

Making your mower pay off

Strategies to make your big-ticket landscape equipment like commercial mowers finally start contributing to your company's bottom line instead of pulling down your profits.

By J. PAUL LAMARCHE



Let's make a deal. You lend me \$10,000 for one year and at the end of the year, I will give you back exactly \$10,000. Better still, I'll give you back \$7,000. Is that a deal? Of course not! Obviously, you want and expect a return on your money. But if you don't think it's a good deal, why are you doing just this when it comes to your equipment and vehicles?

That's right. Every time you purchase a piece of capital equipment, you seem to be perfectly content to see it "depreciate" in value by 30% each year. An accepted cost of business, you might say. Or is it? Not getting a return on your investment has become acceptable.

This is an investment?

What happens when you buy a mower? Let's suppose you pay \$4,500 for it in 1996 and one year later it is worth \$3,150 (i.e. depreciation expense of 30% or \$1,350).

After 6 years, your total depreciation is \$3,970.57 and the residual value is \$529.43 (and if you think you will actually get that amount, good luck!). In other words, after 6 years, your investment of \$4,500 is returned to you as an expense of \$3,970.57 and \$529.43 in residual value. There is no return on investment. Some investment!

The problem with depreciation is that in following the income tax regulations and using depreciation as an expense in your budget (to determine your cost of doing

DEPRECIATION TABLE

\$4,500 Mower at 30% rate — 6-year lifespan for mower

Year	Balance	Rate	Depreciation
1	\$4,500.00	30%	\$1,350.00
2	\$3,150.00	30%	\$945.00
3	\$2,205.00	30%	\$661.50
4	\$1,543.50	30%	\$463.05
5	\$1,080.45	30%	\$324.13
6	\$756.32	30%	\$226.89
Depreciation Subtotal			\$3,970.57
Residual Value			\$529.43
Total			\$4,500.00

business), you are only accounting for the cost of the equipment or vehicle and therefore, shortchanging yourself when it comes to getting a return on investment for the equipment or vehicle.

Look at the following tables to see how depreciation and return on investment (ROI) affect your budget for pricing purposes.

What's wrong with this picture?

There is no return on investment! Let's go back to the offer I made. Didn't you expect something in return for the \$10,000 I borrowed from you?

You claim that your ROI is the profit that you made last year. Unfortunately, it's a sad fact that many entrepreneurs or owner/operators would make more money working for someone else. Not only do you pay yourself less than you pay

INTEREST TABLE

\$4,500 at 8% interest rate

Year	Balance	Rate	Interest
1	\$4,500.00	8%	\$360.00
2	\$4,860.00	8%	\$388.80
3	\$5,248.80	8%	\$419.90
4	\$5,668.70	8%	\$453.50
5	\$6,122.20	8%	\$489.77
6	\$6,611.97	8%	\$528.96
Total Interest			\$2,640.93
Investment			\$4,500.00
Total			\$7,140.93

your workers, but you are actually "eating your equity." Each year that you manage to stay in business, your net worth diminishes. If you are over-equipped and unable to charge your customers for this equipment, the problem is magnified.

Each year, the total value of all your equipment and vehicles diminishes in value. Ask yourself: What do you have to show for it?

What's a good return?

A good return on investment means that when your \$4,500 mower goes to the scrap yard, you have enough money (i.e. real cash, not just the ability to borrow more cash) to buy new or replacement equipment. If this isn't making sense to you so far, ask your father (those of you who inherited your business from your father) why he always paid *cash* for his equipment. He never had a charge card or a line of credit at the bank, did he?

You must charge your customers for your vehicles and equipment on every job so that you can get back every penny you paid over the 6-year life span of the mower, as well as your return on investment. Keep in mind that some equipment

will not last 6 years and others may last longer.

If this sounds outrageous or impossible, have a look at the table at left. If you invest your \$4,500 and earn 8% interest, you will earn \$2,640.93 in interest. This is "return on investment."

It's interesting that people who tell me it's difficult to get return on investment on vehicles and equipment are the same people who do not mind paying for their equipment over a 36-month bank term.

If they would continue to allocate those monthly payments (which were successfully made in the past) to a separate bank account for the three-year balance of the vehicle's lifespan, they would have ROI and have the cash to pay for a new vehicle.

Both examples at right show how to get a decent return on investment from your mowers, either those that are financed or those that are purchased with cash.

Cover your costs

The key is to charge adequately to cover your costs. How do you charge for equipment? There are three ways: 1. Guess; 2. Charge by the hour; 3. Include the cost of your equipment in your overhead cost.

More than 80% of all service companies use method number 1. Chances are, you may be in this category. The majority isn't always wrong, but here is a case where the other 20% have the advantage. Is it any wonder that we have so many bankruptcies? □

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RETURN ON INVESTMENT TABLE

Return on Investment (ROI) \$4,500 Mower

Mower Cost	\$4,500.00
Sales Tax (7%)	\$ 315.00
Finance Cost *	<u>\$1,593.76</u>
Total	\$6,408.76
*3 years at 10% (monthly payment \$178.02)	

Return on Investment Calculation (Total cost of mower) divided by (lifespan of mower x 2)

$$\begin{aligned} & \$6,408.76 \\ & \quad 6 \text{ years} \\ & = \$1,068.13 \\ & \\ & \$1,068.13 \\ & \quad \times 2 \\ & = \$2,136.25 \text{ per year} \\ & \\ & \$2,136.25 \text{ per year} \\ & \quad \times 6 \text{ years} \\ & = \$12,817.52^* \end{aligned}$$

*\$6,408.76 cost of mower & \$6,408.76 return on investment

\$6,408.76 return on investment + residual value of mower (\$529.43) should be adequate funds to purchase a new replacement mower.

If you paid cash, it would be:

$$\begin{aligned} & \$4,815 \\ & \quad 6 \text{ years} \\ & = \$802.5 \\ & \\ & \$802.5 \\ & \quad \times 2 \\ & = \$1,605 \text{ per year} \\ & \\ & \$1,605 \text{ per year} \\ & \quad \times 6 \text{ years} \\ & = \$9,630^* \end{aligned}$$

\$4,815 cost of mower & \$4,815 return on investment.

\$4,815 ROI & residual value of mower (\$529.43) should be adequate funds to purchase a new replacement mower with cash.