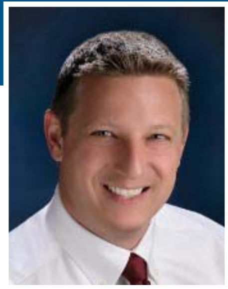

BY **PHIL HARWOOD**

Smart portfolio management

SNOW AND ICE management professionals face one of the most difficult variables of all— unpredictability. How many other businesses have no idea when they'll be required to perform services, how long they'll be performing services or what demands will exist for labor, equipment and materials? The unknown makes it very difficult to plan, manage and be profitable.

Trying to predict snowfall totals and ice formation is like to trying to predict who will win the Stanley Cup before the season starts. Since 1880, there's no pattern to seasonal snowfall totals in Southeast Michigan, where I'm located. They are completely random. However, with smart portfolio management (and smart management of individual contracts themselves), much of the risk inherent in the randomness may be mitigated.

Because we have decades of weather history, we're able to easily determine monthly and seasonal averages, along with probabilities for event frequencies. We may create scatter plots, run statistical regressions and more. Armed with this information, we may develop very accurate estimating models. These models and related estimating programs are especially useful when estimating seasonal limited or unlimited contracts.

» WEB EXTRA

For tips on smart management of individual contracts, visit the Web Extras section of **Landscape Management.net**.

When we consider the impact of snowfall on the bottom line, we need to realize that seasonal snowfall totals may not line up with the fiscal year. In fact, most snow businesses have fiscal years beginning Jan. 1, which splits the winter season into two fiscal years. If a business' revenue is more than 50 percent snow, it may be wise to change the fiscal year. One of our clients has a fiscal year that begins Oct. 1, which keeps the winter season in one fiscal year. It's important to compare apples to apples when looking at financial information.

A balancing act

We've developed models for sensitivity analysis of snow contract portfolios. These models prove that most of the risk, due to weather, may be mitigated in the portfolio. For example, our models show that a portfolio of 100 percent per-push (or per event/visit/application) contracts will result in a 101 percent drop in net profit in a light winter (30 percent below normal) and a 110 percent boost in net profit in a heavy winter (30 percent above normal), compared to an average winter.

The risk inherent in such a wide swing in net profit is unacceptable to most business owners and has put many snow and ice contractors out of business. The result of a 100 percent seasonal portfolio is similar, only in reverse—90 percent boost in net profit in a light winter and a 90 percent drop in profit in a heavy winter, compared to an average winter.

However, with a balanced portfolio, the risk is mitigated in a dramatic fashion. In our sensitivity analysis example, with a balanced portfolio, net profit only drops by 52 percent in a light year and increases by 56 percent in a heavy winter. In both scenarios, our example company is very profitable, creating a no-lose situation.

So what's a balanced portfolio? A balanced portfolio is simply a collective bundle of different types of contracts. In the snow business, the most critical variable is the percentage of "per" and seasonal revenue in the portfolio. A 50-50 split is desirable but anything over a 33-67 split in either direction would be considered a balanced portfolio in my book. Strategic selling is the way to ensure that a balanced portfolio exists.

Strategic selling begins with an analysis of the existing portfolio to determine what types of contracts are needed to keep the overall portfolio in balance. This analysis will establish sales goals. Once the selling cycle begins, sales tracking and reporting are necessary to monitor sales activity from a portfolio perspective. At all times, it should be crystal clear as to what the portfolio looks like, so salespeople are able to use their influence to sell the right types of contracts. In some cases, it may be a good move to only offer a specific type of contract so that the portfolio doesn't become imbalanced. It may be better to walk away than to take on too much portfolio risk. Professional gamblers exist but not in the snow business.

Another aspect of portfolio balance is the percentage of contracts expiring in any given year. The higher percentage of contracts up for renewal in a given year, the more portfolio risk increases. Selling multiyear contracts is the only way to reduce this risk. Again, strategic selling is the key. Selling without strategy, tracking and control is a recipe for disaster—or low profitability.

Smart portfolio management equals high profits. There's no reason to settle for mediocre or low profits in the snow business. LM

Harwood, LIC, CSP, is president and CEO of Pro-Motion Consulting. Reach him at phil@mypmcteam.com.