# HERBY KAY ADVISORY

## Business Diagnostic Report — SAMPLE

**This is a sample report. The business is fictional and all figures are illustrative. It shows the format, depth, and candor of the diagnostic Herby Kay Advisory delivers.**

**Business:** Magnolia Landscape Management, LLC — commercial landscape maintenance
**Location:** Charlotte, North Carolina, serving the Charlotte metro **Prepared for:** The owner
**Date:** November 21, 2026

## 1. Engagement Summary

You asked us to answer one question: why is a company that did everything right for twenty years suddenly losing ground, and can it be fixed before the losses become permanent? Revenue has fallen for two straight years. Margins have fallen faster. You told us in our first meeting that you work harder now than you did at half this size, and the business pays you less for it. That is the problem in one sentence.

This report is the diagnostic. We reviewed four years of financials, every active contract, crew and payroll records, receivables, and your equipment list. We rode along on two routes and interviewed your two senior foremen and your office manager. What follows is what we found, what it costs you, and what we would do about it — in that order. Some of it is not comfortable. All of it is fixable, and none of it requires you to become a different kind of company.

## 2. What We Asked For

To do this work we requested the following, specific to a contract maintenance business:

- Profit and loss statements and balance sheets, last four fiscal years, plus year-to-date
- Every active maintenance contract, with start date, monthly amount, renewal date, and any escalation clause
- A list of contracts lost in the last three years, with the reason given at the time
- Payroll registers for the last twelve months, by employee, with hire dates and wage rates
- Crew rosters and route sheets for a representative month, showing which crew services which accounts
- Fuel, fertilizer, and chemical cost records for the last two years

- Accounts receivable aging, current and one year ago
- Equipment list with year, hours or mileage, and repair history for the last two years
- Your bid log: every proposal sent in the last two years, won or lost, and at what margin it was priced
- Insurance, licensing, and workers' compensation modification rate history

## 3. What We Received and How We Used It

You gave us nearly everything within a week, which is rarer than it should be and speaks well of your office. Two gaps: there is no written record of why contracts were lost before this year, and the bid log exists only as sent proposals, with no margin calculation attached. We worked around both, and the gaps themselves are a finding.

- **Four years of P&Ls** fed the trend analysis in Section 4 — where the money used to be made and where it leaks now.
- **The 84 active contracts**, matched against current crew wages, fuel, and materials, fed a margin-by-contract analysis. This is the heart of the report. It had never been done for this company.
- **Payroll registers and crew rosters** fed a labor analysis: what a crew actually costs per day, fully loaded, against what its route earns.
- **Route sheets** fed a revenue-per-crew comparison across all 14 crews.
- **The receivables agings** fed a 13-week cash forecast, which we built with your office manager.
- **The equipment list and repair records** fed a replacement-versus-repair analysis for the truck and mower fleet.
- **The proposal file**, priced out after the fact, told us what your bids actually earn when they win. That answer surprised you. It should not have surprised either of us, given the contract analysis.

## 4. The Business As It Stands

Magnolia was founded in 2006 and built the right way: HOA communities, office parks, and retail centers across the Charlotte metro, won on reliability and kept on relationships. At its peak it was the obvious choice in its market. It still does good work. The numbers, however, have turned.

| Measure | FY2022 | FY2023 | FY2024 | FY2025 (ttm) |
|---|---|---|---|---|
| Revenue | $6.21M | $6.83M | $6.44M | $5.91M |
| Gross margin | 37.8% | 36.1% | 32.4% | 28.9% |

| Measure | FY2022 | FY2023 | FY2024 | FY2025 (ttm) |
|---|---|---|---|---|
| Field labor, % of revenue | 41.2% | 43.0% | 46.1% | 49.3% |
| Net income | $558K (9.0%) | $601K (8.8%) | $309K (4.8%) | $89K (1.5%) |
| Accounts | 78 | 88 | 86 | 84 |
| Contract renewal rate | 92% | 91% | 84% | 78% |
| Receivable days | 38 | 41 | 49 | 57 |
| Field employees | 58 | 64 | 61 | 57 (9 vacancies) |

Cash on hand is $96,000 against a biweekly payroll of $118,000. The line of credit, $250,000, is drawn to $141,000. There is no debt beyond the line and two truck loans. The business is not in danger this quarter. It is in danger on its current trajectory, which is a different and more useful thing to know.

## 5. Findings

**Finding 1 — The contract book is priced for 2022 and worked at 2026 costs. This is the main cause; everything else is secondary.** Seventy-one percent of your contracts — 60 of 84 — have no escalation clause and have not had a price increase in three years. In the same three years your average crew wage rose from $17.40 to $21.85 an hour, fuel is up 22%, and materials are up across the board. Priced at today's costs, 23 of your 84 contracts lose money and 11 more earn under 10% gross margin. Your single largest HOA, $31,400 a month, returns a gross margin of 4%. You are paying some of your customers for the privilege of mowing their grass. This is not a sales problem. The book itself is upside down.

**Finding 2 — You are short nine field workers, and the shortage is quietly eating the renewal rate.** Crews run at five men against a six-man route plan. The work still gets done, but the finish work — the edging, the detail, the things a property manager actually notices — is what gets skipped. Complaints logged by your office are up 60% in two years. Your renewal rate has fallen from 92% to 78%, and the stated reasons, where recorded, are quality, not price. A labor shortage you cannot fully control has become a quality problem you can partially control, and it is costing you contracts worth far more than the wages you are saving by running short.

**Finding 3 — The two anchor contracts you lost were not lost on service. They were bought.** Your two largest retail-center contracts, $940,000 a year combined, went to a national competitor at prices 14% below your cost of doing the work. They are buying market share with a balance sheet you do not have, and they will raise prices later. You cannot win those bids and should not try. What you can do is stop being surprised by them:

both accounts gave signals a year out, and nobody here was watching renewals as a job in itself.

**Finding 4 — The profitable work in this market is shifting to enhancements and compliance, and you are selling the old product.** North Carolina's stormwater rules put a certified inspection and maintenance obligation on the retention ponds in nearly every HOA community you serve, and your larger clients are steadily moving budget out of basic maintenance and into enhancements — entrances, irrigation upgrades, amenity areas — where the property value shows. That work is high-margin, and you turn it away or sub it out because your crews are consumed by maintenance routes that, per Finding 1, often lose money. Your competitors are using enhancement and compliance work as the wedge to take whole accounts. You are defending the least profitable part of the market and conceding the most profitable part.

**Finding 5 — Your customers are using you as their bank.** Receivable days have gone from 38 to 57. Property managers slow-pay because nothing happens when they do: no late fee is enforced, no statement goes out, and service continues regardless. At 57 days on $5.91M of revenue you are carrying roughly $310,000 more in receivables than you did at 38 days. That is the line of credit. You are borrowing at 8.25% to lend to national property management firms at zero.

**Finding 6 — You are the company's quality control, sales department, and renewal desk, and there is one of you.** You personally supervise all 84 accounts. It worked at 30 accounts. At 84 it means renewals get attention only when they are already lost, bids get priced from memory instead of from cost, and two capable foremen — with 11 and 14 years here — have no authority to fix a problem on site without calling you. This is the finding underneath the others. The business outgrew the way it is run, and the way it is run is you.

**Finding 7 — Deferred equipment replacement is now a margin item, not a savings.** The mower and truck fleet averages 7.4 years. Repair spending was $61,000 in FY2022 and $148,000 in FY2025, plus an estimated 340 crew-hours lost to breakdowns and shop runs. You did not save the replacement money. You spent it on repairs instead, at retail, with downtime on top.

## 6. Recommendations

### Immediate — next 30 days

1. **Enforce the payment terms already in your contracts.** Statements on the 1st, a call on day 35, the contractual late fee on day 45, and a written policy that service pauses at day 60 for non-institutional accounts. Getting receivable days from 57 to 45 releases roughly **$195,000 in cash** and cuts line-of-credit interest.

2. **Stop the bleeding on the five worst contracts.** Renegotiate or resign the five deepest losers at renewal or, where the contract allows, at the next anniversary. Combined current loss: about **$71,000 a year**.
3. **Put renewals on a calendar with an owner.** Every contract gets a 120-day, 90-day, and 60-day touch: a site walk, a written condition report, and a conversation before any competitor's bid lands. Cost: your office manager's time, reallocated. This protects the **$4.6M of revenue** that renews in the next twelve months.

### The 90-day fix

1. **Reprice the book.** Every contract without an escalator gets a written increase at renewal — 6% to 9%, justified in one page by documented wage and materials costs — and every renewed or new contract carries an annual escalator tied to a published index. If repricing the 60 stale contracts costs you 10% of them, you still come out ahead: the expected net effect is **+$260,000 to +$340,000 of annual gross profit**.
2. **Restructure the crews around the shortage.** Move from 14 six-man routes to a two-tier model: full crews on the accounts that pay for detail, leaner maintenance-only crews on the accounts that do not, and one dedicated enhancement crew for the detail work that drives renewals. Add a $1.50/hour retention differential for crew leaders — roughly **$46,000 a year** — against the $310,000 in revenue a single lost mid-size HOA represents.
3. **Build the enhancement offer.** Price enhancements, irrigation upgrades, and retention-pond inspection and compliance work as a product, with the compliance and property-value math done for the client, and pitch it first to your ten largest accounts. Two mid-size projects a quarter at typical margins is **$120,000 to $180,000 a year** of high-margin work that also locks the maintenance account in.
4. **Promote your senior foreman to operations manager, in fact and in pay.** He runs routes, quality, and the renewal walks; you keep client relationships and pricing. His raise, about **$18,000**, is the cheapest capacity this business can buy.

### Longer term — 6 to 18 months

1. **Replace equipment on a schedule, not on a breakdown.** A five-year rolling replacement plan for trucks and mowers, funded from the repricing gains, should bring repair spending back under **$80,000 a year** and end most downtime losses.
2. **Refuse below-cost work on principle and in writing.** Adopt a floor margin for bids — we suggest 32% gross — and walk away below it. The national competitor can have the accounts that lose money. In time, those accounts come back to market at real prices, and you want to be the company still standing when they do.
3. **Build the 13-week cash forecast into a habit.** Your office manager now has the model we built. Run it every Friday. A business this size should never be surprised by its own cash.

## 7. If You Retain Us

The diagnostic is this report. The next step, if you want it, is the 90-day fix: we come in, work the repricing, the crew restructuring, and the collections and renewal systems alongside you and your staff, and stay until the numbers move. That engagement is $2,000 a month for three months. After that, some clients keep us on a retainer — $500 to $1,000 a month — for a standing second set of eyes on the numbers and the decisions. Some do not, and the fix stands on its own either way. That decision is yours, and it can wait until you have read this twice.

## Appendix — Key Figures

| Item | Figure |
|---|---|
| Revenue, peak (FY2023) | $6.83M |
| Revenue, trailing twelve months | $5.91M |
| Gross margin, FY2022 → FY2025 | 37.8% → 28.9% |
| Net income, FY2023 → FY2025 | $601K → $89K |
| Active contracts | 84 |
| Contracts with no escalation clause | 60 (71%) |
| Contracts losing money at current costs | 23 |
| Largest single contract margin | 4% gross on $31,400/month |
| Field labor, % of revenue | 41.2% → 49.3% |
| Average crew wage, 2022 → 2026 | $17.40 → $21.85/hr |
| Unfilled field positions | 9 |
| Renewal rate, FY2022 → FY2025 | 92% → 78% |
| Anchor contracts lost to below-cost bidding | 2, totaling $940K/yr |
| Receivable days, FY2022 → FY2025 | 38 → 57 |
| Excess receivables carried vs. FY2022 terms | ≈ $310,000 |
| Cash on hand / biweekly payroll | $96,000 / $118,000 |
| Line of credit | $250,000 limit, $141,000 drawn at 8.25% |
| Equipment repair spend, FY2022 → FY2025 | $61K → $148K |

| Item | Figure |
|---|---|
| Revenue renewing in next 12 months | $4.6M |

Magnolia Landscape Management, LLC is a fictional company created for this sample. Any resemblance to a real business is coincidental. Figures are illustrative but are built to the proportions of real businesses of this size and type.