THE**BENCHMARK**

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Survey shows leaders pulling away

The results of our 2008 Benchmark Survey are in. We had 154 companies respond to our survey. In general, the average net profit in the landscape construction segments declined by two to three percentage points since our last survey a few years ago. By contrast, grounds maintenance companies actually experienced a net profit improvement.

At the same time, the high profit companies in every segment maintained the same level of net profit, thereby increasing their advantage over the average performance level. The accompanying tables clearly show this. To simplify the comparisons, I am using a $2 million company as the baseline and reporting the cost/expense as a percent of revenue.

TERMS TO KNOW

Gross margin percentage is gross profit dollars divided by revenue dollars.

Gross profit is revenue minus direct production labor payroll, job materials, subcontractors and job equipment rentals.

Overhead is all other expenses.

Net profit is gross profit minus overhead.

What can we learn?

Construction (bid/build and design/build): Increases in overhead expenses more than offset very solid job production efficiencies for this group. For 2009, declining commodity prices will help reduce some overhead expenses (mainly fuel), but the real challenge for this segment is revenues.

Given the economic slowdown and the increasing competitiveness for the fewer opportunities remaining, gross margins will be under a lot of pressure. This means that companies in this segment will need to review and update their estimating systems and tighten default production factors and material costs.

At the same time, I am recommending staff cutbacks for many of my clients to address potential revenue declines. This means owner-managers will need to be more involved than ever in day-to-day operations, and remaining overhead staff will need to wear more hats.

Grounds maintenance: Increased job production efficiencies for this group, combined with overhead expense controls, contributed to the net profit improvement. For 2009, falling fuel prices will really help this segment. However, this will be offset by:

- Customers seeking reduced contract budgets (asking contractors to save them money);
- Reductions in enhancement sales; and
- Increased competitive pricing.

My recommendation is the same for this segment: Reduce overhead staffing, while increasing spending in marketing and information system building.

Stay tuned. In the coming months, I will break down further the results of our 2008 Benchmark Survey.

Construction	**Average 2005**	**Average 2008**	**High Profit 2008**
Revenue	$2,000,000	$2,000,000	$2,000,000
Gross margin *(as percent of revenue)*	33%	36%	45%
Overhead *(as percent of revenue)*	28%	33%	37%
Net profit *(as percent of revenue)*	$100,000 5%	$60,000 3%	$160,000 8%

Design/Build	**Average 2005**	**Average 2008**	**High Profit 2008**
Revenue	$2,000,000	$2,000,000	$1,000,000
Gross margin *(as percent of revenue)*	46%	46%	48%
Overhead *(as percent of revenue)*	39%	42%	34%
Net profit *(as percent of revenue)*	$140,000 7%	$80,000 4%	$140,000 14%

Maintenance	**Average 2005**	**Average 2008**	**High Profit 2008**
Revenue	$2,000,000	2,000,000	2,000,000
Gross margin *(as percent of revenue)*	52%	54%	56%
Overhead *(as percent of revenue)*	44%	44%	40%
Net profit *(as percent of revenue)*	$160,000 8%	$200,000 10%	$280,000 14%