Weather any economic storm

Whether this year's economy soars or slumps, be prepared to profit

PHOTO: EPIC OF WISCONSIN & SCAG

BY GEORGE WITTERSCHEIN/ CONTRIBUTING EDITOR

Ask around about the possibility of a recession and you'll get differing answers. But ask around about what Green Industry companies should do to get ready for an economic downturn and you'll find surprising unanimity.

Years of experience

Stephen Hillenmeyer, president of Hillenmeyer Nurseries, Lexington, KY, surveys the economy from a position of long corporate and family experience. He is the fifth generation of Hillenmeyers to manage a company that dates back to 1841. The business expects gross revenues of $7 million this year, and employs between 100 and 150 depending on the season.

While Hillenmeyer doesn't see a recession right now, he feels landscape and allied companies should always remain alert to the possibility of business downturns.

"Fortunately, we're not seeing big swings in our business right now," Hillenmeyer says. "Some of our customers cut back a little bit last year on our services, but this year their appetite is rebounding and, if anything, they're ordering more from us.

"One of our commercial customers who cut back apparently caught flak from their employees, who complained that their grounds no longer looked as good as they traditionally had. They have resumed ordering substantial services with us."

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>
> — Stephen Hillenmeyer

The lack of big swings in profits is fine with Hillenmeyer. "We like to stay on a tried and steady course, " he says. "We have been just moving along, growing a little bit at a time, and we haven't been chasing huge growth every year.

"We prefer modest and steady increases of five, six and ten percent a year if possible."

After a 160 years, Hillenmeyer Nurseries has learned to deal with a fluctuating economy. "I think we have had enough experience to have learned that times are not always going to be easy," he says. "So we try to run the operation as lean and mean as we can all the time. If we do it that way, we don't have to cut back when times get slow."

One typical move many companies make to counter an economic slowdown is to let employees go. Hillenmeyer does just the opposite: He invests even more in his existing good people.

"Our industry is all about people," he says. "And if you don't have the quality people to maintain the level of what you're selling out there, it can come back to haunt you. You lose a few people and all of a sudden you wonder how you're going to perform quality work. And then maybe any new people that you bring in don't have the culture you just lost.

"We try to keep in mind that the good people already have jobs, so the likelihood that I'm going to get rid of 'x' amount of people and replace them with really good people is very small. It's just not realistic.Those good ones are already gone, and we'd just be trading down with new people.

"If we do invest in our people, hopefully we'll reduce our turnover and that will help us control our costs. Therefore, one way to prepare for a recession is to cut down turnover."

Although Hillenmeyer shoots for 5 to 6% growth in the worst times and 10%-plus in the best times, he admits that sometimes it's been 5 to 6% in the best times and that the company has even lost money in the worst times.

"That's why we've raised our business performance standard," he says. "So my number one recommendation for preparing for a recession is to clean up your act now in terms of running your operations efficiently and well."

Brothers Chris (left) and Steve Hillenmeyer believe the key to handling a recession well is to operate efficiently at all times.

Diversification is key

We heard similar observations from John Bass of Lawn Master Inc. in West Jordan, UT, a U.S. Lawns franchise with annual revenues of $400,000 and a maximum workforce of 25 people.

Like Hillenmeyer, Bass isn't feeling the effects of a recession on his business right now, mainly because his business is diversified into three areas: chemical applications, Christmas decorations and some landscape maintenance.

Bass finds that his commercial customers, regardless of the economy, still want their properties to look good. "They have to keep up appearances," Bass

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says. "I heard a speaker at a recent conference say that as apartment houses and office buildings get vacancies they cannot fill, they tend to spend more money getting the property to look nice than when they're totally filled up. Oddly, when their space is totally full, they tend to cut back."

Nonetheless, Bass does not believe that his business is bulletproof. "It will be interesting to see how our spraying business does, because that business is based on expendable income from residential customers."

Already, Bass has seen one classic sign of recession — price increases. "Our utility bills went up about $1,200 annualized, which is $1,200 coming out of my budget now that is not replaceable," he says. If his own utility bills have gone up, the same will happen to his customers, possibly affecting their ability/willingness to buy his services.

The rise in Bass's utility bills appears to be a spinoff from the California power crisis.

"We're located in the West," he says. "In addition to our utility costs, fertilizer prices have almost doubled from last year because it's more profitable for suppliers to sell natural gas instead of use it to make fertilizer. By mid-summer, we may have availability problems."

Good cuts, bad cuts

With 18 years of business experience, Bass has some clear ideas about how to recession-proof a Green Industry business: "One thing to do is evaluate your cash flow to see how a decrease in sales would affect you," he says. "Then, if an economic downturn happens, you know where to make good cuts."

The distinction between good cuts and bad cuts is important to Bass. "A bad cut will make it harder for you to recover afterward. A good cut may save you some money and won't cripple you in the future. You've also got to push sales harder than ever.

"If you have excess equipment like a truck or tank or mowers, that's okay in normal times. Sometimes we keep those for spares. But if you wait and the economy declines, there will be no market in which to sell them. So you may want to sell those right away."

Bass doesn't believe you should shed employees like extra equipment, though, even if the purpose of doing so is to enable them to find other jobs while the labor market is still decent.

"In theory, that would be a kind thing to do," Bass says. "But you also don't want to cut jobs prematurely. Given how much you have invested in your employees, it's something you don't want to do until you have to."

An alternative to laying people off is cutting back on hours. "If the need arises, go to the whole group and explain to them that things are down and you don't have work for everybody. Then ask, 'Rather than laying somebody off, will everyone agree to work 36 hours instead of 40'"?

Overall, Bass isn't worried. He believes that by taking reasonable precautions, he will be able to ride out a potential recession. He does have a warning, though: "I think that poorly managed businesses will probably fail in a serious recession. On the other hand, the companies that are ready will actually come out stronger after any recession." LM

— The author is a contributing editor based in Mendham, N.J.

3 recession-proofing steps

John Bass, owner of Lawn Master Inc., West Jordan, UT, thinks recession proofing your business starts with early preparation. "The fundamental thing is to get ready so that you're not a victim," he says. Here are some specific examples of what he means:

- If you need credit, get it now. Credit may not be available if a recession develops and gets worse.
- Get your house in order. That way, if you're going to borrow money, you can do it now while interest rates are low.
- Raise prices if you must, but do it judiciously.

"When cost increases come down the pike, you have to pass them on," Bass says. "If you take those increases from your profits, you'll soon be out of business. We're doing some market research right now. Based on fertilizer, we already know we *should* raise our prices 5%, but will the market bear that? Maybe we can only get half of that increase, but we have to do something."

—JB

Recession? It may be here already

ARTVILLE

BY GEORGE WITTERSCHEIN/ CONTRIBUTING EDITOR

Who better to tell us whether we're in a recession or not than an economic consultant? We asked Gary Shilling, and here's what he had to say:

Landscape Management: Our readers are sending us mixed signals about whether they see the landscape industry in recession or not. You're convinced that if we aren't in one already, the United States economy will be in recession soon? That's a pretty bold statement.

Shilling: Several things lead me to believe we're already in one. If you look around, you've got all the classic signs of a recession.

✔ ***Inventories are out of control.*** That's always the first primary cause of a recession. Despite our progress into more of a low-inventory service economy, the role of inventories in recessions is still a major one. As a matter of fact, in the last two recessions, inventories accounted for an increasing share of the decline in real GDP (i.e. the total economy).

✔ ***Confidence is declining.*** There's been a collapse in consumer confidence, CEO confidence and small business confidence.

✔ ***Productivity growth problems.*** Productivity growth declined in the fourth quarter. I'm a long-term bull on productivity, but in the short-run, when you get the disruptive effects of companies cutting down on business activity, productivity suffers and labor costs rise. In the fourth quarter, unit labor costs were up 4.1% annualized while productivity was up 2.4%. This is the reverse of what we had been seeing when the economy was booming.

✔ ***Capital spending is starting to ease off.*** "New tech" has found they don't live in their own world. They can't prosper by taking in each other's laundry. They've got to sell their wares, ultimately, to consumers and to "old tech." So "new tech" finds itself getting pulled down as well. As profits decline and capacity grows, capital spending gets cut back, and that hurts productivity.

These are all classic signs of a recession. When you look behind the signs for causes, you find many economic forces in place that tend to cause recession, like:

✔ ***The delayed effects of the Federal Reserve tightening.*** It takes a year for the effect of the Federal Reserve tightening interest rates to work through the system. The last tightening — one-half of a per-

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centage point — occurred in May of 2000, so we have a while yet before we get past that event and into the salutary effects of the Fed's recent easing of interest rates.

Less lending. About a year ago, the Fed told banks, "you're being too easy on loans," so the banks cut back on lending. Now that they're starting to see loan losses, they're really getting stringent. A recent Fed report shows a huge increase in the number of banks cutting back on credit availability, and a huge decline in loan demand. People who need loans are being hung out to dry because banks have gotten some big loan losses and others don't want to borrow.

✔ ***Energy cost increases.*** These take about a year to work through the system, too. Outside of California, utilities that generate electricity with, say, natural gas, typically have a combination buying philosophy that includes a mixture of long-term contracts and buying on-the-spot markets. As those long-term contracts run out, the utilities are renewing at higher prices and passing those right through to consumers. That means we'll get a delayed effect from the increase in natural gas prices.

✔ ***Uncertainty in Washington.*** We've got a split Congress, a president with no mandate, and, while there's talk of a quick tax cut retroactive to the first of the year, tax cuts are traditionally delayed in Congress to the point where it's too late for them to help a recession (the cuts may in fact help the recovery because Congress probably won't get them in place until the recession is virtually over). This tax cut will face an especially difficult time because we have such a divided Congress. The earliest they say they could act is by the middle of the year, and I think we should add another three months to that because of the lack of a mandate. Since the recession probably won't run much beyond the end of this year, we shouldn't expect the proposed tax cuts to ward it off.

✔ ***The stock market is still overblown.*** We've got over a 100 price-to-earnings ratio on the NASDAQ (many times higher than historic norms, suggesting that many of those stocks are still wildly overpriced and headed for some serious correction), and the real vulnerability now is in profits. Profits are getting squeezed by the combination of unit labor costs going up, the prospect of weakening volume and the fact that few businesses have any pricing power (and consequently will experience price declines as the economy weakens.)

Lower profits mean disappointments, disappointments mean lower stock prices and lower stock prices mean that consumers who have been spending from stock appreciation instead of from savings will lose confidence and spend less. **LM**

Fortify your balance sheet now

Landscape Management: *If we're going to be in a recession through the end of the year, what should people in a business like landscaping do?*

Shilling: Cut back spending that isn't absolutely essential. Shed employees while there's still a relatively tight labor market in which they can find jobs. Unemployment is what we call a "lagging series." It's only when we are well into a recession that business gets around to cutting payrolls, so beat the competition to the punch and cut back on your payrolls while your people can still find jobs and you're not going to feel upset that you're throwing them out when they have no place to go.

Also, build a fortress-like balance sheet. Look at what is essential in your business and what isn't. We've had so many "McMansions" (a derisory term for large, showy homes built in recent years as a spillover from Wall Street money), and my forecast is that they'll go the way of all flesh. There was a lot of work for landscape professionals on those lots, and those kinds of contracts will fade fast.

If I were a landscape professional, I'd be looking for more basic kinds of things, maybe "small luxuries." When times are tough, people still want to treat themselves. They might opt to have a seasonal flower bed installed as opposed to a bigger landscape job.

If you can do these "small luxuries" in volume, you can still make some money.

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