A SCHAPIRA CPA GUIDE FOR MANUFACTURERS

HOW TO MANUFACTURE FOR PROFIT

What Your Financials Are Hiding — and How to Fix It

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SCHAPIRA CPA · BROOKLYN, NY · SCHAPIRACPA.COM

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FOREWORD

The CPA Who Thinks Like a Manufacturer

I still remember the first time I walked onto a real manufacturing floor.

My client had been working toward this day for months. New equipment. A completely redesigned layout. Tests, adjustments, more tests. The kind of project that consumes a business owner entirely — not because it has to, but because getting it right matters more than anything else.

The day I came to see it running at full production, the energy in that building was unlike anything I had experienced inside an office. The machines moved with a precision I could not have imagined from the outside. Milliseconds and millimeters — that is what this world runs on. Every roller, every connection, every handoff between one stage and the next had been engineered to work together. The people on that floor knew their jobs the way a conductor knows an orchestra. The output was clean, fast, and consistent.

I was mesmerized.

And then we went to the back office and pulled up the books.

My client sat down next to me, looked at the screen, and said four words I have never forgotten: *"I have no clue."*

Not "the numbers seem off." Not "I think something is wrong." He genuinely had no idea what the financial picture of his business was telling him. The same man who had just walked me through every machine on that

floor, who could explain the efficiency gain from the new layout down to the unit — he could not tell me his gross margin.

That was the moment I understood what my real job was.

It was not to file tax returns. It was not to produce financial statements once a year and present them with a summary memo. It was to translate — to take the precision that existed on that manufacturing floor and bring it into the back office. To make the numbers speak the same language as the machines.

I have spent years doing that work. Sitting across from manufacturers who are brilliant at what they build but flying blind when it comes to the financials that drive their growth, determine their margins, and define how the rest of the world — especially banks and potential partners — sees their business. The same patterns repeat constantly. Cash disappearing despite strong revenue. Margins that look acceptable on the surface but collapse when you actually look at the product level. Banks saying no to businesses that, by any real measure, should be getting a yes. Owners working harder every year and ending up with less clarity, not more.

These are not failures of intelligence or effort. They are failures of financial infrastructure. And they are entirely fixable.

This book is built around a philosophy I share with every new client: **Build a Business Others Want to Buy.** Not because you have to sell. Not because exit planning is the primary goal. But because a business that a serious buyer — or a serious banker — would value, trust, and finance is a business that is working the way it should. It has clean books. It has visible margins. Its systems tell the truth. Its story is one that the right people can understand and act on.

Whether you ever sell or not, that is the business worth building.

Inside these pages, you will meet three manufacturers: Jack, John and Bill, and Adam. Their stories are real. Their struggles are ones I have watched up close. And the lessons they learned are the same lessons I want you to walk away with — not as theory, but as a sequence of concrete steps you can begin this week.

Let's get to work.

— Mendel Schapira, CPA

Schapira CPA | Brooklyn, New York

INTRODUCTION

Build a Business Others Want to Buy

The philosophy behind everything in this book

Let me ask you a direct question.

If someone approached you tomorrow with a serious offer to buy your business — a buyer who would do proper due diligence, review your financials carefully, assess your operations, and make a decision based entirely on what the documents showed — would you be ready?

Not ready to sell. Ready to be evaluated.

For most manufacturers in the $2M–$50M range, the honest answer is no. Not because the business is bad. Often it is genuinely good — strong products, loyal customers, a production floor that works. But the financial infrastructure does not match what has actually been built. The books tell a partial story. The margins are estimated rather than calculated. The numbers that banks care most about — AR quality, inventory accuracy, overhead allocation — have never been properly addressed, because no one ever required them to be.

That gap between the business you have and the business your financials describe is where most of the problems in this book come from. It is why banks say no to businesses that deserve a yes. It is why owners cannot take money out despite growing revenue. It is why decisions get made on assumptions that have never been tested against actual data.

Closing that gap is what this book is about.

The Two Things Every Manufacturer Needs to Be

Bank-ready means your financials tell a clear, accurate, credible story — one that lenders can understand, verify, and trust. It means your books reflect your reality. Your collateral is documented and clean. Your margins are calculated, not guessed. When a banker asks about your gross margin, your AR aging, or your debt service capacity, you can answer with confidence and back it up with documents.

Exit-ready means your business has transferable value. It can generate revenue without requiring your physical presence in every decision. Its systems, pricing, and financial structure are documented well enough that someone else could step in and run it. Whether you ever sell or not, this standard is the measure of how well the business is actually built.

Most manufacturers are neither. Not because they do not care — they care deeply. But because no one has ever given them a clear, sequential path from where they are to where they need to be. That path is the five steps at the heart of this book.

The Three Pillars of Every Manufacturing Business

Every manufacturing business stands on three pillars.

Pillar	What It Covers	Typical Strength
Operations	Production, machines, efficiency, quality, throughput	Usually the strongest — this is what manufacturers know
Sales	Revenue, customers, pricing, market position	Decent — most can sell their product
Finance	Margins, cash flow, reporting, banking, tax strategy	**Almost always the weakest pillar**

The Finance pillar determines whether the other two matter. You can have the most efficient production floor in your industry and a full order book — but if your financial infrastructure is broken, the business bleeds profit quietly, cannot access capital when it needs to grow, and cannot be valued fairly when the time comes.

Here is what I notice again and again: manufacturers invest enormous time and money optimizing their Operations pillar. They upgrade equipment, redesign layouts, hire specialists. The Sales pillar gets attention too — trade shows, new reps, pricing reviews. But the Finance pillar is often left to a bookkeeper using software that was set up years ago and never revisited.

That imbalance is the real cost problem. And it is the one this book addresses directly.

The Five Steps

Over years of working with manufacturers, I have identified five steps that, taken in the right sequence, transform a manufacturer's financial position from invisible to bank-ready to exit-ready. These are not theoretical frameworks. They are the exact steps I walk my clients through.

1

Proper Books

Your financials must accurately reflect the reality of your business — not an approximation of it. Every system, every account, every number must tell the same story.

2

Quarterly Health Review

A regular, structured review of the KPIs and ratios that reveal the true health of the business — not just the summary income statement, but the metrics that predict what is coming next.

3

Growth and Financing

With clean books and a clear health picture, you can present yourself to capital sources credibly — and access the financing to grow strategically rather than reactively.

4

Tax Strategy

Once you are profitable and financially visible, a systematic approach to tax planning keeps more of what you earn in the business — legally, without drama.

5 Build for Exit

Structure your business so that it has real, transferable value — documented systems, clean financials, diversified revenue, and a story that the right buyers and investors can understand and act on.

The steps build on each other. You cannot do Step 3 without Step 1. You cannot do Step 5 without all the others. The sequence is the point — not the individual steps in isolation, but the cumulative effect of doing them in the right order.

ONE MESSAGE

Everything in this book comes back to a single idea: *Visibility leads to strategy. Strategy leads to value. Value leads to optionality.* When you can see your business clearly, you make better decisions. When you make better decisions consistently, the business becomes worth more. And when the business is worth something, you have options — to grow, to borrow, to bring in partners, or to exit on your terms. That is what bank-ready and exit-ready actually mean.

CHAPTER ONE

You Are Running a System

The three gaps, the three financial flows, and where profit actually hides

In 1984, a physicist turned management writer named Eliyahu Goldratt published a novel called The Goal. The protagonist, Alex Rogo, was a factory manager whose plant was three months from being shut down. His workers were busy. His machines were running. Production reports were being filed. And yet the plant was failing.

The reason, Goldratt argued, was not effort or incompetence. Alex was optimizing the wrong things. He was measuring activity rather than output, and improving parts of the system that were not the actual constraint on performance. Goldratt's insight — what he called the **Theory of Constraints** — was this: in any system, there is always one constraint limiting the output of the whole. Find it. Fix it. Then find the next one.

I have thought about that framework in hundreds of client meetings. Because the same pattern Alex faced on his production floor appears in the back offices of manufacturers every week. Busy. Growing. Hard-working. And still struggling — because the real constraint is not the machines or the people or the customers. It is the financial clarity that connects all of it.

The financial constraint is almost always the bottleneck. Fix it, and everything else gets easier.

Your Business Is a System

A manufacturing business is not a collection of independent activities. It is a system — a series of connected processes, each one feeding the next. Raw materials become work-in-progress. Work-in-progress becomes finished goods. Finished goods become invoices. Invoices become cash. Cash becomes payroll, rent, equipment, reinvestment — and, if the system is working correctly, profit.

Every conversion in that chain takes time. Every one costs money. And every one can leak profit if it is not managed carefully.

Most manufacturers manage the production side of this chain with great precision. They know their throughput rates, their waste percentages, their equipment utilization. But the financial side of the same chain — how money flows through the business, where it gets tied up, where it leaks — often runs without any systematic oversight.

That is where the bottleneck hides. Not on the floor. In the books.

The Three Financial Flows

Every manufacturing business has three financial flows running simultaneously. Most owners can only see one of them clearly — and that partial vision is the root of most of the financial confusion I encounter.

Flow	What It Measures	Visibility
Revenue Flow	How much value you generate from sales — your top line	High. Most owners track this closely.
Cost Flow	What it truly costs to generate that revenue — all of it	Low. Usually estimated, rarely precise at the product level.
Cash Flow	When money actually enters and leaves your bank account	Very low. Usually discovered reactively, not managed proactively.

The first flow — **revenue** — is visible because it is exciting. It is the number you say when someone asks how the business is doing. *"We're doing twelve million."* Revenue is the score, and everyone watches the score.

The second flow — **cost** — is murky because measuring it requires discipline. Direct materials are usually captured, because they are tangible and invoiced. Direct labor is often estimated based on round numbers that were set years ago and never updated. Manufacturing overhead — the facility, the equipment, the supervisors, the utilities, the quality control — is frequently misallocated, sitting in general and administrative expenses instead of in cost of goods sold where it belongs. The result is a gross margin number that looks healthy but is built on incomplete data.

The third flow — **cash** — is almost invisible until it becomes a crisis. Profitable businesses run out of cash regularly. It happens because the timing of money coming in almost never matches the timing of revenue on the income statement. A sale recorded in March may not generate cash until May. A material purchased in February may be paid in March. The gap between the accounting picture and the cash reality is the manufacturing cash conversion cycle — and if you do not understand it, you will be perpetually confused about why a profitable business feels broke.

> *When you can only see one of three financial flows clearly, you are flying your business by one instrument in a three-instrument cockpit. The plane may be in the air. But you are guessing about altitude and direction.*

The Three Gaps That Keep Manufacturers from Building Real Profit

From everything I have seen working with manufacturers across industries and revenue ranges, the financial problems almost always trace back to one or more of three core gaps. Understanding which gap is your primary constraint is the first step toward fixing it.

Gap One: The Cost Visibility Gap

You do not know your true product costs, so you cannot price correctly — and you cannot cut intelligently.

This gap is more common than most owners want to acknowledge. You know your material costs because suppliers send invoices. You know roughly what you pay in labor. But do you know the loaded labor rate — the true cost per production hour including payroll taxes, benefits, and workers' compensation? Do you know how much overhead each product should absorb, based on how long it actually takes to produce on which equipment? Do you have a current Bill of Materials for every product, updated to reflect today's input costs rather than prices from three years ago?

Without this visibility, pricing becomes a guess. And the consequences of consistently guessing wrong — even slightly wrong — compound over years into a profit picture that makes no sense. Revenue grows. Net income stays flat. The owner cannot figure out why.

Cost Layer	What It Includes	Common Mistake
Direct Materials	Raw materials, components, packaging at current purchase cost	Usually captured correctly — this is the easy part

Cost Layer	What It Includes	Common Mistake
Direct Labor	Wages plus payroll taxes, benefits, and workers' compensation	Base wage only — missing 25–40% of the true labor cost
Manufacturing Overhead	Facility, equipment, utilities, supervision, quality control	Sitting in G&A instead of COGS — gross margin overstated

The overhead rate calculation is straightforward but almost never done:

MANUFACTURING OVERHEAD RATE

Total Manufacturing Overhead ÷ Total Direct Labor Hours
= Overhead per Labor Hour

Example: $400,000 in manufacturing overhead divided by 10,000 direct labor hours equals $40 per hour. A product that takes two hours to produce carries $80 in overhead. A product that takes thirty minutes carries $20. When this allocation is not done, every gross margin calculation is understated — and every pricing decision built on it is built on incomplete information.

Gap Two: The Cash Flow Gap

You confuse profit on paper with cash in the bank — and the difference is costing you.

This is the gap that generates the most "aha" moments in my client meetings. Profit and cash flow are not the same thing. In a manufacturing business, you can be legitimately profitable and genuinely cash-poor at the same time. It is not a contradiction. It is the normal condition of a growing manufacturer who has not built a system to manage it.

The reason is accrual accounting. Revenue is recorded when it is earned — when the invoice goes out — not when the cash arrives. Expenses are recorded when they are incurred, not when they are paid. This means your income statement can show a healthy profit in a month when your bank account is nearly empty. The profit is real. The cash is sitting in your customers' accounts receivable queue, waiting for their net-thirty or net-sixty

payment cycle to complete.

The measurement tool for this gap is the Cash Conversion Cycle:

CASH CONVERSION CYCLE

Days Inventory Outstanding + Days Sales Outstanding − Days Payable Outstanding

A manufacturer with 45 days of inventory on hand, customers paying on average in 38 days, and suppliers being paid in 22 days has a 61-day cash conversion cycle. Every dollar spent on raw materials takes 61 days to come back as cash. If the business is growing, it needs more working capital to fund this cycle every month. Without a line of credit or strong retained cash reserves, growth itself becomes the cash flow problem.

This is exactly why fast-growing manufacturers often have the tightest cash flow — not because they are unprofitable, but because growth demands more working capital than the business can generate internally from operations alone.

Gap Three: The Financial Story Gap

Your financials do not tell a compelling, credible story — to you, to your team, or to your bank.

This is the gap that most directly blocks access to capital — and it is often the most surprising one to discover. Manufacturers who know their business deeply, who are genuinely profitable and growing, find themselves rejected by banks not because the business is bad but because the documents they submitted did not speak the language lenders use to make decisions.

Banks are not evaluating your story. They are evaluating your documents. Inconsistencies between systems — inventory values that do not match what is physically in the warehouse, AR balances that do not reconcile with what customers actually owe, overhead sitting in the wrong accounts — do not register as honest mistakes to a credit officer. They register as *unreliable data*. And unreliable data means an automatic no.

Closing Gap Three is not just about getting loans. It is about having a financial picture you can actually trust — one that tells you the truth about your business so that every decision you make is based on reality rather than assumption. That is the foundation of everything that follows in this book.

Goldratt's Most Important Insight — Applied to Your Finances

Goldratt's central teaching was that every system has one constraint that limits everything else. Identify it, exploit it, and the whole system improves. Ignore it, and no amount of optimization elsewhere will move the needle.

In most $2M–$50M manufacturers, the constraint is the financial infrastructure — not the production floor, not the sales team, not the product. The machines are fine. The people are fine. The customers want what you make. What is not working is the system that connects all of it: the pricing that rests on incomplete cost data, the cash flow that is never mapped until it becomes a crisis, the financial story that does not speak the language of banks and investors.

Fix the financial constraint first — and the operational excellence you have already built starts to generate the returns it deserves.

Self-Assessment: How Well Do You Know Your System?

Before moving forward, answer these five questions as honestly as you can. This is a diagnostic, not a test. The goal is to identify which gap is your primary constraint — so that when you read the chapters that follow, you know exactly which parts matter most for your specific situation.

Question	Y · P · N	Gap
Do you know your gross margin by product line — calculated from actual costs including allocated overhead, not estimated?	Y P N	Gap 1
Can you explain precisely why your cash flow was tight last month, even if revenue was positive?	Y P N	Gap 2
Do you have a current Bill of Materials for your top products, updated to reflect today's material costs and labor rates?	Y P N	Gap 1

Question	Y · P · N	Gap
If a banker called today and asked you to walk through your AR aging, inventory value, and debt service coverage ratio, could you do it confidently from documents in hand?	Y P N	Gap 3
Does your accounting system reflect the same numbers as your inventory system, your AR records, and your actual bank balance?	Y P N	Gap 3

READING YOUR RESULTS

“No” or “Partially” on Questions 1 or 3: Gap One — *Cost Visibility* — is your primary constraint. Step One and Step Two of this book are your starting point.

“No” or “Partially” on Question 2: Gap Two — *Cash Flow* — is creating real risk in your business. The financing chapter and the roadmap address this directly.

“No” or “Partially” on Questions 4 or 5: Gap Three — *Financial Story* — is blocking your access to capital. All five steps contribute to closing it, but Steps One and Three are most urgent.

Most manufacturers answer “Partially” or “No” to three or more of these. If that is you, you are in good company — and in exactly the right place.

STEP ONE

Your Books Must Tell Your Story

Jack's story: three bank rejections and one hard lesson about what banks actually read

Jack

Jack had been building his party goods business for five years, and he had earned the right to feel good about it.

He had figured out online commerce at a time when most people in his space were still thinking in terms of showrooms and wholesale catalogues. He had built his own brand — a full line of party supplies with returning customers, seasonal demand he could predict, and year-over-year growth in both revenue and profit margins. He owned his warehouse. He had built real infrastructure, not just a side project.

When the time came to stock up properly for the upcoming season — to fill that warehouse and make sure he was not running out of his best-selling products at peak demand — getting a line of credit seemed like an obvious next step. Jack did not spend much time thinking about the application. He was profitable. He was growing. Any bank should want him as a customer.

The first bank said no.

Jack was confused but not concerned. Banks make mistakes. He moved on to the next one.

The second bank said no.

Now he was frustrated. *These banks are punks. They don't understand what I've built. I'm profitable and growing — what is their problem?*

The third bank said no.

That was when he called me. Not because he thought the business had a problem, but because three institutions had apparently lost their minds. *"Mendel,"* he said, *"am I not one of your growing, profitable clients? What is going on with these banks?"*

The Real Problem

We pulled up the books. We looked at the conversations he had submitted to the banks. The picture became clear almost immediately — but not in the way Jack expected.

His business was profitable. The banks were not wrong about that. But the story his financials told was inconsistent in ways that made lenders deeply uncomfortable, regardless of the underlying profitability.

Jack's inventory was managed in one system. His accounting lived in another. His sales came from multiple online marketplaces — each with its

own reporting format, its own payment timing, its own way of recording returns and adjustments. None of these systems were talking to each other in a way that produced a clean, reconciled financial picture. The inventory value on the balance sheet did not match what was physically in the warehouse. The accounts receivable did not consistently reflect what was actually owed. The numbers were not fabricated — they were simply disconnected from each other. And to a banker reviewing a line of credit application, disconnected numbers and unreliable numbers look identical.

There was also a subtler problem. Jack understood his business deeply. He could tell you his margins, his best sellers, his seasonal patterns. His bookkeeper Diana, who had been with him for six years, could pull any report at a moment's notice. If you called Diana on a Sunday, she could tell you exactly what the AR and inventory numbers were.

But banks do not call you on Sunday. They review documents. And the documents Jack was presenting did not speak the language banks use to make lending decisions.

The Resistance

When I explained this to Jack, his reaction was immediate and defensive. *"Why do I need my accountant involved in this? You file my taxes. I'm profitable. This should be straightforward."*

And then there was Diana. When I suggested that her system had gaps that needed to be addressed, Jack's defenses went up further. Diana had been loyal for six years. She responded quickly. She knew the numbers. The idea that something was wrong with the bookkeeping felt like an accusation against someone he trusted.

I had to be careful here — because Diana was not doing anything wrong. She had been doing exactly what she was asked to do: keeping the books for normal business operations. She had never been asked to produce documents for a bank loan. She had never been asked to reconcile multiple marketplace platforms into a single, auditable financial picture. The standards were different, and she had never been set up to meet them. That was not her failure. It was a gap in the system.

"We are not saying Diana is wrong," I told Jack. *"We are saying you are looking for a different outcome than you have ever looked for before. Different outcomes require different inputs. Let us work with Diana on this*

— together.”

Jack was skeptical. But he had three rejections and no other options. He agreed to let us look.

Speaking the Bank’s Language

Over about three months, we did what I would call *reconciliation and alignment* work. It was methodical and unglamorous: mapping the inventory system to the accounting system, building a consistent bridge between each marketplace platform and the AR records, reconciling balance sheet accounts to match physical reality, and ensuring that every number that appeared in a financial document could be traced to its source.

> *You can tell the bank your story all day. But banks play dumb when it comes to financials. They want to read everything off the documents in front of them. If it is not in the documents — consistently, clearly, in the format they expect — it does not exist to them. No matter how confidently you explain it.*

Jack was a natural salesman. He had been operating on the assumption that if he explained his business compellingly enough, the bank would understand. What he did not grasp was that bankers are not evaluating your ability to explain yourself. They are evaluating whether your documents are reliable enough to serve as the basis for a lending decision. **The documents are the story.** Either they tell it or they do not.

Once the books were clean and reconciled, we handled the bank presentation ourselves. We prepared the financial package. We set expectations — both for Jack and for the bank — based on what the actual numbers showed. We spoke in the language of collateral coverage, AR aging, inventory quality, and debt service capacity, because that is the language banks use.

Jack sat in on some of those conversations. He watched the dynamic change. The banker was asking the questions we had anticipated, and the answers were already in the documents. The conversation was different. The

posture was different.

Afterward, Jack said something that has stayed with me: *"I don't have a different company. How did you get this done when I couldn't?"*

The answer was simple. *"You are best at building and selling your product. That is a real and valuable skill. We are best at the numbers and the presentation. These are different things. As long as we work together, the outcome will always be stronger."*

The line of credit was approved. Jack stocked his warehouse the way he had always wanted to. He stopped running out of inventory at peak season. Net income grew by roughly ten percent in the following year — not because the business changed, but because it could finally execute on the growth that was already there.

What "Proper Books" Actually Means

Jack's story illustrates something I see constantly. Business owners assume that because they have a bookkeeper and an accounting system, they have proper books. They often have something that works adequately for day-to-day operations, but breaks down the moment a higher standard is required — a bank loan, a major vendor relationship, a potential partner, or an acquisition conversation.

Proper books, for a manufacturer who wants to be bank-ready and exit-ready, means four specific things:

1. Your Systems Are Reconciled and Aligned

Inventory management, accounting, sales platforms, and accounts receivable must all reflect the same reality. Discrepancies between systems are not just an accounting inconvenience. They are a credibility problem every time someone external reviews your financials. Reconciliation is not optional — it is the foundation of everything else.

2. Your Cost of Goods Sold Is Complete

COGS must include direct materials at current cost, direct labor at the loaded rate (wages plus taxes, benefits, and workers' compensation), and manufacturing overhead allocated properly to production rather than sitting in general expenses. If all three layers are not present, your gross margin is overstated — and every decision built on it is built on a fiction.

3. Your Balance Sheet Reflects Reality

Accounts receivable should reflect what is actually collectible — not just the gross total of outstanding invoices. Inventory should be valued at current cost, with obsolete or slow-moving items identified and reserved against. Liabilities should be complete, including leases, contingent obligations, and any deferred items. A balance sheet that does not match reality is not just misleading — it is a red flag to anyone reviewing it with a discerning eye.

4. Your Gross Margin Is Within Benchmark Range

Once the books are properly structured, your gross margin should reflect the actual economics of your product. Compare it to sector benchmarks. If it falls significantly below what comparable manufacturers achieve, one of three things is happening: your pricing is too low, your true costs are higher than you realize, or your cost accounting is still not capturing the full picture.

Manufacturing Sector	Typical Gross Margin Range
Food and Beverage Manufacturing	25–40%
Metal Fabrication and Industrial	20–35%
Apparel and Consumer Goods	30–50%
Specialty and Custom Manufacturing	35–55%
Commodity and High-Volume Manufacturing	15–25%

THE BANK'S REAL QUESTION

When a bank reviews your loan application, they are not asking: *"Is this a profitable business?"* They are asking: *"Can we trust these documents enough to base a lending decision on them?"* Your books need to answer that second question with a clear yes — not because you explained yourself well in the meeting, but because the documents themselves are clean, consistent, and credible.

Jack's business did not change between the third rejection and the approval. The documents did. **That is the whole story.**

STEP TWO

The Quarterly Health Review

John and Bill's story: the business they thought they had versus the one they actually did

John and Bill

John and Bill came from sales. Both had spent years as territory managers for larger companies — learning to read customers, manage accounts, and build the kind of commercial relationships that turn one-time buyers into long-term clients.

When they decided to go out on their own and open a garment manufacturing operation in New Jersey, they brought everything they knew with them.

They also brought something unusual: Bill had a genuine background in accounting. Not a casual familiarity — actual knowledge. He understood debits and credits. He knew how to read a financial statement. When they opened the business, they genuinely believed they had the right combination of skills: commercial instinct from John, financial literacy from Bill, and a shared drive that had built real revenue growth from the beginning.

For three years, they grew. Twenty to twenty-five percent year over year, consistently. New customers, expanded product lines, a busier production floor. From the outside, and largely from the inside, it looked the way a successful growing business should look.

There was one problem. They could not take any money out of the business.

Every time they tried to draw a distribution, the cash was not there. The P&L showed profit. The bank account told a different story. That gap — between what the income statement said and what the bank balance showed — had grown from a minor frustration into something heavier. A creeping sense that something was fundamentally, structurally wrong with a business they had poured three years of their lives into.

When they finally came to my office, Bill said something I have not forgotten: *"Mendel, this is super concerning. We have been growing twenty-five percent a year. Our margin is thirty-five percent — it should be healthy. We have barely added overhead. Where is the profit? We just cannot take out any money."*

He paused, and then the real question came: *"Do you think we should continue this business? If we cannot take money out, what are we doing this for? We are running a facility, hiring people, grinding every day — for what? If the business is not feeding our lives, why are we doing it?"*

Opening the Books

Before I joined them in that dark place, I needed to look at the actual numbers. Not because I was dismissing the emotion — I could feel it in the room — but because the most useful thing I could do for John and Bill was find out whether their fear was based in reality or whether the reality was something different and fixable.

I began reviewing the financials. Revenue growth — yes, it was real, exactly what they described. But the margin line was telling a different story. Where they believed they were running at thirty-five percent gross margin, the books showed **eighteen percent.**

I looked up. *"You are saying thirty-five percent. I am seeing eighteen."*

John looked at Bill slowly. *"You're the financial guy. You would know these numbers."*

Bill started scrolling. He logged into the system, tried to reconcile what he was seeing. Then they called in Rachel from the office — the person handling day-to-day bookkeeping. *"Rachel, what is our profit margin by customer?"*

Rachel's answer was the key to everything: *"I haven't been tracking that. I know the overall number — whenever a cost comes in, I put it in the account."*

There it was. Costs were being logged globally, not by product or by customer. The overall numbers looked reasonable at a high level. But underneath, there was no visibility into which products were actually profitable, which customers were worth the operational cost of serving, or how the margin profile of the business had shifted as growth added new complexity. Bill had been reviewing the books regularly. He had done exactly what he understood to be right. What no one had ever built into the system was the ability to see what the numbers actually *meant* at the level where decisions needed to be made.

The Three-Client Exercise

I needed them to see it for themselves rather than just accept my number. Telling Bill the margin was eighteen percent was not going to be enough. He needed to feel the evidence, not just hear the conclusion.

"Give me three clients," I said. *"We will walk through each one from start to finish. What did we order for them? What did we sell? What was the*

price? What was the cost?"

We built it in a simple Excel spreadsheet — no sophisticated tools, just the actual vendor invoices and the actual customer invoices laid side by side. As the numbers filled in, the room changed.

Bill went quiet for a moment. Then: *"Uh-oh."*

That was all. But it was enough. The numbers were not wrong for an accounting reason. They were eighteen percent because the business — the real business, not the one they had been carrying in their heads — had been running at eighteen percent for a long time. Salespeople had been quoting prices that did not reflect what it actually cost to fulfill those orders. Products that seemed profitable in the abstract were being sold at margins that barely covered overhead. The thirty-five percent existed only in the assumption that had never been tested against real data.

John looked at Bill. Then at me. *"Should we keep going?"*

Why You Should Keep Going

This was the moment that mattered most.

It would have been easy to nod sympathetically and let them draw their own conclusions. That was not what they needed. What they needed was someone to look at those same numbers with clear eyes and explain what they actually meant — not what the fear said they meant.

"Here is what I see," I said. *"I calculated eighteen percent on that spreadsheet in a few minutes. That means the problem is not the business. The business is not broken. It is not correctly priced. You have been running on the assumption of thirty-five percent margins without ever verifying that assumption against actual cost data. The company you thought you had — the healthy, growing garment manufacturer at thirty-five percent — that company can exist. It just needs one thing: you need to reprice. Get to the thirty-five percent you have always believed in and put it into practice."*

I kept going. *"This is not a failing business. This is a healthy business that has been running on the wrong data. The moment we fix the data and adjust the pricing, the business in your head becomes the business in reality."*

The shift in the room was visible. The despair had been built on a misreading — a terrifying one, but a misreading. The real problem was not existential. It was operational. And operational problems have solutions.

The Hard Twelve Months

Understanding the problem and fixing it are two different things. The fix required difficult decisions that both partners had to find the courage to make.

We brought in an outsourced CFO for a three-month project: map the cost of goods sold in detail, trace every cost category from purchase through production through shipment, and identify exactly which accounts were receiving allocations that did not reflect reality. Three months later, the picture was clear. True margins were averaging nineteen to twenty-two percent. The gap from thirty-five was almost entirely pricing — salespeople quoting at competitive rates without knowing what fulfillment actually cost.

Some of those salespeople had to be reassigned. Some accounts had to be repriced — and a handful of customers who could not accept the new pricing were allowed to leave. That is a painful thing to do when you have spent years building those relationships. But keeping an unprofitable customer is not loyalty. It is a slow drain on a business that deserves better.

Over the following twelve months, gross margin climbed from eighteen percent to thirty-two, thirty-three percent. Sales did not grow the way they had been growing — they had been growing into low-margin work, and that work was now being repriced or released. But profit grew by twelve percent. And for the first time, John and Bill could take money out of the business they had built.

When I sat down with them a year later for a review meeting, I opened by asking: *"Should we have shut down the business?"*

Bill smiled. *"This was a hell of a year. An emotional roller coaster. But we maxed it out in the ballpark."* Then he looked at me: *"Mendel, how did you have the guts to tell us to stay open?"*

"I was looking at the numbers," I said. *"I closed off the emotion and found the logic. I saw a healthy company. As long as you had the vision and the will, I was convinced the profit was real — it was just hidden behind pricing that had never been validated."*

The Tool That Makes Sure It Never Happens Again

Once the business stabilized, the most important question was: how do we make sure this never happens again? How do we build a system that catches problems early — in the quarter they emerge — rather than after they have done eighteen months of damage?

The answer was the **Quarterly Health Review.** And it is the most important tool I have built in my practice over the years.

Most manufacturers review their financials in the form of a P&L and a balance sheet. These are valuable. But they are not designed to give you the *pulse* of the business — the vital signs that tell you whether what is happening right now is healthy, whether a warning is forming before it becomes a crisis, or whether something that is working should be doubled down on immediately.

The Quarterly Health Review is built around KPIs and ratios rather than just income and balance sheet summaries. It compares period to period, not just current to budget. It shows trends and trajectories, not just snapshots. And critically, it speaks the language of a business owner, not just an accountant — its central question is always: *Where should I focus my attention right now?*

Metric	What It Reveals	Red Flag
Gross Margin %	Core profitability — how much of each revenue dollar you keep	Declining trend across two or more quarters
Days Sales Outstanding	How efficiently customers are paying you	Rising DSO — cash flow pressure is building
Days Inventory Outstanding	How long inventory sits before converting to revenue	Rising DIO — working capital is getting trapped
Days Payable Outstanding	How long you are holding payables to fund operations	Falling DPO — you are losing free working capital
Overhead as % of Revenue	Whether fixed costs are growing in proportion to revenue	Creeping upward — the overhead trap is forming

Metric	What It Reveals	Red Flag
Net Income as % of Revenue	Bottom-line health after all costs	Flat or declining while revenue grows
Revenue per Employee	Productivity and output efficiency	Falling — headcount growing faster than output
Debt Service Coverage Ratio	Your capacity to borrow and service debt	Below 1.25 — borrowing capacity is at risk

The quarterly review does not replace the P&L. It complements it. The P&L tells you the score. The Quarterly Health Review tells you the health of the team playing the game — and whether the trajectory is toward strength or toward a problem that has not yet shown up on the income statement.

How It Works in Practice

The discipline of the Quarterly Health Review comes from consistency. Books close on time every quarter. The review happens within ten days of close. We go through the numbers together and make a decision together: what is working that deserves more attention, and what is not working that needs to be addressed before it compounds?

The goal is not to produce a report. The goal is to make a call. Every quarter, you should walk out of that review knowing exactly where your attention needs to go over the next ninety days. That clarity is what turns financial information into action — and action into results.

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> *The quarterly health reviews we built are not just a P&L and a balance sheet. They have KPIs, ratios, and checks and balances to tell you: are you on the right path? Is there anything that needs attention right now? If something is working well, we want you to do more of it.*
>
> — Mendel Schapira, CPA

John and Bill went onto quarterly reviews from the point of stabilization. They were no longer flying blind. And more importantly, they were no longer discovering problems after eighteen months of damage — they were catching warning signs in the quarter they appeared, when a course correction was still straightforward.

THE DEEPER PURPOSE

The Quarterly Health Review is not just a monitoring tool. It is a *presentability* tool. When a bank, a strategic partner, or a potential buyer wants to understand your business, you should be able to pull the last four quarterly reviews and walk them through the trajectory in twenty minutes. That kind of readiness — consistent, documented, trend-visible — is exactly what bank-ready and exit-ready look like in practice. It turns *“we’re doing well”* from a feeling into a fact you can prove.

STEPS THREE, FOUR & FIVE

Growth, Tax Strategy, and Building for Exit

Adam's story: from stalling to scaling — financing, efficiency, and building something worth owning

Adam

Adam had been in the plastic bags business for nine years. His family had been in the trade before him, and he had grown up around the machines — not just using them, but understanding them at a level most people never reach.

He knew his equipment the way a master craftsman knows his tools: not just what they do, but how they feel when something is slightly off, what they are capable of when everything is right, and what it would take to make them better.

His wife Joanne handled the back office — bookkeeping, contracts, administrative support. Together they had built something solid. Not spectacular, but solid and real. The business worked. It had customers. It had a floor that ran.

The problem was that it had stopped growing. And in Adam's industry, standing still means falling behind.

"We need more sales," he told me when he came in. *"If I cannot increase output, I cannot compete for the bigger customers. And if I cannot compete for the bigger customers, I am out of the game. The business is drying up. I cannot stay where I am — in my space, standing still is the same as going backward."*

He had been thinking about his options for a while. Two paths seemed available: run an overnight shift with existing equipment, or hire more production employees during the day. He had done rough numbers on both. Neither looked great. He came to me hoping I could tell him which was the lesser devil.

A Question Worth Answering Carefully

The overnight shift had a complication Adam knew well. His equipment required a four-hour warm-up period after being shut down overnight. Four hours of full utility consumption with zero production — electricity burning to heat machines that would not make anything. If the machines ran continuously through the night, the warm-up cost disappeared. But now he needed overnight staff at time-and-a-half wages, a night manager, and all the operational overhead of a second shift.

The daytime hiring option avoided the overtime premium but kept the warm-up cost and added permanent full-time headcount to the payroll that he would be carrying even in slow periods.

We worked through both scenarios carefully. Utility cost per kilowatt-hour. Labor cost per hour of production. Effective cost per unit under each option. Adam had good data. But the more we analyzed, the more I noticed that we were trying to choose between two roads that both led to essentially the same destination: higher costs, more operational complexity, and only marginal improvements in unit economics.

I stopped and asked a question that changed the direction of the conversation: *"Who says these are the only two options? If what you actually want is more output — and what is standing in your way is the cost of getting there — why are we assuming the answer is people?"*

Adam looked at me. *"What do you mean?"*

"The new machines. The ones you've been reading about for the past two years."

His expression shifted — interest, immediately followed by dismissal. *"Too much money. I don't have the cash flow for that. That's not realistic. Let's just figure out which of these two is less bad."*

"Give me a moment," I said. *"Before we decide it is not realistic — let's separate the financing question from the performance question entirely. Forget, for now, how we pay for it. What would new machines actually do for this business?"*

The Hypothetical That Changed Everything

What happened next mattered more because of what it revealed about Adam than because of the math itself.

Adam already knew what the new machines could do. He had researched them. He had spec sheets. He had been thinking about them for years — they were, in his own words, his version of a dream. Better output per hour, lower utility consumption per unit, less manual labor required to operate, faster cycle times. He had always dismissed them as financially out of reach.

But as we worked through the hypothetical — setting aside the financing question for the moment, just modelling the operational and financial impact of the machines themselves — something changed. Adam stopped trying to choose between two bad options and started actually thinking about what

was possible. The numbers on the screen began to look like opportunity rather than obstacle.

The ROI analysis came together clearly. New machines would generate enough additional revenue and reduce enough operating costs — particularly in labor and utilities — that the investment would pay for itself within a projected twenty-four months. The question was no longer whether the machines made sense. The question was whether we could make the financing work.

"You happen to have clean books," I said. *"You have no existing debt on your balance sheet. You have been running a disciplined operation for nine years, and Joanne has kept everything in order. From a bank's perspective, you are a very straightforward case for equipment financing. Leave the presentation to us."*

Adam was quiet. *"I've been telling myself this was impossible for two years."*

"The machines were impossible. The financing is a different question."

He Won the Lottery

We built the presentation: the ROI schedule, the financial package, the narrative explaining why this specific equipment investment made operational and financial sense for this specific business. We presented it to the bank with the same discipline we bring to any financing engagement.

The bank approved the equipment financing.

When I called Adam with the news, he was quiet for a long moment. *"You're serious."*

He had genuinely not believed it was possible. In his mind, the machines had always been a wish list, not a plan. The approval felt, in his words, like winning the lottery.

What followed over the next year and a half transformed the business in ways that went well beyond the original projections. The new machines produced more per hour than the old ones while requiring fewer people to operate them. Headcount went from ninety-five production employees to forty-five. That is not a small number — those were fifty people whose jobs changed. Most of them found work at a new facility that had opened nearby, and Adam handled the transition thoughtfully. It was not without difficulty. But the alternative — a business that slowly lost competitiveness and

eventually could not survive — would have cost all ninety-five of those jobs, not half of them.

Sales increased by over thirty percent. Utility costs fell. The breakeven point Adam had projected at twenty-four months arrived in sixteen.

"We came into that meeting trying to choose between two options," he said later, *"and we couldn't figure out which was less bad. We left with a third option that was better than both of them combined."*

Step Three: Growth and Financing

Adam's story is a financing story, but it is also a preparation story. The bank said yes not because of charm or a compelling presentation in isolation. It said yes because the underlying financials were clean, the existing debt was zero, the cash flows were documented, and the ROI analysis was built on real cost data rather than estimates. The preparation that made the financing possible had been accumulating for years through disciplined bookkeeping and clean records.

This is what Step Three actually means: when your books are right (Step One) and your quarterly health is monitored (Step Two), you are ready to present yourself to capital sources in a way that produces a different outcome than Jack's first three bank visits.

What Banks Evaluate	What They Need to See
Repayment Capacity	Debt Service Coverage Ratio above 1.25 — demonstrable ability to generate cash to repay the loan
Collateral Quality	Clean AR that is not heavily concentrated or aged, inventory valued accurately, equipment with documented liquidation value
Balance Sheet Strength	Equity that reflects retained value, liabilities that are fully disclosed, working capital that is positive and improving
Financial Statement Quality	CPA-reviewed or audited statements carry significantly more weight than internally prepared books

What Banks Evaluate	What They Need to See
Management Credibility	Can you walk through your margins, your cash flow cycle, and your growth plan with confidence? Do your numbers tell a coherent story?

Notice that four of those five factors are entirely within your control. The only thing you cannot directly determine is the bank's ultimate decision. Everything else — the quality of your books, the strength of your balance sheet, the preparation of your presentation, your ability to speak to your own numbers — is yours to build.

ASSET-BASED LENDING: A TOOL MANY MANUFACTURERS OVERLOOK

For manufacturers with strong accounts receivable and inventory, asset-based lending (ABL) can unlock working capital that a traditional line of credit might not reach. An ABL facility advances a percentage of eligible AR — typically 80–85% — and inventory — typically 50% — as a revolving line tied directly to the collateral. For a growing manufacturer with 45 days of receivables and a full warehouse, this can free up significant cash without the same debt service coverage requirements as a term loan. If your traditional banking relationship has hit a ceiling, ask your CPA whether ABL makes sense as a complement or alternative.

Step Four: Tax Strategy

Adam's new machines did something beyond the production improvements. They opened tax planning opportunities that had not existed before — and that required a CPA who was paying attention to recognize and capture.

The equipment qualified for **Research and Development tax credits.** Many manufacturers do not realize they are eligible for R&D credits because they associate the credit with laboratories and technology companies. In reality, qualifying activities include developing new products, improving existing production processes, testing new materials and methods, and refining manufacturing techniques — things Adam's business had been

doing routinely for years without ever capturing the credit.

The new equipment also qualified for **accelerated depreciation** under Section 179 and bonus depreciation provisions, allowing a significant portion of the cost to be deducted in the year of purchase rather than spread over the equipment's useful life. The result: in the year the machines came online, Adam's taxable income was substantially reduced even as his actual profitability improved significantly.

Tax Strategy	How It Works	Who Benefits Most
R&D Tax Credit	Dollar-for-dollar credit for qualifying research activities and related expenditures	Manufacturers developing or improving products, processes, or techniques
Section 179	Immediate expensing of qualifying equipment purchases up to the annual limit	Any manufacturer purchasing production equipment in a given year
Bonus Depreciation	Accelerated first-year deduction on qualifying property placed in service	Capital-intensive manufacturers making significant equipment investments
Cost Segregation	Identifies and accelerates depreciation on components of real property	Manufacturers who own their production facility
Entity Structure Review	Ensures the business structure minimizes pass-through and owner-level taxation	Any manufacturer paying significant owner distributions annually

The goal of tax strategy is simple: pay less to Uncle Sam without upsetting him. Every dollar saved in legitimate, properly documented tax strategy is a dollar that stays in the business — to fund growth, retire debt faster, or build the retained earnings that strengthen the balance sheet and, by extension, the borrowing capacity.

Tax strategy only makes sense at Step Four — *after* the books are accurate and the profitability is real and visible. Optimizing taxes on a financial picture that is not accurately stated means optimizing a fiction. Get

the foundation right first. Then optimize what is actually there.

Step Five: Build for Exit

Adam's business, three years after the machine upgrade, looked fundamentally different from what it had been the day he walked into my office wondering which bad option was less bad.

Not just in the numbers — in the structure. The business now produced more with fewer people. It had documented cost data, clean books, a quarterly health review that tracked the vital signs, a banking relationship built on demonstrated credibility, and a tax strategy that was being actively executed. It had gone from depending on ninety-five people to run machines that were aging and inefficient, to being driven by well-specified, modern equipment that required a fraction of the manual labor.

That is a very different business to own. And it is a very different business to buy.

Building for exit does not mean planning to sell. It means asking a harder question: *if someone else were going to run this business tomorrow, could they?* If the answer is yes — if the systems are documented, the pricing is rational and based on real data, the financials are trustworthy, and the revenue does not depend entirely on the owner's personal relationships and presence — then what exists is an **asset**, not just a job.

The characteristics that make a manufacturing business exit-ready are the same characteristics that make it bank-ready, partner-ready, and worth owning in the deepest sense:

- **Low owner-concentration risk.** The business can generate revenue and operate without you personally driving every decision and relationship.
- **Clean, consistently prepared financials.** Three years of well-structured, CPA-reviewed statements that tell a coherent story about trajectory and financial health.
- **Diversified customer base.** No single customer represents more than twenty to twenty-five percent of revenue — concentration is the single largest discount factor in any acquisition valuation.
- **Documented processes.** Pricing methodology, production workflows, cost structures, and key supplier and customer relationships are written

down, not stored exclusively in the owner's head.

- **Forward-looking financial metrics.** A business that can explain not just where it has been but where it is heading and why — with data to support the narrative.

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> *Whether you ever sell or not, this is the real measure of how well you have built it. A business that someone else would want to buy is a business that is working the way it should — for you, for your family, and for whatever comes next.*
>
> — Mendel Schapira, CPA

Adam's transformation started with a question about overnight shifts and ended with a business that was leaner, more profitable, better financed, more tax-efficient, and structurally stronger than anything he had imagined three years earlier. Not because there was a single brilliant insight or a lucky break — but because we worked through the right steps, in the right sequence, with the discipline to follow through on each one before moving to the next.

That is what the five steps look like when they come together in a real business.

CHAPTER SIX

The 12-Month Roadmap

A practical, sequenced plan for building the financial infrastructure your business deserves

The five steps are the destination. The twelve-month roadmap is how you get there.

The sequence matters. Some things cannot be built until others are in place. Trying to access capital before the books are clean will produce the same result Jack got from his first three bank visits. Trying to build a Quarterly Health Review before the underlying cost data is accurate will produce a well-formatted report built on wrong numbers. The roadmap is designed to create meaningful wins in the first ninety days, build the core systems in the middle quarters, and put you in a position of genuine financial strength by month twelve.

MONTHS 1–3 THE FOUNDATION: SEE YOUR BUSINESS CLEARLY

- [ ] Pull the last twelve months of income statements and balance sheets and calculate your actual gross margin — not estimated, actual, with full overhead allocation
- [ ] Reconcile your accounting system against your inventory system, AR records, and bank statements — close every gap
- [ ] Build or update a Bill of Materials for your top five products, including current material costs, loaded labor rates, and overhead allocation
- [ ] Calculate your manufacturing overhead rate and identify any overhead costs sitting in G&A that belong in COGS
- [ ] Calculate your Cash Conversion Cycle: Days Inventory Outstanding + Days Sales Outstanding − Days Payable Outstanding
- [ ] Run a Debt Service Coverage Ratio calculation to understand your current borrowing capacity
- [ ] Identify your top five products by revenue and calculate true gross margin on each one

MONTHS 4–6 THE SYSTEMS BUILD: PUT INFRASTRUCTURE IN PLACE

- [ ] Launch your first Quarterly Health Review: establish the KPI dashboard, run the first complete report, review it with your accountant or CFO
- [ ] Conduct a pricing review across all products using the new true cost data — identify everything priced below your minimum acceptable margin
- [ ] Set AR targets and implement a 30-60-90 day collections protocol to tighten Days Sales Outstanding
- [ ] Set inventory targets and implement min/max levels to reduce Days Inventory Outstanding and free trapped working capital
- [ ] Review your accounting software — whether QuickBooks, Sage, NetSuite, Odoo, or another platform — to confirm it is configured to capture the cost data you now know you need
- [ ] Upgrade to CPA-reviewed financial statements if you have not already done so
- [ ] Build a thirteen-week rolling cash flow forecast and update it every Monday morning

MONTHS 7–9 THE GROWTH PLATFORM: ACCESS CAPITAL AND OPTIMIZE TAX

- [ ] Proactively meet with your banker — do not wait for a loan application to start the relationship; present your clean books and tell your financial story
- [ ] If your current bank is not manufacturing-focused, research and approach two alternative lenders
- [ ] Understand your borrowing capacity under traditional term structures, equipment financing, and asset-based lending
- [ ] Begin a tax strategy review with your CPA: R&D credits, Section 179 opportunities, depreciation elections, and entity structure
- [ ] Build a written business narrative — who you are, what you make, who your customers are, what your margins are, and what your growth plan looks like
- [ ] Run your second Quarterly Health Review and compare the trajectory to the first — what improved and why?

MONTHS 10–12 EXIT READINESS: BUILD SOMETHING WORTH OWNING

- ☐ Complete a full annual review of all cost structures and update Bills of Materials for all products
- ☐ Conduct an annual pricing review and adjust based on current material costs, labor rates, and overhead
- ☐ Review customer concentration: if any single customer exceeds twenty-five percent of revenue, develop a plan to diversify over the next twelve months
- ☐ Document your core processes — pricing methodology, production workflows, billing and collections, key supplier relationships — so the business does not depend on any one person's memory
- ☐ Set measurable targets for the next twelve months: margin targets, working capital goals, revenue quality objectives
- ☐ Ask the exit question honestly: if a serious buyer reviewed this business today, what would they find, and what would they want changed?

The Manufacturing KPI Dashboard

By month six, you should have a KPI dashboard that is reviewed every quarter, without exception. These are the ten metrics that matter most for a $2M–$50M manufacturer building toward bank-readiness and exit-readiness:

KPI	Why It Matters	Target Direction
Gross Margin % (overall)	Core profitability engine — everything starts here	Stable or improving
Gross Margin % by product line	Reveals which products are profitable and which are not	Know your floor; eliminate below-floor products

KPI	Why It Matters	Target Direction
Days Sales Outstanding	AR efficiency and cash conversion speed	Below 45 days for most manufacturers
Days Inventory Outstanding	Working capital tied up in inventory	Industry-specific — trend matters most
Overhead as % of Revenue	Monitors overhead creep before it becomes a margin problem	Stable or declining
Debt Service Coverage Ratio	Borrowing capacity — your banking health metric	Above 1.25 at all times
Revenue per Employee	Productivity and output per dollar of payroll	Stable or improving
Net Profit Margin	Bottom-line business health after all costs	Consistent with industry benchmarks
Cash Conversion Cycle	Overall working capital efficiency	Shorter is better; trend is the signal
Customer Concentration (top 3)	Dependency and exit-readiness risk	No single customer above 25% of revenue

WHAT CHANGES AT MONTH 12

By the end of twelve months, the goal is not just to have better numbers. The goal is a fundamentally different relationship with your business. You close the books by the tenth of every month. You review a complete health picture every quarter. You can walk a banker through your financials without hesitation. You make pricing decisions based on real cost data, not memory and habit. You have a tax strategy that is being executed, not just discussed once a year at tax time. You see cash crunches forming in advance and respond to them, rather than reacting when the account is already tight. **That shift — from reactive to proactive, from guessing to knowing — is what this work produces.** And it compounds over time in ways that are difficult to fully anticipate when you are starting.

CONCLUSION

Your Machines Are Perfect. Your Numbers Should Be Too.

Jack went back to the bank with clean, reconciled books and a presentation built in the language lenders actually use. He got the line of credit. He stocked his warehouse the way he had always planned. He stopped running out of product at peak season. Net income grew by ten percent in the following year — not because the business changed, but because the financial infrastructure finally matched what had been built.

John and Bill sat across from me twelve months after the conversation where they had considered shutting down, and told me it had been a hell of a year — an emotional roller coaster — but they had maxed it out in the ballpark. Margins were where they had always should have been. They were taking money out of the business. They were running a company, not a treadmill.

Adam called it winning the lottery. But it was not luck. It was clean books, a solid financial track record, a credible presentation, and a willingness to separate the financing question from the performance question long enough to see what was actually possible. The machines he had been dreaming about for two years were running on his floor. Fifty fewer employees. Thirty percent more output. Taxes meaningfully lower. A business that had gone from stalling to scaling — and that now thought in terms of what to finance next, not whether to survive.

Three different businesses. Three different problems. **One consistent pattern beneath all of them:** the gap between the business the owner had built in their mind and the business that existed on paper. Once that gap closed — once the financials started telling the same story as the reality — everything else became possible.

The Core of It

Revenue is not profit. The gap between the two is where your business wins or loses. Gross margin matters — but only if it is calculated correctly, with full overhead allocation, at the product level rather than blended across the whole. Cash flow and profit are different things. You can be profitable and broke, and if you do not understand the mechanics of why, you cannot fix it. Your balance sheet tells a story to everyone who reads it. *It is your responsibility to make sure it is telling the right one.*

The five steps are not five separate projects. They are a sequence that builds on itself. Get the books right. Build the health review. Access capital

credibly. Execute the tax strategy. Build for exit. Each step depends on the one before it. Together, they describe a business that is visible, credible, fundable, and genuinely valuable.

The philosophy underneath all of it is **Build a Business Others Want to Buy.** Not because you have to sell. Because that standard — the standard a serious buyer would hold your business to, the standard a sophisticated lender applies, the standard that your own clarity requires — is the right standard for any business worth building. A business held to that standard does not just perform better financially. It is less stressful to run. It is more enjoyable to own. It gives you options you simply do not have when the financials are a fog.

You built this business. You survived the hard parts — the slow seasons, the difficult customers, the equipment problems, the cash crunches, the moments of doubt. You did that with intelligence, grit, and an enormous tolerance for uncertainty.

The financial clarity work in this book is one more problem to solve. *And I promise you: it is more solvable than most of what you have already overcome.*

• • •

Your machines are precise.
Your floor runs on discipline and data.
Your numbers should too.

Let's get to work.

ABOUT THE AUTHOR

Mendel Schapira, CPA

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Mendel Schapira is the founder of Schapira CPA, a Brooklyn-based accounting firm exclusively focused on manufacturers in the $2M–$50M revenue range. With years of experience working alongside manufacturing business owners, Mendel has developed deep expertise in the financial challenges unique to this sector: cost accounting, working capital management, banking relationships, tax strategy, and the financial infrastructure that supports profitable growth.

Mendel's approach is built on a conviction that financial clarity is not a luxury reserved for large companies. It is the foundation of every successful manufacturing business at every size. When manufacturers can see their numbers clearly, they make better decisions. When they make better decisions consistently, they build something worth owning — and worth buying.

He works with manufacturers across industries — helping them close the gap between their operational excellence and their financial infrastructure, so that the business on paper finally matches the business they have built in practice.

Schapira CPA serves manufacturers across the New York area and beyond. Services include outsourced CFO advisory, quarterly health reviews, cost accounting implementation, banking preparation and presentation, tax strategy (including R&D credits and depreciation planning), and M&A advisory.

To learn more or to explore whether we are the right fit for your business, visit **schapiracpa.com** or call **(212) 380-6309**.

Ready to Manufacture Real Profit?

Book a free 45-minute strategy call with Mendel Schapira, CPA.

In this call, we will:

Review your current financial infrastructure and identify the biggest gaps

Pinpoint exactly where your profit is leaking — and what is causing it

Map a clear, actionable path toward financial clarity for your specific business

Answer your questions about cost accounting, cash flow, banking readiness, and tax strategy

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