



THE BENCHMARK

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Memo: The rules have changed

I like watching professional poker on TV. It is especially interesting to me that the young guns consistently beat the experienced pros. I think it's because the younger guys are not playing the same game as the older guys, and somehow the old pros missed the memo explaining the rules of the game had changed.

Something similar is happening in landscape contracting. The rules of the game are changing. Yet too many contractors insist on playing by the old rules.

The research on pricing is clear: In almost every market, prices have fallen by nearly 25% over the past five years. The forecast is for an additional 20%. This one reality — driven by declining commercial and residential spending and an increased supply of contractors — will affect every contractor's planning, budgeting and management processes. Everyone will need to relearn how to make money in this kind of business environment. The old rules provide little guidance. Here's my take on the new ones.

1 Volume is more important than gross profit margin percentage.

Too many contractors fixate on gross profit percentage when bidding work, when the game has shifted to gross profit dollars. The new game calls for:

- ▶ Rebuilding your pricing model to work on lower margins on some services and higher

margins on others;

- ▶ Addressing your product and service deliverables by refining scope and frequencies; and
- ▶ Investing more in marketing and sales.

2 Reduced overhead staffing is required for new revenue volume.

In other words, what once required three people, two must now handle. Too many contractors are locked into inefficient structures where people wear too many hats. The new game calls for:

- ▶ Reconfiguring your organization chart;
- ▶ Creating more, not less, job specialization, to establish clearer and greater accountability; and
- ▶ Migrating to performance-based pay schemes that hinge on closely tracked revenue and gross profit dollar volume.

3 There is simply too much paper — and too little information — in most contracting businesses.

The only way to reduce staffing requirements is to lighten the administrative workload of sales, service and operations management people. The new game calls for:

- ▶ Identifying the “Three Key Reports” that enable managers to manage;
- ▶ Upgrading software to SQL database systems that have superior integration of information and easy-to-manage, real-time reporting; and
- ▶ Investing in a customer relationship management (CRM) system to aid the sales force in managing the sales cycle.

As much as we hanker for them, we are not returning to the “good old days” — this year or next. We must all learn the new rules, no matter how scary and different they might seem.

The alternative is to resist these changes, and like the old poker pros, consistently get beaten by the younger guns. The good news, though, is that learning new tricks can be immensely rewarding — even for old dogs.

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