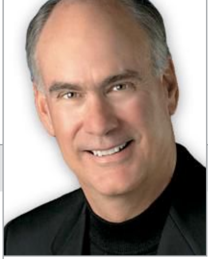

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Before you fire a customer…

As you think about renewing maintenance agreements for next year, do you identify jobs that are underperformers and develop strategies to deal with them?

For many of us, the thought process is, "I don't really know how the job performed and don't much care. Just let me renew it!"

OK, I get it. None of us wants to see revenue go away. But, if a job is not contributing to the overall goals of the company, you might have to fire the client. I challenge you to face the cruel reality that not every job is a winner. Where to start?

The first thing I would do is run a revenue-per-hour report (see sample report below).

Revenue per hour is calculated by taking the contract amount and subtracting from it all the non-labor costs plus their individual markups. To find those markups, go to your estimating system. There you will find your typical markups for the recovery of overhead and profit. Once you subtract the non-labor costs plus their markups from the contract amount, what you have left is what you earned with your labor, or labor revenue. Divide this amount by labor hours and you have what you earned per labor hour on the job.

Pay particular attention to the gross margin percentages and the revenue per hour. A high-margin job does not necessarily mean a high-profit job. Analyzing anything using margin percentages can be risky and lead you to the wrong conclusions.

Let's take the first job in our sample report (contract value of $40,500, revenue per hour of $17.96). There's every reason to believe this job is a stinker. Our break-even point for performing maintenance work is $23. This job, at $17.96, is 26 percent below our break-even point.

Before we fire this client, or any client, here are 10 things to consider:

1. Is the information correct?
2. Is the job part of a larger portfolio? Analyze the entire portfolio to see if this job is the runt.
3. Is there add-on work?
4. Can the job be "value engineered" to make more sense? (Consider its position in the route, the equipment used, mow patterns, etc.)
5. Does the job fill out a route?
6. Did I intentionally low ball this job to create new opportunities? If so, does it still make sense to keep this underperformer?
7. Is this a marquee job?
8. Is this a "loss leader" job to stimulate future opportunities?
9. Are we attempting to keep a predator away from a valued customer?
10. Can we raise the price of the job?

If all justifications are exhausted, raise the price of key underperformers, and if you lose them … so what?

SAMPLE REVENUE-PER-HOUR REPORT

Contract amount	Labor hours	Labor cost	Material cost	Sub cost	Other cost	Total job cost	Gross margin	Gross margin %	Revenue per hour
$40,500	1,750	$21,000	$4,650	$1,000	$750	$27,400	$13,100	32.35	$17.96
$23,300	850	$10,200	$1,750	0	$260	$12,210	$11,090	47.60	$23.96
$12,680	245	$2,940	$300	$5,200	0	$8,440	$4,240	33.44	$24.45
$7,180	200	$2,400	$950	0	0	$3,350	$3,830	53.34	$28.78
$19,325	650	$7,800	0	0	0	$7,800	$11,525	59.64	$29.73
$53,500	1,120	$13,440	$5,270	$5,000	$1,500	$25,210	$28,290	52.88	$33.75
$28,570	650	$7,800	$1,675	0	0	$9,475	$19,095	66.84	$40.09