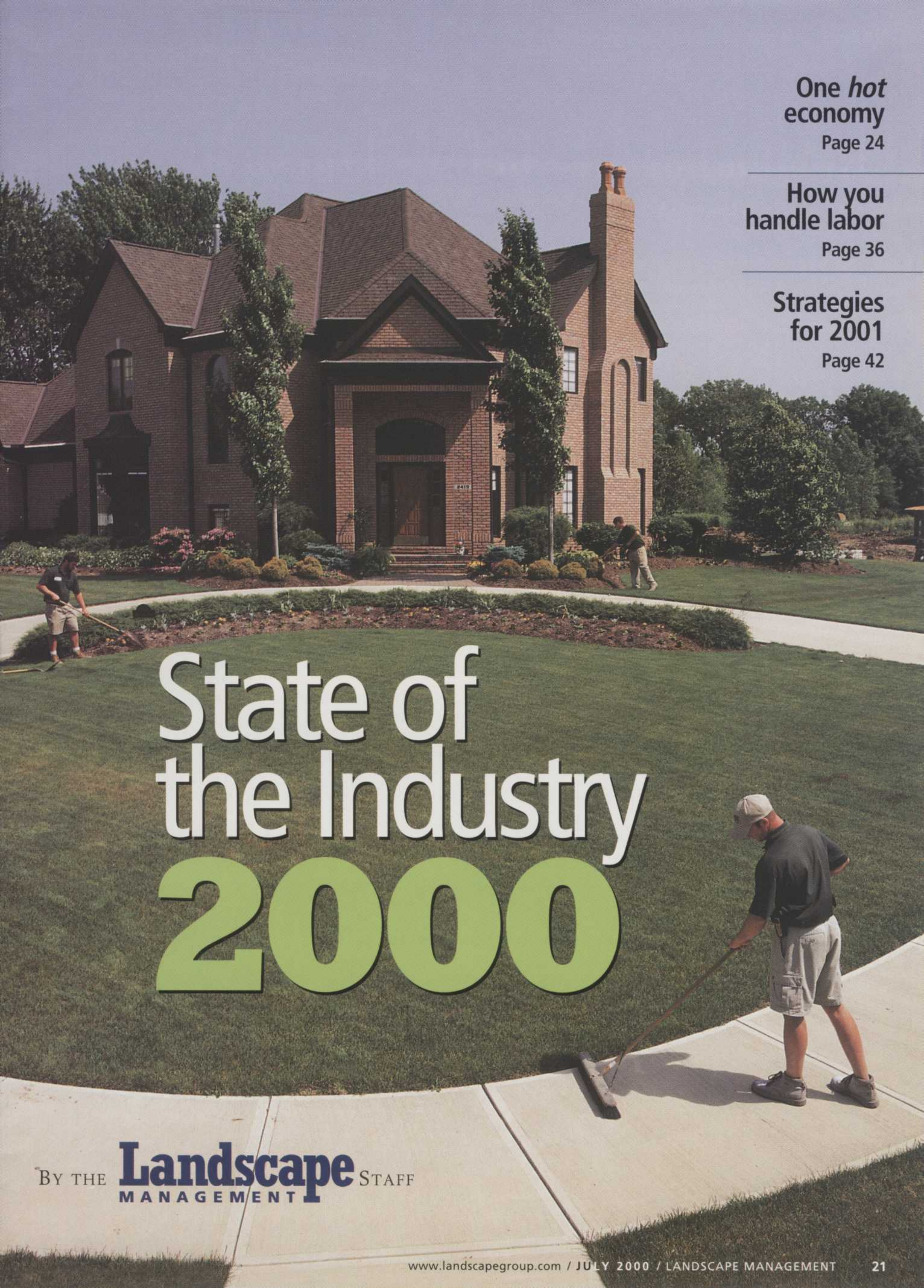

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State of the Industry 2000

BY THE Landscape MANAGEMENT STAFF


Remember life before Dursban?

One *hot*

economy

PART 1:

Great growth, but for how long?

BY SUSAN GIBSON AND JASON STAHL

John Wheeler can forecast his landscape maintenance contracts through the year's end, but it's the design/build side that is harder to forecast. The president of Wheeler Landscaping Inc. in Chagrin Falls, OH, has a variety of design/build jobs lined up now but wonders how long that trend will last, especially if the economy "cools" as the experts say it will.

"We've budgeted an increase in our design/build work this year, but most of the work comes not that far in advance. We had a record month in April but will it hold out?" he asks.

That's the question on many people's minds as they juggle two conflicting trends: managing today's strong demand and dealing with uncertain prospects about next year's business. Economists tell us that the Federal Reserve's six interest rate hikes, the stock market's volatility and some rising prices in certain sectors are starting to have that "cooling" effect. The question is, how much and how long will it last?

Certain economic trends seem to point to a slight slowdown, but what will that mean for the landscape and lawn care industry? Currently, few industry professionals see any signs of a slowdown.

"It's not here yet," says Neil Thelen, president of Landmark Landscapes in Norcross, GA. "Landscape normally is at the back end of a slowdown. We could see something in about 12 months."

The next year isn't looking bad for Mike McCoy, president of McCoy Landscape Services in Marion, OH, who says the strong economy has made business easy. He reports that most of his contracts came unsolicited, boosting the firm over its previous goals.

Right now, the problem isn't so much a slowdown as it is managing the incredible growth this industry has seen during the last nine years. The profile of the Green Industry in 2000 is one of untapped opportunities for more business, labor shortages that continue to plague landscape managers and a host of new issues, regulations and market developments that may make life even more interesting in the next few years.

ERIC MULL PHOTOGRAPHY

Year in review:

Full steam ahead

Last year, landscape managers predicted an average of 15.5% growth for 1999. Our research this year (see "How we got this information," page 36) shows even more optimism, with expectations of a mean revenue increase of 18% for 2000.

Where are they getting this growth? Some landscapers and lawn care operators are expanding via franchises while others are opening up new branches, up-selling existing customers, finding new clients on the Internet and squeezing more profits through greater efficiencies.

Nevertheless, there are several factors that make life difficult today or hold the promise of having a major effect on tomorrow's business.

Down and dirty competition

Low-ball competition keeps maintenance prices (and profits) low, especially in the head-to-head residential markets. Few contractors voluntarily get into this price-war situation and several, in fact, are planning to boost their prices this year.

"We're shifting to a new pricing structure and are looking to grow

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Every lawn and landscape has thousands of tiny time bombs hiding in the soil. Broadleaf weed seeds. And the best time to stop the explosion is before they emerge. A preemergent herbicide application creates a zone of protection where weeds get whacked as fast as they germinate. So your customers never see any weeds, and the turfgrass gets off to a fast, healthy start. It works so well, it can eliminate a lot of callbacks and

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through that, not through volume," says Jerry Gaeta, a partner with The Good Earth Inc., a full-service landscape firm in Mt. Pleasant, SC. The time seems right, he notes. "We have a backlog of work and enough people who want our services that they will wait two to three months."

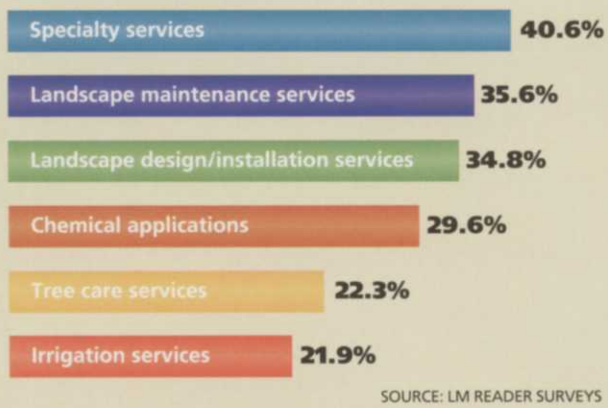
Michael Hornung, president of Valley Green, a lawn care services firm in St. Cloud, MN, says that low-balling is nothing new. "We've had some low-balling in our market, but it seems someone is always going to do it. Some of those who used to low-ball finally raised their prices and their businesses are growing as well as ours."

Despite the competition, Hornung reports Valley Green's 30% to 40% average growth has caused him to finally set limits. "It has just been nuts and we've started to hold growth back. Actually, that's worked well because we can be on the customer's property more often and we're not working our people to the bone."

Chris Karcher finds "good" customers

While low prices are a valid option, too many landscapers price themselves out of the profit picture. And many of the prices are too low to encourage professionalism or growth of the industry as a whole, say some insiders.

Average profit margins for various services



"It's very competitive out there," says Chris Karcher, owner of a new NaturaLawn franchise in Shawnee, KS. "A lot of companies want to compete by offering low prices, but they're doing a disservice to the industry. Our challenge right now is targeting customers who are convinced that lawn care isn't about who is cheapest."

Tom Davis, president of Bozzuto Landscaping in Laurel, MD, agrees: "Competition is stronger and pricing is still tight. Personally, I hope the low-ballers get acquired soon."

"Low-balling used to be an issue for us," notes Billy Gray, vice president of The Southern Landscape Group in Pinehurst, NC. "But now that our reputation's out there, it no longer is an issue because people know we deliver high quality."

Gray says that while more new start-up companies have joined the market in the past year (mainly "guys with one truck and a lawn mower," he notes), the number of larger companies offering quality service has stayed the same.

The firm's emphasis on quality lifts it out of the price-cutting muck and has another important benefit — attracting quality employees. "We are the employer of choice locally because we offer good pay and benefits," Gray reports.

Dwight Hughes: Interest is high

Gary Nichols, owner of Twin Oaks Landscaping Inc., in Fairfax, VA, rarely comes in as the low bidder. He expects his $300,000 firm to increase revenues as much as 15% this year, but not by low-balling on landscape design/build. He won't bid on such work because "that's on a low-ball situation. There's a totally different profit margin involved there," he adds.

Dwight Hughes, president of Dwight Hughes Nursery, Cedar Rapids, IA, expects more competition to continue. "New competition is a national issue. There is a new interest in horticulture and more people in the community college programs. They'll keep entering the business."

Don't expect the debate on low-balling to go away. Like Hornung, many feel that pricing plays a major role in setting industry standards for success and an appearance of professionalism.

"Everyone is so focused on saving money on payroll, yet they're not charging enough to do the work," he says. "Plumbers are getting $100 per hour and we're still getting $30 to $40. That's why we can't find the employees we want. When we're getting a customer on price and not on service, we suffer for it."

Inflation & the hunt for profitability

Like other industries, many landscape operations undoubtedly found higher profits by reaching new levels of productivity, rather than through increases in prices.

While our economy has enjoyed an unprecedented run of stable prices, some prices are creeping up — health care costs, gasoline, water and wages. And some operations are starting to feel the pinch.

"I'm feeling significant cost pressures, especially in the areas of insurance (mainly health care costs) and gasoline," reports Neil Thelen. "I'm going to take a pricing action of a broad nature this year, which is something I haven't done for six years."

While Thelen considers his pricing options, some contractors like Jerry Gaeta have already decided to tack on a gasoline-hike surcharge.

"We're going to be moving our prices up because the cost of gasoline is moving so fast it's not giving us room to pass it along to our customers," he explains. "I'm on fixed maintenance contracts, but with 30 trucks running a week, I can't pass it along. We'll have to readjust all our equipment rates to cover it."

Jerry Gaeta says prices must rise.

The LM reader surveys report that 71.6% of our respondents plan to raise prices this year, with only 28.4% holding at current levels.

Profit margins also depend on growth and healthy revenues. According to the survey respondents, the most profitable services continue to fall to specialty work and landscape maintenance, with design/installation close behind.

Within those wide segments, of course, there is plenty of variation. Take the profit you can expect for a single plant sold to either residential or commercial customers, says Gaeta. "That $24 plant you sell to the residential customer will only get you $15 or $16 for a commercial landscape." That's one reason why his firm focuses on high-end residential landscapes.

Consolidation fallout keeps coming

The consolidation in both landscape and lawn care markets continues, as do mergers and acquisitions on the supply side. This causes uncertainty in local marketplaces, changes in the way landscape managers must operate and, sometimes, rational pricing!

Landscape contractors in several markets have commented on three developments relative to the consolidation of firms:

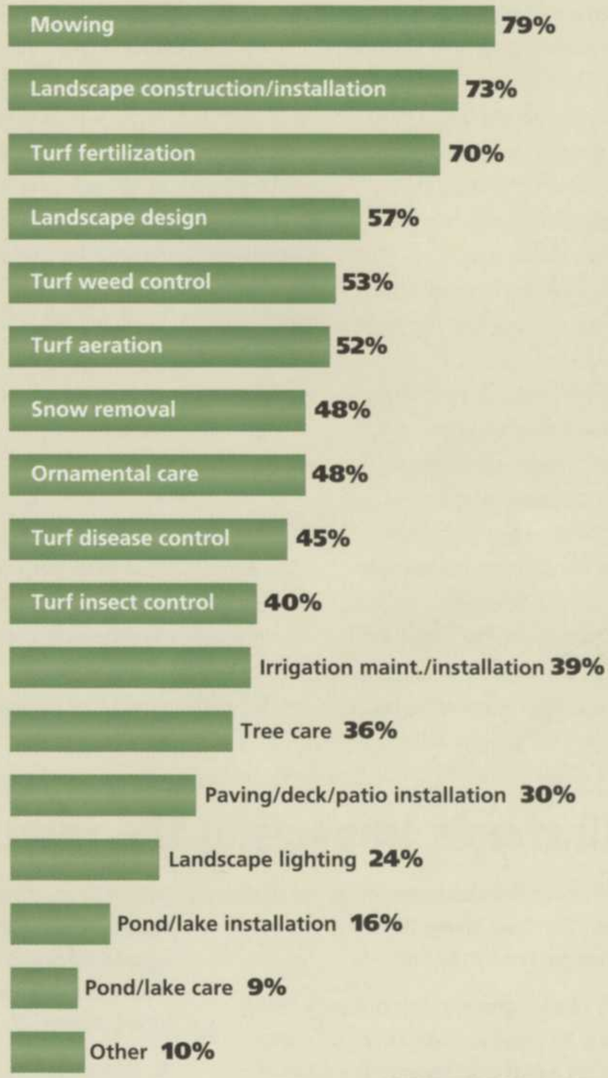
1. Some consolidated firms are backing away from their higher proportion of design/build work to concentrate on developing steady maintenance business;

2. Some consolidators are hard at work trying to systematize and standardize their diverse operations — a process that may yet take some time;

3. Some firms are "buying" business through low, unprofitable pricing (and denying they're doing it).

It may take some time before the consolidators develop the operations they want, but, in the meantime, several non-consolidators landscape companies are benefiting from the situation.

Most popular landscape services offered in 1999



SOURCE: LM READER SURVEYS

"The mergers in our marketplace have caused those firms to move on to the largest projects," explains Larry E. Brinkley, president of BLT Landscape Services, Dallas, TX. "That's left a void with the medium to small-sized jobs." This has been advantageous for BLT, which concentrates on medium-sized commercial and high-end residential work.

The shakeouts that are inevitable when competitors merge are also proving beneficial for landscape managers looking for experienced managers. Several commented on their good fortune to hire experienced people from consolidating firms.

While the nearest consolidated firm is 100 miles way from Mike McCoy's company in Marion, OH, they compete

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in the same market — Columbus. Since he hasn't gone head-to-head with the bigger firms on bid jobs, he has a rather charitable view of them. "It seems that consolidated companies are doing a great job," he says. "I think there will always be room for smaller companies, though."

Neil Thelen is waiting for the consolidated firms in Atlanta to make a serious play. "Our market is atypical — we have several top firms who have always been competitors, and now they're working hard to figure it out," he says. "With that many firms, you're going to have some confusion, but it will be a juggernaut when they eventually do figure it out."

He's watching closely. "It will be really interesting to see how this plays out. I think the consolidation will improve the professionalism of our business here in Atlanta, but everyone needs to be prepared for almost anything. You can't have too many prima donnas on the dance floor."

On the lawn care side, both Centex of Dallas and Weed Man of Mississauga, Ontario, are making active moves into the marketplace. Weed Man just announced revised plans to penetrate the United States lawn care market through a series of sub-franchise arrangements and has attracted several high-profile lawn care owners, while Centex is concentrating on acquisitions.

Supply chain changes

Supplier mergers and acquisitions are changing traditional distribution systems, the availability of certain products and many face-to-face relationships.

Just a few examples of the activity on the supplier side include: the BASF/American Cyanamid deal; the merger of Novartis and Zeneca into Syngenta; The Andersons' and Nu-Gro's combined purchase of the professional turf business from The Scotts Co.; John Deere's new emphasis on moving its dealers into after-sale services; Turfco's direct sales program; Ferris Industries' purchase by Simplicity; the launch of several e-commerce sites focusing on the landscape industry; and AgriBioTech's bankruptcy.

All of these are expected to impact the normal buying and distribution systems, but time will tell if those impacts are positive or negative. Most likely, here's what you'll find:

▶ New names, new faces and new ways of buying. As suppliers merge or tweak existing distribution chains, some will cut staff, reassign territories or "streamline" the buying process.

▶ Less products and potential limitations on developmental research. Some crossover prod-

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10 trends impacting the industry

Whether the economy continues to expand or slow, these 10 trends won't change. Here they are:

1. "Easy" growth – It's not only fairly easy to grow an operation, it's sometimes a real challenge to limit growth. Survey respondents named landscape design/installation the fastest growing segment, followed by maintenance.

2. Uncertainty about the future – Is the economy cooling? Will it affect construction, disposable income for consumers and commercial maintenance budgets? It's hard to prepare for this.

3. Consolidators are getting it together – While the rate of consolidation has slowed, the consolidated companies are starting to standardize operations and bring on some real competition.

4. New, tougher competition – New competitors enter this market constantly, making competition tough and squeezing prices, particularly in the maintenance side of the business. This won't stop.

5. Demanding customers – Blame it on instant messaging if you like, but today's residential and commercial customers are much more fussy and pushy about getting "extras" in a deal. And they want it now!

6. Ouch! Lack of labor hurts – Labor shortages are a fact of life and there is no solution on the horizon. Some organizations make the most of the situation with good management, benefits and mechanization.

7. Regulations with bite – Key issues challenge landscapers around the country, including: availability and use of pesticides; blower noise and engine exhausts; ozone-alert restrictions; control of irrigation installation; and water restrictions.

8. Diversity in services and customers – Innovative contractors and LCOs are expanding into new areas, franchising new services and seeking employees from new sources.

9. Supply chain blues – Manufacturers are merging at a dizzying rate, the ABT seed consolidation's fallout has yet to fall out and dealer/distributor chains continue to confuse and frustrate industry professionals. This will continue as long as mergers and acquisitions are profitable.

10. High-tech goes "green" – Laptops, palm devices, digital photography, new software and the Web continue to attract the attention of tech-savvy landscape managers. But how many are mechanizing for better productivity?