

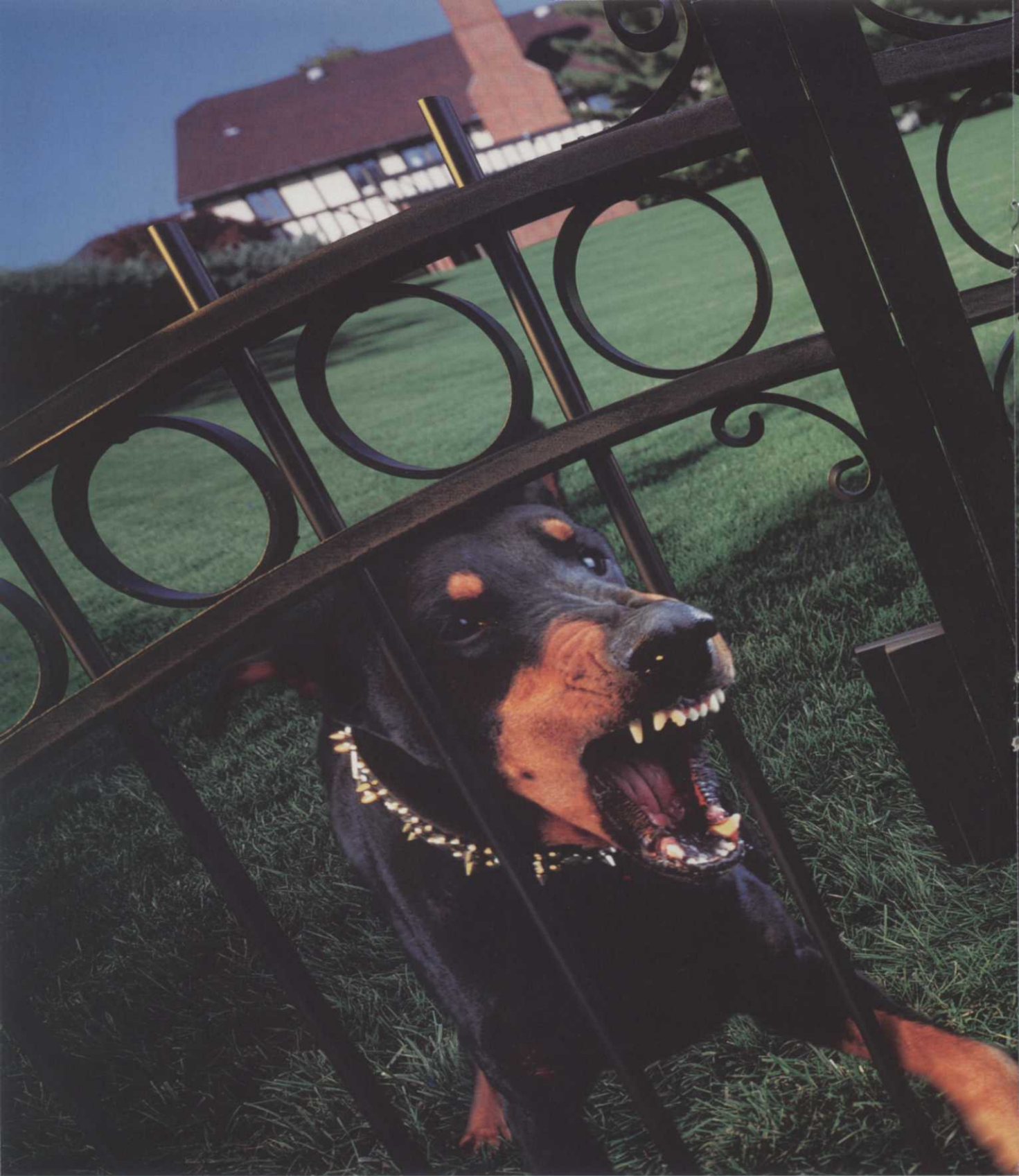


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ucts may not be economically feasible for production anymore, so expect to try new ones. Others may have to be spun off if they compete within a merged organization.

► Expect some rocky transactions if you've always worked with the same suppliers and supply chains. New people and systems mean a new learning curve for everyone.

► E-commerce sites promise much but it will take some time to see how well they deliver. Some have the potential to influence pricing/delivery both positively and negatively.

Winning the retention game

How landscape managers keep their employees

Incentives/bonuses	67.4%
Uniforms	52.2%
Retirement savings plans	38.0%
Promotions	31.5%
Transportation	28.3%
Recognition programs	23.9%
Education reimbursement	21.7%
Profit-sharing plans	19.6%
Health care programs	9.8%

SOURCE: LM READER SURVEYS

In-your-face regulations

Moves to regulate landscape operations at both local and national levels are becoming more visible and aggressive, especially in certain markets. Last month's loss of Dursban is a prime example (see story on

page 16). Massachusetts's strict regulation of pesticide use on public properties is another major development.

The Dursban move was not a surprise; rather, it was the speed of the decision that hit the industry so hard. Several landscape managers say they saw it coming and had made their plans accordingly.

Michael Kowalchuk, former owner of Gro-Control Inc., Westland, MI, stopped using it six years ago because of a state law requiring him to put a warning plaque on his truck. He's spent enough time in the industry to know that pesticide regulation will ultimately affect business, despite the emergence of alternative products.

"People want results if they're paying for a service," he says. "They're pretty impatient. If you can't deliver because you don't have the tools to do the job, your market will definitely be affected."

Many landscapers are dealing with restrictions brought on by drought or overbuilding, and they have had to defend the use of water for landscaping.

"We're down 20 inches below normal for the last 18 months and may be looking at severe restrictions or bans," reports Neil Thelen. "Malta (Metro Atlanta Landscape and Turf Association) has been speaking up for water rights in our area."

Larry Brinkley reports an informal coalition of landscape managers in the Dallas area has

organized to discuss water issues and develop information for use in public debates. Thanks to the information, many of the restrictions were limited, he says. "They backed off on it."

He also reports talk of restrictions on the use of backhoes, mowers, fork lifts and other equipment during Dallas' many ozone alert days. "They're talking about limiting use until after 10 a.m.," he says, noting that those rules create new logistical problems for his managers.

Regulators in Illinois and Minnesota have been stepping up pressure to make sure that installation of irrigation lines is limited to plumbers or electricians. For someone like Michael Hornung, who has seen his irrigation business double in each of the past three years, Minnesota's move is a threat. "This is going to hit me directly," he says.

The controversy about blower noise continues to bedevil landscapers in some areas of the country, especially California.

Wayne Richards, COO of Cagwin & Dorward, Novato, CA, explains, "The banning of blower use in cities is a big concern. Even though suppliers and contractors actively try to educate the public about the value of blowers, this is a purely emotional issue spearheaded by resi-

dents who are not concerned about the economic impact resulting from the bans. The California Landscape Contractors' Association is actively soliciting political support to arrive at compromises."

"Government regulations on the H2B program have had a negative effect, with increases in the prevailing wage rates," says Ronald Schmoyer, president of OneSource Landscape & Golf Services, Tampa,

FL. He also cited EPA regulations and Florida restrictions on water use as serious issues.

'Spoiled' customers?

Aren't you a more discriminating customer with your purchases these days? Maybe it's logical to expect your clients, both residential and commercial, to be pickier. But how picky is okay? Some landscapers complained that unrealistic expectations, burdensome communication schedules and requests for "extras" are driving them crazy.

"My number one challenge is dealing with people," says Dwight Hughes. "They want immediate communications. If you don't call them back the same day they call, they'll be calling you back again."

It's not an issue of customers as much as managing their expectations, Hughes explains. "I have the greatest cus-



Larry Brinkley says water is a big issue.

"You have to be flexible and give customers all they want and more. But we've been training them to expect it — now it comes back to bite us."

— Michael Hornung

tomers in the world, but they all want it now. I had a customer call me three times and all she wanted was for us to take out one plant. Then, a new fast-food restaurant here gave me six days' notice to schedule and get their entire landscape placed."

Michael Hornung agrees. "You have to be flexible and give customers all they want and more. But we've been training them to expect it — now it comes back to bite us."

"Seven years ago, less than 1% of our customers wanted us to call before visiting. Now, 8% do," he notes. "We treated one lawn all year and then found bugs in the trees. The owner expected that he wouldn't have to pay for the extra tree treatment. He cancelled on us."

Jerry Gaeta sees it as a continuing trend. "Yes, customers are getting to be fussy, but that's how they are. Many of them are wealthy and want something extra. People everywhere are more demanding."

Snapshot 2000: Overview of an industry

Individual stories of growth range from 20% below 1998's levels to more than 100% growth in the last 12 months. How do they get these levels? Respondents to LM's State of the Industry survey showed the usual wide range of services offered in 1999 (see chart below). More than half of the respondents named at least six of these services in their mix.

Rising revenues

The optimism continues, with 69.4% of respondents reporting they expect an increase in revenue for the next 12 months and only 27% expecting revenues to stay put. Merely

3.6% of them expect a decline in sales.

The average landscape contractor's approximate revenues for 1999 were \$1.22 million, compared to the average lawn care company's revenues of \$322,000.

Current customer mix on average is 59.2% residential, 37.2% commercial and industrial and 3.7% other.

"We're seeing high demand for services in installation, maintenance, irrigation, tree care and environmental restoration," reports Wayne Richards.

Hornung sees other areas of growth. "Irrigation has really taken off with virtually no advertising," he says. "And after marketing (a

year-round lighting franchise) one week, we've picked up \$35,000 in revenues."

Operating lean, mean and green

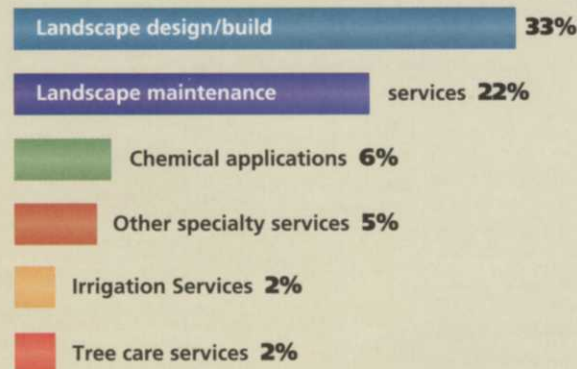
How can you be lean and mean without a clear picture of your operating budget? Readers in our survey knew their budgets inside and out, and had an average operating budget of \$495,000. This breaks down to an average budget for grounds management of \$1.34 million; landscape contracting \$518,000; and lawn care company \$240,000.

Our survey's respondents had several challenges this year. The average rankings show that 72.6% listed labor availability as their number one challenge, followed closely by developing good field supervisors/foremen.

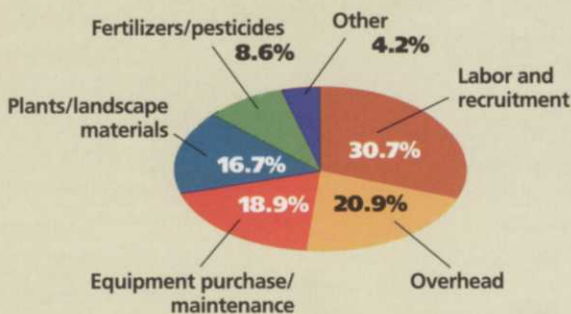
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Fastest growing service segments

(percent chosen as fastest growing business segment):



Typical '99 annual operating budget



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men (54.7%) and managing growth (51.3).

The problems of managing effective operations go deep into the labor situation and also ways to increase efficiency. And the solutions are not quick and dirty.

"You can make major changes in about three weeks, but they can fall apart a month later if managers don't stick with the changes," Jerry Gaeta advises. His firm is currently undergoing changes to allow growth through pricing, not volume.

"Our structure is holding us back" from the growth they want, he notes. "The challenge is in finding new managers and putting the right people underneath. This involves training."

Michael Hornung also feels stymied. "We could double our business if I could double the number of good employees I have."

How you handle labor

That most precious commodity — labor — needs extra care, say landscape managers across the country. They were unanimous in naming it their first and most troubling priority.

"It's still a problem here in Dallas," reports Larry Brinkley. "Employees are moving from our company to a competitor for 25 cents an hour. Some of the competition are recruiting them on our job sites."

Brinkley says his firm's policy to hire only legal immigrants also hurts, and the requirements for housing and insuring H2B employees can be cumbersome. "Unless the government institutes an amnesty program for illegal immigrants, labor will be in trouble," he forewarns.

Labor has been tight since the Atlanta Olympics, notes Neil Thelen, and it has gotten worse during that time period as labor costs have increased an

How we got the information

It's not easy to chronicle an industry as diverse as the Green Industry. Each operation and market is so different from the others that it is hard to generalize. Regulations may impact one operation but not another. But that's what this industry is all about — a robust, restless, innovative, youthful and beleaguered group of landscape professionals.

This report combines two proprietary research projects by *Landscape Management*, data from this year's Gallup poll and reports from sources such as the Federal Reserve and other economic groups.

Our surveys were mailed to a random sample of readers in early and mid-April. The first survey received a 20% response rate and was tabulated according to standard statistical analysis by Penn and Associates, an independent market research firm in Cleveland, OH. The second survey used a systematic, stratified selection of readers and was tabulated according to standard statistical analysis by Readex, an independent research firm in Stillwater, MN. It received an average 38% response rate.

The Readex survey represents the following groups: 69% landscape contractors, 25% lawn care companies and 5% grounds managers. Due to its higher rate of response, the Readex material is cited where we have comparative data from both surveys.

Respondents represented a mix of locations, services, sizes and years in operation. Locations ranged from the Midwest (32%) to the South (27%); the Northeast (21%) and the West (20%).

How you recruit employees

Recommendations from current employees **75%**

Newspaper ads **46.3%**

Hiring from competitors **15.7%**

Walk-ins/word of mouth **14.8%**

Employment agencies **13.0%**

Help wanted signs **13.0%**

Schools/job fairs **13.0%**

Internet **11.1%**

estimated 15 to 20%. "We're careful with our people resources and have a good development program" to keep employees with his firm, he says.

Difficulty attracting lawn care technicians is one reason Mike Kowalchuk sold his firm to TruGreen-ChemLawn late last year. "In Michigan, you have to be certified or registered by the state to apply chemicals. On a regular landscape crew, you don't have to be certified to cut grass and you can have one guy who's the crew leader and who knows what he's doing. But in chemi-

cal application, you have one guy in one truck and that person has to be a self-starter, someone who is motivated and can think for himself. That type of person is hard to find."

Paul Harder cited more opportunities for his employees as one reason he sold his firm, Prescription Turf Services in Middleton, MA, to TruGreen-ChemLawn in February. "I wanted my employees to be able to take advantage of better opportunities. Plus, it has become excruciatingly difficult to find good people and keep them."

Although the average orga-

Two sides of the "contractor" coin

We combed our research to develop two profiles of "typical" landscape managers. For comparison, we selected data of small organizations (revenues less than \$100,000) and larger ones (revenues over \$500,000) from our Penn survey. Both could describe themselves as "landscape contractors."

	Joe Lawn Service	Dan Green Guy
Company revenues	Less than \$100,000	More than \$500,000
Services offered (by rank)	Mowing Landscape construction Turf aeration	Landscape construction Mowing Turf fertilization
Customer mix	Residential – 67% Commercial – 25%	Residential – 55% Commercial – 41%
Years in operation	5 to 10 years	11 to 20 years
Location	Northeast or Midwest	South
Expect increased revenue for 2001?	Yes – 61%	Yes – 72%
Expect higher prices for 2001?	Yes – 69.2%	Yes – 71.4%
What are your top 3 challenges in business?	Growth management – 66.7% Labor availability – 54.8%	Labor availability – 84.8% Developing field supervisors/ foremen – 78.8%
	Financing availability – 42.9%	Growth management – 51.5%
Hourly rate for employees	Best employee – \$12/hour New employee – \$8/hour	Best employee – \$18/hour New employee – \$8/hour
Number of employees	Full time – 4 Part time – 4	Full time – 30 Part time – 13
Employee retention programs used	Incentives/bonus – 74.1% Transportation – 37% Uniforms – 37% Retirement plan – 29.6%	Incentives/bonus – 66.7% Uniforms – 60% Retirement plan – 60% Promotions – 43.3%
Full time mechanic?	No	Yes
Have a Web site?	Yes – 9.3%	Yes – 33.3%
Highest level of education	High school graduate	Bachelor's degree
1999 personal income	\$61,889	\$95,174
Hours worked per week	55	64
Age	40	42
Years in industry	15	21

nization in our survey employed 17.5 full or part-time people in 1999, the results vary dramatically with the service segment:

AVERAGE NUMBER OF EMPLOYEES	
Grounds management	64.8
Landscape contractors	17.6
Lawn care companies	7.2

Paying and keeping people

The average rate paid by survey respondents for new hires is \$8 per hour. Average wages paid for the "best" employee was \$14 per hour, ranging from \$12 per hour for the smallest operations to a \$18 per hour for large organizations.

As far as recruiting goes, about 75% of our respondents act on recommendations from current employees.

The smallest organizations

focus on recommendations (61.1%), newspaper ads (27.8%) and walk ins/word of mouth (22.2%). Large organizations concentrate on recommendations (87.5%), newspaper ads (62.5%) and hiring from competitors (37.5%).

Several landscape managers are learning to deal with the



Kent Miller says strategies in place

labor situation in a creative way.

"Everyone wants to focus on human resources, but we don't like to focus on that," says Kent Miller, vice president at The Groundskeeper, Tucson, AZ. "Yes,

it's a challenge, but we have over 30 different strategies to overcome it."



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ORNAMENTAL PROTECTION PLAN

chickweed and henbit – weeds that are usually untouchable. Plus Surflan can be used in many tank mixes. So when it comes to protecting ornamentals while killing weeds, let's just say we've got an offer you can't refuse. For more information on Surflan or any other product in the extensive line of Dow AgroSciences products, call 1-800-255-3726 or visit our web site at www.dowagro.com.

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PART 2:

What's on the horizon?

A 'cooling' economy?

How are today's leading indicators expected to impact the Green Industry? After a record six increases of the interest rate, signs show that the Federal Reserve's policies may be working, gradually slowing an unheard-of rate of growth near 7%. Here's what happened recently:

- ▶ We're getting richer, but at a slower rate than 1999, says the Fed. First quarter household net worth grew only 2% in the first quarter of 2000, down from 8.1% in the last quarter of 1999.
- ▶ Unemployment rises only marginally — not enough to affect hiring opportunities in our industry. This may also be temporary.
- ▶ Housing starts dipped slightly earlier this year, which may or may not continue.
- ▶ Home mortgage demand fell by 56% in early 2000 and business load demand fell 25% for the same period. Banks are tightening lending standards.
- ▶ April reports show consumer spending still strong, but at the slowest rate since July 1999.

The Fed's actions typically take six months to filter

through the economy, so this is the big question mark. Growth may be slowing to the 3.5% or 4% the Fed thinks is sustainable, down from the 7% rate it reached in the fourth quarter of 1999.

Still a toss-up

Clearly, economic forecasts are still a toss-up. Economists may argue about the trends they see, but several trends may help you plan for late 2000 and into next year. Watch:

- **Interest rates, which are keyed to inflation.** Despite jumps in prices for gasoline, food and wages, inflation is steady due to drops in other prices. If inflation steadies, expect interest rate hikes to stop.
- **Housing starts.** Everyone expects higher interest rates to slow corporate and consumer

borrowing, which in turn will slow investment and housing starts. How will this affect you? Some contractors feel that this will slow their landscape design/build business, but others think it will merely shift dollars into landscape renovation as clients stay put.

- **Disposable income.** This is money consumers spend on big-ticket items — like landscapes, maintenance and special services. High rates of this generally means good news.
- **Unemployment rate.** Don't expect this to change for years. While good economic health continues, labor will be tight. Your competitors include other landscapers and anyone who offers higher wages, more benefits, easier work and a more pleasant organization.

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Data at a glance

Average organization's approximate revenues for 1999 were \$984,000.

Average organization's annual operating budget for 1999 was \$495,000.

Average customer mix is 59.2% residential, 37.2% commercial, 3.7% other.