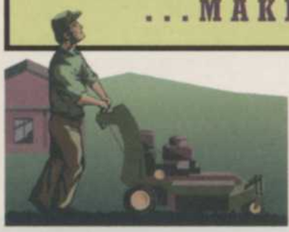
...MAKING CONSOLIDATION WORK FOR YOU...PART III...



Supplier moves shake up marketplace

Are consolidations good for the customer? Not if they raise prices, limit product availability or limit your buying options

By ANGELA BENDORF

When your favorite dealer closes up shop or your favorite brand of seed, fertilizer or equipment isn't available anymore from your distributor, remember that this is the fallout from consolidation.

Mergers, consolidations and acquisitions among manufacturers and suppliers in the professional landscape market continue at a rapid pace. This trend is likely to go on as long as the economy is strong and interest rates remain low. From consumer products and services to industrial components, the urge to merge seems contagious.

"During 1998, the mergers and acquisitions market surpassed all previous records with approximately 4,000 transactions valued at over $770 billion," explains Scott Adelson, managing director of Houlihan Lokey's Mergerstat, a merger tracking firm.

Today's belief that consolidation creates value leads to two common scenarios:

▶ Large companies acquire small companies because it's the best avenue for growth and sometimes the only way to grow at the rate investors want.

▶ Midsize companies acquire and merge to be stronger competitors in their marketplace.

The search for 'synergies'

"Ultimately, companies are looking for synergies," explains Gene Hintze, director of Novartis Turf & Ornamental Business. "Research and development is so expensive. Small companies may not have the dollars they need to assure a strong future through the development of new products."

Novartis is the result of a 1996 merger that brought together R&D efforts, as well as complementary product lines of Sandoz and Ciba, two Switzerland-based life science companies. That merger is just one of many affecting the landscape and grounds management industry in the past few years. One industry source counted more than 20 chemical industry mergers and acquisitions this decade. Others have occurred among manufacturers and distributors of fertilizers, seeds, equipment and other green industry products. Key recent mergers and acquisitions on the chemical side alone include:

Gene Hintze

▶ Rhone-Poulenc, maker of Chipco brands, joined forces with Hoechst to form a new global company called Aventis. Financial funding for research and development is reported to be more than $400 million per year.

▶ The Scotts Company acquired the non-Roundup consumer lawn and garden business (including the Ortho product line) from Monsanto; Sanford Scientific, a plant genetics research company for the professional turf market; and formed strategic biotech alliances with Monsanto and Rutgers University.

▶ Rohm and Haas, maker of Dimension herbicide, signed a merger agreement with Morton International, maker of specialty chemicals and salt products. The transaction is valued at $4.9 billion.

Competitors unite

Merger activity often brings together two companies that were once fierce competitors. Such was the case when Textron, parent company of Jacobsen, acquired Ransomes.

Phil Tralies, president of Textron Turf Care and Specialty Products Americas, says the company is rapidly developing a new corporate culture. "I'm extremely pleased, given the fact two strong competitors have come together in a market that wasn't very large to begin with," says Tralies.

Textron established sales and marketing programs and achieved ISO 9001 certification in all of its manufacturing plants in the year since the acquisition, a major accomplishment considering the size and complexity of the merger.

The company's distribution channel made up of over 400 distributors and dealers for the Bobcat, Bunton and Ryan brands will not change. "Our distributors and dealers offer the service and support for this equipment and are a key ingredient to our success," he says.

Reach out for contractors

As landscape and lawn care companies consolidate, become bigger and spread out geographically, distributors are finding innovative ways to service them. Terra Industries has upgraded its web site (*www.terraindustries.com*) and uses it to provide detailed information to customers.

Jeff Moberly, turf market manager for Terra, says customers in the future will be able to order products on-line. The site currently offers product labels, MSDS, DOT and worker protection information and features a dealer locator.

Leveraging for lower prices?

Do bigger landscape companies carry more weight and have the ability to leverage suppliers into giving them better prices?

"Any time there's consolidation, you start to envision a monster carrying a big stick. We really haven't seen our larger customers try to leverage us unreasonably for better prices," says Mark Barbera, vice president of sales and marketing for Nu-Gro, a supplier of slow-release nitrogen.

He says the reason is well-established relationships with customers who know they're getting quality material and service. "If you continually beat the daylights out of a supplier for the best price, somewhere down the road you'll have problems," he adds.

Despite some consolidation among Nu-Gro's customers who buy and formulate the raw material, the company had increased sales of $30 million in 1998 — up 50% from the previous year.

Steve Wood, director of corporate business development, Husqvarna Forest & Garden Co., Charlotte, NC, says in the future, bigger companies may not leverage companies for better prices, but will demand better service. "The business will go to suppliers who offer more than just a product," Wood says.

"Manufacturers will need to provide quality service through their dealers, training to companies that service their own equipment and replacement parts more quickly," he adds. "Manufacturers will need to do more than say, 'Hi, let me sell you some equipment.'"

Is big always better?

Bill Culpepper, president of SePRO

Mergers change irrigation landscape

Mergers, acquisitions and consolidation are changing the face of landscape irrigation in the United States. Rather than just taking advantage of economies of scale, contractors have increased the likelihood of some direct purchasing of irrigation components.

Expect significant changes in the relationship between large contractors and irrigation manufacturers in the coming months. ServiceMaster, the force behind TruGreen-Chemlawn, has spent many years paring down two-step distribution for its other national businesses. Its acquisition of Ruppert Landscape, a significant irrigation force in the mid-Atlantic states, has injected TGCL with considerable irrigation expertise and interest. If TGCL makes a major play into irrigation, its competitors will follow quickly (regionally if not nationally).

Distributors, in response, have rallied with consolidation efforts of their own. Century Rain Aid and Ewing Irrigation, who discarded the idea of using the Mississippi River as a territory boundary, have been joined in the growth war by expanding regionals, such as United Greenmark and Horizon in the West, as well as McGinnis Farms and Hughes Supply in the Southeast. Florida and Texas are ripe for major mergers. Moves have been made in areas not generally considered irrigation hot spots, such as Outdoor in Missouri and Boston Irrigation in Massachusetts.

On top of concern over large contractors going direct, distributors face the assault by the large hardware chains, including Lowes, Home Depot and Home Base. Contractor purchasing and financing programs are being established by certain branches.

We have yet to notice the impact of direct purchasing by large contractors, although relationships currently exist. Such relationships provide an opportunity for mid-size manufacturers to gain on the "Big Three." However, it is these same mid-sized manufacturers who provide unique products for the small irrigation distributor. They can also provide a unique product for contractors. And, if you think the big three are going to give up on opportunities that make financial sense, even though they virtually control irrigation distribution, you'd be wrong. They have stockholders too.

— Bruce. F. Shank owns and operates BioCOM, Palmdale, CA. He can be reached at 800/455-4320.

LM'S TAKE ON IRRIGATION:

- *Look for more consolidation both regionally and nationally in distribution.*
- *Expect invitations from mass merchandisers to try their special contractor programs.*
- *Keep an eye out for unique irrigation products from both distributors and large contractors in the coming months.*

Downsized associations learn to adapt to change

Professional associations are feeling the impact of the consolidation trend.

▶ **PLCAA:** "We've lost over $50,000 in dues since this trend started," says Tom Delaney, executive vice president of the Professional Lawn Care Association of America (PLCAA). He believes the trend is both cyclical and a sign of a maturing market. "The professional lawn and landscape market is mature and there are fewer customers. Businesses are finding other companies with a similar customer base and buying them. It's not new technology that's driving consolidation in the green industry, just innovative thinking."

Despite the flurry of consolidations, PLCAA had a good year in 1998. "It was one of the most profitable years PLCAA has had in terms of revenues and expenses," Delaney says. He credits a strong economy and a strategy to diversify the membership base.

▶ **RISE:** While the financial impact is minimal, RISE (Responsible Industry for a Sound Environment) Executive Director Allen James says the biggest loss is in member volunteers. "Rarely are all employees retained in a merged company," James says. "As a result, several key association volunteers are lost. The remaining employees face increased work responsibilities and may not have as much time to be involved."

▶ **ITODA:** The Independent Turf & Ornamental Distributors Association responded to consolidation among its members by creating a new category of membership. The association of independent distributors has over 100 members. Executive Secretary Erin Bruzewski says 10 companies have dropped or changed their membership since July.

"You've got to roll with the changes and adjust," she says. "ITODA adjusted by creating a new 'Special Membership' category." The category is for distributor executives who were independent owners, but through acquisitions, consolidations and mergers are now part of a company that isn't independently owned. Bruzewski says AgriBioTech, a seed company focused on consolidating the turf seed industry, is in ITODA's Special Membership category.

Will independent distributors remain strong through the green industry's acquisition frenzy? "Big companies will always buy the independents, but some will remain independent distributors because they provide good quality service, opposed to just a better price." Bruzewski says.

▶ **OPEI:** "The impact on any association is tremendous, because where you got $2 in member dues and two people attending meetings, you've then got $1 and one person attending meetings of two merged companies," explains Dennis Dix, president and CEO of the Outdoor Power Equipment Institute. He also says consolidation:

- makes the budgeting process much more difficult;
- makes allocating association resources very delicate, considering OPEI's investment in supporting the industry on emissions and noise issues;
- takes key companies who provide active association support out of the system.

▶ **ALCA:** When the first landscape consolidations appeared on the horizon, the Associated Landscape Contractors of America established a task force to discuss how it would affect the association, reports Debra Holder, executive vice president. "One of our primary goals was to determine how we can try to lessen the impact (of these mergers) on ALCA, if it would be negative," she notes.

Earlier changes in the dues structure, governance and efforts to involve more supplier members left ALCA in a good position. And industry consolidation also has its positive side, Holder relates: "The consolidations and acquisitions have helped put landscape on a higher level in the public's eye."

— Angela Bendorf, Mike Perrault, Sue Gibson

Corporation, struggles with the recent consolidation trend. "Is big always better?" he asks. "I'm not sure there's a tremendous amount of value in all mergers and acquisitions. Good things don't always come out of big shops. Look at the high-tech industry. Big ideas have come from small shops and then were sold to bigger companies."

SePRO was formed in 1994 after Culpepper acquired the business from Dow AgroSciences, after Dow formed a joint venture with Elanco. The new company sold off some of its smaller, niche market products rather than abandoning them.

"There's a rule in business that no product should be less than two percent of your total sales. After a merger, smaller products can become less important," Culpepper explains. "But at SePRO, we treat small products the way large companies treat large products, and the customer benefits from that approach."

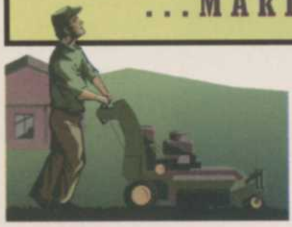
What's in it for you?

"Over time, we'll see fewer but larger basic manufacturers and distributors because of acquisitions," predicts Allen James, executive director of RISE (Responsible Industry for a Sound Environment).

Consolidation among manufacturers and suppliers has had little negative impact yet on the industry — often, more products are offered and distribution changes very little. And historically, consolidation hasn't resulted in higher prices.

As we reach mid-year, the trend does not show any signs of letting up. Adelson from Mergerstat says, "We're in the eighth year of an up cycle and I don't see it ending anytime."

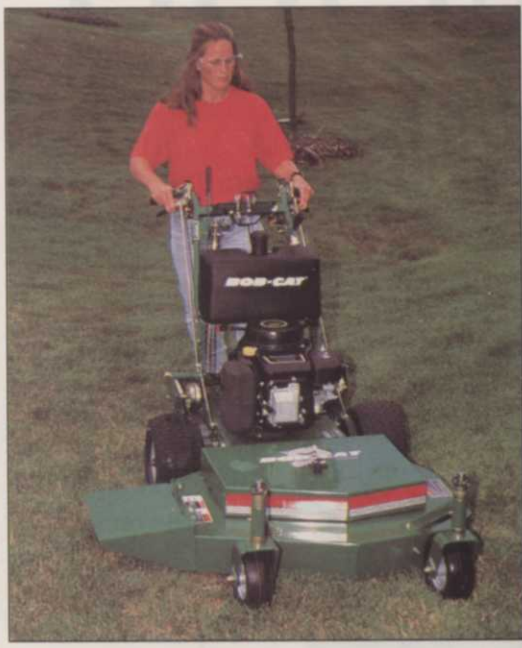
— The author owns Communicopia Marketing Services Inc. in Raleigh, NC, and has experienced a few company mergers and acquisitions during her career. She can be reached at 919/212-1088.



The revolution in distribution

Equipment dealers and distributors have one eye on the fallout from consolidated customers and another on new commercial, consumer niche opportunities

LM Staff Report



Lawn care equipment dealer Jerrell Green once considered Home Depot's orange-decked warehouse stores as little more than indirect competition from an up-and-coming home-improvement retailer.

A lot has happened since then, says Green, owner of Cook's Mower Sales & Service in Orlando, FL. "Like it or not, I've had to change my business strategy and go after the mass merchant service business," he says.

Driving forces spurring Green's shift in business philosophy include recent mergers and acquisitions among major landscape contractors, some of whom have the new-found clout to buy equipment and supplies via national purchasing accounts. That, coupled with a move by some outdoor equipment manufacturers to sell through Home Depot and other mass merchandisers, has caused Green's mower and big-ticket equipment sales to plummet.

Green responded by aggressively selling more parts and servicing more equipment . He's even pursuing service business in an unlikely venue — from mass merchandisers, his formidable sales competitors. It's a reluctant approach that Green and other dealers are taking, however, because the economics of servicing but not selling equipment are unfavorable and hard for proud dealers to swallow.

Industry wide implications

Beyond the microcosm of Green's dealership world in Orlando, more far-reaching and complex economic forces are altering the way many lawn care equipment manufacturers, suppliers, distributors and dealers do business.

Consider one example. TruGreen-ChemLawn's Landscaping Division acquired more than two dozen major independent companies in 15 states last year, then purchased LandCare USA Inc. When the dust settled, TGCL was the nation's largest landscaping company, with more than 100 locations.

Manufacturers see good reasons to deal directly with national companies: increased unit sales, the potential to expand into other markets and the prospect of additional market share. With a partnership with a growing landscape contractor, a manufacturer works through central purchasing agents to project seasonal needs, then ships products to exact locations.

Can't have it both ways

Yet some manufacturers such as Walker Manufacturing Co. are "staying the course," opting to exclusively sell through distributors and dealers who they believe supply important aftermarket service, says Bob Walker. For his company, industry consolidation has forced a "fork-in-the-road" decision.


Bob Walker

"It doesn't seem possible to have it both ways — sell direct to big customers (large landscape companies) and also sell through dealers, although some manufacturers will probably try to straddle the fence and say they can do both," Walker says.

It's not that Walker is eager to turn down business from national landscape companies. He hopes they do purchase Walker mowers.

"But if they do, they will be buying from a Walker dealer — not buying because it is the lowest fleet price available," he says. "Business strategy comes down to deciding who is your backbone or core customer. At Walker, we believe our biggest opportunity and fortune rests with customers who need dealer service. Therefore, we have made the decision not to sell direct to national accounts."

They need us

Ron Kujawa, who is in the unique position of heading both a major landscape company and an equipment dealership, says manufacturers aren't about to abandon their dealers; they can't afford to.

"No matter how large the (landscape) companies are that are a result of mergers and acquisitions, they're still an insignificant part of the overall industry," says Kujawa, whose Milwaukee-area landscape business is one of the largest in Wisconsin and who is also the exclusive dealer for Excel Hustler in the state. "There are so many contractors out there it is incredible. Every year, there is a number that comes into the business and a number that go out."

It's these new contractors that a local dealer has a better chance of discovering and converting into customers. Manufacturers don't have the resources to find and sell to them.

"Everybody knows who the big contractors are, the municipalities and the other big buyers. Everybody is knocking on their doors," Kujawa says.

Another factor weighing in a dealer's favor is parts and service. Kujawa concedes that it's possible for a manufacturer to ship parts directly to end-users, but most landscapers, particularly start-ups and small companies, still don't have the expertise or facilities to do their own equipment repairs and service.

Kujawa concedes that manufacturers will chase the business of the consolidated landscape companies by offering them better prices than they offer small contractors,

Dance with who 'brung ya'

As landscape contractors, manufacturers, distributors and dealers work to find their place in the evolving distribution network, it behooves them to respect what each brings to the table, says Tom Walker, president of Outdoor Equipment Co. in Chesterfield, Mo.

"All must recognize each other's needs and jointly craft their roles in each other's successes," Tom Walker believes. "I think it's time for some basic banners:

- Manufacturer's motto: We'll dance with who brung us.
- Distribution's motto: We only service what we sell.
- Landscape contractor's motto: We profit from running equipment, not buying it."

Keep options open with suppliers

Bob Andrews might be like a lot you—he wants to maintain strong relationships with several suppliers. That way, if one is bought out or consolidated with another, he still has a source for products.

"We try dividing our purchases to a variety of suppliers, " says Andrews, operator of The Greenskeeper with locations in Indianapolis and southern Indiana. "We buy some fertilizer from Lesco, some from The Andersons and some from Knox. The same goes for pesticides."

Nevertheless, Andrews says he's concerned that as the lawn/landscape industry continues to consolidate that product distribution will also consolidate.


Bob Andrews

"Different distributors traditionally have different lines, and as they consolidate there are fewer distributors and less access to certain lines," he says. "It impacts how we buy, our choices and our available selection. We've noticed a smaller selection of materials already."

so what's new? Most dealers routinely sweeten offers to their largest and most loyal clients anyway. Are these savings significant enough to give the big buyer that much of a competitive advantage over another well-established but smaller company? Not really, Kujawa believes.

Ron Kujawa

'Instant customers'

Echo, the maker of commercial hand-held power equipment in Lake Zurich, IL, is not unlike any other equipment, chemical or seed supplier that's eager to establish relationships with the management teams of the consolidated landscape companies.

"Even though we estimate that the consolidations involve only a small percent of the industry, they represent huge customers," a spokesperson at Echo tells *LM*. "We'll hear about a giant merger (the creation of which we call a 'superscaper') and they become a huge customer instantly."

But, consolidation alone won't be enough to cause Echo to change the way it distributes its products.

"Echo is committed to the dealers or distributors who have been loyal for a long time," the spokesman adds. For one thing, smaller firms continue to be the core of Echo's sales. "Also, the local dealer is more ideally equipped to handle a problem in 24 hours than a company working from corporate direct sales," he says.

Yet distributors and dealers note that consolidation among landscape contractors is but one piece of a rapidly evolving industry puzzle. Some frustrated distributors and dealers say they're more concerned about being limited by demands for large inventories and by shrinking margins.

More important, some manufacturers have downplayed the significance of dealer-based networks for the siren song of the mass merchants. In fact, several manufacturers have opted to disregard their dealer and distributor structure and sell to the newly consolidated companies on a direct basis.

Changing distribution landscape

At least one competing retailer — Home Depot — is testing its own in-store service centers, marking the first time it will compete head-to-head against lawn care dealers for service, not just equipment. If the Atlanta-based giant goes national with its service strategy, smaller, consumer-oriented lawn equipment dealers fear it will drive them out of business. They claim that Home Depot doesn't even have to be profitable; just stay in business long enough to eliminate competitors.

Such changes have dealers who depend on consumer business moving into the commercial market, particularly small and medium size contractors who depend on after-sale service and warranty work.

Companies such Van Water & Rogers Inc., Austin, TX, a leading distributor of professional pest control products, is pushing to become a national presence among a handful of distributors such as Lesco, United Horticultural Supply, Terra and Helena. Meanwhile, regional distributors such as Turf Partners are acquiring companies, and local distributors are gobbling up market share by offering service solutions to customers.

Will your dealer survive?

What's clear is that a smaller network of dealers will be around in a few years, industry experts say. Those that survive will need to educate themselves to understand everything from the dynamics of profit to quality performance in order to stay competitive, says Maynard Helgaas, president of the Equipment Dealers Foundation located in St. Louis. **LM**

—Mike Perrault, Susan Gibson and Ron Hall

How strong is your dealer's future?

As equipment dealers brace for change, they're carefully studying market niches and positioning themselves to provide unique services and solutions to commercial and consumer customers. Is your dealer or distributor making any of these moves?

- Getting away from expensive, high-volume, drive-by locations
- Setting up multiple locations and superstores to reach a wider variety of customers
- Aggressively acquiring neighboring dealers to gain much-needed purchasing clout and qualify for various manufacturer programs
- Taking on more commercial business because most landscape contractors depend on after-sale service
- Adding more trucks and trailers to pick up and deliver equipment
- Maintaining backup inventories for equipment loaners and rentals to eliminate customer downtime
- Extending evening service hours or even considering a night shift to ensure overnight turnaround
- Marketing themselves better and/or adding outside sales representatives
- Examining ways to hold down operating costs and gain economies of scale
- Banding together to form trading associations or co-ops to purchase equipment and materials at prices that rival the nationals