State of the Industry 2000

By the Landscape Staff
Remember life before Dursban?
Before Dursban® insecticide, insect pests were, shall we say, a little out of control. Then Dursban came along and helped you get them under control. Low odor Dursban Pro has the power to protect turf and ornamentals from more than 280 insect species, all while providing long residual control. Simply put, when you apply Dursban Pro, insect pests are history.
One hot
PART 1:

Great growth, but for how long?

BY SUSAN GIBSON AND JASON STAHL

John Wheeler can forecast his landscape maintenance contracts through the year’s end, but it’s the design/build side that is harder to forecast. The president of Wheeler Landscaping Inc. in Chagrin Falls, OH, has a variety of design/build jobs lined up now but wonders how long that trend will last, especially if the economy “cools” as the experts say it will.

“We’ve budgeted an increase in our design/build work this year, but most of the work comes not that far in advance. We had a record month in April but will it hold out?” he asks.

That’s the question on many people’s minds as they juggle two conflicting trends: managing today’s strong demand and dealing with uncertain prospects about next year’s business. Economists tell us that the Federal Reserve’s six interest rate hikes, the stock market’s volatility and some rising prices in certain sectors are starting to have that “cooling” effect. The question is, how much and how long will it last?

Certain economic trends seem to point to a slight slowdown, but what will that mean for the landscape and lawn care industry? Currently, few industry professionals see any signs of a slowdown.

“It’s not here yet,” says Neil Thelen, president of Landmark Landscapes in Norcross, GA. “Landscape normally is at the back end of a slowdown. We could see something in about 12 months.”

The next year isn’t looking bad for Mike McCoy, president of McCoy Landscape Services in Marion, OH, who says the strong economy has made business easy. He reports that most of his contracts came unsolicited, boosting the firm over its previous goals.

Right now, the problem isn’t so much a slowdown as it is managing the incredible growth this industry has seen during the last nine years. The profile of the Green Industry in 2000 is one of untapped opportunities for more business, labor shortages that continue to plague landscape managers and a host of new issues, regulations and market developments that may make life even more interesting in the next few years.

Year in review:

Full steam ahead

Last year, landscape managers predicted an average of 15.5% growth for 1999. Our research this year (see “How we got this information,” page 36) shows even more optimism, with expectations of a mean revenue increase of 18% for 2000.

Where are they getting this growth? Some landscapers and lawn care operators are expanding via franchises while others are opening up new branches, up-selling existing customers, finding new clients on the Internet and squeezing more profits through greater efficiencies.

Nevertheless, there are several factors that make life difficult today or hold the promise of having a major effect on tomorrow’s business.

Down and dirty competition

Low-ball competition keeps maintenance prices (and profits) low, especially in the head-to-head residential markets. Few contractors voluntarily get into this price-war situation and several, in fact, are planning to boost their prices this year.

“We’re shifting to a new pricing structure and are looking to grow continued on page 28
Every lawn and landscape has thousands of tiny time bombs hiding in the soil. Broadleaf weed seeds. And the best time to stop the explosion is before they emerge. A preemergent herbicide application creates a zone of protection where weeds get whacked as fast as they germinate. So your customers never see any weeds, and the turfgrass gets off to a fast, healthy start. It works so well, it can eliminate a lot of callbacks and
How to defuse a lawn.

maybe two or three postemergence herbicide applications. One treatment of Gallery® preemergent herbicide is all it takes. Use it spring or fall on turf or ornamentals to prevent more than 95 kinds of broadleaf weeds for up to eight months. For more information, call us toll-free at 1-800-255-3726 or visit our website at www.dowagro.com. Always read and follow label directions.

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Gallery®
Average profit margins for various services

<table>
<thead>
<tr>
<th>Service</th>
<th>Margin</th>
</tr>
</thead>
<tbody>
<tr>
<td>Specialty services</td>
<td>40.6%</td>
</tr>
<tr>
<td>Landscape maintenance services</td>
<td>35.6%</td>
</tr>
<tr>
<td>Landscape design/installation</td>
<td>34.8%</td>
</tr>
<tr>
<td>Chemical applications</td>
<td>29.6%</td>
</tr>
<tr>
<td>Tree care services</td>
<td>22.3%</td>
</tr>
<tr>
<td>Irrigation services</td>
<td>21.9%</td>
</tr>
</tbody>
</table>

SOURCE: LM READER SURVEYS

continued from page 25 through that, not through volume," says Jerry Gaeta, a partner with The Good Earth Inc., a full-service landscape firm in Mt. Pleasant, SC. The time seems right, he notes. "We have a backlog of work and enough people who want our services that they will wait two to three months."

Michael Hornung, president of Valley Green, a lawn care services firm in St. Cloud, MN, says that low-balling is nothing new. "We've had some low-balling in our market, but it seems someone is always going to do it. Some of those who used to low-ball finally raised their prices and their businesses are growing as well as ours."

Despite the competition, Hornung reports Valley Green's 30% to 40% average growth has caused him to finally set limits. "It has just been nuts and we've started to hold growth back. Actually, that's worked well because we can be on the customer's property more often and we're not working our people to the bone."

While low prices are a valid option, too many landscapers price themselves out of the profit picture. And many of the prices are too low to encourage professionalism or growth of the industry as a whole, say some insiders.

"It's very competitive out there," says Chris Karcher, owner of a new NaturaLawn franchise in Shawnee, KS. "A lot of companies want to compete by offering low prices, but they're doing a disservice to the industry. Our challenge right now is targeting customers who are convinced that lawn care isn't about who is cheapest."

Tom Davis, president of Bozzuto Landscaping in Laurel, MD, agrees: "Competition is still tight. Personally, I hope the low-ballers get acquired soon."

Dwight Hughes, president of Dwight Hughes Nursery, Cedar Rapids, IA, expects more competition to continue. "New competition is a national issue. There is a new interest in horticulture and more people in the community college programs. They'll keep entering the business."

Don't expect the debate on low-balling to go away. Like Hornung, many feel that pricing plays a major role in setting industry standards for success and an appearance of professionalism.

"Everyone is so focused on saving money on payroll, yet they're not charging enough to do the work," he says. "Plumbers are getting $100 per hour and we're still getting $30 to $40. That's why we can't find the employees we want. When we're getting a customer on price and not on service, we suffer for it."

Inflation & the hunt for profitability

Like other industries, many landscape operations undoubtedly found higher profits by reaching new levels of productivity, rather than through increases in prices.

While our economy has enjoyed an unprecedented run of stable prices, some prices are creeping up — health care costs, gasoline, water and wages. And some operations are starting to feel the pinch.

"I'm feeling significant cost pressures, especially in the areas of insurance (mainly health care
Most popular landscape services offered in 1999

<table>
<thead>
<tr>
<th>Service</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mowing</td>
<td>79%</td>
</tr>
<tr>
<td>Landscape construction/installation</td>
<td>73%</td>
</tr>
<tr>
<td>Turf fertilization</td>
<td>70%</td>
</tr>
<tr>
<td>Landscape design</td>
<td>57%</td>
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<tr>
<td>Turf weed control</td>
<td>53%</td>
</tr>
<tr>
<td>Turf aeration</td>
<td>52%</td>
</tr>
<tr>
<td>Snow removal</td>
<td>48%</td>
</tr>
<tr>
<td>Ornamental care</td>
<td>48%</td>
</tr>
<tr>
<td>Turf disease control</td>
<td>45%</td>
</tr>
<tr>
<td>Turf insect control</td>
<td>40%</td>
</tr>
<tr>
<td>Irrigation maint./installation</td>
<td>39%</td>
</tr>
<tr>
<td>Tree care</td>
<td>36%</td>
</tr>
<tr>
<td>Paving/deck/patio installation</td>
<td>30%</td>
</tr>
<tr>
<td>Landscape lighting</td>
<td>24%</td>
</tr>
<tr>
<td>Pond/lake installation</td>
<td>16%</td>
</tr>
<tr>
<td>Pond/lake care</td>
<td>9%</td>
</tr>
<tr>
<td>Other</td>
<td>10%</td>
</tr>
</tbody>
</table>

SOURCE: LM READER SURVEYS
continued from page 29

in the same market — Columbus. Since he hasn't gone head-to-head with the bigger firms on bid jobs, he has a rather charitable view of them. "It seems that consolidated companies are doing a great job," he says. "I think there will always be room for smaller companies, though."

Neil Thelen is waiting for the consolidated firms in Atlanta to make a serious play. "Our market is atypical — we have several top firms who have always been competitors, and now they're working hard to figure it out," he says. "With that many firms, you're going to have some confusion, but it will be a juggernaut when they eventually do figure it out."

He's watching closely. "It will be really interesting to see how this plays out. I think the consolidation will improve the professionalism of our business here in Atlanta, but everyone needs to be prepared for almost anything. You can't have too many prima donnas on the dance floor."

On the lawn care side, both Centex of Dallas and Weed Man of Mississauga, Ontario, are making active moves into the marketplace. Weed Man just announced revised plans to penetrate the United States lawn care market through a series of sub-franchise arrangements and has attracted several high-profile lawn care owners, while Centex is concentrating on acquisitions.

Supply chain changes
Supplier mergers and acquisitions are changing traditional distribution systems, the availability of certain products and many face-to-face relationships.

Just a few examples of the activity on the supplier side include: the BASF/American Cyanamid deal; the merger of Novartis and Zeneca into Syngenta; The Andersons’ and Nu-Gro’s combined purchase of the professional turf business from The Scotts Co.; John Deere’s new emphasis on moving its dealers into after-sale services; Turfco’s direct sales program; Ferris Industries’ purchase by Simplicity; the launch of several e-commerce sites focusing on the landscape industry; and AgriBioTech’s bankruptcy.

All of these are expected to impact the normal buying and distribution systems, but time will tell if those impacts are positive or negative. Most likely, here’s what you’ll find:

► New names, new faces and new ways of buying. As suppliers merge or tweak existing distribution chains, some will cut staff, reassign territories or "streamline" the buying process.

► Less products and potential limitations on developmental research. Some crossover prod-  

10 trends impacting the industry

Whether the economy continues to expand or slow, these 10 trends won’t change. Here they are:

1. "Easy" growth – It’s not only fairly easy to grow an operation, it’s sometimes a real challenge to limit growth. Survey respondents named landscape design/installation the fastest growing segment, followed by maintenance.

2. Uncertainty about the future – Is the economy cooling? Will it affect construction, disposable income for consumers and commercial maintenance budgets? It’s hard to prepare for this.

3. Consolidators are getting it together – While the rate of consolidation has slowed, the consolidated companies are starting to standardize operations and bring on some real competition.

4. New, tougher competition – New competitors enter this market constantly, making competition tough and squeezing prices, particularly in the maintenance side of the business. This won’t stop.

5. Demanding customers – Blame it on instant messaging if you like, but today’s residential and commercial customers are much more fussy and pushy about getting “extras” in a deal. And they want it now!

6. Ouch! Lack of labor hurts – Labor shortages are a fact of life and there is no solution on the horizon. Some organizations make the most of the situation with good management, benefits and mechanization.

7. Regulations with bite – Key issues challenge landscapers around the country, including: availability and use of pesticides; blower noise and engine exhausts; ozone-alert restrictions; control of irrigation installation; and water restrictions.

8. Diversity in services and customers – Innovative contractors and LCOs are expanding into new areas, franchising new services and seeking employees from new sources.

9. Supply chain blues – Manufacturers are merging at a dizzying rate, the ABT seed consolidation’s fallout has yet to fall out and dealer/distributor chains continue to confuse and frustrate industry professionals. This will continue as long as mergers and acquisitions are profitable.

10. High-tech goes "green" – Laptops, palm devices, digital photography, new software and the Web continue to attract the attention of tech-sawy landscape managers. But how many are mechanizing for better productivity?