it easy to pick up work on a subcontracted basis, especially from in-house grounds managers who have limited capabilities to do specialty projects and work.

Brent Flory

Bob Womack, grounds manager at Southwestern College in Chula Vista, CA, outsources tree trimming and concrete work. His regular maintenance operations keep employees busy enough, he says. Renovation and installation is still a priority for his staff, especially smaller projects. "We landscape all new remodeling and installations," he notes. "We also do the regular maintenance for the sports fields."

David Walker, grounds manager for the city of Virginia Beach, VA, also outsources some of his grounds management operations, including mowing at some schools, infrastructure repairs, some tree removal and limited irrigation work on specific sites.

Opportunities seem to be popping up in surprising places. Although David Daniell sees some slowing in the Albuquerque/Santa Fe markets, the manager at Heads Up Landscape Contractors in Albuquerque sees future opportunities with the Indian Pueblos of New Mexico.

"They are expanding aggressively, using money from their gambling operations," Daniell reports. "Several resorts, golf courses and casinos are on the drawing board. Also, the city of Albuquerque is proceeding aggressively to revitalize its downtown area."

Contractors at the large firms are most bullish on growth (50%), planning to add more maintenance, irrigation and hardscape services. Those at the smallest firms also are bullish (48.3%), focusing on irrigation, spraying and installation services. Contractors in small firms also foresee add-on growth (47.2%) through irrigation, spraying, installation, hardscape and aeration services. About 35% of mid-size firms plan to add growth through lighting, growing/nursery, tree care, organic treatments and irrigation services.

An example of this is Kutalic Landscaping & Design, Huntington, WV, which is owned and operated by George and Debbie Kutalic. Their new strategy for growth involved a new niche business. "We started a small nursery to supply our contracting company, which has proven very profitable. It was a way to increase our bottom line without growing the company. We are very happy staying smaller and using high-tech equipment to keep labor (costs) down. We do not sell retail or wholesale from the nursery.'"

Hot growth areas

The South's robust economy is well reflected in our respondents' answers. The regional figure on the previous page shows a whopping 23.6% growth. Growth was more modest in the other areas.

The South's strong and continuing pattern of growth is reflected in the comments of contractors like Bobby Byrd, president of Byrd's Lawn & Landscape, Charlotte, NC. "Mecklenburg County (Charlotte area) is growing in all directions and spilling over into the other counties."

Geographically, 57.1% of respondents in the South forecast growth through add-on irrigation, spraying, aeration and design services. The Midwest is next, with 50% reporting additions of spraying, maintenance, lighting, irrigation and installation services. Add-ons reported by 39.1% in the Northeast include irrigation, hardscape, design and installation. Western contractors reported additional services (29.2%) led by maintenance, irrigation and hardscape.

This kind of growth is typical of the country's hottest private housing markets. As you can see in the latest annual update of new housing starts from the United States Census Bureau, these are not limited to the South.

Top 25 Private Housing Markets - 1998

1. Atlanta, GA	13. Detroit, MI
2. Dallas, TX	14. Orlando, FL
3. New York, NY	15. Philadelphia, PA
4. Washington DC/ Baltimore, MD	16. Miami/Ft. Lauderdale, FL
5. Phoenix, AZ	17. Minneapolis, MN
6. Houston, TX	18. Charlotte, NC
7. Los Angeles, CA	19. Portland, OR
8. Chicago, IL	20. Raleigh/Durham, NC
9. Las Vegas, NV	21. Tampa/St. Petersburg, FL
10. Denver, CO	22. Boston, MA
11. Seattle, WA	23. Austin, TX
12. San Francisco/Oakland, CA	24. Indianapolis, IN
	25. Sacramento, CA

SOURCE: U.S. CENSUS BUREAU, 1998

Today's Employee

Labor is obviously on the mind of everyone who took our survey, so we asked them how many full- and part-time employees they hire. To get a better understanding of the labor picture, we also asked them to tell us what their employees are like. And finally, to understand how this affects the bottom line, we asked respondents to tell us how their cost structure operates.

Bechtold and Longhorn team

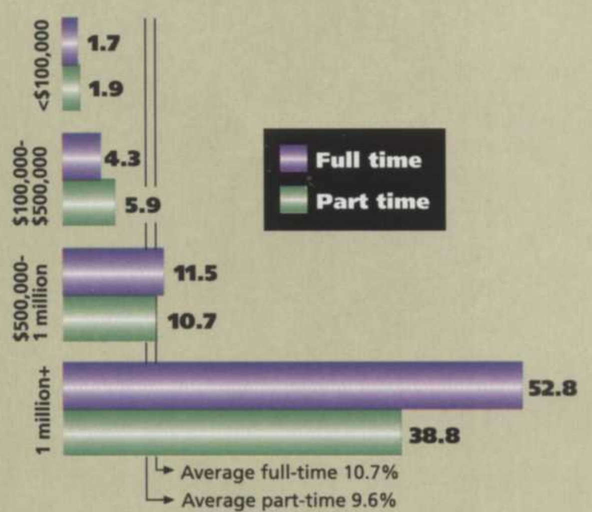
Deborah "Andy" Bechtold, operator of Longhorn Maintenance Inc., Allen, TX, finds herself in the same situation as most contractors — getting the most efficient production possible with available employees, usually 12 at peak season.

"Earlier this year we bought a $35,000 machine (Dingo from Toro) that cut out three laborers on many jobs," she says. "We're definitely looking for more productivity from our equipment. Labor is everything in today's market."

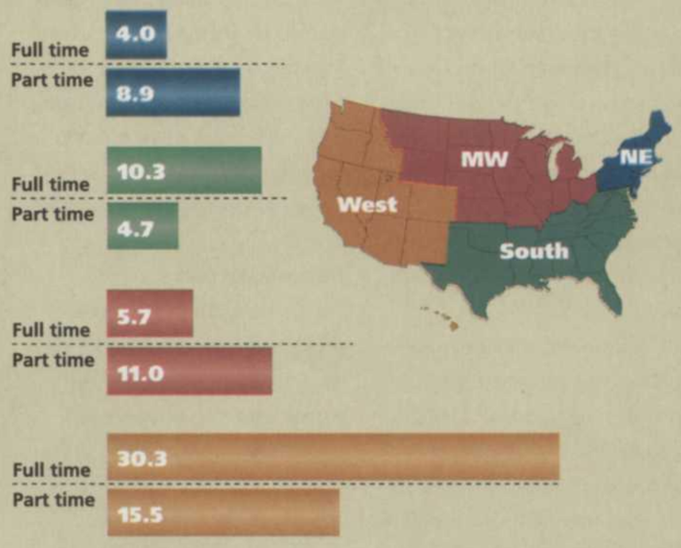
North of the border, in the Toronto marketplace, Robert Wilton, Clintar Groundskeeping Services, agrees that labor availability is an issue, but for his company, at least, the bigger challenge is "people management," specifically increasing the level and quality of all types of training for employees.

And Robert Kinnucan, of the Kinnucan Company, says his greatest need is "hiring skilled personnel to maintain

Who's hiring full-time and part-time employees



Regional hiring



Picture

the quality of our service which is responsible for maintaining our profitable growth."

The people picture

Among those surveyed, the average number of employees is 10.7 full-time and 9.6 part-time (see the figure at the far left). When this is broken down by revenue, the number of full-time employees varies from as few as 1.7 for the smallest businesses (<$100,000) to 52.8 for the large businesses (> $1 million). Small companies, ranging from $100,000 to $500,000, had 4.3 employees and the mid-size (from $500,000 to $1 million) had 11.5 full-time employees.

Part-time employee hiring also varies by size: an average of 1.9 for the smallest firms, 5.9 for small firms, 10.7 for mid-size firms and 38.8 for the large firms.

As you can see on a geographical basis, hiring in the West far outweighs that of other sectors. There, contractors hire the largest number of full-time (30.3) and part-time (15.5), followed by the Midwest (5.7 full-time and 11.0 part-time), South (10.3 full-time and 4.7 part-time) and Northeast (4.0 full-time and 8.9 part-time).

It is also apparent that the South and West are less limited by seasons and able to keep on more full-time people. They have twice as many full-time employees as part-time, while in the Midwest and the Northeast the position is reversed, with twice as many part-time employees to full-time ones.

Faces of diversity

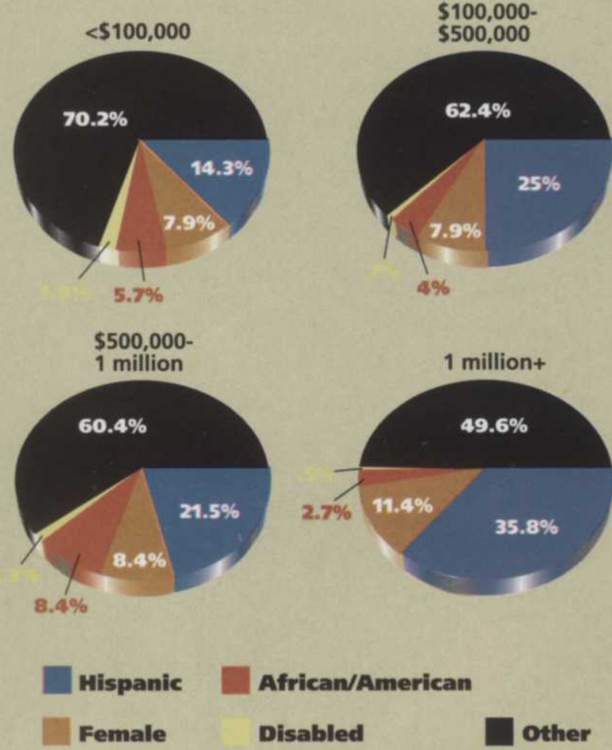
Diversity in companies, (shown at the right) by race, gender or ability is somewhat limited. Regardless of company size or geographic location, women barely contribute more than 10% of the workforce (except in the large firms). But considering how difficult it can be to attract anyone to the business and stick with it, given the demands of the job, that number is not surprising.

As could be expected in a physically demanding business, the numbers of people with disabilities are very small (2% or less, regardless of company size or geographic location). Interestingly, the Midwest region and the smallest companies had the highest involvement.

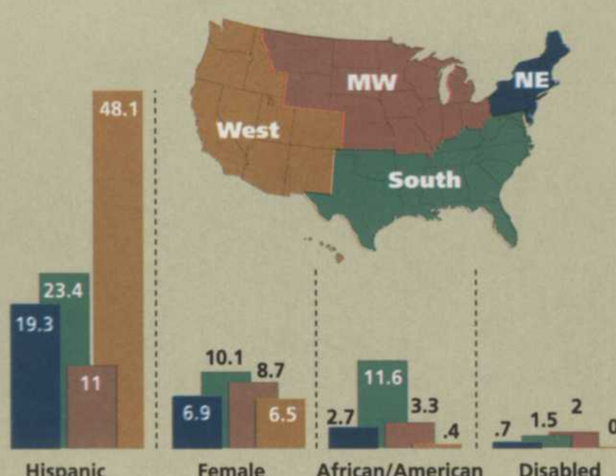
The fact that there are *some* people with disabilities in the workforce indicates that some types of challenges may not interfere with certain jobs. Perhaps future surveys could look into that.

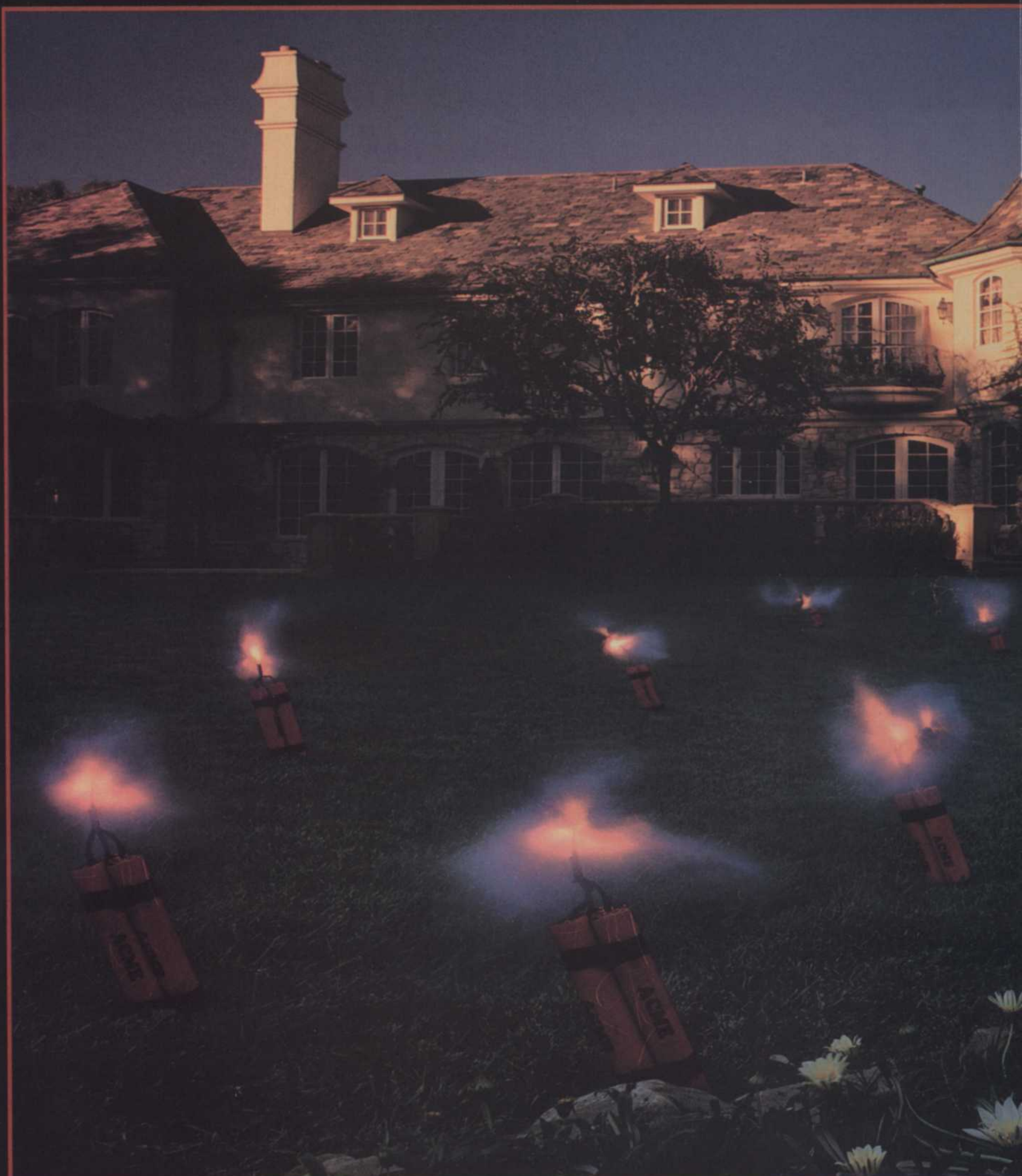
Racial diversity tends to be rather limited in many cases, particularly in regard to African-Americans. The South had the highest percentage, 11.6%, while the rest of the regions didn't break 4%. The mid-size companies reported that 8.4%

Landscape hiring of Hispanic, African-American, Female, Disabled/physically challenged employees



Regional employee hiring





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Perhaps it is because the West and South have more year-round work that those labor costs are a higher percentage of the overall budget.

of their employees were African-American and the smallest companies, 5.7%. But the small and large companies were 4% and 2.7% respectively.

Hispanic employees clearly make the largest contribution to diversity in the green industry. The companies from the West indicated that almost 50% of their employees are Hispanic — a substantial amount. The South, at 23.4%, also had a large number of Hispanic employees. In the Northeast and Midwest, the numbers dropped.

When we look at diversity with respect to company size, the percentages of Hispanic workers were less variable: the smallest companies had 14.3%; closer percentages for small and mid-size at 25% and 21.5%, respectively; and 35.8% for the large companies.

Are your costs in line?

If you're not keeping an eye on industry average operating costs, you're missing an excellent way to measure progress.

▶ On average, labor (including benefits) accounts for 35.9% of the operating budget;

▶ materials and operating supplies account for 22.6%;

▶ equipment purchases and maintenance take up 14% of the typical 1998 budget;

▶ insurance takes 7.1%;

▶ fuel consumes 6.7%;

▶ marketing and advertising averages 2.9%.

High cost of labor

Our respondents said labor costs reached as much as 47.1% of the operating budget for mid-size firms, compared to only 28.6% of costs reported by the smallest firms. Labor costs hovered around 37.5% for small firms, followed closely by the 36.7% reported by the largest landscape operations.

Perhaps it is because the West and South have more year-round work that those labor costs are a higher percentage of the overall budget. Contractors and grounds managers in the West reported labor totalled 42% of operating costs, while Southern landscape managers said it was 37% of their budgets.

In the Northeast and Midwest, managers reported that labor costs were the same — 33.7% of the budget.

Materials & supplies

While the survey average for material and supply costs was 22.6%, it becomes a more significant piece of the puzzle with larger organizations. In fact, it totalled 28.7% of operating costs

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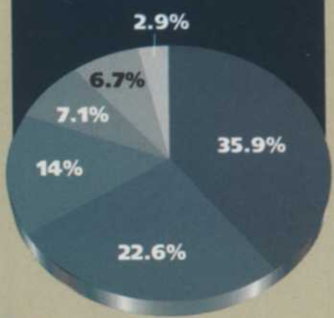
What percent of your 1998 gross receipts or budget went toward the following operations categories?



for the largest firms; 23% for the smallest operations; 20.7% for small companies; and 20.4% for mid-size businesses.

Geographically, the costs of materials and supplies for respondents varied only slightly, ranging from a low of 20.8% in the Northeast to 24.2% in the South. Midwest landscape managers reported those costs to be 23.9%, while those in the West said they were only 21.2%.

Equipment & maintenance

Survey respondents said that the average costs in this category totalled 14%, but this number varied more widely when broken down by budget size.

Clearly, equipment purchase and maintenance is more burdensome to the smallest operators in our survey, totalling 18.5% of their operating costs, followed by small firms, whose costs were 12.8% of budget.

The bite of equipment purchase and maintenance is much less significant for larger operations: Mid-size firms reported them to be only 9.3% of operating costs, while those over $1 million said they were a mere 10.2%.

It should be no surprise that equipment purchase and maintenance costs were similar across the country, with a high of 15.7% reported by respondents in the Northeast, 14.8% in the South, 12.9 in the Midwest and 11.2% in the West.

Insuring your operations

From all appearances, companies of various sizes can maintain similar insurance costs through safe operations and judicious shopping for vendors. In our survey, the cost of insurance averaged 7.1%, which is supported in the budget breakdowns:

▶ Firms less than $100,000 in budget said insurance totalled 7.3% of costs.

▶ Small organizations reported costs of 7.1%.

▶ Mid-size firms said their insurance costs averaged 6.6%.

▶ Large firms reported average insurance costs of 7%.

There seemed to be more disparity of insurance costs in different areas of the country. Midwest respondents reported a hefty 7.9% cost for insurance, followed closely by Northeast respondents and their 7.5% average.

Landscape managers in the South clearly get a break in this category, reporting costs of only 6.4%, as do those in the West, with an average of only 6.1% of operating costs going to insurance.

Fueling up for growth

Economies of scale show up strongest in this category, as the largest companies clearly have an advantage in keeping their fuel costs to a smaller percent of their operating budgets.

While the overall average for fuel costs was 6.7%, large companies pegged them at only 3.9% of the total budget, and mid-size firms reported those costs to average only 4.6%.

In contrast, the smallest firms said their fuel costs were a higher proportion of spending — at 9.3%. Small companies were closer to the industry average, noting an average of 5.9% for fuel.

Although fuel costs vary wildly for consumers across the country, our survey respondents' costs were closer. Surprisingly, Southern contractors and grounds managers reported the highest average cost of fuel, at 7.4% of their operating budgets.

It may be no surprise that they are followed by managers in the Northeast, with an average cost of 6.8%. The lowest costs for fuel were reported by landscape and lawn care managers in the Midwest (6.4%) and the West (5.8%).

Marketing genius

Landscape managers of both large and small organizations stay pretty much in the same range for these costs, which average 2.9% of the total budget. Those apparently spending the least are the largest organizations, devoting only 1.9% of their budget to marketing or advertising.

This may be because many large organizations focus on commercial business and may use more one-to-one marketing and promotion methods than those advertising to thousands of homeowners.

The biggest spenders are those midsize organizations, who average 3.3% of their budget, followed by the smallest firms, who spend 3.1%. Small organizations reported they spend an average of 2.9% on marketing and advertising programs.

Regionally, there is little difference in spending, with marketing and advertising budgets ranging from a high of 3.4% of total operating budget to as little as 2.4%.

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The Congressional Budget Office (CBO) reported in January that two factors to watch as major potential limits on the economy's growth are labor availability and a slight pickup in interest rates. It also anticipates some drop in consumer spending and investment, as well as a slower rate of growth for the stock market.

"The U.S. labor market is unsustainably tight," says the report, which also sees no remedy in sight.

It's going to be a real sellers' market for labor, CBO says, predicting an increase in wages and compensation as employers compete head-on for good workers. This will eventually affect interest rates (along with several other factors).

As for interest rates rising, the CBO forecasts "increasing upward pressure," which sounds more like a weather report than an economic forecast. Just for good measure, the CBO compares its forecasts to an average of those prepared by 40 to 50 "Blue-chip" private—sector economists.

What's this mean for the next year? LM's take is not to worry too much. Even the somewhat gloomy CBO has

When will this bubble burst?