installation company with its own employees, equipment, insurance, and customer base is more likely to meet the criteria for independent contractor status.

The DOL rule emphasizes that titles and contracts do not determine classification. Even if a worker signs an agreement calling themselves a subcontractor, the actual working

relationship controls. Dealers must evaluate each factor honestly and document the basis for their classification decisions.

Misclassification under the DOL rule can result in liability for unpaid overtime, minimum wage violations, and other wage-and-hour penalties.

## State Level ABC Tests

In addition to federal rules, many states use their own worker classification standards. The most common is the *ABC Test*, which is stricter than the IRS or DOL tests. Under the ABC Test, a worker is presumed to be an employee unless the hiring entity can prove all three of the following:

- A. The worker is free from control and direction in performing the work.
- B. The work is performed outside the usual course of the hiring entity’s business.
- C. The worker is customarily engaged in an independently established trade or business.

States such as California, Massachusetts, New Jersey, and Connecticut apply versions of the ABC Test for wage-and-hour laws, unemployment insurance, or workers’ compensation. In these states, classifying installers or technicians as independent contractors is extremely difficult because installation and service work are central to a garage door dealer’s business, and therefore fail part B of the test.

Even in states that do not use the ABC Test, state agencies often apply similar logic when evaluating unemployment claims or workers’ compensation audits. Dealers must understand the rules in their specific state and recognize that state standards may be more restrictive than federal standards.

Because state agencies frequently share information with federal agencies, a misclassification finding at the state level can trigger federal audits. Dealers should consult

state guidance, maintain documentation, and avoid relying solely on federal criteria when determining worker status.

## Consequences of Misclassification

If a worker does not meet the criteria for independent contractor status, the IRS will classify them as an employee by default. When this happens, the door dealer becomes responsible for:

- All federal withholding taxes
- Employer and employee portions of Social Security and Medicare
- Federal and state unemployment taxes
- Penalties and interest for late or unpaid taxes

The worker faces no penalties – all liability falls on the employer.

State agencies may also pursue unpaid state income tax withholding, unemployment insurance contributions, and workers' compensation premiums. Workers' compensation carriers can retroactively bill for unpaid premiums based on the compensation paid to misclassified workers.

The risks of misclassification extend beyond taxes and insurance. If an individual is later deemed an employee, the employer may be liable for:

- Overtime wages
- Minimum wage violations
- Missed meal and rest breaks (in applicable states)
- Employment related claims unrelated to the subcontracted work
- Liability for injuries occurring while performing work outside the company's scope

Because of these risks, subcontracting work to established companies, rather than individuals, is generally safer. This is not a blanket

prohibition against using individuals as subcontractors, but a caution against treating employees as subcontractors or using individuals who do not meet the legal criteria for independent contractor status.

## Subcontractor Compliance Checklist

To reduce the risk of misclassification, garage door dealers should use a structured approach when engaging independent contractors. A Subcontractor Compliance Checklist helps ensure that the subcontractor truly operates as an independent business and meets regulatory expectations. Key elements include:

- Business Structure:** The subcontractor should have a registered business entity (LLC, corporation, etc.) and an EIN.
- Insurance:** The subcontractor must carry their own general liability and workers' compensation insurance, with certificates provided to the dealer.
- Tools and Equipment:** The subcontractor should supply their own tools, vehicles, and equipment.
- Control of Work:** The subcontractor should control their own schedule, methods, and work processes.
- Multiple Clients:** The subcontractor should work for multiple companies, not exclusively for one dealer.
- Written Contract:** A clear subcontractor agreement should outline scope, payment terms, and responsibilities.
- Invoices:** The subcontractor should invoice for completed work rather than being paid hourly like an employee.
- Opportunity for Profit or Loss:** The subcontractor should have the ability to earn more through efficiency or lose money through poor performance.

This checklist does not guarantee compliance, but it demonstrates good faith effort and helps ensure that the relationship aligns with legal standards. Dealers should review the checklist annually and update documentation as needed.

## Sample Subcontractor Agreement

*This sample agreement is provided for educational and training purposes. Dealers should consult qualified legal counsel before using any agreement in practice.*

**1. Parties:** This Subcontractor Agreement (“Agreement”) is entered into between:

**Dealer:** \_\_\_\_\_  
Address: \_\_\_\_\_  
Phone: \_\_\_\_\_

And

**Subcontractor:** \_\_\_\_\_  
Business Name: \_\_\_\_\_  
Address: \_\_\_\_\_  
Phone: \_\_\_\_\_

The Dealer and Subcontractor are collectively referred to as “the Parties.”

### **2. Independent Contractor Relationship:**

The Subcontractor is engaged as an independent contractor, not an employee. Nothing in this Agreement shall be interpreted as creating an employer-employee relationship, partnership, or joint venture. The Subcontractor is responsible for all taxes, insurance, licenses, and business obligations associated with their work.

The Subcontractor retains the right to determine the means, methods, and manner of performing the work and is free to provide services for other clients.

**3. Scope of Work:** The Subcontractor agrees to perform the following services (“Work”):

- Installation of garage doors, operators, and related equipment
- Service and repair work as assigned
- Other tasks mutually agreed upon in writing

The Dealer may specify the desired outcome, but the Subcontractor retains control over how the Work is performed.

**4. Tools, Equipment, and Materials:** The Subcontractor shall provide all tools, equipment, vehicles, and materials necessary to complete the Work unless otherwise agreed in writing. The Subcontractor is responsible for maintaining their equipment in safe working condition.

**5. Compensation:** The Subcontractor will be paid:

- Per job, per project, or per agreed-upon rate, as outlined in Exhibit A (attached)
- Payment will be issued upon receipt of an invoice from the Subcontractor
- No hourly wages, overtime, or employee benefits will be provided

The Subcontractor is responsible for all expenses unless otherwise agreed in writing.

**6. Insurance Requirements:** The Subcontractor must maintain:

- General Liability Insurance with minimum limits of \$\_\_\_\_\_
- Workers’ Compensation Insurance (if required by law)
- Automobile Liability Insurance for all vehicles used in the Work

Certificates of insurance must be provided before work begins and upon renewal.

**7. Licenses and Compliance:** The Subcontractor shall maintain all required business licenses and comply with all applicable federal, state, and local laws, including safety regulations and building codes.

The Subcontractor is responsible for ensuring that any assistants or employees they hire also comply with these requirements.

**8. Control of Work and Scheduling:** The Subcontractor controls their own schedule and work methods. The Dealer may request completion dates or time windows but may not dictate specific hours or require attendance at employee meetings.

The Subcontractor may hire assistants at their own expense and discretion.

**9. Quality of Work:** The Subcontractor agrees to perform all Work in a professional, workmanlike manner consistent with industry standards. The Subcontractor is responsible for correcting defective work at their own expense.

**10. Safety:** The Subcontractor is responsible for maintaining safe work practices and complying with OSHA and industry safety standards. The Subcontractor assumes all responsibility for injuries to themselves or their workers.

**11. Invoicing and Records:** The Subcontractor shall submit invoices detailing:

- Jobs completed
- Agreed-upon compensation
- Any authorized additional charges

The Subcontractor is responsible for maintaining their own business records, tax filings, and accounting.

**12. Term and Termination:** This Agreement remains in effect until terminated by either Party with written notice. The Dealer may terminate the Agreement only in accordance with contract law; termination without cause may constitute breach of contract.

The Subcontractor may not abandon work without completing agreed-upon obligations.

**13. Indemnification:** The Subcontractor agrees to indemnify and hold the Dealer harmless from claims, damages, or liabilities arising from the Subcontractor's work, negligence, or failure to comply with laws or regulations.

**14. Entire Agreement:** This Agreement represents the entire understanding between the Parties and may only be modified in writing, signed by both Parties.

## Signatures:

Dealer:

Name: \_\_\_\_\_

Signature: \_\_\_\_\_

Date: \_\_\_\_\_

Subcontractor:

Name: \_\_\_\_\_

Signature: \_\_\_\_\_

Date: \_\_\_\_\_

## Dealer Best Practices for Avoiding Misclassification

Avoiding misclassification requires more than understanding the rules – it requires consistent business practices. Dealers should begin by classifying workers based on what they actually do, not on cost savings or convenience. If a worker functions like an employee, they should be treated as one. Attempting to “fit” a worker into independent contractor status is risky and often unsuccessful.

Dealers should avoid providing subcontractors with employee-like benefits, such as uniforms, business cards, company email addresses, or paid training. Subcontractors should not be required to attend staff meetings, follow employee handbooks, or adhere to company disciplinary procedures. These practices suggest an employment relationship and undermine the independence required for contractor status.

Communication is also critical. Dealers should clearly define expectations in writing and avoid directing subcontractors on how to perform their work. Instead, the dealer should specify the desired outcome and allow the subcontractor to determine the methods. Dealers should also maintain documentation showing that subcontractors operate independently, such as invoices, certificates of insurance, and evidence of work for other clients.

Finally, dealers should periodically review their subcontractor relationships to ensure they still meet legal criteria. As business needs evolve, a subcontractor relationship may shift toward an employment relationship without the dealer realizing it. Regular review helps prevent unintentional misclassification and protects the dealer from costly penalties.

## Using Subcontracted Labor Responsibly and Legally

Independent contractors play an important role in the garage door industry, and when used correctly, subcontracting can provide flexibility, specialized skills, and operational efficiency. However, the decision to classify a worker as an independent contractor carries significant legal and financial responsibility. Federal agencies such as the IRS and the Department of Labor, along with many state regulators, closely scrutinize worker classification. Their standards, whether the IRS 20-factor test, the DOL's 2024 economic-reality analysis, or strict state ABC tests, focus on the actual working relationship, not on job titles, contracts, or the preferences of the parties involved.

For door dealers, this means subcontracting must be approached with care, documentation, and a clear understanding of the law. Misclassification can result in substantial liabilities, including back taxes, penalties, unpaid overtime, workers' compensation exposure, and even personal liability for business owners. These consequences fall entirely on the employer, not the worker. Dealers who rely on subcontracted labor must ensure that subcontractors operate as true independent businesses, with their own tools, insurance, customers, and control over their work.

The safest and most compliant approach is to subcontract work to established companies, not individuals who function like employees. Dealers should use structured compliance practices, such as written agreements,

certificates of insurance, independent business verification, and periodic reviews, to ensure that subcontractor relationships remain legally sound. When in doubt, the conservative and legally safer choice is to classify the worker as an employee.

Ultimately, responsible use of independent contractors strengthens the business rather than exposing it to unnecessary risk. Dealers who understand the rules, apply them consistently, and document their decisions protect their companies, their customers, and their workforce. By approaching subcontracted labor with diligence and integrity, a dealer can benefit from the flexibility of independent contractors while maintaining full compliance with tax, labor, and insurance regulations.

## Section Eight

# Business Structure

Door companies are typically organized under one of five common business structures: C corporation, S corporation, partnership, sole proprietorship, or limited liability company (LLC). Each structure carries different tax consequences, liability protections, administrative requirements, and long term planning considerations. Choosing the right structure affects how profits are taxed, how owners are paid, how liability is managed, and how the business can grow or be sold. The following sections provide a practical overview of the advantages and disadvantages of each structure as they relate to garage door dealers.

### C Corporation

A *C Corporation* is a separate legal entity that pays its own federal, state, and local income taxes. Owners of a C corporation are called *shareholders*, and they are taxed separately from the corporation. This structure provides strong liability protection because the corporation, not the shareholders, is responsible for business debts and obligations.

C corporations are subject to corporate income tax, and any dividends paid to shareholders are taxed again on the shareholders' personal returns. This is commonly referred to as double taxation. However, since the Tax Cuts and Jobs Act of 2017, C corporations have benefited from a flat 21% federal corporate tax rate, which can be advantageous for companies that reinvest profits rather than distributing them. In some cases, especially when profits are modest or retained in the business, a C corporation may result in lower overall tax liability than an S corporation or sole proprietorship.

C corporations also offer advantages for long term growth. They can issue multiple classes

of stock, attract investors, and provide fringe benefits (such as health insurance) on a tax-favored basis. However, they require more formalities, including annual meetings, minutes, and detailed recordkeeping. For many small door dealers, the administrative burden outweighs the tax benefits, but for larger or growth oriented companies, a C corporation can be an effective structure.

### S Corporation

An *S Corporation* is a special tax election available to qualifying corporations and LLCs. Unlike a C corporation, an S corporation does not pay federal income tax at the corporate level. Instead, all income, losses, deductions, and credits “pass through” to the shareholders, who report them on their personal tax returns. This avoids double taxation associated with C corporations.

For example, if an S corporation earns \$100,000 and has two equal shareholders, each shareholder reports \$50,000 of income on their personal tax return, regardless of how much money the corporation actually distributes. Shareholders then pay tax at their individual rates. This structure is often attractive to small and medium sized businesses because it combines corporate liability protection with pass-through taxation.

One of the most significant advantages of an S corporation is the ability to reduce self-employment taxes. Shareholders who work in the business must be paid a reasonable salary, which is subject to payroll taxes, but additional profits can be distributed as dividends, which are not subject to Social Security and Medicare taxes. This can result in meaningful tax savings when done correctly and in compliance with IRS rules.

When an S corporation is sold, shareholders may still recognize capital gains on the sale of their stock, just as they would with any other business interest. The key advantage is that S corporation income is already taxed annually at the shareholder level, so there is no second layer of corporate level tax on the sale of the company's assets. As a result, the overall tax burden on the sale of an S corporation is often lower than that of a C corporation, particularly in transactions structured as asset sales.

Because S corporations have strict eligibility rules, such as a limit of 100 shareholders, U.S. only ownership, and one class of stock, dealers considering an S-corporation election should consult a CPA or attorney to determine whether it fits their long term goals.

Whether a dealer chooses a C corporation or elects S-corporation status, incorporation generally provides liability protection and a more formal business structure than operating as a sole proprietorship or partnership.

## Partnership

A *Partnership* is a business owned by two or more individuals who agree to operate a company together. Unlike a corporation or LLC, a partnership is not a separate legal entity for liability purposes unless it is structured as a limited partnership (LP) or limited liability partnership (LLP). In a general partnership, the most common form, each partner shares in the profits, losses, and management of the business.

The primary advantage of a partnership is its simplicity. Partnerships are relatively easy to form, require minimal formalities, and allow partners to combine skills, capital, and labor. Partners may share profits equally or according to an agreed-upon formula.

The major disadvantage is the lack of liability protection. In a general partnership, each partner is personally liable for the debts and obligations of the business, including liabilities

created by the actions of the other partners. This means that personal assets may be at risk if the business cannot satisfy its obligations. For this reason, many business owners prefer structures that provide limited liability protection.

## Sole Proprietorship

A *Sole Proprietorship* is the simplest form of business organization. Many garage door dealers begin as sole proprietors when starting out on a small scale. In most jurisdictions, the only requirements are basic local business registrations, such as a vendor's license or sales tax permit.

The simplicity of a sole proprietorship is also its greatest weakness. A sole proprietorship provides no liability protection for the owner. The business and the owner are legally the same entity, meaning the owner is personally responsible for all debts, obligations, and liabilities of the business. If the business is sued or cannot pay its bills, the owner's personal assets may be used to satisfy those obligations.

In contrast, forming a corporation or LLC creates a separate legal entity, often referred to as the corporate shield or limited liability protection. This protection generally prevents creditors from pursuing the owner's personal assets for business related liabilities. However, this protection does not apply in cases involving unpaid taxes, fraud, personal guarantees, or other wrongful acts.

Because of the risks associated with operating as a sole proprietorship, garage door dealers should consult a CPA or attorney to understand the benefits of incorporating or forming an LLC. Whether organized as a C corporation or S corporation, incorporation typically provides a safer and more sustainable structure for long term business operations.

## Limited Liability Company

A *Limited Liability Company (LLC)* is a hybrid business structure created under state law that combines the liability protection of a corporation with the tax flexibility and operational simplicity of a partnership or sole proprietorship. LLCs have become one of the most popular structures for small and medium sized businesses, including garage door dealers.

For tax purposes, an LLC is generally treated as a pass-through entity, meaning profits and losses flow directly to the members and are reported on their personal tax returns. The LLC itself does not pay federal income tax unless it elects to be taxed as a corporation. Like partners in a partnership, LLC members are typically considered self-employed and must pay self-employment taxes (Social Security and Medicare) on their share of the business's net income.

The primary advantage of an LLC is limited liability protection. Members are generally not personally responsible for business debts or claims, provided the LLC is properly formed and maintained. Additional advantages include fewer formalities than a corporation, flexible profit sharing arrangements, and the ability to choose how the entity is taxed.

A potential disadvantage is that LLCs may have a limited life depending on state law. In some states, an LLC dissolves when a member leaves unless the operating agreement provides for continuation. Modern state statutes increasingly allow LLCs to continue without dissolution, but requirements vary. Dealers should review their state's rules and ensure their operating agreement addresses continuity.

To form an LLC, the business must file Articles of Organization with the Secretary of State (or equivalent agency). Many states also require an Operating Agreement, which outlines ownership percentages, profit and loss allocations, management rights, and other key

provisions. Dealers considering an LLC should follow their state's formation requirements and consult professional advisors to ensure proper setup and compliance.

## Additional Business Structure Considerations

Beyond the basic characteristics of corporations, partnerships, sole proprietorships, and LLCs, several additional factors influence how effectively a business structure supports a garage door dealership. These considerations include how liability protection is maintained, how LLCs may elect different tax treatments, how ownership transitions are handled, what compliance obligations exist, how owners may be compensated, and how fringe benefits are treated under different structures. Understanding these topics helps a dealer make informed decisions and avoid common pitfalls that can undermine the advantages of a chosen structure.

**Maintaining Liability Protection and Avoiding "Piercing the Corporate Veil":** One of the primary reasons dealers choose a corporation or LLC is to protect personal assets from business liabilities. However, this protection is not automatic or absolute. Courts may "pierce the corporate veil" if the business is not operated as a separate legal entity. When this happens, owners can be held personally liable for business debts, lawsuits, or obligations that would normally be limited to the company.

Common reasons for veil-piercing include comingling personal and business funds, failing to maintain required records, undercapitalizing the business, or using the company to commit fraud or avoid legal obligations. For garage door dealers, this risk is especially important because the industry involves physical installations, property damage exposure, and potential injury claims. Maintaining separate bank accounts, keeping accurate records,

following required corporate or LLC formalities, and avoiding personal use of business assets are essential practices for preserving liability protection.

When properly maintained, the corporate veil is a powerful safeguard. But when neglected, it can disappear quickly, leaving owners exposed to risks they believed were shielded. Dealers should periodically review their practices with a CPA or attorney to ensure their liability protection remains intact.

### **Tax Elections for LLCs and Flexibility in Tax**

**Treatment:** One of the most valuable features of an LLC is its flexibility in choosing how it is taxed. By default, a single-member LLC is taxed as a sole proprietorship, and a multi-member LLC is taxed as a partnership. However, an LLC may elect to be taxed as an S corporation or C corporation, depending on the needs of the business and its owners. This flexibility allows dealers to tailor their tax structure without changing their legal entity.

Many garage door dealers choose to have their LLC taxed as an S corporation to reduce self-employment taxes. In this arrangement, owners who work in the business must take a reasonable salary subject to payroll taxes, but additional profits may be distributed as dividends, which are not subject to Social Security and Medicare taxes. This can result in meaningful tax savings when done correctly and in compliance with IRS rules.

Alternatively, some dealers may elect C corporation taxation if they plan to reinvest profits, offer certain fringe benefits, or pursue growth strategies that align with corporate tax treatment. The ability to choose among these tax classifications makes the LLC one of the most adaptable structures available. Dealers should consult a tax professional to determine which election best supports their financial goals.

### **Ownership Transition and Succession**

**Planning:** Different business structures affect how easily ownership can be transferred,

expanded, or sold. Corporations generally offer the most straightforward method of transferring ownership through the sale or issuance of stock. This makes them attractive for dealers planning to bring in investors, add partners, or prepare for a future sale of the business. Stock transfers can occur without disrupting operations, and ownership percentages can be adjusted with relative ease.

LLCs and partnerships, on the other hand, require amendments to operating agreements or partnership agreements when ownership changes. These structures offer flexibility but require more planning to ensure smooth transitions. For family owned dealerships, LLCs often provide a useful balance between control, tax efficiency, and estate planning flexibility.

Sole proprietorships offer no continuity of ownership; the business and the owner are legally the same. When the owner retires or passes away, the business does not continue unless assets are sold and a new entity is formed. Dealers with long term plans for growth, succession, or sale should consider structures that support continuity and transferability.

### **Recordkeeping and Compliance**

**Requirements:** Each business structure has different administrative obligations. Corporations must follow formalities such as holding annual meetings, maintaining minutes, issuing stock, and filing annual reports. These requirements help preserve liability protection and demonstrate that the corporation is operating as a separate legal entity. While these formalities require discipline, they also promote good governance and clear decision making.

LLCs generally have fewer formal requirements but still must maintain an operating agreement, keep accurate financial records, and file required state reports. Partnerships and sole proprietorships have the fewest formal obligations, but this simplicity comes at the cost of personal liability. Regardless of structure, dealers must maintain

proper accounting records, separate business and personal finances, and comply with state and federal tax filings.

Understanding and following these requirements is essential. Failure to comply can result in penalties, loss of liability protection, or administrative dissolution of the business. Dealers should periodically review their compliance obligations to ensure their structure remains in good standing.

### **Owner Compensation and Payroll Rules:**

How owners are compensated depends heavily on the business structure. In a sole proprietorship or partnership, owners cannot be employees of their own business; instead, they take owner draws and pay self-employment taxes on their share of net income. LLC members follow similar rules unless the LLC elects S corporation or C corporation taxation.

In an S corporation, owners who work in the business must receive a reasonable salary, which is subject to payroll taxes. Additional profits may be distributed as dividends, which are not subject to Social Security and Medicare taxes. This structure can reduce overall tax liability when managed properly. In a C corporation, owners who work in the business are treated as employees and receive W-2 wages. Dividends paid to shareholders are taxed separately, creating the potential for double taxation.

Understanding these distinctions helps dealers choose a structure that aligns with their compensation goals and tax strategy. Misclassifying owner compensation can lead to IRS penalties, so proper planning is essential.

### **Fringe Benefits and Tax-Advantaged Perks:**

Different business structures offer different opportunities for tax-advantaged fringe benefits. C corporations have the broadest ability to provide benefits such as health insurance, certain retirement plans, and other employee benefits on a tax-favored basis.

These benefits can be deducted by the corporation and received tax-free or tax-deferred by the owner-employees.

S corporations and LLCs taxed as partnerships have more limitations. For example, S corporation owners who hold more than 2% of the company must include certain benefits, such as health insurance premiums, in their taxable income. Partnerships and LLCs taxed as partnerships also treat many fringe benefits as taxable to the owners.

Dealers planning to offer robust benefits packages, or who want to maximize tax-advantaged compensation, should consider how each structure affects eligibility and tax treatment. This is especially important for growing dealerships seeking to attract and retain skilled employees.

## **Changing Business Structure**

As a garage door dealership grows, its original business structure may no longer meet its operational, financial, or liability related needs. Many dealers begin as sole proprietorships or partnerships because these structures are simple and inexpensive to form. Over time, however, increased revenue, additional employees, expanded service areas, or greater exposure to liability often make it necessary to transition to a more formal structure such as an LLC or corporation. Changing a business structure is a common and healthy part of business development, and dealers should periodically evaluate whether their current structure still supports their goals.

The process of changing a business structure depends on the starting point and the desired end structure. For example, a sole proprietorship or partnership can typically convert to an LLC or corporation by forming the new entity with the state, obtaining a new Employer Identification Number (EIN), transferring assets and contracts, and updating licenses, bank accounts, and insurance policies. Many states allow a statutory

conversion, which simplifies the process by automatically transferring the business's legal identity into the new structure. In states without statutory conversion, the business may need to dissolve the old entity and form a new one, then assign assets and obligations to the new company.

Tax considerations also play a significant role in restructuring. Converting from a sole proprietorship or partnership to an LLC is generally straightforward for tax purposes, but converting from an LLC to a corporation, or from a C corporation to an S corporation, may trigger tax consequences if not planned carefully. Dealers considering an S corporation election must ensure they meet eligibility requirements and understand how the election affects payroll, distributions, and owner compensation. Because restructuring can affect everything from depreciation schedules to payroll systems, dealers should work closely with a CPA to avoid unintended tax liabilities.

Liability protection is another major reason dealers change their business structure. As a business grows, the risks associated with installations, service work, employee injuries, and property damage increase. Transitioning to an LLC or corporation can provide owners with limited liability protection, but only if the new structure is properly formed and maintained. Dealers must update contracts, insurance policies, vendor accounts, and customer agreements to reflect the new entity. Failure to operate exclusively under the new structure can weaken liability protection and create confusion about which entity is responsible for obligations.

Operational and administrative considerations also influence the decision to restructure. Corporations require more formalities, such as maintaining minutes and holding annual meetings, while LLCs offer more flexibility. Dealers should choose a structure that aligns with their management style, growth plans, and long term goals. For example, a dealer planning to bring in investors or eventually sell the business may benefit from the stock-based

structure of a corporation, while a dealer seeking flexibility and simpler administration may prefer an LLC.

Ultimately, changing a business structure is a strategic decision that should be made with professional guidance. Dealers should consult their CPA and attorney to evaluate the legal, tax, and operational implications of restructuring. When done correctly, transitioning to a new business structure can strengthen liability protection, improve tax efficiency, support growth, and position the dealership for long term success.

## Choosing the Right Structure for a Stronger Business

Selecting the appropriate business structure is one of the most important decisions a garage door dealer will make. Each structure – C corporation, S corporation, partnership, sole proprietorship, and limited liability company – carries its own tax treatment, liability protections, administrative requirements, and long term implications. Understanding these differences helps a dealer choose a structure that supports growth, protects personal assets, and aligns with the company's financial and operational goals.

Sole proprietorships and general partnerships offer simplicity but expose owners to unlimited personal liability, making them risky choices for businesses that install, service, and repair heavy mechanical equipment. Corporations and LLCs, by contrast, create a separate legal entity that provides limited liability protection, shielding the owner's personal assets from most business related claims. For many dealers, this protection alone justifies the additional administrative steps required to form and maintain a corporation or LLC.

Tax considerations also play a major role. C corporations may benefit from a flat corporate tax rate and reinvested earnings, while S corporations and LLCs offer pass-through

taxation that avoids double taxation and may provide payroll tax advantages when structured correctly. Because tax rules and state regulations vary, dealers should work closely with a CPA or attorney to determine which structure best fits their current needs and long term plans.

Ultimately, the right business structure provides stability, reduces risk, and supports the dealer's ability to grow and transition the business over time. Whether a company chooses to incorporate, elect S-corporation status, or form an LLC, the key is to understand the implications of each option and make an informed decision. A well-chosen structure strengthens the foundation of the dealership and positions it for long term success.

## Section Nine

# Inventory Procedures

Throughout this study guide, the importance of accurately tracking and valuing a door dealer's inventory has been emphasized. Inventory directly determines the materials used, and materials used directly determine the profitability of the dealership.

The basic formula is:

$$\text{Beginning Inventory} + \text{Purchases} - \text{Ending Inventory} = \text{Materials Used}$$

If either beginning or ending inventory is inaccurate, the cost of goods sold will also be incorrect, and profitability will be misstated. For this reason, inventory control is one of the most critical financial responsibilities of a garage door dealer.

Most dealers take a physical inventory at the end of an accounting period. Some conduct monthly counts, but many rely on a book inventory, which is maintained by tracking purchases and cost of goods sold throughout the period. The physical inventory taken at period-end is then used to verify and adjust the book inventory. When the following procedures are followed consistently, a dealer can achieve an accurate and reliable physical inventory.

## Manual Procedures

Manual inventory procedures remain an essential part of maintaining accurate records, even for dealerships that rely heavily on computerized systems. A well-organized physical count provides the verification needed to ensure that book inventory matches the actual materials on hand. Because garage door components vary widely in size, type, and configuration, a structured and disciplined approach is necessary to prevent errors, omissions, and inflated valuations. The

following manual procedures outline a clear, step-by-step method for preparing the warehouse, counting inventory, documenting results, and ensuring that the final inventory value is both accurate and defensible.

1. **Prepare the warehouse.** Clean the warehouse thoroughly and remove empty cartons, wrappers, and other debris. A clean environment reduces counting errors and prevents obsolete or discarded materials from being mistaken for inventory.
2. **Organize inventory into logical groups.** Group similar items together whenever possible. For example, store complete doors in one area, or, if that is not feasible, track order numbers on sections, tracks, springs, and hardware so that complete door packages can be verified. Even if components cannot be stored together, they must be tracked in a way that reflects how they were purchased.
3. **Price inventory based on how it was received.** Inventory must be valued according to how the dealership purchased it. If a door was purchased as a complete unit, it must be counted as a complete unit, not as individual components. Counting components separately when they are purchased as a package will artificially inflate inventory value.
4. **Create a warehouse diagram.** Draw a simple map of the warehouse or storage areas and label each section (A, B, C, D, etc.). This helps assign counting teams, locate missing tags, and conduct recounts efficiently.
5. **Use sequential, multi-part inventory tags.** Print two-part, sequentially numbered tags in a unique color for each inventory cycle (quarterly, semi-annual, or annual). Assign specific tag ranges to

each counting team and record which team is responsible for which warehouse section. This makes it easy to identify missing or duplicate tags.

6. **Assign counting teams.** Each team should consist of two people: one person counts the items, and the other records the description and quantity on the tag. This dual-verification method significantly reduces errors.

Detail is essential. Tags must include complete descriptions. For example, "barrel of rollers" is insufficient. The tag should specify whether the rollers are 2" or 3", long stem or short stem, and any other distinguishing features. Sections should include size, model, color, and whether they are top, bottom, or intermediate. Track should be identified by size, lift type (standard, high lift, vertical lift, or combination), and whether it is a single piece or a set. Large hardware items such as drums, cones, winding plugs, and hinges should be counted individually. Very small items, like nuts and bolts, may be weighed to determine quantity.

7. **Count inventory and tag each item.** After counting, attach the tag directly to the item or group of items.
8. **Verify all tags.** The owner or a qualified employee should review every tag for accuracy before the next step.
9. **Search for untagged items.** After verification, teams should sweep their assigned areas for any items that were missed. Remember that some inventory may not be physically in the building. Items may be on trucks, job sites, or in transit.
  - If the company has been billed and the invoice has been posted as an accrued payable, the material must be included in inventory.
  - If the vendor has billed the company but the invoice has not yet been posted, the material should not be included.
  - Items on trucks or job sites must be counted and tagged.

10. **Pull tags and compile the inventory sheet.** Once all items are tagged, remove the tags while another person records each tag number and its warehouse location on an inventory sheet. This helps identify missing tags and limits the search area based on tag sequence.

11. **Track all movement during the inventory period.** Physical inventory typically takes one to two days. During this time, the dealership may still be installing doors. Any items leaving or entering the building must be documented so the count remains accurate.

12. **Price and extend the inventory.** Using the tags and inventory sheets, price each item and extend the totals (quantity × unit cost).

13. **Determine the total inventory value.** Once all items are priced and extended, total the inventory sheets and provide them to the bookkeeper and CPA. They will make the necessary adjustments to the financial statements.

After the physical inventory is complete, the owner should compare the physical count to the book inventory. A significant shortage reduces profit; a significant overage increases profit. Large discrepancies may indicate procedural errors, incorrect costing, or shrinkage due to internal or external theft.

## Computerized Procedures

Electronic tools and inventory management software are now standard in many door dealer operations, but they do not eliminate the need for a physical count. A computerized system can track quantities, assign and record tag numbers, process receipts, and generate variance reports, but the accuracy of these tools depends entirely on the accuracy of the data entered into them. Before beginning a physical inventory, all transactions, such as goods received, invoices generated, and any inventory adjustments, must be fully entered and posted. This ensures that the quantities

shown in the system reflect the true starting point for the physical count.

When using a computerized system, the physical inventory process still follows the same foundational steps as a manual count. The warehouse must be cleaned and organized, inventory must be grouped logically, and a diagram of the storage layout should be prepared and labeled. Counting teams must be assigned, and each team must use properly completed inventory tags that include accurate part numbers and detailed product descriptions. As with manual procedures, tags should be verified by someone other than the counting team to ensure accuracy and completeness.

Once tags have been verified, the top copy of each tag is removed and entered into the inventory software. After all tags have been entered, the system can generate a variety of useful reports, including confirmation that all tag numbers were entered, comparisons between book quantities and physical counts, and variance reports showing positive or negative differences. These reports may also calculate the dollar value or percentage of variance, helping the dealer identify discrepancies that require investigation.

After all variances have been reviewed and verified, the corrected physical inventory can be posted to the system. This updates the book inventory to match the actual quantities on hand and ensures that financial statements reflect accurate inventory values. The advantage of a computerized system is that it streamlines many parts of the process – calculations are automated, reports are generated quickly, and adjustments can be made efficiently. However, the accuracy of the final results still depends on thorough physical counting, complete data entry, and careful verification at every step.

## Shrinkage and Gain

Inventory shrinkage is one of the most significant and costly challenges facing garage door dealers. Shrinkage occurs when the physical inventory on hand is less than the book inventory recorded in the system. In the door industry, shrinkage is especially common due to the high value of certain components, the mobility of truck stock, and the wide variety of small hardware items that can be easily misplaced or removed without documentation. Shrinkage directly reduces profitability, distorts financial statements, and can mask deeper operational problems. Understanding how shrinkage occurs, and how to prevent and investigate it, is essential for maintaining accurate inventory and protecting the dealership's bottom line.

Shrinkage can result from several sources: internal theft, external theft, administrative errors, receiving mistakes, unrecorded usage, or damaged items that were discarded without proper documentation. Because these causes vary widely, dealers must implement strong internal controls, maintain organized storage areas, and enforce consistent documentation practices. Preventing shrinkage requires a combination of physical security, procedural discipline, and regular monitoring of inventory activity. A well-designed system not only reduces losses but also helps identify issues early, before they grow into larger financial problems.

### Identifying Shrinkage Through Variance

**Analysis:** The first step in identifying shrinkage is comparing book inventory to physical inventory. Variances, or differences between the two, are the primary indicator that shrinkage may have occurred. A small variance is normal in most operations, but large or recurring variances signal deeper issues. Variance reports generated after a physical count or cycle count should be reviewed carefully, with attention to patterns such as repeated shortages of the same items, shortages tied to specific warehouse zones, or

discrepancies associated with particular trucks or technicians.

Dealers should also monitor inventory KPIs such as shrinkage rate, variance percentage, and stockout frequency. A rising shrinkage rate or frequent stockouts of commonly used items may indicate that materials are being used without documentation or removed without authorization. In some cases, shrinkage may appear as a gain, when physical inventory exceeds book inventory. Gains often indicate receiving errors, unposted credits, or items that were returned to stock but never recorded. Gains should be investigated with the same seriousness as losses, because they signal weaknesses in the inventory system.

#### **Tracking Down the Sources of Shrinkage:**

Once shrinkage is identified, the next step is determining its source. Dealers should begin by reviewing receiving records, job tickets, truck stock logs, and inventory adjustments. Many discrepancies originate from simple administrative errors, such as failing to post a receipt, miscounting during receiving, or recording the wrong quantity on a job ticket. Reviewing these documents often reveals whether the variance is procedural or intentional.

If administrative errors are ruled out, the dealer should examine warehouse organization and access controls. Poorly organized storage areas make it easy for items to be misplaced or overlooked during counts. High value items should be stored in secure, limited access areas. Dealers should also review who has access to keys, codes, or storage rooms. In many cases, shrinkage results from well-intentioned employees taking items to complete a job but failing to record the usage properly.

Truck stock is another common source of shrinkage. Technicians may use materials on jobs without documenting them, return unused items to the warehouse without recording the return, or carry excess stock that is never reconciled. Regular truck counts, combined

with clear sign-out procedures and technician accountability, help identify discrepancies tied to field operations.

#### **Investigating Shrinkage and Implementing**

**Corrective Actions:** When shrinkage is suspected, the dealer should conduct a targeted investigation. This may include recounting specific items, reviewing surveillance footage (if available), interviewing employees, or analyzing job histories. The goal is not only to determine what happened but also to understand why it happened. Was the issue caused by unclear procedures? Lack of training? Poor warehouse organization? Weak access controls? Or intentional theft?

Corrective actions should be based on the findings. These may include retraining employees on documentation procedures, reorganizing storage areas, implementing cycle counts, improving receiving processes, or tightening access to high value items. In cases of suspected theft, the dealer may need to involve HR or legal counsel. Regardless of the cause, the key is to address the underlying issue so that the problem does not recur.

Dealers should also document all findings and corrective actions. This creates a record that can be reviewed during future audits and helps reinforce accountability throughout the organization. Over time, consistent monitoring and corrective action create a culture of accuracy and responsibility that significantly reduces shrinkage.

#### **Understanding Inventory Gains and Their**

**Causes:** While shrinkage is more common, inventory gains – when physical inventory exceeds book inventory – also require investigation. Gains often indicate that items were received but not posted, returned to stock without documentation, or counted incorrectly during a previous inventory. Gains can also result from vendor errors, such as receiving more items than were billed. Although gains increase reported profit, they signal the same underlying weaknesses as shrinkage:

inconsistent documentation, poor receiving practices, or inadequate controls.

Dealers should investigate gains with the same rigor as losses. Reviewing receiving logs, vendor invoices, and credit memos often reveals the source. Correcting these issues improves accuracy and prevents future discrepancies. Gains should never be ignored simply because they appear favorable; they are a warning sign that the inventory system is not functioning properly.

## Other Inventory Management Considerations

In addition to the physical and computerized procedures described earlier, several broader inventory management concepts play a critical role in maintaining accuracy, controlling costs, and protecting profitability. These topics apply to dealerships of all sizes and help ensure that inventory systems remain reliable throughout the year, not just during the annual count. The following sections outline key considerations that strengthen internal controls, reduce shrinkage, and improve the overall effectiveness of a dealer's inventory practices.

**Inventory Valuation Methods:** Inventory valuation determines not only how the cost of materials is assigned to inventory and cost of goods sold, but also how changes in the value of inventory are measured over time. Because purchase prices for doors, operators, and hardware can fluctuate, the valuation method a dealer selects affects the reported value of inventory, the cost of goods sold, and ultimately the profitability of the dealership. The three most common valuation methods are FIFO (First-In, First-Out), LIFO (Last-In, First-Out), and Weighted Average Cost. Most garage door dealers use FIFO or average cost, but understanding the differences is essential for accurate financial reporting.

Under FIFO, the oldest inventory costs are assigned to cost of goods sold first. When

prices rise, FIFO results in lower cost of goods sold and a higher ending inventory value because the newer, higher priced items remain on the books. This can increase reported profit and make inventory appear more valuable. Weighted Average Cost, by contrast, blends all purchase prices into a single average cost. This method smooths out price fluctuations and provides a stable, consistent valuation that is easy to maintain – one reason it is widely used by small and mid-sized dealerships.

LIFO is permitted under U.S. tax law but is rarely used in the garage door industry. It assigns the most recent costs to cost of goods sold first, which can reduce taxable income during periods of rising prices. However, LIFO is more complex to administer and often does not reflect the actual flow of materials in a door dealership. It can also result in an understated inventory value on the balance sheet, which may not be desirable for lenders or buyers evaluating the business.

Because inventory valuation affects profitability, taxes, and the reported value of assets, dealers should consult their CPA to determine which method best aligns with their financial goals, pricing environment, and reporting requirements. Choosing the right method and applying it consistently ensures that changes in inventory value are measured accurately and that financial statements reflect the true performance of the dealership.

### **Cycle Counting vs. Annual Physical**

**Inventory:** While most dealers conduct a full physical inventory annually, cycle counting provides a more proactive approach to maintaining accuracy. Cycle counting involves counting a small portion of inventory on a rotating schedule throughout the year. High value or high shrink items, such as springs, operators, and hardware, are counted more frequently, while slow moving items may be counted less often.

Cycle counting reduces year end surprises by identifying discrepancies early. When variances are discovered, the dealer can

investigate the cause immediately, whether it is a receiving error, a data entry mistake, or shrinkage. This ongoing process improves accuracy and reduces the workload associated with the annual count.

Dealers who adopt cycle counting often find that their annual physical inventory becomes faster, easier, and more accurate because the system has been maintained throughout the year rather than corrected all at once.

### **Truck Stock and Field Inventory**

**Management:** For many dealers, truck stock represents a significant portion of total inventory, and often the least controlled. Technicians carry springs, rollers, hinges, operators, and hardware on their trucks, and these items must be tracked just as carefully as warehouse stock. Without proper controls, truck stock can become a major source of shrinkage and inaccurate costing.

Effective truck stock management begins with assigning each truck its own inventory list. Technicians should sign out materials, record usage on job tickets, and reconcile their stock regularly. Monthly or quarterly truck counts help ensure that materials used for jobs are properly billed and that inventory records remain accurate.

Dealers who manage truck stock well often see improvements in profitability, reduced shrinkage, and fewer emergency trips back to the warehouse for missing parts.

### **Receiving Procedures and Vendor**

**Reconciliation:** Accurate inventory begins with accurate receiving. Every shipment must be checked against the purchase order and packing slip to verify quantities, part numbers, units of measure, and any backordered items. Discrepancies should be resolved immediately with the vendor to prevent errors from entering the system. Because receiving is the first point at which inventory enters the dealership's records, mistakes made here will carry through to costing, job profitability, and the physical inventory count.

After materials are verified, they must be entered into the inventory system before they are moved into stock or used on jobs. Failure to post receipts promptly can cause book inventory to be understated and lead to variances during physical counts. Dealers should also reconcile vendor statements regularly to ensure that all invoices have been received, posted, and matched to the correct purchase orders. This reconciliation process helps identify missing invoices, duplicate billings, or unrecorded credits that could distort inventory values.

Strong receiving procedures and regular vendor reconciliation work together to reduce errors, improve accuracy, and ensure that inventory records reflect the true quantities and values on hand. These practices form the foundation of a reliable inventory system and support accurate financial reporting throughout the year.

### **Units of Measure, Consumption, and Scrap**

**Control:** Once materials are received, they must be recorded in the inventory system exactly as they were purchased, including the correct unit of measure. Consuming inventory in a different unit of measure than it was received can create significant variances if the system is not configured to convert units consistently.

For example, if bulk cable is purchased as a 500 foot spool and recorded as "each," but technicians consume it in "feet," the system must apply accurate conversion factors. Without these conversions, the system may show inventory on hand that does not physically exist or fail to show inventory that is actually available. Costs may also be misstated if the purchase price of the spool is not properly allocated to the unit in which the material is consumed.

Changes in units of measure must be carefully controlled. Many items are purchased in full lengths or bulk quantities but consumed in smaller increments, and every cut or partial use must be reflected accurately in the system.

If the system is not configured to track these conversions, the dealership may experience unexplained shrinkage or gains because the book inventory no longer matches the physical stock. In addition, any scrap created during cutting or fabrication must be documented and removed from inventory.

For example, when a 20 foot length of angle iron is cut into smaller pieces, the leftover scrap, whether usable or not, must be recorded so the system does not assume the full length is still available.

Failing to account for scrap can distort both quantities and costs. Unrecorded scrap appears as shrinkage, while incorrectly recorded scrap can create phantom gains. Establishing clear rules for how items are received, stocked, consumed, and cut, along with consistent documentation and accounting, helps maintain accurate quantities and prevents errors from accumulating over time. When unit of measure conversions and scrap handling are built into the system rather than managed manually, inventory records remain reliable and the dealership avoids costly discrepancies.

**Obsolete, Damaged, and Slow-Moving Inventory:** Over time, dealerships accumulate obsolete or slow moving items such as odd sized sections, discontinued operators, or hardware from old product lines. These items take up valuable warehouse space and inflate inventory values if not properly identified and written down.

Dealers should periodically review inventory for items that are damaged, outdated, or unlikely to be used. Obsolete items may need to be discounted, scrapped, or sold at reduced prices. Damaged items should be evaluated to determine whether they can be repaired, returned to the vendor, or written off.

Managing obsolete inventory improves accuracy, frees up space, and provides a more realistic picture of the dealership's financial position.

**Inventory Controls and Segregation of Duties:** Strong internal controls are essential for preventing errors and fraud. One of the most important principles is segregation of duties. This involves ensuring that no single employee controls all aspects of a transaction. For example, the person who receives materials should not be the same person who enters them into the system or performs the physical count.

During inventory, counting teams should be separate from the individuals who verify tags or enter data. This reduces the risk of intentional manipulation and helps catch honest mistakes. Clear procedures, documented responsibilities, and periodic audits strengthen the integrity of the inventory system.

**Safety Considerations During Inventory:** Inventory counting involves physical activity, including climbing ladders, lifting heavy sections, and moving hardware. Safety must be a priority during the inventory process. Employees should wear appropriate personal protective equipment (PPE), follow safe lifting practices, and ensure that aisles and work areas remain clear.

Dealers should also provide training on ladder safety, proper handling of springs and hardware, and safe movement of large or awkward items. A well-organized warehouse reduces the risk of injury and makes the inventory process more efficient.

**Inventory KPIs (Key Performance Indicators):** Tracking inventory performance throughout the year helps dealers identify trends and make informed decisions. Common KPIs include:

- Inventory turnover – how quickly inventory is used or sold
- Days on hand – how long inventory sits before being used
- Variance percentage – difference between book and physical counts
- Shrinkage rate – percentage of inventory lost

- Stockout frequency – how often items are unavailable when needed

Monitoring these KPIs helps dealers optimize purchasing, reduce excess stock, and improve profitability. Regular review of inventory metrics ensures that the system remains accurate and responsive to the needs of the business.

## Key Takeaways from Inventory Procedures

Effective inventory management is one of the most important responsibilities of a garage door dealership. Inventory determines the cost of materials used, and the cost of materials used determines profitability. Whether a dealer relies on manual procedures, computerized systems, or a combination of both, the accuracy of inventory ultimately depends on disciplined processes, consistent documentation, and a clear understanding of how materials flow through the business. A physical count, performed carefully and supported by strong receiving practices and accurate valuation, provides the foundation for reliable financial reporting.

The procedures outlined in this chapter emphasize that inventory accuracy is not achieved through a single event but through a year round commitment to organization, verification, and internal controls. From receiving materials and posting transactions promptly, to managing truck stock, preventing shrinkage, and reconciling vendor statements, each step plays a critical role in ensuring that book inventory reflects what is truly on hand. When these processes are followed consistently, variances are minimized, shrinkage is reduced, and the dealership gains a clearer picture of its operational performance.

Ultimately, accurate inventory is more than a compliance requirement; it is a strategic advantage. Dealers who maintain clean warehouses, organized stock, disciplined procedures, and reliable systems are better

equipped to price jobs correctly, manage cash flow, prevent theft, and make informed decisions. By implementing the practices described in this chapter, a dealership can protect its profitability, improve operational efficiency, and build a strong foundation for long term success.

## Section Ten

# Technology and Security

Keeping your dealership current with evolving technology and security practices requires ongoing attention, but regular review is essential. Dealership leadership is responsible for ensuring that systems remain up to date, that data is protected, and that appropriate safeguards are in place to prevent theft, fraud, and operational disruptions. Technology is no longer optional. It is a core component of financial accuracy, customer service, and business continuity. The following sections outline key tools and practices that help a dealership operate efficiently and securely.

## Computer Accounting Systems

Modern accounting systems are widely available, affordable, and extremely powerful. A dealership can generate detailed financial reports in minutes – reports that would take hours to prepare manually. These systems streamline many of the same processes discussed in the Inventory Procedures chapter, including tracking materials, posting transactions, and reconciling accounts. When used correctly, they improve accuracy, reduce administrative workload, and provide real time insight into the financial health of the business.

In addition to core accounting functions, many systems integrate with handheld devices used by installers and sales staff. These tools allow technicians to create invoices, record payments, update job information, and capture customer signatures directly from the field. This reduces paperwork, speeds up billing, and ensures that information flows into the accounting system without delays or transcription errors. As with any technology, the key is consistent use, proper training, and regular updates to ensure the system remains secure and functional.

## Websites

A professional website is now an essential part of running a door dealer business. Customers rely heavily on online searches to find service providers, compare offerings, and verify credibility – far more than they rely on printed directories or traditional advertising. A well-designed website gives potential customers a clear place to learn about your services, request estimates, schedule appointments, and confirm that your company is legitimate and established.

Dealers may choose to hire a professional web design firm or build and manage their site in-house using modern website platforms. Many tools offer templates, mobile-friendly layouts, and built-in features such as contact forms, service descriptions, photo galleries, and online scheduling. Regardless of who builds it, the website must remain accurate, easy to navigate, and regularly updated with current services, promotions, and contact information.

Additional considerations for a door dealer website include:

- **Search visibility:** Basic search engine optimization helps customers find you when they search for garage door service in your area.
- **Security:** Websites should use secure connections (HTTPS) and keep software updated to protect customer information.
- **Mobile usability:** Most customers will view your site on a phone, so pages must load quickly and display cleanly.
- **Clear calls to action:** Prominent “Request Service,” “Schedule,” or “Contact Us” buttons help convert visitors into customers.

## Data Backup

Reliable data backup practices are essential for protecting your dealership from data loss caused by hardware failure, accidental deletion, cyberattacks, or physical damage to the building. Every dealership relies on digital information – accounting records, customer files, job history, inventory data, and operational documents – and losing any of it can disrupt operations, delay billing, or create compliance issues. A consistent backup strategy ensures that critical information can be restored quickly and accurately, minimizing downtime and financial impact.

Dealerships should maintain multiple forms of backup to reduce risk. This typically includes a combination of local backups, such as external hard drives or network-attached storage devices, and offsite or cloud-based backups that protect data even if the physical office is compromised. Backups should occur automatically on a regular schedule, and the dealership should periodically test the restore process to confirm that data can be recovered when needed. A backup that has never been tested is not a reliable backup.

It is also important to determine which data must be backed up and how frequently. Accounting databases, customer records, job tickets, inventory files, and system configuration settings should be included in every backup cycle. Dealers should also consider versioned backups, which allow the business to restore data from a specific point in time. This can be an essential safeguard if files become corrupted or encrypted during a cyberattack. Retention policies should be established to determine how long backups are kept and when older versions can be safely deleted.

Finally, access to backup systems must be restricted to authorized personnel only. Backup drives, servers, and cloud accounts should be protected with strong passwords and, whenever possible, multi-factor authentication. Documenting the dealership's backup procedures, including schedules, storage

locations, and recovery steps, ensures that the process remains consistent even if key personnel are unavailable. A well-designed backup strategy provides peace of mind and forms a critical part of the dealership's overall technology and security posture.

## Cloud Storage

Cloud storage allows a dealership to store digital data, such as accounting records, sales information, service documents, and operational files, on secure remote servers rather than on local office equipment. Authorized users can access these files from any device with an internet connection, making cloud storage a flexible and reliable alternative to traditional onsite backups. For many dealerships, cloud platforms replace the practice of backing up files to local hardware each day, reducing the risk of data loss from equipment failure, theft, or physical damage to the building.

Cloud services also offer features such as automated backups, version history, and secure file sharing. However, these benefits depend on proper setup and user permissions. Before adopting any cloud platform, a dealership should evaluate the provider's security practices, data protection policies, and compliance standards to ensure that sensitive business information is handled appropriately. Access controls, password policies, and multi-factor authentication should be implemented to prevent unauthorized access and protect the dealership's data.

## Hardware Security

Hardware security focuses on protecting the physical devices your dealership relies on such as computers, servers, tablets, point-of-sale equipment, and handheld devices used by technicians. These devices contain sensitive business information, customer data, and access to operational systems, making them valuable targets for theft or misuse. Securing hardware begins with controlling physical

access. Computers should be located in supervised areas, mobile devices should be stored securely when not in use, and offices or server rooms should remain locked when unattended. Even small steps, such as requiring employees to lock their screens when stepping away, help prevent unauthorized access.

Dealerships should also implement security measures that protect devices if they are lost or stolen. This includes enabling device encryption, requiring strong passwords or PINs, and using multi-factor authentication for systems that contain sensitive information. Mobile device management (MDM) tools can add another layer of protection by allowing the dealership to remotely lock or wipe a device if it goes missing. For field personnel, company issued tablets or handheld invoicing devices should be secured in vehicles and never left unattended in open view.

Finally, hardware security includes maintaining the equipment itself. Devices should receive regular updates, antivirus protection, and periodic replacement to ensure they remain secure and functional. Old or decommissioned hardware must be wiped thoroughly before disposal to prevent data recovery. By combining physical safeguards, access controls, and proper device lifecycle management, dealerships can significantly reduce the risk of data exposure and operational disruption caused by compromised hardware.

## Handling Personal Information

Dealerships routinely collect and store sensitive personal information – names, addresses, phone numbers, email addresses, payment information, and in some cases access codes or security details for customer properties. This type of data, known as *Personally Identifiable Information (PII)*, must be handled with care to protect customers, employees, and the business itself. Proper PII management is not only a best practice but also a legal requirement under various state

and federal privacy regulations. Any unauthorized disclosure, loss, or misuse of PII can result in financial penalties, reputational damage, and loss of customer trust.

Dealerships must also protect employee personal information with the same level of care. Payroll records, Social Security numbers, banking details, background check results, and other HR documents contain highly sensitive data and must be stored securely, accessed only by authorized personnel, and handled in compliance with employment and privacy regulations.

Protecting PII begins with limiting access to only those employees who need the information to perform their job duties. Customer records, payment data, and employee files should be stored in secure systems with role-based permissions, strong passwords, and multi-factor authentication. Physical documents containing PII must be locked away when not in use, and digital files should be encrypted both in storage and during transmission. Dealerships should also establish clear retention policies, keeping personal information only as long as necessary, and securely disposing of it when it is no longer needed.

Finally, employees must be trained on proper handling of personal information, including recognizing phishing attempts, avoiding unsecured communication channels, and reporting any suspected data exposure immediately. Regular audits of data access, storage practices, and system permissions help ensure compliance and identify vulnerabilities before they become problems. By implementing strong PII protection measures, dealerships demonstrate professionalism, safeguard customer relationships, and reduce the risk of costly data breaches.

## Cybersecurity

Cybersecurity is an essential component of protecting your dealership's operations,

financial data, and customer information. Modern threats such as phishing emails, ransomware, malware, and social engineering attacks can disrupt business, compromise sensitive data, and create significant financial and legal exposure. Because dealerships rely heavily on digital systems, any breach can quickly impact daily operations. A strong cybersecurity posture begins with awareness: employees must understand how cyberattacks occur and how to recognize suspicious activity before it becomes a problem.

Dealerships should implement multiple layers of protection to reduce risk. This includes maintaining up to date antivirus and anti-malware software, enabling firewalls on all devices, and ensuring that operating systems and applications receive regular security updates. Email filtering tools can help block phishing attempts, while network monitoring tools can detect unusual activity. Employees should be trained to avoid clicking unknown links, downloading unverified attachments, or sharing sensitive information through unsecured channels. Cybersecurity is not a one-time setup. It requires ongoing vigilance and periodic review.

Finally, dealerships should have an incident response plan that outlines what to do if a cyberattack occurs. This includes knowing who to contact, how to isolate affected systems, and how to restore data from backups. Quick action can limit damage and reduce downtime. By combining technical safeguards, employee training, and clear procedures, dealerships can significantly reduce their vulnerability to cyber threats and maintain the trust of their customers.

## Password Policies

Strong password policies are one of the simplest and most effective ways to protect your dealership's systems and data. Passwords serve as the first line of defense against unauthorized access, yet weak or reused passwords remain one of the most common causes of security breaches.

Dealerships should require employees to use complex passwords that include a combination of letters, numbers, and symbols, and avoid easily guessed information such as birthdays, pet names, or common words. Passwords should be unique for each system or application, especially those containing financial or customer information.

In addition to complexity, dealerships should enforce regular password changes and prohibit employees from sharing passwords or writing them down in visible locations. Multi-factor authentication (MFA) should be enabled whenever possible, adding an extra layer of security by requiring a second form of verification, such as a text message code or authentication app. MFA is especially important for remote access, cloud services, and any system containing sensitive data.

Dealerships should also maintain a secure process for creating, updating, and revoking passwords. When an employee changes roles or leaves the company, their access should be updated or removed immediately to prevent unauthorized use. Management should periodically review user accounts to ensure that permissions match job responsibilities and that no inactive or unnecessary accounts remain open. By implementing clear password policies and enforcing them consistently, dealerships strengthen their overall security posture and reduce the risk of unauthorized access.

## Segregation of Duties

*Segregation of Duties (SOD)* is the practice of dividing responsibilities among multiple people to reduce the risk of fraud, theft, and errors. It is one of the most important internal controls in any dealership. By ensuring that no single employee controls an entire financial or operational process, the dealership creates a system of checks and balances that protects both the business and its employees. While SOD requires additional coordination and may increase administrative effort, the protection it provides far outweighs the cost.

In a door dealership, Segregation of Duties includes, but is not limited to:

- The person who deposits cash should not be reconciling the bank statement.
- The person who opens the mail should not be making deposits.
- The person who records customer payments should not have authorization to write off balances.
- The person who processes credit card transactions should not verify the monthly statement or have the ability to process returns.
- The person entering or writing up orders should not have the capability to cancel them.
- The person who writes checks should not have custody of blank checks.
- The person who writes checks should not have authority to sign them – unless two signatures are required, one of which must be management.
- The person purchasing product should not have authorization to pay the vendor.
- The person purchasing product should not have authorization to receive product into inventory.

Segregation of Duties does not imply distrust; rather, it creates a transparent, well-controlled environment where errors are caught early and opportunities for misuse are minimized. Even small dealerships benefit from implementing SOD wherever practical.

## Computer Systems and Access Controls

Segregation of Duties applies not only to financial processes but also to computer systems. Access rights and system permissions must align with each employee's role to prevent unauthorized actions and reduce the potential damage that could occur if a single user has excessive control. Properly configured systems help ensure that employees can perform their jobs efficiently without having access to functions that could compromise security or financial integrity.

Key considerations for system-based SOD include:

- Do the user's system permissions match their actual job responsibilities?
- Does the person who issues checks also have the ability to void them or create manual checks?
- Does the person applying payments have the ability to override transactions?
- Are all forms, such as checks, receipts, and invoices, pre-numbered and reviewed regularly for missing numbers?
- Does management run exception reports on a routine basis to identify unusual activity?
- Do employees understand that management monitors system activity?

Clear access controls, combined with regular oversight, help prevent unauthorized changes, reduce the risk of fraud, and ensure that system data remains accurate and trustworthy.

## Verification of Transactions

Verification of transactions is an essential internal control that ensures financial accuracy and protects the dealership from errors or misuse. Verification involves reviewing and confirming the validity of transactions, both internal and external, to ensure they are complete, accurate, and properly documented. The dealership owner or a designated manager is typically the most appropriate person to perform these reviews, as they have the authority and perspective needed to identify irregularities.

Examples of transaction verification include:

- Comparing the credit card statement with actual receipts.
- Reviewing the bank statement to ensure all checks appear in numerical order.
- Checking statement details to confirm that totals, credits, and balances are accurate.
- Ensuring that all sales transactions use prenumbered receipts and verifying that no numbers are missing.

- Reviewing all credit card returns (credits) to confirm they are valid and determining who processed them.

Regular verification not only catches errors early but also reinforces accountability throughout the organization. When employees know that transactions are reviewed consistently, they are more likely to follow established procedures and maintain accurate records.

## Authorizations

Authorizations refer to the specific permissions and responsibilities assigned to employees for the tasks they perform. Clear authorization levels help ensure that employees can complete their work efficiently while preventing unauthorized access to sensitive functions. Just as important as assigning authorizations is communicating to employees that their activities may be monitored. Monitoring is not a guarantee against internal problems, but it is a strong deterrent and an essential component of internal control.

Dealers should be aware of several key authorization considerations:

- **System access:** The owner or designated manager should assign system authorization levels based on each employee's job role.
- **Sales order entry:** Employees who enter customer sales orders should not have the ability to cancel them. Sales orders should also follow a strict numerical sequence.
- **Accounts payable:** The employee entering vendor invoices should not have authorization to sign checks. Only the dealership owner or authorized management should sign checks, and only with valid supporting documentation.
- **Customer invoicing:** The person responsible for invoicing customers should not have the authority to apply deposits or payments received.

Proper authorization controls reduce the risk of errors, fraud, and unauthorized activity. They also reinforce accountability and help ensure that financial processes remain transparent and well-documented.

## Background Checks

Background checks are an essential part of the hiring process for every position in a door dealer business. Because employees regularly enter customers' homes and businesses, dealers must verify that each new hire meets the company's standards for safety, reliability, and professionalism. Most dealerships use an independent agency to conduct these checks, and the screening typically includes criminal history searches, driving record reviews for field personnel, and drug testing. Many dealers establish an ongoing relationship with a local screening provider to ensure that results are handled consistently and efficiently.

A thorough screening process should include:

- **Criminal background check:** Confirms that the applicant does not present a risk to customers or coworkers.
  - **Sex-offender registry checks:** Verifies whether an applicant appears on any state or national sex-offender registry. Because employees work in customers' homes and around families, this step helps ensure customer safety and reduces liability.
- **Driving record (MVR):** Critical for technicians and installers who operate company vehicles.
- **Drug screening:** Helps ensure compliance with company policy, supports workplace safety, and reduces liability exposure.
- **Employment and reference verification:** Confirms work history, reliability, and professionalism.
- **Identity and eligibility verification:** Ensures compliance with federal hiring requirements.

Background checks matter because door dealers face unique risks. Employees work

onsite, handle customer property, and often operate in private homes, garages, and commercial facilities. A consistent screening process protects the business, reduces liability, and reinforces customer trust. It also helps maintain a professional workforce and supports a safer working environment.

## Fraud in the Workplace

Fraud can occur in any business, regardless of size or structure. When evaluating the dealership's risk exposure, leadership should consider how each service is delivered and how internal processes are managed. Establishing clear policies and procedures, and enforcing them consistently, helps reduce the risk of fraud and ensures that employees understand their responsibilities and limitations.

Examples of potential fraud-risk situations include:

- **Installers collecting cash:** A safer policy is to accept cash only in the office, where it can be properly recorded and deposited.
- **Receipt collection:** If installers turn in receipts at the end of the day, different employees should be responsible for collecting and verifying them.
- **Employee absences:** When employees are absent, designated backups must be trained to fill their roles without compromising internal controls.
- **Truck inventory:** Someone in the company should periodically or randomly verify the inventory carried on technicians' vehicles.
- **Purchases at supply houses:** If technicians are allowed to make purchases (e.g., electrical supplies, lumber, auto parts, fuel), all invoices must be turned in and verified to ensure they are legitimate business expenses tied to specific jobs.

Every dealership has unique services and operational practices that may introduce additional fraud risks. Regularly reviewing these activities and implementing checks and balances helps prevent fraud, protects the

company's assets, and reinforces a culture of accountability.

## Additional Technology and Security Considerations

Even with strong systems, clear authorizations, and well-defined procedures, several additional technology and security practices can further strengthen a dealership's protection against operational, financial, and cyber risks. The following topics highlight areas where many businesses have vulnerabilities and where small improvements can significantly enhance overall security.

**Network Security:** A dealership's network, i.e., its Wi-Fi, routers, and firewalls, is the backbone of all digital operations. Securing it begins with using strong passwords, disabling default settings, and ensuring that only authorized users can access internal systems. Guest Wi-Fi networks should be separated from business networks to prevent visitors from accessing sensitive data or internal devices.

Routers and firewalls must be updated regularly to protect against known vulnerabilities. Dealerships should also limit the physical reach of their wireless networks so they cannot be accessed from outside the building or parking lot. A secure network reduces the risk of unauthorized access, malware infections, and data breaches.

**Mobile Device Security:** Technicians and sales staff often carry mobile devices that contain customer addresses, job notes, photos, and scheduling information. These devices must be protected with strong passcodes, automatic locking, and, when possible, encryption. If a device is lost or stolen, the dealership should have the ability to remotely lock or wipe it to prevent unauthorized access.

Mobile device management (MDM) tools can help enforce security settings, restrict risky apps, and track company owned devices. Ensuring that field devices are secured

protects both customer information and the dealership's operational data.

**Email Security and Phishing Prevention:**

Email remains the most common entry point for cyberattacks. Employees should be trained to recognize phishing attempts, suspicious attachments, and fraudulent messages that appear to come from vendors or customers. Dealerships should verify any request to change vendor banking information or payment instructions through a secondary channel.

Technical protections such as spam filters, attachment scanning, and email authentication (SPF, DKIM, DMARC) help reduce risk. Regular reminders and training reinforce safe email habits and prevent costly mistakes.

**Physical Security of the Facility:** Dealerships store valuable inventory, tools, vehicles, and customer property, making physical security a critical component of overall protection. Warehouses, offices, and parts rooms should be secured with locks, alarm systems, and, when appropriate, surveillance cameras. Access to sensitive areas should be limited to authorized personnel.

Key control is equally important. Keys, access cards, and alarm codes should be issued carefully, tracked, and changed when employees leave the company. Strong physical security reduces theft, protects assets, and supports insurance and liability requirements.

**Employee Offboarding Procedures:** When an employee leaves the dealership, whether voluntarily or involuntarily, their access to systems, buildings, and equipment must be removed immediately. This includes disabling user accounts, collecting keys and badges, retrieving company devices, and changing any shared passwords.

A documented offboarding checklist ensures that nothing is overlooked. Proper offboarding protects the dealership from unauthorized access, data theft, retaliation, and operational disruptions.

**Vendor and Third-Party Security:**

Dealerships rely on many external partners, including software providers, website hosts, payment processors, and cloud platforms. Each of these vendors has access to some portion of the dealership's data or systems. Dealers should evaluate vendor security practices, review contracts for data protection language, and ensure that vendors meet appropriate compliance standards.

Access provided to third parties, such as remote support logins, should be limited, monitored, and revoked when no longer needed. Strong vendor oversight reduces the risk of breaches originating outside the dealership.

**Payment Security (PCI Compliance Basics):**

Dealerships that process credit cards must follow basic payment security practices to protect customer information and reduce liability. This includes using secure, encrypted terminals; avoiding handwritten card numbers; and never storing card data in unprotected systems or documents. Employees should be trained to handle card information properly and to recognize suspicious or fraudulent transactions.

Following PCI-compliant practices helps prevent data breaches, protects customer trust, and ensures that the dealership meets industry standards for payment security.

**Data Retention and Disposal Policies:**

Dealerships often accumulate years of customer records, job files, and financial documents. Keeping unnecessary data increases risk and makes it harder to manage information securely. A clear data retention policy outlines how long different types of records must be kept and when they should be securely deleted or destroyed.

Physical documents should be shredded, and digital files should be wiped using secure deletion methods. Proper data disposal reduces exposure and ensures compliance with privacy and recordkeeping requirements.

### **Software Update and Patch Management:**

Outdated software is one of the most common causes of security vulnerabilities. Operating systems, accounting programs, browsers, and mobile apps must be updated regularly to ensure they include the latest security patches. Dealerships should establish a schedule for checking updates and avoid using unsupported or obsolete software.

with evolving threats and changing business needs. Dealerships that embrace this mindset gain more than protection; they gain confidence, operational resilience, and a competitive advantage in a market where reliability and trust matter as much as technical skill.

## **Preparing for Tomorrow's Risks Today**

Technology and security now touch every part of a door dealership's operations, from accounting and scheduling to customer communication, data protection, and field service. The tools and practices described in this chapter highlight a simple truth: *a dealership's systems are only as strong as the controls, training, and oversight that support them.* Modern software, secure networks, reliable backups, and disciplined access controls all work together to protect the business from disruptions, fraud, and data loss. When these elements are maintained consistently, they create a stable foundation that supports accurate financial reporting, efficient operations, and dependable customer service.

Strong security practices also reinforce professionalism and trust. Customers allow technicians into their homes and businesses, and they expect their personal information to be handled responsibly. Likewise, employees rely on the dealership to maintain safe systems, clear policies, and fair internal controls. By investing in cybersecurity, hardware protection, background screening, and fraud prevention, a dealership demonstrates its commitment to safeguarding both its people and its customers.

Ultimately, technology and security are not one-time projects – they are ongoing responsibilities. Systems must be reviewed, updated, and monitored regularly to keep pace



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