A large, mature tree with a thick trunk and dense green foliage is being moved. The tree is supported by a large, circular, light-colored burlap-wrapped root ball. It is suspended by several thick cables from a large orange crane. The crane is positioned on a dirt area, and the tree is being lowered into a deep, rectangular pit that has been dug into the ground. The background shows a clear blue sky and some other trees. The overall scene is one of a large-scale landscaping or construction project.

Davey Tree ranked  
No. 4 in our June  
2009 LM 150.

DAVEY LARGE TREE MOVING

« Just having **employee ownership** is not the answer. It's what those employees **commit to and accomplish.**

— **KARL WARNKE**, CHAIRMAN, PRESIDENT AND CEO

## COVER STORY

it started as a tree care operation, and throughout the years added and subtracted services to find the right mix. Currently, the company comprises four major divisions: tree and lawn care services, commercial landscape services, utility services and the Davey Resource Group, which offers technical consulting to utility, commercial and municipal markets.

The mixing continues.

"We started working in '07 to change our business direction and reduce the emphasis on businesses that don't fit us," says George Gaumer, vice president and general manager of the commercial landscape services division.

The willingness to adjust services allows Davey Tree to focus on its strengths, offer just what's needed in a given part of the country and keep the company strong amid the ebb and flow of the economy.

For a while, the commercial landscape services division delved into the bid/build arena. But in past few years, Davey Tree has begun to downscale that part of its business.

"Right now, the landscape construction part of our business is struggling," Gaumer says. "It would have been good if we'd been able to downscale services to that segment two years earlier because it was going to do it to itself anyhow."

In any operation where struggles exist there are also opportunities.

"In the utility side of the business, while it could be perceived as a frustrating time, it's also an exciting time for us," says Steve Marshall, executive vice president. "Our acquisition of Wolf Tree has given us deeper penetration into the southeastern market. It also has provided a link between our eastern and western utility operations and given us a better ability to service our customers. It provides increased mobility and diversity."

It also gives the company strength.

"Our four divisions are like auto-

» If one of our divisions slips a little, another one makes up for it.

— **GEORGE GAUMER**, VP & GM,  
COMMERCIAL LANDSCAPE  
SERVICES DIVISION



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mous companies within this corporate container," Gaumer says. "We're four independent organizations, each with our own set of plans, goals and strategies. It's because of that, there's strength. I don't think any of the four divisions has ever had a banner year at the same time. If one of our divisions slips a little, another one makes up for it."

### Seeking opportunity

An economic recession isn't preventing Davey Tree from looking at all avenues for growth. The company keeps a close eye on, and has improved, its balance sheet — even since last year. But that doesn't mean the company won't act if the right opportunity presents itself.

"We're \$15 million better off than we were last year at this time," Warnke says. "We're paying off debt despite the economic situation. We're focusing on our cash management. We've curtailed our capital spending for equipment; however, we're continuing to seek out acquisition candidates."

Such attention to detail means the company can survive the current economic crisis and be in prime position when the turnaround comes.

"The greatest opportunity we have is positioning the company in such a way that we'll be able to gain and exploit opportunities more so than anybody else in our industry,"



While most landscape contractors experienced significant revenue declines in 2008, Davey Tree topped its 2007 sales by 18.5% — growing its business nearly \$94 million last year.

Warnke says. "Financially, we'll be as strong or stronger than anybody, including the biggest companies in the industry.

"We're in a more prolonged situation, but our management team is optimistic. We know we can get through this," he adds. "I'm optimistic, too — although sometimes it hurts to know so much of what's happening to you isn't your fault."

But Warnke and his team don't dwell on what they can't control.

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## COVER STORY

"Without question, the biggest challenge is trying to control that which is difficult to control — the marketplaces in the residential and commercial segments," Warnke says. "How do we affect our customers and prospects? How do we affect their buying decisions? How do we encourage them to spend? That's the toughest challenge."

The company must be doing something right. In 2008, when some larger companies were headed toward bankruptcy and several smaller ones disappeared, the value of Davey Tree's stock increased 3.8%. Most executives would be happy with that. Not Warnke.

"How many companies do you know that *increased* their stock values 3.8% in

2008?" he says. "However, because our stock value *had* been averaging 17% annual growth since we became an ESOP, the valuation was painful."

The stock valuation also hurt because the company had one of its best years ever, Warnke says.

In 2008, Davey Tree merged with The Care of Trees and acquired Wolf Tree. And hurricanes Ike and Gustav led to one of the largest storm responses in company history generating significant unanticipated revenue. The company ended the year with its second-highest operating profit percentage since becoming an ESOP.

### Managing the company

Even with growth in 2008, Warnke and his team are taking a cautious approach to the rest of 2009 and beyond.

## EMPLOYEE OWNERSHIP

It was the late 1970s. The family members who owned the then-\$52 million The Davey Tree Expert Co. were in their 60s and 70s and had no heirs prepared to take the reins. So a few members of the executive team put together a plan for the employees to buy the company.

"They had to get the employees to come up with a down payment to be able to finance the rest," says George Gaumer, vice president and general manager of the commercial landscape services division. "It was touch and go. There were 113 employees who were part of that initial acquisition."

Of those 113 employees, of which Gaumer was one, nine still work for the company. Those original employee-owners, and those who have come along since, have averaged a 17.1% annual rate of return on their

Davey Tree has about 6,000 employee-owners.



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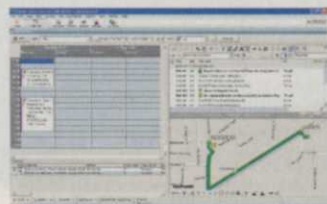
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Davey is renown for its tree care but provides a host of other services.



investments throughout the years.

"I love to beat the markets," says Karl Warnke, chairman, president and CEO. "I love to see privately held companies lay one on the public markets. As they continue to decline, we've outperformed them by a long shot. I love to see our stock go up. I like to see hard-working people — a lot of whom are overachievers — find success financially and in their careers. That's the biggest driver I have."

Warnke has had a lot to be happy about. Take two investors in 1979, the year Davey Tree became employee owned. One, a Davey Tree employee invests \$100 in the company's stock. The second investor puts the same amount into an S&P Index fund. Both reinvest their dividends. In 2008, the S&P investor's stock would be worth \$2,284, while the Davey Tree employee's investment would be worth five times as much — \$12,518.



"We're going to come out of this recession the same way we went into it," Warnke says. "You're not going to see it. You're not going to feel it. It's going to be painfully slow. We're going to be in this recession all this year. And it is going to have a lingering effect into 2010."

Like most companies, Davey

Tree has had to cut costs, including not hiring back many seasonal workers and laying off other employees.

"People say you can't cost-cut your way into profitability," Warnke says. "That doesn't make any business sense. We're attacking the cost and revenue sides — building business is equally important — in a number of ways."



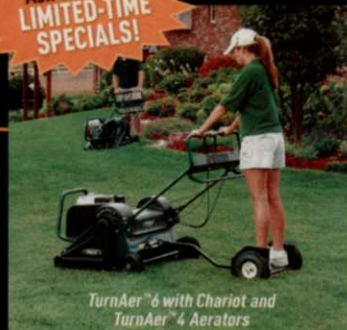
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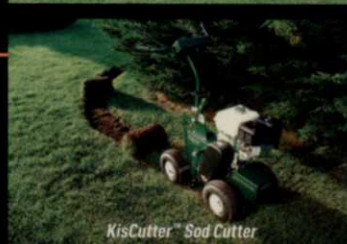
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## PLANTING THE SEEDS

John Davey came from England in the latter part of the 19th century and worked as a cemetery grounds manager where he developed a passion for large-tree preservation. It's that passion that developed into the \$600-million-a-year enterprise known as The Davey Tree Expert Co.

It'd be easy to understand why Karl Warnke, Davey Tree's chairman, president and CEO, might feel a little intimidated walking into the office every day. An economy that grows like an unwatered sapling and no rain in sight might give any executive pause. Add to that the remains of the com-



Founder John Davey passionately preserved trees.

pany founder resting in a cemetery plot across the street from the Kent, OH, headquarters of the 130-year-old company. Still not enough? In the

lobby of the company's headquarters hangs a portrait of Martin Luther Davey, Sr., the founder's son, who not only ran the company for 36 years, but also ran the state for two terms as Ohio's governor (as well as served as Kent's mayor and a member of the U.S. House of Representatives.)

"Once in a while, I think about it," Warnke admits. "It almost becomes overwhelming. I intentionally try not to think about that. I think about what we see, what's in front of us, what our opportunities are going forward, and treat it as though it's just a crusade to make Davey Tree — whatever size it is today — bigger, better and more profitable tomorrow."

That takes constant focus by everyone from Warnke down to the employees in the field.

"The biggest change is in the way we manage," Marshall says.

"We monitor our activities weekly and daily," he adds. "Each business unit has to understand where they are in achieving their goals. It's important we're on time to meet the expectations of our pricing."

When the management team does its job and employees in the back office and field are doing their work, Davey Tree isn't just a top Green Industry operation, it's as good as any enterprise, anywhere, Warnke boasts.

"Our company can compete with any company, in any industry, in terms of financial performance and financial and personal rewards for employees," Warnke says.

"That's a feel-good thing," he concludes. "We don't have to be dictated to by a majority shareholder or institutional shareholders or anybody else. That's exciting. That's why we get up and go to work every day." LM



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# WORKINGSMARTER

JIM PALUCH

The author is president of JP Horizons Inc. Visit [www.jp horizons.com](http://www.jp horizons.com).

## In some ways, there is a 'me' in team

In developing, implementing and facilitating the Working Smarter Training Challenge over the past four years, the team at JP Horizons has learned many things. Among the most interesting has been the feedback that comes to us from companies after completing weeks 32, 35 and 38. These are the weeks when participating organizations focus on the lesson plans titled "Working Smarter in My Position."

By this time in the program, participants have gained an understanding of effective ways to identify and drive out waste in processes, use the time they save to improve service and have dramatically improved communication and teamwork within their companies. So, what makes these particular Weeks 32, 35 and 38 significant?

These are the weeks when the focus moves from what the organization or its departments can do, and turns to what the *individual* can do to Work Smarter and make a difference. At this point, we turn from looking at what the team needs to improve upon and now prod

everyone to ask, "What could I improve upon?" It becomes an important transition point in the program, and looking at real feedback from participants during these weeks might give you, as a leader, some insights into human nature. After all, it's the very same human nature that you and I have, as well.

Consider the progress in thought in the span of these weeks, as individuals first had to learn to evaluate their own roles and how they affect others, then the change in attitudes as they actually began to find ways to improve — and ultimately how they become inspired to find more opportunities to Work Smarter in the things they do every day.

### Week 32

- › "We struggled with this one."
- › "The group did not participate very well in the session this week."
- › "It was hard to find things in our individual areas to fix."
- › "Most people said they are already doing things pretty effectively in their areas."

### Week 35

- › "Individuals came back with some great little improvements that they were able to make."
- › "The energy of the group was great as individuals began sharing their successes."
- › "There is a sense of friendly competition as people try to outdo each other."

### Week 38

- › "This has become an everyday focus for individuals in the program."
- › "Our Working Smarter program has gone to another level."
- › "People are focusing on how they can control costs and drive revenue from every position in the organization."

Please understand that the examples above are certainly a generalization and sampling, yet there is a pattern that can be detected. One of the most difficult things to do is to stop and honestly evaluate the functions of our work. A company can make great strides in efficiency and Working Smarter as groups of people come together and improve processes. Those same companies can make tremendous changes and improvements, however, when individuals are able to personally apply the same principles and discipline to their work and find ways to drive out waste and add value to the tasks they tackle in their positions.

### MONTHLY CHALLENGE

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› Is the equipment easy to maintain and store? Does it offer shields over parts that are potentially hazardous when in use? Is it easy to power off in an emergency?

› Because handhelds are dragged out at almost every account, they'll become in need of repair. What kind of warranty is offered from the manufacturer? How easy is it to make minor fixes back in the shop? Are parts replaceable? Are they easy to order?

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