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.

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

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