

# DIVERSIFYING YOUR BUSINESS

Landscapers today find themselves in a more competitive market than ever before. As a result, 'diversification!' has become the cry of the '80s.

by Rudd McGary and Ed Wandtke

**T**oday's landscape market is more competitive because the consumer base has become more saturated. As companies search for ways to recapture high growth rates experienced in the first few years of the company's existence, diversification has become an option viewed by many as the main path to continued growth.

Let's look at some of the reasons—perhaps not the best—why diversification sometimes takes place.

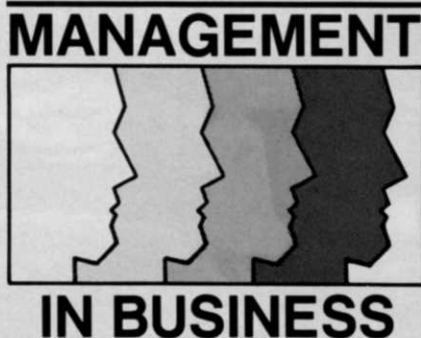
● **Psychological boost.** Diversification offers a psychological advantage for many owners. The startup of a service company usually brings a tremendously high energy period. Everyone works long hours, and, if successful, sees the results quickly. However, as the company matures, this type of excitement doesn't last. By diversifying, the excitement of a "start-up" business can be present again.

Though we often hear owners around the country cite this as their reason for diversifying, it isn't a very good one from a strictly business standpoint.

● **Excess capacity.** Many companies get to a certain point in their growth where assets such as personnel, money, equipment and facilities are under-used.

Diversification is seen as one way of better using these assets. A key question is whether or not you actually need to diversify to use your assets or whether you should remain in the same business and manage it more effectively.

Diversification, because of under-used assets, is alluring to many owners, but it may not be the best way to solve the problem. If you are at maximum market penetration then you might consider diversifying. Remember to look at your current operating practices with a tough eye before



you decide.

● **Available talent.** New employees often bring knowledge of a closely-related industry with them. Some companies diversify when they discover the talent needed to go into a related business is right under their roof.

Once again, this is not a very good reason to diversify into a new business.

● **Loyal customer base.** Companies that have retained customers for a long period often make the assumption that these same people will buy a new service. This is sometimes true, but doesn't take into account the ways in which consumers buy services. This is a fairly common yet incorrect reason for diversifying.

## Why diversify?

Some good reasons why you should consider diversifying include:

● **Identical buying patterns.** Consumers are likely to buy services from the same company if the services are compatible in their mind.

If you diversify from lawn care into lawn maintenance, you have the same basic buying patterns. But, if you go from lawn care to pest control, you enter a different set of buying patterns and can no longer assume long-time customers will remain loyal.

A general rule of thumb is: outside services are generally closely related, as are inside services.

● **Saturation in the market.** If your market is now getting to a point where

companies are basically trading customers each year, you should think about diversifying. Saturation usually favors the companies able to afford mass media advertising. If you can't afford such a campaign, you need to find ways to increase your revenue without having to resort to "buying" your customers. Diversifying can be one way to accomplish this.

● **Good management.** Your company must be sufficiently well-run to allow for diversification.

Too many companies try to diversify before they have their primary service under control. Only when your primary business is under control should you diversify.

We compare this scenario to people who expect computers to cure all their accounting woes. If they have a bad manual system, the computer will simply do it faster, not make it a good system.

If you are managing your current company poorly, it's not likely that diversifying will do anything to help you.

● **Market opportunity.** There are times when diversifying makes sense from the standpoint of market opportunity: a company going out of business, a new company moving in, another 3,000 houses being built, the economy strengthening, etc. These might make your diversification a good idea.

You have to be able to analyze and act. When the market says it needs something, usually the first company to react to it makes money.

Above all else, it is important that your current business is strong. Diversifying takes a great deal of time and energy and, if your primary business isn't flourishing, diversifying isn't a wise move under any circumstances.

The market will give you the information you need to decide whether or not to diversify. If you have sufficient depth of management and capital, and the market indicates there is a consumer need, diversification might be the direction to go in order to make your company even stronger. **LM**

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