The consumer recovery

Consumers will spend again … but not excessively.

Some people described it as gluttony. Others called it obnoxious. It was consumers’ “I have to have it” mentality. Anything was attainable to people who wanted it. If they didn’t have the money, they borrowed it. Today, that has clearly changed.

Contractors now use words like “cautious,” “careful” and “conservative” to describe customer spending. Clients seek information before they make any decisions and are more frequently asking about deals and discounts. Instead of making instant purchasing decisions, they hesitate. They consider. They ponder. In the Landscape Management survey, 36% of lawn care and landscape professionals say customers are taking more time to make decisions.

And, in today’s depressed economy, “bad news travels too fast,” says Joe DiRoma, owner, DiRoma Landscaping, Lisbon, CT. “People are sitting on the fence not spending money until they see what other people are doing,” he says. “I think they hear so much about the economy and that makes them more cautious. They hear other people are struggling and they’re worried about spending their own money.”

Instead of neighbors one-upping each other, gushing about new furniture or their bigger and better televisions, the water cooler battle is who has the saddest story to tell. According to Gallup.com’s latest consumer confidence survey, 47% of Americans rate current economic conditions as poor and 63% say economic conditions are worsening.

Though unemployment is tough and home values are not at their best, “my impression from surveys we get back from customers is their reasons for discontinuing service is not that they lost their job or home value has gone down,” shares Chris Senske, president of Kennewick, WA’s Senske Lawn & Tree Care. “It’s just that they’re uneasy and hanging on to money. People are unsure.”

“We do have customers telling us they want to scale back and we did lose customers who told us it was because of the economy,” admits Giuseppe Baldi, landscape maintenance manager for Baldi Gardens in Arlington, TX. Though he feels this was worse in 2009 compared to this year.

What has changed? There’s been “a profound shift in client needs and expectations,” says Kirk Brown, business

TAKE-AWAYS

2010 Consumer Confidence Setbacks
1. Customers demand more deals and discounts.
2. Constant barrage of economic negativity increasing fear, even when money isn’t an issue.
3. Pickier customers.

2011 Consumer Confidence Goals
1. Build consumer faith in the value of landscape services.
2. Strengthen customer relationships.
3. Phase work into easier to swallow, bite-size chunks.
manager, Joanne Kostecky Garden Design, Allentown, PA. “As with the terrible demise of the easy flow of money in the residential housing market, landscape budgets have contracted and clients — if they are looking to do any work at all — are scaling back their wishes and ramping up their demands/requirements.” “Customers are definitely getting more picky,” Baldi confirms. “There’s still that hesitation. They are still spending but hesitant to do too much.”

In an August survey, The National Gardening Association found one in five households spent more time caring for their lawns and gardens last year — a good sign. However, they are spending 16% less money total than in previous years.

Todd Dilley’s biggest fear is the recession will continue to worsen and play on customer psychology to the point where “even if they have money, they will be scared to spend it,” says the general manager of The Lawn Ranger, Minneapolis, MN.

Yet, optimism prevails, but it grows in “baby steps,” Baldi says. When asked which one customer segment holds the most opportunity for business growth, a clear majority of contractors (51%) chose residential. “I do believe that people will continue to see the value of our industry in 2011,” Dilley says. “So I’m

PHASED OUT

Are your customers taking too long to make decisions because they’re afraid to spend too much at once in today’s uncertain economy? Offer the work on phases. It’s worked for Todd Dilley, general manager of Minneapolis, MN’s The Lawn Ranger. “People are still spending money — just not as much, so we have to learn to work with them,” he says. “And doing jobs in phases — even over several years — has worked.” “Also, it ensures work,” he adds. “You do phase one the first year, phase two the next year, and as long as you keep the customer happy, you know they aren’t going somewhere else when it comes time for phase three.”

Matt Griffin has also found success in phasing out work. “People are managing their money tighter — they’re still spending, just not in mass amounts,” says the president of Kingwood, TX’s Prime Lawn/Prime Design.

The additional perk: “A lot of times the profit margin can be higher when you break a job into phases,” Griffin says. “You have to set up on the job site each time, so the profitability is better than doing it all at once as one big job.”

CUSTOMER CHECK
How are customers responding this year?
S9 521x20

Sales are up; the recovery from the recession is in full swing.
8%

Sales are still down; looks like this will be a repeat of last year.
19%

Sales are on par with last year — we’re holding ground, not gaining or losing business.
32%

Sales are way down; the recession is worsening.
5%

SOURCE: LANDSCAPE MANAGEMENT

NOT A SPENDING SPREE

16 % reduction in all lawn and garden activity spending by consumers.

$30.12 billion

Amount spent by consumers on lawn and garden activities in 2009.

SOURCE: NATIONAL GARDENING ASSOCIATION

RETAIN TO GAIN

76.15%

Landscaper’s average customer retention rate.

SOURCE: LANDSCAPE MANAGEMENT
WHEN OPPORTUNITY KNOCKS

Brian Golembiewski’s monthly maintenance work is down — no doubt about it.

But he’s up $120,000 for the year because of one thing: service diversification.

Last year he added weed control/lawn care and tree trimming to his service mix to become a more complete maintenance business and capture more of the money customers were spending with other companies. “Those two services alone right now account for probably 15% to 20% of my revenue for this year,” says Golembiewski, president of Tempe, AZ’s $2.95 million Paramount Landscape. “And since that work has higher profit margins, my margins are up right now, too. I’ll continue to work on developing and growing those areas of my business next year.”

The bad news is his monthly maintenance account work — what he calls his base — is what he needs to sustain to increase the ancillary, profitable services for his 100% commercial client base, a large portion of which is made up of homeowners’ association work.

Today, Golembiewski is bidding work at 2005 pricing levels, adding that service value has decreased by 20% or more just over the past year. “It got to a point where I wasn’t winning the work so I had to keep tweaking my labor rates until I got to a point where I started to win some work,” he says. “So part of my strategy is to keep that maintenance base once I’ve got it so I can build the other services. There’s a lot of downward pricing pressure right now, so it’s critical to maintain high levels of quality and strong relationships to prevent them from leaving.”

Though Golembiewski is cautiously optimistic about 2011, “I’m really nervous about the future,” he says. “Our goal is to work on operational improvements to remain competitive.”

INCOMES INCHING UPWARD

10.6

RESIDENTIAL REIGNS

Which one customer segment holds the best opportunity for your business?

THE GREAT OUTDOORS

The top reasons consumers still spend money on lawn and garden activities:

ONE
To maintain property appearance (64%)

TWO
To improve property appearance (63%)

THREE
To make my outdoor space more livable (44%)

SOURCE: NATIONAL GARDENING ASSOCIATION

LINGERING DOUBT

47

% of Americans who rate current economic conditions as poor.

SOURCE: GALLUP.COM

63

% of consumers who say economic conditions are getting worse.