



gomaterials

Landscaping for profit

Pricing and estimating tips to maximize profit from your landscaping projects.



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The Real Profit Equation: Are you charging enough?



While it's true that some services will generate more profit than others, the real reason behind the drastic profit variation in the landscaping industry is simple: people just don't calculate their net profit margin in the same way.

The typical net profit margin in the lawn care and landscape industry ranges from 5% to 20%.

In fact, many contractors are leaving critical cost factors out of their net profit calculations. This is causing them to overestimate their profits and underprice their services without adequately covering all costs. This can make the difference between making a 5% or a 20% net margin. Are you curious to know if you're doing things right when it comes to crunching the numbers of the business that you've worked so hard to build?

This eBook will help you calculate the real net profit on a single job so that you never have to worry about getting your pricing estimates wrong again. Then, we will review each component in the profitability equation to show you **how to double your landscape profits.**

How a typical landscaper (let's call him John) calculates profit:

Total Job Revenue

- Cost of Material
- Execution Labor

= **Net Profit**

If we add in some real numbers, then John's equation would look something like this:

\$10,000

- \$4,000
- \$4,000

= **\$ 2,000**

For this particular job, John seems to be making a net profit of 20%—which puts him at the top end of the industry standard range. However, John doesn't realize that there are more components involved in calculating net profit than just the cost of material and execution labor.

What's missing from John's profit calculation:

Total Job Revenue

- Cost of Material
- Execution Labor

- **Overhead**

- **Errors and Delays**

= Net Profit

To show you exactly why the latter equation is so important to follow, we're going to break it down and explain it component by component.



Cost Factors Broken Down

Total Job Revenue

Simply put, this is the amount charged to the client in order for the job to get done. In the case of our landscaper friend John, he charged his client \$10,000 for a total backyard makeover.

Total Job Revenue = \$10,000

- Cost of Materials
 - Execution Labor
 - Overhead
 - Errors and Delays
-
- = Net Profit



Pro Tip: If your year-end profit is way off the mark from what you expected, you may be paying for hidden costs without including them in your invoices.



Cost of Material

This encompasses the cost of all the materials needed to get the job done, including all raw materials, tools, and equipment rentals. And when we say all the materials, we mean every single item used to execute the job. This even includes materials that are taken for the job from a general bulk order, such as glue, nails, geo-textiles, etc.



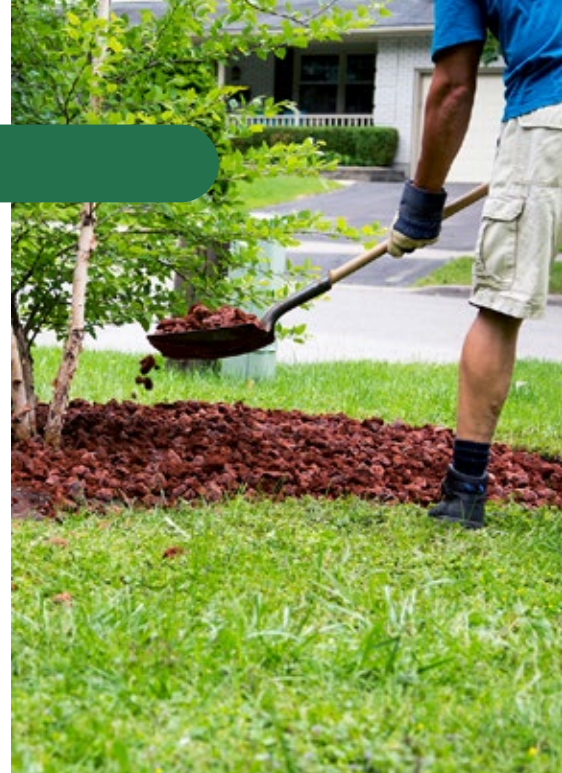
How to calculate: Add up the bills of all the materials that were used on the job site. If you're only using a percentage of materials from a bulk order, then make sure to add a percentage of that bulk order bill into your calculation as well.

In John's case, the cost of all his landscape construction materials, tools, and equipment rentals for his backyard makeover job equaled \$4,000.

Total Job Revenue	=	\$10,000
- Cost of Materials	-	\$4,000
- Execution Labor		
- Overhead		
- Errors and Delays		
<hr/>		
= Net Profit		

Execution Labor

The execution labor includes all of the costs of the on-site crew. This includes the hours that they're working, but it also includes billable hours that are known as wasted labor. Wasted labor is when you have to pay your employees for things that don't directly contribute to the completion of the job at hand. This could be hours spent driving to the job, cleaning out the trucks, coffee runs, etc.



How to calculate: Multiply the hourly rate of your on-site employees by the number of hours worked. Don't forget to include the wasted labor hours. You should also add any government tax amounts or employee union fees to this calculation.

John has 4 employees—getting paid a rate of \$25 per hour—working on the job. Since it took them 40 hours to complete the job, he put \$4,000 down for execution labor. But John didn't account for any wasted labor with this number, which actually adds another \$750 on to his execution labor cost.

Total Job Revenue	=	\$10,000
– Cost of Materials	–	\$4,000
– Execution Labor	–	\$4,750
– Overhead		
– Errors and Delays		
<hr/>		
= Net Profit		

Overhead

Overhead accounts for all business expenses that aren't directly related to the landscaping job or service at hand. It also accounts for the salaries of all office employees, like your sales reps.

Your overhead costs are what keep the core parts of your business running. Not factoring them into your job calculations means that you're going to be the one paying for them at the end of the day—meaning less net profit for you at the end of the year.



Examples of possible overhead that may not be included in your final pricing:

- Administrative costs
- Office Rent
- Utilities
- Insurance fees



How to calculate: Spread your annual overhead budget over all working days in the year. E.g. John's overhead budget of \$100,000 will translate into \$385 per day, assuming a full working year of 52 weeks or 260 days.



Since John has 3 crews working for him, he can divide that number evenly between them to get an overhead cost per crew, per day, of approximately \$128. Because it took John's crew 5 days to complete the job, his overhead cost is \$640.

Total Job Revenue	=	\$10,000
- Cost of Materials	-	\$4,000
- Execution Labor	-	\$4,750
- Overhead	-	\$640
- Errors and Delays		
<hr/>		
= Net Profit		





Errors & Unforeseen

As much as we'd love for every job to go exactly as planned, sometimes you have to deal with unforeseen issues on the fly. If unfavorable weather causes delays on a job, that means that overhead costs are still being spent on days where no revenue is being produced. If it starts to rain heavily in the afternoon and your team has to pack up after working just half the day, you're still paying the same wasted labor cost for their drive to work without advancing the project.

Common errors that impact landscaping project profits:

- Weather-related delays
- Delays caused by re-stocking runs and bad inventory planning
- Equipment damage and employees calling in sick
- Rerouting projects after last-minute change in plans from the customer

Not having enough material on hand can mean that you have to send an employee out to stock up when they're supposed to be working on-site. If a customer changes their mind halfway through a job, your employee calls in sick, or equipment breaks down, you still end up being the one who pays for it.





How to calculate: Add up all material bills, overhead, and wages paid due to issues that came up during the job that could not be anticipated. Then calculate the percentage share of this cost based on your total costs that year. This percentage can be the markup on all project for the following year.

Coming back to John's project, let us see what the unforeseen errors costed his project. John's team installed a faulty water fountain during the backyard makeover, which the client only noticed a week later—after John had already done the job's net profit calculation. In all, he had to pay another \$800 in material, overhead, and labor to correct the issue.



Bonus Tip: Always have extra material on hand to avoid having to send an employee out to buy more.

Total Job Revenue	=	\$10,000
– Cost of Materials	–	\$4,000
– Execution Labor	–	\$4,750
– Overhead	–	\$640
– Errors and Delays	–	\$800
= Net Profit		



Net Profit

After properly recalculating his net profit, it turns out that John didn't make the 20% net profit that he had originally calculated. In fact, he didn't make a profit at all and is at a loss of \$190—or -1.9%—on this particular job.

Total Job Revenue	=	\$10,000
– Cost of Materials	–	\$4,000
– Execution Labor	–	\$4,750
– Overhead	–	\$640
– Errors and Delays	–	\$800
<hr/>		
= Net Profit		(\$190)





Double Your Profit Margins

We just showed you how to calculate net profit so that you never accidentally find yourself in the red.

In this section you will learn about making easy changes to your pricing and estimation strategy. If executed correctly these steps can help you double your landscaping profit margin.

Let's dig deeper into each component of this equation to start cutting down on needless costs.

Remember this?

$$\begin{array}{r} \text{Total Job Revenue} \\ - \text{Cost of Material} \\ - \text{Execution Labor} \\ - \text{Overhead} \\ - \text{Errors and Delays} \\ \hline = \text{Net Profit} \end{array}$$



Cost of Material

While you might assume that you're getting the best bang for your buck when it comes to your landscape materials, there is always room for improvement—especially if you're working with a limited number of vendors or are often getting your materials from your local garden center.

Our #1 tip for saving on your materials is to make sure that you're always going directly to the source. You'll be able to save much more once you start paying wholesale prices.

Why pay \$10 for something at a garden center when you can pay just \$5 for that same item through a wholesaler?

Another trick to increase your profitability is to order all of your accessory materials in bulk at the beginning of the year. Purchasing your glue, nails, snap edges, geo-textiles, and more on a per project basis is costing you unnecessary time and money. Shop around for a wholesaler who'll give you the best deal on a bulk order and base your first order off your accessory material data from last year. If you end up being a little bit off, you can always adjust it the next time around.

And if the idea of dealing with multiple wholesalers sounds like a hassle, a marketplace like GoMaterials is a great alternative. This method allows you to retain benefits of large aggregated orders without the need of an exclusive partnership.

How much you can save with wholesale ordering or joining a marketplace: 5 to 15%*

A major reason why John didn't make a profit on his backyard makeover project is because he didn't buy his accessory materials in bulk and wasn't working with wholesalers or a materials marketplace for his planting and landscape construction needs.

This is what his cost of material looked like in Part 1:

And here is what John's cost would have looked like if he followed our tips:

Total Job Revenue	=	\$10,000
- Cost of Materials	-	\$4,000
- Execution Labor	-	\$4,750
- Overhead	-	\$640
- Errors and Delays	-	\$800
<hr/>		
= Net Profit	=	(\$190)

Total Job Revenue	=	\$10,000
- Cost of Materials	-	\$3,400
- Execution Labor	-	\$4,750
- Overhead	-	\$640
- Errors and Delays	-	\$800
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= Net Profit	=	\$410

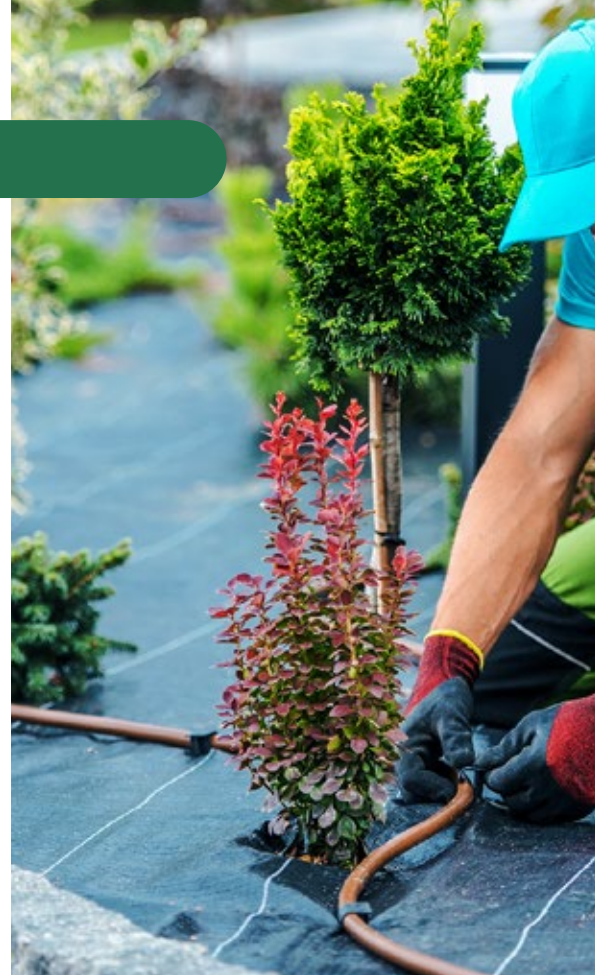
Simply focusing on reducing his material cost would've brought John out of the red, making him a net profit of **4%**.

**Estimates vary based on your current efficiency*

Execution Labor

If you want to reduce your execution labor costs, you're going to have to ensure that you're paying your employees in an efficient manner. What do we mean by that exactly? Basically, your employees need to be producing revenues for every hour that they're working on the clock.

There are many ways that this can be done, but the key is to also explain the context to your workforce. This can help you avoid any resentment and still track your labor costs better.



Ideas to improve labor productivity:

- Install punch clocks in your trucks to accurately keep track of when your employees are punching in and out.
- Create a policy about coffee runs in the morning and put GPS trackers on your trucks to make sure that your employees aren't making any detours on their way to a job.
- Invest in equipment, such as gas wheelbarrows and mini excavators, to increase productivity and deliver more revenue per hour.

Often, it's not enough to just look at your own processes, especially when you depend on suppliers and external collaborators. Consider the following ideas to avoid wasting resources and time.



Get organized to contain costs:

- Put a premium on your crew's time by enforcing stricter policies for on-time delivery with your suppliers
- Improve inventory planning and restock materials before you run out of them
- Inspect and service all equipment vehicles regularly to avoid an unexpected breakdown
- Have a reliable rental partner ready to help save the work day



Quite possibly the best way to keep labor efficient is to hire a project manager who knows the ins and outs of planning a job, saving you countless hours and money. Don't be afraid to pay your project manager well either, as they'll take all the guesswork out of a project for you, will help avoid delays, and will make your job much easier all around.



**How much you can save
by optimizing labor:
5 to 10 %***

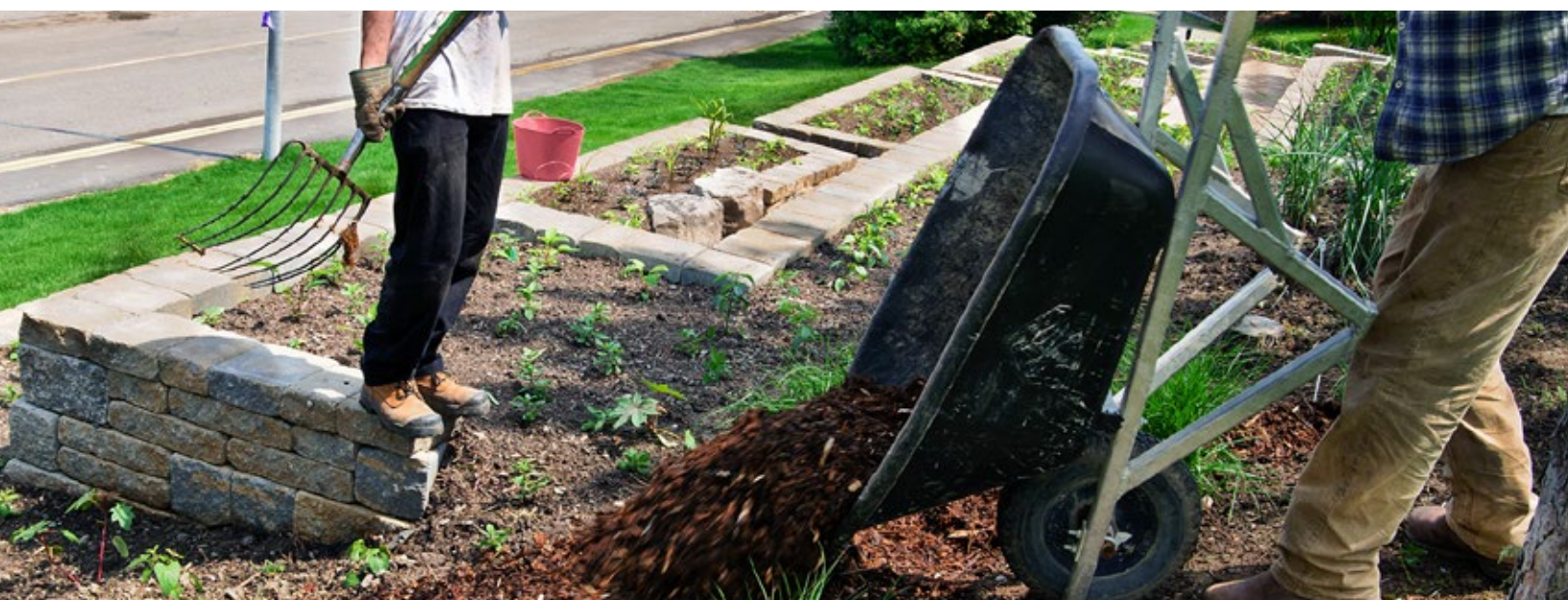
**Estimates vary based on your current efficiency*

If we assume that John’s crew was stopping for coffee on their way into work in the mornings and were often waiting around on-site for late deliveries, his execution labor cost would have been around \$4,750. However, by applying just a few of our tips, John could’ve saved 7.5% on his execution labor:

Total Job Revenue	=	\$10,000
- Cost of Materials	-	\$4,000
- Execution Labor	-	\$4,750
- Overhead	-	\$640
- Errors and Delays	-	\$800
<hr/>		
= Net Profit	=	(\$190)

Total Job Revenue	=	\$10,000
- Cost of Materials	-	\$3,400
- Execution Labor	-	\$4,394
- Overhead	-	\$640
- Errors and Delays	-	\$800
<hr/>		
= Net Profit	=	\$766

After factoring in the savings from optimized materials as well as labor costs, this would’ve put John at a net profit just above **7.5% !**



Overhead

Landscaping profit and overhead go hand in hand, which means that a reduction in overhead needs to happen to see an increase in profit. A great way to minimize your overhead to revenue ratio is to outsource some of your buying to professional buyers and logistics experts like GoMaterials. This allows you to support your growing business without stretching your resources too thin. Additionally, aggregators are bulk buyers who can get more cost-effective deals.



Tips to reduce landscaping overhead:

- **Outsource time-consuming tasks to aggregators and experts to improve efficiency**
- **Analyze your administrative staff roles to make sure there isn't any overlap**
- **Consider office-sharing options or subleasing if you have too much empty space**
- **Rent out any owned equipment that you aren't using or rent it yourself instead of buying**

One of the easiest ways to save money is to try negotiating all of your commodity service costs down, like rent and insurance—all you have to do is pick up the phone and ask!

**How much you can save
after cutting down
overheads: 5 to 10 %***

**Estimates vary based on your current efficiency*

John's expensive workspace lease and costly equipment ate up a lot of his overhead costs. But by sharing his space with another company and renting out equipment instead of buying it, John could've saved 10% on overhead:

Total Job Revenue	=	\$10,000
- Cost of Materials	-	\$4,000
- Execution Labor	-	\$4,750
- Overhead	-	\$640
- Errors and Delays	-	\$800
<hr/>		
= Net Profit	=	(\$190)

Total Job Revenue	=	\$10,000
- Cost of Materials	-	\$3,400
- Execution Labor	-	\$4,394
- Overhead	-	\$576
- Errors and Delays	-	\$800
<hr/>		
= Net Profit	=	\$830

Along with adjustments to his procurement, and labor, getting rid of overhead costs would've made John's net profit look even healthier at just over **8%**!





Errors & Unforeseen Delays

While errors, inefficiencies, and unforeseen delays are often unpredictable, there are a few things that you can do to avoid them as much as possible.



How to avoid unforeseen delays and inefficiencies:

- **Plan for bad weather with technology, use apps like AccuWeather or Dark Sky.**
- **Consider charging customers for the last-minute changes to cover the cost of redoing the project**
- **Offer incentives for successful jobs to cut down quality issues and rework**

Planning is key when it comes to inefficiencies. The more organized you get, the less you leave to be unforeseen. Getting creative with your solutions helps too. For example, that incentive can be Amazon gift cards, or maybe you will choose to pick up the lunch bill after fifteen no-return-jobs—challenge your creative side.

How much you can save by eliminating inefficiencies: 3 to 5%*



**Estimates vary based on your current efficiency*

John's crew's faulty water fountain installation cost him a lot of money. If he had come up with an incentive to keep his guys from returning to fix a job, they might've paid closer attention to the installation of the fountain and he could've saved himself \$800:

Total Job Revenue	=	\$10,000
- Cost of Materials	-	\$4,000
- Execution Labor	-	\$4,750
- Overhead	-	\$640
- Errors and Delays	-	\$800
= Net Profit	=	(\$190)

Total Job Revenue	=	\$10,000
- Cost of Materials	-	\$3,400
- Execution Labor	-	\$4,394
- Overhead	-	\$576
- Errors and Delays	-	\$0
= Net Profit	=	\$1,630

This would've given him a net profit of **16%**, putting him in the high end of the profit margin industry standard!





Additional Tips to Boost Your Profit

- Upsell your services when you can with easy add-ons.
- View residential jobs as a marketing opportunity to get more jobs in the neighborhood.
- Do a cost analysis before giving a quote to a client to ensure a job's profitability.
- Track the profitability of each job over the next year and use that data to help improve your company's profitability all around.
- Up your prices! If you think that you can get more money for the service that your providing, you can always increase your prices to be more aligned with the demand.

As you can see, there are many ways to double—or more than double—your profitability. Don't make the same mistakes that John did. Use these tips as your profitability bible and watch your numbers grow at the end of the year.



Produced by:

GoMaterials Inc.


Founded by landscapers, GoMaterials is a hassle-free wholesale marketplace for plant material sourcing. Think of us as your partners in plant procurement, helping with the estimation, buying and delivery of top-grade plant materials to your job site. Our service is 100% free for landscapers!

We specialize in the wholesale procurement of trees, shrubs, palms, and perennials in any size or caliper. Send us your material list and we'll take care of the rest.

Over 500 landscaping businesses in Canada and the USA use GoMaterials to source millions of dollars' worth landscape materials every year.


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