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The miracles of science™

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THE BENCHMARK

KEVIN KEHOE

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Sizing up the challenge

We talk a lot about strategic plans, but rarely about strategy. A successful strategy increases *enterprise value*. Enterprise value is the financial worth of your business. It is calculated by multiplying earnings before interest, taxes, depreciation and amortization (EBITDA) by an EBITDA multiple. Therefore, your strategy must address a simple mathematical truth: Increase both EBITDA and the multiple.

So far, so good, right? But how do you do that? The only way is to manage the “four horsemen” (see below) of EBITDA and the multiple — and do this in an economy not likely to return to the glory days for at least the next five years. That is the horizon on the commercial real estate cycle upturn.

If you haven’t recognized it yet, the landscape industry business model and platform — upon which we have been standing the last 15 years — is burning. What worked for you in the past *will not* work in the future. You need a new strategy.

There are three steps in determining your strategy:

1. Size up the challenge.
2. Assess key business performance benchmarks.
3. Determine a few critical priorities and the required financial investment.

In this article I address the first step, and will address the other two in future columns.

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Meet the four horsemen

The four horsemen of enterprise value are revenue growth, margin performance, cost growth and revenue mix.

For example, take a business with a 40/60 revenue mix of maintenance/construction and an operating profit of \$140,000. When we adjust operating profit for interest, depreciation and owner add-backs, we get an EBITDA of \$300,000. Applying industry multiples of 5.00X and 1.50X for maintenance and construction, respectively, we arrive at an enterprise value of \$870,000.

Now, let’s *size up the challenge* to see what it would take to double enterprise value in four years (2010 to 2013). With a shrinking gross margin due to pricing, we have to grow revenues between 12% and 15% annually while adding overhead at only 7% per annum; at the same time, we shift to a 50/50 mix.

In other words, we have to add more than \$250,000 in revenues every year — primarily in maintenance — while still selling \$1 million in construction. We will need to price and manage operations such that margins get no worse than the projection.

Finally, we have to slow down cost growth. Because variable costs for equipment usually run 15% of revenue, equipment costs consume most of the allowable cost inflation. In simplest terms, this strategy allows for no additional non-billable staffing.

While this is not a small undertaking, it is achievable — and it is what is required to double enterprise value. Knowing the size of the challenge, we can proceed to the next step: assessing key performance benchmarks to determine the business drivers that will get us there.

So, while you are putting your head down and running as hard and fast as you can working your tactical to-do list, you might want to pick your head up and make certain you’re not headed for a cliff or a wall. Start thinking about the wisdom of your strategy.

LITTLE WONDER®

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- ▶ Replaceable chute liner
- ▶ 4 Mounting choices
- ▶ Easy to service



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This new Little Wonder truckloader puts a 14hp helper at the back of your truck. With the 8" intake this unit will pick up leaves and debris and load them all day long, especially in tough conditions. We put all of the features you want into a smaller easy to use unit. Built for commercial use, this model has high airflow for performance, a tough impeller, an easy to use intake, plus we made it serviceable so it will last.

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**MAINTENANCE:
BLOWERS**

Grasshopper

Grasshopper Turbine Blowers clear debris from congested, hard-to-reach or wide-open areas and long stretches of walkways and curbs in a fraction of the time required by conventional backpack blowers and walk-behind units. The quiet units offer 360° nozzle rotation — controlled remotely from the operator's station — to direct airflow precisely for reduced high-volume cleanup time along walking paths and around sport facilities, parking lots, playgrounds and cemeteries. *GrasshopperMower.com/turbine*



Echo

With performance specifications of an average air volume of 765 cfm at the pipe and 204 mph maximum air speed, the new PB-770 blower is equipped with a powerful 63.3cc Power Boost Tornado engine with

Pro-Fire ignition for quick and easy starts.

Available in hip- and tube-mounted throttle versions, it features a straight back "L" frame, an extra-flexible tube, dual-stage side-mounted heavy-duty air filtration, wide-angle tube rotation, padded backrests and shoulder straps, and a leaf guard. It even features an exclusive vented back pad that draws air in around the user for comfortable operation in hot weather. A vent cover is included to block this function during cold weather use. *Echo-USA.com*

FINN Corporation

The FINN Corp. made a name for itself in the landscape and erosion control marketplaces with products lines such as HydroSeeders™, Bark Blowers, Straw Blowers, and the FINN Consumable Products. Not only has the FINN Corporation extended its expertise into the development and commercialization of these diverse product lines, but has also opened its arms to a number of additional industries including golf, home construction, mine reclamation, waste management and equipment rentals. *Finncorp.com*



Express Blower Inc.

Express Blower is a manufacturer and distributor of large pneumatic blowing equipment. Spread large or small quantities of mulches, composts, soil blends and aggregates for landscapes, green roofs, and erosion control blankets and berms. Plus, install or topdress lawns and turf with our patented and exclusive Ter-raseeding process. *Expressblower.com*

Stihl

The Magnum BR 600 backpack blower, backed with a two-year limited commercial warranty, offers fuel efficiency as much as 28% more than competitive models. Its improved engine design increases durability and improves operational life. An enhanced nozzle extends wear area for longer life, and a nylon harness increases wear resistance. The blower is 69% cleaner than current U.S. Environmental Protection Agency requirements. The blower also features adjustable blower tubes to provide greater versatility for a wide range of jobs and users. *Stihl.com*

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“photosynthesis” is the latest
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INSURANCE & EMPLOYEE BENEFITS
To guide and provide

“In **this** neighborhood,
PERFECTION
is the only acceptable
RESULT.

That’s why I use
4-Speed™ XT.”

Eric Larson, Green Systems Turf Management
Site: Astor’s Mansion
Newport, Rhode Island

With contracts for many of the world’s most famous mansions, Eric Larson faces customer expectations that are as high as the real estate prices. So when ground ivy, clover and other tough weeds started showing up, he turned to 4-Speed XT. Its combination of four active ingredients makes weeds ‘Deader. Faster.’ For more on 4-Speed herbicide brands, and more of Eric Larson’s story, go to www.nufarm.com/us.

Better Choices. Better Business.

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www.nufarm.com/us



LAWN CARE:

SEEDING & TURF REPAIR

JCB

The new 515-40 is JCB's most compact and maneuverable telescopic handler model to date. At just 5 ft., 11 in. tall, 5 ft., 2 in. wide and 9 ft., 6 in. long, the unit weighs 7,672 lbs. and features an offset, single-spine main frame. As a result, the machine boasts a full-size cab with both easy accessibility and plenty of space for the operator. The new design enables the machine to break through a barrier that previously prevented many compact telescopic handlers from use in smaller workspaces. Use it to haul, level and load as an alternative to a skid steer. JCBNA.com

SourceOne Outdoor Power Equipment

A SourceOne TurfSavr slices, overseeds, fertilizes and dethatches. It starts as a top-dresser for seeding and spreading fertilizer. Use the high carbon steel renovation knives, with 1.6-in. blade spacing, to increase seed penetration and germination. Change from seed to fertilizer, and it's a spreader. Use without the hopper for dethatching. Install a TS010 flail blade for aggressive dethatching. Powered by an 8-hp Honda OHV engine, TurfSavr has a built-in quick-release receiver hitch for a StepSavr. The self-propelled, oversize 13x5-in. pneumatic rear tires, ergonomic handle and weight-balanced design reduce operator fatigue for all uses. SourceOneOPE.com

Turfco Manufacturing

The new budget-friendly, 140-lb. Kiscutter Sod Cutter is easier to operate and transport than traditional sod cutters. Features include a four-wheel design, pneumatic tires and rear-wheel drive. A 5.5-hp Honda engine, which can cut up to 150 ft. per minute, produces lower vibration — reducing operator fatigue. It's also easy to use: Operators set the depth adjustment, then run simplified controls on the handle bar. Lightweight folding handles result in easy lifting, hauling and storage. Turfco.com



Bobcat Co.

New Bobcat three-point disc harrows can easily break up the soil surface to prepare it for new seedbeds and plantings. Four sets, or "gangs," of five 18-in. discs cultivate the soil and chop unwanted debris, such as weeds or old crops. These gangs are adjustable to provide different cutting depths and aggressions. The discs on the two front gangs are notched to assist in better ground penetration. The 72-in. Bobcat disc harrow is approved for use on compact tractor models CT225 to CT335 and the Toolcat 5610. The 84-in. Bobcat disc harrow is approved for use on compact tractor models CT335 to CT450. Bobcat.com/attachments



BETTER RESULTS



4-Speed™ XT Saves Contracts

APPLICATION RATE:

1.3 oz/1,000 sf of 4-Speed XT plus spreader-sticker (1 oz/gallon finished spray)

APPLICATION EQUIPMENT:

LT Rich Z-Sprayer, 1/3 gal spray tips

TIMING:

July 13, 2009

SUMMARY:

"This was not ideal herbicide application timing for ground ivy control, but we still had great results on it and all the other weeds on the 4-Speed XT label. As a result, we saved several contracts. We'll be using a lot more 4-Speed XT and other Nufarm products in the future."

4-SPEED™ XT

Better Choices.
Better Business.



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Andre J. "Frenchy" Rheault is the only landscaper we know who has had a frozen dessert named in his honor. During a 20-year career as a U.S. Air Force Master Sergeant air traffic controller, and after taking over a landscape business from a friend who got orders to go to Germany, Frenchy began a lifelong campaign supporting veterans affairs and charities — and providing community service projects in and around Denton, TX.

Frenchy, tell us why a local ice cream shop named one of its flavors in your honor: Frenchy's orange sherbet.

We've been honored in many ways and with many awards for the things we've done in the community and for our veterans. It's very gratifying, but it's been fun, too. I've been selected as the Businessman of the Year by the Denton Chamber of Commerce, and the State of Texas Volunteer of the Year, and I've twice won the 4th of July's Most Patriotic Character Award. Everybody knows who we are, and we appreciate that.

By the way, how did you get the nickname Frenchy?

When I joined the Air Force, people I met in the service who were not French had trouble understanding that Rheault was pronounced "row." Frenchy is a lot easier.

You've been in the business a long time. How do you keep your enthusiasm for the industry? Simple: I work with incredible people. Today (Aug. 12) it's

105 degrees. The temperature has been above 100 degrees for 14 days in a row. We've been incredibly busy, and working 7 to 7 every day for the past several weeks. These guys are unbelievable.

I have five employees who have been with me better than 20 years, and the rest have been with me 10 years or more. We put in a lot of hours, and we do a lot of jobs. I stay with my people from the early morning until dark six days a week.

How did the recession affect your business? It hasn't affected my business that much. We started slow this year, but we had the best June we've had in my 36 years in this business — and we're incredibly busy right now. I believe the longer you've been in business, the longer you're going to stay in business if you keep doing things right.

If you have a good product and you provide excellent service, it doesn't matter what the economy is.

You obviously enjoy the lime-light, and certainly aren't shy.

Yes, I'm highly visible. In fact, you can see me at the (NFL Dallas) Cowboy games. This year I'm going in costumes and a beard every game. I'm going to do a pilgrim, a Santa, I'm going to dye my beard red, white and blue, and I'm going to go as the King of Orange in a Henry the Eighth outfit — although around here I'm known as Frenchy the First. I'll be sitting right over the luxury suites. It will be easy to pick me out. I've never wanted to be just one of the crowd.

We're surprised that as an owner you're still out working in the field every day. You have an enviable work ethic.

AT A GLANCE

COMPANY: Frenchy's Lawn & Tree

FOUNDED: 1974, renamed and rebranded in 1995

TITLE: President and owner

HEADQUARTERS: Denton, TX (sole location)

EMPLOYEES: 20

SERVICES: Fertilization, mowing, mulching, aerating, plant/tree installs, tree services, color, seasonal cleanups, debris removal

PERSONAL HIGHLIGHTS:

Retired U.S. Air Force, proud supporter of veterans affairs and a variety of local charities

SOCIAL MEDIA:

Follow Frenchy's Lawn & Tree on Facebook, and watch a recent television profile on Frenchy done by Dallas/Fort Worth ABC-TV affiliate WFAA at <http://tiny.cc/vn6qgh>.

WEBSITE: www.frenchys-lawns.com

I decided from Day One I was going to have the best company I could have. I knew there is always a demand for quality service. It doesn't matter what profession you are in; fortunately, I'm high energy and low maintenance.

“IF YOU HAVE A GOOD PRODUCT AND YOU PROVIDE EXCELLENT SERVICE, IT DOESN'T MATTER WHAT THE ECONOMY IS.” — ANDRE “FRENCHY” RHEAULT, FRENCHY'S LAWN & TREE

The next great leap in broadleaf weed control is coming.

October 2010.



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WEEDWATCH

STANDING SENTINEL TO PROTECT PLANT HEALTH



Recommended
Dow AgroSciences
solution

Turflon Ester Ultra®
specialty
herbicide*

GROUND IVY

Glechoma microcarpa

IDENTIFICATION TIPS

- ▶ This prostrate creeping perennial has square stems several feet long that root at the nodes.
- ▶ Its rounded, scalloped leaves and small, funnel-shaped purple flowers grow in clusters.
- ▶ All plant parts feature a strong mint odor.
- ▶ It prefers moist, shady sites, and can tolerate low mowing heights.

CONTROL TIPS

- ▶ Fall is an excellent time to treat ground ivy; applications in spring (when it is in flower) are also a good time to get effective control.
- ▶ Research has shown that products containing triclopyr are effective in spring and fall, and more effective than 2, 4-D-based products during the difficult summer period.
- ▶ Combinations of shade, wet soils and poor fertility favor ground ivy. Try and alleviate these conditions to maintain control.



Recommended
Dow AgroSciences
solution

Dimension®
specialty
herbicide**

GOOSEGRASS

Eleusine indica

IDENTIFICATION TIPS

- ▶ This prostrate-growing summer annual grows in a clump, with the base of the leaves being distinctively white to silver.
- ▶ Leaves are folded, and may be smooth or have a few hairs.
- ▶ It features a strong, extensive root system and readily invades hard, compacted soils found in high-traffic areas.

CONTROL TIPS

- ▶ Be sure your turfgrass is maintained properly so it grows vigorously and thickly.
- ▶ If you have had goosegrass previously, apply a pre-emergent herbicide labeled for goosegrass. Consider putting out two applications of pre-emergent each year in early and late spring.

* The state of Arizona has not approved Turflon Ester Ultra for use on sod farms.

** State restrictions on the sale and use of Dimension apply.

For more information regarding these and other turf weeds — and related control technologies and tips — please visit www.DowProvesIt.com or call 800/255-3726.

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