3. Understand price vs. cost

Too often, price and cost are used interchangeably and in error. Price is what we pay in dollars to acquire a product or service. Cost takes into consideration all the factors that add up to return on investment. We can spend a varying number of dollars on similar types of products, but real costs have a wide variation depending on the benefits we receive in terms of life, economy and quality of performance.

Ease of installation and frequency of service, labor required and safety are only a few of the considerations in determining cost. In essence, if we are to justify the high initial price of a product, we will have to do so on the basis of its cost.

4. Balance inventory vs. downtime

Anything that can be done to reduce the spare parts inventory without sacrificing equipment availability reduces your costs. However, as equipment availability increases, inventory costs rise sharply. If a large inventory is aimed at having many vehicles available, cost reductions just won’t happen (although downtime costs drop and maintenance and labor costs remain about the same).

Parts should be replaced in inventory to minimize equipment downtime. Because of the cost of warehousing and maintaining our inventory, the best theoretical policy would be no inventory at all. But this is unrealistic because we know we can’t get parts instantly.

5. Buy wisely

There are several categories of discounts available to fleets. Most owner/operators don’t know what sort of discount they can reasonably hope for or how favorable each one is.

Fleet — This is the best price small operators can obtain with no inventory. It usually runs 5% off walk-in prices.

Jobber — If you are going to stock some inventory, this category will give you 15% off.

Distributor — This price is 25% to 35% off counter, but will constitute a $2,500 to $3,000 monthly purchase of inventory.

Manufacturer — Purchase from the manufacturer usually is only possible when it is a fairly small company, but the manufacturer can offer 50% to 75% savings. This would be vehicle parts only. Small equipment manufacturers’ parts usually will be higher than aftermarket suppliers.

6. Control your inventory

All inventories need some type of control system. The simplest system would be to restock when the bin is empty. This system works poorly because it leaves you without parts when you most need them.

Establish an economical quantity that works for your operations. This will reduce the cost of purchase-order transactions, while also leaving you with inventory.

7. Understand volume

Look at the item cost vs. the inventory volume. Fast-moving items will account for 65% of your inventory. This is where you should concentrate your purchases and management to reduce downtime or out-of-service units (which are often caused by inexpensive parts).

Although oil filters and lubricants are not considered parts inventory, they are part of the purchased inventory and vital to your truck and equipment operation. It is these items that will give you purchasing power at a warehouse distributor and allow you to start price negotiations to reduce your cost on all items purchased there.

Mark Neidich is fleet manager at Groundmasters, Cincinnati, OH, where he is responsible for 45 trucks and 400 pieces of equipment.
Is your service mix costing you money?

Add-ons can mean added expenses, not just added profits. If your services aren’t up to snuff, use careful analysis to find out why

By ED, TODD AND AARON WANDTKE

You operate Mixed Mowing & Maintenance Company, and you know something isn’t right. Although you’ve added new services, it hasn’t worked out as you hoped. You’re not alone. Many firms have expanded their service mix, but not all have found this means better profitability.

It’s time to do some serious analysis to help you decide if you need to drop the unprofitable services. How can you determine if your service mix is delivering enough profitability? What can you do to return your business to the profitability it had before? If labor is tight, should you keep the current service mix?

We used a sample profit and loss statement for a company that we consulted with previously. It may be like your operation. Here are the symptoms:

• It experienced significant growth in volume but, for two years, the owners didn’t seem to make more money.
• They borrowed more money and it took longer each year to become profitable.
• The company bought more equipment, which caused the complication of moving to a new location.

Go back in time

By looking back at Mixed Mowing’s last three years (Exhibit 1), we can see that the company was making money then, but as it experienced growth, profits remained constant and even dropped. What was the problem?

We examined the revenue from years 1 to 3 and observed it increased 26% in year 2 and 27% in year 3. The core business, mowing, was barely growing, but the new services were growing rapidly.

On the other side of the ledger, total operating expenses as a percentage of revenue declined in year 2 and rose in year 3. This suggests we need an analysis of the component costs. Administrative expenses rose 3% in year 3. We need to identify the expenses directly attributable to the services. Finally, profit increased from year 1 to year 2, but dropped in year 3.

Look at each service

After we identified costs by service, a profit and loss statement was developed (Exhibit 2). You can see that cleanup and lawn care made money for the company, while irrigation lost money — $52,150.

Next, we determine if any revenue was a function of another service being performed. (One relation was established: Cleanup would not be a service center if the company wasn’t already doing the mowing services.)

We asked the owners how they provided the services in prior years. Surprisingly, they had subcontracted one service and started another because many of its customers seemed to need it.

cont. on page 54
Honda Proudly Announces Some Dramatic Reductions.

No, this isn't a closeout sale. It's a brand new line of string trimmers from Honda. And thanks to some dramatic reductions, now you really can do more with less.

Honda's new trimmers take advantage of their 4-stroke engine's combustion format to dramatically decrease noise. 4-stroke engines are well known for producing fewer emissions than comparably sized 2-stroke engines, making them very environmentally friendly. In fact, Honda's trimmers meet all EPA and CARB emission standards.

Honda's trimmers use straight gasoline, eliminating the hassle of mixing gas and oil. And they can run two times longer than comparable 2-stroke engines on the same amount of fuel. The engines also suppress spark plug carbon buildup and carburetor clogging, maintaining like-new starting ease.

Honda's hard-working, durable string trimmers are some of the most efficient and cost-effective string trimmers available.

For a free brochure and location of the Honda Lawn & Garden Dealer nearest you call 1-800-426-7701.

For optimum performance and safety, please read the owner's manual before operating your Honda Power Equipment. ©1998 American Honda Motor Co., Inc.

Circle No. 117 on Reader Inquiry Card
MIXED MOWING & MAINTENANCE CO. EXHIBIT 1
PROFIT & LOSS STATEMENT

<table>
<thead>
<tr>
<th>Revenue</th>
<th>Year 1 $</th>
<th>Year 2 $</th>
<th>Year 3 $</th>
<th>Year 1%</th>
<th>Year 2%</th>
<th>Year 3%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lawn Care</td>
<td>0</td>
<td>0</td>
<td>$122,000</td>
<td>0.00%</td>
<td>0.00%</td>
<td>12.01%</td>
</tr>
<tr>
<td>Mowing &amp; Maintenance</td>
<td>475,000</td>
<td>520,000</td>
<td>550,000</td>
<td>74.80%</td>
<td>65.00%</td>
<td>54.13%</td>
</tr>
<tr>
<td>Irrigation</td>
<td>0</td>
<td>65,000</td>
<td>167,000</td>
<td>0</td>
<td>8.13%</td>
<td>16.44%</td>
</tr>
<tr>
<td>Property Cleanup</td>
<td>0</td>
<td>40,000</td>
<td>92,000</td>
<td>0</td>
<td>5.00%</td>
<td>9.06%</td>
</tr>
<tr>
<td>Miscellaneous Services</td>
<td>160,000</td>
<td>175,000</td>
<td>85,000</td>
<td>25.20%</td>
<td>21.88%</td>
<td>8.37%</td>
</tr>
<tr>
<td>Total Revenue</td>
<td>635,000</td>
<td>800,000</td>
<td>$1,016,000</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Operating Expenses

| Payroll                        | 245,000  | 250,000  | 308,022  | 38.58%  | 31.25%  | 30.32%  |
| Subcontract Labor              | 65,000   | 118,000  | 32,000   | 10.24%  | 14.75%  | 3.15%   |
| Materials                      | 0        | 0        | 140,000  | 0       | 0       | 13.78%  |
| Gasoline                       | 12,000   | 16,000   | 22,450   | 1.89%   | 2.00%   | 2.21%   |
| Vehicle Maintenance            | 30,000   | 35,000   | 48,000   | 4.72%   | 4.38%   | 4.72%   |
| Payroll Taxes                  | 36,750   | 145,000  | 15,000   | 2.36%   | 1.88%   | 1.48%   |
| Employee Benefits              | 8,000    | 10,000   | 18,000   | 1.26%   | 1.25%   | 1.77%   |
| Operating Supplies             | 10,000   | 12,000   | 28,400   | 1.57%   | 1.50%   | 2.80%   |
| Uniforms                       | 5,000    | 6,000    | 7,625    | .79%    | .75%    | .75%    |
| Depreciation                   | 6,000    | 12,000   | 24,000   | .94%    | 1.50%   | 2.36%   |
| Total Operating Expenses       | 417,750  | 496,500  | 674,700  | 65.79%  | 62.06%  | 66.41%  |
| Gross Profit                   | 217,250  | 303,500  | 341,300  | 34.21%  | 37.94%  | 33.59%  |

Administrative Expenses

| Payroll Administration        | 85,000   | 99,000   | 145,000  | 13.39%  | 12.38%  | 14.27%  |
| Payroll Service               | 2,200    | 2,400    | 2,700    | .35%    | .30%    | .27%    |
| Dues & Subscriptions          | 1,200    | 1,500    | 2,000    | .19%    | .19%    | .20%    |
| Education                     | 1,500    | 2,000    | 2,600    | .24%    | .25%    | .26%    |
| Building Rent                 | 15,000   | 15,000   | 15,000   | 2.36%   | 1.88%   | 1.48%   |
| Payroll Taxes                 | 12,750   | 14,850   | 21,750   | 2.01%   | 1.86%   | 2.14%   |
| Employee Benefits             | 5,100    | 6,500    | 9,600    | .80%    | .81%    | .94%    |
| Insurance Auto/Gen Liability  | 9,000    | 14,000   | 20,000   | 1.42%   | 1.75%   | 1.97%   |
| Telephone                     | 3,500    | 4,800    | 6,000    | .55%    | .60%    | .59%    |
| Office                        | 12,000   | 14,000   | 20,000   | 1.89%   | 1.75%   | 1.97%   |
| Trade Shows                   | 2,000    | 0        | 0        | 0       | 0       | .20%    |
| Advertising/Promotion         | 5,000    | 15,000   | 12,000   | .79%    | 1.88%   | 1.18%   |
| Vehicle Depreciation          | 6,000    | 10,000   | 12,000   | .94%    | 1.25%   | 1.18%   |
| Vehicle Expense               | 1,200    | 1,800    | 2,400    | .19%    | .23%    | .24%    |
| Travel                        | 4,000    | 6,000    | 8,000    | .63%    | .75%    | .79%    |
| Entertainment                 | 2,000    | 4,000    | 6,000    | .31%    | .50%    | .59%    |
| Professional Services         | 12,000   | 13,000   | 15,300   | 1.89%   | 1.63%   | 1.51%   |
| Interest                      | 12,000   | 16,000   | 22,000   | 1.89%   | 2.00%   | 2.17%   |
| Total Administrative Expenses | 189,450  | 239,850  | 324,350  | 29.83%  | 29.98%  | 31.92%  |
| Operating Profit              | 27,800   | 63,650   | 16,950   | 4.38%   | 7.96%   | 1.67%   |
One Big Mean Yellow Machine

Blazer 360Z

- Floating Deck
- Deck Offset
- Floating Front Axle
- Zero Turn Radius

Howard Price Turf Equipment • 18155 Edison Avenue • Chesterfield, MO 63005

No Payments For 120 Days On Approved Credit

Howard Price Turf Equipment • 18155 Edison Avenue • Chesterfield, MO 63005

Circle No. 113 on Reader Inquiry Card
A little Talstar® controls common lawn pests as well as a lot of Dursban® or diazinon. Talstar label rates for surface feeding pests are one-fourth the Dursban rate and one-tenth the rate for diazinon. So while the impact on the environment is reduced, the impact on lawn pests remains the same: they’re gone. With no odor but long residual. And if you compare Talstar to other pyrethroids like Tempo® or Scimitar®, you’ll find that Talstar offers two additional benefits: true mite control and no skin irritation.

Find out why lawncare operators all over the country have made Talstar the fastest rising star in the lawncare industry. Call 1-888-246-4125 for Talstar literature and labels.

**Talstar at ½ oz. per 1,000 square feet controls these pests:**

- Annual Bluegrass Weevil (Hyperodes, Adult)
- Ants
- Armyworms
- Billbugs (Adult)
- Black Turfgrass Ataenius (Adult)
- Centipedes
- Chinch Bugs
- Cutworms
- Fleas (Adult, Larvae)
- Imported Fire Ants (Adult, Mounds)
- Leafhoppers
- Mealybugs
- Millipedes
- Mole Cricket (Adult, Nymph)
- Pillbugs
- Sod Webworm
- Sowbugs
- Ticks

Talstar* is a registered trademark of FMC. Tempo® is a registered trademark of Bayer Corp. Dursban® is a registered trademark of Dow AgroSciences. Scimitar® is a registered trademark of Zeneca Inc.
hed a sudden rise to the top

Talstar PL Granular and Talstar Lawn & Tree Flowable. The rising stars of the lawncare industry.

Circle No. 108 on Reader Inquiry Card
We also learned that their irrigation services covered installation, service and lighting repairs. Analysis of this cost center showed that Mixed Mowing should get out of the irrigation business. However, on closer look at the revenue and costs, we learned that installation was the prime cause of the operating loss in this cost center.

Based on the analysis, we asked the following questions:

- Does Mixed Mowing need to market installation of irrigation systems?
- If the company only offered irrigation and outdoor light service work, would there be enough revenue possible for one individual or would another trained individual be needed?

Based on our discussions, we learned that the individual who designed irrigation systems would not remain if the company only remained in the service business. Mixed Mowing chose to exit the irrigation business.

**Pick the winners**

That decision led to a new picture. Mixed Mowing's owners realized that by realigning services, they could make more than $50,000 more per year (operating profit of $16,950 vs a new operating profit figure of $69,100).

It's possible your company may be losing money in one service but it is not evident, based upon the way you are keeping the records. By following an analysis like ours, you can see if there is an opportunity for improving your profitability. Not all businesses can be analyzed as quickly as this, but you will learn more about the financial contribution from each service center.

This is a good time to analyze the income statement for your company for last year. You may find that you can improve profitability if you eliminate services that are not improving your overall financial performance.

The authors provide green industry consulting services for Wandtke & Associates Inc., 614/891-3111.
For those of you out there whose job it is to make things grow, UD TRUCKS has some enrichment in
the form of a truck. The UD1200 light-duty truck to be exact. It comes with a very efficient 145hp
turbocharged and intercooled engine, a cabover design for a tighter turning radius for some of those
difficult residential and city streets, and is built for long lasting durability. The UD1200. A truck
built to help some other things grow: like your business. For more information about UD TRUCKS,

Circle No. 126 on Reader Inquiry Card

www.udtrucks.com
Yesterday's smart landscape managers knew that irrigation was critical to landscapes. Today's trendsetters understand how to make it critical to their businesses. This three-part series explores past trends, today's irrigation contracting business models and tomorrow's technologies.

By BRUCE F. SHANK

The landscape industry really is a package of industries working together to provide the plants, hardscape, chemicals and equipment that make our nation green. Each segment has developed under the leadership of visionary men and women, largely in the last 50 years of the 21st Century.

People like Ben Warren in the sod industry, Dick Duke in lawn care, Harry Gill in sports turf, Eb Steinegger in the golf course superintendent profession, Arden Jacklin in the lawn seed business, O.J. Noer in the fertilizer industry, and turf researchers like Jim Watson, Jim Beard, Bill Daniel and Fred Grau made our industry a multibillion-dollar business. It's time the landscape industry "Hall of Fame" included the leaders in landscape irrigation.

Unlike the lawn care industry, which matured in less than 40 years after Duke started ChemLawn in Columbus, OH, in the 1960s, the irrigation industry has taken nearly a century to develop into a billion-dollar business. Irrigation innovators did not create a common path on which others could build. Instead, they developed the market regionally. Only recently has consolidation started to pave a highway for rapid growth for manufacturers, distributors and contractors.

Learn From the Past

To get a true perspective of how irrigation has grown, we've included some of the people who helped create today's irrigation industry. It is by no means comprehensive, but hopefully, it will inspire you to respect their progress and to make your own legacy in irrigation.

History records that John D. Ross of