Finding opportunity

Dan Ariens
President
Ariens Co.
Manufacturer of Gravely Commercial Equipment

As we move into the next lawn and garden season it seems the media is still serving us a steady diet of doom and gloom. Certainly the nature of the current U.S. economy makes our jobs as business owners more challenging. But I've always believed you can find opportunity in any kind of economy. My great-grandfather started our family business in 1933 in the midst of the Great Depression. He had to set his priorities, stay focused and challenge the doom-and-gloom mindset that surrounded him at that time. But with a small loan borrowed against his life insurance policy, he slowly and steadily grew a business that would go on to sustain three more generations of employees.

Despite the negative news about the economy, there are many landscape businesses that are not only surviving, but thriving, in this uncertain market. I personally choose to focus on improving efficiencies in my business and use any downtime to get best prepared for the imminent upswing. One advantage of an uncertain economy is that it forces focus—whether we like it or not. It's times like this when all business owners need to monitor their business, manage their cash and even reassess their profit structure.

Whatever position you find your business in as we go into the next year, we all need a clear focus on profitable growth. Selling short your services is not a viable business model. It only will catch up in the near future and it will hurt the entire Green Industry in the long run. As an industry, we need to find new opportunity to create value for our customers—even if it means finding more and more creative ways to do so.

Despite the negative news about the economy, there are many landscape businesses that are not only surviving, but thriving, in this uncertain market.

Certainly, all of our success hinges on the weather to a certain extent, but there are many positive indicators that show we are moving in the right direction as an industry. Use this downtime to make sure you will come out of the gate strong, healthy and re-energized for your most successful year yet!

By **Marisa Palmieri** / Editor

THE GOOD BAD & UGLY

Green Industry optimism is up. Still, many firms haven't recovered from the recession and are struggling with tough weather years.

The good: There's a swing in the number of landscape and lawn care professionals calling the industry "healthy" versus "flat" or "down" compared to last year. (See "Pulse check" on page S5).

The bad: More than a quarter of industry members say they're "uncertain" about 2013 and 5 percent say they're "pessimistic" about next year (See "Optimism index," on page S5). (Last year only 12 percent were uncertain and 10 percent were pessimistic.)

And the ugly: Many companies were hit by back-to-back bad weather seasons with little snow in 2011-2012 and a historic drought in the spring and summer.

Still, companies report a 7.5 percent increase in gross revenue from 2010 to 2011 and are anticipating a 17 percent bump in revenue from 2011 to 2012. Many industries would be happy to have that growth in a post-recessionary economy. When it comes to profits, although a quarter of companies expect net profits to be less than 4 percent, 41 percent expect 10 percent or more. (See chart on page S7.)

On the upswing

John Newman is happy to report his company will meet its goal for 2012 of $500,000 in revenue, which is back to the level it hit in 2008—before it started feeling the effects of the recession. That half-million dollar mark is about 30 percent up from last year.

"We're excited because it's not just top-line growth, it's bottom-line growth," says the president of Classic Landscapes in Hampton, Ga. He attributes that growth to marketing (direct mail and some social media) and forming a maintenance division over the past few years. Residential maintenance now makes up 25 percent of the business. Previously it was 100 percent design/build. Newman is also encouraged by "little signs" he sees that tell him the industry's on the upswing. For example, his main landscape supply vendor's delivery board is fuller this year than the past few. And he just got news of a thousand-acre development underway in his area.

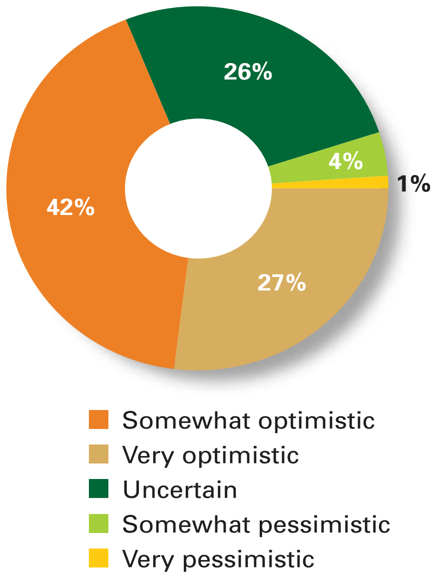
"That fired me up," he says. "It's one little sign that a turnaround is coming." Newman plans for 10 percent growth for 2013.

Jeff Bowen, owner of Stuart, Fla.-based Images of Green also says the economy is getting better. "I think it's improving, at least here," he says. "One way I can tell is by the number of what I call the 'no-name landscapers,' that pop up, and we have as many of them as ever," he says, referring to contractors who don't have logos on their trucks and don't wear uniforms.

Bowen's company budgeted for $1.5 million in

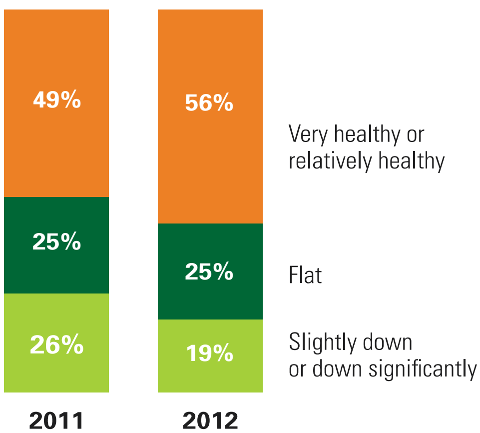
Optimism index

What's your 2013 business outlook?



Pulse check

How contractors describe the state of the landscape industry



Methodology

We surveyed *Landscape Management* readers online in August and September, garnering 537 complete responses. Based on the sample size and response rate, a 95 percent confidence level is assumed with a +/- 5 percent margin of error. Unless otherwise noted, all charts and figures throughout this report come from this survey.

revenue in 2012 and says it'll reach its goal, despite dumping a $225,000 homeowner association client in the spring.

"We spent the summer getting it back in other work, but it's better now," he says. He's optimistic about next year, and is budgeting to be 10 percent to 15 percent up for 2013. On top of that growth, Bowen hopes to continue growing his new tree care company, Jeff's Arbor Care. His goal when starting the business last year (which isn't part of Images of Green primarily due to risk and workers' compensation insurance reasons), was to achieve $200,000 in revenue the first year, and he says it's on track.

"We're trying to take advantage of things like tree care with better margins that make more profits," he says. "Our biggest margin isn't mowing lawns. I wish it was, but it's not. It's irrigation, tree work and pesticide applications."

PULSE PROFILE

John Newman
President
Classic Landscapes
Hampton, Ga.

2012 projected revenue: $500,000
Service mix: 75% design/build; 25% maintenance
Challenge: Overall growth
Solution: "Growing our maintenance division and reinvesting in branding. We bought a big box truck and splashed graphics all over it. There are a lot of people who say, 'Hey, I've seen your truck and I'd like to have you give us a maintenance quote.' We've also done a large investment in direct mail these past 18 months. We spent about $6,000. The business it's brought in more than exceeds the investment."

Warm & Dry

Warm and dry conditions—in both the winter and the summer—dominated the national weather story this year, affecting the Green Industry in various ways. December 2011 through February 2012 marked the fourth-warmest winter on record for the continental U.S., according to the National Oceanic and Atmospheric Administration (NOAA).

The average temperature for the Lower 48 states during the December through February period—the time span defined as meteorological winter—was 3.9 degrees F above the 1901 to 2000 long-term average, making it the warmest winter since 2000, worldweatherpost.com reports.

According to the Rutgers University Global Snow Lab, winter snow cover extent in the contiguous U.S. was the third smallest in the 46-year satellite record. The only winter seasons that had smaller snow cover extents were the winters of 1991 to 1992 and 1980 to 1981, NOAA reports.

Summer, too, was hot and dry throughout much of the U.S. A warmer-than-average June, the hottest July, plus a warmer-than-average August equated to the third hottest summer on record, according to NOAA. The national average temperature for the summer season was 74.4 degrees F, 2.3 degrees above the 20th century average. Only the summers of 2011 and 1936 had higher temperatures for the Lower 48.

The national average summer precipitation total of 7.39 inches, which was 0.86 inch below average, marked the 18th driest summer on record for the contiguous U.S. Drier-than-average conditions prevailed across much of the central U.S., from the Rocky Mountains to the Ohio Valley. Nebraska's summer precipitation was 5.92 inches below its average of 9.46 inches, while Wyoming's precipitation was 2.3 inches below its average of 3.97, marking the driest summer on record for both states. Missouri, Illinois, Iowa, South Dakota and New Mexico had summer precipitation totals among their 10 driest.

The summer was wetter than average across the West Coast, the Gulf Coast and New England. Florida, Louisiana and Mississippi had wet summers, partially driven by Hurricane Isaac in August and Tropical Storm Debby in June.

Optimistic about next year

Jeff Swano, president and owner of Dig Right In Landscaping, Brookfield, Ill., also projects "modest" growth of 10 percent for 2013.

"Although I think it could be more, depending on the weather," he says. His company, more than four-fifths of which is made up of revenue from design/build work (including residential drainage services), had a record year in 2011 at $854,000 thanks to the soggy weather. In a dry year like this one, Dig Right In will gross $750,000.

"It's been a slow year since June," he says. "It's a mix of the economy, drought and we feel the election is also having an effect on the economy. "It should be better after the election, no matter who wins," Swano says. "The wondering will be over. Once that's resolved, hopefully there will be pent up demand from everyone who didn't spend money this year." (For more on the election, see "Cast your ballot" on page S8.)

Swano's also hoping this year's drought will create a need in the fall and next spring.

"We're already seeing a pickup in lawn replacements with sod," he says. "We're very optimistic about next year."

Tough markets persist

Though optimism is prevalent, there are some areas of the country where difficult conditions remain. In Reno, Nev., where the worst-in-the-nation state unemployment rate was 12.1 percent in August, Steven Fine says Signature Landscapes is shooting for no growth in 2013 except in its commercial maintenance division, in which he expects a 10 percent bump.

"Going into 2012, things were looking up," he says. "All signs were pointing to the recovery we heard so much about. In 2012, the recovery just never took place. We're seeing this in every industry in the state. The only companies showing growth are those doing business outside of the state. Reno's really taken a hit and that's affected Signature." The large company, which didn't disclose its revenue, employs more than 250 workers at peak. It has an 85 percent/15 percent commercial/residential split.

For 2013, uncertainty remains.

"We want to budget aggressively, but it's tough out here," he says. "We're going to plan for the worst and live within those means." LM

WHAT'S AVERAGE?

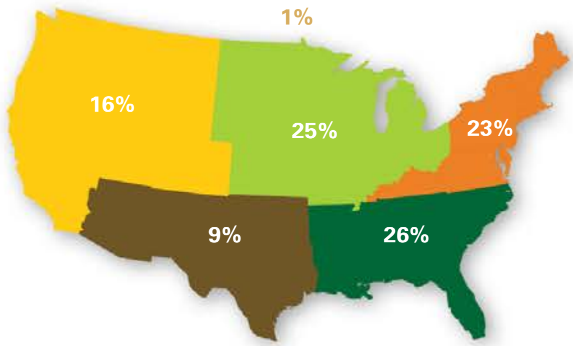
19.5
Average number of years in business.

21
Average number of seasonal and year-round employees

+7.5%
Average gross revenue change from 2010-2011

+17%
Average anticipated gross revenue change from 2011-2012

Company Location

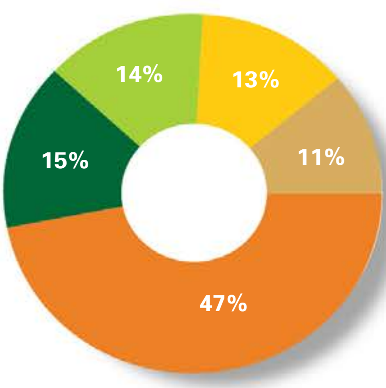


- Midwest: OH, IN, IL, MI, WI, MN, MO, IA, ND, SD, NE, KS
- West: AK, CA, CO, HI, ID, MT, NV, OR, UT, WA, WY
- Southeast: AL, AR, FL, GA, KY, LA, MS, NC, SC, TN, VA, WV
- Southwest: AZ, NM, OK, TX
- Northeast: CT, DE, ME, MD, MA, NJ, NH, NY, PA, RI, VT, D.C.
- Canada

TOP REVENUE OPPORTUNITIES
(RANK CHANGED FROM LAST YEAR)

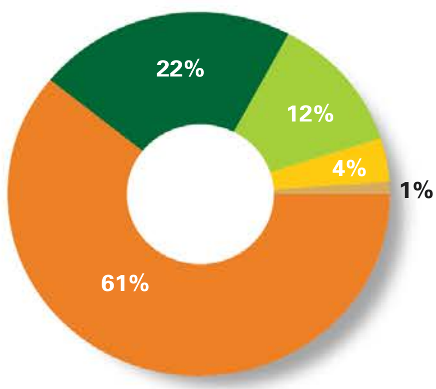
1 Residential design/build/installation
2 Residential maintenance/mowing (+1)
3 Commercial maintenance/mowing (-1)
4 Irrigation/water management (+3)
5 Snow and ice management (-2)
6t Landscape lighting (+3)
6t Commercial design/build/installation (0)
8 Chemical lawn care services (-3)
9t Water features/pond installation (0)
9t Green/sustainability services (-2)

2011 revenue



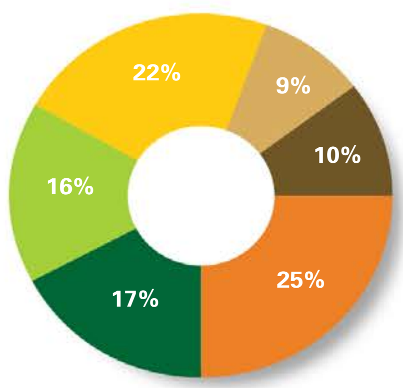
- Under $250,000
- $250,000-$499,999
- $500,000-$999,999
- $1 million-$2.49 million
- $2.5 million and up

Customer mix



- Single-family residential
- Commercial
- Multifamily properties
- Government/institutional
- Other

2012 anticipated net profits

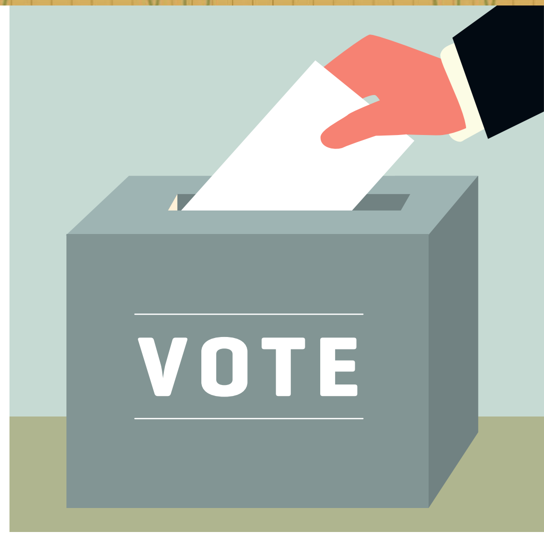


- Less than 4%
- 4-5%
- 6-9%
- 10-15%
- 16-20%
- More than 20%

By **Beth Geraci** / Senior Editor

Cast your ballot

The uncertainty of an election year weighs on landscape contractors.



Who will win the 2012 presidential election is anyone's guess. But according to our 2012 Industry Pulse survey, 57 percent of landscape professionals say the election is affecting their 2013 business outlook.

The election is still up for grabs, but it's less of a mystery which candidate landscape contractors are overwhelmingly behind: Mitt Romney. Green Industry support for Romney stems less from him and more from his politics.

Brad Johnson, founder and president of Brad Johnson's LawnAmerica in Tulsa, Okla., says he's concerned, not just from a business, regulation and tax standpoint, "although those are pretty huge. But just the overall direction of the country. There are some big concerns of how that's been going."

Many others in the industry are likewise anxious about what lies ahead. For Dave Reed, vice president of Meadows Farms Landscape in Chantilly, Va., the upshot of the election will hit close to home. The company has many clients who work in the Washington, D.C, metro area.

"The election is a big deal for us," Reed says. "A good number of our customers work for the government, either directly or indirectly. When we start talking about government cutbacks, those are pretty important considerations for us."

Reed says overall there's a lot of stability in government-related work and being near the Beltway "is a lucrative place to be" no matter who's sitting in the White House. But many of Reed's clients work in defense. If the government cuts defense spending by say, 20 percent, he says, it would make an impact. Because let's face it: "The defense clients are the big spenders."

The health care factor

Landscape contractors also worry about the impact an Obama win would have on health care costs. Dan Sohovecky, vice president of finance at San Diego-based New Way Landscape & Tree Services, says his No. 1 election concern is Obamacare, specifically its mandate that businesses with more than 50 employees must provide health insurance.

That's because New Way is just 30 miles from the Mexico border. Many of its workers live in Mexico and have alternative sources of health care.

"A number of them aren't interested in insurance," says Sohovecky. "It makes it more painful for everyone. Our employees are being forced to have it, and we're being forced as an employer to provide it and pay for it."

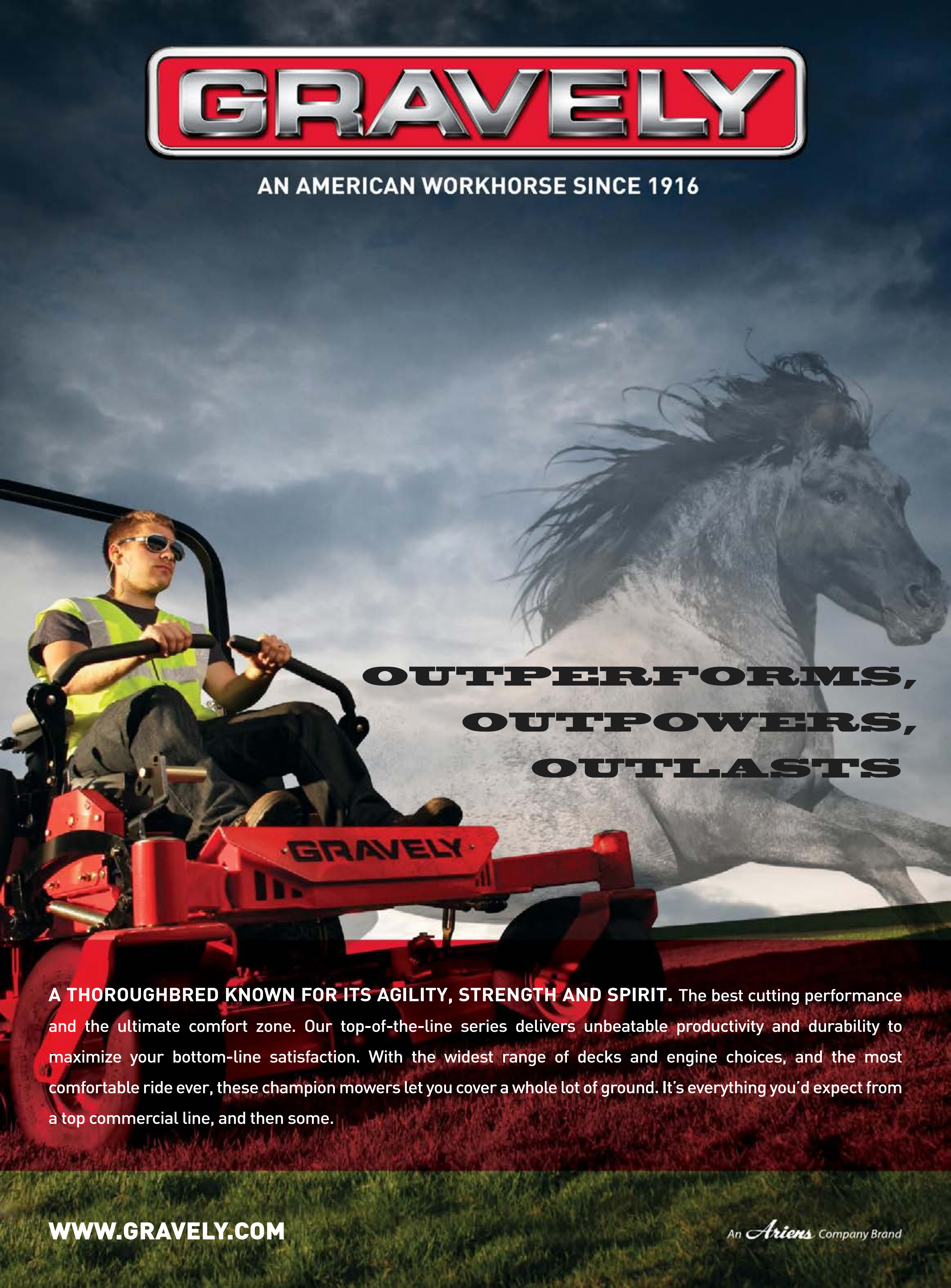
Keeping a level head

Some say things will be better no matter who wins the election, because we'll know what to expect.

Ricardo Baldi, president and owner of Baldi Gardens Landscape in Arlington, Texas, says the economic situation is improving there and he's getting more calls and more business. "I have a lot of hope," he says of the election. "I'm not too worried about it. In my opinion, both parties are the same, pretty much. They complain about each other, but they're pretty much the same in the end."

If Obama wins, Johnson worries the capital gains tax will be raised to help pay for changes in health care. But he's been here before.

Johnson says his company will still grow, no matter who wins. "We're not going to cry about it," he says. "But I sure would rather have policies in place that are more friendly to business owners." LM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By **Marisa Palmieri** / Editor

On the mend

Slow but steady improvements in key indicators reveal a housing marketing recovery is taking place.

A poor restate market affects the entire economy—and the Green Industry in particular. There's the obvious impact: Fewer new homes means fewer new lawns and landscapes to install and maintain. Steven Fine further explains the predicament in his area.

"What you have is zero equity in homes," says the manager of marketing and business development for Reno, Nev.-based Signature Landscapes. "That's a motivation not to spend money on your home." Including your outdoor space.

Although Fine's not lucky enough to have his region on the list of improving housing markets across the country, contractors in 99 other markets are as of September, according to the National Association of Home Builders (NAHB)/First American Improving Markets Index (IMI). This is up from 80 metropolitan areas that were listed as improving in August and only 12 that were on the list last September. (See "Number of improving housing markets nationwide" on page S11.)

The housing market certainly isn't back to its pre-recession level, but key reports like the IMI show a slow, steady housing recovery is taking place. "More metros across the country are experiencing a sustained uptick in house prices, employment and new building activity, as rising consumer confidence in local market conditions pushes more people to consider a new-home purchase," says NAHB Chief Economist David Crowe.

The IMI identifies metropolitan areas that have shown improvement from their respective troughs in housing permits, employment and house prices for at least six consecutive months. It includes representatives from 33 states as well as Washington, D.C. Markets added to the list in September include such geographically diverse locations as Tucson, Ariz.; Jacksonville, Fla.; Springfield, Ill.; Greenville, N.C.; and Bend, Ore.

"More metros across the country are experiencing a sustained uptick in house prices, employment and new building activity, as rising consumer confidence in local market conditions pushes more people to consider a new-home purchase."

—NAHB Chief Economist David Crowe

Builder confidence up

Also improving is builder confidence. The NAHB/Wells Fargo Housing Market Index (HMI) shows builder confidence in the market for newly built, single-family homes rose for a fifth consecutive month in September to a level of 40. This latest three-point gain brings the index to its highest reading since June 2006.

"Builders across the country are expressing a more positive outlook on current sales conditions, future sales prospects and the amount of consumer traffic they are seeing through model homes than they have in more than five years," Crowe says. "However, against the improving demand for new homes, concerns are now rising about the lack of building lots in certain markets and the rising cost of building materials. Given the fragile nature of the housing and economic recovery, these are significant red flags."

Builder confidence also rose across every region of the country in September. Looking at the three-month moving average for each region, the Midwest and West each registered five-point gains, to 40 and 43, respectively, while the South posted a four-point gain to 36 and the Northeast posted a two-point gain to 30.

Existing home sales rise

Existing U.S. home sales rose in August, marking the 14th consecutive year-over-year increase in home sales, according to the National Association of Realtors (NAR). The median home sales price in August was $187,400, slightly down from the previous month ($187,800), but above last August's price of $171,200 by nearly 10 percent.

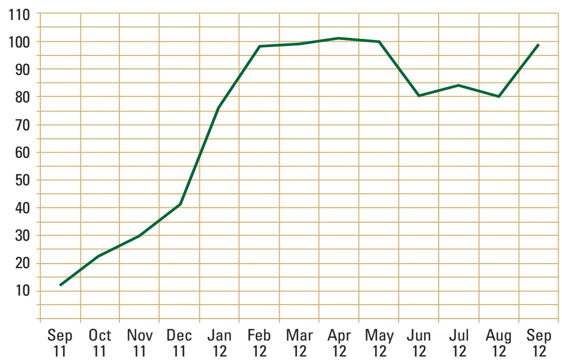
"The last time there were six back-to-back monthly price increases from a year earlier was from December 2005 to May 2006," NAR says. "The August increase was the strongest since January 2006 when the median price rose 10.2 percent from a year earlier."

Another positive sign from the September report, according to University of Michigan-Flint economist Mark Perry, includes a decrease in the median marketing time from 92 days in August 2011 to 70 days in August 2012 (almost one-third of homes sold in August were on the market for less than a month).

Multifamily market uptick

Through the second quarter of 2012, the NAHB's Multifamily Production Index (MPI) improved for the eighth consecutive quarter with an index level of 54, rising from 51 in the first quarter. It's the highest reading since the second quarter of 2005. The MPI measures builder and developer sentiment about current conditions in the apartment and condominium market on a scale of 0 to 100.

Number of improving housing markets nationwide



Source: NAHB/First American Improving Markets Index

"The strength of the MPI suggests that multifamily production is likely to increase somewhat going forward," says Crowe.

"Multifamily production has already recovered substantially from a historic low of about 110,000 starts a year in 2009 and 2010 to the current annual rate of a little over 200,000. However, prior to the downturn multifamily starts remained about 300,000 per year for 12 consecutive years, so there is room for further improvement before apartment and condo production return to normal, sustainable levels." LM

At a glance: **HOUSING**

GOOD Many housing markets are showing signs of life, with prices and single-family starts rising.

BAD Builder concerns are rising about the lack of building lots in certain markets and the rising cost of building materials.

UGLY Multifamily production is improving, but is still 30 percent off the pre-recession level of 300,000 starts per year.

By **Marisa Palmieri** / Editor

Consumers remain cautious

Many Green Industry businesses have adapted the way they sell and price residential services.

When it comes to their residential clients, landscape contractors and lawn care companies say the hesitation and price consciousness prevalent during the last few postrecession years still exists.

What it comes down to, says Rob Reindl, is people are still choosing to spend less on lawn care and landscaping than they did prior to the Great Recession. "Until they choose to spend more again, you just have to convince them to spend their discretionary dollars with you," says the owner of Oasis Turf & Tree, a $2.4 million firm in Loveland, Ohio.

Burt DeMarche, president of The LaurelRock Co. in Wilton, Conn., agrees. "It's not like 2007 when people were saying, 'Just give me the price, I want to get it done,'" he says. "Now everyone's negotiating. Consumers' attitudes have changed: They want the same for less."

LaurelRock is located about 90 minutes from New York City. Many of its clients work on Wall Street or for investment banking firms, so their incomes are tied closely to the stock market, and much of their disposable income is tied to their bonus checks, which come in March. Many bonus-driven, six-figure jobs went away from 2009 through 2011. Thankfully, DeMarche says, some of that came back this year, but it's been no small feat. Since 2009, LaurelRock boosted its annual marketing budget from $20,000 to $100,000. It has paid off. Through August, the company is up 80 percent from the same period in 2009. It's on track to gross just over $5 million in 2012.

Although Jeff Swano calls the market in Chicago's western suburbs "somewhat of a bubble," he says clients are still being cautious.

"Most of our customers are really taking their time making decisions," he says. "They want everything, but they can only afford so much, so they started downsizing the project or doing it in phases."

Swano's company, Dig Right in Landscaping in Brookfield, Ill., is on track to hit $750,000 in revenue, which is an average year for his primarily design/build and maintenance business.

Pricing problems

The fact that consumers are still watching their spending doesn't make raising prices easy.

"I feel like we should be up, but we haven't raised prices since 2008," DeMarche says. "It's hard to go to a longtime client and say, 'We're doing a price increase.' Their natural response will be, 'Are you kidding? In this economy?' The reality is they don't want to have that conversation with you. So, we've just worked really hard to keep our expenses down and to gain efficiency and not lose quality."

Swano says he avoids discounting. "We