

Market under the microscope

DC Corridor

It's a boom town with cutthroat competition. We visited DC-area readers to find out what makes this market tick. Their experiences might help you compete

BY THE LM STAFF

The Washington DC metro market is big, booming, pushy, overcrowded and competitive. As the center of government, it attracts new businesses, people and development. Area contractors are riding that wave of demand for their services.

What's the dark side? From our personal visits in the Washington DC Corridor (northern Virginia up to Baltimore, MD) we can tell you that traffic is a nightmare, labor is scarcer than a believable campaign promise and industry players told us that competition is down and dirty.

But, why the DC Corridor, you ask? We chose this market because it has much that is happening right now across our industry:

- ▶ Strong economic growth;
- ▶ Consolidated landscape companies;
- ▶ Key industry players;
- ▶ Challenges finding labor, getting around town and handling low-ball competition;
- ▶ Many governments and regulations;
- ▶ Diverse landscape work (national monuments, new housing, major commercial developments, urban projects).

Long-time player

Few contractors know this market as well as *Landon Reeve*, who established Chapel Valley Landscape back in 1968. The company's organizational structure includes separate divisions to handle residential, commercial and water management installation and maintenance services.

But what makes Chapel Valley a "player" in this market? It recently won the coveted 600-acre MCI Worldcom installation and irrigation contract, gets its share of government work and handles a wide variety of high-end residential installation and maintenance jobs. Most of the company's business is focused on the DC corridor and it maintains offices in

Woodbine, MD (south of Baltimore) and Dulles, VA.

Northern Virginia's rapid development



"This market is booming like the 80s, but pricing and margins are lower...and profits don't grow as fast as you'd expect." J. Landon Reeve, Chapel Valley Landscape Co., Woodbine, MD

amazes Reeves. "If I don't visit our Dulles office for a month, I won't recognize the area. It's changing so fast." High-tech firms like MCI, AOL, Cisco and others find the area ideal, he says.

What gets him is the changing nature of competition. With the consolidation of larger players in the market (STM, Ruppert, Scapes, Brickman), Reeves finds his firm is the largest privately owned full-service firm in the Corridor. But he thinks the competition is more complex.

"The Virginia market is red hot, dynamic, changing," Reeves says. "There are more competitors and they are very competitive on the larger projects. In the Baltimore/DC markets, there are more small companies every day."

Reeves' challenges include extensive travel time ("as much as 1/2 hour to 1 hour from jobs") and the squeeze on profits brought by intense competition. "Consolidation has made things more competitive for market share."

Market maven

As regional manager for the Davey Tree Expert Co., **John Dingus** has worked on just about every key federal government project in the District and beyond. Besides large commercial and residential landscape projects, Davey continues to service Arlington National Cemetery, the Federal Reserve building complex and a variety of projects involving the Smithsonian, Kennedy Center for the Arts, the White House, the Capitol grounds and other high-visibility sites. His office alone handles \$9 million in services per year.

"At one time, we had maintenance contracts on every major federal building along Constitution Avenue, from 1st St. up to 21st St," he recalls. When Congress enacted a small business set-aside in the mid-1990s, Davey lost much of that work due to its size. A key element of its revised strategy is to seek work on commercial de-



Employees of The Davey Tree Expert Co. install a large tree on the Capitol grounds.

"If you bid on Arlington National Cemetery and you lowball it, you'll die. This is the granddaddy landscape of them all. We cut 100 acres every day, rain or shine."

John Dingus, The Davey Tree Expert Co., Chantilly, VA



velopments, such as the USA Today's new 25-acre complex in McLean, VA. Installation projects like this usually lead to long-term maintenance services.

Davey's specialty of brokering and installing large trees is the perfect niche to build long-term installation business, Dingus has found. Recent projects include installing large trees at the Smithsonian's Museum of Natural History, planting re-

placement cherry trees around the Tidal Basin and the installation of the impressive FDR Memorial (including 260 8- to 10-in. trees and nearly 8 acres of sod).

As for his competition, Dingus is too busy to fret much. Some consolidated companies have pulled back from much of their design/build work, he notes, which has "neutralized" the competition.

"There is a glut of work and no one has begun to corner it," he says. "There's more business than you can handle because you can't get the people."

Bidding wars

Anyone handling high-end condominium and apartment complexes in this market knows McFall & Berry Landscape Management, with offices in both Virginia and Maryland. As vice president of operations and branch manager of the McLean, VA, office, **Scott Hall** has seen changes come and go.

"The pace of building is phenomenal,"

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"The competitive bidding situation is tough — there are more bidders and they'll work for the same or less than we did 10 years ago"

Scott Hall, McFall & Berry Landscape Management Inc., McLean, VA

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he notes, "and the competition is overwhelming. Six or eight years ago, we used to have three people there at pre-bid meetings. Now there are 10 or 15."

"We do our best to bid but it's tough. Property managers have to work with investors and they have to have their numbers," Hall explains. "But every time we gave up work (to another contractor), we got it back within a year. We've done the work; we know the job better."

A selective businessman

You know the economy's busting at the seams when you can get rid of customers.

That's what **Michael Abert**, owner of Landscape Projects, Bethesda, MD, told us. Just like others in the area, Abert could

"We routinely fire 5 to 10% of our clients each year." Michael Abert, owner, Landscape Projects, Bethesda, MD

be running two or three more crews but can't find the labor. Landscape Projects, which grossed \$1.5 million last year, specializes in providing landscaping for high-end residential lots in the area.

Isn't firing your own customers a little too laid back? "We routinely fire about 5 to 10% of our clients each year for being an insignificant account or because we don't like them," Abert says.

"We don't negotiate. Customers ask us to lower our price and we say no, this is America -- it's a free market and you can go somewhere else. That may be the only offer they get because everyone is so busy."

No fear of consolidation

The way **Lou Kobus** sees it, consolidation has been good for his \$3.2-million busi-

ness, Village Turf, in Mount Vernon, VA. He lumps big, consolidated companies and low-ballers together, saying that many big firms are more concerned with market share and will often bid at excessively low

"We've gotten more business from consolidation because, while a customer may go with the bigger company for a year, they always come back to us." Lou Kobus, owner, Village Turf, Mount Vernon, VA

prices to get business.

Consolidation isn't the only thing he believes has made his business more sought-after. Customers are more knowledgeable than they used to be, he says. "They inquire more. They're looking for someone who knows the regulations. They're looking for people to solve problems, not create them."

Pending pesticide restrictions will only increase homeowners' need for quality lawn care companies, he says. "Homeowners will be unable to put things down themselves and will need us to do it."

Growth requires efficiency

Bruce Allentuck of Allentuck Landscaping seems like he'd have his company's projected growth mapped out for the next 20 years or so. He does have a plan, but, like almost everyone in the area, he has to deal with obstacles such as the labor shortage

"In five years, I see more satellite offices for everybody as the market continues to grow out." Bruce Allentuck, owner, Allentuck Landscaping, Gaithersburg, MD

and an area encompassing three different bodies — Virginia, Maryland and DC.

Allentuck sees consolidation as an aid to the labor crisis. "I've seen a lot of unhappy employees leaving, which benefits us," he says. "I've also seen a lot of unhappy customers. The consolidated companies will go through a bumpy time and that will level off. We're in a huge market. I know we're barely scratching the surface."

More efficient operations would also promote the kind of growth Allentuck would like his \$1.6-million company to experience.

"First, there's the traffic," he says. "Then, we have three governments and lots of cities and counties, all with different zoning regulations affecting design/build. Dealing with this is all about managing. Eventually, we'd like to have satellite offices to make things more efficient."

Big fish in a big pond

With sales of \$28 million in the Washington, DC area (\$21 million in Maryland), The Brickman Group is one of the largest landscape companies in the area. Regional manager **Jeff Topley** oversees eight branches in Maryland and four in northern Virginia, and 125 employees.

As a result of being big, problems automatically affect operations and employees. Local governments have been more of a sticking point for Brickman, so much so that high on Topley's wish list is his desire to see Virginia, Maryland and DC become more unified in their approach to business.

"If there was a way to get Virginia, DC and Maryland on the same wavelength to become more business-friendly, that would be a good thing," Topley says. "Virginia tends to be more business-friendly than Maryland, and DC is a free-for-all. DC

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"This has to be one of the most sophisticated markets in the country because of the existence of large companies and a great mix of medium to small companies who have created niches for themselves."

Jeff Topley, regional manager, The Brickman Group, Laurel, MD

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doesn't have as many regulations but the ones that they have and ones they enforce are inconsistent."

Topley also considers the rising costs of labor a major challenge. "Our labor costs have increased 25 to 30%, and we haven't seen individual job renewal pricing increase nearly as much, if at all," he says. "There hasn't been a correction in the market in terms of pricing."

Building on success

Almost every landscape firm experienced growth during the boom of the last few years, but McHale & McHale Landscape Design felt an explosion.

The firm, founded in 1981 by brothers **Kevin and Stephen McHale**, handles upscale residential properties to the tune of \$5 million a year. Recently, the company has experienced 18% annual growth. "As long as the economy is sound, we expect a minimum of 10% growth for the next two to three years," Kevin McHale says.

Canvassing the areas in and around Middleburg, VA; Potomac, MD; and Annapolis, MD; McHale & McHale has built

"The residential design/build market is constantly growing." Kevin McHale, co-owner,

McHale & McHale Landscape Design, Upper Marlboro, MD

a client list that includes properties ranging from \$800,000 to \$5 million.

"Our goal is to create imaginative, large-scale residential gardens," Kevin says. Economic conditions, as well as the quality of work his company does, has almost nullified the effect of low-ballers on the market. "People listen to our single-source responsi-

DC Corridor facts

- ▶ Current population — 2,149,949 for the area (Baltimore through northern VA)¹
- ▶ Projected 2005 population — 2,174,569¹
- ▶ Number of single family households: 449,052²

- ▶ Number of commercial properties or acres maintained: 117,008²
- ▶ Number of government (Federal, state, county and District) properties to be maintained: 1,908²
- ▶ Average household income or salary/wages: \$61,623 in Washington DC MSA (Metro Statistical Area)³

SOURCES: 1 WWW.CENSUS.GOV; 2 AMERICLIST; 3 US DEPARTMENT OF LABOR, BUREAU OF LABOR STATISTICS

bility process, realize the value and are willing to pay for it," he adds.

The hard part is behind us

When Memphis, TN-based TruGreen-ChemLawn acquired Ruppert Landscape, Ashton, MD, it added \$47 million in revenues and also signaled that it intended to be the landscape industry leader in the U.S. Mid-Atlantic market.

That was less than two years ago, and a lot has happened since then. Ruppert founder Craig Ruppert is no longer with the company. By the summer of 1999, the landscape division had become TruGreen-LandCare, a separate business unit within parent company ServiceMaster. Even so, the TG-LC operations serving the market still retain a distinctive Ruppert flavor.

"We're still in transition," explains **Ken Hochkeppel**, TG-LC regional manager for Mid-Atlantic operations and, himself, the former CFO of Ruppert. "I think we've been very successful in making the transition transparent to our customers. I don't think that we've been as successful making the transition as transparent to our employees. Integrating 12,000 employees into one organization within 16 months is challenging."

Labor, of course, remains a big problem

for TG-LC in the strong metro DC marketplace. "We have a lot of employees who have been with us 12 years or more," he adds, "but, it's still a huge effort to get staffed up in the spring."

Hochkeppel says the market around DC is unique in the predominance of contracts tied to the calendar year, the great

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"The competition for labor results in higher wages for crew members up through management." Ken Hochkeppel, Regional Manager for Mid-Atlantic, TruGreen-LandCare

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majority of which are one-year contracts.

"There's always an intense effort to bid projects at the same time of the year," he explains. Also, the past few years have seen more projects going to bid as property managers keep the pressure on to cut costs.

Even so, Hochkeppel insists: "We have no intention of winning a job on price. We'll win it on service and reputation. Our goal is not to be the low-cost provider, but we certainly want to be efficient."

As for the changeover from Ruppert to TG-LC: "Change is always difficult, but the hardest part is behind us."

Needed: a few good men

Everybody's hustling in the offices of Natural Lawns Inc. in Fairfax, VA. Northern Virginia is bursting at its seams. Traffic streams by on the highways connecting to DC, the clang and bang of construction is everywhere and lawn care or landscape trucks sit at just about every intersection. That's the biggest problem right now — too much traffic, too much work, too few workers.

"I'm more concerned about the competition for labor right now than I am for customers," says **Bern Bonifant**, co-owner, Natural Lawn Inc. "There's not much of a blue collar mentality in this area anymore."

The situation isn't being helped by regulators either, he feels. A lawn care technician in Virginia must be registered to apply fertilizer and chemicals on properties.

Once he works for a year as a registered applicator, he's eligible to take the test to become a certified applicator. But tests are given in English only.

"Why they don't allow the test in Spanish is beyond me. It's not giving a big part of the labor force a chance to work for us," adds partner **Dan Henneberg**.

Some planners estimate another 16,000 new homes in western Fairfax County and the areas surrounding Dulles Airport within the next several years.



"We're probably the second worst traffic area in the nation." Dan Henneberg, co-owner, Natural Lawn Inc., Fairfax, VA.

"And 16,000 families are going to find it's hard to grow grass on Virginia clay," comments Bonifant wryly, no doubt thinking about how much more business he could do with a few more good employees.

A question of water

Two seasons of severe drought in the DC area have put a charge into turf/landscape irrigation businesses.

According to **Steve Schrader**, president of Bio Green, Manassas, VA, a lawn application company also specializing in irrigation installation and maintenance, "The rush this year began in early February."

The proof is in sales, he says. In 1999, his 13-year-old company grew its irrigation billings 30% to \$675,000, while it provided \$900,000 in lawn care. This year it's aiming for total sales of \$1.9 million.

The communities and counties of northern Virginia reacted to the droughts in a patchwork of regulations. For instance, water restrictions were the order in Loudon County, while other locations sought voluntary conservation from homeowners and businesses.

"As far as giving estimates, we've had more than we can handle." Steve Schrader, president of BioGreen, Manassas, VA.

"People are definitely learning how to irrigate," says Schrader. "Some customers watered correctly and others let their lawns go dormant. We didn't lose many."

Changing with the market

You might call **Tom Spiers** an "oldtimer" in the lawn care business. In 1974, he purchased a Lawn-A-Mat franchise — one truck, one van, one trailer and 96 customers. Last year his company, Agro Lawn, Vienna, VA, sold \$2.7 million.

It now provides lawn care and a variety of landscape services as it tries to keep up with the growth in northern Virginia.

Spiers points to the huge concentration of high-tech firms establishing headquarters in neighboring communities. "We're

"When you see the construction cranes go up, you know the economy is going to be good and it's going to be difficult getting any help." Tom Spiers, president, Agro Lawn, Vienna, VA.



doing work for 25-

year-old guys who are

making over \$100,000 a year."

As his market changes, Spiers changes too. Last year he purchased a small nursery. "There's been a severe shortage of ornamental plants," he explains. He also operates Virginia Pastures, a firm specializing in pasture renovation and management for the horse crowd.

His biggest concern going into the 2000 season? "The saying here is that if you see the construction cranes go up, you know the economy is going to be good and it's going to be difficult getting any help." **LM**