



LM OUTLOOK 2006:

onward + upward

Our annual report on
industry trends + prospects
for the coming year

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Longtime business consultant Kevin Kehoe dissects Green Industry companies' numbers to determine what makes some more profitable than others. Then he offers strategies to lift companies to "high-profit" operations. *LM* asked Kehoe to spot business trends heading into 2006. Here's what he had to say:



of H-2B personnel, (2) increases in higher-paying construction jobs stealing jobs from landscaping, (3) relatively low-level management pay and (4) lack of visibility of the landscaping industry in the general labor market. Contractors can expect to incur greater recruiting costs 'just to get their fair share of talent,' and increased training and compensation costs to retain talent."

PRICING DECLINES SLOWING

"Steep year-to-year pricing level declines are slowing and flattening. That's the good news," Kehoe says. "The bad news is that there isn't much upside for increasing prices, although there will be some room to 'sell' quality. High-profit contractors aren't counting on price increases to improve profits; they're reducing costs and refining their pricing models."

COST CUTTING ACCELERATES

"The cost of fleet / equipment continues to rise substantially. Just five years ago it averaged 10% of sales," Kehoe says. "Today for many companies it surpasses 15% because of higher fuel costs, higher interest rates on capital assets and an inexperienced labor pool that is essentially untrained in equipment use."

High-profit contractors are reducing these costs by investing in equipment training, standardizing machines and parts, conducting disciplined preventive maintenance programs, opening satellite offices to reduce drive times / distances and reworking customer lists to tighten up geographic reach and route densities."

LABOR PICTURE NOT PRETTY

"Demand for reliable labor and management will continue to increase, even as the supply continues to decrease," Kehoe predicts. "In many markets average wage rates have increased 10% to 15%. This means that a \$12 / hr. foreman is now getting paid \$13.50 to \$14 per hour."

In addition, many key management positions are remaining open for more than six months," he says. "This situation is unlikely to change in the short term. The reasons include (1) shortages/timing

THE WORD IS "SYSTEMS"

"The shortage of management talent is slowing the growth of many companies at the same time opportunities for new sales are increasing," Kehoe says. "The trend in high-profit companies is to replace some of the need for management with more effective systems. For example, strong systems that help account managers become more efficient are expanding an account manager's book of business from \$800,000 per year to \$1.2 million per year, thereby reducing the number of account managers necessary to handle growth."

In the design/build segment of the market, sales/design/project management systems can increase revenue produced by as much as 20% for the same number of people on staff. Companies that practice lean management are standardizing work, reducing mistakes and increasing the productive time of managers." (See sidebar on lean management on p. 14).

CALLBACKS, WARRANTIES SCRUTINIZED

"The cost of quality (callbacks and warranties) can cost a contractor 2% to 4% of sales," Kehoe says. "In a time when all other costs are increasing out of the contractor's control, this is one cost that they can reduce substantially. The trend in high-profit companies is to design quality into the job up front to prevent quality problems during the job. For example, high-profit design/build companies increase the thoroughness of the design and pre-con processes. High-profit grounds maintenance companies spend more time on the sales and contracting processes to clarify specifications and expectations."