MANAGING INPUTS WISELY: A REAL-WORLD APPROACH

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The Great Recession brought:

- Structural changes in the industry
- Challenges/opportunities of hypercompetition
- Mixed levels of profitability
### Gross profit margin

- Commercial installation: 25% +/- 5%
- Residential installation: 35% +/- 5%
- All maintenance work: 35% +/- 5%
- Tree service: 35% +/- 5%
- Irrigation service: 45% +/- 5%
- Specialty work: 35% +/- 5%

### Net profit margin

- Commercial installation: 15% +/- 5%
- Residential installation: 20% +/- 5%
- All maintenance work: 10% +/- 5%
- Tree service: 10% +/- 5%
- Irrigation service: 20% +/- 5%
- Specialty work: 20% +/- 5%
What is different about the high-performing firms?

Best-in-class companies are like decathletes

- Top ranking athletes excel across a set of activities:
  - The winner accumulates the most points among all events.
  - They win some events, but not all.
  - They know their own strengths & weaknesses and focus their training in these “must-win” events.
  - They spend remainder of training time being minimally competitive in the other events.
Best-in-class companies are like decathletes

- Best-in-class companies excel across a set of processes:
  - They beat competitors in some areas but not all.
  - They are not best-in-class in all performance areas, but are in those that match strategies and priorities.
  - They know their core competencies and those of their competitors.
  - They spend most of their resources in areas they know they must win and minimally competitive in other areas.

10,000 hour rule

The key to success in any field is simply a matter of practicing a specific task for a total of 10,000 hours.

Source: Outliers, Malcolm Gladwell
Dissecting the value chain

- Quality vs. price – pay me now or pay me later
- Order with plenty of lead time.
- Bulk purchase discounts vs. just-in-time.
- Embrace sustainability.
- Long-term relationships = win-win.
- Focus on those that make a difference (labor).
- Conduct a lean-flow event = reduce shrinkage, waste, increased efficiency.

Managing input costs
Keys to profitability

- Use benchmarks (time series & cross sectional) to evaluate performance. Develop a consistently accurate system of **labor** costing (billable field hours x average crew wage) and **overhead** recovery (MORS, OPPH, DOR).

- And don’t forget about general conditions costs (portable fences, toilets, traffic control, dumpsters, plant watering, etc.)

Overhead recovery systems

**OPPH - Overhead and Profit Per Hour**
(Jim Huston - see www.jrhuston.biz)

- **Materials**: actual cost + sales tax
- **Labor**: field payroll + labor burden
- **Overhead**: divided by # of billable field hours and allocated to each job based on # of field hours estimated to do the job (must be accurate!)
- **Profit above**: ___% of total above or # of hours x π per hour goal
### Overhead recovery systems

#### MORS - Multiple Overhead Recovering System
(Charles Vonder Kooi - see www.vanderkooi.com)

Materials \[\text{cost + sales tax} + 10\% \text{ for OH}\]

Labor \[\text{[field labor hours x average crew wage]} + \text{ labor burden} + 65-100\% \text{ OH for firms with sales < $750,000} + 45-65\% \text{ OH for firms with sales $750-1.5 \text{ million} + 25-45\% \text{ OH for firms with sales > $1.5 \text{ million}}\]

Equipment \[\text{[# hours x cost/hour]} + 25\% \text{ for OH}\]

Subcontractors \[\text{[cost]} + 5\% \text{ for OH}\]

General conditions (costs of supervision, mobilization, clean up, toilets, gophers, H2O, dumpsters, temporary fences)

Add Profit ___\% of total of 1-5 above + Contingency factor of ___ \%

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#### Overhead recovery systems

#### Dual Overhead Rate
(Frank Ross - see Pricing for the Green Industry, www.landcarenetwork.org)

1. Add up all direct costs (materials, labor, equipment, subcontractors)

2. Calculate material to labor ratio \[\frac{\text{all materials}}{\text{ (labor + burden)}}\]

3. Use chart (p.110 of Pricing for the Green Industry) of OH Weighting Factors to find $\chi$ for appropriate M/L ratio from above.

4. Apply OH markup on materials using $\chi$ from above:
   \[\text{OH} \div \left(\frac{\chi}{\text{(Labor & Burden)}} + \text{materials}\right)\]

5. Apply OH markup on labor using $\chi$ from above:
   \[\text{OH} \left(\chi\right) \div \left(\frac{\chi}{\text{(Labor & Burden)}} + \text{materials}\right)\]

6. Total #1,4,5 above + Apply a predetermined profit ___\%
Which system is best?

- The system selected must compliment your recordkeeping practices.
- A viable business must cover all direct and overhead costs in the long run.

What constitutes value?

Marketing efforts
Prices of substitutes

Consumer's incentive to purchase: (PV-P)>0
Firm's incentive to sell: (P-COGS)>0

Objective value (OV) = \[ \sum \text{of all benefits} \]
Perceived value (PV) = \[ \sum \text{of perceived benefits} \]
Product or service price (P)
Cost of goods sold (COGS)
Costs of production
Direct costs

Elements of perceived value

1. Functional/instrumental value
   - features, functions, attributes, or characteristics (aesthetics, quality, customization, or creativity)
   - appropriate performances (reliability, performance quality, or service–support outcomes)
   - appropriate outcomes or consequences (strategic value, effectiveness, operational benefits, and environmental benefits)

2. Experiential/hedonic value

3. Symbolic/expressive value

4. Cost/sacrifice value
Elements of perceived value

2. Experiential/hedonic value
   - sensory value (aesthetics, ambiance, sensory aspects)
   - emotional value (such as pleasure, enjoyment, fun, excitement, adventure, and humor)
   - social–relational value (relational or network benefits, bonding, connectedness, personal interaction, developing trust or commitment)
   - epistemic value (knowledge, curiosity, novelty)

Elements of perceived value

3. Symbolic/expressive value
   - appeal to consumer’s self-concepts and self-worth—that is, they make us feel good about ourselves—either in possession or in giving
   - personal meaning—associations with people or events that only have meaning to a particular consumer; a means of self expression
   - social meaning—how others see us
   - conditional meaning—symbolism or meaning relating to sociocultural events and traditions (e.g. flowers on Valentine’s Day.)
Elements of perceived value

4. **Cost/sacrifice value**
   - economic costs, such as product price, operating costs, switching costs, and opportunity costs
   - psychological/relational costs include cognitive difficulty, stress, conflict, search costs, learning costs, switching costs, and relationship costs
   - personal investment of customers—the time, effort, and energy consumers devoted to the purchase and consumption process
   - personal, operational, financial, or strategic risks

Do WE offer any of these elements of value?

**YES!**
Opportunities for Growth

- Telling our story (industry, company).
- Telling product stories (spectacular variety selection).
- Educating about the benefits of landscapes.
- Emphasizing our value and relevancy in an authentic manner.
Results from a recent focus group:

“How do plants and hardscape create value for you?”

1. Increases value of my home
2. Enhances my home’s environment
3. Less work in maintaining the landscape
4. Relaxing, enjoyable atmosphere
5. Landscape looks more “complete” and part of the surroundings
6. Hard to climb grass
Curb appeal pays

- Real Estate agents will tell you curb appeal is important to home sales, but how much does a ‘good’ landscape add to home values? Or, conversely, how much do consumers value a ‘good’ landscape for a new home?

- To test this, a Horticultural Research Institute grant was obtained.

Methodology

- We hypothesized that design sophistication, plant material, and size would have the most affect.

- Plant size: small, medium, large

- Design sophistication: foundation only, curved foundation bed and one island bed, those plus two more island beds

- Plant material: evergreen only, evergreen + deciduous materials, e+d+colorful annuals & perennials, e+d +color+ hardscape
Methodology

- Ortho-planner software reduced 36 combinations to 16 combinations, which consumers would evaluate from photographs.
- L.A. designed plans.
- Photographs were digitally manipulated.
- Took study to home & garden shows in Delaware, Kentucky, Louisiana, Michigan, Mississippi, North Carolina, South Carolina, and Texas.

Original House Comparison “A”
Results

- Accounted for 94% of variance – so the hypothesized variables captured differences.
- **Design sophistication** = 42% of value, so clearly doing more than foundation plantings yields a greater return.
- **Plant size** accounted for 36% of value, so larger plantings = greater value.
- **Diverse plant material** = 22% of value, apologies to my plant-geek friends, but having many different plants didn’t matter as much.
Conclusions

- Adding one or two island beds (increasing design sophistication) can alone add 2% to the perceived value of the home.
- Want to increase value? Include 1-2 curved beds.
- Although a small investment (less than $250), colorful annuals and perennials added nearly $1000 to home value; returning 400%!

Conclusions

- Moving from the least valued landscape to the most valued landscape, perceived home value increased, on average, 8.6% for those states.
- A landscape is a good investment, returning > $1 in value for every $1 investment (see Cost vs Value Report).
- Now, we need to ask “how does the investment grow and appreciate rather than depreciate?”
- Landscapes are one home improvement that increases in value (and size) over time. Will kitchen, bath, or deck investments do that? No.
Summary

- Clearly, installing more than foundation plantings yields a greater return for consumers.
- Increases in plant size are correlated with value.
- Diverse plant material didn’t matter as much.
- More landscape & gardening opportunities in geographic areas where people are moving toward.
- Watch how the oldest of the Baby Boomers retire - their lifestyle will be a good barometer for our industry.

Summary

1. The only truly sustainable competitive advantage is the ability to learn and adapt faster than your competition.
Summary

2. The ability to anticipate, adapt to, drive and capitalize on change is the most common characteristic of profitable firms.

Summary

3. The best organizations spend as much time analyzing what they need to stop doing as they do evaluating new opportunities.
Summary

4. Timing is critical – in terms of when to enter, expand, cut back or exit; whether its an investment, a marketing decision or a business activity.

Summary

5. The future will always belong to those who see the possibilities before they become obvious to the masses.
A good mantra to follow...

- Always do what is fair and right.
- Be committed to excellence.
- Treat others as you want to be treated.

Source: John Watson, Common Grounds Landscape, Knoxville, Tennessee