

investments in the Green Industry possibly interested in making M&A transactions.

Those most notable include:

- L2 Capital Partners, with investments in MERIT Service Solutions (formerly Lipinski Outdoor Services), Marlton, N.J.;
- Gridiron Capital, with investments in Yellowstone Landscape Group with several locations in the South;
- Progress Equity Partners, with investments in Terracare Associates, Littleton, Colo.; and
- McKinney Capital, with investments in Landscape Workshop, based in Bessemer, Ala.

He also listed facility services companies with smaller landscape divisions he anticipates will make moves, including Norwalk, Conn.-based EMCOR Group, which owns U.S. Maintenance, and ABM Industries, which owns OneSource Services, based in Tampa, Fla.

“One would assume they would either begin looking to grow, including via acquisition, or it would seem to make sense they might look to spin off what are obviously not core operations,” Corbett says.

In August, facility services firm ISS Group chose to spin off when it sold the California portion of its landscaping division, Grounds Control, to Four Seasons Landscape and Properties Services, based in Santa Clarita, Calif.

Trends: The downslope and the upslope

On the sellers-end of the market, Edmonds says, for small- to medium-sized companies looking to sell, the market is more in their favor than past years.

“As some \$5 million to \$10 million companies are stronger coming out of the recession and a little bit more confident in the economy, they’re interested in making acquisitions,” he says. “The odds for those kinds of businesses have increased significantly.”

Another foreseeable trend is an increase in employee stock ownership plans (ESOP) as opposed to M&A transactions, Corbett says. He attributes the projection to a raise in the capital gains tax.

ESOPs create a retirement plan for employees that acquire stock from the owners, allowing owners to sell interest to employees. Some plans also allow employers to take money out on a tax-advantaged basis through investment banking-led financial transactions.

“This is called a leveraged ESOP and has been utilized by many companies in the market, especially

those who are not an ideal fit for the strategic buyers,” Corbett says.

Companies such as Sunflower Landscaping & Maintenance, Delray Beach, Fla.; The Groundskeeper, Tucson, Ariz.; AAA Landscape, Phoenix; and The Greenery, Hilton Head Island, S.C.; are engaged in ESOPs, he says.

On the downslope as a substitute for M&As are partnerships, Harkness says.

While alliances, such as the one formed between The Bruce Co. of Wis., and Reliable Property Services, based in St. Paul, Minn., may have shown promise at the beginning of the year, Harkness says the 3PG Group discourages them.

“We’ve undone more partnerships than encouraged partnerships,” he says.

The Bruce Co. and Reliable’s partnership allows the companies to remain separate entities but share operations. For example, Reliable took over golf course maintenance operations, yet The Bruce Co. continues to oversee its own golf course construction operations.

“You really have to have some good personal and financial synergy to make it work,” Edmonds says, echoing Harkness’ insights on partnerships.

Something the industry won’t see changing, Edmonds concludes, is the unbalanced amount of buyers versus sellers.

“There are always more buyers than sellers,” he says. “It’s rare that a business owner in this industry started their business with the idea of wanting to sell it. They’re in it because it’s what they want to do; they have a passion for it.” LM

AT A GLANCE

+ POSITIVE

Immigration and H-2B reform, health care requirements and a rise in workers’ comp rates are causing uncertainty, resulting in less M&A activity.

Despite sluggish M&A activity in 2013, market watchers say to “stay tuned” for an uptick.

– NEGATIVE



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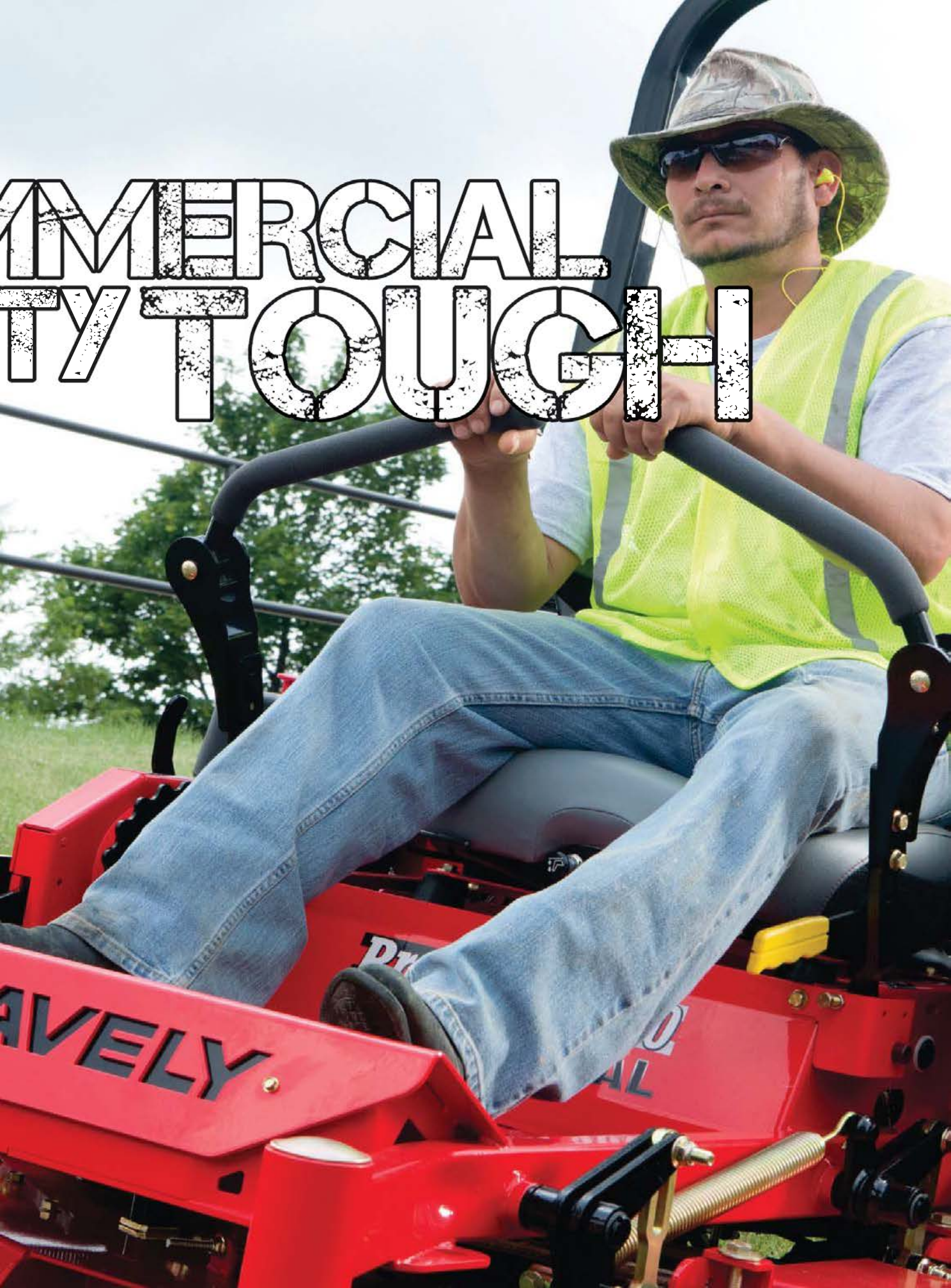


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COMMERCIAL MARKET

Quality comeback



Pricing is still a concern on the commercial side of the business, but the tide may be starting to turn.

By **MARISA PALMIERI** / Editor

Landscape professionals on the commercial side of the business say they're seeing some clients return to a quality- and value-driven mindset. That's good news for these companies, as many of them may be doing some work for less than they were before the recession, even though many costs have risen year after year.

Green Industry consultant Bruce Wilson of the Wilson-Oyler Group differentiates clients' willing-

ness to pay more by whether the work is new or existing.

"If you're trying to get a new job, bidding is low, but contractors who have work are able to get price increases from their customers, which they weren't a few years ago," he says.

Existing customers are open to price increases because they're aware costs rise and

contractors likely haven't had an increase in three to four years, Wilson says.

"If you have work, you're probably doing it for less than you were five years ago because unless you lowered your price, the customer was going to take the low bid, so you had to match that," he says.

Todd Pugh, CEO of \$11.5 million Todd's Environments in Louisville, Ohio, puts a face to this statement.

"The reality of it is we're forced to charge 15 percent less than we did 10 years ago, and our inputs are double," he says. "Because many of us have survived that, the sad part about it is how much money did we lose all those years before when we weren't lean? We're so efficient now. You have to be a good businessperson to be profitable today. The days of just doing a good job cutting grass are long gone."

Getting an increase

Wilson pegs commercial price increases this year in the 3 percent to 5 percent range. *Landscape Management* Industry Pulse research shows commercial maintenance contractors' average price per visit increased 7 percent from 2012 to 2013. Commercial prices for design/build projects, lawn care applications and irrigation maintenance all rose, too (see chart on opposite page).

In Florida, Jeff Bowen says he raised prices on large contracts by 2 percent, though he hasn't raised prices on the residential side but expects that may have to change next year if minimum wage requirements increase. Bowen is the owner of Images of Green, a \$1.8 million full-service company in Stuart, Fla., that has a client base of about 30 percent commercial customers (HOAs) and 70 percent residential customers. He doesn't want to be the lowest-priced business in his market, he says, but it's a balance to prove the company's value to clients before expecting an increase.

Matt Owens, vice president of landscape operations for Potomac Garden Center in Urbana, Md.,

"If you can keep the customer happy, they're not going to go out to bid; in fact, they're going to give you a price increase."

— **BRUCE WILSON,**
WILSON-OYLER GROUP

PRICE TAGS: COMMERCIAL SERVICES

AVERAGE PRICES REPORTED	2012	2013	% CHANGE
Maintenance price/visit	\$144.58	\$154.22	+7%
Design/build price/job	\$34,817	\$34,879	+0.2%
Lawn care treatment price/job	\$115.31	\$123.85	+7%
Irrigation maintenance price/hour	\$60.76	\$63.83	+5%

also has witnessed clients who are open to paying for quality. “I’m seeing the shift from the price-conscious decision-making mentality back to the quality side of the pendulum,” he says. “That bodes well in our favor. We’re not trying to be the low-cost provider, yet we’re forced to compete with national firms in our market.”

His company’s landscape division does just north of \$2 million in annual revenue; most of its business comes from the homeowners association (HOA) market. He calls the landscape market overall “strengthening to very strong,” compared to 2008. “It’s nothing like it was in 2004 through 2006,” he says. “But if things keep increasing like they have been over the last year and a half, we could get back in that neighborhood.”

Bidding wars subside

Competing on price with national landscape firms may be less of a concern, Wilson says, noting he’s heard The Brickman Group and ValleyCrest Cos. “are not bidding as low as they once were.”

More good news: Some say commercial clients are going out to bid less frequently.

“If you can keep the customer happy, they’re not going to go out to bid; in fact, they’re going to give you a price increase,” Wilson says. “Some customers think if they go out to bid their prices will go up. Others say they’ve been burned by low bids, so if they’re happy they’ll stay.”

Owens agrees. “For the most part, going out to bid isn’t a concern,” he says. “We have one large community that puts it out to bid every three years. That’s their M.O., even when there’s no level of dissatisfaction, but in general, it’s not a concern.”

Even so, Owens has focused on lengthening commercial contracts since he joined the company in 2010. “Every contract was one year,” he says. “Thirty to 40 percent now are three years. One contract is

now five years. There is some risk to that from a labor and fuel standpoint, but it’s a very nice community in our staple area. We want to work with them and build our nucleus there.”

Potomac’s landscape division, which grew 23 percent alone in its base commercial maintenance revenue in 2013 over 2012, plans to grow about 10 percent to 15 percent in base maintenance next year, too. “Everything else—tree care, enhancements—is extra and extremely profitable,” Owens says, adding his company’s position, with two garden centers, gives it a unique selling point. No. 1, the landscape division’s goal is to saturate the area within a 5-mile radius of one of the garden center locations to improve profitability. And secondly, it provides a community discount program for the residents who are part of the HOAs it maintains, giving these customers 20 percent off all materials purchases.

“The intent is to have the homeowners receive the highest quality products and plants—the same thing the boards are hiring us for to keep the common grounds looking great,” he says of the seven-year-old program that services up to 7,000 individual homeowners. **LM**

Additional reporting by Sarah Pfledderer.

AT A GLANCE: COSTS

+ POSITIVE

Companies with existing commercial contracts are able to get slight price increases.

Pricing remains low for new work.

– NEGATIVE

CONSUMER MARKET

Picking up steam



The Green Industry benefits as residential customers become more comfortable with their finances.

By **MARISA PALMIERI** / Editor

Green industry companies that serve the residential market are upbeat about the direction they see this portion of the industry headed.

On the recurring services side, Andrew Ziehler, owner of Ziehler Lawn & Tree Care in Centerville, Ohio, says, "Spending is picking up with customers."

In his area, he says, the improvement has been gradual. He attributes it to consumer confidence and

people "feeling more comfortable" with the economy.

Ziehler's assessment is correct: In August, the Thomson Reuters/University of Michigan's Index of Consumer Sentiment ranked at 82.1, up from 74.3 for the same period in 2012. The index averaged 69.85 from 2008 until 2013, reaching an all time high of 82.7 in

November 2012. The record low of 55.3 occurred in November of 2008.

Ziehler's primarily residential company is 65 percent lawn care and 35 percent maintenance. He expects to end the year with annual revenue of \$1.2 million, a 40 percent increase over 2012.

On the design/build side, Diana Grundeen says clients are willing to invest in their spaces again and invest

"bigger dollars" than they have been in recent years.

Landscape Management Industry Pulse research reveals average prices and project levels for residential services are all up in 2013 over 2012 (see chart on opposite page).

"(Clients) understand it's an investment in their property and they're willing to put money into it," says Grundeen, landscape designer/owner of Trio Landscaping, a Minneapolis-based design and project management firm that subcontracts with about five installation contractors.

The unemployment rate may have something to do with better market conditions, she suspects. Nationally, it's at 7.3 percent, its lowest rate since December 2008. In Minnesota where Grundeen operates it's about two points lower. When people are working more, they have less time to tend to their landscapes, she says. Also, as customers and potential customers aren't "fearful of pink skips right now," it makes them more willing to spend.

"When customers are not afraid of losing their jobs, it makes it a whole lot easier to dump a few thousand into their landscapes," she says. Trio Landscaping had a bit of a slow start to the year due to a late spring. The company will do about \$438,000 in revenue this year and Grundeen is budgeting \$450,000 next year.

Still some hesitation

Bill Banford of The Sharper Cut in Upper Marlboro, Md., says his business never took much of a hit during the recession because of its proximity to Washington D.C. and his many clients who have stable employ-

"When customers are not afraid of losing their jobs, it makes it a whole lot easier to dump a few thousand into their landscapes."

—DIANA GRUNDEEN,
TRIO LANDSCAPING

PRICE TAGS: RESIDENTIAL SERVICES

AVERAGE PRICES REPORTED	2012	2013	% CHANGE
Maintenance price/visit	\$44.19	\$47.21	+7%
Design/build price/job	\$14,842	\$15,454	+4%
Lawn care treatment price/visit	\$64.26	\$68.63	+7%
Irrigation maintenance price/hour	\$55.68	\$58.17	+5%

ment with the government. Still, the deflated housing market has caused remodels to take precedence over new builds.

“Because of the economy, people are deciding not to move and just stay at home and improve their houses, whether it’s inside or outside,” says the president of the primarily residential design/build company that has grown about 80 percent this year to \$2 million in revenue. “It has affected us more so by clients deciding to save more,” and that may mean doing projects in phases vs. all at once, he adds.

Tom Canete, owner of Canete Landscape and Canete Snow Management in Wayne, N.J., agrees residential design/build has been somewhat of a tougher sell recently than in the past.

“In the early 2000s, we were able to tell people we were booked for two to three months and they’ve give us a deposit and get on the schedule,” he says. “Now, because of the competition, you can’t tell them that. You have to find ways to get that work done.”

One strategy, he says, is splitting up crews to spread out experienced, skilled workers among laborers, so they can be on more jobs. This tactic and others are working: Canete, who employs about 75 workers on the landscape side of his business, plans to be up 25 percent to 35 percent this year over last year in his mostly residential design/build division.

Consultant Bruce Wilson of the Wilson-Oyler Group reports the very high end of the residential market is seeing some price sensitivity.

“I think it’s an outcome of the recession that people in general have become more price conscious,” he says. “It used to be the higher-end residential market was somewhat immune to pricing issues, but now they’re much more price conscious.” **LMI**

Additional reporting by Sarah Pfledderer.

DESIGN/BUILD BACKLOG LENGTHS

One to two months	78%
Three to six month	18%
Seven to nine months	Less than 1%
Nine to 12 months	3%
12 months+	1%

Asked only of companies who perform design/build. Numbers don't equal 100% due to rounding.

CUSTOMER RETENTION RATES

Less than 50%	5%
50-59%	1%
60-69%	4%
70-79%	6%
80-89%	31%
90-100%	55%

Asked only of companies who perform recurring services. Numbers don't equal 100% due to rounding.

AT A GLANCE: COSTS

Some price consciousness remains; no part of the market is “immune” from budget concerns anymore.

+ POSITIVE

Consumer sentiment has improved in 2013, and landscape professionals are taking notice.

– NEGATIVE

LABOR REPORT

Force to reckon with



As the labor market tightens, landscape contractors continue to struggle to fill key positions.

By **MARISA PALMIERI** / Editor

GreenSeasons, a full-service landscape company in Baton Rouge, La., “just cannot get steady workers,” owner Chris Casselberry says.

The company’s annual revenue for 2012 was \$7 million, and it expects to be up about \$100,000 in 2013. “We could have done better, but we aren’t really pushing too hard because we don’t have the labor force,” he says. Casselberry is not alone.

“Finding good people is the biggest obstacle,” says Dan Dahlkemper of Dahlkemper Landscape Architects & Contractors in Erie, Pa.

Labor is “hands down” the No. 1 thing that hinders growth for the landscape division of Potomac Garden Center in Urbana, Md., says Matt Owens, vice president of landscape operations.

“Staffing is absolutely our biggest hurdle to growth,” says Andrew Ziehler, owner of Ziehler Lawn & Tree Care in Centerville, Ohio.

With the unemployment decreasing and construction market picking up nationwide, the landscape labor pool likely will get even tighter, says consultant Bruce Wilson of the Wilson-Oyler Group.

“Contractors are worried about labor costs going up,” he says.

Why do these companies have such trouble finding workers? Most Green Industry professionals have a similar story to tell. To start, people don’t have a positive view about working in the Green Industry, Casselberry says. Plus, it’s hard work.

“If you feel the heat we work in, most people come in and say, ‘Oh, I can’t do that kind of work,’”

he says. “Most Americans don’t raise their kids to go work outside all day. Now kids play electronic games and they go to college.”

To battle these obstacles, Casselberry’s company offers benefits and gives bonuses to people who bring in workers. The company also works with a state labor program and calls charities and churches looking for people who are unemployed. Additionally, GreenSeasons uses the H-2B guest-worker visa program for about half of its workforce, which is a challenge of its own.

In fact, if the government forces the company to raise its wages for H-2B workers next year from the \$11 per hour it currently pays them, he may be forced to make cuts. Under the new wage meth-

WAGE REPORT: SALARY

	Current Wage	% Change Year to Year
Crew foreman/team leader	\$31,189	-9%
Salesperson	\$49,116	+6%
Equipment mechanic	\$38,265	+10%
Landscape designer	\$42,136	+2%
Landscape architect	\$59,869	+5%
Account manager	\$43,776	+4%
Supervisor	\$39,411	-4%
Operations manager	\$55,951	+5%
Office manager	\$35,350	n/r last year
Owner/president	\$79,496	+6%
Branch manager	\$71,000	+6%

WAGE REPORT: HOURLY

	0-5 Years Experience	% Change Year to Year	>5 Years Experience	% Change Year to Year
Mower operator	\$10.80	+2%	\$12.80	+0.5%
Construction worker	\$11.80	+1%	\$15.46	+4%
Spray technician	\$12.70	-1%	\$15.40	-1%
Irrigation technician	\$12.79	-2%	\$16.01	-1%

odology for the H-2B program, some landscape companies report they will be required to institute mandatory wages increases by as much as 30 percent. GreenSeasons employs 60 H-2B workers—about half of its total workforce. “We haven’t decided yet, but we may downsize,” he says. “You can’t cut grass with nobody running the trucks.”

Matt Owens, vice president of landscape operations for Potomac Garden Center in Urbana, Md., says the Department of Labor has notified his company that it’s required to increase H-2B wages 31 percent next year. The company has about 30 H-2B workers.

“We’re appealing it, but we’re also escrowing the money,” he says. “We’re hoping we’ll win the appeal, but it may force us out the H-2B game.”

Attracting and retaining

Ziehler, whose company is primarily lawn care and some maintenance, says finding people who can provide the company’s level of quality is very difficult.

“We’re having a heck of a time trying to find the right people to bring on board,” he says. “(It’s tough) trying to get those good candidates in the door.”

One way he’s addressed this challenge is by focusing on company culture and developing existing staff members through training programs to ensure retention is good. Still, getting new workers is a struggle—especially for a company that’s budgeted for 50 percent growth next year.

Beyond just finding enough workers to get the job done, Wilson says there’s a focus on building “bench strength” for growth.

“That hadn’t been the case for the past few years because nobody was really growing,” he says. “Now they see there could be a growth cycle ahead, so they’re thinking about bench strength so they have the ability to grow.”

Todd Pugh is an example of that. He is focusing on culture and attracting quality staff. Pugh

previously used the H-2B program but today has an all-local labor force.

“Growing our people is the No. 1 focus of our company right now,” says Pugh, CEO of Todd’s Environments in Louisville, Ohio—an \$11.5 million firm with about 175 employees. He hopes to grow 15 to 17 percent next year, and at such a large size, staffing up is the most difficult obstacle to hitting those figures.

“Adding 20 percent isn’t such a big deal when you have 10 people,” he says. “But at 200 people, you need 40 people to grow 20 percent.”

Attracting new employees is part of the challenge, as is making sure everyone already on board understands their opportunities, Pugh says. To convey that message, Pugh organized a day-long staff meeting with three speakers who addressed what it takes to achieve career success inside the landscape business or out.

“It was very well received,” he says, estimating it cost about \$25,000 in payroll alone to host the meeting. “The big messages were nobody’s promotable unless you train your own replacement and nobody’s going to drag you through a career-training program. It’s up to you in your position to be looking for the next opportunity and go the extra mile.” **LJM**

Additional reporting by Sarah Pfledderer.

AT A GLANCE: COSTS

+ POSITIVE

The labor market is tightening, with unemployment declining and the construction market picking up.

Landscape companies are focusing on bench strength to grow.

– NEGATIVE

COSTS REPORT

Expecting increases

Landscape companies seek savings as they plan for cost increases in many areas of their businesses.

By **MARISA PALMIERI** / Editor



Controlling costs is a major focus of most successful businesses, and the Green Industry has been no exception to that in 2013.

Todd Pugh, CEO of Todd's Enviroscapes, a \$11.5 million company in Louisville, Ohio, estimates his costs are twice as much as they were 10 years ago, despite having to charge 10 percent to 15 percent less than he once did.

The *Landscape Management* 2013 Industry Pulse report research reveals how that shift could happen over a decade. The average landscape company's operating costs rose 10 percent from 2011 to 2012 and are expected to be up 12 percent from 2012 to 2013.

While fuel, a perennial concern, has stabilized over the last two years, sights are set on other potentially costly uncertainties, namely health insurance and labor (for more on labor, see page 18).

Although many contractors say fuel costs were less of a concern this year than in the past, the *LM* Industry Pulse report shows average landscape companies' fuel costs were up 14 percent in 2012 and are expected to be up 11 percent this year. As for next year, the annual average price of retail gasoline is expected to decline from an average of \$3.63 per gallon in 2012 to \$3.52 per gallon in 2013 and \$3.37 per gallon in 2014, according to the U.S. Energy Information Administration's Short-Term Energy Outlook in August (see chart on opposite page).

That's welcome news to contractors like Pugh. Even though he has seen fuel recently as low as

OPERATING COST OUTLOOK

+10%

Increase in operating costs from 2011 to 2012.

+12%

Anticipated increase in operating costs from 2012 to 2013.

AVERAGE % CHANGE IN COSTS

	2011-2012	Projected 2012-2013
Fuel	+14%	+11%
Labor	+10%	+8%
Equipment	+7%	+15%
Insurance	+14%	+8%