



10 keys to profit in 2004

**Here's your plan
for joining the
Green Industry's
highest profit
operations**

BY KEVIN KEHOE

What will 2004 bring for your company? For many in the Green Industry, 2003 was a good but trying year. A hard winter in many parts of the country delayed the spring start-up, and above average rainfalls hampered production schedules throughout the spring and summer. Almost makes you wish for the weather we had in 2000-2001, doesn't it?

On top of the weather, there was tremendous pricing pressure in the bid/build and grounds maintenance segments, reducing net operating margins in bid/build construction to 3% to 4% of sales and 6% to 7% in grounds maintenance. The one sector that stands out in terms of net margins is the high-end residential design/build segment. Margins in this segment ranged from 10% to 14% of sales.

Whatever 2004 brings in terms of weather and competition, your focus should be on your business. Worrying about the weather and the competition will take you off your primary task — assessing where you can get margin improvement in 2004. Since winter is a good time to assess operational performance and to strategize for the upcoming year, there are 10 areas where profits can be increased. These areas were identified in our research this year and our direct work with contractors in the industry.

1 Get your numbers right. Managers need accurate information to make business decisions. This starts with using the right chart of accounts and accounting processes. The "ALCA Cost Study" and our Industry Benchmark Study are examples of the right way to account for a landscape business. In many situations,



the entry and coding of time and expenses isn't aligned with the decision-making needs of a contracting business for two reasons: first, a succession of office managers and accountants have coded items the way they

thought best, resulting in large year-to-year inconsistencies in financial reporting.

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Second, no chart of accounts description exists to direct office managers and accountants in the proper methods of data entry. Check to make sure your accounting is up to date.

2 Know your costs and key ratios. Once you have the right numbers in your accounting system, you need to use key ratios to target operational strengths and weaknesses. Examples of key ratios include labor utilization rates, overtime hour rates, labor realize rates, gross and contribution rates, asset turnover rates and the return on asset rate. These ratios should be reported monthly and compared to budget and prior year numbers. This type of financial management scorecard report is essential to heading off operational problems early in the year. Using the P&L statement as the scorecard is good for budget-to-actual comparisons but lousy for predicting problems. The scorecard that uses all the ratios mentioned above allows you to address problems that often don't show up on the P&L until it's too late in the season. This year, put together your scorecard and compare it to high profit companies to isolate your profit opportunities.

3 Charge the right price. There's practically no way to make a profit if (1) your pricing model is "under-recovering" your costs, and (2) you haven't separated your financial pricing process from your selling process. To resolve these profit reducing problems, the first step is to develop a basic per hour labor rate using your costs and the ratios such as labor utilization rates, overtime hour rates, labor realize rates and gross and contribution rates. The second step is to incorporate the hourly labor rate into an esti-

imating model that uses tasks to determine labor hours. The third step is to develop standards for the top 20% of your most common tasks to speed up the bidding process. The fourth step is to remove sales staff access to the standards so they can't mess with them in the bidding process. It's important to get the right price before you determine the sales prices. Turn estimating into a financial function this year, not a sales function.

4 Lose low-profit jobs and accounts. It's the customer who ultimately decides if the price is right. However, you must decide which customers are the best customers for your business. Many companies have a "loser percentage" that's just too high to support profit growth. Use an 80/20/30 analysis to identify key accounts and relationships, as well as losers. Once the losers are identified, you can rotate out of the bottom 30% of low-profit customers. These "losers" drain profits and cloud your marketing focus, forcing you away from a niche you may need production scheduling time to pursue. The easiest way to rotate out of these customers is to raise your price and target an increased average job size. It takes courage to raise prices and lose customers, but you had better have this strategy on your radar screen if you want to improve the bottom line this year.



you're unable to bill for the work. Couldn't you just kick yourself? Contract management of all "out of scope" or "additional requests" must be managed by the

account/project manager and reviewed by administration to assure proper approvals and billing. Phantom billings are a big place where profits disappear. Resolve this year to set up a system to approve work before it gets on the schedule, and to set up a system to recognize and review revenue weekly. Reviewing revenue at the end of the month is too late. People have forgotten the information by then, and the customer is less likely to pay when you come back to them 45 days later with the bill.

6 Keep your best customers. The key to revenue and profit growth is loyal customers. The key to loyalty is low levels of dissatisfaction. Research indicates that in commodity industries such as commercial grounds maintenance, minimizing dissatisfaction is critical. Why? When your competitors call on your customers, they'll need to offer at least a 25% better price to get the business when the customer isn't dissatisfied. If your customer is dissatisfied, (1) you may not know about it, and (2) just a 10% price reduction could take them away. Providing a low enough price is always important in getting new business, but it's never the key to retention. Retain customers by developing and monitoring minimum job quality and responsiveness standards. Measure these standards using a simple survey device. Almost any customer will be dissatisfied with some part of your service and open to running off with a lower price offer. But why give them the opening? Sure, you may see them again when they become dissatisfied with the new vendor and change again — which usually happens within 18 months. But why lose 18 months of billing when you can prevent it? Make certain you establish these standards with your key accounts this year, and monitor the levels of dissatisfaction.

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7 Be firm on standards and policy. The Marines succeed for a simple reason — discipline. All Marines must comply with a simple set of standards, or they find themselves out of the program. The most profitable companies in the industry are tough on standards and fair with people. The simplest standards are policies for attendance, uniforms, safety, equipment use and reporting time. The consequence for failure to comply with the standards must be consistent and apply to everyone. The consequences are (1) corrective verbal coaching, (2) written warning to file, (3) suspension and (4) termination if the employee makes no change. Foster discipline within your team to build profits. A disciplined team wastes fewer hours and costs less money to maintain. Resolve this year to publish and communicate these standards — and hold people accountable to them.

8 Manage by systems. Build one new system this year. The key to prospering in a marketplace where price is declining is cost containment and reduction. In a contracting business, the primary place to achieve cost reduction is staffing. Systems must replace some staffing, allowing you to do the same level of business with fewer FTEs (full-time equivalents). Your billing system is the place to start. Since everything flows to billing, you'll have the greatest immediate impact here. From the billing system it's a natural sequence of improvements that lead to your project management, purchasing, contracting and selling systems. When building a system, document and capture at least these key elements: (1) a responsible person, (2) an information input form



(e.g. time card, purchase order), and (3) a management report (e.g. job cost summary, payroll summary). The best way to achieve profitability and true teamwork is through the efficiencies and accountabilities created by a system. Start this year and commit to driving out 2% of your indirect and administrative cost. This will give you the ability to drop prices when you need to respond to the competition.

9 Keep score. You won't get maximum productivity and efficiency out of a staff that doesn't understand at least some of the numbers. Keep score and share the results to increase your team's focus. The four scorekeeping areas that matter most are: (1) Investment — Monitor equipment turnover rates and return on assets semi-annually; (2) Financial — Monitor sales volume and gross profit monthly; (3) Operations — Monitor labor utilization and realization rates weekly; and (4) Production — Monitor quality and safety daily. In order to achieve productivity increases, your staff needs to understand the connection between the decisions they

make and the impact on the scorecard. A good place to start is a team meeting to play the money game. Start out by giving a foreman 100 one-dollar bills, then walk through the P&L having him/her "dish out" the money. This

gets people's attention and shows them where they make a difference. Set up a system of information sharing this year, and don't let it fall apart during the busy season — the time when you most need to use the scorecard.

10 Pay for performance. "Pay-for-performance" systems do work, but they rarely lead the charge to profit improvement. However, they can be an inte-

gral part of a profit improvement strategy along with the implementation of some of the strategies previously mentioned. Keep the pay-for-performance system you select simple. Base the system for managers on a number like hard gross profit dollars. For field employees, the system needs to be based on a realize rate per hour and quality audits. These kinds of measurements are wholly within the control of each of these groups. Pay out the manager program semiannually. The foremen program, however, needs to be paid out monthly. Performance pay should be based on a simple percentage markup on an employee's annual base wage. The payout should incrementally increase as the performance score increases, starting at a low of 5% for just meeting goals to a high of 15% for exceeding goals by some percentage. Of course, every bonus system must be checked and integrated into the budget to be certain your company is achieving a minimum net profit before any money gets paid out. Paying for performance can keep the game interesting for the whole season.

What's your plan for 2004? That depends on which of these strategies addresses your weaker operational processes. Take the time to assess this and develop a game plan for the year. My recommendation is to pick two items and work hard on them. Trying to work on four only causes burnout and loss of focus early in the season. Selecting only two strategies this year will help you create a clear vision for improvement. It will also help you realize that change is hard, and the first priority of any employee is completing his/her day-to-day work. **L.M.**

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