

The best-in-class benchmark establishes a kind of gold standard that is attainable for the majority of companies in the industry.



Welcome to benchmarking

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A best-in-class company is defined as the benchmark – the top 5% of all companies in an industry. This new column will discuss the performance and practices of best-in-class companies – what they do and how they do it.

We will define best-in-class performance in terms of financial results for labor, overhead, equipment, and profit and loss percentages.

We segment best-in-class companies into Design/Build, Landscape Construction and Maintenance. The table below highlights the P&L benchmarks for these segments. It establishes a gold standard attainable for most landscape firms.

Benchmarks are points of comparison. They: (1) assess operating strengths and weaknesses (2) budget and set objectives (3) establish the basis for a business valuation.

1 Assess operating strengths and weaknesses to identify sources of profit leakage: Conduct a line-by-line comparison of your numbers with the best-in-class numbers. Identify the variances to see shortcomings. Use my chart of accounts (www.kehoe.biz/greenresearch.htm), as a guideline.

2 Budget and set objectives to close the leaks: You must project a pro forma budget based on the benchmark ratios and percentages, and find ways to live within that revenue and cost budget. This process forces hard decision making.

3 Establish a basis for business valuation to maximize your return on investment: The value of your business is based on profits and a multiple of these profits. Increasing profits and this multiple are critical. You will always have greater impact on the value of your business by increasing the multiple. This means you need to execute a few critical strategies versus a long list of trivial tactics to drive up this multiple.

Use the benchmarks as a starting point to focus your team on doing the things that matter. All the rest is noise and distraction.

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BEST-IN-CLASS COMPANIES

| | Design Build | Maintenance | Construction |
|------------------------|-----------------|-----------------|-----------------|
| Revenue | \$9,237,736 | \$6,078,608 | \$11,073,197 |
| Material | 2,106,790 [23%] | 488,292 [8%] | 3,647,486 [33%] |
| Labor | 1,716,650 [19%] | 2,105,445 [35%] | 2,041,531 [18%] |
| Subs | 1,225,443 [13%] | 388,554 [6%] | 1,275,848 [12%] |
| = Total Direct | 5,048,883 [55%] | 2,982,291 [49%] | 6,964,865 [63%] |
| Gross Profit | 4,188,853 [45%] | 3,096,317 [51%] | 4,108,332 [37%] |
| – Indirect Cost | 1,090,209 [12%] | 1,078,653 [18%] | 1,158,929 [10%] |
| – G&A Cost | 1,761,551 [19%] | 1,026,908 [17%] | 1,574,757 [14%] |
| = Net Profit | 1,337,093 [14%] | 990,756 [16%] | 1,374,646 [12%] |

The above figures represent the best-in-class companies responding to Landscape Management's 2007 Benchmarking Survey. These are the 2006 numbers by category of each individual gold standard company.