

J.R. Huston Enterprises, Inc.

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Pricing Lawn Renovations

INTRODUCTION

Enhancements for a lawn maintenance contractor should significantly add to the bottom line. However, they are often overlooked or neglected simply because they are managed improperly (or not at all) because of a lack of time and personnel to do so. Lawn renovations can be a big part of extra revenue generated by enhancements. Here are some tips to help you bid and manage them.

THE SCENARIO

John has a small company that does just under \$300,000 in sales per year. Most of his work is for residential customers and is comprised of spring and fall cleanups, lawn mowing, pruning and some small installation jobs. He generally keeps four to five crew members, excluding himself, busy throughout the season. John is very conscientious, almost to a fault, and he really takes care of his clients. Opportunity is popping up everywhere. His customers want him to provide more services. Eventually John wants to install low voltage lighting, aquatic ponds, walkways, patios and maybe even Christmas decorations. However, he can't even manage the enhancement work from his existing customer base, let alone think of expanding into other services. He knows that if he only had the time to spend with his existing clients, he could sell his customers extra plantings, fertilizations and lawn renovations, to name just a few. Lawn renovations, he thinks, would be a real money maker but they take too long to bid. He wants an easier way to bid them but he is concerned that using a square foot price would not be as accurate as it should be. However, pricing each and every job separately takes too much time. And time is one thing that he has too little of.

THE PROCESS

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I encourage my residential clients to think in terms of half and full day lawn renovation jobs. Normally, a 5,000 square foot job takes a two or three person crew half a day. A similar crew, with the proper equipment, can complete a 10,000 square foot job in about a day.

Here's how we bid these jobs.

I use a really simple MS Excel worksheet that I put together to price small jobs like this. It has two parts. The first part is a recap worksheet that contains company information such as: crew average wage (CAW), crew size, an overtime factor (OTF), a risk factor (RF), labor burden, sales tax, etc. This data for John's company is located in Figure 1.

I want to cover two very important items on the recap worksheet. The first is the general and administrative (G&A) overhead of \$10.00 per man-hour (OPH). This \$10.00 figure contains John's administrative costs for the year. It includes rent, his salary, his vehicle, office supplies, a part-time office manager, computer costs and a lot more. He has to sell about 7,500 man-hours of work per year to cover his \$75,000 of G&A expenses, which run about 25% of his sales. We simply multiply the total man-hours in a bid by the \$10 OPH to determine how much G&A costs to put in it.

Industry Benchmark note:

The green industry benchmark for G&A costs is as follows:

<i>Companies under \$5 million in annual sales</i>	<i>20 to 25% of sales</i>
<i>Companies over \$5 million in annual sales</i>	<i>20% +/- 2% of sales</i>

Second, the net profit margin that we will use for John's lawn renovation jobs is 30%. This is high but marketable for enhancement work.

Industry Benchmark note:

The green industry benchmark for net profit margin is as follows:

<i>Residential lawn maintenance services</i>	<i>10 to 15%</i>
<i>Residential installation services</i>	<i>20% +/- 2%</i>
<i>Residential enhancement services</i>	<i>25 to 35%</i>
<i>Commercial work, all types</i>	<i>10 to 15%</i>

You will notice that the recap worksheet has three sections. They are the scenario cost data, the scenario and the scenario analysis. Within the scenario section we have four main columns for material, labor, equipment and subcontractor costs. There are also three phases of the scenario section. They are : I. Production, II. General Conditions and III. Margins and Markups. On our worksheets the general conditions are blank as I have put them in with the production costs. At

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the bottom of the recap sheet is an analysis section which contains a unit price, net profit margin and gross profit margin.

Figure two contains our lawn renovation production and general conditions cost data for a 10,000 SF job. Keep in mind that your numbers and production methods will probably vary from those outlined here. Simply make adjustments to these costs to reflect your costs and production methods. Here is how it plays out.

Material costs

- Composted loam at a depth of 2” \$14/CY delivered
- Seed at 5 pounds per 1,000 SF \$62.50 per 50 pound bag
- Fertilizer at 5 pounds per 1,000 SF \$11.50 per 50 pound bag

Labor costs, production

- Rip soil & rough grade 2 hours operator, 4 hours by hand
- Spread loam 2 hours operator, 4 hours by hand
- Fine grade 2 hours operator, 4 hours by hand
- Spread seed 1 hour
- Fertilize 1 hour
- Finish raking 4 hours

Labor costs, general conditions

- Drive time 1 hour per person per day
- Load/unload time 1 hour per person per day
- Warranty time 2 hours
- Supervisor’s time 2 hours

Equipment costs

- Tractor with implements \$25 per hour
- Crew truck with trailer \$10 per hour for 8 hours per day
- Supervisor’s truck \$8 per hour

SCENARIO ANALYSIS

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We have 34 man-hours in this bidding scenario. This is a ten hour day for a three person crew. Remember, two of the 34 hours are for the supervisor and two are for callbacks.

Our price to the customer is just under \$3,300 or \$327.20 per 1,000 square feet or almost \$0.33 per square foot. The unit price for a 5,000 SF renovation job would be a little higher because general condition costs would not necessarily decrease in proportion to the decrease in the production costs for the smaller job.

The net profit margin is 30% as we planned.

The gross profit margin (GPM) is a little over 40%. Frankly, this is a little low and you might want to increase your net profit margin to increase it to the mid 40% range.

Industry Benchmark note:

The green industry benchmark for gross profit margin is as follows:

<i>Residential lawn maintenance services</i>	<i>30 to 40%</i>
<i>Residential installation services</i>	<i>30 to 40%</i>
<i>Residential enhancement services</i>	<i>40 to 50%</i>
<i>Commercial installation services</i>	<i>20 to 30%</i>
<i>Commercial lawn maintenance services</i>	<i>30 to 40%</i>

TIPS, TRICKS & TRAPS

John should job cost his lawn renovation jobs once his crew has completed them. Only after completing and job costing a dozen jobs or so, should he consider bidding this work by using a standard unit price (e.g., \$400 per 1,000 SF for jobs 5,000 SF and below, \$350 per 1,000 for jobs over 5,000 SF, \$0.40 or \$0.35 per SF respectively). John should also establish a minimum charge for his crew to show up for lawn renovation work, otherwise his unit price will get him into a lot of trouble on really small jobs.

I would recommend that John provide his customers with a lump sum bid and not a unit price. He can use the unit price to help determine what he needs to charge for the service. However, giving customers unit prices often encourages them to shop around.

While we might be able to speed up John's estimating process and make it more accurate, this does not necessarily address his issue with being spread too thin. To effectively address his personal workload situation, he needs to take a long hard look at the organizational structure of his company. This is a completely different issue than pricing specific services. John needs to step back and do some creative brainstorming concerning his company. Unfortunately, most contractors get stuck because they do not know how to do this. It is called "target fixation" in the air force. A pilot becomes so fixated on attacking a target that he flies his plane right into it. This is

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not good! Contractors do the same thing. They become so intent on individual aspects of their company that they miss the big picture.

A number of my larger maintenance clients have established an enhancement crew because they have realized the revenue and profits that they are losing. This crew only does enhancement work. Some have created a position for an enhancement manager who runs multiple crews.

Other clients have created a customer visitation reference (CVR) form. On it they list enhancement work that customers need. A copy of the CVR is put on an enhancement clipboard for future reference.

CONCLUSION

Lawn renovation work can significantly add to your bottom line. However, be careful not to throw out unit prices for it as it can come back to haunt you. Use your unit pricing primarily for internal pricing controls. And remember to job cost every lawn renovation job to verify your unit price. If you are a young energetic contractor with lots of spunk, remember to work smarter and not just harder. That's how you get to be an old energetic contractor. Let me give you one more green industry benchmark.

Industry Benchmark note:

The green industry benchmark for net profit margin for work done for existing customers is as follows:

Add 10 to 15% of additional net profit margin as compared to work done on the open bid market

This article was adapted from James Huston's new book and audio book, ***How to Price Landscape & Irrigation Projects***. 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>.

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