Making consolidation work for you ... part II

The race to integrate

Think consolidation is a done deal? Think again. This story is just starting

By SUSAN GIBSON/
Executive Editor

The industry's new consolidators have two major hurdles to overcome: successfully integrating individual companies while selling the new organization to big-ticket buyers.

That's easier said than done. As Mark Feldman and Michael Spratt noted in their book, *Five Frogs on a Log*, "Acquiring is easy. Owning is hard."

The right spin

Ask any new consolidator and you'll hear the same thing:

▶ "We chose this group because we have shared cultures, values, vision."

▶ "We make sure everyone participates in decision-making ... this is a true partnership."

▶ "Yes, I'm staying with the organization."

In the warm afterglow of a merger, the partners are naturally inclined to speak glowingly of the union and its opportunities. But the party line only goes so far until the organization actually delivers, and that's the $2-billion question: When will these consolidations function as they're promised? And how should you compete with them when they do?

Period of adjustment

The clock is ticking for consolidators. While they finalize deals, they may be losing customers or employees. They should eventually deliver on many of their promises of national service delivery and economies of scale, but the race to integrate will intensify. If you handle large accounts (residential or commercial), you may be up against some serious competition — as soon as they are able to pull it together.

Previously, companies like Environmental Industries Inc., Calabasas, CA; The Brickman Group, Langhorn, PA; The Davey Tree Expert Co., Kent, OH; and OneSource (formerly ISS Landscape Management Services), Tampa, FL, took their time acquiring and integrating landscape contracting firms.

"Integration basically is buying the contracts and the people of a firm," notes George Gaumer, Davey's national sales and operations manager, Commercial Services, explaining that Davey makes acquisitions at an intentionally slow pace. "We take integration seriously here. We introduce changes slowly and methodically, and I believe that in the last few acquisitions, we did not lose any people."

Profit's pressure cooker

In contrast, the new consolidators don't have the luxury of time. Their stockholders and other investors want a healthy return and quickly. That's why The Brickman Group is accelerating its acquisition pace, why OneSource is becoming more aggressive and why the pressure is on at TGCL's headquarters in Memphis, TN.

And integration gets infinitely more complicated as more parties become involved. Bill Murdy, president of TGCL's Landscape Division, explains, "It's difficult to integrate companies with the same elements and more difficult when you're integrating companies with different natures."

Each consolidator must align financial systems, generate a common culture, keep customers and employees satisfied and deliver a decent ROI, despite large distances and complicating logistics and different operating systems. This follows its own clock.

How will we know when a group is integrated? "When we deliver consistent quality," says Murdy.

Square peg in a round hole

What are the pitfalls these consolidations must avoid? Authors Feldman and Spratt say deal-killers include uncontrolled ego clashes; lengthy integration processes; and using "best practices" based on the past's solutions, not the future's.

One problem can be the conflict of egos that erupts as entrepreneurial types (square pegs) struggle to fit into the new corporate roles (round holes). One executive in the construction industry likened the process of consolidation to that of "trying to herd a group of tigers."

Ron Schmoyer, president of OneSource Landscape, says this transition can be difficult for someone used to calling the shots. "We have to be sensitive to the personalities that are involved. Some sellers may find it's like running into a brick wall because they're not making decisions like they did before."

TruGreen-ChemLawn's idea

Key players at TGCL and the former LandCare USA are hard at work on a number of integration projects, says Paul Anderegg, senior vice president of operations at TGCL. "We're building an infrastructure and at the same time, building a new information system," he says.

Murdy explains the process involves several steps: financial, consolidating insurance, project task forces, implementing best practices and establishing a national sales and marketing presence.

Anderegg expects it to happen soon: "With the new year (2000), we hope to have the name change, color, trucks, uniforms and standards complete."

It will be interesting for TGCL because commercial landscape maintenance is not like chemical lawn care or other route-based businesses. "While lawn care is more residentially driven, landscape has fewer customers and is more relationship-based," Anderegg says. "Unlike residential lawn care customers who may not desire a lot of in-

How you can compete with the big guys

OK, you're not TruGreen-ChemLawn, The Brickman Group or GrowScape, and you're asking yourself, How can we possibly compete with those big guys?

Answer: By learning from them.

Can you compete on the regional or national level, or is this market off-limits for now? The option to ally formally or informally with other similar independent firms is always open, but remember that this brings a new set of management complications. However, it could give you access to those large-scale contracts and raise your profile immensely.

If you go it on your own, consider these options:

LM'S STRATEGY CHECKPOINTS

Large company advantages	Your counterpoint
Large size = economies of scales	• Compete on points other than price • Seek opportunities to subcontract with larger firms (their business is booming and may need you)
Large size = capacity to handle very large job	• Look elsewhere; jobs that size are probably beyond your reach anyway • Tear off a piece as a subcontractor
Large firms stay abreast of stylistic/design trends	• You can, too. Make the effort, maybe you do already. • Make sure you actively communicate your design savvy to potential customers; the big guys do. Brag a little
Large firms have sophisticated information technology	• You can, too. Today's $2,000 computer will run all the financial/spreadsheet or database software you'll ever need. Another $1,000 will get you CAD (computer-aided design) capability, if you want it
Large firms grasp and use the contemporary management philosophy of partnership	• You can, too, and it may be easier for you than a big firm. You're small, personal, flexible, remember?
Large companies are smart enough to understand the value of staying local as much as possible	• Reverse the metaphor: get as "big and national" as you can by forming alliances/friendships with other landscapers (via professional organizations)
Large firms can offer consistency across geographically diverse locations	• Stop worrying. You're not going to get those jobs anyway. Do you really want to spread yourself all over the map?
Large firms can offer a professional look which large customers find attractive and consistent with their own corporate image.	• Again, you can too. Professionalism isn't a matter of size. Use uniforms, nicely painted trucks, etc. The green industry is about eye appeal, right?
Like attracts like: large customers hire large contractors	• Find your level. Who are you like in size? Sell to them

volvement with their provider, commercial customers want involvement, they are more knowledgeable about their landscapes and they expect constant communication."

He pointed out that about 15% to 20% of TruGreen-ChemLawn's lawn care business already is commercial work. "We're not alien to it at all," he notes. "We know this business is different and unique, and we're stressing relationship building."

Transitional shakeout

Forecasting some "turmoil for customers," Scott Brickman, president of The Brickman Group, explains, "Companies going through hypergrowth may find it's not possible to integrate. I know they're working hard and that's the focus, but I wonder: How do you make these changes and get them integrated? I see competitors who have been acquired and ask: Are they providing better service and are they better companies than they were before they were acquired? I'm not sure."

He continued, "I competed with Ruppert (Landscape) for years and I don't know if they're better competitors today without Craig Ruppert and Chris Davitt than they were a year ago. Customers will be looking where to go to get the best service, quality and value." □

Residential hot potato?

Will residential landscape maintenance be the next roll-up on the table? So far, it's been untapped by the consolidators. Why?

"There are no barriers to entry," notes David Minor, TGCL divisional vice president. "It's difficult enough to keep a competitive advantage with commercial services."

Clearly, money can be made quickly by consolidating commercial services, but look for future interest on the residential side, partly because the market is so huge.

TruGreen-ChemLawn, a firm with long experience servicing residential customers, is considering expanding into that segment, according to Paul Anderegg. He says the landscape division is looking at all segments of each of its markets. "We may aggressively go after municipalities, homeowner associations, commercial properties, industrial parks, corporate headquarters, even high-end residential," he notes. □

What property managers want from you

Why do property managers hire landscape contractors? It isn't just about money — it's about the relationship

By GEORGE WITTERSCHEIN

LANDSCAPE MANAGEMENT recently interviewed two managers at Trammell Crow, a national property management firm, on their views of consolidation and why they hire contractors. They are: Bill Grillo, senior vice president for property management, Washington DC/Northern Virginia, and Retail Group; and Don LaRue, senior property management vice president responsible for Avion, a 1 million sq.-ft. office/industrial park in Chantilly, VA.

GRILLO: Consolidation is an interesting theme. We found of late that one of our service providers, Ruppert Landscape, was recently purchased by TruGreen-ChemLawn. You can see how the larger firms keep growing larger, and there is impact to the smaller companies. They will need to be well positioned to follow.

LARUE: In Northern Virginia, we've seen quite a bit of consolidation. Ruppert is just one of several. Brickman has come in and purchased several companies and we're seeing fewer players — far fewer than we used to. These are big companies, with economies of scale. I recently bid out my jobs, and some of the numbers coming in are absolutely phenomenal in terms of being very low!

Smaller companies are showing a lot of resentment. They feel these big companies are coming in and buying the jobs, because the numbers are absolutely incredible. My landscaping expense is 30% less than it was 10 years ago.

LM: Most of our readers hear that as bad news.

LARUE: Right. Plus there is scope. My responsibility is so large that we generally have to target those companies that can handle our kind of job, and there are not that many.

LM: Beyond price, are you looking for one-stop shopping from your landscape contractor?

LARUE: Absolutely. My landscaper will do the snow removal and also perform the plant design when I do enhancements. What people are doing today in designing and enhancing buildings is not what they did 10 years ago. Ruppert is up on all that.

For example, we put a lot more texture in the landscaping in front of the buildings than we used to. We used to flood a building with azaleas. They don't do that any more. We're getting into perennials and fixed evergreens and unusual species of trees. It brings so much character to the buildings in the spring.

GRILLO: One other point is that they no longer put mulch around all the trees.

LARUE: It was expensive! Mulching is a third of our landscaping expense, and how do we know that? Because the bigger companies share this information. They are very sophisticated in how they prepare their bids. And they'll sit down and go over the spreadsheets with me. Their sophistication in putting the numbers together will blow you away.

Grillo: Small firm may not be able to deliver.

LaRue: Vendors need to partner with us.

GRILLO: This use of information technology makes it easy for the manager like Don to explain to the asset manager what this big number comprises. We can break it down into parts and it makes sense.

LM: They also share the information with you, meaning that they are into the Total Quality Management partnership.

LARUE: It really is a relationship-driven experience, because if they are not in it for the reasons you are, it doesn't work.

LM: All of a sudden you feel like 'I'm working with somebody, a partner, and not hiring a contractor.'

LARUE: It's a partnership, like the mulching. Armed with the knowledge that we were spending this huge amount of money on mulching, we began steering away from it. Mulching serves a purpose when trees are brand new, but once they're matured, you don't need that protective ring for the root system. We have sodded around the trees so they now look more natural. Not mulching them actually saves so many dollars per tree that the payback comes in about one or two years, and eventually that number starts dropping.

LM: How did you wind up using Ruppert at Avion?

LARUE: The company we were using was bought out by Ruppert, and then Ruppert was bought out by TruGreen-ChemLawn, but at this point, the relationship is more with the local office.

LM: So TGCL/Ruppert is smart enough to let the local thing survive?

LARUE: Nothing changed from my perspective. Except that the numbers got a little better the second time around.

GRILLO: Ruppert came to us before the sale and discussed how that would impact our relationship. I said as long as it didn't change the local interactions and relationships, I would see no problem. I was assured that we would also receive some discount benefits because they were becoming a larger firm. That's an upside for us — we're always pressured by ownership and tenants to keep costs in check.

LM: You have the freedom locally to hire the landscaping company of your choice?

LARUE: Yes.

LM: Can you hire a small company?

Property management firms like Trammell Crow understand how quality landscape maintenance can attract quality tenants.

GRILLO: Absolutely. But understand that a small company may not be able to give us what we need. We did business with a small company down in Richmond (VA), and they were not able to give the full array of services. We had this project and the company could not do it with the timeliness we needed.

So we had to use a larger company. Also, it was the consistency we wanted. Because Avion looks so great here in northern Virginia, we wanted the Richmond property to look the same way. By dealing with the same vendor, we were assured of the same quality and look.

LaRue: It really is a relationship-driven experience, because if they are not in it for the reasons you are, it doesn't work.

That's a big part of consolidation. When people hire Trammell Crow, they want the same kind of service and the same look, the same reports, the same information sets. We deal with a company that's used to dealing with us; they know what that expectation level is. It's also branding. You say Ruppert or Brickman; there's a sort of an identity with their look.

LARUE: At Avion, we're at about 30 cents a square foot for landscaping, which is pretty substantial. We need to get a lot for that expenditure.

GRILLO: Also, when you've got landscapers out in the springtime, one of the greatest things to see is their bright shirts, their corporate uniform. Our tenants feel great about that. It's a sign of spring.

LARUE: It's very professional looking.

GRILLO: And that goes with a very professional management company like ours. It's what tenants look for.

LARUE: In a commercial park, it (professional management) retains tenants. The other day, I met with the owners of a 100,000-sq.-ft. tenant company, and they said they chose Avion because of the park and the landscaping. But afterwards, while they were watching the construction of their own building, they were even more impressed by the landscape crews who were there every day working in those uniforms. It really set the tone for a long-term relationship. □

—The author is a freelance writer and frequent contributor based in Mendham, N.J.

Nobody's standing pat

Independent landscapers see a window of opportunity as consolidators seek alliances with big property management firms

By RON HALL/Managing Editor

When Larry Iorii was getting his landscape business established in Wilmington, DE, he courted property managers. Not anymore.

"I realized I wasn't cut out for that. I got away from that type of business except for a couple of properties that still want first-class service. I saw that the local businesses were being bought up by national companies and some of the people making the property management decisions were out of state," says Iorii.

Larry Iorii backed away from the property management market.

Money to be made

But, other independent landscapers think it remains an attractive market. This, in spite of a much-publicized goal of LandCare USA (now a part of ServiceMaster's TruGreen-ChemLawn) to be the sole landscape services provider for national and regional property management companies. Other big landscape company consolidators, like BHI and GrowScape, are also actively seeking regional and national maintenance contracts with real estate investment trusts (REITs) and other big property management firms.

Can the developing national companies make enough of these deals to significantly affect independent landscape contractors? Many say it's too early to tell. But few companies are standing pat.

Regional is better?

Groundmasters Inc. is increasing its service area outward from Cincinnati and building a regional presence in southwest Ohio and northern Kentucky. President Michael Rorie feels that strategy fits well with the property management industry which, although increasingly national in scope, will remain regionally managed — at least for awhile. And, as long as it does, local property managers will continue to have a say about who maintains the properties under their care, he feels.

"You need to know locally about a property manager's specific needs, and about the priorities at each site," says Rorie. "A property may have one major tenant, and you're certainly going to make sure that tenant's needs are met. It may be snow removal or special events or special hours. When a company can provide these services at a local level there's no stronger value."

Michael Rorie is building a regional company.

Mitch Rolsky, vice president operations & business development, Stano Landscaping Inc., Milwaukee, WI, feels that independents have a window of opportunity to strengthen their relationships with key accounts before a national company is in a position to effectively target the big-property maintenance market nationwide. Even then, it's not a given that property managers will embrace the idea of a single service provider, he says.

Top down or bottom up

"It's going to depend on what's happening within those national real estate management companies. They have to decide whether they're going to manage from the top down or the bottom up," says Rolsky. "Over the past 10 years it's been all over the board, and I don't know that it's settled down yet."

He also believes resistance to working with national landscape companies might come from property managers themselves, particularly those responsible for sites in specific markets. "They want to have some control of their own destinies," says Rolsky of the local managers. "They want the properties to bear their mark or stamp."

Rolsky says a national landscape company may mean added competition, but it could also boost the image of the industry. "I'm hoping that we'll enjoy some of the same benefits in terms of professionalism and perception that the lawn care industry enjoyed when ChemLawn became a national company about 20 years ago," he adds.

Scott Hall's primary market area is between Washington D.C. and Baltimore, MD, and 75% of the revenues of his 20-year-old company, Classic Landscaping, Inc., come from property maintenance.

"We haven't seen any rollups in management companies yet," says Hall. "There are some national companies here, but there are still a lot management companies that are independent too." Hall also feels that consolidation may provide as many

◀ Scott Hall, right, says a national company could benefit independents.

opportunities as competitive challenges — even with property management accounts.

"Look at all the landscape companies that LandCare and TruGreen-ChemLawn have bought up, and pretty soon all those companies will be one company," he says. "I think it's a time of great opportunity for independents that are well run, niche oriented and know what they're doing."

Relationships are vital

Lillian Pinkus, North Haven Gardens, says her firm has competed successfully in the busy Dallas market since 1951, and she sees no reason why it won't remain a prosperous family operation. North Haven Gardens offers both installations and maintenance. It numbers about a dozen property managers among its clients.

She's well aware of the changes in the Dallas marketplace resulting from the consolidation of several of the area's biggest landscape firms. "It's important for us to know who our competition is, but we don't spend a lot of our time concerning ourselves with it. Our focus is clearly on making our business the best that we can make it," she says.

"The relationship with the customer, including a property manager, is always the key," Lillian adds. "The relationship is based upon providing a quality product and service to the customer. Our job is to balance excellence of production with excellence of service with competitive price." □

Who's who in property management

You don't have to be a big company to get decent business from property managers. But it helps to know the lay of the land and the key players

By GEORGE WITTERSCHEIN

Who are those guys, the big property managers looking for national landscape contractors? *Landscape Management* prepared this capsule look at your customers — the property management industry. But you can be sure of one thing about the following list: it isn't really accurate.

If you maintain or install landscapes on a single commercial property, the consolidation in the real estate and property management industries affects you. Not only does their consolidation impact you, it impacts the validity of any survey like the one compiled last year by the *National Real Estate Investor* magazine (in Atlanta, 770-955-2500). Several mergers and acquisitions have occurred since then. For example, Number 3 Trammell Crow absorbed Number 15 Faison, and so on. The effect is constantly changing rankings (Number 1 Insignia has been at the top for three years running).

This is the closest we (or rather, *NREI*) could come to reality for the present. If you want an update, *NREI* should have a new survey out by the time you read this.

Top U.S. Property Management companies:

1. Insignia Financial Group Inc., Greenville, SC; sq. ft. under management, 1997: 387,000,000; www.insigniafinancial.com

2. CB Commercial / Koll Management Ser-

REITs: They aren't like Cheerios

What's the significance of the REITs for the green industry contractor? Since REITs report back directly to their owners (stock market investors), they are under tremendous pressure to generate profits ***yesterday***. That means holding down expenses — and, therefore, doing business with only the largest, lowest-cost-per-square foot landscape contractors. Right?

Not necessarily.

William (Bill) Link is director of landscaping for Camden Development, Inc. in Houston. Camden is the third-largest multifamily residential REIT in the country, with about $1.5 billion in assets. They do about $9.5 million in landscape maintenance yearly, plus some $4 million in landscape work on 16 current construction projects.

Link has five regulation landscape maintenance managers reporting to him, who interact directly with landscape contractors and make recommendations as to who Link should hire. "I may be one of TruGreen-ChemLawn's biggest customers," he says, "but I also have small companies in markets like Austin, TX, and Greensboro, NC. And I hire a very small company in a small market like Corpus Christi."

Link, a former landscape contractor himself ("About a hundred years ago," he jokes) does not have a national account. "Landscape management is kind of like politics. It's all local. You have to take care of me locally."

Does Link feel that the property management consolidation will knock smaller companies out of business? "I think there's always going to be a role remaining for local landscape contractors who bring the technical expertise and the capability to provide a right product for a competitive price.

"I think your readers ought to be encouraged. I see these startup companies every day, wanting work. There are a lot of very capable kids around, coming out of some good schools. If they'll just maintain their proficiency and deliver the product, I think there's always that market for them. There's not a lot of consolidation so far on the landscape construction side, and smaller local contractors ought to look into that. We have currently $350 million worth of new development going on. We use a lot of local vendors — there's always a local condition that the local people know best. It's not like making Cheerios!" □

vices, Los Angeles; sq. ft. under management, 1997: 311,400,000; www.cbcommercial.com

3. *Trammell Crow Co.*, Dallas; sq. ft. under management, 1997: 301,180,000; www.trammellcrow.com

4. *Lincoln Property Co.*, Dallas (Unusual among top players in that 40% of its properties are multifamily residential.); sq. ft. under management, 1997: 208,600,000; www.lincolnproperty.com

5. *Cushman & Wakefield*, New York, NY; sq. ft. under management, 1997: 200,000,000; www.cushwake.com

6. *LaSalle Partners*, Chicago; sq. ft. under management, 1997: 207,000,000; www.lasalle.com

7. *Compass Management & Leasing Inc.*, Atlanta; sq. ft. under management, 1997: 180,000,000; www.compassml.com

8. *Simon DeBartolo Group*, Indianapolis; sq. ft. under management, 1997: 139,000,000; www.simon.com

9. *PM Realty Group*, Houston; sq. ft. under management, 1997: 115,000,000.

10. *Grubb & Ellis Management Services Inc.*, Northbrook, IL; sq. ft. under management, 1997: 94,000,000; www.grubb-ellis.com

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Are you in the ballpark? Check these prices

You can benchmark your prices against national pricing norms, listed below as landscape maintenance expenditures per square foot, compiled by the Institute of Real Estate Management in Chicago from thousands of reports submitted by member property management firms:

Landscape expenditures for downtown office buildings in $ per square foot of entire buildings

Region	Median		
	$/sq ft Low	$/sq ft High	$/sq ft
Maine to Virginia	.04	.03	.07
Southeast	.06	.04	.13
Northern Midwest	.04	.02	.08
TX LA OK ARK NM	.05	.03	.08
Central/NorthWest	.06	.03	.10
Cal-Nevada-Arizona	.10	.05	.17

Landscape expenditures for suburban office buildings in $ per square foot of entire buildings

Region	Median		
	$/sq ft Low	$/sq ft High	$/sq ft
Maine to Virginia	.17	.12	.27
Southeast	.20	.14	.30
Northern Midwest	.16	.10	.24
TX LA OK ARK NM	.14	.09	.20
Central/NorthWest	.18	.10	.26
Cal-Nevada-Arizona	.19	.10	.30

Understanding REITs
(Real Estate Investment Trusts)

REITs are the "coming thing" in real estate with their ability to attract capital (they do it simply and easily by selling common stock). However, you need to know this:

1. They have not yet "inherited the earth," according to a report by Merrill Lynch First Vice Presidents Eric I. Hemel and Leonard G. Sahling. REITs have been poor performers on the stock market, and at present hold only 8% of the prime commercial real estate in the U.S. (apartments, office, industrial, malls, strip shopping centers and hotels). While this 8% share equals roughly $177 billion worth of real estate, it's hardly market dominance.

2. REITs have shown phenomenal growth since 1991, and this is continuing at a pace that could bring them to five times their present size (as measured in dollars) by 2010. The ML report quotes an industry study to the effect that REITs could ultimately reach 50% penetration of the commercial real estate industry. It adds, "Given our estimate of $2.3 trillion of eligible commercial real estate…and assuming that the REIT industry will succeed in attaining a 50% market share, it would appear that REITs are destined to become a $1.1 trillion sector (in 1998 dollars)." (The study quoted is by Barry Ziering, Bernard Winograd, Will McIntosh, and Robert Hess, "Anatomy of a Capital Market Transformation: The Evolution of Public and Private Market Commercial Real Estate Investing," *The Journal of Real Estate Investment Trusts*, October 1997).

3. They could get even bigger. REITs are moving into new territories (for them), like nursing homes, assisted-living facilities, prisons, golf courses, fast-food restaurants and movie theaters. Others are executing what amounts to leveraged buy-outs of real estate-intensive operating businesses, owning everything from timber forests to automobile dealerships. Some REITs have links with real estate companies operating casinos, cold storage facilities and student dormitories. "In view of the rapidly expanding boundaries of the REIT... the ultimate magnitude of the sector's expansion is impossible to forecast," the ML authors say. □