

J.R. Huston Enterprises, Inc.

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Recessions, or periods of reduced cash flow, are not singular monolithic events that affect all industries and all parts of the country equally. Neither are they predictable nor preventable. If they were, we could schedule them and we could prevent them. Keep in mind that some contractors will thrive in a bad economy while others will self-destruct in a good one. Landscape contractors are extremely creative individuals. They can figure out a way to go broke even in a great economy.

There are approximately sixteen regional or geographical economies in the United States. During the recession of late 1989 through early 1991 (call it the recession of 1990), the West Coast and Northeast were the regions hardest hit. I can remember the telephone conversation in late August of 1989 with a client in Maine when he told me that the lights went out in his commercial landscape installation market. It took almost five years to fully recover from this downturn.

It was not until April of 1990 that we saw a similar downturn in California. I was working for a commercial landscape installation company in Southern California that I had planned to buy at the end of 1990. We budgeted sales of \$1.5 million that year. Our largest client had budgeted to build and sell 500 homes in San Diego County. They sold fifty that year. We were billing roughly \$120,000 per month and planned to do so all year. We met our revenue goals for the first three months. Sales in April were \$100,000. We hit about \$80,000 in May. By July we were lucky to bill \$20,000. So much for our ability to plan.

Commercial and residential landscape construction were hit the hardest during the downturn of 1990. The commercial and residential maintenance segment of the market remained relatively strong. The biggest problem in the maintenance market was caused by installation contractors who were out of work. They decided to become maintenance contractors. Many of them bought lawn mowers and proceeded to undercut long-standing maintenance contractors by under pricing the work. This is called a "self-inflicted" recession. Both the government construction and maintenance sectors remained strong. Infrastructure work (roads, highways, utilities, underground work, etc.) also remained strong during this period.

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My point is this! In order to beat recessions, you need to understand them from a business perspective. They do not spread evenly like warm peanut butter on a piece of bread. Rather, they are like the peanut butter in ice cream. Some sections get more than their fair share, while others are nothing but vanilla.

I tracked approximately fifty companies through the recession of 1990. Each month or quarter, these companies would send me their financials and I would review them. We would compare the financials against company budgets established in late 1989. We developed what I call objective reference points. However, we had to deal with the emotional side of a very negative and challenging situation. Here are some pointers that we learned from this experience.

1. Establish a continuous recession-proof mindset. The things that you should do to prepare for an economic downturn are the same things that you should do to make your company as profitable and as efficient as possible during the good times. Since you can neither predict nor schedule a recession, you should always be preparing for one. The first thing that you must do is to prepare mentally for an eventual downturn. Next you should diversify your business products and services. The first thing to go in a recession is installation work. Service work is much more resilient.

2. Establish an annual budget: Each division should have a budget for sales and cost of goods sold (COGS). This budget is your most important tool. It helps you focus on the big picture. Sales should be monitored and tracked on a daily basis. The Bid Board or a similar spreadsheet tool can help you track sales. Every lead that is bid is entered in the Bid Board. It totals jobs that are won, lost or awaiting award. It constantly compares your sales budget to work won. This lets you know how you are doing throughout the year. You should display this sales to budget comparison information on a chalkboard where it is visible for key staff to see. If it is out of sight, it will be out of mind. Keep it big and visible for maximum motivation.

3. Bid jobs accurately: You focus on the little picture (individual jobs) by bidding jobs accurately. Your estimating system must be comprehensive as well as accurate. All costs (materials, labor, burden, equipment, office overhead, etc.) should be identified in the estimating process.

4. Monitor GPM (gross profit margin): GPM is a contractor's best friend. It is also the best indicator as to what is happening in your market economically. You calculate GPM by adding the office overhead in a bid to the net profit margin in the bid. During normal economic conditions, commercial installation projects usually have a GPM of 20 to 30%. Negotiated work usually has a 25 to 30% GPM, while competitive bid work has a GPM in the lower to mid 20% range. Residential installation projects usually have a GPM range of 30 to 40%. Maintenance jobs, both commercial and residential, normally have a GPM ranging from 30 to 40%.

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Once a recession hits, you will see normal GPM ranges drop at least 10% overnight. Contractors seem to have a “knee-jerk” reaction to bad times. Without hesitation contractors price their work at their break-even point in a recession and barely cover all of their costs. From 1990 to 1993, the contractor in Maine knew that if he bid a commercial installation job with more than an 18% GPM, he would not get the job. The GPM on commercial installation work is now running at 25 to 26% but it took 4-5 years for the GPM to get back to where it was in the late 1980s. Similar, though less drastic, trends were seen in the maintenance market. You should understand how to calculate GPM on your jobs and you should track it religiously.

5. Maximize revenue: Treat every lead like it was your last. It may well be. Focus on repeat business as well as new business. Log and track your leads in a contact management database like Act or Goldmine. Train your staff to not only think outside of the box when it comes to new business but to also groom your existing client database. Survey customers, send them notes and talk to them about their needs.

6. Maximize labor productivity: Set production goals for everybody. Train your field staff to think in terms of these goals. Ensure each crew knows exactly what is expected of them every day. Provide each crew with feedback at the end of the day. Use an incentive system or tracking board to provide this daily feedback. Maintenance crews should know that if they complete their daily route by a certain time, that they were successful. Construction crews should leave the yard knowing what they need to get done that day.

7. Maximize equipment productivity: I have seen clients improve construction productivity by over 30% by adding a single piece of equipment to their crews. Maintenance crews can see similar productivity increases by ensuring that the right mower is being used on the job. Hydrostatic walk-behind mowers can usually cut 20% more turf per day than a belt driven walk behind. A two-person crew billing \$500 per day using belt-driven walk-behind mowers can usually increase revenue to about \$600 per day by switching to more effective mowers. The labor hours are the same. The only increase in cost is an additional \$20 to 25 per day in additional equipment costs. The rest is net income.

One client reduced his annual average hours per irrigation technician by over 100 hours. He got the same amount of work accomplished with 100 fewer hours by putting a GPS tracking system in each of his 13 irrigation vans. Study your equipment and new technologies. Make it work for you.

8. Minimize costs: Office staff should have budgets for office salaries, equipment, supplies, postage, etc. Share a percent of the savings if they come in under budget at the end of the year. Field staff should have similar budgets for equipment repairs, fuel, shop supplies, etc. They can also be rewarded for coming in under budget.

9. Think like a leader: Peter Drucker says it best in his book, *The Effective Executive*. Managers make sure things get done right. Leaders make sure the right things get done.

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One thinks tactically while the other thinks strategically. Leaders see the big picture but ensure the details get done. You need to think the same way and delegate the details as much as is possible. You need to concentrate on maximizing revenue, maximizing productivity and minimizing costs.

10. Network like crazy: During the 1980s clients worked their businesses and they grew. In the early 1990s they did the same things but their businesses did not grow. In most cases they saw their sales decrease. The emotional toll on these contractors was enormous. It was like they were sinking in water and not knowing when they were going to hit bottom.

To counter this, the brainstorming meeting was born. Fifteen to twenty contractors, who were not competitors, and their staff, would jam into a hotel for 2-3 days. Everything under the sun was discussed. Contractors would make new friends whom they could call and with whom they could discuss issues. Because they were not competitors, they could talk openly. This provided an emotional outlet for these entrepreneurs. The brainstorming meeting was a support group of sorts where business ideas and management issues were discussed in a non-threatening atmosphere. It provided the emotional glue that banded these contractors together.

Where are they today? Ten years after the recession of the early 1990s, almost all of those fifty contractors are still in business and going strong. Some have retired or made career changes. Most have grown considerably in sales volume. For many 2001 was their best year ever. They have been very successful but they realize that they have much more to lose in the current economy. Their businesses affect many more lives than they did in 1990. However, almost to a person, these contractors are more confident than ever that they can weather the storms of a recession.

Where is the economy today? The slow down in the current economy has primarily affected the residential installation market. Many jobs have been down sized and some have been cancelled. Commercial installation work has seen little or no affect from the events of the last six months. The maintenance and the government markets are still going strong. The architectural and engineering firms have plenty of work in the pipeline. Most of our clients are having a record year.

What about 2002? 2002 is looking very positive at this point. I predict that it will be another very good year for the contractor who is prepared.

Conclusion: You need two basic things to prepare for and get you through a recession. You first need objective reference points to tell you where and how you are doing. Your annual budget, the Bid Board and individual bids are the three main items in this category. The second thing that you need is a support group. You need a group of like-minded people who can encourage you and help you implement good business practices. Because you cannot predict or schedule a recession, you have to always be preparing for one. You must be “ever vigilant”. You cannot let your guard down.

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The contractor from Maine called a few weeks ago to schedule some time together. He has a great team in place and his company had a record year in 2001. He has survived two recessions and he has learned his lessons well. But guess why he wants to get together and what he wants to discuss? Right! He is very concerned about the economy and how he can best prepare regardless of what happens in 2002. There's a contractor who will be around for a long, long time.

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, *Preparing for and Responding to a Down Economy*. 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>.