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PURPOSE:

To explain and outline the typical growth patterns for construction and service companies with sales revenues up to $5 million and the organizational structure that accompanies such growth patterns

INTRODUCTION

Let's face it. The contracting business is still a male-dominated industry. Fortunately, the influence of women in leadership positions is slowly trickling into the industry and shaping the philosophies, processes, methods, systems and strategies within it. Unfortunately, this influence is slow in coming.

I've observed that male contractors are more confident but less competent. It's the "bull in the china shop" syndrome. Women contractors, on the other hand, tend to be more competent but less confident.

Because of the current male dominance in this industry, you have to understand the male psyche, in order to understand company growth patterns and the related structure. This will change but, for now, it's what we have to deal with. This "psyche" within this industry will continue to evolve as women gain more prominence in it. This, I think, is good.

Fortunately (I hope fortunate is the right word) for me, I relate well to this male-dominated psyche. I played all sorts of sports as a young boy (still would if I could). I fished, camped, hunted and trapped; ran track, played baseball and football in high school; was a gymnast both in high school and college; served as a captain in the U.S. Marine Corps; was a single dad to my three sons for 10 years; and I work with numerous men's ministries today. I may be self-deceived, but I think I understand guys. Otherwise, I couldn't write this chapter. In 10 or 20 years, I may be disqualified from rewriting it.

It's also fortunate (probably much more so) that I've had the opportunity to talk with, observe and listen to many women who have helped shape my perspective on people, business and life. Many would say they "straightened me out," or at least tried to. I'm forever grateful to my mother, grandmothers, sisters, aunts, female business associates and friends, with whom I've spent thousands of hours.

******* Main point:** You don't *go* into business, you *grow* into business. At least that's how it should be. *********

You don't *go* into business, you *grow* into business. At least that's how it should be. I've observed that corporate growth parallels one's personal managerial growth. You hear the term in sports, "play within your game," or "play within yourself." In other words, you need to concentrate on who you are, and what your capabilities are, and play within that framework. Understanding yourself, and your personal assets and liabilities, are essential if you're going to develop to your maximum potential.

Individuals who attempt to play "someone else's game" often become frustrated and disengaged. This doesn't mean you don't try to emulate others, and incorporate some of their elements into your "game." It just means that you focus on developing yourself, and not trying to be someone else.

In other industries, the modern franchise movement has changed the dynamic I'm about to describe. However, its influence on the green industry has been minimal, up to now.

A few definitions are in order before we begin our discussion:

- Entrepreneur: One who launches or manages a business venture, often assuming risks.
- Leader (according to Peter Drucker): One who ensures that the right things are done.
- Manager (according to Peter Drucker): One who ensures that things are done right.
- Coach: One who may or may not be part of the organization, who guides, encourages and supports another through the business development process.
- Team builder: One directly responsible for the development of a group of individuals comprised of diverse skill levels.
- Technician: A person highly skilled in a certain field or process.
- Crew leader or foreman: One with technical skills, but who can also effectively direct the work of two to five technicians.

- Supervisor: One with technical skills, but who can also effectively direct the work of two to five crew leaders/foremen.

We're going to discuss business development up to the $5 million mark. This will comprise 99 percent of all green industry businesses. Companies over this mark are unique, and need to customize management systems and processes.

Please keep in mind that the patterns we're going to discuss are typical, or common ones I've observed in the industry. Use these patterns as a point of reference only. Your company will, in all likelihood, vary from what's described here, and that's fine. Adapt my models to your specific company.

Company Growth Patterns and Structure

Construction companies

Annual revenue generated per full-time field employee is approximately $100,000. This includes materials, equipment, labor and burden, general and administrative (G&A) overhead and net profit. The average crew size is three people.

1. The first plateau:

   a. Field crew: Owner works with two full-time people in the field, for a total of three.
   b. Annual sales: $300,000 (without any subcontractor revenue included).
   c. Office staff: A part-time bookkeeper and/or office person.
   d. Other staff: None
   e. Owner: Owner runs jobs, runs the company and designs and sells jobs.
      He/she is working 65-75 hours per week doing two full-time jobs. The owner is trying to learn how to delegate and become a manager.

2. The second plateau:

   a. Field crew: Owner works with two three-person crews.
      Each crew has a foreman and two laborers.
   b. Annual sales: $600,000 (without any subcontractor revenue included).
   c. Office staff: A full-time bookkeeper or office manager.
   d. Other staff: Either a working field supervisor or an estimator/salesperson.
   e. Owner: Owner still runs jobs and the company, and designs and sells jobs.
      He/she is working 65-75 hours per week doing three full-time jobs and still trying to figure out how to delegate work to others and build a team.

3. The third plateau:

a. Field crew: Supervisor works with three three-person crews. Each crew has a foreman and two laborers.
b. Annual sales: $900,000 (without any subcontractor revenue included).
c. Office staff: A full-time bookkeeper or office manager with part-time help.
d. Other staff: A working field supervisor and an estimator/salesperson.
e. Owner: If the owner is still trying to run jobs and the company, and designs and sells jobs; he or she is going sterile or insane, or both. He/she is working 60-70 hours per week doing two or three full-time jobs and still trying to figure out how to delegate work to others and build a team. The primary focus of the owner should be to build the team and the systems to run the company. It's at this stage that the owner(s) must begin to transition from being a manager of the company to being a coach to the company.

4. The fourth plateau:

a. Field crew: Supervisor works with four to six three-person crews. Each crew has a foreman and two laborers. Often multiple crews will work on one job or form "super" crews.
b. Annual sales: Up to $1,800,000 (without any subcontractor revenue included).
c. Office staff: A full-time bookkeeper or office manager with full-time help of one or two people.
d. Other staff: A working field supervisor and one or two estimator/salespersons.
e. Owner: He/she is working 55-65 hours per week, hopefully with a team in place that can do the bookkeeping, run the jobs and sell the work. The primary focus of the owner should still be to build and solidify the team and the systems to run the company. Future growth should not occur until this team is in place with effective systems to run the company.

Because it takes very little additional general and administrative cost to go from revenues of $1 million to $2 million, you should attempt that growth as quickly as possible. This will maximize your profitability.

5. The fifth plateau:

a. Field crew: Supervisor works with crews proportionately with the amount of sales. Each crew has a foreman and two laborers. Often, multiple crews will work on one job or form "super" crews.
b. Annual sales: $2-5 million (without any subcontractor revenue included).
c. Office staff: A comptroller or general manager, office manager with full-time help of two or three people.
d. Other staff: A working field supervisor and one or two estimator/salespersons.

e. Owner: He/she is working 50-60 hours per week. It's at this level that owner(s) have successfully transitioned from manager to coach.

Service or Maintenance companies

Annual revenue generated per full-time field employee is approximately $50,000. This includes materials, equipment, labor and burden, G&A overhead and net profit. The average crew size is two for residential and four for commercial work.

1. The first plateau:

    a. Field crew: Owner works on jobs with five full-time people in the field, for a total of six.

    b. Annual sales: $300,000 (without any subcontractor revenue included). Extras run about 10 percent of contract revenue.
    c. Office staff: A part-time bookkeeper and/or office person.
    d. Other staff: None
    e. Owner: Owner runs jobs, runs the company and sells jobs. He/she is working 65-75 hours per week doing two full-time jobs. The owner is trying to learn how to delegate and become a manager.

2. The second plateau:

    a. Field crew: Owner has 12 full-time people in the field, for a total of 12. Three or four strong crew leaders must emerge at this time to help run the crews, with minimal supervision from the owner.
    b. Annual sales: $600,000 (without any subcontractor revenue included). Extras run about 10 percent of contract revenue.
    c. Office staff: A full-time bookkeeper and/or office person.
    d. Other staff: None
    e. Owner: Owner still oversees jobs, runs the company and sells jobs. He/she is still working 65-75 hours per week and doing two or three full-time jobs. The owner is trying to learn how to delegate and become a manager.

3. The third and fourth plateaus for residential maintenance companies, which see revenues reach $1 million and $2 million, respectively, follow no particular pattern. Usually these companies are branching out into separate divisions at this point (i.e., irrigation installation and service, landscape installations, outdoor lighting, outdoor ponds, extras, etc.).

These companies tend to grow in all sorts of directions. As they reach $2 million in revenue, it's essential that a strong detail-oriented office manager is in place, with one or two full-time assistants. Managers of the respective divisions normally assume operational responsibility for field crews, and often for sales as well.

At the $2 million mark, an owner has to have a solid management team in place, if the company's going to grow sales revenue. At the $3 to $4 million mark, a comptroller or very strong general manager is usually brought on board to run the administrative side of the business, while an operations manager is hired to coordinate field operations. Division managers or account managers will typically take charge of their respective divisions.

At the fifth plateau, or the $4-5 million mark, it's almost essential to hire a comptroller (or controller) to handle and concentrate on the financial part of the business. Responsibilities for a comptroller include overseeing accounting, negotiating and overseeing loans, negotiating leases for equipment, negotiating and monitoring lines of credit, monitoring and evaluating company insurance policies, conducting cost-benefit analyses for such things as professional employment organizations (PEOs), software and its implementation, service contracts, acquisitions, etc. Comptrollers have very strong financial and information management backgrounds. Many of them are CPAs.

4. Commercial maintenance companies usually build around the three- to five-man crew, with roughly $200,000 of revenue per crew. Owners will normally get the company to $1 million in annual sales with minimal help (one office person or office manager/bookkeeper with part-time help).

This gets them to the third level, or plateau. At this point, the owner usually brings in (or has been grooming) a strong field supervisor who runs the crews, while the owner attempts to market the company, implement systems, develop a management team and grow the business.

To get to the fourth level, or approximately $2 million in revenues, owners will often begin to bring in account managers who manage $500,000 to $750,000 of annual work each. This translates into the account manager managing three to four crews. An "enhancement" account manager is often put in place to handle construction enhancements and to maximize extras. An operations manager who coordinates field operations is normally in place no later than midway through the fourth level.

This foundational structure is sufficient to handle revenues up to and through $3 million. It's typically at the $3-4 million mark that the general manager and/or comptroller position is created for the company.

Equipment mechanics

Question: When should you hire and have a full-time mechanic?

Answer: As late in the game as possible.

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Contractors love equipment. They also tend to love the people who fix and repair it. However, equipment and the associated people needed to keep it running are a two-edged sword.

***** How it works – start *****

I've seen contractors keep equipment until it rusts to death and has to be buried (with much grieving, I might add). At one time, I monitored the financial statements of three separate maintenance companies, each doing just over $1 million is sales.

Two of the companies kept their trucks and field equipment until they had to be buried. These companies also had a full-time mechanic. The cost of the mechanics (payroll and labor burden), plus repair parts, was roughly $75,000 at each of these companies. The third company replaced its large mowers, walk-behinds and riders, every three years, or 1,500 hours. Crew trucks were also regularly traded in, about every five years. The cost for a part-time mechanic and repair parts at this company was about $12,000 annually.

A fourth company was only doing $800,000 in annual sales, but had just about every piece of equipment imaginable, and two full-time mechanics. During the recession of the early 1990s, this company had gone from sales of $1.5 million to $800,000. Prior to the recession, management bought a lot of equipment. Fortunately, most of it was paid for. Unfortunately, it was just sitting in the yard rusting and not being used. This company could have kept four full-time mechanics busy working on unused equipment.

***** How it works – end *****

******* Main point:** It gets to the point where you're maintaining a junk yard. *********

It gets to the point where you're maintaining a junk yard. The older and more dilapidated your equipment gets, the more money you have to spend on repair parts and mechanics. Unless you've tracked your costs and can prove otherwise, I recommend that you strongly consider buying new equipment and keep turning it over.

Point of diminishing return

Item	Hours or years
Walk-behind mowers	1,200 to 1,500 hours or 3 years
Ride-on mowers	1,500 to 2,000 hours or 3 years
Skid steers	3,000 to 4,000 hours
Tractors, small ¼ CY bucket	2,000 to 3,000 hours

Tractors, small ½ CY bucket	2,500 to 3,500 hours
Tractors, small 1+ CY bucket	3,000 to 4,000 hours
Trenchers and pullers, small ride-on	2,000 to 3,000 hours
Trenchers and pullers, mid-size ride-on	2,500 to 3,500 hours
Trenchers and pullers, large ride-on	3,000 to 4,000 hours
Chippers, small tow behind units	2,000 to 3,000 hours
Chippers, mid-size tow behind units	2,500 to 3,500 hours
Chippers, large tow behind units	3,000 to 4,000 hours

I encourage my clients not to have a full-time mechanic if their sales are under $1 million. Many of my clients are doing $2 million-plus in sales, and still don't have a full-time mechanic. You need to evaluate your operation, your access to dealer and independent repair shops and act accordingly.

You quickly reach a point of diminishing returns with equipment. Unless there's a compelling reason to do so, or if you have costing data that shows otherwise, it's normally cost-effective to regularly turn over your smaller trucks (one ton and under), and your larger mowers, skid steers, trenchers, pullers, chippers, etc.

SUMMARY

There's simply no "one-size-fits-all" structure that works for all companies all the time. You have to base your company structure around the people and talent you have. It's easy to design a "perfect" company organizational chart. However, if you can't find the right people with the correct skill base to fill it, you're out of luck.

Company structure is dynamic and it changes dramatically as company revenues increase from $100,000 to $5 million. The primary issue is not what structure is best for the company. It's whether owners can transition from being technicians to being managers, from being managers to being team builders, and beyond.

If owners have the capacity to recreate their companies at the various plateaus or levels through which they'll grow, the structure will generally follow.

Action point

Read or listen to the audio book, ***Built to Last***, by James C. Collins and Jerry I. Porras.

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This article was adapted from James Huston's new book and audio book, ***How to Price Landscape & Irrigation Projects***, released in July 2003 and his previous book, ***Estimating for Landscape & Irrigation Contractors***. The author is president of J.R. Huston Enterprises, Inc., which specializes in construction and services management consulting to the Green Industry. Mr. Huston is a member of the American Society of Professional Estimators and he is one of only two Certified Professional Landscape Estimators in the world. For further information on the products and services offered by J.R. Huston Enterprises, call 1-800-451-5588, e-mail JRHEI at jrhei@jrhuston.biz or visit the J.R. Huston Enterprise web site at http://www.jrhuston.biz.