# *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.

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**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."

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