Payday for the owner

BY RON HALL / EDITOR-IN-CHIEF

A few years ago a friend put his tight little lawn care company on auto pilot and treated himself to a brand-new Mercedes. This talented entrepreneur looked the picture of entrepreneurial success cruising the tree-lined streets of his neighborhood in his big, black sedan. He was paying himself fat and living large.

The next time we got together, maybe a season or two later, the Mercedes was gone, my friend’s business was on the skids and his ego had taken a noticeable hit. On the plus side, he was looking tan and trim, his firm’s production again being forced to do some of his work himself.

As much as I can take out,” said one, half seriously, it seemed. “Whatever is left over,” said another.

Then we recalled notes that we’d taken at industry consultant Kevin Kehoe’s talk at the 2001 ALCA Conference. Kehoe said that a person running a $1 million operation could reasonably pay himself/herself $60,000 — about $20 an hour for a 60-hour workweek (LM’s ‘01 State of the Industry survey says that owners work, on average, 56 hours a week).

Jerry Gaeta, another respected consultant and landscape business owner, feels that an owner’s salary and that of the office staff, sales or production person combined should fall between 8% to 12% of sales.

Obviously, the owner of a small company that’s grossing, say, $300,000 a year or less, is probably running the whole show — sales, management, perhaps even production — and can reasonably pay himself/herself what he/she would pay someone else to do these things. But, not more.

The company owner also strives to make his/her operation as efficient and profitable as possible, not only to build the company’s value to clients but to return dividends (not necessarily a higher salary) to the owner at year’s end.

“Some owners don’t understand that they’re supposed to have net profit at the end of the year,” says Gaeta. “That’s their money too.”

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This leads us to the question: How much should an owner give himself/herself in salary?

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