Q: WHAT KEY PERFORMANCE INDICATORS SHOULD I TRACK?

BY **JEFFREY SCOTT**

A: Landscape firms often want to know what metrics will keep them on track. Use this list of key performance indicators (KPIs) to stay focused on what's most important in running your business. The beauty is once you understand and can measure KPIs, you can use them to motivate employees.

1 Sales

The most important sales KPI is *closing ratio*. It should be monitored quarterly or semiannually. As your closing ratio goes up, so will your margins—up to a point. Once your closing ratio gets too high your margins will start to decrease again. This KPI is a silver bullet if you monitor it closely along with your markups to find the margin-inflection point.

Other sales KPIs to keep an eye on are *margins as sold* (monthly) and *sales per salesperson* (also monthly).

Once you hire salespeople you'll want to track their margins as sold, or tie their incentives into margins as built. Don't commission salespeople on top-line numbers, unless they have zero impact on the bottom line.

» KPI WEBINAR

To learn more, sign up for Jeffrey Scott's Financial Forum webinars. He will share strategies and actual benchmarks. The three-part series starts Nov. 21. Visit **LandscapeManagement.net/financialforum.**

2 Clients

Customer surveys will help you uncover some of your unhappy clients but not all—some unhappy clients won't bother to fill in a survey. To create a KPI from your survey results, you have to measure your *Net Promoter Score* (NPS), a customer loyalty metric that's gained popularity over the last decade. While your NPS can be useful for companies with large service bases, it doesn't give you as much directly helpful data as *retention* (quarterly), *quality score* (weekly) and *upsales* (monthly).

Are you retaining your clients at a high level? If not, you're either not retaining your key employees or you're not giving your clients a consistent high-level experience. A weekly quality score (by crew) shared with your staff will help modulate this issue.

Upsales is how you help clients solve problems, improve the use of their property and beautify their landscapes. Plus, it can restore and increase low margins. Low upsales is a red flag, meaning clients are being ignored (or you have low-end clients who are hampering your margin growth). Expect to sell 25 percent to 100 percent in upsales, depending on your niche.

3 Production

Labor percent is the single biggest cost you must control. This simple percent is not only critical for budgeting, but it also allows you to compare with like companies. *Net-net-sales per hour* (sales minus cost of subs and materials, divided by labor hours) and its cousin *net-net-sales per day* are extremely versatile indicators because you can track them hourly and daily and roll up the numbers monthly and yearly. These tell you how much your crews produce in any given time period

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and allow you to compare it year over year, while removing variations like high material or high sub costs.

Non-billable hours is a critical indicator because it's where profits often leak out. It's difficult to measure without time sheet or tracking software, although you can focus on yard time as a starting point. If you're not getting your maintenance crews out in single-digit numbers, then you're leaking profits. *Division gross profit*, one of the most overlooked KPIs, is useful for identifying where you're making money and where you're not. This indicator can help owners zero in on poor performing markups, crew sizes and inefficiencies.

Operational margin (gross margin minus equipment and indirect cost margins) is useful for incentivizing department managers. It also allows you to do scenario planning with labor versus equipment. For example, if you add equipment expenses, are you able to reduce labor expenses as a total percent of revenue? Some contractors get in trouble by buying equipment without reducing labor percent enough to reduce the total cost structure of the business.

The importance of *overtime* goes without saying, except to say that some companies aim to keep this number too low. Incremental sales can make you a lot of money if your overhead is already recovered. Don't follow conventional wisdom—analyze your own numbers and make your own decisions.

4 Safety

Safety is often overlooked until a firm has a bad accident. Even if you run a safe company, you may be losing money due to property damage—yours and your clients. Key safety KPIs include *days lost of accidents* (quarterly); *workers' comp mod factor* (annually); and *property damage* (annually). Consider a group incentive to control these costs. For example, the entire division earns a quarterly bonus if no days are lost and no significant property is damaged over a 90-day period. The 90-day clock gets reset if there's an accident.

5 Equipment

To own or lease? To replace frequently or run into the ground? These are reoccurring questions you can't answer if you aren't tracking your historical *equipment, repairs, maintenance and fuel costs* monthly and quarterly. Another metric to track is *equipment lease, rent and depreciation* annually or quarterly, if needed.

These indicators help you benchmark against other companies to identify cost savings opportunities. Your results will differ depending on what services you provide, so make sure to measure and benchmark with like companies or by like divisions.

6 Manpower

As you get larger and delegate management responsibilities, you'll want to maintain a pipeline of foremen and ensure you keep the ones you hire and train. The foreman is the key position that makes you money, which is why it's important to track foreman retention level and the *pipeline of assistant foremen* (both biannually). Fast-growing companies need a good pipeline and slow-growing companies tend to lack A players at this key position. While finding good employees is difficult, you'll find if you treat recruiting like marketing and branding you'll be able to create a steady stream of good candidates into your company. It's easier than you think when you change your mindset and take this strategic approach.

7 Balance sheet

How do you use your balance sheet? Here are two common ways some contractors I work with use them. The first is measuring accounts receivables (AR), specifically, the number of *average AR days* outstanding. I love this indicator because reducing it means you're simultaneously staying on top of client dissatisfaction. The second indicator, *return on assets*, indicates the amount of profits you're able to derive from the average total amount of assets (cash, AR, equipment, etc.) at your company's disposal. A higher ratio means you're more efficient and growth costs you less cash. You must compare these with other like companies and against your own year-over-year benchmark.

8 Operating cash flow

This is probably the most important KPI—are you able to turn your theoretical profits (the ones that show up on your P&L statement) into cash? Profits are princely but cash is still king. You should track your *operating cash flow* monthly or weekly, if needed. Once you make your outgoing payments, investments in equipment/inventory and collect on your accounts, etc., is your business bank account richer or poorer? This is the real testament of a business: Your ability to grow depends on your ability to turn profits into cash flow.

9 Owner's ROI

Lastly, how much money are you making? Many business owners comingle their personal and business expenses, but it's too easy to lose track of your actual earnings this way. When I ask owners how much they earn sometimes they can't give me a straight answer. That's too bad. To grow it year over year, it's important to track it every month. Compare yourself to other business owners for best results by watching *net profit* (monthly), *net to owner* (monthly) and *return on equity* (annually).

Return on equity tells owners how much return they make for the amount of money they leave in their businesses. Should you pull more money out and invest in other ventures? This ratio will help you decide. LM

Scott, who has a master's degree in business administration, is a consultant who facilitates The Leader's Edge peer groups for landscape business owners. Reach him via GetTheLeadersEdge.com.

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Q: WHEN IS OVERTIME OK?

BY BEN GANDY

A: You've told your guys a thousand times, "No overtime!" It's an unnecessary premium cost that cuts deep into your margins. Or is it?

The unplanned, capricious use of overtime hurts financial performance. We rarely bid work at overtime rates, so it hurts margins. There are, however, times when the strategic use of overtime makes sense, as long as it's limited and part of a strategy. These occasions include dealing with labor spikes, handling overbudget sales and service-recovery situations.

> **Planning pointer**
>
> **Before deciding on strategic overtime, look closely at the operations schedule. There may be more leverage in flexing the schedule.**

COPING WITH LABOR SPIKES

In some markets, landscape maintenance operations spike at certain times of the year for a brief time. The only way out of working overtime is hiring extra bodies for a few weeks, then letting them go or moving them to another area of the business. The challenges include:

› Finding a number of workers in a hurry is always difficult.

› Finding good workers who are willing to accept a job that only promises employment for a few weeks might not be realistic.

› Training temporary labor puts a strain on your most valuable people.

Additionally, the risks are great:

› Untrained workers on your sites puts quality and safety at risk.

› The layoffs must be timed right. If the work isn't well understood, there's a risk the extra workers will be kept on too long, which is a costly mistake.

When dealing with labor spikes, keys to using a successful overtime strategy are:

› Understanding the man-hour needs exactly. Strategic overtime doesn't mean working an indefinite number of hours. It's limited to the job budgets.

› Planning a duel strategy—temporary labor plus overtime, depending on the hours. Determine the hour limit you're willing to work people. Calculate the hours exceeding this limit, and hire temporary help to cover the difference.

› Budgeting for the overtime. Strategic overtime in this scenario can be put in your financial budget in advance so the labor premium is planned, not a financial hit.

Before deciding on strategic overtime, look closely at the schedule of operations. There may be more leverage in flexing the schedule. For example, in the Southeast, mulch operations can be done during the winter when landscapes are dormant. That's not the case in the Northeast where snow cover and frozen ground pushes a mulch schedule on top of spring cleanup and mowing operations.

SELLING OVERBUDGET

You should have staff, vehicles and equipment to handle your planned sales volume. Hopefully, you beat your sales targets from time to time. But what do you do if it's half a crew? Maybe your crews typically produce $20,000 a month each and you sell an additional $10,000? It might not make sense to buy an additional vehicle plus equipment and hire more people for half a route, especially if it's late in the season (you'll make payments all winter, with the rig sitting idle). It might make sense to work overtime strategically to cover the extra volume until additional sales are generated and a new full route can be created. This tactic is unbudgeted, but as long as you're running ahead on revenue, it won't ruin your financials.

Overtime hours aren't unlimited here; hour budgets must still be met.

What about overselling the budget on installation? If your clients will tolerate stretching the schedule, you might be able to finish the work without overtime, but it's usually not the case. When installation is oversold, it makes sense to work strategic overtime.

In the first place, installation profits come from markups on labor and materials. The materials' profits are unaffected by overtime (you're making the material markup whether your workers are on overtime or not). Labor often is a smaller portion of the direct cost in installation work, often less than 25 percent. A premium on this portion has a smaller effect on the overall gross profit than in labor-only services like maintenance. (See chart below.)

Besides that, overselling your installation budgets generally doesn't mean an increase in overhead, so even though there's margin erosion in the overtime, you usually can expect to keep your profits. More gross profit dollars contributing to cover the same overhead will help your business, even if the gross margins are smaller.

There's a point where you simply need to add more staff if installation sales can be sustained at higher-than-budget targets. However, as the last market downturn showed, limit your investment in installation overheads so you can pull back as painlessly as possible.

SERVICE FAILURE

From time to time, we let clients down. Whether we fall behind, make mistakes or miss something, it's impossible to never disappoint anyone. Working overtime is an expensive way to fix problems, but this is a relationship business. People overwhelmingly buy landscape based on relationships. Better to lose money in the short term than lose the relationship in the long term. Overtime isn't the path to financial success, but if limited and used strategically, it can be part of the arsenal in coping with labor spikes, windfall sales or service challenges. LM

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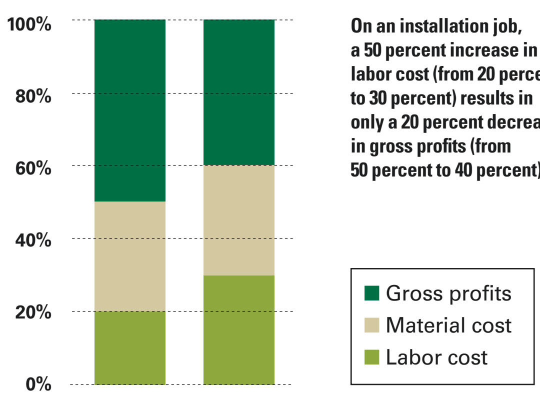
HOW OVERTIME AFFECTS PROFIT



Q: WHAT IF I CAN'T SELL MY BUSINESS?

BY **RON EDMONDS**

A: Often, Green Industry business owners have a tremendous percentage of their wealth tied up in their businesses. Many assume they'll be able to sell their business when they're ready to retire or move on to another opportunity. Unfortunately, few have actually planned how to monetize this asset when that time comes, though. Many businesses are placed on the market without considering the best plan for achieving a transaction that meets the owner's requirements. As a result, business owners sometimes are unable to sell their businesses, at least at a price they're willing to accept.

So what should you, as a business owner, do if your company doesn't sell?

The first step is to identify why your business failed to sell. Possibilities are:

The business isn't attractive to potential buyers. This is difficult. Buyers tend to favor businesses with a significant stream of recurring revenue, such as landscape maintenance or lawn care. A construction-oriented business may be solid and highly profitable, but buyers usually are wary about their ability to continue the existing level of operations after a transition.

The business is too dependent on the owner. Many Green Industry businesses are identified highly with their owners. No matter how much the business has grown, the owner may be the principal salesperson, quality control officer and chief recruiter, as well as being involved in client relationships. The owner's name is often on the business, too. In these situations, a buyer would be concerned about his ability to maintain the existing business after the original owner is no longer present.

The business is too dependent on a few customers. The business may be profitable but have just a few customers that produce a large portion of the business. If a business is dependent on one customer or group of customers to make up 50 percent of sales, a buyer will be concerned about the risk of that customer going away, for whatever reason, after the sale is completed.

The business isn't priced correctly. Unrealistic prices are often reasons businesses don't sell. Owners may ask for an offer from a potential buyer, but the asking price sets an expectation of what it takes to buy a business. If a buyer believes the asking price is significantly too high, he often won't make an offer, avoiding wasting his time and money pursuing the transaction, believing the owner may not take a reasonable offer.

The business hasn't been marketed effectively. A business opportunity must be presented to a large enough market to identify one or more interested buyers. If too few potential buyers have been exposed to a business for sale, the process may not produce a buyer. This can happen when a business

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ILLUSTRATION: ISTOCK INTERNATIONAL INC.

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intermediary has too many restrictions placed on marketing the business or doesn't have the right connections or resources to market the business effectively.

Market conditions are negative. The market is cyclical. There are times when few transactions take place because credit markets tighten. When interest rates are higher, the available financing usually decreases because lenders require a certain level of debt service coverage.

LOWERING THE BUYER'S PERCEPTION OF RISK

The first three reasons a business may not sell are primarily because of the perceived riskiness of the transaction to a potential buyer. A few strategies are available to address the risk to a buyer. The best thing to do, if possible, is to address the reasons for the perception of risk by steps such as:

› Build the recurring revenue components of the business or create new ones. This is somewhat counterintuitive, but one way to do it is make an acquisition or two.
› Develop the management team and make the business less dependent on the owner.
› Diversify the customer base.

Unfortunately, those ideas take time. If you don't have the time to make significant changes in the business, alternatives are:

› Make a portion of the purchase price an earn-out payable only if the business achieves a certain level of performance after a deal is done. These are tricky. The objective is to decrease the buyer's perception of risk while not significantly increasing the seller's risk of going unpaid.
› Provide some of the financing for the transaction in the form of a seller note. This, too, is tricky because a seller note will be subordinate to the traditional financing a buyer obtains and may have limited payments for two to three years. However, lenders often prefer 20 percent in seller financing. Fortunately, sellers who are willing to take a seller note will, on average, realize a significantly higher price for their businesses than those who are unwilling to take seller paper.
› Focus on buyers who will have a lower perception of risk, such as key employees or, perhaps, competitors.

PRICING AND MARKETING

To stimulate buyer interest, it's a sound idea to have a discussion with a merger-and-acquisition adviser about an asking price that will be attractive to potential buyers without leaving money on the table. In some cases, an earn-out or similar provision can help bridge a valuation-perception gap.

One factor that diminishes the likelihood of receiving an offer is a limited marketing plan that's the result of concerns about confidentiality. Many owners are concerned their business may implode if employees or customers find out it's for sale. Thus, they limit the advertising or types of contacts their intermediary can make to avoid the risk of inadvertent disclosure. However, there's a direct relationship between the number of potential buyers who know about an opportunity and the likelihood of receiving an acceptable offer. It's often wise to have as broad a marketing program as possible.

Negative market conditions are one thing you can't control. The best advice is to prepare ahead of time and be ready to sell when market conditions are right, not knowing exactly when that may be. Your only other realistic alternatives are to delay your transaction until market conditions improve or use transaction terms (seller financing, earn-outs and asking price) to make a proposed transaction attractive, even with negative market conditions.

BUYERS TEND TO FAVOR BUSINESSES WITH A **SIGNIFICANT STREAM OF RECURRING REVENUE,** SUCH AS LANDSCAPE MAINTENANCE OR LAWN CARE.

BEING OBJECTIVE

Examine your business as a buyer would, and address the things that would make your business unattractive to you if you were considering purchasing it. Being objective is difficult when it's your business, so consider asking trusted advisers to do the same thing and be straightforward with you about what they think.

The best alternative is to avoid this situation altogether by developing an exit plan. An effective exit plan should assess the value and marketability of your business and include action steps to improve them throughout your planning timeline. A primary goal of your exit plan should be to enable you to sell your business on your terms and timetable. LM

Planning pointer

The first three reasons a business may not sell are primarily because of the perceived riskiness of the transaction to a potential buyer. The best thing to do, if possible, is to address the reasons for the perception of risk.

Edmonds is principal of The Principium Group, a Green Industry merger and acquisition firm. Reach him at redmonds@principiumgroup.com.

Q: WHAT IF I GET AUDITED?

BY **DANIEL S. GORDON**

A: All land care professionals need to maintain accurate financial records. The most obvious reasons for doing so is to assess the results of operations against past periods, analyze current budgets or to formulate future projections. Moreover, for ownership and management, this is an internal need to monitor and improve the business.

Yet there's an external partner in your business needing to be fed accurate information, too. And if that partner requests, you, as an owner/manager, must prove the accuracy of the information. If you're wrong or can't prove the information is accurate, you may be subject to fines. Who's this partner? Well, there are several. They include the Internal Revenue Service (IRS) and state and local taxing authorities.

You're responsible for providing these taxing authorities financial statements summarizing the results of your operations to report tax liabilities and provide tax payments. Depending on the type of legal entity you operate, you may be required to provide a balance sheet and a profit and loss statement. It's your responsibility to support every number on your tax return with corroborating documentation.

> JUST SHOWING YOU PAID AN ITEM ISN'T SUFFICIENT. IT MUST BE **NECESSARY AND REASONABLE, SUPPORTING A BUSINESS PURPOSE** TO BE DEDUCTIBLE.

This sounds like a lot of work. It is. The problem is we get so involved with running our businesses, we put record keeping on the back burner and do a mad dash at tax time to organize our records. A landscape business has many moving parts, including prepaid customer accounts, renewals, payroll, loan/lease payments for vehicles and premiums payable or refunded, based on general liability or workers' comp insurance audits. These items, as well as other issues, make bookkeeping a tedious, important task. But, luckily, you have some leeway in how you bookkeep.

REQUIRED RECORDS

The IRS doesn't have a prescribed record-keeping system. You may choose any system suitable to your needs as long as it clearly shows your income and expenses. It should include a summary of your business transactions, primarily the ledgers a part of your accounting system. Many land care professionals use QuickBooks or Peachtree for their ledger requirements. Both provide adequate detail when drilling into subledgers. As long as the transactional information is accessible, accurate and detailed enough to trace and agree to a source document, you'll fare well in the data presentation phase of an audit.

Assuming your ledgers are correct, each transaction needs to be supported by a source document, which can be electronic. Purchases, sales, payroll and other transactions will generate supporting documents such as invoices, receipts and others, which contain the information that must be recorded in your ledgers. It's important to keep these documents because they support the entries in your books and on your tax return. Keep them in an orderly fashion and in a safe place. For example, organize them by year and type of income or expense.

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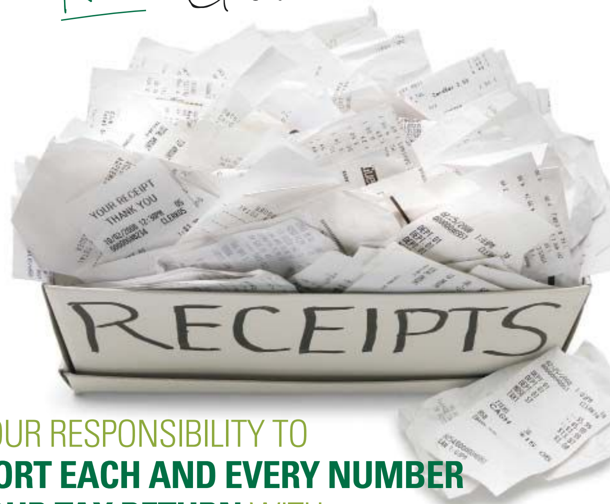

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It's important to note a record needs to be verifiable and must support a transaction includible in income or deductible as an expense as allowed by the tax code and regulations promulgated there under. Just showing you paid an item isn't sufficient. It must be necessary and reasonable, supporting a business purpose, to be deductible. Here are basic records that substantiate the following items:

Gross receipts are the income you receive from your business. You should maintain supporting documents showing the amounts and sources of your gross receipts. Documents for gross receipts include:

- Signed service tickets or invoices;
- Bank deposit slips;
- Credit card charge slips; and
- Forms 1099-MISC received from customers.

Planning pointer

You may choose any record-keeping system that suits your needs as long as it clearly shows your income and expenses. Your system should include a summary of your business transactions, primarily the ledgers that are part of your accounting system.

Purchases are the items you buy and resell to customers or materials you apply during your service visits. Your supporting documents should show the amount paid and the amount was for purchases. Documents for purchases include:

- Vendor invoices for material, supplies and equipment;
- Cancelled checks; and
- Credit card sales slips.

Expenses are the costs you incur (other than purchases) to carry on your business. Your supporting documents should show the amount paid and the amount was for a business expense. Documents for expenses include:

- Cancelled checks;
- Legal agreements, such as leases, note payable, mortgages, etc.;
- Account statements;
- Credit card sales slips;
- Vendor invoices; and
- Petty cash slips for small cash payments.

RETAINING RECORDS

The minimum amount of time to retain records for tax purposes depends on the item, when it's recorded and if it will be part of a future transaction. For example, you purchase a vehicle and sell it in five years. The transaction five years hence would be a future transaction requiring information from the original purchase. Generally, you

IT'S YOUR RESPONSIBILITY TO **SUPPORT EACH AND EVERY NUMBER ON YOUR TAX RETURN** WITH CORROBORATING DOCUMENTATION.

must keep your records supporting an item of income or deductions on a tax return until the statute of limitations for that tax return runs out.

The statute of limitations is the period of time in which you can amend your tax return to claim a credit or refund, or the IRS can assess additional tax, usually three years after filing. Returns filed before the due date are treated as filed on the due date for this purpose. In the following situations you'll need to produce records past the normal statute of limitations:

- Records for as many as six years after filing if you fail to include income you should've reported, and it's more than 25 percent of the gross income reported on the original return.
- Records for as many as seven years after filing if you file a claim for a loss from worthless securities or bad debt deduction.
- All employment tax records for at least four years after the date the tax becomes due or is paid, whichever is later.
- If you file a fraudulent return or you don't file a return, your records might be examined indefinitely.

These are the rules for the supporting documentation. However, I like to keep copies of the tax returns long after they're filed. They can help when preparing future tax returns and when making computations if you file an amended return. Keep records relating to property purchases and improvements until the statute of limitations expires for the year in which you dispose of the property. These records must be kept to determine any depreciation or amortization and figure the gain or loss when you sell or dispose of the property.

Keep accurate and complete records supported by a well-maintained bookkeeping system. This allows you to perform proper planning for growth and profit and, foremost, comply with any requests for records during an IRS audit should you be called on to prove your tax return is accurate. LM

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Q: HOW DO I IMPROVE CASH FLOW?

BY **MONICA MITCHELL MUIR**

A: Almost every business monitors cash closely, and they all seem to have their own systems. The following are 10 ways to help you improve cash flow in your business.

1 **Monitor your cash on hand.** This includes money that has come in and might not have been entered in the accounting system yet, as well as payments that haven't cleared the bank yet.

2 **Reconcile your bank and credit cards monthly.** That will help make monitoring your cash on hand more accurate.

3 **Review your statement of cash flows, income and expenses. The P&L or income statement provides only partial insight into the health of your business.** Payments on loans would be an example of transactions that decrease cash on hand but wouldn't show up on your P&L. The purpose of the statement of cash flows is to explain your change in cash on hand throughout a given period of time; in other words, why it increased or decreased.

4 **Monitor accounts receivable closely.** Besides accounts receivable aging reports, you may have an average days to pay report, which will let you quickly see who pays slowly and who pays quickly. Wouldn't it be nice to have more fast-paying clients?

5 **Make it easy for customers to pay you.** Many business owners don't like to accept credit cards, but sometimes accepting a credit card will pay you much faster. Perhaps you can have your customer's card on file so you can take monthly payments or whatever you prearranged with the customer. You may even

Planning pointer

Look for patterns so you can drop the least profitable clients or jobs and do more for the most profitable.

PHOTO: ISTOCK INTERNATIONAL INC.

MANY BUSINESS OWNERS DON'T LIKE TO ACCEPT CREDIT CARDS, BUT SOMETIMES ACCEPTING A CREDIT CARD WILL **PAY YOU MUCH FASTER.**

find the customer will go with a larger project because you accept credit cards.

You also can have clients pay you online, and not only by credit card. Automated Clearing House, for instance, has lower transaction fees because it charges a flat, per-transaction fee instead of a percent-of-transaction fee. There may be a monthly fee.

SET PREPAYMENTS ASIDE, AND USE IT FOR THE CLIENT'S WORK INSTEAD OF OTHER BILLS. IF YOU'RE USING IT FOR OTHER PAYMENTS, **THAT SHOULD BE A WARNING.**

6 **Accept payments up front or at the time of service, then you don't have collection concerns.** Set prepayments aside, and use it for the client's work instead of other bills. If you're using it for other payments, that should be a warning. You need to look closer at your financials.

7 **Run a cash flow forecast, if your software has the capability.** It can be quite helpful—this assumes customers pay you on time and you pay your vendors on time.

8 **Monitor your payables closely.** To do this, you must enter your bills in your accounting system and not just simply write checks when it's time to pay bills.

9 **Look for most and least profitable patterns so you can drop the least profitable clients or jobs and do more for the most profitable.** Consider monitoring profitability by:
- Product/service line;
- Type of customer;
- Project/job; and
- Type of project/job.

10 **Monitor your debt.** Loan and credit card payments may not show up in your accounts payable aging reports, so consider these. The following can help:
- The statement of cash flows (discussed in No. 3);
- Current ratio, which looks at how easily you can pay your debt (total current assets/total current liabilities); and
- Debt ratio, which calculates the percentage of your business financed by debt (total liabilities/total assets). LM

Muir specializes in helping businesses use QuickBooks so they can save time and money and increase their profitability. Reach her via muirassoc.com.

Q: WHAT'S THE ROI FOR EFFICIENCY TRAINING?

BY **DAVE HESSONG**

A: The return on investment for efficiency training obviously depends on the efficiency of your operation. As a rule, there's always room for improvement. So many times we tend to do things a certain way, but if we were asked why we do something this way, the answer would be something like, "Because we've always done it that way."

The definition of efficiency is acting or producing effectively with a minimum of waste, expense or unnecessary effort, or exhibiting a high ratio of output to input. It means doing the same work faster. The key is doing the same work and having the same results. If you sacrifice quality to gain speed, it's not being more efficient, it's only being faster.

There's certainly room for improvement in how we do a job, but what about how we prepare for and travel to and from a job? There could be the most room for improvement here. How much time do your workers spend loading up at the shop in the morning? Do you pay workers to sit in a truck for 10 minutes while the driver stops for fuel—or longer if the crew stops for materials on the way to a job? Consider these operational aspects.

Here's a hypothetical situation: A supervisor fails to consider the best place to position the trailer when arriving at a job so his guys can unload materials most efficiently. Anytime you do a repetitive task, even for a few seconds, it adds up to a significant amount of time. Don't believe me? Let's do the math.

Take three workers moving 300 pavers to the back of a house inaccessible by mechanical means for a patio job. If each carries five at a time, it's 20 trips each. Multiply that times the three workers, and you have 60 trips. If the trailer is parked on the street instead of backed in the

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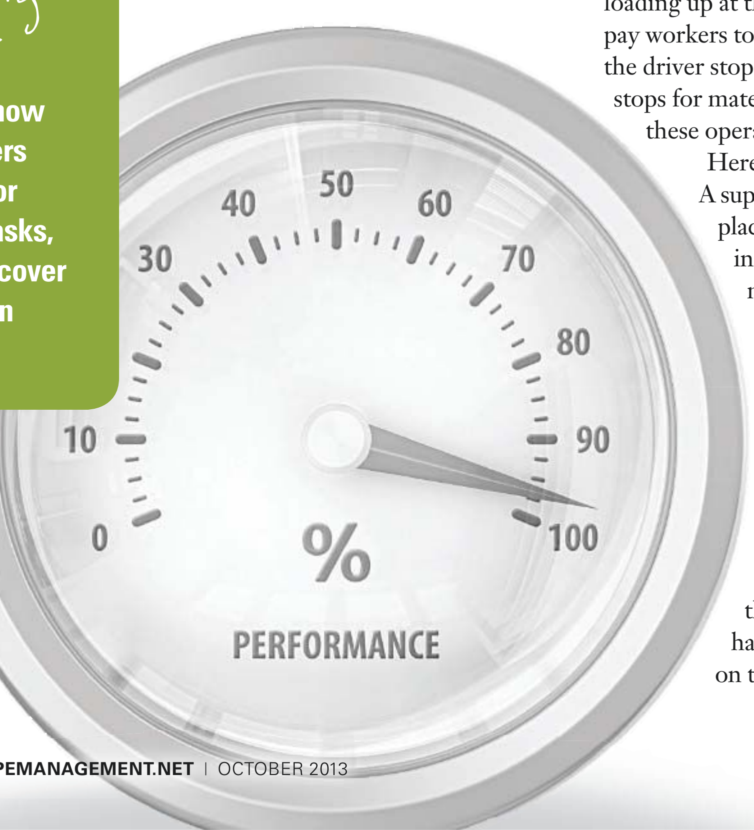
» WEB EXTRA

Visit the Web Extras section of **Landscape Management.net** to download an efficiency health assessment workbook, which allows you to enter a billing rate, number of workers, estimated amount of time wasted and how often you think it occurs.

Planning pointer

You'll want to show your crew leaders best practices for some specific tasks, but you'll never cover every situation in your operations.



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driveway and it takes an extra 10 seconds to walk the additional distance, that's 600 seconds. Once each worker makes a round trip, covering the additional 10 seconds walking back, double that to 1,200 seconds or 20 minutes. If you're paying them $15 an hour, you pay them $5 each or one man-hour unnecessarily. But that's not really what it costs. If your billing rate for each man is $50 an hour, that 20 minutes cost $16.60 per man or $50. If this is repeated at each job once a week for 26 weeks, that's $1,300 dollars down the drain. Now let's say you have five crews operating the same way. That's $6,500 dollars. That seemingly insignificant 10 seconds looks pretty significant now, doesn't it?

How far into this story were you before you asked, "Why are they carrying five at a time instead of putting 20 in a wheelbarrow?" That would be an alternative to carrying them, but how many times have you seen it done the hard

WHEN YOU SEE HOW THE NUMBERS ADD UP AND CONSIDER HOW MANY OTHER ASPECTS OF YOUR DAILY OPERATION MAY BE DONE INEFFICIENTLY DAY AFTER DAY, **TRAINING BECOMES IMPERATIVE, NOT OPTIONAL.**

way because that's the way it's always been done? Or maybe it was because of a lack of preparation—they didn't have a wheelbarrow or they had one but the tire was flat. This is an example of just one small task among many that make up your daily operations. When you see how the numbers add up and consider how many other aspects of your daily operation may be done inefficiently day after day, training becomes imperative, not optional.

Fortunately, the investment doesn't need to be as much as you may think. You'll want to show your crew leaders best practices for some specific tasks, but you'll never cover every situation in your operations. It has to be a mindset. Your crew leaders need to watch each situation and ask if there's a better way to do something. It's the work-smart-not-hard mentality. Best practices will set precedents, and your crew will see processes differently. Inefficiency isn't difficult to spot if you're looking for it.

To that end, the ROI for efficiency training may be more significant than you think. LM

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ILLUSTRATION: ISTOCK INTERNATIONAL INC.

Q: HOW MANY SUPPORT STAFF DO I NEED?

BY **KEN THOMAS**

A: I'm continually surprised and amazed by the lack of continuity in the amount of support staff per dollars of revenue among landscape business owners. It ranges from two people per $5 million to one person per $1 million. Notwithstanding the differences between design/build and maintenance, it seems there should be a standard correlation between support staff and revenue. So what's the right number, and why is it no matter how many people are in the office, they still can't seem to finish all the work?

First, let's define support staff. Anyone who's not on the sales and production staff is in a support role. The role can be broken down into a couple of key areas: accounting/HR/finance (office administration) and sales and production (production administration). While both are support roles, they have different focuses.

In many small businesses, the responsibilities of these support areas are hazy. After all, these two roles are generally performed by one person early on so it's easy to brand anyone and everyone who works in the office in a support role as administrative, even as the business grows and evolves. This melding of support roles eventually can lead to an enormous amount of blurred accountability and disconnected tasks that become almost impossible to manage efficiently.

Owners and managers spend a lot of time developing sales and production staff so these teams can be effective and efficient. But we don't spend as much time focusing on our office or support staff. Like any other hiring decisions, the hiring of office and support staff should be related to company size and number of tasks. On the finance support side, staff size is related closely to the number of transactions and employees. On the production/sales support side, it's tied to the volume of calls and jobs or number of customers.

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ILLUSTRATION: ISTOCK INTERNATIONAL INC.

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REVIEW AND ANALYZE

At some point in a company's growth, it's imperative for leadership to separate financial functions and production/sales support functions. One approach for unraveling this puzzle is to review the role of your support staff and to do a task/time analysis of all work being completed. This exercise will reveal exactly what each staffer is doing and how much time they're spending on each task. Task/time analysis comprises listing each task and estimating the time required to complete it. For example, payroll may take four hours each week. If there are 30 people involved, payroll processing takes about eight minutes per person per week. Knowing this will help us understand what it will take if there are 40 people and what other responsibilities the payroll person has time for. Doing this analysis may require timing certain activities; it will typically reveal a combination of inefficiencies and opportunities.

Once these have been identified, list exactly what all the key functions are: invoicing, payables, payroll, new job setup, etc. Next, map the way you're processing these key functions. Mapping means drawing a chart of how the process takes place, who does what and how. Mapping existing process flow is an effective way to identify points of waste and opportunities for improvement. Begin eliminating waste and creating efficiencies by remapping the functions. Eliminate as many connection points and tasks as possible. Often, the current owners of the processes struggle to see the redundant or inefficient steps in it. A nonbiased but knowledgeable third party may be needed to facilitate the process and encourage people to let go of certain tasks because it's always been done that way or because they feel a threat or loss of power when responsibilities are reorganized. The key is to seek the most efficient flow for every process and identify a way to make processes measurable.

THIS MELDING OF SUPPORT ROLES EVENTUALLY CAN LEAD TO AN ENORMOUS AMOUNT OF **BLURRED ACCOUNTABILITY AND DISCONNECTED TASKS** THAT BECOME ALMOST IMPOSSIBLE TO MANAGE EFFICIENTLY.

DOCUMENT, TRAIN AND MONITOR

Once processes have been remapped, they need to be documented, trained and monitored. The benefits of efficient well-documented processes are increased efficiency and capacity, increased accuracy and ease of onboarding and training of new employees. Once you've redesigned and documented your key processes, it's easier to manage, hold accountable and right-size the support team. You also can assess the abilities of your people more easily to determine if you have the right person in the right seat. Once you have a baseline for how long each task should take, you can set staffing levels more realistically.

At certain growth points, it becomes important to increase financial oversight and recognize and separate the administrative responsibilities. This is accomplished by establishing the accounting controller position and the contract administrator position.

The controller is a higher-level accounting and finance executive who can manage all accounting and finance responsibilities and staff, as well as perform higher-level financial analysis, budgeting, forecasting and cash-flow management.

The contract administrator position is key to breaking off many of the administrative tasks associated with production away from the accounting and finance area. The contract administrator typically reports to the operations manager (not the controller) and acts a bridge between operations and finance. His role is to support operations and facilitate information flow to and from accounting. If there are multiple divisions (e.g., maintenance and construction) there may be a need for a contract administrator in each division, based on the size of each division.

Establishing these key positions along with the development of clear processes will help structure and simplify your office, making it more manageable, measurable and accountable, which will allow you to do more with less.

So how many support staff are required? While this varies by business type, size and market area, as a company reaches maturity, a reasonable average is one staffer for every $1.7 million to $2.3 million. LM

Planning pointer

Like any other hiring decisions, the hiring of office and support staff should be related to company size and number of tasks. On the finance support side, staff size is related closely to the number of transactions and employees. On the production/sales support side, it's tied to the volume of calls and jobs or number of customers.

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PHOTO: ISTOCK INTERNATIONAL INC.

Q: SHOULD I CONSIDER OPEN-BOOK MANAGEMENT?

BY **JENNIFER LEMCKE**

A: An open-book management style that includes employees from every aspect of a business can improve its scope and take in the big picture. Most importantly, planning allows employees to develop a deep understanding and appreciation of the overall business.

Weed Man's business plan, a blueprint for continued success, covers the company description and mission, details about the marketplace, sales and marketing data, business operations information and extensive budgeting. Because of the amount of thought that goes into creating such a detailed document, it's important for brainstorming to include a diverse group of people to develop a sustainable, well-researched plan.

Ownership can't be everywhere at once, which is why businesses strive to hire effective managers in the first place. It's essential to rely on their expertise to help us make long-term and short-term decisions. Not to mention having the entire team on the same page from the get-go saves time, effort and money in the long run.

Creating a solid, credible business plan is easier when you have the right tools and people. Collaboration with the majority of staff promotes an all-hands-on-deck planning process. The more insight owners and managers have into a given business aspect, the more accurate forecasting is likely to be. In this way, the business-planning session is more valuable when you have an open-book style because the input is driven from knowledge rather than gut feelings.

This is particularly critical for a zero-based budgeting model, which forces managers to budget from scratch each year, regardless of whether the budget is higher or lower than the previous one. All managers come together to thoroughly analyze all business facets and evaluate and justify every expenditure.

HOW IT WORKS

The business-planning process, which usually takes place in the fourth quarter for the following year, should involve the entire management team and owner building the plan collaboratively. It should be at a prearranged time with thoughtful discussion and consideration given to your business results and goals for the following year. The meetings may include the administrative, technical, sales and general managers.

When field experience is required to make a decision, bring in someone special, such as a technical supervisor or field supervisor, to provide direct knowledge of the topic. All staff members with accountability become an active part of the decision-making process.

PHOTO: ISTOCK INTERNATIONAL INC.

Gathering the team for business planning allows employees to develop a deep understanding of the company's processes, while recognizing profitability is good. The mentality is never us vs. them; it's everyone is in it together because it's everyone's plan, not the owner's plan.

COMPANY CULTURE

As with any aspect of workplace culture, this attitude toward budgeting and business planning directly impacts the way employees feel about their roles. Weed Man has seen tremendous benefits from implementing open-book management.

Other companies considering an open-book approach may have to do a gradual cultural shift. It's often a business owner's instinct to keep financials under wraps, but the benefits of inclusion far outweigh the negatives. Foremost, it allows management and ownership to align in their goals. Employees aren't just told what the company's goals are; they play an active role in setting and reaching those goals. Secondly, collective business planning with the entire management team creates a forum for challenging company discussions. Not everything is easy or enjoyable to deliberate, but sometimes a problem or part of the budget needs to come under the microscope before it can be resolved. The company owner has the freedom to ask, "Why were there no telephone costs one month?"

After the business plan is created, the next step is to put the budget into an accounting software program and share financials with all managers. In addition to helping maintain an open-book management style, this step enables employees to understand where the business stands at all times.

Encouraging active participation in the business-planning process among all employees helps managers manage better, while fostering a culture of trust, autonomy and accountability in the workplace. LM

Lemcke, COO of Turf Holdings/Weed Man USA, is responsible for training and supporting Weed Man's U.S. subfranchisors. Reach her at jennifer.lemcke@weedmanusa.com.

Planning pointer

Because of the amount of thought that goes into creating such a detailed business plan, it's important for brainstorming to include a diverse group of people to develop a well-researched plan.