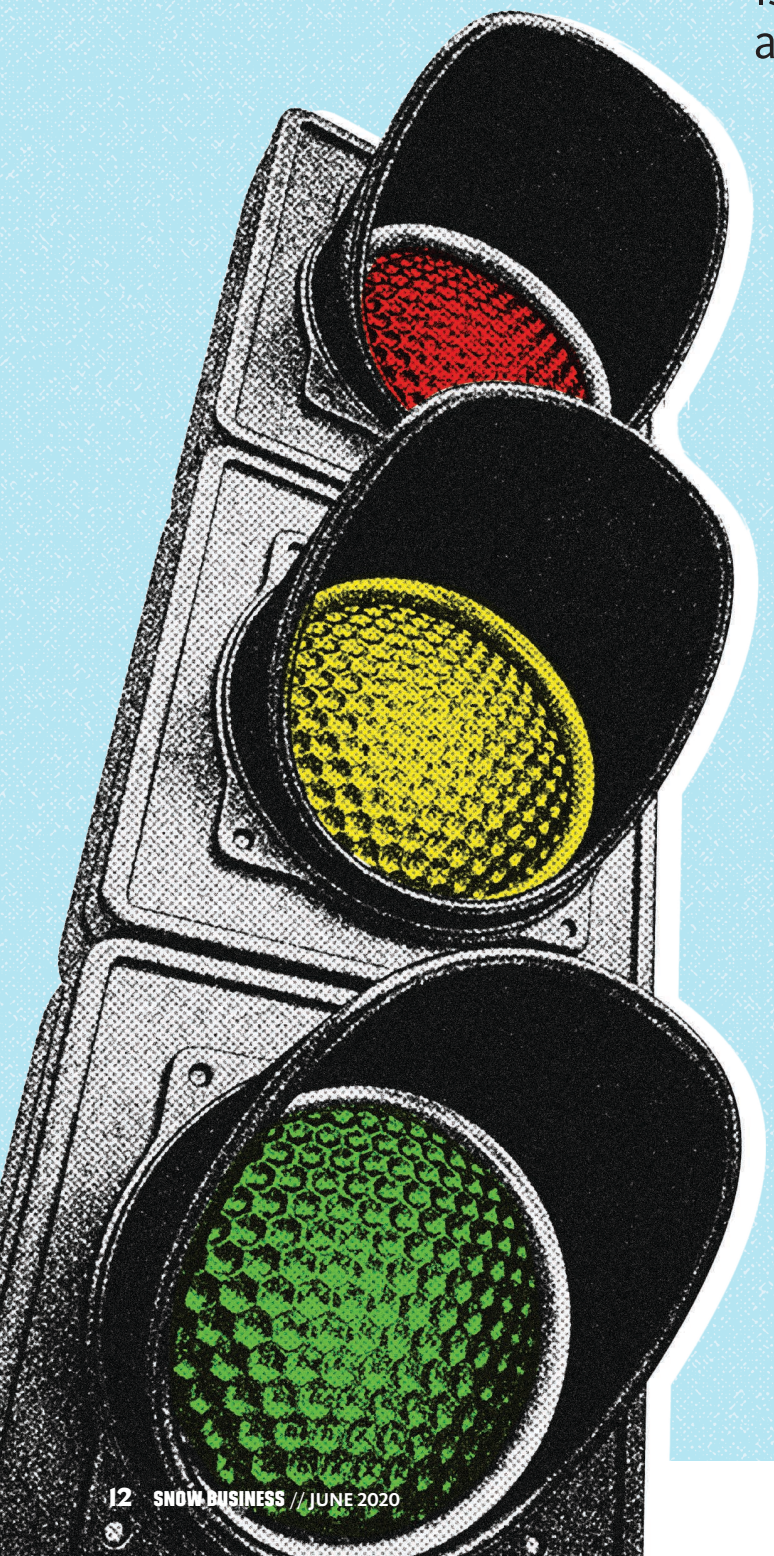
STATE *of* READINESS

Is your snow contract predictable and repeatable? Or is it costing you?



PHILL SEXTON, CSP, ASM

What do snow companies, day traders, insurance companies and fire departments all have in common? They all deal with extreme variables and conditions. The difference comes in the way each is funded and deals with anticipated extremes. Winter 2019-20 is an interesting case study of another extreme season. For many markets throughout North America, the number of storm events and snow accumulation was at an extreme low. Yet places like Boulder, CO, experienced their heaviest snow season on record after three consecutive light seasons.

How can property owners and snow contractors work together to handle these extreme fluctuations? Implementing a predictable, repeatable and equitable contract model as a differentiator is a good start.

Differentiate for an advantage

Differentiation is the strategy. Creating a professional advantage is the opportunity. For decades, most of the snow and ice management industry has accepted being paid for the number of plowing occurrences and amounts of salt applied. This strategy works best only when the season is "average." The problem with this philosophy is that the statistical probability of experiencing an average season is low.

With most contract models, there is almost always a perceived winner and loser. Therefore, contractors and their clients are positioned at opposite ends of the success spectrum.

Snow and ice management professionals should be compensated for levels of preparedness, training, inventory investment and fixed overhead expenses. For decades I've estimated the true value of professional snow and ice management services. In my estimation, about 25% of the total value is the actual plowing and ice management. The other 75% is the cost and value of being prepared and ready to respond. How to differentiate when performing this valuable service is about differing from your competitors in a manner that lets you serve your customers better, and more profitably, without it costing your clients more. So how do you do that? Let's put snow and ice management into perspective with other industries.

AVERAGE SEASON EVENT DISTRIBUTION								
Rochester, NY 10 Climate Zone	Dustings	0.1-0.9	1.0-1.9	2.0-3.9	4.0-5.9	6+	Non-Trace	Total Events
	8	16	9	7	2	3	37	45

SNOWFALL % BY QUARTER					
	Q3	Q4	Q1	Q2	Annual
Snowfall inches	0	19.2	59	1	79.2
% of season	0	9	24.2	74.5	1.3

SEASON % OF 5-YEAR AVERAGE					
	Snowfall	Total Events	Trace Events	>0.1 events	% of 5-year average
5-year ave.	79.2	45	8	37	
2015-16	50.3	21	1	20	63.5%
2014-15	101.4	57	14	43	128%
2013-14	115.1	65	16	49	146.6%
2012-13	71.5	49	7	42	90.3%
2011-12	56.7	35	4	31	71.6%

AVERAGE? NOT SO MUCH This grouping of data verifies that median (average) weather does not happen most of the time. In fact, "normal" / average happens about 1 out of every 5 years.

Who are you?

Day trader. If you are a contractor who sells most of your contracts as time and material (T&M), per-inch or per-push, you might be a day trader (or gambler). If you're a facility/property manager or owner who purchases snow and ice management services under those contract models, you might also be a day trader. Hedging your success on the amount of weather is comparable to (if not worse than) guessing what will happen in the stock market each day.

Insurance company. When you purchase collision insurance for your company vehicles, are you allowed to pay only if there is an accident? When you purchase fire insurance, do you only pay the premium when there is a fire? Of course not. Yet 75% of snow contracts are set up this way via T&M, per-plow or per-inch contracts. Why are clients willing to risk service failure that naturally happens in at least 20% of contracts that are paid this way? They can't realistically expect contractors to be ready if they aren't being paid to be ready … can they?

Firefighter. The success of a fire department is measured by its level of preparedness, not by the number of fires. Can you imagine if the number of fires determined how and how much a fire department was to be funded? It would be a disaster for the community that had very few fires one year and a fire that consumed an entire city block the next year.

That fire department would quickly earn the reputation of being "cellar savers" versus the heroes they are. As a snow fighter, have you ever felt the same way after a massive storm for which you were ill-equipped? How about the "snowmaggedon" storm you would have serviced well had the customer paid you appropriately for the right type and quantity of equipment to handle it? As an industry, we are always expected to be ready for the "big one." Yet we don't seem to expect to be paid for it. Why? Because a light year, like the one most of us experienced this past season, takes us back to the dark days of not being recognized as an essential service – until the next big one hits.

"Normalized" weather

The reality is that snow and ice management is a business of weather. How do you base a contract on something that is unpredictable, while still being fair and equitable to all stakeholders? How do you "normalize" a weather-based service contract? The answer requires all stakeholders to understand how weather behaves and for contractors to use unbiased, third-party weather data to standardize production estimates and pricing.

Median (average) weather does not happen most of the time. My personal experience of plowing snow and analyzing this type of data for over 30 years has proven to me that "average" happens about 1 out of every 5 years. It's the high and low seasons that cause the average; therefore, we must think about "normal" as something beyond "average."

Minimum state of readiness

A minimum state of readiness or preparedness is required to meet a desired level of service. This state of readiness comes with a fixed cost, whether it snows or not.

What does "ready" mean? Let's think again like a fire department. What do you intuitively expect from your local fire department for them to be considered ready? Do you see qualified people conducting Monday night drills? Do you see state-of-the-art fire trucks being maintained and prepped each week – whether there is a fire or not? Do you see volunteers advocating and raising money for their local volunteer fire department year-round?

It is critically important that as an industry we align with

Continued on page 14

FLAGSTAFF, AZ		CHICAGO, IL		MISSOULA, MT		DENVER, CO	
19-20 Season	**70.3**	19-20 Season	**34.8**	19-20 Season	36.5	19-20 Season	71.4
Current 30 Avg.	**88.5**	Current 30 Avg.	**37.4**	Current 30 Avg.	42.7	Current 30 Avg.	49.1
Highest Season	**158.9**	**Highest Season**	**82.0**	**Highest Season**	**111.6**	**Highest Season**	**79.0**
90th Percentile	**137.1**	**90th Percentile**	**54.5**	**90th Percentile**	**65.8**	**90th Percentile**	**72.6**
Median	**87.2**	Median	**33.1**	Median	41.1	Median	49.2
10th Percentile	**43.9**	**10th Percentile**	**23.9**	**10th Percentile**	**22.7**	**10th Percentile**	**29.8**
Lowest Season	**28.5**	**Lowest Season**	**10.4**	**Lowest Season**	**17.6**	**Lowest Season**	**21.8**

LAST 30 YEARS (1991-2020) The wild swings in the sampling above show the importance of understanding climatology data to more accurately understand "average" and "normal" and how they can impact your pricing for snow services. *Courtesy of WeatherWorks, Inc.*

Continued from page 13

the true value and service we provide. The value is everything behind the scenes that goes into being ready to clear snow and ice from roads, parking lots and sidewalks.

The framework for a snow and ice management operation to structure a minimum state of readiness can be broken down into the following four seasonal categories. How will you cover these costs if it barely snows and you are paid by the plow, T&M or per-inch?

Preseason
- Calculate and procure minimum revenue needed to support fixed overhead costs to be ready
- Procure resources (people, equipment, materials) to support a minimum state of readiness
- Train your team on readiness expectations for each client/property you service

Pre-storm
- Confirm the required resources to service an upcoming forecasted storm are ready for dispatch
- Calculate additional capacity required to be ready in case of breakdowns
- Mobilize and dispatch the proper capacity of resources for each weather forecast; keep in mind that you always need to account for a percentage of "false alarm" and long-duration sleet/freezing rain forecasts

Post-storm
- Document service and invoice
- Debrief and train all team members
- Inspect, repair and refuel equipment

Postseason
- Demobilize
- Analyze performance data and training
- Repair and store equipment

What does readiness cost? By now, I'm hopeful my point that only about 25% of the cost and value for servicing a client and their respective property relates to the actual plowing and ice management is starting to make sense.

There are real and significant costs before and after the actual performance that are nearly impossible to capture in a typical T&M or per-inch/per-occurrence contract – unless we charge enough to cover all of those costs even in a low season. However, raising your rates to protect yourself in low seasons does not bode well for clients, particularly in average or heavy snow seasons; in the long term, this will cause budget issues for property managers and will erode trust in the relationship.

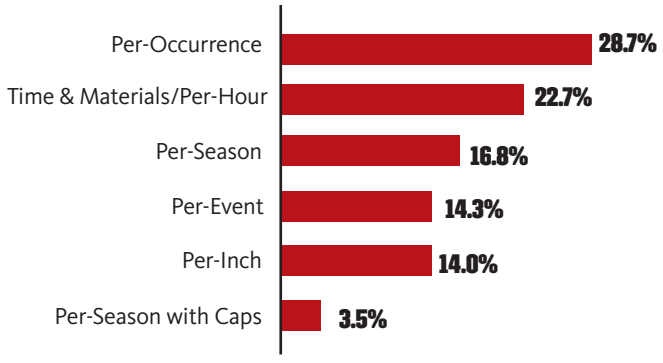
Contract models

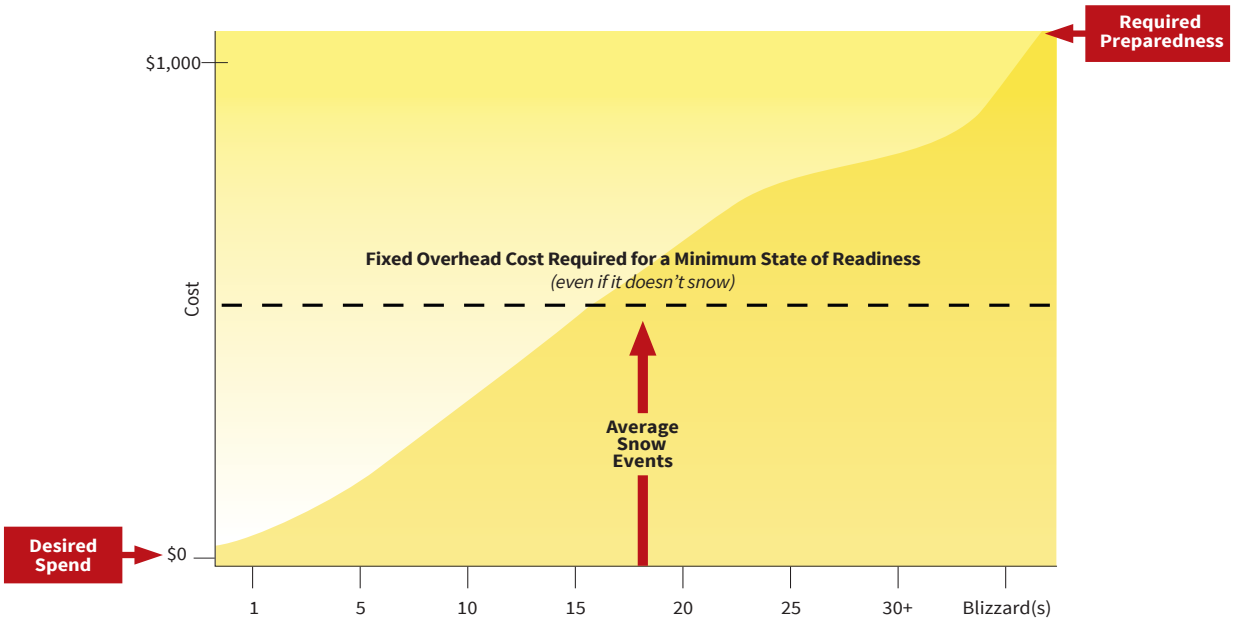
There are necessary costs to budget for in order to provide a minimum state of readiness, even if it doesn't snow. But how can you capture these costs for readiness and overhead? The solution is in the contract.

According to a combined five years of survey data from SIMA, nearly 75% of all snow and ice management

Continued on page 16

QUANTITY OVER QUALITY? According to 5 years of survey data from SIMA, nearly 75% of all contracts are driven by the amount of weather and materials utilized.





SNOW & ICE MANAGEMENT COST ($) AND CAPACITY CURVE There is such a thing as an "average cost" or budget for providing a minimum state of readiness, especially if it doesn't snow. Your contract pricing should include the costs for being reimbursed for your readiness and to cover your overhead costs.

Continued from page 14

contracts throughout North America are driven by the amount of weather and quantity of time and materials utilized. That means only 25% of contracts are paid for based on levels of preparedness, service performance and efficiency.

Fortunately, there are contract models that are equitable for both contractors and their clients. These models incentivize efficiency and enable predictable and repeatable revenue for contractors and costs for clients, allowing each to more accurately budget.

Performance- and preparedness-based contract models are being utilized in every market in North America. The myth that "my market" won't accept a new contract type is categorically false based on my experience of working with clients throughout the United States and Canada.

It requires the ability and willingness for you and your client to change and accept win-win standards for contract agreements that equally protect clients and the snow and ice management provider. The biggest companies that are either publicly traded or owned by private equity firms will tell you the same thing. Predictable and repeatable costs and revenue is the name of the game. SB

QUALITY OVER QUANTITY

Contracts that incentivize performance and readiness better protect clients and contractors

Performance-based contracts

Incentivize for meeting or exceeding a level of service expectation and efficiency

Fixed seasonal contract (a.k.a., lump sum, seasonal): Normally priced within a range of average to slightly above average winters. Requires a multi-year/season agreement of at least three years and preferably five years to pay off for both the contractor and client.

Seasonal variance contract (a.k.a., floor/ceiling): A base cost is established within the seasonal average range with a floor to provide clients with a negotiated credit for extreme light winter seasons and to provide contractors with additional cost recovery for extreme heavy seasons. Within this contract model a cap can be set for both the floor and ceiling.

Preparedness contracts

Incentivize for meeting a minimum state of readiness and level sets fees or rates

Fee-based contract: A preseason fee or an equal monthly installment is paid to the contractor for the fixed overhead expenses required for being prepared, no matter how much or little it snows. In exchange, a lesser hourly (i.e., T&M) or per-occurrence (i.e., per-push) rate is negotiated.

Retainer-based contract: Like other professional agreements, a minimum cost for preparedness is established between the contractor and their client – similar to a fee-based contract. This acts as the minimum retainer to be paid preseason and deducted from the cost of service throughout the season. Once the retainer amount has been reached, lower negotiated hourly or occurrence-based rates protect clients from high-season cost fluctuations more effectively than traditional T&M or quantity-based contracts. This model also protects contractors from losing money during extreme low seasons.

Phill Sexton, CSP, ASM, has been practicing in the winter management profession for over 30 years. He is managing director for WIT Advisers (WIT), which serves as industry adviser to SIMA. WIT administers the Sustainable Winter Management (SWiM) program and certifications. Contact him at psexton@witadvisers.com or visit www.witadvisers.com/swim.

MORE ON WEATHER

Is weather history repeating itself? Page 18.

Mixed precipitation events require new pricing approach. Page 40.