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?

SOURCE: LANDSCAPE MANAGEMENT

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 increasing, but customers are still taking more time to make decisions. 36%

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

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

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
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

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.”

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.

SOURCE: GALLUP.COM
Word of mouth is no longer enough

To increase sales, landscapers move beyond referrals as their only means of marketing.

Landscapers lose clients. It’s inevitable. “They die. They lose jobs. They sell their houses and move. They divorce. They get sick. They can’t afford us.” Jerry Tindel lists the many ways he’s lost Cutting Edge Lawn Care clients in Austin, TX.

The goal, obviously, is to replace these clients because “clients are the lifeblood of all future growth,” Tindel explains. “If you don’t continue to grow, you will slowly shrink to nothing.”

To avoid wasting away, contractors market. And in today’s wary economy, they are marketing a lot more than they used to. To improve business growth next year, 48% of small businesses say they will increase marketing, according to a September Citibank survey.

Paramount Landscape president Brian Golembiewski has already spent three or four times what he typically spends in a normal year on marketing. This includes putting together a short movie about his company, buying e-mail lists and sending out e-blasts, and dropping off fliers and business cards to potential clients’ properties.

“We didn’t have to do much marketing in the past — we got a lot of work just by word-of-mouth,” Golembiewski admits. “But with what is going on now, we’re doing a lot more marketing to recover lost maintenance. I am laying the groundwork now because I know it can take awhile to materialize.”

Jeff Bowen is embarrassed to admit that up until this point he hasn’t spent even 1% of the company’s revenue on sales and marketing. “We were a word-of-mouth company,” he says. “But we will no longer be a word-of-mouth company. We will be more like the big boys and sell the way they do. We think we need to start a more official marketing and sales plan.”

To accomplish this, Bowen is now looking for a salesperson who can develop sales strategies, grow and track the numbers and tie it all to marketing.

Maintaining current business and sources of revenue is No. 1 on contractors’ priority lists for the next six months, followed closely by growing business, according to Landscape Management’s survey. And over the past two years, one-third of all small business owners continue to report weak sales as their top business problem, according to the National Federation of Independent Business. With sales being top priority, it’s no wonder increased marketing is a key part of the contractor business game plan.

As Christy Webber, president of Chicago’s Christy Webber Landscapes, insists: “Now is the time to make sure your name is still out there.”

MORE VISIBILITY

48% of small businesses who plan to increase marketing in 2011.

SOURCE: CITIBANK

TAKE-AWAYS

2010 Marketing Setbacks
1. Lack of marketing presence.
2. Increased competition and market oversaturation decreases effectiveness of traditional means.
3. Doing nothing beyond word-of-mouth.

2011 Marketing Goals
1. Increase marketing budgets to keep your name in front of current and potential customers.
2. Try different, and maybe less traditional, marketing methods; don’t rely solely on customer referrals.
3. Take advantage of low-cost marketing opportunities (public relations, social media marketing, etc.) to engage customers.
Work with a partner who has a solution for every problem.

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Your partner from the ground up.
Contractors fight lowballers in a battle for core business.

**What's the biggest obstacle to growth today for the average landscape contractor?**

Certainly, the prolonged recession comes to mind for most contractors, as that tops Landscape Management readers’ list of top success blockers. But a mere fraction of a percentage point behind sits lowball/underpricing competitors. Giuseppe Baldi calls them “the undercutters.”

“We’ve had customers tell me they can find someone to do it for $20 so why should they pay us $30?” says the landscape maintenance manager of Arlington, TX’s Baldi Gardens.

“Competitors get scared and want to give stuff away,” explains Todd Dilley, general manager of Minneapolis, MN’s The Lawn Ranger. “They think they need business at any cost, so we’ve lost business to people driving the price down too much, and it’s just not worth us doing the job for so little.”

Dilley’s had to lower prices 5% though they’ve been trying to resist price wars. He’s hoping to hold steady and increase prices 2% to 3% next year.

Nationally, August was the 21st consecutive month in which more owners reported cutting average selling prices rather than raising them, according to National Federation of Independent Business’s September Economic Trends report. Widespread price cutting contributes to the high percentage reporting declining sales revenue. Plans to raise prices were unchanged at a net seasonally adjusted 10% of owners.

On the cost side, 3% of owners cited inflation as their No. 1 problem and only 4% cited the cost of labor, so neither labor nor materials costs are pressuring owners to raise prices, NFIB’s report reveals. Without pricing power and sales volume, profits are not able to recover. Only 18% of businesses reported higher profits, while 42% say profits are declining.

Competitors in Matt Griffin’s region are driving pricing — and profits — down. “In our area, there are

### TAKE-AWAYS

**2010 Price Setbacks**

1. Bidding low just to get the job.
2. Sacrificing profit.

**2011 Price Goals**

1. Making internal cuts and driving efficiency to reduce price and maintain profit.
2. Offering ancillary services where price slashing isn’t as great to make up for losses in core business.
about 80 companies and really only about four of them are actual, reputable companies — the rest are fly-by-night guys,” says the president of Prime Lawn/Prime Design in Kingwood, TX. “For instance, we bid $21,000 on a job and someone comes in and bids $13,000. How is that even possible? So our biggest challenge this year was how to keep our quality up, but still compete with those guys. You don’t want anyone thinking your quality is poor.”

How does Griffin prove quality? Past history. “We can tell them all we want that they’re wasting money on going with the cheap product or the cheap company, but you have to back that up,” he explains. “When you pull out 12 to 15 pages of references, you know nobody will call them all — maybe not even one. But we do pride ourselves on having that list and that knowledge.”

In Bob Grover’s eyes, the industry “is teetering on the edge of becoming a commodity.”

“We fight hard not to act like we’re becoming a commodity,” says the president of Hillsboro, OR’s $6 million Pacific Landscape Management. “I see our customer base acting that way though — just thinking they’ll bid out the work every year and see who is most aggressive.”

For Grover, this is discouraging as pricing for his 100% commercial client base has decreased 5% to 10%. “The day this industry becomes a total commodity, I don’t want to be involved,” he says. “I don’t want to be Walmart fighting the Dollar Store.”

Instead of whining, though, Grover is looking for ways to improve efficiencies so he can cut prices in a smart way. A question he asks himself everyday: “Can we resist becoming a commodity?”

His first step: “In our effort to cut our cost structure so we can stay competitive, we need to learn how to do so intelligently so we aren’t cutting it so close that we are just becoming a low cost operator that can’t perform,” he says. “That’s our biggest challenge. It’s easy to say let’s cut, cut, cut, but we need to learn to do it the right way. For instance, not assuming what the customer wants but having a conversation with them and asking them specifics so we can understand their investment perspective.”

Instead of following what the low cost operator model in his area tends to do — which is bring in maintenance at a low cost and make their margins on enhancements — Grover is looking at services in which he can create market supremacy, offering something other companies don’t.

Sustainability is a good example. “People want to be green but there aren’t enough people who want to be green just for green’s sake — that touchy-feely feeling doesn’t last very long,” Grover says. “It has to relate to solving a problem or saving money. And we’ve been a leader in sustainable practices in our area.”

Weather-based irrigation has also been a successful add-on service for Pacific Landscape as a means of helping customers save money on water.

In the whole price reduction equation, Grover says “the interesting part is nobody is saying they’re willing to put up with less work — so we’re doing the same work for less pay.”

Luckily, Pacific Landscape is finding some commercial clients who “are tired of the bid thing,” he says. “We have had some success in picking up work that went to a commodity and is coming back out of it because they do have an expectation of quality. That has given us some encouragement.”

TOP SUCCESS BLOCKERS
1. Prolonged recession
2. Lowball/underpricing competition
3. Rising taxes
4. Rising fuel prices
5. Rising health care costs
6. Continued housing market challenges
7. Poor consumer confidence

PRICE TAGS

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SOURCE: LANDSCAPE MANAGEMENT

‘I DON’T WANT TO BE WALMART FIGHTING THE DOLLAR STORE.’
House of cards

The sensitive residential housing market will stabilize at a ‘frustratingly slow pace’ as home prices return to pre-boom levels.

If most of your landscape work was in residential design/build in Tempe, AZ, then “you’re probably out of business because it dried up.”

This from Brian Golembiewski, president of Tempe’s $2.95 million Paramount Landscape. And it’s just one example of an area where the housing market “tanked,” as Golembiewski puts it. Building is stagnant, home prices are devalued and there is a large inventory of homes available. “We’re near the bottom — it’s as bad as it can get,” he says.

The same is happening in Allentown, PA, where Joanne Kostecky Garden Design’s business manager Kirk Brown says: “The housing market is glutted with a residential inventory far in excess of anything remotely normal. Prices have taken a dive to 25% to 40% of pre-recession highs. Most real estate agents are bracing for what they see as a second round of foreclosures that will only add more depressed inventory available at fire sale prices.”

In Kingwood, TX, the outlook is a little brighter, but only in select price ranges. “The market is increasing in homes ranging from $150,000 to $200,000 and homes in the $1- to $2-million range,” explains Matt Griffin, president of Prime Lawn/Prime Design. U.S. Census figures concur with this — showing homes

TAKE-AWAYS

2010 Housing Setbacks
1. The new home market “tanked.”
2. Increased foreclosures.

2011 Housing Goals
1. Recognize opportunities in maintaining foreclosed homes.
2. Pursue clients who are purchasing existing homes and want to renovate.
3. Stay on top of housing market trends.

A CLOSER LOOK AT HOUSING STARTS

On a year-to-date basis, single-family construction is up 14.8% from one year ago, according to the U.S. Census Bureau.

On a month-to-month basis, however, single-family starts have been down for three months straight. That, coupled with builders slowing completions of homes under construction, points to signs of a continued slide in the near future.

As advances in the economy emerge over the next few months and help improve consumer confidence and demand for housing, economists predict residential construction activity will pick up, and so too will construction spending. Access to credit to provide home buyers with mortgages and home builders with loans will be key to determining how fast single-family construction rebounds.
TAX CREDIT AFTERMATH

A look at how residential home sales are faring after government assistance expired.

Following the sharp drop in the months immediately after the home buyer tax credit expired April 30, pending home sales rose modestly (5.2% increase in July), according to the National Association of Realtors. While the figure is still 19.1% below July 2009’s Pending Home Sales Index figures, this is still a positive sign, according to Lawrence Yun, NAR’s chief economist. “Home sales will remain soft in the months ahead, but improved affordability conditions should help with the recovery,” he says.

When it comes to new homes, however, the three months following the April 30 deadline of the home buyer tax credit were the three worst for this category in history, per U.S. Census Bureau figures. All four census regions recorded declines, with the largest in the West (-25.4%) and Northeast (-13.9%) and smaller declines in the Midwest (-8.3%) and South (-8.7%).

“Now that the stimulus is over, we have to let the market forces do their own work,” Yun insists. “We can’t rely on federal stimulus forever.”

A CLOSER LOOK AT MULTIFAMILY PROPERTIES

Weak demand for condos, high rental vacancy rates and minuscule rent increases have combined with a harsh financing environment to slow multifamily construction to a snail’s pace. Spending, year-to-date, has plummeted 57% from $19.2 billion a year ago to $8.2 billion in July, according to the U.S. Census Bureau.

But there is evidence that prospects for multifamily projects are slowly improving. The three-month moving average for multifamily housing starts has been generally rising throughout the course of this year, which should begin to turn multifamily construction spending upward.
Commercial value

Contractors try to uncover true value in commercial maintenance work as clients force price reductions.

As Brian Golembiewski describes the state of the commercial market, one can only picture a vast, vacant Western movie street with just the hint of wind and the slightest bits of tumbleweed rolling across the dusty, quiet space.

“There is such a huge amount of availability of commercial property right now, but nobody is buying,” says the president of Tempe, AZ-based Paramount Landscape. “There are a ton of empty buildings out there that are just waiting for things to turn around.”

But contractors didn’t feel these effects right away. The recession hit the commercial market one to two years after it hit the residential market. Bob Grover’s commercial customers started cutting back in mid-2009. “Some customers came to us and said their tenants needed rate relief and to find a way to reduce expenses,” says the president of Hillsboro, OR-based Pacific Landscape Management. “We also saw our work put out to bid more and had more customers just flat out ask if we can cut our rates.”

Even for contractors like Golembiewski, who had developer clients decide to finish projects they had already started despite the economy’s effects, the work has been drying up.

These contractors are not alone. Spending on non-residential construction is likely to fall more than 20% this year before recovering slightly in 2011, according to an American Institute of Architects survey.

Looking at specific facility types, construction spending on hotels will drop more than 43% this year, construction of office buildings will decline almost 30% and retail and industrial categories will be down more than 20%, the AIA says. It forecasts smaller declines for institutional categories like amusement space, educational and religious facilities and health care buildings.

The AIA cites an oversupply of facilities, weak demand for space, continuing declines in commercial property values and real estate lenders’ reluctance to provide credit as the reasons for decreases.

A Society of Industrial and Office Realtors study concurs, showing vacancy rates are beginning to level but rents remain depressed and subleasing space is high. The data also shows commercial real estate development remains stagnant in all regions with low investment activity — 88% of survey respondents say it’s virtually nonexistent in their markets.

This is one reason — in addition to price slashing — Christy Webber is cutting back on her commercial

### TAKE-AWAYS

#### 2010 Commercial Client Setbacks
1. Price/bid wars.
2. Oversupply of facilities/high vacancy.
3. Weak demand for space.
4. Decline in commercial property values.

#### 2011 Commercial Client Goals
1. Continue to build customer relationships.
2. Pursue commercial property types less affected by the recession.
3. Focus on smart negotiation of prices and services; ensure profit by improving internal efficiencies or reducing service offerings on the job to meet client needs and requested price adjustments.