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HOW MUCH DO YOU MAKE?

If you answered "whatever's leftover after expenses," read on to determine how you can sta paying yourself a fair wage.

A couple of years ago, Rick Meinzer experienced a hard realization.

"I fell into a trap – one I think a lot of landscapers fall into," says the owner of Platinum Landsca & Design in Cedar Hills, Utah, "I didn't pay myself what I thought I was worth."

A few years of doing this and "the money just finds its way somewhere else," except for in the owner's pocket, Meinzer says.

Caught up in what he calls "the growth trap," Meinzer hired more employees than he needed to r his business because that's what other companies in his less than $1-million revenue category w doing. Two key positions – a business partner and an office manager – cost him more than $160,000 annually. When they both eventually left the company for unrelated reasons, it was a blessing in disguise.

"I reevaluated my staffing budget and reviewed the numbers," Meinzer says. "I realized these ta could be better achieved with a different solution. Meinzer's wife, Debi, took the job as office manager and Meinzer absorbed the duties his previous partner had. "I just found a way to make work," he explains. "The redistribution of work was a big savings to my bottom line."

Today, Meinzer, who has been in business since 1998, has five employees and his salary makes up approximately 10 percen his annual revenue – a calculation method that has proven successful for him.

"At the end of the day, I own a business to make a living," Meinzer says. "If I'm not going to be able to do those things in m business to allow me to have a comfortable lifestyle, I'm really missing the boat."

Like Meinzer, a majority of contractors struggle with paying themselves a fair wage. Nearly half of contractors responding to *Lawn & Landscape* survey said they thought they'd be making more money running their own landscape businesses when th started out. Only 21 percent say they pay themselves a fair market value salary based on industry benchmarks. Another 23 percent say they draw less than the fair market value salary and need to find a way to raise their salary to a better level. Wh asked how they figure their salaries, the majority of owners – 30 percent – said: "It's trial and error. I take whatever is left after expenses and bills are paid, so I'm not sure what I'm going to make each year."

The situation is a sad one, says industry consultant Marty Grunder. "They don't plan; they don't know their costs and then th hope for the best – I see it all the time," says Grunder, who is also owner of Grunder Landscaping in Miamisburg, Ohio. "Truthfully, it's hard for me to feel sorry for them. If you fail to plan, plan to fail."

Many claim the basic lack of business and financial knowledge over horticultural knowledge is what's holding landscapers ba "Because they have no clue as to the financial aspects of running a business, they don't build a salary for themselves into th pricing," explains industry consultant Jim Huston of J.R. Huston Consulting in Englewood, Colo., "And they're not asking the important financial questions like, 'What sort of retirement will I have?'"

But the issue extends beyond this industry. Sole proprietors often determine their salaries using that very simple "leftover" calculation – what remains after all bills are paid is theirs to keep, according to the National Federation for Independent's Business' Jeffrey Moses.

While some planning and simple mathematics, as well as using budgets and cash flow projections, can give you an idea of th operating capital required during the formative stages of a company's development, what happens when a business reaches breakeven and beyond? "As a small company grows and accounting becomes more sophisticated, the financing and debt structure often dictate that the owner receive a designated annual salary," Moses says.

To determine a fair salary, owners need to balance their needs against what they feel they are worth, what they need to get by, what the business will be able to sustain and how their income and business will be taxed.

THE PROBLEM. Concerning general small business, owner earnings range from losses to millions – PayScale and other sala estimators offer average annual earnings figures for small business owners ranging from $61,919 to $111,000. The national average salary of a small business owner with 10 to 19 years of experience (the average length of a landscape business is 1 years) is $70,372, PayScale reports. According to *Lawn & Landscape* data, landscape business owners are on the low end of this range at $57,573, according to our February survey. In last year's surveys, we recorded the average owner salary reach $69,629, still slightly below national U.S. averages when taking all industries into account.

Why do landscape contractors seem to fall on the low-end? "Landscapers are notorious for underpaying themselves because they don't know how to price their work properly and don't realize the value of their services," Huston says. "If you don't tru know your numbers, this is problematic when bidding jobs because it can lead to underpayment."

Another important reason why owners don't pay themselves a fair wage is as basic as having a lack of confidence and conviction, according to Andy Birol, owner of Birol Growth Consulting in Solon, Ohio.

Having worked with small businesses in various industries, Birol sees this as a common problem across the board. Paying yourself a fair wage is a state of mind, he says – you have to decide that you're worth it. "There's an old phrase my mother used to say: 'If you don't think you're worth it, no one else will.' The first sale is to yourself," he explains. "If you don't have the confidence and conviction to stand tall and price for what you're worth and you can't make a big profit in your business, work for someone else, let them carry the risk, pay your insurance, and let them make the profit for it."

Jody Shilan's greatest personal challenge was convincing himself that he should earn a salary. "This helps you determine you pricing and puts a value on what you do," says the owner of $250,000 to $500,000 Jody Shilan Designs, Wyckoff, N.J.

Although he says his current salary, which is between $50,000 and $100,000, isn't ideal, he is content with the fact that he i paying himself every two weeks. He didn't use a formula to determine his salary. "It is just an annual salary that I know I ca at least squeak by on," says Shilan, who started his business in 2005 after working with an accountant to develop a business plan that included an owner salary from the beginning. "It's not based on actual sales, but on how much I can live on, pay m bills and still put money back to grow my company."

Shilan drew on past experience as a designer to determine a fair market salary. "Prior to starting my own business I worked several design/build firms and knew what the starting and high level salaries should be. I also spoke to friends who worked a landscape architecture offices to see what their employers were paying. I even interviewed at a few companies to see what they were offering."

Using the salaries of owners in comparable businesses as a benchmark is good research, Moses says. "Regions of the countr also should be considered because owners on the West and East Coasts generally pay themselves more than owners in the Midwest or South," he explains, adding a caution. "And while these are important factors, they aren't as important as the actual profitability of your company. Annual total sales volumes of other companies are often used as another benchmark, bu actual profitability may have little to do with total sales."

WHAT EXACTLY IS A FAIR WAGE? While experts have differing views on how to determine a small business owner's wage they seem to concur there is no real "one-size-fits-all" method. Here, we review the most common scenarios.

According to The Small Business Encyclopedia, there are two methods for determining owner pay when starting a business. T first is setting a salary that lets the owner meet basic living requirements, covering bills, food and other miscellaneous living expenses, like Shilan did above. A personal financial statement can help determine living expenses (monthly, quarterly, semiannual and annual), including credit cards with outstanding balances and short- and long-term loans.

The second method involves projecting a salary based on basic worth. While this is subjective, usually it means the owner pa him or herself a current market value minimum plus a little more.

However, once the business reaches breakeven and beyond, looking at profitability is a direct and simple approach one-third the industry uses to determine owner salary – they budget for their salary at the beginning of the year and pay themselves a weekly fair market rate plus bonuses based on the company's profits. After all, "you can't pay yourself, or any employee, money that isn't available," Moses says.

"Assuming the company is making more than it spends, your salary should be based on a percentage of profits over the previous two to three years (some of the previous years' profits include what you have paid yourself during that period)," he explains. "Your salary should not be based solely on projections for the upcoming year or years, although tangible contracts can be taken into account."

Shilan learned this lesson all to well. "I've tried basing my salary on how much work I'd actually sell and how much I produc and I based it on the gross figure," he says. "That didn't work. The gross is one thing, but netting is completely different. So was drawing a good salary but I wasn't netting enough to support the salary that I set up for myself. I learned that, in theor gross is OK but, in reality, net is everything."

Huston offers some industry benchmarks. According to his book How to Price Landscape & Irrigation Projects, the total for combined office and officer salaries should be between 8 and 12 percent of gross annual sales. Lawn & Landscape research shows owner salaries fall into this range at 9 percent on average.

"Some owners prefer to draw less than a fair market value salary (only $400 or $500 per week) and keep the extra money working within the company," Huston explains. "Others choose to take far more than a fair market value salary, but it's not reasonable to put all this amount into general and administrative (G&A) overhead for estimating purposes – it would make b too high. (Even though officers' real pay may be more or less, you should still estimate G&A overhead costs using a fair mar value amount in G&A overhead.)

"For instance, I tell a contractor who's going to take $300,000 to pocket at least $36,000 before bonuses," Huston continues "And after bonuses he's probably going to be pulling down close to $48,000 plus the company is going to pay for his truck ar medical expenses. Now if the company grows to $1.5 million, the owner should be putting $50,000 in his pocket, plus the truck, medical expenses and maybe some year-end bonuses. It really boils down to hard dollars, so I think this is one of the better methods to use – straight forward and easy to calculate."

This is when fair market value is the goal. A majority 55 percent of contractors say they draw less than the fair market value salary and keep the extra money working within the business – and that's helping them grow. This is how Greg Dynia pays himself. When he measures his salary against how much time he puts into the company, he is more inclined to say he doesn make a fair wage, but when viewed from a long-range perspective, his wage is acceptable because it allows him to continue grow the business.

"At this point , the strength of the business is really more important to me than my individual salary," explains the owner of $1.2-million Grass Roots Lawn Care in Chesterfield, Va. Dynia bases his salary off of the highest paid employee – his is just a touch above that. "At the end of the road, it's more valuable to have a successful and profitable company than for me to ma a certain amount while my company is hanging on by a shoe string."

Dynia admits he probably started earning more of a fair wage about four years ago when he went from a sole proprietor to a corporation. "At that point, I really had to draw a salary, whereas before I was kind of mixed in with the overall gross of the company and didn't necessarily have to write myself a check every two weeks," he says. "Money was sort of able to be used my disposal."

Moses also reminds owners who may be tempted to lean the other way and keep all profit for themselves to be careful. "You cannot pocket all profits because some of these must be allocated to annual increases in marketing and other operational expenses that grow the business," he explains. "If an owner takes all profits as salary, the company runs the risk of stagnati A rule of thumb: Most owners of profitable small businesses don't take out more than 50 percent of profits for themselves."

And, then, of course, debt has to be taken into consideration. Determining an owner's salary is a whole different ballgame when ongoing lines of credit or debt are involved. "If your company is profitable and has outstanding loans, there is always t tendency to want to pay off the loans as quickly as possible," Moses says. "This usually means that you, the owner, must reduce the amount you take out of the business."

When Glenn Mertens and his wife, Doris, purchased 17-year-old Vital and Green of Wisconsin from the original owner, they were determined not to accrue substantial debt. This was the driving decision to pay off the purchase before earning regular paychecks, and continues to be their motto today. "We didn't earn hardly anything the first year," he recalls. "I don't like collecting a significant salary if I know there's instability in the debt of the company. We probably started earning a regular salary by the third year, but it wasn't until the fourth year when it was actually stable because we were paying off the compa in large amounts the first three years."

Mertens, the Oconomowoc, Wis.-based company's vice president and his wife, who is the company's president, each make approximately $60,000 annually running the $600,000 business. It's difficult for Mertens to say whether he thinks this is fair today's market or not, especially considering the amount of time he puts into the company – 40 to 50 hours a week in the fi plus overtime to cover owner duties. "Costs have gone up significantly in the past 10 years, so the money that my wife and make now seemed like a crazy amount when we started, but now it's tight."

Owners will always be concerned about the future of their companies, Moses says, but for your sake and the sake of your family it's important that you take a comfortable amount out each year for living expenses. He advises: "Don't plow every penny back into the company at the expense of your and your family's satisfaction in life. This defeats the purpose of startin your own business."

THE PRICING ARGUMENT. While some small business experts advise owners to focus on a percent of profits to determine their salaries, other experts believe in a more unconventional view. They argue the focus should be on pricing, not salary.

Salary is what remains, but pricing is how you achieve your salary, Birol says. "Approximately 50 percent of all small businesses fail in a year, and only 20 percent of the businesses remaining last five years," he says. "Why is this? Because th didn't price higher than what it costs to make a living. It's that simple. It's not what you make, it's what you keep."

He advises owners to charge enough from the beginning in order to pay themselves at least 125 percent of what they would make if they were working for someone else. This is key, he says, because the owners are the ones taking on all the risk.

In a small business, the owner is the engine that drives the bus. The focus should be on building the business so that it has value, maintains David Kay, certified financial planner with The Advisory Group in Dayton, Ohio. His clients have included medium-sized and small businesses in an array of industries, including the landscape industry.

One cannot truly quantify an owner's wage for the simple fact he is always on the clock, he explains. The phrase "fair wage" ambiguous in this context because there are countless intangibles to be considered, such as client relations, good will and th like that are both immeasurable and critical to the company's success.

Should an owner expect to make a "fair wage" immediately? The experts disagree on this point. Some suggest a three- to fiv year time frame with flexibility to allow for adjustments. "Know what your plan is, and if something sets you off course – like bad economy – then you have to adjust and see how you can get back on track," Kay advises.

But Birol says owners should price jobs to earn a fair wage from the get-go.

"This idea that there is some length of time a business owner should wait until they feel it's justified to earn a living is spurious," he says. "There's nothing saying you can't price a job and sell it from the beginning to make a living."

INCREASING YOUR PAY. Once a business has reached breakeven, The Small Business Encyclopedia advises owners tie an income above their fixed salaries to the growth of the company. Therefore, if the company grows 10 percent, take your base salary and add a 10 percent bonus to it. Retaining this bonus is fine – "Why not compensate yourself for the increased performance of your company?" the book says.

The challenge is when the rest of overhead, excluding owner compensation, grows faster than the rate of sales on a percenta basis. "Sure, you may be able to trim a little fat from the budget by removing any discretionary purchases, but the fact remains that if overhead grows at 12 percent, and sales grow 10 percent, it is only a matter of time before you find yourself trouble," according to The Small Business Encyclopedia. "By increasing your base salary by 10 percent, the rate of sales growth, you are only hastening this crisis.

"In order to keep total overhead, including owner compensation, at a comfortable level in relation to income, take that rise i overhead into consideration when determining your salary level," the book continues. "To do this you need to determine how much your overhead is, excluding your salary. For instance, suppose your annual overhead minus owner salary is $180,960, your salary is $36,192, and sales are $312,000. If the company's sales grow by 10 percent, but overhead (minus owner sala grows by 12 percent to $202,675, or about 60 percent of total sales, your raise in pay cannot exceed 70 percent, so you will unable to give yourself a 10-percent raise unless you want to cut into your profit. Instead, you would give yourself a 4-perce raise for a total of $37,600 annually."

Another way to keep this in check is to look at the industry benchmark for corporate salaries (which is between 8 and 12 percent as mentioned earlier), and realize that this number will be larger when you start out and are a smaller business, but will decrease as you increase in size, Huston says. "If your company is a large commercial operation doing more than $10 million in annual sales, the total of officers and office staff will probably be below 8 percent," he explains. "Extremely large companies, well more than $10 million in annual sales, will be even lower. Smaller commercial and high-end residential companies will run about 12 percent. If actual pay for office staff and officers combined exceeds target percentages, don't pu the excess in G&A overhead. Rather make a net profit adjustment at the bottom of your budget (after net profit margin) for additional excess salaries or bonuses. Then work on increasing sales. This will bring your percentages in line."

Keeping costs under control means checking rapid growth of overhead costs. "But no matter what you do," warns The Small Business Encyclopedia, "overhead will rise on annual basis due to inflation alone. Your objective is to try and keep it in line w the growth of sales."