



THE BENCHMARK

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It's a brave new world

Part four of a multipart series.

Whenever the economy revives, we're not going to return to the way it was. The changes we're experiencing will be lasting.

The most important of these is pricing. Competition and the customer are changing the notion of what fair price means. The reason is more capacity relative to demand right now, and customers are using this to their advantage. While prices will recover somewhat when the economy picks up, they won't return to the rates we once charged.

Implement two critical tactics to address this challenge. The first is lowering overhead costs in relation to revenues and direct labor. The second is improving the sales management function. A successful company must do relatively more with less and actively sell instead of take orders. This economy provides the smart companies with an opportunity to remake themselves instead of hunkering down and waiting for it to pass.

MAINTENANCE PROFIT & LOSS STATEMENT

	Old way		New way	
Revenues	\$1,000,000		\$1,187,500	
Labor	\$350,000	35%	\$498,750	42%
Materials	\$100,000	10%	\$118,750	10%
Direct cost	\$450,000	45%	\$617,500	52%
Gross profit	\$550,000	55%	\$570,000	48%
Indirect cost	\$150,000	15%	\$170,000	14.3%
G&A cost	\$300,000	30%	\$300,000	25.3%
Net profit	\$100,000	10%	\$100,000	10%
Labor hours	30,000		42,750	
Labor cost per hour	\$11.67		\$11.67	
PRICE per hour	\$30		\$25	20%
Overhead leverage	2.22		2.53	

More with less

You must restructure. For example, a company that had two mechanics now has one. Another that had four office staff now gets the job done with two. Account managers who handled \$1.5 million in work now handle \$2.0 million. Salespeople sell 50% more than they did last year.

If you want to be price-competitive, you need to increase the personal productivity of everyone on staff — starting with the shop and office. Better systems, training and reprioritization are the essential tools of this restructuring. It can be done, and is being done, successfully.

Selling, not order-taking

You must have a sales management game plan, including a competitive price, a pipeline system and a proposition to win business. None of this is new. It was just never really necessary to be that sharp at it before. Frequent direct contact, speedy turnaround, weekly tracking, accountability and perseverance are the essential success strategies.

The company that connects with prospects monthly, turns around requests in a day and negotiates hard on the spot to close the deal will win more than it loses. Simple marketing messages, trained sales staff and efficient estimating systems are the keys.

Competitive price (per labor hour)

What are the relative price reductions we might expect? The table, left, demonstrates the before and after picture of 20% price-per-hour rate reduction from \$30 to \$25 per hour. The effect is that in the future we'll be working with lower gross margins and higher revenues on top of a relatively stable overhead cost structure.

I'll discuss this table's implications at greater length next month. For now, it's essential to look at your people and structure, as well as your sales management system, to prepare for these permanent pricing changes.