

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 con-

sulted 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

Under the microscope

To analyze Mixed Mowing's services, we separated the revenue into operating service columns (Exhibit 2). This was done on the basis of the employees that performed the services. To understand how the services affect profitability, we:

- Combined mowing maintenance with miscellaneous service, as these services are performed by the same people, with the same vehicles.
- Identified clean up, irrigation and lawn care as separate cost centers.
- Identified payroll by the individuals who performed each of the applicable services.
- Separated subcontract cost, material purchases, taxes and other expenses by service cost centers.



MIXED MOWING & MAINTENANCE CO. EXHIBIT 1 PROFIT & LOSS STATEMENT

Revenue	Year 1 \$	Year 2 \$	Year 3 \$	Year 1%	Year 2%	Year 3%
Lawn Care	\$0	\$0	\$122,000	0.0%	0.0%	12.01%
Mowing & Maintenance	475,000	520,000	550,000	74.80	65.00	54.13
Irrigation	0	65,000	167,000	0	8.13	16.44
Property Cleanup	0	40,000	92,000	0	5.00	9.06
Miscellaneous Services	160,000	175,000	85,000	25.20	21.88	8.37
Total Revenue	635,000	800,000	1,016,000	100	100	100
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	37,500	46,203	5.79	4.69	4.55
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	.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%

cont. from page 52

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.

MIXED MOWING & MAINTENANCE CO. EXHIBIT 2 PROFIT & LOSS STATEMENT

Revenue	Total	Mowing	Cleanup	Lawn Care	Irrigation
Chemicals	\$122,000			\$122,000	
Mowing & Maintenance	550,000	550,000			
Irrigation	167,000				167,000
Property Cleanup	92,000		92,000		
Miscellaneous Services	85,000	85,000			
Total Revenue	1,016,000	635,000	92,000	122,000	167,000
Operating Expenses					
Payroll	308,022	172,022	26,000	42,000	68,000
Subcontract labor	32,000	20,000	5,000		7,000
Materials	140,000		21,310	26,840	91,850
Gasoline	22,450	11,950	1,500	3,500	5,500
Vehicle Maintenance	48,000	38,500	3,000	3,500	3,000
Payroll Taxes	46,203	25,803	3,900	6,300	10,200
Employee Benefits	18,000	9,840	1,560	2,520	4,080
Operating Supplies	28,400	22,200	1,500	1,200	3,500
Uniforms	7,625	4,375	750	500	2,000
Depreciation	24,000	18,750	1,500	1,750	2,000
Total Operating Expenses	674,700	323,440	66,020	88,110	197,130
Gross Profit	341,300	311,560	25,980	33,890	197,130
	33.6%	49.1%	28.2%	27.8%	-18.0%
Administrative Expenses					
Payroll Administration	145,000	125,000		8,000	12,000
Payroll Service	2,700	2,700			
Dues & Subscriptions	2,000	2,000			
Education	2,600	2,600			
Building Rent	15,000	15,000			
Payroll					
Taxes	21,750	18,750		1,200	1,800
Employee Benefits	9,600	8,400		480	720
Insurance Auto/Gen. Liability	20,000	14,000	2,000	2,000	2,000
Telephone	6,000	5,500			500
Office	20,000	19,100	200	200	500
Trade Shows	2,000	2,000			
Advertising/Promotion	12,000	10,000		1,000	1,000
Vehicle Depreciation	12,000	12,000			
Vehicle Expense	2,400	2,400			
Travel	8,000	6,000		1,000	1,000
Entertainment	6,000	4,000		1,000	1,000
Professional Services	15,300	15,300			
Interest	22,000	17,900	1,200	1,400	1,500
Total Administrative	324,350	282,650	3,400	16,280	22,020
Operating Profit \$	16,950	28,910	22,580	17,610	(52,150)
Operating Profit %	1.67%	4.55%	24.54%	14.43%	-31.23%