

# strong

value in the market's tumble, and immediately made layoffs, trimmed inventories and postponed major investments (including construction). Construction's outlook is questionable.

■ The Federal Reserve's rate cuts spur mortgage business. Many investors exit the market and invest in real estate.

■ Although 2001 is the first year since 1945 that Americans' net worth drops, consumer spending continues strong, consumer confidence swings up and down, home sales and prices escalate through the summer.

■ Service industries, previously the "golden child" of the U.S. economy, show a slight weakening for the first time since World War II. Service business owners (including Green Industry players) discover labor costs a little more, fuel and energy prices

Landscape services grew at a healthy pace in our survey, ranging from 18% growth for irrigation services to a 47% increase in chemical service growth.

bite into profits and problems with payables begin to surface.

■ It's still pretty easy being green, say many landscape professionals. While economists describe the economic outlook as "cloudy" and "sluggish," the same cannot be said for our industry. In fact, the opposite is true:

■ Growth of customers, revenues and profits expanded strongly.

■ Most landscape maintenance and chemical lawn care services continue to look strong and profitable.

■ Landscape services grew at a healthy pace in our survey, rang-

ing from 18% growth for irrigation services to a 47% increase in chemical service growth.

■ Landscape installation and other services tied to residential or commercial construction are more "iffy," depending on the market, but still strong, with an average 23% growth in that segment.

■ Layoffs have improved the recruiting picture in many markets, but labor is still a challenge.

■ Economic weakness seems to have settled in some markets, and not at all in others. **LM**

PART TWO:

## Challenge: Handling Growth

It's been a banner year for professional landscape management. We interviewed hundreds of landscape managers to see how their year has progressed and how they view next year's business (see note below). Here's what they said:

■ Business was up for 76.6% and 72.4% said they expected revenues to increase, an average rise of 18%.

■ Prices, too, will go up an average of 8% for 66.3% of respondents.

■ At least 64.4% of respondents reported they have more backlog or customers this year than in 2000.

■ Chemical services grew 47%, maintenance business grew 30%, tree care services grew 28%, design/installation and specialty services grew 23% and irrigation services grew 18%.

■ While landscape design/installation grew fastest last year, only 33%

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Note: The statistics in this report were derived from a proprietary Landscape Management mail and telephone reader survey, as well as other industry data reported by associations and organizations. This survey was mailed to a random sample of readers in June and also given by telephone to a random selection of readers and industry firms in July. Both surveys, which generated a 29.5% response rate, was tabulated according to standard statistical analysis by Penn and Associates, an independent market research firm in Cleveland, OH.

The survey represented 72% landscape contractors (providing landscape design/build and/or maintenance), 27% lawn care service companies, 9% grounds care, 5% custom chemical applicators and 5% irrigation contractors (some contractors perform more than one service). They represent a sampling from many markets across the country.

\*The makeup of this year's study may be somewhat different from last year's group, reflected in slightly adjusted results.

### This group represents a wide range of revenues:

Annual revenue	% of respondents
Entry-level < \$250,000	30.1%
Mid-level \$250,000 - \$1M	36.7%
Established \$1 M or more	33.1%

Current customer mix of this group is 57% residential, 38% commercial, 4% government and 1% other. These organizations have existed for an average of 18 years.

reported it grew fastest this year; 45% said their maintenance services grew faster.

■ Respondents (64%) said it was harder to recruit employees this year than in 2000, despite pockets of layoffs.

■ Fuel and energy price spikes have hurt. Fuel costs took a hefty 9% chunk of our respondents' typical annual operating budget, compared a fraction of the 4.2% "other" costs last year.

These are not the statistics of an industry anywhere near a recession. But, the stats also tell us that some indicators may foretell upcoming changes:

■ A full 62.5% said it was harder to compete this year than in 2000, and 64.8% agreed it was harder to be profitable in 2001.



Randy Newhard

■ Profit margins for some services have slipped. Scarcity and cost of plants,

higher labor and fuel costs and competition may have helped to squeeze margins.

■ Financing and cash flow are worse in 2001 for 58.6% of respondents.

■ Another 59.4% reported their customers are getting more picky.

■ Top challenges continue to focus on five issues: labor availability (60%), managing growth (48.4%), developing supervisors and foremen (47.7%), low-ball competition (45.8%) and financing or cash flow (45.2%).

### Handling the demand

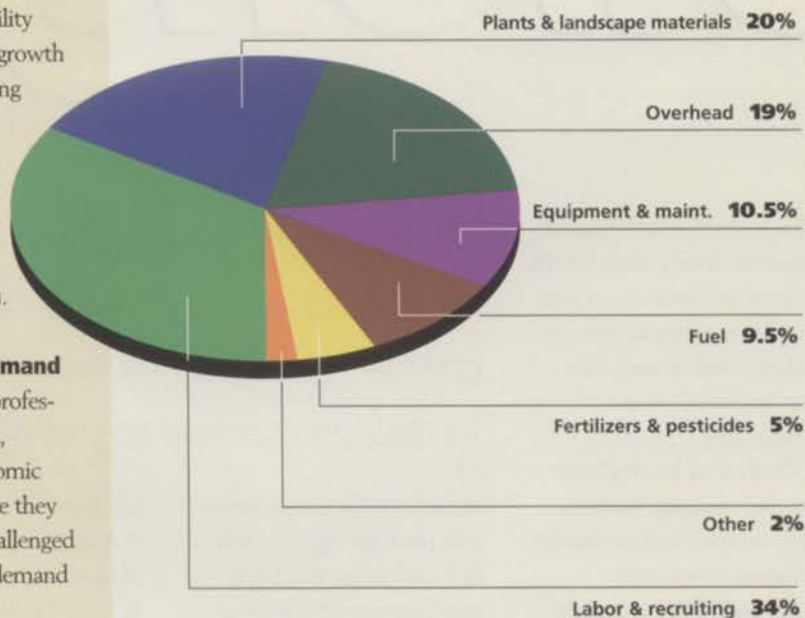
Many landscape professionals have asked, "What's the economic problem?" because they continue to be challenged with very strong demand for their services.

J. Landon Reeve, president of Chapel Valley Landscape, MD, sums it up: "This year will be good for our landscape business and our commercial market is strong. We are getting a positive amount of business now."

"The newspapers make it seem like a severe depression, but in Arizona, the market is clicking along," notes Richard Underwood, vice president/gen-

## Operation Budget (as a percent of expenses)

Industry average as derived from typical 2001 operating budget



eral manager of AAA Landscape, Tucson, AZ.

"Design/build and maintenance are both great and interest rates are low, so people are doing projects," he adds. "They are also using the money they would have invested in the stock market and putting it into real estate instead."

Data from the National Association of Realtors show that home prices are not only climbing during a "sluggish" economy, but actually accelerating. The median price of existing homes rose 6.4% last spring. Clearly, many Americans prefer to reinvest in real estate, which implies

more investment in landscape.

Even in smaller markets, most landscape professionals report a banner year. "Demand is higher, (employee) retention is normal, new sales are up and there's some consolidation," notes Jack Robertson, president of Robertson Lawn Care, Springfield, IL.

"High end and specialty work continues in high demand," reports Larry Iorri, president of Down to Earth Inc., Wilmington, DE

"Our industry is doing well here," says Randy Newhard, owner and president of New Way Landscape & Tree Services,

## Average hourly rates

See total breakdown at [www.landscapegroup.net](http://www.landscapegroup.net):

Installation / Build **\$ 39.52**

Mowing **\$ 36.96**



## Regulation to watch: Ozone alert, ergonomics breather

San Diego. "There's a lot of housing being built, plus new commercial and industrial buildings. California, especially San Diego, is the last one into a recession and the last one out."

Servicing the demand remains a challenge. "Our top challenge is managing growth," comments David Brown, general manager of LAND Expressions, Mead, WA. "We've opened up in markets outside our local area and have been asked to do more and more work in those locations. We're thinking of opening a satellite office."

"This has been a good year for me," says Neil Fievet, president of Nitro-Green, Hayden, AL. "I anticipate ending the year with around a 30% increase in overall sales. Business (old and new) has been so good that I had to stop all my marketing efforts."

### Pockets of trouble

Despite strong demand, some markets are showing weakness, especially those with high-tech or manufacturing firms laying off people, or ones with slowing construction. National data show consumer spending remains strong, construction and housing are holding their own and layoffs are only affecting a portion of the population. There are signs, however, of changes.

John Georgio, president of Gothic Landscaping, Valencia, CA, notes, "We are concerned about the slowdown but still

Time moves quickly and that's why 2005 isn't that far away for landscape professionals in the Houston-Galveston area of Texas. The year 2005 is when a ban on gasoline-powered lawn and garden equipment use from 6 a.m. to 12 p.m. will take effect unless alternative ozone-reducing measures are created.

The Texas Nursery & Landscape Association (TNLA), plus other businesses in the area, are working together to find solutions such as mandating the use of spill-proof gasoline cans. Eddy Edmondson, president/CEO of TNLA, isn't wasting any time addressing the matter. "We have until 2002 to come up with a plan, but in our mind we start working on it now," he says.

### A spreading concern?

Other areas are seeing smog reduction plans in the near future. Phoenix, AZ is studying options for prohibiting the use of gasoline-powered lawn and garden equipment.

In Boulder, CO, an environmental advisory board recently asked the city's environmental affairs staff to stop city crews and subcontractors from using leaf blowers.

And Vancouver city council recently decided to ban gas-powered leaf blowers in the city by 2004.

have a high backlog of business."

According to Paul Mondri, general manager of Mariani Landscape, Lake Bluff, IL, "We are a little concerned and there has been a downturn in our slower months, but he haven't felt any negatives yet this spring. We still have a backlog of work."

A slowdown of residential and commercial construction may not yet be problematic, but some contractors see potential

problems. "With a construction slowdown throughout the country, there is pricing pressure caused by the increase in competition," explains Al Honigblum, president, Grounds Control, San Antonio, TX. "But we are going to continue to make acquisitions and expect 10% growth in maintenance work."

"The construction market will find its bottom this year," forecasts Scott McGilvray, presi-

"The bottom line is that this was an issue many thought would go away or wouldn't percolate anymore," says Robin Pendergrast. "In Vancouver, an ordinance got pulled out so fast that it's happening in other cities all over the U.S. When somebody as big as Vancouver jumps on the bandwagon, it's bad."

### Ergonomics break

The Green Industry breathed a sigh of relief when the Occupational Safety and Health Administration's (OSHA) proposed ergonomic standard was defeated last March.

But the Department of Labor (DOL) will soon announce its plan for introducing a new ergonomics rule. Three ergonomic hearings were held around the country in July and August to provide the DOL with additional input on what constitutes an ergonomic injury, and what type of standard might be pursued. The American Nursery and Landscape Association fought vigorously against the previously proposed ergonomic standard because members argued that it would have unfairly forced Green Industry business owners into implementing thousands of dollars of workstation improvements.

— Jason Stahl / Managing Editor

dent of Jensen Landscape, Cupertino, CA.

"I think the industry will remain healthy but right now, there is definitely a bump in the road," says Rick Randall, president of Randall & Blake Inc., Littleton, CO. "In our area, there are several contractors who have gone bankrupt. We think commercial building is maxed out but will be back up eventually. Residential building

has peaked too but will be leveling off—that will put more pressure on us.”

Wayne Richards, president of Cagwin & Dorward, Novato, CA, explains, “The slowdown is affecting some sectors. We’re seeing some downsizing in Sili-

con Valley. We’re concerned about it and not seeing huge growth. It’s kind of flat, with the exception of new businesses we’ve started.”

### ‘A little bit less’

Areas of slower sales, intense

price competition and surprising labor and fuel costs are starting to make profitability a harder to maintain.

“We see negative conditions, with housing starts slowing,” reports Alan King, chief estimator of Park Landscape, Santa Ana,

CA. “They are down in our Las Vegas office but up in our Sacramento office.”

Underwood sees a similar pattern: “At the Arizona home builder show, they said custom residential is softening, but not

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## TABLE 1. — DIVERSE INDUSTRY, GREAT GROWTH

*Industry averages are good but a closer look at small, medium and large operations gives a better picture of this year's growth and challenges.*

	Industry Average	Entry-level (<\$250,000)	Mid-level (\$250,000 - \$1 M)	Established (>\$1 M)
Average years in business	18	12.5	18	24
Revenues rising	72.4%	62.0%	72.6%	84.6%
Revenues holding	21.0%	25.8%	23.2%	10.7%
Average % of revenue rise	18%	24%	14.5%	18%
Prices rising	66.3 %	62.0%	73.2%	71.6%
Prices holding	31.7%	36.2%	26.7%	25.0%
Average % of price increase	8%	10%	7.5%	5.5%
Residential customer %	57%	72.5%	60.0%	35.5%
Commercial customer %	38%	26.5%	37.5%	55.5%
Government clients %	4.0%	1.0%	2.0%	5.0%
Other clients%	1.0%	0.0%	0.0%	4.0%
Residential profit margin	28%	39%	24%	18.5%
Commercial profit margin	23%	38.5%	20%	13.5%
Specialty services margin	30%	50.5%	39%	14.5%
Landscape maintenance margin	26%	47%	18.5%	14.5%
Custom chemical applications margin	26%	44.5%	25.5%	17%
Landscape design/install margin	24%	38.5%	22.5%	14.5%
Irrigation services margin	23%	40%	24%	16%
Tree care margin	23%	44.5%	34%	15%
# Full-time employees	34	3	7	131.5
# Part-time employees	13	2	6	41.5
# Family members employed	3	2	2	6.5
# Workers of foreign origin	36	5.5	7	85.5
Average rate, best supervisor	\$16.01/hour	\$14.20	\$15.03	\$18.56
Average rate, entry-level crew	\$8.24/hour	\$8.45	\$8.18	\$8.01

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drastically. It's more of a market correction and it is normal business, not a recession."

"Our costs are up and pricing on competitive contracts remains low, but we don't see any effects of the economy in this area," says Jud Griggs, vice president of operations, Smallwood Design Group/Smallwood Landscape, Naples, FL. "We see no changes in demand for 2002 but we're constantly



PHOTO COURTESY: POST PROPERTIES

looking for ways to reduce costs and work more efficiently."

"We are having a slower year, with consumer sales slower," notes Tom Hofer, president of Spring-Green Corp., Plainfield, IL. "There is just not an exuberance out there. Altogether, we don't expect a strong year."

Scott Frith, director of marketing for Lawn Doctor Inc., Holmdel, NJ, says it's been a more challenging year in business. "There is less growth in new sales but I see the market with no official recession and some bounce-back being indicated already."

"REIT (real estate investment trust) stocks are down on commercial places like malls so they end up cutting back," explains Marc Marcus, president of CentreScapes Inc., Pomona, CA. "Commercial landscapers are one of the first cuts they make. Five percent of my normal business would be eliminated, but we're still growing by 25%."

Market changes may not have as dramatic effect on growth as internal changes do, reports Debby Cole, president of Greater Texas Landscapes, Austin, TX. "We have focused one person's efforts on business development and are also better at our delivery of services. Our resulting increase is due to us, not the market."

While his work continues to be in demand, Iorri finds that it's harder to be profitable. "This year, I've had higher costs and a little less profit per job. People are spending money to the max. I have later payments and more delinquents than before. I had more last year than in all my previous 27 years combined. It is the 'now' generation."

"One of our top challenges is financing and cash flow," notes Kevin Kilmer, president of The Groundskeeper, Tucson, AZ. "Finding financing is relatively easy. It's maintaining cash flow and staying on top of accounts receivable. Cash is king in every business and that is the same with clients.

They're going to push the envelope. 'I didn't get the invoice, the check is in the mail, you said you were going to do this and you haven't finished.' Everybody is stalling."

### The competition game

The pressure on pricing, especially for maintenance services, continues. Many landscape professionals report low-balling in both residential and commercial segments.

"The inability (of landscapers) to charge properly is affecting the business," notes Jeane McNeil, owner of McNeil & Associates, Bainbridge Island, WA. "(New) people enter the field and charge less. One should be able to charge for the job one does."

"New sales are extremely competitive," notes Tom Heaviland, owner and president of Heaviland Enterprises, Vista, CA. "There are a lot of new faces in the marketplace. We've had to be more aggressive in sales,

where we used to rely on referrals for growth. We hired a business developer."

Heaviland's employees take competition seriously and receive bonuses for working with the business developer to get new business. He explains: "The whole team has their eyes open."

While everyone aims for profitability, competitive pressure on the maintenance side sometimes stresses costs and profits.

"Construction is still extremely strong in our region," Heaviland notes. "As a maintenance contractor, it's difficult to compete for labor (with construction contractors), because they can pay more than I can. We can't afford to pay like them or we won't be competitive."

With the slowdown in landscape consolidation, competition has taken on a more localized flavor.

"Competition here (in Canada) is really localized but it gets tougher as you get bigger," explains Robert Wilton, president of Clintar Groundskeeping Services, Markham, Ontario. "There are no TruGreens here."

"I don't think acquisition has gone away," says Randall. "TruGreen-LandCare is currently 'digesting,' and they'll be back in the market. When times get tough, there will be more acquisitions because people look for partners. In good times, people don't want to have the hassle of acquisition."

Current competition may only be temporary, Randall cautions. With a downturn, he expects many competitors to return: "Many of our competitors don't compete with us right now because they have contracts in the private sector. If that slows down, they'll be back in the public sector."

According to Michael Kemaghan, vice



Tom Heaviland

president of marketing, Weed Man, Mississauga, Ontario, "Our major competitors are not so much other landscape and lawn care companies, but painters, deck builders, carpet stores — all people competing for household dollars to spend on the home."

### It's all about people

Without a doubt, landscape professionals continue to find labor their most vexing and consistent problem. News of massive layoffs to the contrary, managers in our industry still have difficulty attracting and keeping the employees they want.

"There are lots of layoffs here, lots of sad faces, but also some folks from high tech applying for our jobs," reports Cole. "When we had an HR opening, we were flooded with applications. We are getting good folks from

shuffling around in the (local) landscape industry. Entry-level employees come from our H2B pool, but foremen are still hard to find."

"It's never easy to find employees but we had very good applicants this spring," notes Robertson. "But the cost of employees continues to go up."

Phil Fogarty, sub-master franchisor for Weed Man/Turf Holdings Inc. in Cleveland, OH, notes, "It's been a very good business year and staffing is much better. It's not impossible like it was. We even get occasional calls asking if anything is available. It hasn't been like this for years."

Some contractors report that labor is still a challenge. "It's harder to recruit this year than last," says Brown. "At the end of last year when the economy was good, it created a problem — lack of qualified employees in the experienced or lead man/foreman category. It was worse this year. Those are the hardest people to find. We've used head hunters, employment services and more advertising."

"Labor is the biggest challenge for everybody," adds San Diego-based Newhard. "Guys just come and go. They'll leave for 24 cents more per hour."

Bay-area based Richards says high housing costs have driven away available workers. "An average home in northern California costs \$400,000. How many families can afford to buy a home? That's a big issue that strikes at labor availability. Our labor force is going to go to (California's) central valley

where housing is more affordable."

"I think the trend in production will be to get men off the ground and put them into a human-machine combination where the worker isn't doing so much of the physical labor," says James Wilhite, owner, Wilhite Landscape, Tyler, TX. "For example, the movement from 21-in. walk-behinds to a 44-in. walk-behind with a Velky to a ZTR."

"Employees are not a problem," says Kilmer. "It's easy to use it as an excuse for your problem, but there is no labor problem. There are plenty of good quality people available for work — it just takes time and effort and resources to make it happen."



Kevin Kilmer

### Nasty surprises

Among the nastiest surprises for industry professionals was the sharp spike in fertilizer and fuel costs, both of which affected business from the start of the year.

A January survey by the Professional Lawn Care Association of America reported

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**TABLE 8 — THIS YEAR IN BUSINESS, COMPARED TO LAST YEAR**

In 2001 we...	Industry average
Had more work	76.6%
Found it harder to compete	62.5%
Had more backlog / customers	64.4%
Used more suppliers	48.7%
Had more picky customers	59.4%
Found it harder to be profitable	64.8%
Had financing / cash flow woes	58.6%
Found it harder to recruit	64.0%

COMPLETE DATA AT: [WWW.LANDSCAPEMANAGEMENT.NET](http://WWW.LANDSCAPEMANAGEMENT.NET)

**TABLE 3 — SERVICES OFFERED**

Industry Service	average
Landscape installation	86.3%
Mowing	72.6%
Landscape design	71.7%
Turf fertilization	69.3%
Ornamental care	66.0%
Turf weed control	62.3%
Turf aeration	59.0%
Turf insect control	54.7%
Turf disease control	49.5%
Irrigation maintenance	49.1%
Landscape lighting	48.1%
Irrigation installation	46.7%
Tree care	45.3%
Paving/deck/patio Install	43.9%
Snow removal	42.9%
Pond/lake care	24.1%

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that 91% of respondents had price increases, most averaging about 20% to 25%. About 77% of respondents said they planned to raise prices to cover their cost increases.

Hand-in-hand with the gasoline price increases were problems with fertilizer costs and even acquiring supplies, PLCAA's survey reported. A surprising 86% said they had problems ordering or locating supplies.

Most landscape professionals have absorbed costs, raised prices slightly or added surcharges. Some decided to absorb costs for established customers and raise prices or surcharges only for new customers.

"We are prepared to absorb most of those costs short term, because we have a many continuing customers, to show them thanks for their loyalty," says Robertson.

Richards reported jumps in both electrical and gasoline costs earlier this year. "Gasoline has been the real



David Brown

hit," he notes, "while electric prices came down and leveled off."

"Our power rates have probably risen 50% to 75% this year," explains Washington-based Brown.

"We're coping by gritting our teeth, tightening our belts and whining. It's something we have to account for in budgeting and pricing."

### Time for innovation

Many landscape professionals are raising the level of their professionalism or positioning themselves for strong future business in boom or bust, such as opening new branches or servicing new client segments.

"We are hatching a new branch in Virginia dedicated to residential maintenance," explains Reeve. "It is a natural transition from design/build to maintenance."

Frith says his company is moving into

commercial lawn care. "We are looking into big jobs with wide area turf to keep employees on-site longer and increase our production capability. We are also adding services to maximize our customer base, retain current clients and generate new revenue."

Mondi from Mariani Landscape in IL says retail has appeal. "We started retail last year and are happy with that so far. We are hoping for double-digit growth – we are aware of the potential for this market."

"We are moving to sports turf maintenance work," notes Jensen's McGilvray. "Parks are being more heavily used than ever and there is a need for improved maintenance of sports turf facilities."

Heaviland thinks the move toward niche work may pay off: "We're concentrating on commercial maintenance. It's our best return, it's repetitive and that's what acquiring companies want."

"The industry is swamped with generalists and now we see a need for specialists," says Weed Man's Kernaghan. "You get paid better as a specialist and you are not seen as a commodity but as a 'boutique,' offering a one-to-one, personalized touch."

### Suppliers' moves

The supplier side of the industry continues to experience consolidation as they struggle to be more profitable, position themselves more competitively and lower their costs. This will continue current trends of eliminating some products from the marketplace; changing distribution/dealer patterns; adding new transaction methods; raising prices for specialty products; bringing high-tech chemicals and equipment packages to market; and designing for efficiency.

Suppliers also are keeping have a watchful eye on the future of the Green Industry.

Jack Snow, president of Sheffield Financial Services, Clemmons, NC, says his firm

TABLE 11 —  
EMPLOYEE PROGRAMS

Programs you offer	Industry average
Uniform	73.6%
Incentive/bonus	65.3%
Health care	54.2%
Promotions	36.1%
Retirement savings	33.3%
Transportation	30.6%
Cash for Educational	23.6%
Profit sharing	18.1%
Recognition programs	13.9%

COMPLETE DATA AT:  
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boasts a very low percent of defaults on loans to landscape and lawn care companies, but has noticed a slight uptick in problems this year. "There are a few more defaults and bankruptcies recently," he notes.

"We see that the economy has affected our customers," says John Chiera, sales director professional lawn care, Textron Golf, Turf and Specialty Products, Racine, WI. "They're trimming back crews and working longer hours, so they'll need bigger decks to remain productive. They're looking at contracts for more profitability and efficiency and starting to let the bad ones go."

He says Textron's dealers, like other suppliers, are very aware of economic trends. "Our dealers are more cautious about inventory management and their own profitability." **LM**

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