

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.

Industry

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 dol-

lars 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,

What were your 1998 gross receipts or grounds management operating budget?

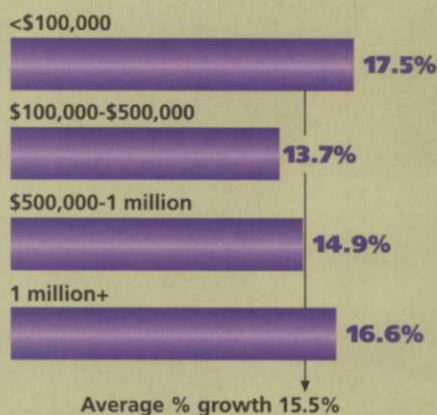


using the U.S. Census Bureau's format: the Northeast, South, Midwest and West.

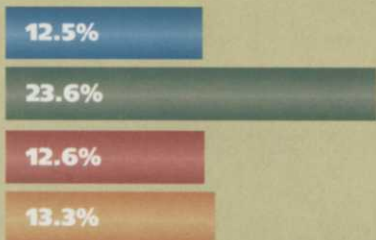
Grow, grow, grow!

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).

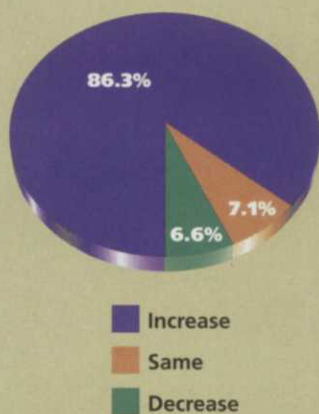
How landscape managers expect to grow in 1999



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 loca-



Robert Wilton

tions throughout Ontario, Canada, had "very strong growth," says Wilton, adding "Who knows when it (the strong economy) will end?"

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.

Bob Womack, grounds manager at Southwest 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 ag-



Brent Flory

gressively 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 con-

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