LESSONS FROM THE RECESSION

The economy created a self-preservation attitude and taught many Green Industry business owners new ways to run their companies.

BY **DAN JACOBS** EDITOR-IN-CHIEF

After working more than 45 years in the Green Industry Erv Denig was thinking about retiring. That didn't seem like an unreasonable expectation, except for one thing.

Denig was making his plans when the economy dried up faster than a plot of grass in the arid Southwest. Retirement will happen, just not anytime soon.

"That's completely out of the picture. I've lost half of my 401(k) in the stock market," says Denig, CEO of Lawn & Turf Landscaping, Fort Wayne, IN.

Denig and many other contractors have seen their plans change. Denig, whose business did about $2 million last year, isn't sure how much longer he'll have to work before he can reach his dream. And the challenges this recession created are not limited to smaller enterprises.

"It's basically setting the landscape industry back 10-15 years, when it was harder to sell landscaping," says Bill Davids, president of Clarence Davids & Co., Matteson, IL, and No. 84 on the *LM*150 list.

"My work is not coming back," Denig says. "The housing boom is gone. All we're doing is remodeling, retrofitting existing landscaping."

Denig, Davids and just about every other contractor on the planet has been forced to evaluate how they do business. Maybe they cut staff, manipulated the service mix or became hyper-focused on operations and efficiency; definitely they've become hyper-focused.

The mantra for many executives, says Jeffrey Scott, author, consultant and former Green Industry business owner, is "I'm working a lot more hours; I have a lot less free time. This is not the dream."

Of course not everyone suffered.

"I had some clients who continued to grow, continued to do well," Scott says. "These were companies that were well run. They had a great marketing and branding program. They had a great group of people."

In other words, executives who learned their lessons early and are running lean, efficient operations.

The owners and managers of companies who make it through this downturn are unquestionably better businessmen. That will allow them to get back to pursuing and more quickly achieving their dreams.

Lessons learned

When the economy is riding high it's much easier to run a successful enterprise. But as the river of money recedes, mistakes and waste become the rocky riverbed that can run a business aground.

For months, there have been reports of bankers being stingy with their money, making it difficult for some business owners to borrow. More recently, contractors are suggesting that's not so much the case anymore — but there's a catch.

"Our banker, he wants us to borrow money," Davids says. "There're only so many successful companies out there and he sees us as one. There's plenty of money out there to be borrowed. If the bank is telling you 'no' there's probably something on your financials."

And that's the key. The heady days of lending that led to the subprime mortgage fiasco are over.

Companies are starting to pay attention to balance sheets, says Bruce Wilson, *LM*'s Best Practices columnist and co-owner of the Wilson–Oyler Group. They've always managed their profit and loss statements, but banks are putting more covenants into their loan agreements.

"A lot of them really didn't understand," Wilson says. "They've heard the ratios, but they didn't understand where they come from."

And it's not confined to small operations.

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— Bill Davids, president, Clarence Davids & Co.

"There are a lot of companies in the industry where the owner makes a lot of money so they aren't as profit driven as they should be," Wilson says.

Along with a sound financial approach comes a focus on people. While many have reduced staff it's those who have cut back spending on their employees who will suffer.

For Todd Pugh, CEO and founder of Enviroscapes and co-founder of Green Industry Innovators, one of the keys is continual training. It's something he's maintained at Enviroscapes since its inception 15 years ago.

One thing is for sure. The company that comes out the other end of this recession will be a different one than the one that went into it.

"We will be a completely different company then," Pugh says. "Our DNA will be different; we'll be a better company."

Changes

To be sure, some companies made money. There are several on the *LM*150 list who boosted revenue, but

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Small business **bankruptcy filings** (companies with fewer than 100 employees) **declined in Q4** of 2010 to 341, an **18% drop** from the 416 during the same quarter of 2009.

Source: Equifax

The number of **small business loans** approved in the first quarter of 2011 **rose to 1,294**. That's a more than **50% increase** from the 852 during Q1 of 2010.

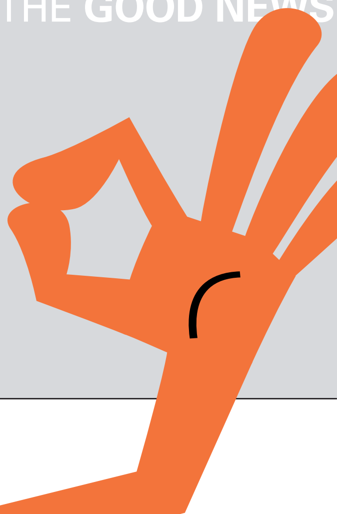
Source: Biz2Credit

Companies with fewer than 500 workers hired **168,000 new employees** in April 2011, which raised that total to nearly 91 million, **up 2%** from 89.6 million at that time last year.

Source: Automatic Data Processing Inc.

Venture capital investments in business **jumped to $5.9 billion** in Q1 of 2011, a **26% bump** from Q1 a year ago.

Source: The MoneyTree Report



very few, if any at all, talked about maintaining the status quo.

To compensate for his lost business, Denig, like many other contractors, has shifted his service mix by "beefing up" snow removal and chemical lawn care.

A shift away from the design/build arm of the business forced many companies to downsize or at least reassign those workers, which could cause problems for some when the work returns.

Figuring out how to deal with more work is a problem a lot of companies would love to have.

Cutting back employees and other expenditures is one way to deal with falling revenues, but it's not a long-term solution, and it certainly will catch companies unprepared when the economy ramps up. And it's not just when the work comes back. Many companies tried to save money by spending less in areas other than personnel.

"Some made money cutting back, but they also cut back on marketing," Scott says. "They made money, but it was short term. The need for customer service is going to grow," Scott continues. "If you weren't a great marketer, you can't just market when things go downhill, it's too late."

Employee outlook

For years the complaint among business owners was the lack of quality employees. That was most clear — or at least most complained about — at a mid-manager level, including foremen and account managers. There aren't many benefits to a recession, but this was one area people expected to improve.

"Everyone assumed the pool of candidates would be bigger and better," says Jennifer Buck, owner of Buck Consulting, which does recruiting for Green Industry companies. "Even though the pool became bigger, it didn't become better."

Companies laid off workers, but it was the non-producers, employees who survived more from workplace inertia than the quality of their work. Companies simply can't afford to carry the dead weight any longer.

"When it first hit, we let go several people," Davids says. "You take the rest of your people and you double up. You get as efficient as you possibly can. The hardest thing about this whole thing is getting everyone on board and letting them know they're going to work harder for less money."

That process is made a little easier when they see their less productive peers being shown the door.

"You have to get all the employees in on this," Davids says. "Once they see you're serious and several people have exited, you get the buy-in pretty quick."

The economic outlook

There are signs the economy is improving. "In general, companies I work with are feeling a little bit of an improvement," Wilson says. "The higher end residential construction is picking up. The maintenance companies are holding their own."

That's not to say everyone is ready to resume business as usual.

"The biggest effects we've seen is it's long staying," Pugh says of the economic downturn. "Pricing has continually gone down. There's been an influx of new competition. There are a lot of general contractors that are bringing the work back in house."

Davids agrees the influx of new competitors is a problem.

"There are way too many contractors," Davids says. "There really needs to be less. We're all trying to vie for the same dollars."

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That competition has forced business owners to focus on all those things they always knew they needed to do, but could get away with not worrying about.

"It wasn't that we weren't doing any of this stuff, but what happened it's like going from playing in the little leagues to the majors," Pugh says.

Maybe it's all in the attitude.

"It's a tough time and we're all experiencing it," Pugh says. "We're resilient people. At the end of the day this is just a speck on the timeline of life. When we look back. For me, at 39 years old, I feel blessed."

And if the rest of us could learn to feel that way, perhaps we've learned the best lesson of all. LM