

How Your Landscape Department Can Succeed

Retail and landscaping have inherent differences, but these pricing models can lead both to profitability.

By Sid Raisch

There's a lot of buzz about garden centers providing services to accommodate the "do it for me" consumer. As with many other non-core endeavors, this is easier said than done successfully.

There are fundamental differences between retail and service businesses. When we blur the lines things are not as clear as they need to be.

We lose clarity, which leads to losing control, which leads to losing real money.

Most garden center driven companies lose money on landscape services. Most landscape services companies lose money on their garden center.

Both of these can and should be profitably run.

To Get It Right, Stop Doing It Wrong

The nearest I can figure is that somewhere around 100 percent of profit is included in the prices we decide to charge.

Profit is not an accident. It can only be a result of specific intent.

Profit, not top growth, is the root of success.

If we can get more companies to price correctly, more companies will stay in business and more owners will actually earn a living wage.

The most common mistake in horticulture is to price incorrectly. Now that we know that, let's fix it first.

Many people have experience in this industry, and if that experience means they have been doing things the way most others do it then they will not be successful at it.

I do not wish to embarrass anyone who has been pricing incorrectly, but there is no way to correct this than to change course.

In the retail business pricing by simple markup is incorrect. This is widely practiced, a rule of thumb, and is generally accepted by a majority, but still all wrong.

If you're doing it this way, you're doing it wrong.

In the landscape services segment, incorrectly pricing by using "market rate" for labor and 20 percent markup on materials is also widely practiced, a rule of thumb, and is also generally

accepted by a majority. It is also all wrong.

If you're doing it this way, you're doing it wrong.

Price Model Differences

Most problematic of blurring retail with landscape services is the difference between them in their basic pricing models.

Retailers calculate gross margin (sometimes called gross profit) by subtracting the (direct) cost of goods from the retail selling price, while the contracting industry arrives at a gross margin by subtracting the direct costs of wages and materials from the selling price.

So right off the bat these are very different from each other.

These direct costs are only the beginning of the costs of doing business. The other costs of doing business must be paid from the gross margin.

Here are greatly oversimplified examples (do not use these numbers as a guide).

Retail Example:

Price = \$1.00
COGS - \$0.54
Gross Margin = 46 percent

Wages - \$0.27
Operating expenses - \$0.17

Profit = \$0.02, or 2 percent

Landscape Example:

Price = \$1.00
Direct costs of wages and materials - \$0.75
Gross Margin = 25 percent

Fixed costs - \$0.20

Profit = \$0.05, or 5 percent

Again, these are oversimplified examples provided to illustrate the point that there are very

basic differences in the way that the retail and service industries determine cost of doing business to be recovered in their prices.

The biggest point of difference is in how the pricing is applied.

Retail prices are affixed to each product, so every item sold contributes to paying expenses and producing a share of profit.

For landscape services, the most common method of contributing to paying expenses and producing a share of profit is to include it in the billable hourly price.

In both situations shrinkage occurs and must be included in these figures.

The challenge with both of these examples, while they are very typical, is they are not adequate to sustain a healthy, profitable business.

In both examples we should go back and increase the prices to deliver a more reasonable profit.

But then there's the way it should work, which is that these methods can be used to determine the margin floor on pricing for the purpose of assuring profit.

However, the actual price should be whatever the seller can create in value perceived by the customer.

Operating Model Differences

With retailers, achieving gross sales targets is essential to recover the costs of doing business and delivering profits.

For landscape services, achieving billable hours targets is essential to recovering the costs of doing business and delivering profits.

Controlling processes is essential to hitting revenue targets for both retail and landscape services.

The essential processes for retailers include marketing to draw customers, traffic flow so customers see what they can buy and appealing presentation of the products so they jump into the consumer's cart as they pass by.

The essential processes for landscape services include generation of leads, producing estimates and closing sales, but there's more. If enough sales revenue is generated to pay the indirect costs the battle is half won, but then there's the other critical part, and that is actually producing the



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work as it was estimated for full recovery of the direct costs of time and materials.

Generating, Tracking Landscape Services Leads at the Garden Center

- 1. Begin with your budget based pricing system.** Get help to calculate your costs of doing business, establish a budget and build an estimating model that assures profits.
- 2. Track leads, proposals and actual costs on a job-by-job basis every day.** This way when you're coming up short on your budget you will know early and can take action to either get back on track on the job, bring in more business to meet your goals or reduce your operating expenses.
- 3. Establish minimum project proposals.** The biggest expense leak in landscape services is unbillable hours since that is how most of the costs of doing business are recovered. Small jobs have a high percent of unbillable hours and are "labor leaky" at that, so begin by making those jobs bigger.
Some customers are not meant to be your customers and that's life.
If it is not reasonably possible for your customer to accept a proposal for a minimum of a half day's work by your crew at the price you need, you have the wrong customer.
If you can't find enough of the right customers, it is possible that landscape services are not feasible for your area.

Becoming successful with landscape services and retail is simple but is never easy. This is the reason why we call this work.

If you're not having the success you need and deserve, stop doing it wrong and get to work to do it right. **LGR**



Sid Raisch has been inventing and reinventing the way things "don't get done" into "get it done" strategies that increase profitability, marketability, operability, and ownership of garden centers, landscape operations and a few wise suppliers of plants and products. It's not 38 years of the same thing, it's 38 increasingly effective years dedicated to improving and re-inventing the interdependent horticulture supply chain. He's constantly challenging "that's how we do it", "we tried that", and a dozen or so other excuses. He knows how to get people to get things done by overcoming underlying attitudes, fears and lacking resources. He can be reached at sid@advantagedevelopmentsystem.com or at 937.302.0423.

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