HERBY KAY ADVISORY

Business Diagnostic Report — SAMPLE

This is a sample report. The business is fictional, the figures are illustrative, and no real company is described. It is provided so a prospective client can see what a Herby Kay Advisory diagnostic contains before paying for one.

Business: Ironwood Door & Gate Works, Inc. — manufacturer of steel security doors, screen doors, and ornamental gates **Location:** Fort Wayne, Indiana **Prepared for:** The owner **Date:** November 21, 2026

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1. Engagement Summary

You asked us to answer one question: the company is working as hard as it ever has, so why is it making less money than it did three years ago — and is the decline fixable, or is it the market?

This report is our answer. We reviewed four years of financial records, reconstructed the true cost of a sample of completed jobs, and interviewed you and your shop foreman. What follows is what we found, what we think is causing it, and what we would do about it, in what order, with the cost and expected return of each step stated plainly.

2. What We Asked For

To do this work we requested the following:

- Federal tax returns and year-end financial statements, 2022 through 2025, plus the most recent interim statement
- Monthly profit-and-loss statements for the trailing 24 months
- Accounts receivable aging, current and at each of the last four year-ends, with the top 20 customers identified
- Accounts payable aging and a list of all debts, leases, and credit lines, with balances and terms
- The current price list, and every prior price list back to 2022
- A sample of 40–50 completed job files across all product lines: the original quote, the invoice, and whatever material and labor records existed for each
- Steel and materials purchase invoices, by month, for 24 months — enough to track what you actually paid, not what you assumed you paid

- Payroll register and a list of every employee who left in the last 24 months, with wage at departure
- Equipment list with age and condition, and any maintenance or downtime records
- Open quote log: every quote requested in the last 12 months, the date it went out, and whether it was won or lost
- Customer list with revenue by customer for 2023, 2024, and 2025
- The contract or purchase-order terms with your largest customer

3. What We Received and How We Used It

You provided nearly all of it within a week, which is not typical and which made the work better. Specifically:

- **Tax returns, financials, and monthly statements** — used to build the four-year revenue and margin trend in Section 4 and the 13-week cash forecast referenced in the findings.
- **42 completed job files** — used to reconstruct job costs. Your records do not track labor by job, so we rebuilt labor from payroll rates, the foreman's time estimates, and material invoices matched to each job. The reconstruction is an estimate, but it is consistent job to job, and the pattern it shows is too wide to be an estimating error.
- **Materials purchase invoices** — used to establish the actual steel cost curve against your price list dates. This is the single most damaging comparison in the report.
- **Receivable agings and customer revenue lists** — used for the customer concentration analysis and the payment-terms analysis.
- **Quote log** — you keep one, which many shops do not. It gave us quote turnaround times and win rates by year.
- **Payroll and departure list** — used to cost the welder turnover.

What you could not provide, because it does not exist: job-cost records, scrap and rework records, and machine downtime records. The absence of those three records is itself one of the findings.

4. The Business as It Stands

Ironwood was founded in 1992. It employs 28 people. It has a good name in northeast Indiana, a skilled foreman, and a product that lasts. None of that is the problem.

	2022	2023	2024	2025 (est.)
Revenue	$3,900,000	$4,200,000	$3,850,000	$3,400,000
Gross margin	29%	31%	27%	24%

	2022	2023	2024	2025 (est.)
Net income	$212,000	$296,000	$88,000	($41,000)

Cash on hand at the start of this engagement: $61,000 — roughly nine days of operating expense. The bank line of credit is drawn to $185,000 of a $250,000 limit. One equipment note remains, $96,000, on the CNC plasma table.

The symptom is a revenue decline of about 19% from the peak. The cause is not one thing, and most of it is not the market. Revenue fell partly because the residential market slowed. Margin fell because of decisions — and non-decisions — inside the building. The margin problem is the serious one. At 2023 margins, this year's revenue would have produced a profit. At this year's margins, 2023's revenue would barely have.

5. Findings

Finding 1 — You do not know which jobs make money, and a large block of them does not. There is no job costing. Bids are priced by rule of thumb — material times a factor, plus a labor allowance from experience. That worked when volume was high and steel was cheap. It does not work now. Our reconstruction of 42 jobs from 2025:

- Custom ornamental gates: average gross margin **+18%**
- Residential security and screen doors: average gross margin **+9%**
- Production doors for your largest customer: average gross margin **−4%**

Read that last line again. Roughly 45% of your revenue is work you lose money on before overhead. The profitable third of the shop is carrying the losing half, and nobody could see it, because nothing was measured.

Finding 2 — Steel went up. Your prices did not. Your price list was last revised in January 2023. Between then and mid-2025, your actual delivered cost for steel sheet and tube rose approximately 22%. On quotes written from the old list — including the standing prices in your largest customer's purchase orders — that increase came directly out of margin. We estimate the unpassed steel increase cost **$110,000 to $130,000** in gross profit over the last two years. This is not a market condition. It is a price list nobody updated.

Finding 3 — One customer is 45% of revenue, sets its own price, and pays you in 78 days. The homebuilder accounted for $1,890,000 of revenue in 2023 and $1,530,000 in 2025. In 2024 it demanded and received a 6% price reduction. Its payment terms have stretched from net 30 to an average of 78 days actually paid. The combination — their volume, their price, their terms, at a −4% margin — means you are effectively lending a large builder money to lose money on its work. Losing this customer tomorrow would hurt. Keeping it on current terms is hurting you more, just more slowly.

Finding 4 — Quoting stops when you stop. You are the only estimator and the only salesman. When you are on a job site, in the shop, or on vacation, no quotes go out. The quote log shows average turnaround of nine business days in 2025, against two to three days your competitors quote. Win rate has fallen from 34% (2023) to 22% (2025). Slow quotes are the main reason we can identify: the jobs you quote in under four days still win at 31%. We estimate $300,000 or more in quoted work was lost last year to turnaround alone. This is a capacity problem with one cause: everything runs through one man.

Finding 5 — The press brake is the shop's bottleneck, and it is 27 years old. The 1998 press brake forms nearly every part you sell. Maintenance records are informal, but from the foreman's log and payroll overtime we estimate unplanned downtime at roughly 11% of scheduled hours, including six stoppages in the third quarter of 2025. When the brake is down, nine people downstream are idle or working around it. You are one major failure — a cracked frame, an obsolete control board — from being unable to ship at all.

Finding 6 — You are training welders for your competitors. Four of your nine welders have left in 18 months. Your starting wage is $24 an hour; the shops hiring them away start at $28 to $30. Replacing and training one welder costs an estimated $9,000 in recruiting, overtime coverage, and reduced output. The four departures cost roughly **$36,000** — more than the annual cost of raising the whole welding crew to market rate would have been.

Finding 7 — Scrap and rework are unmeasured, so they are unmanaged. Nothing is weighed, counted, or recorded. Comparing material purchased against material shipped in finished product, we estimate scrap and rework consume about 4.5% of material cost — approximately **$52,000 a year**. Shops that measure this number typically run 2% to 2.5%. The gap is worth roughly $25,000 a year, and you cannot close a gap you do not measure.

6. Recommendations

Immediate (next 30 days)

1. **Reissue the price list with steel at today's cost, and put a materials-escalation clause in every new quote.** Quotes valid 15 days, not 90. Expected recovery: most of the $110,000–$130,000 leak stops here. Cost: your time and one uncomfortable week.
2. **Start job costing on a simple system — a spreadsheet is enough to start.** Every job gets a number; material and labor hours are recorded against it. No exceptions, including the builder's work. Cost: under $500 and the foreman's cooperation. This is the instrument panel for everything else in this report.
3. **Build and run a 13-week cash forecast, updated every Friday.** With $61,000 of cash and a drawn credit line, you are closer to a cash problem than the income statement suggests. Cost: two hours to build, thirty minutes a week to maintain.

4. **Raise welder pay to market for the crew you cannot afford to lose.** Cost: approximately $31,000 a year for five men. Expected saving: most of the $36,000 turnover cost, plus the overtime that goes with it.

The 90-day fix

1. **Renegotiate the builder relationship from facts, not hope.** With job-cost numbers in hand, present the builder a price that makes its work profitable, with terms back to net 45. If it refuses, begin a planned reduction of its share of your volume toward 25% over two quarters, replacing it with the custom and residential work that carries 9–18% margins. Expected impact: converting even half the builder volume to break-even-or-better is worth **$60,000–$90,000 a year**. This is the highest-risk item in the report and should not be attempted before items 1 and 2 are in place.
2. **Put a second estimator in the chair.** Train your foreman's deputy on residential and gate quoting — the standardized half of the work — with a target of quotes out in three business days. You review; you do not originate. Expected impact: recovering the win rate on timely quotes is worth an estimated **$150,000–$250,000 in annual revenue** at profitable margins.
3. **Decide the press brake.** A good used replacement runs about $85,000 installed; new, about $140,000. Financed over seven years, the used machine costs roughly $1,250 a month — less than the overtime and delay cost of the current downtime. Do this while you still have a credit line to do it with.

Longer term (6–18 months)

1. **Measure scrap.** Weigh it, record it by job, post the number weekly. Target 2.5% within a year: worth about **$25,000 a year**.
2. **Reduce the builder to a customer, not a landlord.** No single customer above 25% of revenue. That is a policy, set now, enforced by the quote log.
3. **Build a second salesman out of the estimating fix.** Once quotes flow without you, your time goes to the custom and commercial accounts where relationships win the work — the highest-margin work you have.

Taken together, items 1, 4, 5, 6, and 8 are worth an estimated **$240,000 to $340,000 a year** in recovered margin and profitable revenue against roughly **$35,000 in recurring cost** plus the press brake financing. That is the difference between this year's loss and the best year in the company's history, on less revenue than your peak.

7. If You Retain Us

The diagnostic you are holding is a one-time engagement. If you want help executing it, we offer a 90-day fix engagement at $2,000 per month: we work on site and by phone with you and your foreman, install the job-costing and cash-forecast disciplines, sit in on the builder

renegotiation, and report progress against the numbers in this report every two weeks. After the 90 days, most clients either take it from there or keep us on a retainer of $500 to $1,000 a month for a standing weekly call and a monthly review of the same numbers. There is no contract beyond the month you are in. If the numbers stop improving, you should stop paying us.

Appendix — Key Figures

Item	Figure
Revenue 2023 (peak)	$4,200,000
Revenue 2025 (est.)	$3,400,000
Gross margin 2023 → 2025	31% → 24%
Net income 2025 (est.)	($41,000)
Cash on hand	$61,000
Credit line drawn	$185,000 of $250,000
Largest customer share of revenue	45%
Largest customer average days to pay	78 days
Gross margin, production builder work (reconstructed)	−4%
Gross margin, residential doors (reconstructed)	+9%
Gross margin, custom gates (reconstructed)	+18%
Steel cost increase since last price list	~22%
Estimated gross profit lost to unpassed steel costs	$110,000–$130,000
Average quote turnaround	9 business days
Quote win rate 2023 → 2025	34% → 22%
Press brake downtime (est.)	11% of scheduled hours
Welders lost in 18 months	4 of 9
Estimated scrap and rework	~4.5% of material cost (~$52,000/yr)
Estimated annual value of recommendations	$240,000–$340,000

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