

By **Beth Geraci** / Senior Editor

Going up

In economic times still uncertain, there is one thing you can count on—rising costs.

Landscape contractors and lawn care operators are affected by rising costs in seemingly every area of the business, from labor to equipment. Aside from labor, which always is a major expense, no two things are hitting contractors' wallets quite as hard as fuel prices and insurance rates.

"I don't think we've had a single expense that didn't go up," says Rob Reindl president of Oasis Turf & Tree in Loveland, Ohio. "Fuel has gone up, insurance goes up 15 percent a year. Fertilizer prices are going up every year. Herbicides. You name it. I think they're all well above 5 percent."

Dan Sohovecky is vice president of finance at New Way Landscape & Tree Services in San Diego. The company has a small tree service division, but 93 percent of the company's work is maintenance. "The challenge for a landscape maintenance company in this environment is rising costs," Sohovecky says, "and work is being bid cheaper now. It's affecting our margins ... The bid price in general has gone down in the last couple years. It's a sign of the times." (For more on commercial contract prices, see page 14.)

With lower margins and rising costs, companies need to be creative and focus on their stable, long-term clients if they're to remain profitable. "Retention is No. 1 in our book," says Sohovecky.

Liquid gold

In 2012, New Way Landscape & Tree Services



has felt the weight of rising fuel prices as much as anything. Over the last two years, California's fuel prices have skyrocketed by 40 percent. The price of gasoline stands at \$4.10 a gallon, up from \$2.90 two years ago.

"Out here in California, we get hit by refinery charges," Sohovecky says. "That's definitely been a large impact costwise."

Steven Fine can relate. At the mere mention of fuel prices, the first words out of his mouth are "Ugh. Awful." The marketing manager and business developer for Reno, Nev.-based Signature Landscapes says Reno's gas prices also just topped \$4 per gallon.

Add to that the fact that in 2012 Signature committed to traveling farther to secure more work, and fuel costs are definitely hitting Signature's margins. "As we speak, we're working on solutions to rerouting and consolidating routes to see how we can stave off this fuel issue," Fine says.

Fuel is always a big item for The Greenery in Hilton Head, S.C. The company anticipated the worst in 2012, budgeting more for fuel than it did in 2011.

"We budgeted just under \$1 million for fuel this year," says The Greenery President and CEO Lee Edwards. "We sent out a letter last winter saying if the prices go up to such and such levels then we will have to raise your price by X amount. Fortunately, we never had to do that. The prices never went up as we expected, so it ended up being very tricky."

Rising insurance rates hurt, too

In California, business owners are getting hit by higher workers' compensation costs, a result of both more claims and higher claim costs.

"I've heard that this year they're looking at a 20 percent to 25 percent increase," says Sohovecky. "In response, you can take on more of the risk yourself, and you have to do everything you can to minimize those losses."

That's one reason New Way ramped up its safety instruction in 2012. The company holds weekly safety meetings with each of its crews. Over the last year, the sessions have led to a drop in workers' comp claims. "They have had an impact," Sohovecky says, "especially in having everybody think about safety and be conscious of it, it puts it into everybody's mind to think twice."

Like workers' compensation costs, rising health insurance costs are affecting landscape contractors' margins. Companies across the board are experiencing rate hikes of 10 percent to 15 percent annually.

"Every year there's an increase," says Jeff Bowen, owner of Images of Green, based in Stuart, Fla. "Some things I'll never understand. I used to supply benefits to all employees, even to laborers. I haven't for six years, since everything started getting bad."

Under President Obama's health care plan, businesses that employ 50 people or more will have to provide health insurance for employees or be fined by the government.

"Where's the sense in that?" asks Bowen. "They're not going to take the money and give my employees health care." The move will be problematic for business owners for many reasons, Bowen says, adding that it will make budgeting for 2014 a challenge.

Signature Landscapes long has provided health insurance to workers, and it takes pride in doing so. "It's been our model at the beginning to have a generous insurance package and be the company people strive to work for," Fine says, adding health insurance rates go up about 15 percent a year.

"There's no way around that right now," he says. "I don't know what's going to give in the near future, but everything's on the table when we look at those expenses."

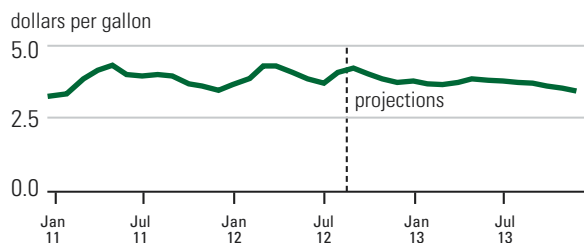
Fine's other insurance costs have remained stable, but the state of health insurance costs, he says, "is a little distressing. For us it's important that we offer a package to keep the best and brightest."

"I DON'T THINK WE HAD A SINGLE EXPENSE THAT DIDN'T GO UP. FUEL HAS GONE UP, INSURANCE GOES UP 15 PERCENT A YEAR. FERTILIZER PRICES ARE GOING UP EVERY YEAR. HERBICIDES. YOU NAME IT. I THINK THEY'RE ALL WELL ABOVE 5 PERCENT."

ROB REINDL, OASIS TURF & TREE

Stable fuel outlook

U.S. average gas prices—regular grade retail price including taxes



Source: Energy Information Administration's Short-Term Energy Outlook

At a glance: **COSTS**

GOOD

Though fuel prices in some regions are high, the overall outlook is stable.

BAD

Companies are bracing for Obamacare, which, starting in 2014, will require businesses that employ 50 people or more to provide health insurance or face a fine.

UGLY

Health insurance costs routinely go up 10 percent to 15 percent annually.

Green Industry purchasing habits

Equipment type	% purchased in last 12 months	% will purchase in next 12 months
Mowers	49	46
Construction equipment/attachments	16	15
Sprayers/spreaders	48	29
Aerators	16	16
Handheld equipment	70	52
Trucks/trailers	47	45
Alternative fuel equipment/vehicles	4	8
Trees/shrubs	69	65
Annuals/perennials	67	64
Turf seed/sod	69	65
Hardscape	54	54
Water features	31	34
Landscape lighting	37	40
Irrigation products	47	44
Herbicides	60	55
Insecticides	48	45
Fungicides	38	37
Fertilizers and fertilizer/pesticides combos	64	59
Plant growth regulators	14	15
Tree care chemicals	22	23
Snow/ice control equipment and products	31	30
Computers and business/design software	49	39
Mobile phones/communication devices	53	38
GPS systems	24	16
Consulting services	15	16
Subcontracted services	45	36

Signature Landscapes also is paying more for fertilizer and herbicides, driving the company to try buying in bulk and extrapolating the costs over several months. "We have to be creative and roll the dice to a certain degree," Fine says.

But despite the higher costs of so much these days, Fine's not about to stop spending where he needs to.

"Bottom line, we're always on the lookout for new gear," he says. "If we do buy new equipment, it's because we got a smokin' deal. If the deal's there and it translates to better service for our customers, we'll invest." *Additional reporting by Marisa Palmieri. LM*

15%

Increase in operating costs from 2010 to 2011.

11%

Anticipated increase in operating costs from 2011 to 2012.

PULSE PROFILE



Jeff Swano
President/owner
Dig Right In
Landscaping
Brookfield, Ill.

2012 projected revenue: \$750,000

Service mix: 12% maintenance; 85.5% design/build, 2.5% misc. **Challenge:** Slowdown since June.

Solution: "We're in a spending freeze. We were going to move into a larger facility, but I decided we'd just tread water for a while. I'm glad we didn't move."