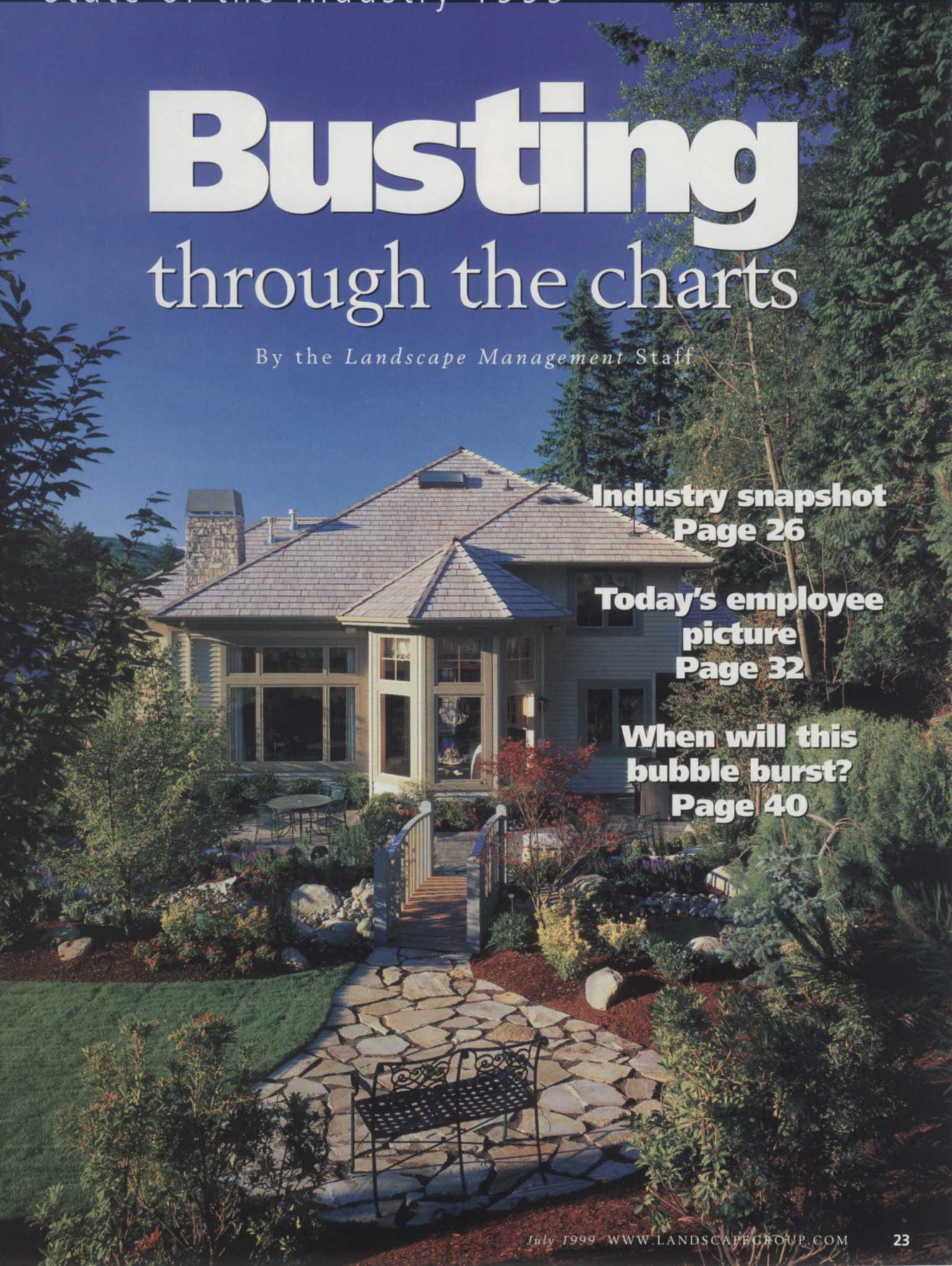
Busting through the charts

By the *Landscape Management* Staff



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Industry

It's been eight strong years now for green industry professionals and the trends see it continuing into the indefinite future. That's good news for anyone interested in growing.

Despite the dramatic changes that the landscape industry consolidations will bring to the "high end" side of the business, many features remain the same:

▶ Low barriers to entry, resulting in many industry newcomers each year.

▶ Growing interest in, and appreciation of, professional landscape services, provided by contractors and in-house staff.

▶ Increasing pressure to operate more profitably and efficiently due to healthy competition in most industry sectors.

▶ Shortage of labor — especially those employees who will stay with a company for an extended period of time and gradually develop into middle managers.

The great big boom

Our economy is "booming," say the experts, and that's obvious to almost anyone on the professional side of the landscape industry. During past economic booms, the kind of growth that landscape operations have would be called outstanding, but compared to some of the skyrocketing growth of Internet stocks, high-tech companies and industry consolidations, that very healthy growth in landscape seems tame.

Don't let that fool you. Respondents to a recent *Landscape Management* survey reported an average 15.5% growth in 1998, with some segments reaching nearly 24%. Add those figures on to previous years' growth and it's obvious that this is an industry with extremely healthy prospects far into the future.

Robert Kinnucan

"We've had three good years in a row," says Robert Kinnucan, president of the Kinnucan Co., Lake Bluff, IL. "There haven't been too many times I could say that in our 29 years in business."

Kinnucan's firm, which serves the 45-sq. mile North Shore area of Chicago, grew by 22% this past year, thanks, in part, to particularly nice gains in its tree care and plant health care operations.

Kinnucan's experience reflects the most recent Gallup poll conducted on behalf of several green industry organizations which showed a 20% growth in services (landscape/lawn maintenance, installation, design and tree care) for 1998, over 1997 figures.

Our own survey also showed landscape contractors and grounds managers are bullish on their 2000 prospects, with a *record 86.3%* expecting further growth.

Who's who out there?

The professional landscape industry, as we see it, covers several business segments: full-service landscape contracting, lawn care contracting, lawn maintenance only and in-house grounds care. Firms that specialize only in golf course management, athletic turf management, tree care, irrigation, landscape design, interiorscape and related services are related but secondary elements of the professional landscape market.

The real debate starts when industry experts try to define the actual number of contracting companies, their revenues and how much they actually spend on equipment and supplies. That's because there is a huge, and largely undocumented, turnover of start-up lawn care and landscape firms each year.

The usual scenario is that each year, many such companies (often one-person firms) become established and a hefty percentage of those will not survive the next five years in business (some not even surviving the first).

Why are these numbers so hard to find? Most sources for industry information use documented mailing lists, Yellow Pages listings, association lists and state department of development or sales tax license department information. Although some federal government offices are looking at the industry, so far the numbers are not complete. And what about those firms that do not advertise, apply for state licenses or even list themselves as a separate business entity?

The traditional sources of information are fine as long as they keep current with new entries and industry dropouts, but when they do not, the number of contractors on a list continues to build. Estimates range from 70,000 firms to as many as 110,000 firms, with some insiders guessing there may be as many as 130,000+ firms existing at any one time. As for the turnover rate, estimates generally range from 10% to 25% or more.

This special report will provide a snapshot of the industry as it is in 1999, through a look at the general economy and through research reports. Then, we'll report on performance and growth opportunities to come.

This year's report also looks at the typical labor picture, showing how contractors and landscape managers staff their operations, and who they hire. We also look at updated operating cost data, which you can use to compare. Finally, we study some marketplace factors our respondents think are holding them back from even more growth.

Snapshot

As for the key segments of the market, we see revenues and number of participants as shown in the chart above.

Indicators mean business

Even though we appear to have weathered the Asian crisis, an imbalance of international trade and other factors potentially hurting our economy, it continues to chug along, buoyed by a number of factors:

▶ *High consumer confidence* — continues at record levels; let the buying continue.

▶ *Low inflation* — defies the experts and continues to stay down.

▶ *Low interest rates* — money's cheap: let's buy, build, invest, loan more!

▶ *Construction boom* — all that extra money has to go somewhere. Where there's a new building, there's a new opportunity.

▶ *Weak foreign economies* — keeps ours going strong.

▶ *Leaner, meaner operations* — smarter manufacturing and service businesses mean less susceptibility to cyclical swings.

▶ *More personal income* — especially if we bought Yahoo! last summer. Our investments (and profits) generate more cycles of saving and spending, building more financial strength.

These factors drive our industry's growth, as well as these other factors:

▶ Recently documented studies show the value that landscaping adds to properties.

▶ The growth in services overall and particularly with Baby Boomers and other population and geographical segments.

▶ The higher profile our industry has due to consolidations and Wall Street's new appreciation of it. Millions of dollars continue to pour into this industry as large corporations, venture capitalists and stockholders invest in the future.

All these factors point to continuing growth for professionals who build, manage and renovate landscapes.

1999 under the microscope

This year's State of the Industry report is based on *Landscape Management's* in-house research, as well as additional information from the most recent Gallup poll, federal government projections and other industry sources.

Our two-page written survey was mailed to *Landscape Management* readers in mid-April. We received a response of 18.9% completed questionnaires from subscribers across the United States, which were then tabulated by an independent market research firm, Penn and Associates, Cleveland, OH, according to standard statistical analysis.

Survey respondents totalled 51.3% landscape contractors, 33.3% described themselves as a lawn care service and 13.8% were institutional grounds managers.

Our sample of company revenues was based on four main categories:

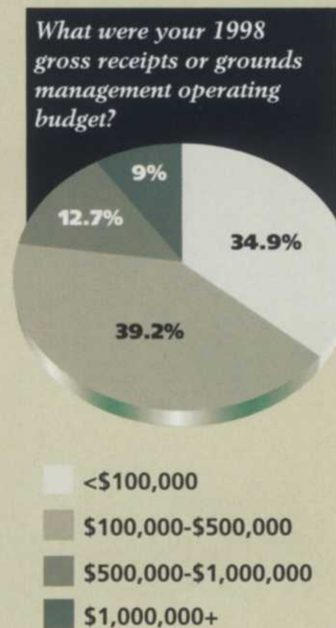
1. *Smallest companies* — with sales of less than $100,000,

2. *Small companies* — with sales between $100,000 and $500,000,

3. *Mid-size companies* — with sales between $500,000 and $1 million,

4. *Large firms* — with sales of more than $1 million.

We also broke out responses by geographical segments,

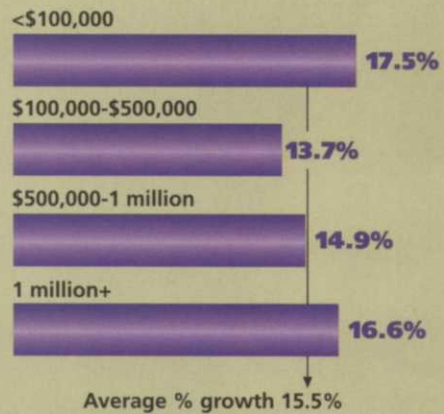


using the U.S. Census Bureau's format: the Northeast, South, Midwest and West.

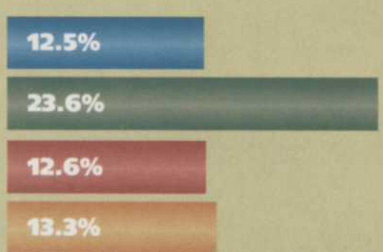
Grow, grow, grow!

It was one heck of a year again for the professional contracting industry, said our respondents, with 86.3% reporting growth from 1998 to 1999, as shown in the bottom left table on the following page. All large companies reported growth, as did 91.3% of mid-size firms (82.9% of smaller firms and 83.1% of the smallest firms said they grew).

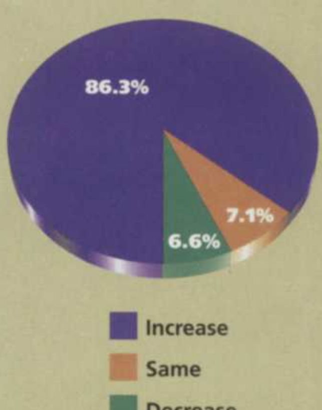
How landscape managers expect to grow in1999



Regional growth breakdown



Compared to 1998, will your operations increase, stay the same or decrease in 1999?



The overall average percentage industry growth in 1999 is 15.5%. The figure on the left shows that the smallest firms (under $100,000) reported the highest rate of growth (17.5%).

This growth carried over into Canadian markets, as well.

"If you can't make money in this economy, you can't make money at all," jokes Robert Wilton, Clintar Groundskeeping Services, Toronto. Clintar, a 27-year-old firm, with locations throughout Ontario, Canada, had "very strong growth," says Wilton, adding "Who knows when it (the strong economy) will end?"


Robert Wilton

We also asked contractors where they got this growth. Residential services equalled growth for 40.3%, followed by commercial work (15.3%), institutional opportunities (6.3%), project developers (4.9%), seniors (2.8%), parks/fields (2.8%) and government (1.4%).

Services that grow

Which service equalled more business growth into 1999? Maintenance won hands down, reported by 16.0% of respondents. Installation followed close by, with 13.9% reporting. Other growth centers included mowing (6.3%), irrigation (3.5%), spray services (2.8%) and landscape design (2.8%).

Respondents also saw some growth from services such as construction, decks/patios, aeration, Christmas services, fencing installation and nursery.

Contractors see the new service additions, listed in the table below, as major opportunities for growth for 2000 (46% plan no new services).

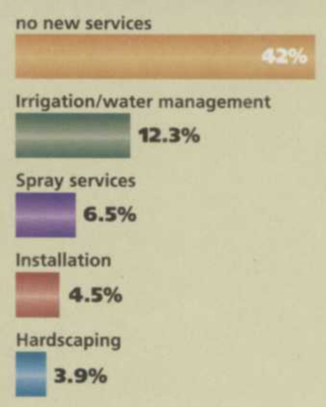
Other good prospects include additional services in aeration, landscape design, lighting, seeding/sodding, deep root feeding/tree injection, tree service, hauling services, organic/nonchemical fertilization, excavation, snow removal, driveway sealing, recycling and deer control.

Contractors are bullish

Our own interviews with contractors and grounds managers support this trend. Brent Flory of Freedom Lawns in Delphi, IN, reports he sees opportunities for business growth as new housing continues to be built. Specifically, the new properties need both landscape and irrigation work. Flory also noted opportunities in servicing industrial properties.

Some contractors may find

For 1999 or 2000, what new services or customer segments will you add?



it easy to pick up work on a subcontracted basis, especially from in-house grounds managers who have limited capabilities to do specialty projects and work.

Brent Flory

Bob Womack, grounds manager at Southwestern College in Chula Vista, CA, outsources tree trimming and concrete work. His regular maintenance operations keep employees busy enough, he says. Renovation and installation is still a priority for his staff, especially smaller projects. "We landscape all new remodeling and installations," he notes. "We also do the regular maintenance for the sports fields."

David Walker, grounds manager for the city of Virginia Beach, VA, also outsources some of his grounds management operations, including mowing at some schools, infrastructure repairs, some tree removal and limited irrigation work on specific sites.

Opportunities seem to be popping up in surprising places. Although David Daniell sees some slowing in the Albuquerque/Santa Fe markets, the manager at Heads Up Landscape Contractors in Albuquerque sees future opportunities with the Indian Pueblos of New Mexico.

"They are expanding aggressively, using money from their gambling operations," Daniell reports. "Several resorts, golf courses and casinos are on the drawing board. Also, the city of Albuquerque is proceeding aggressively to revitalize its downtown area."

Contractors at the large firms are most bullish on growth (50%), planning to add more maintenance, irrigation and hardscape services. Those at the smallest firms also are bullish (48.3%), focusing on irrigation, spraying and installation services. Contractors in small firms also foresee add-on growth (47.2%) through irrigation, spraying, installation, hardscape and aeration services. About 35% of mid-size firms plan to add growth through lighting, growing/nursery, tree care, organic treatments and irrigation services.

An example of this is Kutalic Landscaping & Design, Huntington, WV, which is owned and operated by George and Debbie Kutalic. Their new strategy for growth involved a new niche business. "We started a small nursery to supply our contracting company, which has proven very profitable. It was a way to increase our bottom line without growing the company. We are very happy staying smaller and using high-tech equipment to keep labor (costs) down. We do not sell retail or wholesale from the nursery.'"

Hot growth areas

The South's robust economy is well reflected in our respondents' answers. The regional figure on the previous page shows a whopping 23.6% growth. Growth was more modest in the other areas.

The South's strong and continuing pattern of growth is reflected in the comments of contractors like Bobby Byrd, president of Byrd's Lawn & Landscape, Charlotte, NC. "Mecklenburg County (Charlotte area) is growing in all directions and spilling over into the other counties."

Geographically, 57.1% of respondents in the South forecast growth through add-on irrigation, spraying, aeration and design services. The Midwest is next, with 50% reporting additions of spraying, maintenance, lighting, irrigation and installation services. Add-ons reported by 39.1% in the Northeast include irrigation, hardscape, design and installation. Western contractors reported additional services (29.2%) led by maintenance, irrigation and hardscape.

This kind of growth is typical of the country's hottest private housing markets. As you can see in the latest annual update of new housing starts from the United States Census Bureau, these are not limited to the South.

Top 25 Private Housing Markets - 1998

1. Atlanta, GA
2. Dallas, TX
3. New York, NY
4. Washington DC/ Baltimore, MD
5. Phoenix, AZ
6. Houston, TX
7. Los Angeles, CA
8. Chicago, IL
9. Las Vegas, NV
10. Denver, CO
11. Seattle, WA
12. San Francisco/Oakland, CA
13. Detroit, MI
14. Orlando, FL
15. Philadelphia, PA
16. Miami/Ft. Lauderdale, FL
17. Minneapolis, MN
18. Charlotte, NC
19. Portland, OR
20. Raleigh/Durham, NC
21. Tampa/St. Petersburg, FL
22. Boston, MA
23. Austin, TX
24. Indianapolis, IN
25. Sacramento, CA

SOURCE: U.S. CENSUS BUREAU, 1998

Today's Employee

Labor is obviously on the mind of everyone who took our survey, so we asked them how many full- and part-time employees they hire. To get a better understanding of the labor picture, we also asked them to tell us what their employees are like. And finally, to understand how this affects the bottom line, we asked respondents to tell us how their cost structure operates.

Bechtold and Longhorn team

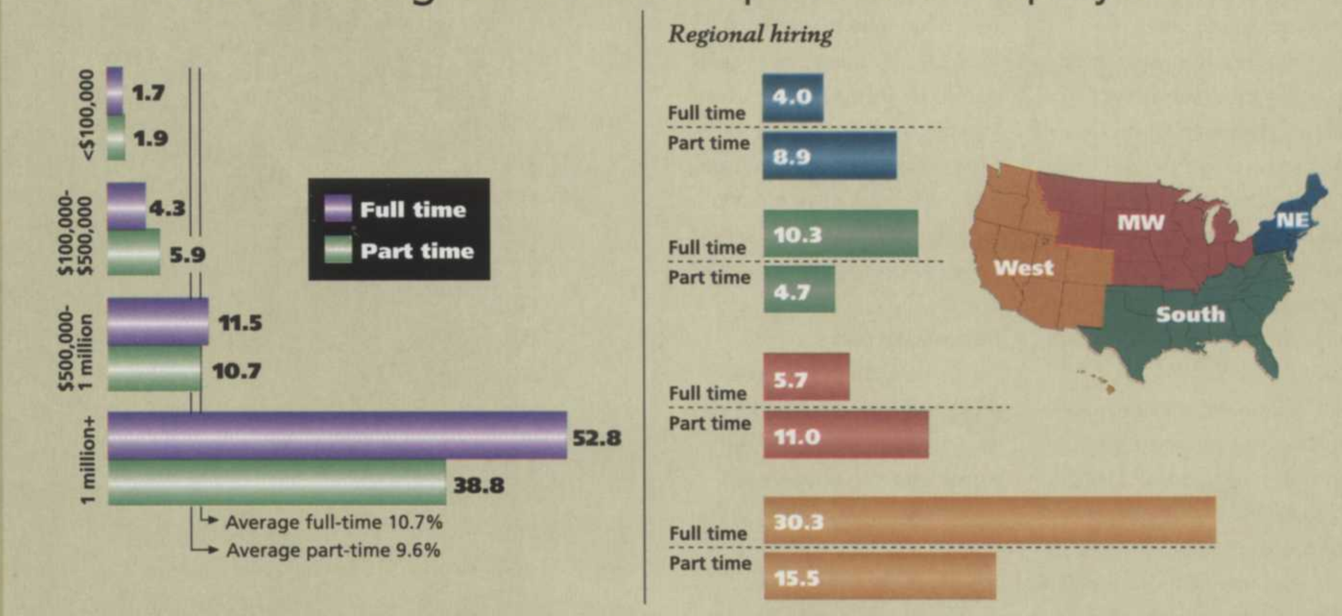
Deborah "Andy" Bechtold, operator of Longhorn Maintenance Inc., Allen, TX, finds herself in the same situation as most contractors — getting the most efficient production possible with available employees, usually 12 at peak season.

"Earlier this year we bought a $35,000 machine (Dingo from Toro) that cut out three laborers on many jobs," she says. "We're definitely looking for more productivity from our equipment. Labor is everything in today's market."

North of the border, in the Toronto marketplace, Robert Wilton, Clintar Groundskeeping Services, agrees that labor availability is an issue, but for his company, at least, the bigger challenge is "people management," specifically increasing the level and quality of all types of training for employees.

And Robert Kinnucan, of the Kinnucan Company, says his greatest need is "hiring skilled personnel to maintain

Who's hiring full-time and part-time employees



Picture

the quality of our service which is responsible for maintaining our profitable growth."

The people picture

Among those surveyed, the average number of employees is 10.7 full-time and 9.6 part-time (see the figure at the far left). When this is broken down by revenue, the number of full-time employees varies from as few as 1.7 for the smallest businesses (<$100,000) to 52.8 for the large businesses (> $1 million). Small companies, ranging from $100,000 to $500,000, had 4.3 employees and the mid-size (from $500,000 to $1 million) had 11.5 full-time employees.

Part-time employee hiring also varies by size: an average of 1.9 for the smallest firms, 5.9 for small firms, 10.7 for mid-size firms and 38.8 for the large firms.

As you can see on a geographical basis, hiring in the West far outweighs that of other sectors. There, contractors hire the largest number of full-time (30.3) and part-time (15.5), followed by the Midwest (5.7 full-time and 11.0 part-time), South (10.3 full-time and 4.7 part-time) and Northeast (4.0 full-time and 8.9 part-time).

It is also apparent that the South and West are less limited by seasons and able to keep on more full-time people. They have twice as many full-time employees as part-time, while in the Midwest and the Northeast the position is reversed, with twice as many part-time employees to full-time ones.

Faces of diversity

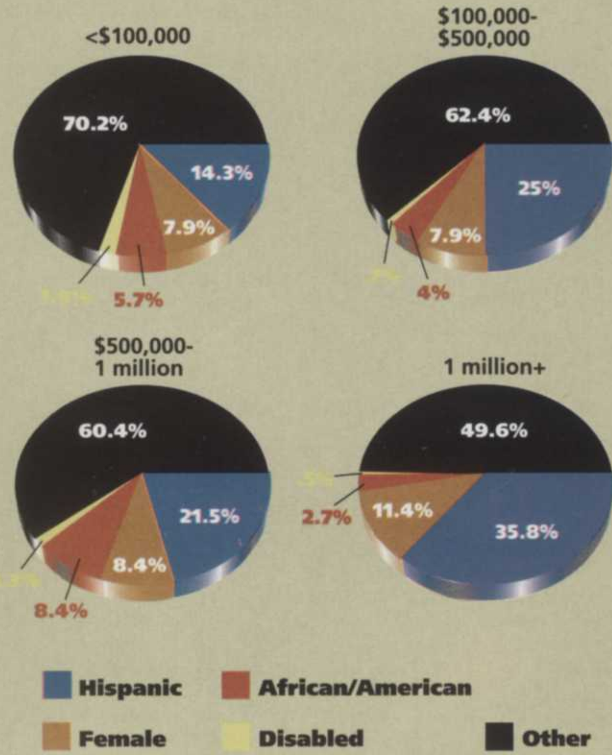
Diversity in companies, (shown at the right) by race, gender or ability is somewhat limited. Regardless of company size or geographic location, women barely contribute more than 10% of the workforce (except in the large firms). But considering how difficult it can be to attract anyone to the business and stick with it, given the demands of the job, that number is not surprising.

As could be expected in a physically demanding business, the numbers of people with disabilities are very small (2% or less, regardless of company size or geographic location). Interestingly, the Midwest region and the smallest companies had the highest involvement.

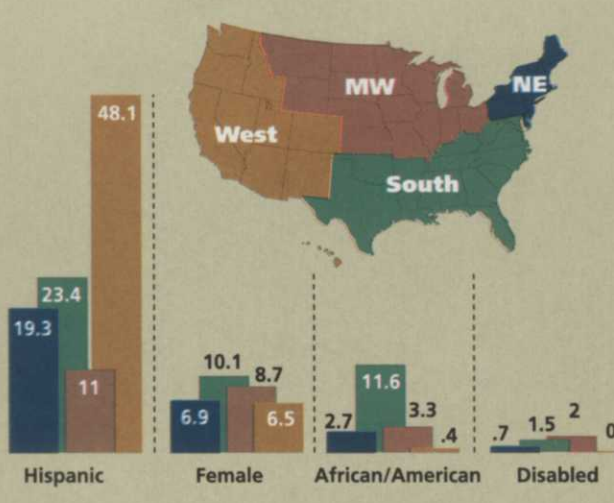
The fact that there are *some* people with disabilities in the workforce indicates that some types of challenges may not interfere with certain jobs. Perhaps future surveys could look into that.

Racial diversity tends to be rather limited in many cases, particularly in regard to African-Americans. The South had the highest percentage, 11.6%, while the rest of the regions didn't break 4%. The mid-size companies reported that 8.4%

Landscape hiring of Hispanic, African-American, Female, Disabled/physically challenged employees



Regional employee hiring



Perhaps it is because the West and South have more year-round work that those labor costs are a higher percentage of the overall budget.

of their employees were African-American and the smallest companies, 5.7%. But the small and large companies were 4% and 2.7% respectively.

Hispanic employees clearly make the largest contribution to diversity in the green industry. The companies from the West indicated that almost 50% of their employees are Hispanic — a substantial amount. The South, at 23.4%, also had a large number of Hispanic employees. In the Northeast and Midwest, the numbers dropped.

When we look at diversity with respect to company size, the percentages of Hispanic workers were less variable: the smallest companies had 14.3%; closer percentages for small and mid-size at 25% and 21.5%, respectively; and 35.8% for the large companies.

Are your costs in line?

If you're not keeping an eye on industry average operating costs, you're missing an excellent way to measure progress.

▶ On average, labor (including benefits) accounts for 35.9% of the operating budget;

▶ materials and operating supplies account for 22.6%;

▶ equipment purchases and maintenance take up 14% of the typical 1998 budget;

▶ insurance takes 7.1%;

▶ fuel consumes 6.7%;

▶ marketing and advertising averages 2.9%.

High cost of labor

Our respondents said labor costs reached as much as 47.1% of the operating budget for mid-size firms, compared to only 28.6% of costs reported by the smallest firms. Labor costs hovered around 37.5% for small firms, followed closely by the 36.7% reported by the largest landscape operations.

Perhaps it is because the West and South have more year-round work that those labor costs are a higher percentage of the overall budget. Contractors and grounds managers in the West reported labor totalled 42% of operating costs, while Southern landscape managers said it was 37% of their budgets.

In the Northeast and Midwest, managers reported that labor costs were the same — 33.7% of the budget.

Materials & supplies

While the survey average for material and supply costs was 22.6%, it becomes a more significant piece of the puzzle with larger organizations. In fact, it totalled 28.7% of operating costs

What percent of your 1998 gross receipts or budget went toward the following operations categories?

for the largest firms; 23% for the smallest operations; 20.7% for small companies; and 20.4% for mid-size businesses.

Geographically, the costs of materials and supplies for respondents varied only slightly, ranging from a low of 20.8% in the Northeast to 24.2% in the South. Midwest landscape managers reported those costs to be 23.9%, while those in the West said they were only 21.2%.

Equipment & maintenance

Survey respondents said that the average costs in this category totalled 14%, but this number varied more widely when broken down by budget size.

Clearly, equipment purchase and maintenance is more burdensome to the smallest operators in our survey, totalling 18.5% of their operating costs, followed by small firms, whose costs were 12.8% of budget.

The bite of equipment purchase and maintenance is much less significant for larger operations: Mid-size firms reported them to be only 9.3% of operating costs, while those over $1 million said they were a mere 10.2%.

It should be no surprise that equipment purchase and maintenance costs were similar across the country, with a high of 15.7% reported by respondents in the Northeast, 14.8% in the South, 12.9 in the Midwest and 11.2% in the West.

Insuring your operations

From all appearances, companies of various sizes can maintain similar insurance costs through safe operations and judicious shopping for vendors. In our survey, the cost of insurance averaged 7.1%, which is supported in the budget breakdowns:

▶ Firms less than $100,000 in budget said insurance totalled 7.3% of costs.

▶ Small organizations reported costs of 7.1%.

▶ Mid-size firms said their insurance costs averaged 6.6%.

▶ Large firms reported average insurance costs of 7%.

There seemed to be more disparity of insurance costs in different areas of the country. Midwest respondents reported a hefty 7.9% cost for insurance, followed closely by Northeast respondents and their 7.5% average.

Landscape managers in the South clearly get a break in this category, reporting costs of only 6.4%, as do those in the West, with an average of only 6.1% of operating costs going to insurance.

Fueling up for growth

Economies of scale show up strongest in this category, as the largest companies clearly have an advantage in keeping their fuel costs to a smaller percent of their operating budgets.

While the overall average for fuel costs was 6.7%, large companies pegged them at only 3.9% of the total budget, and mid-size firms reported those costs to average only 4.6%.

In contrast, the smallest firms said their fuel costs were a higher proportion of spending — at 9.3%. Small companies were closer to the industry average, noting an average of 5.9% for fuel.

Although fuel costs vary wildly for consumers across the country, our survey respondents' costs were closer. Surprisingly, Southern contractors and grounds managers reported the highest average cost of fuel, at 7.4% of their operating budgets.

It may be no surprise that they are followed by managers in the Northeast, with an average cost of 6.8%. The lowest costs for fuel were reported by landscape and lawn care managers in the Midwest (6.4%) and the West (5.8%).

Marketing genius

Landscape managers of both large and small organizations stay pretty much in the same range for these costs, which average 2.9% of the total budget. Those apparently spending the least are the largest organizations, devoting only 1.9% of their budget to marketing or advertising.

This may be because many large organizations focus on commercial business and may use more one-to-one marketing and promotion methods than those advertising to thousands of homeowners.

The biggest spenders are those midsize organizations, who average 3.3% of their budget, followed by the smallest firms, who spend 3.1%. Small organizations reported they spend an average of 2.9% on marketing and advertising programs.

Regionally, there is little difference in spending, with marketing and advertising budgets ranging from a high of 3.4% of total operating budget to as little as 2.4%.

The Congressional Budget Office (CBO) reported in January that two factors to watch as major potential limits on the economy's growth are labor availability and a slight pickup in interest rates. It also anticipates some drop in consumer spending and investment, as well as a slower rate of growth for the stock market.

"The U.S. labor market is unsustainably tight," says the report, which also sees no remedy in sight.

It's going to be a real sellers' market for labor, CBO says, predicting an increase in wages and compensation as employers compete head-on for good workers. This will eventually affect interest rates (along with several other factors).

As for interest rates rising, the CBO forecasts "increasing upward pressure," which sounds more like a weather report than an economic forecast. Just for good measure, the CBO compares its forecasts to an average of those prepared by 40 to 50 "Blue-chip" private—sector economists.

What's this mean for the next year? LM's take is not to worry too much. Even the somewhat gloomy CBO has

When will this bubble burst?

this to say about the next 10 years (through 2009):

▶ Gross domestic product will grow an average of 2.3% per year.

▶ Unemployment rises to only 5.7% after 2001.

▶ Short and long-term interest rates inch up after 2001 (but not too high or too fast).

In other words, expect a little less borrowing power, a little less ROI from the stock market, a few more price rises and continuing difficulty finding labor.

"Soft landing scenario" is the way CBO forecasts the future. That sounds a lot better than any "hard landing scenario."

Alan Steiman

What's limiting growth?

We asked respondents to our survey to list the key factors limiting their growth from 1998 to 1999, as well as services they're planning to drop. Here's what they said:

▶ **Labor availability** was the overwhelming factor limiting their organization's growth, said 43.6% of respondents. This seemed to hit mid-size organizations the worst — 53.6% of small companies ($100,000-$500,00) and 53.6% mid-size ($500,000 to $1 million) companies said labor availability was their major headache. In contrast, only 22.2% of large firms (>$1 million) and 36.4% of the smallest firms (<$100,00) ranked it number one.

Highest geographical need for labor apparently is felt by firms in the Midwest (54.3%), followed by the Northeast (43.2%) and the West (42.1%).

But, putting a lot of bodies on the payroll is not the ultimate goal of any company— being profitable is that goal.

Alan Steiman, owner of Alan Steiman's Landscape Inc., Northboro, MA, says 10 years ago he employed as many as 40 people during peak season, and his company lost money. Now, with 12 employees, it's profitable. And Steiman is content to keep it from growing too large.

▶ **Ability to get good supervisors/foremen** also ranked high overall, with 38.4% reporting this as another limiting factor. Mid-size companies ranked this much higher than other firms — with 58.% noting its importance. Small firms also had problems here, with 42% ranking it important. Only 38.9% of largest firms and 25% of the smallest firms ranked this a limiting factor.

If you're a supervisor, head to the Northeast, where 46.2% of the firms noted this is a problem, followed by the West (41.2%), South (37.1%) and Midwest (30.3%).

▶ **Unfair pricing and low-ball/competition** also ranked as important with 25.4% of the respondents. This situation obviously hurts the smallest firms most, with 33.3% noting a problem, followed by those ranging from $100,000 to $500,000 (25.5%).

Contractors in the Northeast seem to have the most problem with this type of competition, because 30.2% cited it a problem, followed by 23.3% in the South, 23.1% in the West and 21.9% in the Midwest.

Business inhibitors

Other factors that clearly inhibited some contractors' business from 1998 to 1999 include bad weather (51.6%), labor quality (51.6%), more competitors (31.7%), plant material availability (18.3%) and their own business management skills (18.3%).

It may be lowball competition or property managers' own pressure to perform at a higher level of profits, but many landscape maintenance budgets remain somewhat tight.

Walfrido Verendia, grounds manager at Pepperdine University, Malibu, CA, sees continuing budget pressure forcing him to try and maintain the landscape with less resources. "Our budget is shrinking and we have to do more with less. This means less color, less manpower and no extras."

Verendia has found some solutions through outsourcing, particularly installation of landscape areas, installation of irrigation equipment, renovation of the soccer fields and renovation of gullies on the property.

Although most contractors we contacted are keenly aware of their competition, they also

Operating problems that can limit your growth

see plenty of new opportunities developing from their markets and even from their competitors' moves.

David Daniell of Heads Up Landscape Contractors in Albuquerque, explained: "Our main design/build competitor has dominated his segment of the market by extremely successful marketing and aggressive pricing. However, they are beginning to be victims of their own success, providing opportunities for us."

Survey respondents continue to feel the pinch of lowball competition and "unethical" players. Cathy Clark, Clark Lawn Service, Indianapolis, IN, remarks, "We need more licensing and registry requirements to make the lowballers play on the same field regarding insurance, zoning regulations and tax responsibilities!"

Consolidation drives changes

The effect of consolidation as a factor limiting company growth is not considered very important; in fact 59% considered it to be least important. That isn't to say that there isn't some effect, but most businesses seem confident that they can define a niche or expand on a service.

Dale Amstutz of Northern Lawns, Omaha, NE, sees increased competition as an issue because some of the new smaller businesses are offshoots of consolidated companies.

"People leave and start their own businesses. Some know what they're doing, some don't and some don't know how to bid," he says. "While four to five applications are standard, some businesses are doing them in seven or eight so that comparisons of cost per treatment looks better, even though the actual cost for the season is similar."

Customer turnover is one of the costs of high competition, says Amstutz. "We lose a certain amount each year — but a lot come back." He reports an annual customer retention rate of +85%, with an estimated 2% returning after they've tried someone else. Offering tree care to non-lawn customers is one option he's moving into, with good return.

Dale Amstutz

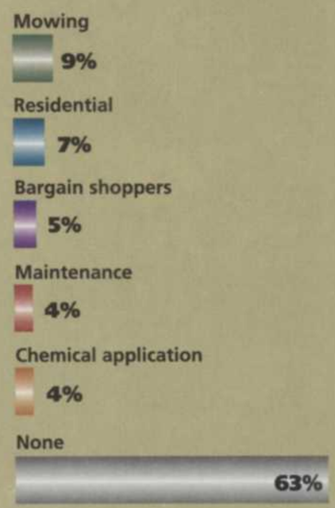
Another new service Amstutz is offering is outdoor structural perimeter pest control. And he's confident — an important characteristic to compete in this business. 'Who does work as good as you do in your market,' we asked? "No one," he stated firmly.

Big isn't better for Scott Carlisle either. He's manager of Valley Landscape & Maintenance, Boise, ID. Referring to his two larger lawn care and maintenance competitors, he says, "This can be a positive for guys like me. They tend to lose the personal touch."

Many industry professionals feel unaffected by the moves of the giant consolidators, since they are not direct competitors or even service the same segments of the market. But they may feel more competition in the future because of consolidation, predicted Stu Mayer, Sunburst Landscape, Cranberry Township, PA. The consolidations "affect a small percent of the total market. A large quantity of middle managers are going to be unemployed or self-employed after (the consolidators') systems are integrated. Look at other industries merging like banking. This will be the next result."

The industry's consolidation may involve giant firms, but even Carlisle feels its effects. Before TruGreen-ChemLawn bought PermaGreen (another local lawn care firm), Carlisle relied on them to do his chemical application work. Now, things are different. "We're starting to do chemical applications. We subcontracted all our chemical work to PermaGreen and (at the time) they didn't do mowing. Now, they're mowing."

Services you're planning to drop



Many contractors and grounds managers also feel the effects of supplier consolidation. Verendia explained that supplier consolidation means less service for his grounds management operations. In his case, the supplier also provided field maintenance of irrigation equipment.

Services to drop

While this decision depends more on an individual company's business profile and customer mix, we did see some similarities in services contractors plan to drop for 1999 or 2000 (63.2% plan no drop in services):

▶ Mowing services will be dropped by 8.8%; primarily by companies ranging from \$100,000 to \$500,000 (12%). Respondents from the Midwest

(13.3%) and Northeast (11.1%) seem to find this more frustrating and plan to drop.

▶ Only 3.7% plan to drop maintenance (highest was companies between $500,000 and $1 million with 7.7%).

▶ Chemical application may be dropped by a small portion of the market also, with 3.7% opting for this.

As for customers, 7.4% of survey respondents plan to drop residential customers from their list, while 5.1% of the contractors will get rid of those pesky bargain shoppers and slow-paying clients.

'What ifs' keep life interesting

Who doesn't wish for a crystal ball, or at least a game plan if things go south? It's not unheard of for dramatic events (economic or otherwise) to turn a market around. But even the experts are not forecasting the possibility of anything dire.

Sure, interest rates may inch up more quickly than expected or foreign events may eventually affect the balance of payments. If the economic boom starts to affect the landscape industry, it won't be without warning. Unemployment claims will jump, construction starts will slow, interest rates will climb and disposable income will get tighter.

As for some quick fallout of the market, that seems unlikely right now. This high-flying cycle is built on unprecedented consumer confidence in their investments and in the system, and that may take quite a while to shake. **LM**

Consumer Confidence Counts

The economy's (and the landscape industry's) growth depends in large part on the confidence that consumers continue to have. Their outlook on investing in stocks, buying and building new homes and their ability to pay for professional landscape services is a key factor to watch. Two studies in particular indicate continuing (but not so strong) growth for professional landscape services.

▶ The Outdoor Power Equipment Institute (OPEI) predicts that fewer commercial intermediate walk mowers will be sold in model year 2000. The sales of commercial riding mowers should remain constant. The OPEI bases its projections on fewer housing starts and sales of existing single-family homes in the coming months, as well as the University of Michigan's continuing studies of consumer confidence.

Their trends show a reduction in the sales of commercial walk-behind mowers, but a 5% jump in sales of commercial riding mowers this year. Then, trends for housing and mower purchases show a slight slowdown going into the year 2000.

COMMERCIAL MOWER PROJECTED SALES

	Model Year 1997	1998	1999	2000
Commercial intermediate walkers	48,300	49,700	48,399	48,300
Commercial riding mowers	52,400	65,100	68,226	68,585

SOURCE: OPEI

▶ The annual Gallup survey of American homeowners using professional landscape and lawn care services also projects growth in some areas and declines in others. Maintenance for landscape and lawns in 1998 showed a hefty 32% increase over services in 1997, and total spending for landscape services jumped $2.2 billion. The big winner in this survey was landscape installation and construction services, which grew an impressive $2.7 billion alone.

But landscape design services dropped off by $100 million and tree care lost even more in revenues — $700 million (leaving the overall total of growth to $2.2 billion). And while the survey showed an amazing 48% increase in the average amount spent per household, it also showed a significant decline in the number of households using these services. Is this statistically meaningful? It may be too soon to make any assumptions, but the drop in some service areas and loss of customers should definitely be watched.

The survey is sponsored by the American Nursery & Landscape Association, the International Society of Arboriculture, the Associated Landscape Contractors of America, the Professional Lawn Care Association of America, the National Arborist Association and the National Gardening Association.

U.S. HOUSEHOLDS USING PROFESSIONAL LANDSCAPE SERVICES (IN MILLIONS)

	1997	1998	Change
Landscape/lawn maintenance	14.3	13.7	- 600,000
Landscape installation/construction	2.0	2.4	+ 400,000
Landscape design	1.1	1.2	+100,000
Tree care	5.6	4.1	-1,500,000
Total	23.0	21.4	-1,600,000

SOURCE: GALLUP SURVEYS