



## THE BENCHMARK

FRANK ROSS

The author is owner-manager of 3PG Consulting. Reach him at [frank@3PGConsulting.com](mailto:frank@3PGConsulting.com).

# Focus on the right stuff

In the last several months in this space, Jeff Harkness, Kevin Kehoe and I have written about sales performance, margin generation (a sign of pricing and productivity) and, of course, my favorite, net profit.

Why net profit, you ask? Well, in my mind there are two reasons we are in business: profit and fun.

Profit is our scorecard and the fuel for our lifeblood—cash flow. And, fun...that's the fire in the belly, the passion that keeps us doing what we do 24/7. If we don't enjoy it, we shouldn't be doing it!

And my point is? We're at the mid-year mark for most of us outdoor contractors. When was the last time you checked how you were progressing toward your annual profit goal?

You do have an annual profit goal, don't you?

Have you generated your mid-year financial statements? Are they generated by profit center (each type of work you perform)? Have you compared the mid-year performance to your budget? You do have an annual budget, spread by month, don't you?

So, how do you measure up?

If you don't know, that means you do not have a scorecard for the most important financial standard in any of our businesses—net profit.

If you don't trust what you see, that means that you don't have an effective information system. Either way you're flying blind and what net profits you have will only materialize because you're lucky.

I play golf, so I know all about lucky. I'd much rather be lucky than good—wins every time. But, in business, luck is what we make for ourselves. In business, we have to be good to succeed.

When we discussed profit performance for 80 odd of the industry's best and brightest companies, we saw that in our sampling, average levels of profitability on revenues of between \$5 million and \$45 million ranged between 8 percent and 12 percent. Not bad, though I'm certain each one of those companies would like to improve upon that performance.

So, how did you stack up to that "standard?" Do you see any room for improvement? Thought so.

## Committing to net profit

Here's a test for you. Take a look at the average amount of profit percentage you put on each job you bid last year. At the end of the year, how much profit did you make? Is your year-end net profit percentage the same as what you put on jobs, or is there a disconnect?

For many of us there is a disconnect. Why? Because profit simply isn't something we track. It's not a focus.

Statistician and consultant W. Edwards Deming said it best: "If we do not track it, we cannot control it."

Truer words have never been spoken.

So, here's where we start. I want:

1. A commitment from you that net profit is the most important financial standard you have in your company. It's not sales, it isn't margin—it's the bottom line: net profit.
2. You to realign your internal information systems to focus on how you're performing on the bottom line by profit center.
3. You to commit to generating an annual budget by profit center that's spread by month so you can track how you're performing each month.
4. Your budget to be flexible enough so you can reforecast the coming months at will.
5. You to have a comprehensive estimating system that defines the three primary financial elements of any proposal: direct costs, overhead and profit.
6. You to have a job-tracking system that tells you where you're making profits and where you aren't and indicate how you can fix the problem areas.
7. You to give your principle managers specific and measurable financial goals.
8. You to build an internal system of information and reporting that enables you to report back to your managers how they're doing, hold them accountable and coach them on how to reach their goals.

So, you see, maximizing profits isn't hard, but it's not easy. If you commit, if you focus on profit, if you build your systems, if you involve your people, profits will come.