New players, new rules

Consolidation in the landscape industry is here to stay. How you respond is what counts.

LM STAFF REPORT

Consolidation, mergers and acquisitions, and even popularity on Wall Street aren't new to the green industry, but the dollars available for investment in our market is new. Before this year's end, there may be upwards of a billion dollars or more invested in landscape and related services.

A similar trend of growth in the late 1960s and early 1970s encouraged several firms to go public. According to Burton Sperber, president, CEO and founder of Environmental Industries Inc., Calabasas, CA, that was the time that "Wall Street investment analysts discovered the potential of the landscape industry." EII, The Toro Company, American Garden Products in Boston, Leisure Gardens in Texas and Bonanza Steakhouse of Dallas (which owned Lambert's Landscape) all went public.

Few of those are around today, he notes. EII bought back its stock and went private again. Only Toro is still a public company.

Maybe the time just wasn't right. The industry fragmented again into small, medium and large regional firms handling a variety of lawn, landscape maintenance, design/build, tree, irrigation and related services. Until 1997, the largest industry companies included Asplundh Tree Expert Company, the Davey Tree Expert Company, EII, The Brickman Group, the F.A. Bartlett Tree Expert Co. and TruGreen-ChemLawn.

Big-ticket buyers

According to James Hermann, M&A Advisor with The Geneva Companies, Irvine, CA, the United States is on the crest of a consolidation wave last seen in this powerful form in the 1890s. Some experts estimate "trillions" of dollars are available in the market searching for growing firms. Reports that green industry firms typically grow faster than the stock market are music to investors' ears.

What's driving consolidation

So why are all the dollars heading your way? There are a number of trends that contribute to the consolidation movement:

Economic boom. It may have been the Asian economic crisis, America's long-standing bull market, consistently low interest rates and low levels of inflation or just creative financiers looking for a new glamour stock, but someone became interested in the green industry as a serious, lucrative source of growth.

Formation of REITs. The same economic growth that has driven the economy also contributed to the formation of real estate investment trusts (REITs), where investors purchase real estate for high return on their investment. Is this important to the green industry? You bet. According to Hal Cranston, president and CEO of LandCare USA, half of all multifamily developments in the United States will be owned by REITs by the year 2005.

Related industry consolidations. Close on the heels of the REITs trend are consolidations in industries serving real estate: builders, contractors, roofing, plumbing companies, HVAC, etc.

Make a killing on fragmentation. The stunning impact of unifying a fragmented group of companies into powerful, national service firms has tremendous potential to be profitable.

Economies of scale. For the past few years, the trend in consolidation has accelerated to the point that you can hardly turn on the television without hearing about a new mega-merger which is consolidating an industry: automotives, banking, telecommunications, internet, even publishing. It makes economic sense for many industries to consolidate, use their resources more efficiently and get strategic advantage from natural economies of scale.

Great economic outlook. Cranston and others point to studies documenting the value of landscaping, municipalities requiring landscaped open areas in new building developments, the trend toward outsourcing and overall economic growth that spurs new construction as factors influencing consolidation.

Miscellaneous benefits. Consolidators point out that the new, widespread organizations will offer better employee benefits and career opportunities, more professional operations, more sophisticated marketing, comprehensive services for large regional and national clients and opportunities for additional business with other corporate divisions (TruGreen/ChemLawn lawn care, for example) or within certain market segments (golf course management, growers, property managers).

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Who's investing?

Money flows into our industry at an amazing pace, in several ways:

* Established consolidations like Tru-Green-ChemLawn/LandCare USA purchase firms with funds from public stocks
* New rollups like GreenScape LLC form, funded by venture capital and investment banks
* Landscape companies form their own consolidations and finance their purchases with equity
* Brokers purchase firms with money from institutional investors
* Venture capital groups either bankroll new rollups or become financial and strategic partners with established firms (like The Brickman Group).

Landscape Management has heard there are nearly 20 different consolidation or buying groups active in the green industry. Some have been widely publicized and others still forming. While large players like EII, The Brickman Group and The Davey Tree Expert Company will try to build and continue growth internally, most of the new consolidations grow through acquisitions of other companies.

Consolidation discussion at the ALCA Conference last November drew a full house. (l. to r.): Ed LaFlamme, Bill Murdy, Ron Schmoyer, Bruce Wilson, Craig Ruppert, and Scott Brickman.

This will have some strange effects in certain markets, at least temporarily. For example, one panel at the San Francisco seminar discussed how the rollups have already radically changed bidding in Atlanta.

"I look at a market like Atlanta, where consolidation took five companies off the bid list and made just one, and I think it's

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just great," joked Scott Brickman, president of The Brickman Group, Langhorn, PA. "We hope they come to all of our major markets and do the same thing because the competitors they bought were all great competitors and now, there's just one. This is an advantage for the smaller guys."

"The smaller companies can grow in a market like that because the competition is less," agreed Richard Sperber, senior vice president of EII.

Asked if less competitors means lower prices, David Minor, chief development officer for TruGreen/ChemLawn, Memphis, disagreed. "There is an issue of less competitors but the competition will be stronger," he maintained.

"The larger companies bring best practices to the table and have their systems in place...it takes up the level of service that small companies will have to deliver."

Participants at the seminar agreed the inconsistent nature of landscape design/build and the entirely different nature of residential services make those areas less desirable for consolidation right now.

Some things won't change

No matter if a firm is a large consolidation or a single firm servicing residential customers, some constants remain: managing customer relationships, managing labor and growing profitably.

Consolidators and other contractors who are forward-thinking talk of incorporating "best practices" and staying close to the customers. Some companies like TruGreen-ChemLawn will organize around a strong central management. And it will be different from the company's lawn care operation. According to Dave Slott, president, it will be an organization "based on collaboration, not domination."

Other groups will pattern themselves after Brickman's "model branch" or Valley Crest's decentralized branch operations. Some will focus on attracting the best people, others on providing the best return.

Because larger organizations will provide extensive employee benefits, defined career paths, opportunities to transfer to other markets and a variety of new responsibilities, smaller firms may feel an even harsher labor pinch. Then again, "economies of scale" also means "eliminating duplication" in the form of administrative and middle management at consolidating firms. This can be a great chance for independent firms to grab experienced employees.

"Our focus is to give high quality service, keep our prices down and constantly grow the business," said Scott Brickman, echoing most contractors, large or small.

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