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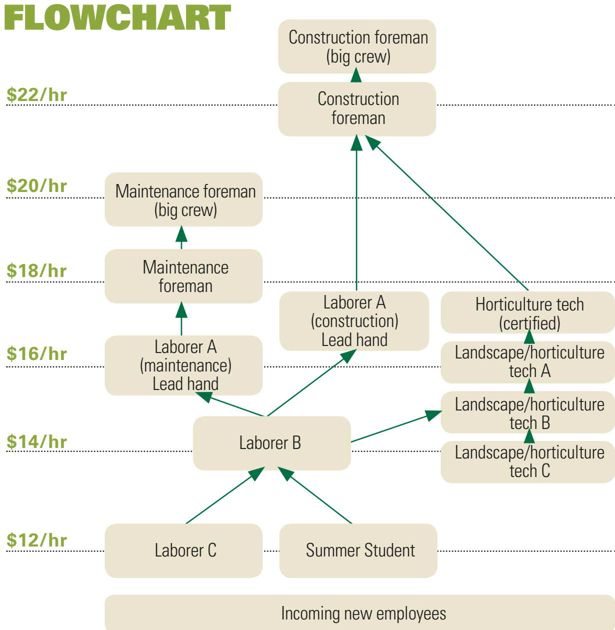
SAMPLE FUTURE OPPORTUNITIES FLOWCHART



**Opportunity paths are suggested/typical but don't necessarily need to follow the order above. Wages and positions have been changed for confidentiality.*

continued from page 30

3 List your requirements.

Define your standards for each position. To move up to a B-level laborer, you need to take a first aid course. To be a stonemason apprentice, you must register in an apprenticeship program. To be a foreman, you must become a Landscape Industry Certified Technician. Whatever your firm's criteria are, put them in writing to give your staff a clear road map. Ensure you've got a plan for which training expenses (if any) your company will cover (e.g., employees do the course on their own time, but you'll reimburse the cost of the course after completion).

4 Make your goals their goals.

I believe strongly in employee incentives, especially at the foreman level. Hourly wages put the company and its staff at odds. The longer jobs take, the worse for the company, but the better for the staff. If we want to inspire performance, we must create incentive systems that reward staff for achieving company goals. Keep your goals objective. Bonuses given without transparency for how they're calculated are forgotten faster than they're spent. Objective goals are based on criteria such as beating sales or production targets, estimated hours and a target sales-to-wages ratio (total sales divided by total wages).

5 Stick to it.

You need regular feedback and reinforcement. Have a performance review at least once a year with written objectives and give your staff a copy. Come back to that document during the next review. Share information, such as how the company is doing relative to our bonus or incentive goals. Discuss it in meetings. Put a chart on the wall at the shop. Without regular reinforcement, this will be just another change that didn't work.

THE RESULTS

› **Better hiring.** Your opportunity tree diagram is an ideal tool for hiring. Show prospects the opportunities for growth in your company. You'll excite the right kinds of employees and drive the wrong kinds to find work with your competitors.

› **Better motivation.** Without an opportunity system, staff will lack drive and motivation. Visible opportunities, clear criteria, incentive systems and wage ceilings work together to provide strong incentives for improvement.

› **Better culture.** Everyone knows who's moving up and why. They know the expectations you set. Raises and promotions are earned on merit, not just time served.

› **Better accountability.** You're putting the responsibility on your employees to develop themselves. You've provided the framework. It's up to your staff to take advantage of it.

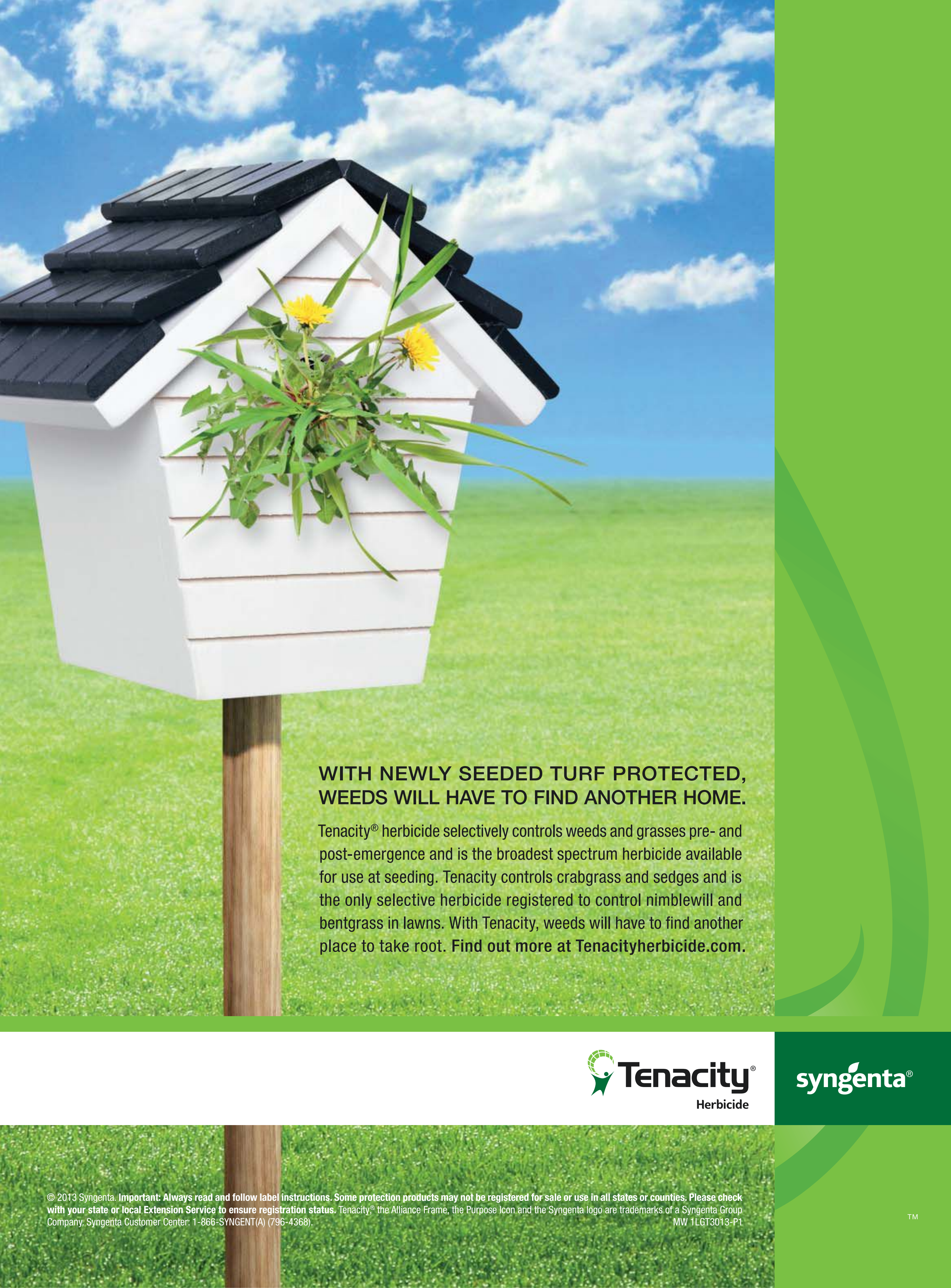
› **Better responsibility.** Delegate work easier by making certain roles and responsibilities part of your opportunity criteria. Inspire others to sweat the small stuff, so you can focus on the big picture.

› **Better sales.** Our employee-training program has played a role in our sales presentations to customers with high standards for health and safety.

› **Better profit.** Worried about rising costs because of raises? Consider this: A raise of $1 an hour will cost you about $1.25 an hour after taxes, benefits, etc. That's $12.50 a day. If that employee is just 10 percent more productive as a result of his training, engagement, experience and attitude, then you've added $40 a day in productivity, assuming a charge-out rate at $40 an hour, 10 hours a day). The difference is even bigger if he's installing materials. He'll install 10 percent more material a day, as well.

Defining opportunities for your staff is just as important for your company as it is for them. Hiring key people off the street is like handing the keys to your business to a stranger. A few mistakes can cost you a lot of money in a short amount of time. Given the industry's turnover, successful companies must be focused on developing their talent. Current employees know your systems and procedures. You know their strengths and weaknesses. It's a win-win for the company and employees. LM

Bradley, president of TBG Landscape in Brooklin, Ontario, and co-founder of the Landscape Management Network, can be reached at mark@golmn.com.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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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» 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.**

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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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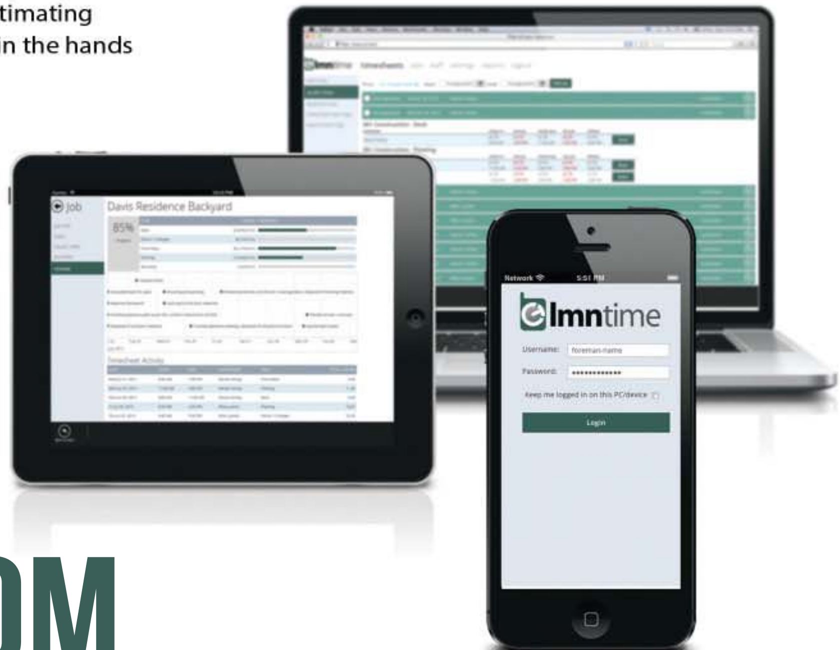

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Q: WHEN IS OVERTIME OK?

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.

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.

Planning pointer

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

ILLUSTRATION: ISTOCK INTERNATIONAL INC.

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.

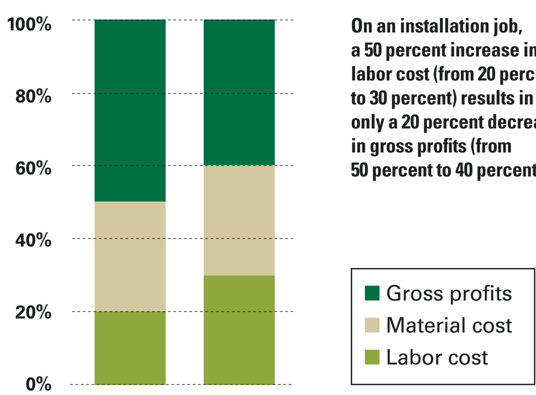
There's a point where you simply need to add more staff if installation sales can be sustained at higher-than-budget targets. However, as the last market downturn showed, limit your investment in installation overheads so you can pull back as painlessly as possible.

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

Gandy is principal of Atlanta-based Envisor Consulting. Reach him at bengandy@envisorco.com or 404-556-8923.

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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