



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 newfound 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 pur-

chasing 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.

"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."



Bob Andrews

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

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

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 as 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