Optimism rebounds in these challenging times

Ken Taylor, CLP
Sales Manager — Commercial Business Development

The recent economic pressures have, undoubtedly, been challenging on business. In talking to Green Industry service providers who have been in the industry for more than 20 years, many have claimed that this has been the toughest time they've encountered since they started their business. In many cases, due to competitive pressures and fundamental supply and demand realities, the prices a contractor is able to charge today are actually less than what they were charging five years ago, while facing rising input costs.

At the same time, I hear optimism and focus from these service providers about opportunities to grow and differentiate their business during these challenging times. Instead of succumbing to flat growth, many are renovating their businesses by implementing lean principles, understanding better ways to effectively manage cash flow, diversifying services and, yes, even growing in the more complicated business environment we work in today.

Today's economic reality calls for new and innovative approaches to business and gaining deep customer understanding. John Deere is dedicated to providing you with the support and integrated solutions to help you grow and prosper, and our commitment to your business doesn't stop with providing innovative and quality products. Our experienced John Deere dealer network is there to support your business needs after the sale with the most extensive factory trained service technicians and knowledgeable parts staff in the industry. And John Deere Financial Services provides flexible finance tools to help you manage your business' cash flow.

We have one priority: To ensure uptime in the most responsive manner, because downtime is not an option when you are running a business!

Founded in 1837, Deere & Co has served the needs of those with close ties to the land for 174 years. Over the years, we've all faced business challenges and have refined our businesses, moving and adapting to the times, taking advantage of new opportunities by building and growing our people and our brand along the way.

While the future has elements of uncertainty, those who have the ability and passion to adapt and embrace change will continue to find new ways to drive revenues and profits. By finding new value added services that they can offer their customers, contractors have the opportunity to maximize labor efficiency and their return on assets.

We hope the work we do in 2011 and beyond will move us closer to becoming your most trusted partner on the job site. We look forward to seeing you soon, whether at an industry event, or even at a John Deere location.

JOHN DEERE

By **Dan Jacobs**/Editor-in-Chief

The Road to Recovery

By all accounts the economic conditions are going to remain challenging for some time. Contractors must start dealing with this new normal.

It's time to shut up and put up. The time for whining about economic conditions, the housing market, government intrusion, lowball competitors, taxes or any of the other myriad factors impeding growth, is over. Yes, those conditions still exist, but they've always been hindrances to growth. Are they worse now? Perhaps, but moaning and kvetching like the doddering curmudgeon sitting on his front porch yelling at neighborhood kids to get off his lawn isn't going to do anyone any good.

This is the market we've been left with. And with the housing market — at best plodding along slowly and at worst we've yet to see the bottom — still significantly down, prospects for a quick rebound are not looking good.

Blaming someone else isn't doing you any good. And more importantly, while you're spending time finding excuses for your lack of progress, other companies have moved forward. They've become leaner and more efficient; they've found new services to offer their customers; and they've grown. In fact there are a number of companies expecting to post at least a 20% net profit this year. (To find out how they did it, read The bottom line, by Editorial Director Marty Whitford beginning on page S7).

Let's start with the good news. According to *Landscape Management*'s exclusive Industry Pulse survey more than half of you say sales are increasing (and 10% say the recovery is in full swing). Last year that number was 44% (with 8% saying the recession was over). On the flip side, 6% of contractors expect we're headed into a double dip recession (last year, 5% thought the recession was worsening).

That data does conflict with a broader survey of small business owners. The National Federation of Independent Business's optimism index dropped to 88.1 in August. It was the weakest level since July 2010 and the sixth-consecutive decline.

GET YOUR PRIORITIES STRAIGHT

Ranking of Top 9 issues business owners will focus on over the next six months.

1. Maintaining current business/ sources of revenue
2. Growing my business
3. Managing cash flow issues
4. Innovation (finding new ways to do business)
5. Cutting expenses
6. Adding new services to offer more to core clients
7. Employee management (hiring, training, etc.)
8. Adding /improving green/sustainability services
9. Green/sustainable internal improvements (alternative fuels, etc.)

SOURCE: *LANDSCAPE MANAGEMENT*

Maybe contractors are a more optimistic group. Certainly many in the lawn care segment of the industry were bullish on the future (for more about that see "The year of the weed" in the August issue of *LM*).

Similarly, when asked to assess the health of their markets, 48% of contractors described their regions as very healthy or relatively healthy.

To be sure, there are challenges out there, many the same ones that have been plaguing businesses for the past several years. A prolonged recession was the option most selected by contractors when we asked their biggest concerns. Second was high taxes followed by consumer confidence.

When asked about issues beyond their control, contractors ranked rising fuel costs ahead of the prolonged recession. Those two were followed by rising health care costs, taxes and lowball pricing competitors.

Interestingly (and in line with our theme), when asked about the issues they plan to focus on in the next six months the top two answers were maintaining current business levels and growing the business. Managing cash flow and innovation (finding new ways to do business) were the next

THE BUDGETING AND PLANNING PROCESS

Did you prepare a budget for 2011?

Yes **57%**

No **43%**

Do you have a 3 to 5 year plan?

Yes **53%**

No **47%**

How often do you review your plan?

Quarterly	24%
Once every 6 months	14%
Annually	30%
I do not have a business plan	32%

TOP 6 SERVICES OFFERED

1. Spring/Fall cleanup 71%
2. **Mowing 70%**
3. Seeding 69%

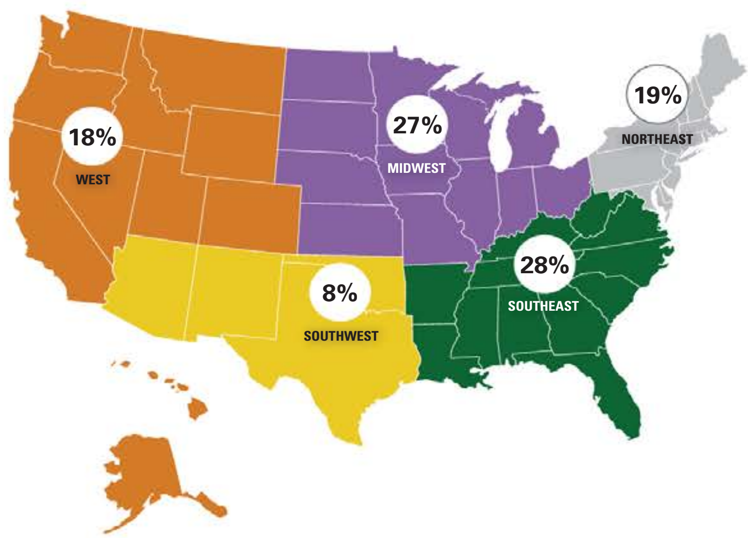
T-4. Sodding 68%

Edging/trimming 68%

6. Fertilization 67%

LOCATION, LOCATION, LOCATION

The regions in which respondents are located.



highest ranking priorities. Next was cutting expenses, which suggests that while still important, many companies have already worked through that often painful process.

And some of that hard work is starting to pay off. Nearly one in 10 companies responding to our survey expect to earn more than 20% net profit by the end of the year and another 12% should bring in between 16% and 20% net profit. In other words, one in five contractors are earning more than 16% profit in this economy. On the flip side a nearly equal ratio expects to earn less than 4% in 2011, so there is still work to be done for some companies.

On the following pages are a number of stories and strategies that many of the most successful companies have employed to increase their revenues and their profits. LM

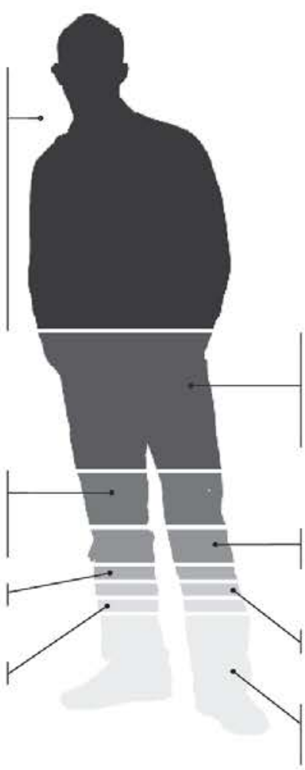
THINGS ARE LOOKING UP

How are customers responding to your services this year?

SOURCE: *LANDSCAPE MANAGEMENT*

MARKET SEGMENTS

How readers describe their businesses



DUE TO ROUNDING, THE TOTAL ADDS UP TO 99%

SOURCE: *LANDSCAPE MANAGEMENT*

EXCEPT WHERE NOTED, ALL ILLUSTRATIONS/PHOTOS BY: ISTOCK INTERNATIONAL INC.

By **Marty Whitford**/Editorial Director

The Bottom Line

Three landscapers share how they routinely record profit margins of 20% or more.

Profit. Gain. Net. Proceeds. Margins. Its list of aliases is extensive. But no matter the words — or language used — at the end of the work day, it's all about "the bottom line."

When it comes to building in solid profit margins, some landscape professionals get it. Some don't.

Despite the plethora of challenges posed by the "Great Recession," several respondents to *Landscape Management*'s Industry Pulse survey report they routinely record profit margins of 20% or more. Sweet cabbage! Now there's a positive trend worth looking into, and trying to mirror.

Here are profiles of three such margin leaders in the landscape industry and how they're typically "winning" more profit than many others:

Growing green

Keith Fisher, owner/operator of Growing Green Lawn Care LLC, projects the Lawrenceville, Ill.-based company will increase sales 27% and margins more than 20% this year. Fisher's crystal ball shows the firm maintaining 20% margins in 2012 with a 14% revenue boost.

Fisher cites five key areas the six-employee operation has built margins in 2011:

14

% revenue boost in 2012.

1 **Controlling fuel costs** — "We shop around for the best fuel prices, and we pay in advance and purchase in bulk for better discounts. We also regularly tighten our scheduling and routing to best suit both our company and our customers."

2 **Purchasing products at reduced costs** — "We constantly embark on exhaustive searches that pinpoint the best products at the lowest prices, again taking advantage of discounts by paying in advance."

3 **Managing employees better** — "Accountable, trustworthy, committed employees are the key to a better company and a better bottom line. We help our associates best manage their time and resources — without ever compromising quality."

4 **Increasing labor efficiency** — "We routinely upgrade our equipment with more-efficient tools and our people with continual, hands-on training."

5 **Overhauling the company's website and expanding digital marketing** — "We're better leveraging the Internet to educate consumers, offer special promotions, and more quickly and cost effectively build our brand and business."

Fisher says landscapers must closely control both sides of the profit margin equation: costs and pricing.

"We cut costs primarily through proper planning and execution, close communication with customers and coworkers, and closely managed daily workloads," Fisher says. "We boost pricing by employing trained professionals who provide the best quality work on budget, on time."

Most customers care as much about the timely delivery of quality work as they do project pricing, Fisher concludes.

"Want to maximize your margins?" Fisher asks. "Employ only the best to deliver the best. Make each customer feel you are his or her top priority. Always go above and beyond. Always leave them feeling like they're getting more than they're paying for — even though your bottom line knows different."

Solomon says...

Solomon Services LLC is on track to hike sales 95% in 2011. Equally impressive, the Denver-based company has bolstered its profit margins 3.5 percentage points this year, to 24.5%, adds Tom Teehan.

Executive vice president of the 30-employee company, Teehan forecasts Solomon will record 2011 revenue of $1.27 million. 2012 looks like more of the same goodness, with sales expected to rise 65% to $2.1 million, with a 22% profit margin.

238

% increase in net profits over two years.

The bottom line for Solomon is expected to soar from about $136,500 in 2010 to $311,150 this year to $462,000 in 2012. That's a 238% increase in net profits over two years.

Teehan says Solomon bolstered its margins this year by better leveraging technology and increasing sales and margins with new clients, as well as with existing snow removal, design/build and irrigation customers.

On the cost-cutting front, Teehan suggests landscapers:

→ Take the time upfront to develop processes for day-to-day activities. "Before our crews leave the shop in the morning, they go through check lists — we call them 'pre-flights' — for all trucks, trailers and equipment, ensuring crews have all the tools and materials needed to complete all jobs scheduled for that day.

→ Train, train, train. "A smart employee is a cost-effective employee. All Solomon employees are offered training both onsite and through various programs offered by vendors and associations we belong to."

Teehan says landscapers must become intimately familiar with their cost of goods (COG).

"This is where the rubber meets the road," Teehan adds. "If you don't know exactly what it costs to do the work you're quoting, you're doing a great injustice to yourself and the client. Ultimately, you might leave money on the table or set yourself up for failure by not having enough money built into the job."

Another of Teehan's tips is, "Sell your service — distinguish yourself."

In Colorado, Solomon has several, smaller competitors. Teehan says they tend to sell mostly on price. While it helps some break into markets, a "low price leader" tactic typically results in diminishing returns for the companies and the industry as a whole.

"Often, the landscaper can't maintain the property for the amount negotiated for that long," Teehan notes. "Eventually, the service level drops accordingly, the client becomes frustrated and the service provider loses the client. The industry also suffers as the customer is either lost from our pool of prospects or he or she returns with unrealistic low price expectations and a general distrust of landscapers."

Two more bidding tips from Teehan include:

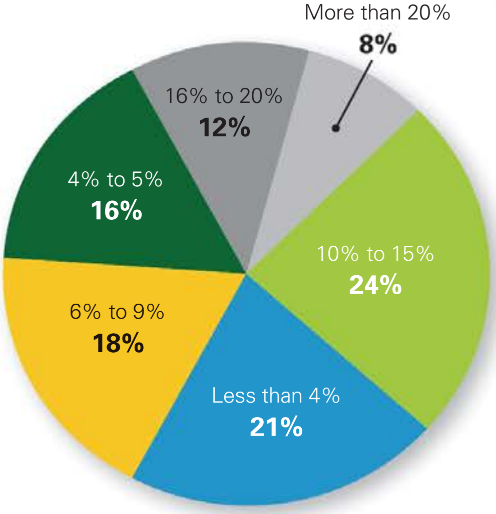
→ Let the prospect tell you what he wants. "I ask the prospect to share how long he's been at the property, what are the features he likes and dislikes, what are the positives and negatives of current or past service providers and what landscape budget he has in mind. This process sets you up for realistic expectations as well as for upsell opportunities."

→ Be honest and perform your work with integrity. "In our industry, there tends to be a perception of 'smoke and mirrors.' By creating what we call a 'trust bond' with each client, we put ourselves in a position to be a valued resource, and even a partner on certain projects. Don't be afraid to tell the client a project might not yield the benefit he is expecting — because of his budget limitations and/or the timing of the project. Take the time to educate your clients about the how and why you do the things you do, so you are the perceived expert. Sell value — and then deliver it, every time."

PROFIT CENTER

What do you project your net profit will be by the time 2011 ends?

SOURCE: *LANDSCAPE MANAGEMENT*



DUE TO ROUNDING, GRAPH ADDS UP TO 99%

PULSE **PROFILE**

HADDAD LANDSCAPING

HADDAD'S HAMMOCK

"The better your margins, the more time you can spend relaxing in a hammock," half-jokes Robert Haddad, owner of Atlanta-based Haddad Landscaping.

Haddad finally has a positive outlook for his two-employee, small landscaping business. Haddad Landscaping's annual revenue has dropped every year since 2005. The company's 2010 revenue was about 75% of what it was in 2005.

"It's been absolutely vicious out there," says Haddad, who's been in the landscape business 37 years. "Fortunately, we've bottomed out. There's nowhere to go but up — with sales and margins."

Robert Haddad

And up Haddad Landscaping is headed. Haddad forecasts a 10% climb in sales this year, with 30% to 35% net profit. 2012 should be even better.

"We're pricing and working smarter," Haddad says.

One of Haddad's margin-building tips is landscapers should be more selective in both the clients and work they take on.

"Do your math — upfront," Haddad says. "Don't ever take business for the sake of business alone. We might lose nine out of 10 bids, but I guarantee the ones we win have solid margins. They're worth our time."

Haddad advises landscapers to establish and stick to profitable pricing principles.

"Another key is being debt-free," Haddad says. "We don't have vehicle or equipment overhead. That really helps us protecting our pricing and profit margins.

"Plus, I'm a hands-on owner," Haddad adds. "Our labor typically is 20% or less of our tab. The more I do, the more I keep."

> "Don't ever take business for the sake of business alone."
>
> \- Atlanta-based Haddad Landscaping owner Robert Haddad

By **Beth Geraci**/Senior Editor

A Good Buy

Even in a lagging economy, purchasing still has power.

Whether it's cutting hours, services or supply, landscape companies have gotten used to tightening their belts in response to rising costs and the weaker spending power of customers. But cut back as they might, companies aren't so quick to skimp on the quality of their equipment. They realize that it can drive a company's success in more ways than one.

Spending to grow

If the economy is lackluster, it's not apparent in the robust way companies are spending on equipment. Take Webb Landscape Inc., for example. The Bellevue, ID-based company, specializing in landscaping, nursery and other services, had a total 2011 capital expenditure budget of $320,000.

"It's less than we would budget in 2006 and 2007 and it's more than we budgeted in 2009 and 2010," says Webb Chief Executive Officer Steve Mills.

"We have retooled our business model to meet the big recession head on. And we have capitalized on our brand and our quality and our responsiveness, and so our business is fairly healthy."

RAMPING UP

20

% increase in equipment spending over last year.

To date through August, Mills adds, Webb has tallied up $8 million in revenue and is aiming for a total of $11 or $12 million by year's end.

Taylormade Landscapes in Las Vegas, NV, also ramped up equipment spending this year, by 20% over last year. The increase was thanks to the company's growth. In fact, Taylormade doubled its revenue from 2010 to 2011.

Taylor doesn't see the sense in taking a chance on equipment. "It's necessary to sustain our growth," he says. "If our equipment's not operating, we can't do our jobs. It's right up there with having honest, ethical employees."

Out in drought-prone California, weather-based irrigation systems are integral to regulating water use. That's why water systems and smart controllers are at the core of Valley Soil Inc.'s business.

The Temecula, CA-based company specializing in high-efficiency water conservation systems has invested nearly $1 million in weather-based irrigation controllers and high efficiency nozzles in the last year.

"It was a pretty good year," says company president Eric Anderson. "Normally we're at $600,000-$700,000."

In the last five years, Anderson says, Valley Soil increased its purchasing "quite a bit" in response to customers' increasing environmental and economic awareness.

> "You're going to end up with loss of efficiencies and increased maintenance costs every couple years. You're going to have to end up telling customers, 'I don't have the machine right now."
>
> Webb Landscape Inc. CEO Steve Mills

"They know that there are products out there that can help them reduce their higher tier charges, higher rate charges and energy bills. Those are tied into each other a lot," Anderson says.

New vs. Used

Up until this year, Taylormade only bought used trucks, both from dealers and residents. In fact, in its five-year history, the company only purchased one new truck ever — in 2007.

"I've been really lucky to have purchased equipment that's given me a lot back," Taylor says. For example, Taylormade owns a used 1997 F-350 super-duty diesel truck with 220,000 miles on it. The company paid a relatively meager $4,500 for it, yet, says Taylor, "that's the one that makes me the most money."

In 2011, Taylor leased vehicles for the first time. They were a Ford Ranger and Ford F-150. "The larger ticket items like the trucks we've been leasing to keep our cash flow in check," he says. "That's something new for me. Usually I try to pay cash if I can, but now I'm worried about cash flow issues."

Other than his trucks, Taylor leases all his trailers, which cost between $3,000 and $6,000 each. He invests only in new handheld equipment, such as weeders and blowers, which he bought new both in 2010 and 2011.

Because they rev up and down and are turned on and off more often, handheld machines have a shorter life expectancy, reasons Taylor, who specializes in residential landscaping and relies heavily on handheld equipment.

Unlike Taylormade, Valley Soil invests only in new equipment. And last year the 8-year-old company invested more in new equipment than ever before, buying software, weather stations and 1,400 smart controllers.

About 70% of Valley Soil's business involves irrigation. Over the last four years, Anderson says, the company's performed 8,500 audits and installed 3,400 weather-based controllers and more than 150,000 high-efficiency nozzles.

"We're growing quite rapidly," says Anderson, adding that Valley Soil is diversifying, preparing to open a non-profit organization centered around training, education and product testing.

70

% of Valley Soil's business involves irrigation.

Valley Soil wanted to buy a new truck and SUVs this year but held off. "We wanted to see which way the industry was going first," Anderson says. "We could afford it, but we wanted to wait."

Webb also invested "pretty extensively" in new equipment this year, as it always does, says Mills.

UPS AND DOWNS

How did your equipment spending budget change from 2010 to 2011?

For those who increased their budgets, the average was

37%

For those who decreased their budgets, the average was

11%

"We pride ourselves on being the best in the Pacific Northwest," Mills says. "We constantly are having to purchase."

Over the last year, Webb purchased equipment in three major categories: equipment and vehicles; facilities and property improvements (such as greenhouses); and information technology, including software, hardware, GPS and iPhones.

Webb also replaced tractors, loaders, mowing equipment and planting equipment. The company runs fleets of trucks and loaders by brand, Mills says, "and we try to get on a rotation where we replace the oldest every few years."

The most valuable purchase the company made this year was an $85,000-$90,000 large CAT loader, Mills says. It was money well spent, because the CAT can work through the winter and be used by both the nursery and construction divisions.

Holding on to equipment

If a company doesn't replace equipment regularly, says Mills, "you're going to end up with loss of efficiencies and increased maintenance costs every couple years. You're going to have to end up telling customers, 'I don't have the machine right now.'"

But Taylor doesn't feel the need to spend on new equipment when a product works just fine as it is.

"I hang on to equipment — I try to run 'em till

they die," says Taylor. "I try to get the most out of my equipment that I can. If I didn't do that I'd have to have more equipment on hand and that's just a larger cost."

Taylor tries to be as frugal as possible. "It pays off in the long run," he says. "Take good care of your equipment and it will pay you back sevenfold. Overspending isn't something I'm willing to risk right now."

Whether a landscape company decides to take the used route or the new route, they all agree on one thing: that owning and operating quality equipment empowers a company to be as reliable as possible.

"It's pretty much common sense," Mills says. LM

WHAT'S IN YOUR CART?

Percent of contractors who purchased the following types of equipment in last 12 months

Mowers	44%
Skid-steers/loaders/mini skid-steers/ excavators & attachments	15%
Sprayers/spreaders	43%
Handheld equipment (blowers, edgers, trimmers, etc.)	58.6%
Trucks & trailers	47%
Landscape lighting	35.5%
Irrigation systems & products	46%
Herbicides	47.6%
Insecticides	59.5%
Fungicides	39%