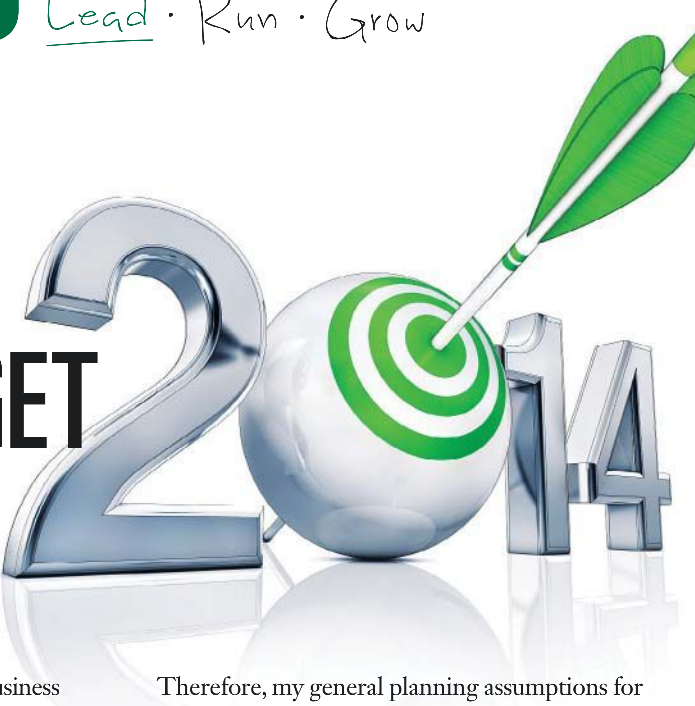
Q: HOW DO I GET READY FOR



BY **KEVIN KEHOE**

A: I began last year's article about business planning with the following statement: "Painfully aware that any prognostication or prediction might be off base, any plan you make has to be based on critical assumptions." The key planning assumptions I made for 2013 last year were:

› **Labor costs will rise.** I was correct. The H-2B program is in shambles, and there's a growing labor shortage that will continue to put upward pressure on labor costs. This is still a valid assumption for 2014.

› **Pricing will remain flat.** I was right. Customers are resisting increases of pricing despite the increases of labor and fuel costs. Yet there's room for price increases in enhancement and construction work. Grounds maintenance pricing will likely remain relatively flat. This is still a valid assumption for 2014.

› **Interest rates will remain low, and gas prices will be flat.** I was accurate about interest rates until recently. The rate increase will be a problem in 2014 only if the increases stall the nascent recovery of real-estate prices and investment, which they won't. We somewhat missed the fuel-price increase. The national per-gallon-price of $3.61 is 22 cents higher than last year this time (6.5 percent). The forecast is for gas prices to continue their upward trend. We can depend on this because fuel prices are driven more by politics than supply and demand.

› **Better computer systems will allow for revenue growth without increased overhead costs.** I don't know how to measure this exactly, but with a few exceptions, it hasn't happened to the extent it should. While it's a valid assumption, making it happen has been a challenge. Overheads continue to rise.

» WEB EXTRA

To read Kehoe's article from last year, visit **LandscapeManagement.net/2012/11/14/how-to-prepare-for-next-year/**

Therefore, my general planning assumptions for 2014 include:

› Labor supply will fall and costs will rise.

› Pricing will remain flat. Overall economic activity will be sluggish.

› Interest rates will rise.

› Fuel prices will rise.

› Overhead will rise in employee-related expenses, such as workers' comp and health care.

There are two key strategies to address these assumptions and work into your budgeting process: revenue and labor strategies.

REVENUE STRATEGY

› Be aggressive with early renewals to maximize retention. Customers, especially in the homeowners association segment, are feeling the budget pinch. I'd plan for overall 88 percent to 92 percent retention. This means if you have $1 million in maintenance contracts, plan for the potential of $100,000 in losses. Plan for this and sell to make it up.

› Be aggressive selling new contract work for spring 2014 and enhancement work for this fall now. Budgets need to be spent this year but may be installed next, allowing a backlog buildup for 2014. Big landscape companies in every market are investing in salespeople, who have goals to achieve. This means they'll be calling on your customers.

› Flat pricing (not much in the way of contract increases) will be important, but market presence and salesman persistence will be more important. Invest in your sales effort.

› Be more aggressive raising prices and margins on your enhancement bids.

continued on page 20

ILLUSTRATION: ISTOCK INTERNATIONAL INC.

LABOR PLAN OPTIONS

$1,000,000			Annual Contract Revenue
$25.00			Price per Hour Estimated
40,000			Labor Hours Budget at that Price
2,000		2,000	Average Annual Hours / Man / Year
$15.00			Actual Wage Rate Paid - Burdened
#1 →		$15.79	Potential Wage Rate Paid - Raises *(See "Labor plan comparisons," below)*
Desired Savings	**Actual Savings Planned**		
10%	5%		Labor Hour Reduction - Lean Assume only 5% actually Achieved
Labor Savings - Assumed	**Labor Savings - Assumed**	**Labor Savings - Planned**	
4,000	2,000	38,000	Hours
20	19	19	Number of Men - Labor
$60,000	$30,000		Labor Dollar Cost
		$30,000	*(See "Labor plan comparisons," below)*
Overtime Premium		**Annual Work Weeks Assumed**	
$7.50		48	
OT Hours Allowable / Year	**OT Hours Allowable / Man / Year**	**OT hours Allowable on Average per Week**	
4,000	211		
#2 →		4.39	Potential OT - Additonal Hours Worked *(See "Labor plan comparisons," below)*

Planning pointer

Plan for increases in payroll per person. This strategy can be accomplished by raises in hourly rates (not necessarily across the board) and/or increasing overtime hours.

continued from page 18

LABOR STRATEGY

› Invest in lean management techniques in the field. Several of our clients have made this investment and reduced labor hours on contract work. Lean is a comprehensive approach to site management that matches crew sizes, equipment and materials to a sequenced plan for minimizing wasted time. Investing in lean can save 5 percent to 10 percent of labor hours. Using our example of $1 million in contract work at a $25 an hour revenue price, we get 40,000 hours required to do that work. A 10 percent reduction of hours—assuming a $15-an-hour burdened labor cost per man—is a savings of $60,000 a year, not to mention the reduced need for recruitment.

› Increase your recruiting budget. The recruitment costs for a new crewman is about $500, considering ads, signing bonuses, interviews and testing. Plan to spend more money on this next year.

› Plan for increases in payroll per person. This strategy can be accomplished by raises in hourly rates (I'm not suggesting across the board) and/or increasing overtime hours. The questions are how much can I afford, and how best to do this? The chart above provides a static analysis of the options. It assumes you execute a lean management strategy.

LABOR PLAN COMPARISONS

There are two points to make regarding the chart above: 1). Planning to reduce 10 percent of current hours as a result of lean management and giving 5 percent of the cost (see green box with $30,000) of these same hours back in the form of raises is equivalent to $15.79-per-hour raise, which is far more than required or will be necessary, and 2). Using the same assumptions in lieu of raises, the same goal can be achieved with overtime. In this case, when you save 10 percent of the hours and give back 5 percent ($30,000 or 4,000 hours of premium time pay—$7.50 an hour), the average overtime per week for a 48-week year is 4.39 hours a week.

BIG LANDSCAPE COMPANIES IN EVERY MARKET ARE INVESTING IN SALESPEOPLE, WHO HAVE GOALS TO ACHIEVE. **THEY'LL BE CALLING ON YOUR CUSTOMERS.**

The same planning approach used last year can be used for 2014 with these revised assumptions, but there's no such thing as a perfect plan. To paraphrase U.S. Gen. George Patton, a good plan well executed is far better than a perfect plan never executed. Hone your plan, and see if you don't have a prosperous 2014. LM

Kehoe, the owner-manager of 3PG Consulting and a regular columnist for Landscape Management, *can be reached at kevinkehoe@me.com.*