

BENCHMARKING FOR SUCCESS

It's important to know where you are before you know where you want to go.

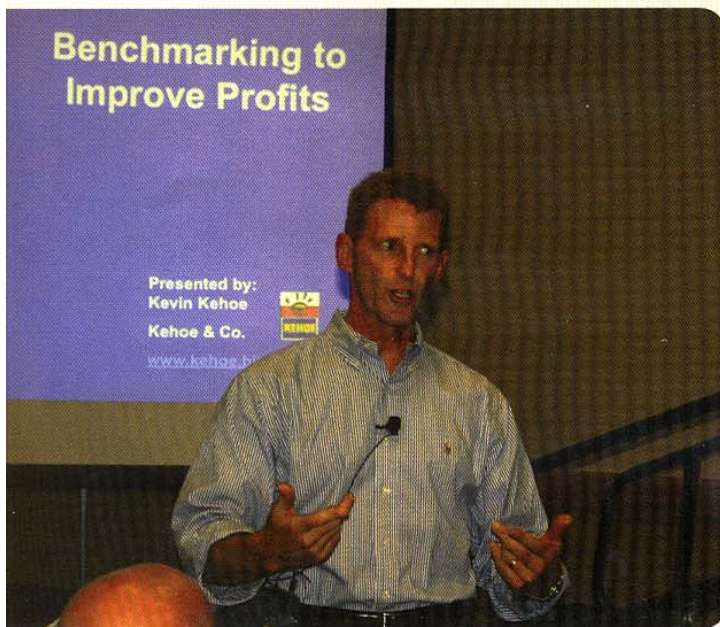
When putting a value on your landscape contracting or lawn maintenance business, ignore those shiny new skid-steers and zero-turn mowers.

Buyers really don't care about your equipment or the value of real estate, for that matter. "What people are really buying is a well-managed company," says Kevin Kehoe, whose Laguna Niguel, Calif.-based business Kehoe & Co. helps landscape company owners benchmark their businesses. Kehoe addressed "Benchmarking to Improve Profits" during the first of PLANET's educational seminars Wednesday morning.

But before trying to benchmark a business, it helps to know what a benchmark is. A woman once had asked Kehoe for a definition. He asked her who she thought was the best-looking man in the world. Her answer: Country star Keith Urban. "Then you compare all other men in the world to Keith Urban," Kehoe says. That was easy enough for her to understand. "That was her benchmark – Keith Urban."

Business owners must benchmark for perspective. "You are trying to get a sense of where you are in regard to that standard," Kehoe says. The purpose is not for business owners to beat themselves up, but to find out where they want to direct their operations.

One of the most important calculations business owners make is the exit valuation – the value of the company to a potential buyer. It's calculated through quality of earnings, multiplied against a multiple, which is determined by what someone's willing to pay for a business. It's not unlike buying a home when real estate agents use comps: what's the value of other homes in the neighborhood, Kehoe says.



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There are plenty of things that can determine what the multiple is including the quality of the company, supply and demand and how many sellers and buyers are in the marketplace. "There's tons of money in the market right now chasing down a few deals," Kehoe says. "You've probably gotten letters in the mail looking to buy your business. It's because they see potential. They see a way to make money."

Multiples for landscape companies right now are between 2 and 7, Kehoe says. The more landscape construction a company does, the lower the multiple. The more lawn maintenance, the higher the multiple becomes. With maintenance, business owners are buying future earnings potential. Those properties have to continually be maintained, which creates a stream of income and correlates to a higher multiple. For construction, once the project is finished, it's time to move onto the next project and no future earnings are derived from that project.

There's a simple reason for benchmarking a business – the idea is that one day contractors will want to sell the business. The better job owners do of benchmarking, the more money they'll receive from a sale. But benchmarking and staying on track with goals can be difficult when "noise" gets in the way, Kehoe says. If an employee gets into an accident with a truck, what do business owners immediately want to do? "Go back to the office and create a bunch of policies regarding vehicle and safety," Kehoe says. "Managers spend too much time mired down in the detail and not enough time actually running the business." ☘