



Adapt or die

Diversification reigns as contractors adjust to the beat of what they are describing as a “fundamentally changed” industry.

Many landscapers are using the word “flat” to describe business this year as owner and consumer confidence and service pricing remain low, office buildings and homes suffer high vacancies and margins dwindle under the continued, tighter restraints of running a landscape business.

But despite the lingering recession, the industry has not flat-lined. It still has a pulse — nearly half of contractors (47%) say so, describing the industry as healthy. *Relatively* healthy dominates at 39% over the mere 8% who call their market *very* healthy.

While total company revenue growth was slight in 2009 at 1.41%, 2010 growth expectations are better at 4.6%. And average net revenue is 8.91%. But one can't ignore those other nagging figures — blips on the screen that show an erratic or unusually slow heartbeat. These are the 27% of people who say the industry is down ((the majority of which (14%) call it down significantly)) and the 26% who describe it as just flat.

“It’s the uncertainty that’s scary,” explains Joanne Kostecky, president of Allentown, PA’s Joanne



GROWING PAINS

	Avg. 2009 Growth	Avg. 2010 Growth
Lawn maintenance	4.75%	6.60%
Design/build/installation	-1.94%	2.16%
Chemical lawn care	1.66%	4.56%
Irrigation	0.93%	5.20%
Total company revenue	1.41%	4.63%

TOP PRIORITIES

1. Maintaining current business/sources of revenue
2. Growing my business
3. Cutting expenses
4. Innovation (finding new ways to do business)
5. Managing cash flow issues
6. Adding new services to offer more to core clients
7. Adding or improving green/sustainability services for customers



SOURCE: LANDSCAPE MANAGEMENT

TAKE-AWAYS

2010 Industry Setbacks

1. Service pricing decreases, reducing margins.
2. Uncertainty lingers with clients and owners.
3. Business becomes more complex and volatile.

2011 Industry Goals

1. Improve efficiency to make up for price reductions.
2. Diversify and adapt to today's “new reality.”
3. Understand customer needs before making business changes and then integrate their feedback into future reinvention/planning.

Kostecky Garden Design. “Nobody knows how long this recession will really last.”

The recession in the mirror may be larger than it appears, according to small business intelligence database Sageworks. Looking at revenue data from more than 25 million small businesses, Sageworks CEO Brian Hamilton says small business sales were down 5% over the past two years, and then down another 5% the following year. “When you go down 5% and then 5% again — as anyone who knows the magic of compound interest will tell you — that’s more than a 10% decline,” Hamilton says. “That level of revenue shrink can have a fearsome effect on the bottom line. Deleveraging assets is the technical term, which translated means, ‘I’m stuck with the same fixed costs but have less income with which to pay them.’”

The bright spots seem to be coming from those contractors who check their pulse regularly, see an unusual or unexpected throbbing and make changes to get a strong, systematic, pounding rhythm going again.

At least that’s the case for those owners who’ve recognized “that in repairing our damaged economy, many of the ways in which we used to conceive of doing business will be fundamentally changed,” says Kirk Brown, Joanne Kostecky Garden Design’s business manager.

What does this mean for the industry? “We will never go back to pre-recession highs,” Brown believes. “The successful companies will be those who can adapt and grow in new models of their former selves.”

Action, reaction

To outperform the economy, contractors are taking action, what business expert and *Harvard Business Review* blogger Jeff Stibel describes as “an entrepreneur’s best weapon.” “Small businesses can adapt to any circumstance quickly,” he says. “As every thriving entrepreneur knows, speed breeds success.”

Certainly, nothing tops money as the largest client concern. For that reason, when offering new services today landscape and lawn care professionals are



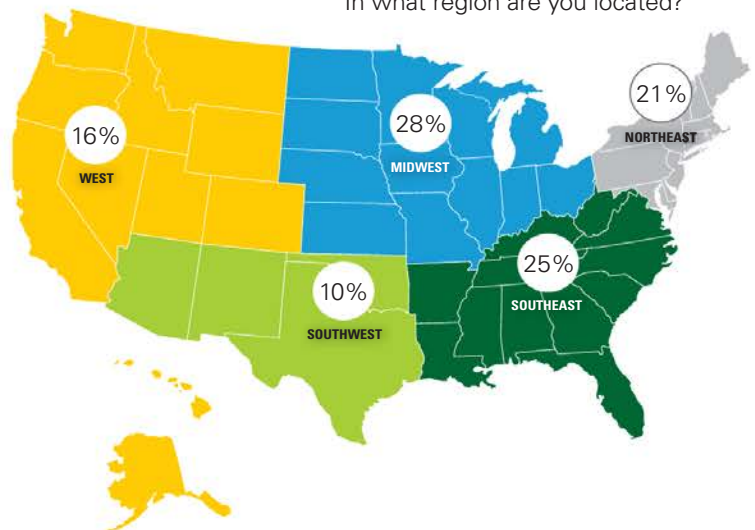
CUSTOMER MIX



SOURCE: LANDSCAPE MANAGEMENT

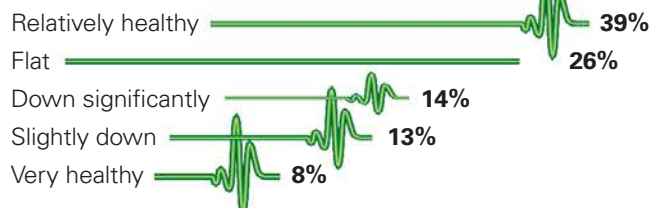
LOCATION, LOCATION, LOCATION

In what region are you located?



TODAY’S PULSE

Describe the state of the industry in your region.





PULSE PROFILE

PRIME LAWN/PRIME DESIGN

THE OPERATING ROOM

AT A TIME WHEN industry operating costs increased 5.69% on average in 2009 and another 6.49% in 2010, according to *Landscape Management* research, Matt Griffin was able to reduce his operating costs by 6%.

"That's not a big number but it is when you look at it over the large scale of a year's time," says the president of \$1.5 million Kingwood, TX's Prime Lawn/Prime Design.

To do this successfully, Griffin made some smart cuts. "We eliminated water delivery," he says. "And the cleaning lady comes only once a week now vs. twice a week. We send out someone to pick up paper instead of having it delivered. And we talked to our phone company about reducing those costs. Basically, we are just cutting back on anything that isn't a necessity."

Though the recession wasn't a total shock to Griffin, "it did surprise me how fast everything happened," he says, adding that his numbers are still down by 10% but that's better than last year's 18% to 19% decrease. "When it falls it brings down a lot - I guess that's the nature of the beast. I know some guys who are down 40%."

But Griffin is feeling a sense of recovery. "I think it's getting better," he says. "Whether we're out of it or it's just on its way out, I don't know. But I think it could've been worse."

Next year has Griffin hopeful. His 95% residential customer base did put off some jobs this year, whether they were maintenance or just cleanup or even a patio. "They initially put it off to save money and now they're starting to want to do things," he says. "They're looking at things that have gone into such disrepair that they want to fix it up."



Matt Griffin

looking at things that alleviate the big pain point for customers — saving cash — to provide the ultimate direct benefit for themselves — growing profit. The specific markets that are proving successful add-ons for contractors vary from enhancements to water-saving and sustainability services to specific client needs identified through company surveys.

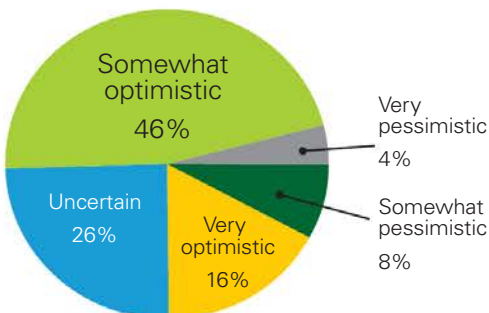
Another challenge has been knowing expansion or diversification is necessary, but not knowing what services would prove profitable or what changes would make the right difference in the bottom line. "We're looking to expand into markets we're not strong in," says Todd Dilley, general manager of The Lawn Ranger, Minneapolis, MN. "I don't know what those are yet, but that's what we're looking into."

In the past three CEO Studies conducted by IBM, coping with change was the most pressing owner issue. However, in 2010, a new primary challenge emerged: complexity. "CEOs told us they operate in a world that is increasingly volatile, uncertain and complex," the study explains, adding that 81% of CEOs anticipate business complexity to remain high or very high over the next five years. "Many shared the view that incremental changes are no longer sufficient. The most successful organizations are using entirely new approaches to tap new opportunities and overcome challenges to growth."

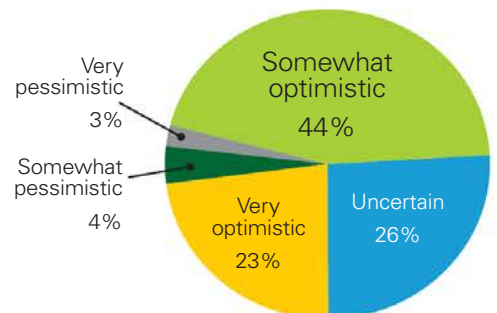
A warning: Don't diversify just for diversification's sake, stresses Chris Senske, president of Senske Lawn & Tree Care in Kennewick, WA. "We're diversified enough that it's almost hard to keep track of what we already do so we're not adding any new services or departments," he says.

Adapt to economic challenges, strategically diversify, and then "test, measure, refine and repeat," Stibel suggests, urging contractors to be flexible today.

2010 BUSINESS SENTIMENT



2011 BUSINESS OUTLOOK



Uncertainty remains the same ...
 but pessimism drops by almost half.

SOURCE: LANDSCAPE MANAGEMENT

“Spend your time with your ear to the ground and respond accordingly.”

New reality

Though contractors are worried, they are maintaining optimism. This year, 62% of contractors feel optimistic, and 67% are feeling positive about 2011, according to *Landscape Management's* survey.

However, uncertainty still lurks around corners. A quarter of the industry feels uncertain about business this year and that grows by a percentage point in 2011. And, nationally, 75% of small business owners believe it is likely or highly likely that the economy will slip into another recession before it fully recovers, according to the September Discover Small Business Watch.

“I’m not an economist, but this recession is lasting longer than I thought it would,” says Bob Grover, president of Hillsboro, OR’s Pacific Landscape Management. “I’ve been working full-time since 1983 and this is the deepest one I’ve seen. I’ve heard discussion that it won’t get back to the glory days so we’re trying to prepare for the idea that it won’t be the level it was before, but it will get better. The term ‘new reality’ is something we’re preparing for. We’re preparing to be able to operate in an economy that is slower than it used to be but hopefully better than it is now.”

“Nothing would surprise me,” agrees Matt Griffin, president of Prime Lawn/Prime Design, Kingwood, TX. “But the idea that it could be worse than last year would scare me. I think it’s going to be better – I’m optimistic.”

David Norred, founder of Laguna Niguel, CA-based Nor-Land Landscaping Co., doesn’t feel as positive. “Overall, I think we still have some time yet before happy days,” he says.

“I worry that if we don’t have some level of improvement, we’ll continue to have further erosion of pricing and further cutbacks of our customer spending,” Grover points out, saying his biggest fear is his customers would want nothing else except to have their lawns mowed. “I hope our enhancement sales will start to go back up again instead of people thinking they don’t need flowers or any extras. I don’t expect it to miraculously recover for 2011, but I do hope to see *some* recovery.”

Ultimately, “perception is reality,” Dillely says. “It’s a tough time, no doubt, but I try to look ahead and stay positive. I look at it this way: If you’re not positive and excited, your customers and employees will take that cue. You have to portray a positive image.” **LM**



TOP 10 REVENUE OPPORTUNITIES

1. Residential design/build/installation and renovation
2. Commercial maintenance/mowing
3. Residential maintenance/mowing
4. Commercial design/build/installation and renovation
5. Irrigation/water management
6. Green/sustainability services
7. Chemical lawn care services
8. Landscape lighting
9. Snow and ice management
10. Water features/pond installation and maintenance

SOURCE: LANDSCAPE MANAGEMENT

RECESSION WATCH

75

% of owners who think another recession is likely before full recovery.

SOURCE: DISCOVER SMALL BUSINESS WATCH

TOP CONCERNS

3. Consumer confidence
4. Properly and competitively pricing my services
5. Lack of time to chase new business opportunities
6. Accounts receivable
7. Accounts payable
8. Lack of staff to respond to business opportunities
9. Making payroll

SOURCE: LANDSCAPE MANAGEMENT



A GOOD INVESTMENT

28

% of small business owners who plan to increase spending on business development over the next six months.

SOURCE: DISCOVER SMALL BUSINESS WATCH

