Pulse of the Industry

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After making hard adjustments, it's time to move forward again

"Three years ago I was rolling around in my bed with pills nearby. I couldn't keep going like that," admits Ron Lester, his face reddening with remembrance of "the toughest year" he's ever suffered as a landscape business owner. "I've been around for a while. And we've had some down times. But nothing like that," he continues.

Lester was referring to 2010, the season when the effects of the meltdown of homebuilding and construction finally reached the landscape industry. He was one of thousands of landscape company owners that had hitched much of their companies' futures (in some cases their survival) to construction and designing and building beautiful residential and commercial landscapes.

Why not? For more than a decade, apart from the shock of 9/11 and its severe, but temporary, effect on the economy, easy credit and rising home values fed the mother of all building booms in the United States. Then home prices across the nation plummeted, banks failed and the country plunged into its worst economic decline since The Green Depression. Where previously companies, in particular small to mid-sized operations that fed on residential projects, booked construction jobs five, six, seven months out, they suddenly found themselves cutting costs, shedding staff and scrambling for work.

These were not just newcomers to the industry either. In many cases, these were knowledgeable and committed owners like Lester and his wife Tracey, who started Architerra, their Chicago-area landscape company, in 1982.

So, where is Ron Lester now, and what does he see for his company in 2013? In fact, what's in store for the landscape contracting in total?

Playing by new rules

Slowly improving prospects is the almost unanimous reaction from the company owners and managers that Turf magazine contacted in writing this report.

Chris Davitt

“Most landscape company owners have made hard adjustments the past couple of years and are moving forward. The industry realizes it’s playing with new rules now, and it’s moving forward,” says Chris Davitt, president of Maryland-based Ruppert Landscapes.

Let’s start with Lester, whose experiences may be similar to those of many of you who have also managed to work through the tough times and are now seeing better days ahead.

“In 2010, we had to reinvent our company,” recalls Lester. “I started by thinking back to when I was happiest in this industry. It was when I had 50 or 60 lawns that were close together and easy to service.”

That realization prompted the Lesters to reinvent Architerra, and also its perception in their market. They decided to build upon the strong ties they’d established within their hometown community of Indian Creek (pop. 624) and its surrounding villages and cities. They have deep roots in Lake County, Ill., which is about a 40-minute drive north of downtown Chicago (The Loop) on a good traffic day. The Lesters are well-known in the region. An enthusiastic supporter of the local Boy Scout troop, Lester and his wife are also active in their church. Lester grew up in the region where his parents ran a small business, too.

Ron Lester

“Putting a bunch of perch in the basket” is how Lester describes his company’s post-recessionary makeover. (Lester loves to fish when he and his family can get away to their Michigan retreat.) Perch in this case are the approximately 37,000 properties that he’s identified in the communities they targeted as their service area.

“They’re all within 10 miles of our office; they’re all within minutes of our company. We used to chase jobs all over the place. We don’t do that anymore,” he says grinning.

Lester says that Architerra doesn’t chase “whales” anymore, either, referring to the large construction and design/build jobs that the company specialized in doing prior to the recession. On a wall in the office adjacent to Lester’s office hangs a beautiful architect’s drawing of a $1.6 million residential project (swimming pool, the whole package) that Architerra completed just a few years ago. Referring to the architect’s drawing, he says his firm “keeps its line in the water for whales,” but its primary focus now is establishing itself as “Your Neighborhood Landscape Provider.” In that regard, it still offers any landscape service that a homeowner or facility manager would need, but by clustering its accounts it’s able to provide even the $30 to $50 services, such as lawn care, at acceptable margins.

We Must Change Consumers’ Perceptions

The modern green industry’s biggest challenge is one that it’s faced since its very beginnings. Only now, in this uncertain economy and with consumers bombarded with so many spending choices, overcoming that challenge is even more critical.

Dr. Charlie Hall of Texas A&M is referring to perception. The public perceives that the green industry is all about “pretty,” that its products and services are a luxury. Consumers don’t fully comprehend the “quality of life” benefits associated with the turfgrass, flowers and trees, indeed in their landscapes as a whole. Hall says that the industry must do a better job educating the public to the 1.) researched and documented economic contributions, 2.) health and wellbeing benefits and 3.)ecosystem services of urban landscapes.

Consumers will spend freely on products or services that they perceive enhances their quality of life. “People afford what they want,” insists Hall, professor & Ellison chair, Department of Horticulture. As an example, he refers to the U.S. pet market, where spending increased from $38 billion in 2006 to a projected $52 billion this year. The pet market grew even during the height of the recession. Why? Because consumers recognize that pets enhance the quality of their lives.

“Changing that perception is where we need to go in the industry regardless of economic conditions,” says Hall.

As for the U.S. economy itself (the subject of the webinar he hosted), Hall opines that our political leaders will compromise on some of the issues – agreeing to raise some taxes and make some spending cuts – by year’s end rather than allowing it topple over the so-called fiscal cliff. Nevertheless, it will leave many of the biggest issues to resolved sometime in the future.

“We can only control economic conditions to a certain extent,” says Hall. “But we can influence the mind of the consumer in how we’re viewed in terms of our value and our relevancy.”

To that end, while Lester admits he was nervous to try it, Architerra hosted a series of seasonal open houses, including an invitation-only snow management fete for facility managers. Unlike the public events that featured landscape plants, beautiful arrangements and snacks and treats for visitors, the Lesters and staff doled out hearty food (bison meat) and strong drink for the property managers. The positive response, including new business, generated by the events delighted (and to a certain extent surprised) the Lesters. And even something as simple and obvious as putting a small but very visible “Open” sign atop the signage and their company’s entrance started attracting a surprising number of walk-in prospects.

“We had people in the neighborhood that didn’t realize that they could come in here,” says Lester amusedly. “They said they would drive by and wonder what was here.”

Casting a bigger net

“By contrast, not many (if any) homeowners saunter into the Ruppert Company headquarters in rural Maryland seeking information about lawn care or maintenance services. This $70 million landscape operation, with branch locations from Philadelphia to Atlanta (again, unlike family-run Architerra, which has shrunk its service area) is spreading its reach “farther and wider,” says Davitt. However, he, too, is forecasting continued growth for his company.

“Things look good for next season. Our backlog is ahead of where it’s been the past three years,” he says, adding and commenting, almost as an aside, that he doesn’t think Ruppert is “over-reaching” by budgeting a 15 percent increase in maintenance for 2013. And this in spite of an uneven economic outlook that has half of its clients well into recovery and the other half still finding their way, he says.

“The surprise” caused by the housing collapse and resulting recession, although well-remembered, is long past, says Davitt. He continues: “Those companies that are still around have learned to play the game by the new circumstances.”

Those rules involve paying constant attention to costs and also realizing how much it costs to deliver products and services and pricing them accordingly, he says, advice that just about every contractor or consultant that Turf contacted about 2013’s prospects echoed.

Positive signs

Joe Janssen

Joe Janssen has had a long, varied and successful career in the landscape industry. Now, as vice president of operations and development of Tidewater Landscape Management, he sees modest growth overall, with some parts of the country doing much better than others. The landscape industry is, by its nature, regional. That’s often overlooked when trying to assess it in an article like this. Each region has its own unique market dynamics and challenges. Even so, in total, things are looking up, albeit modeslty, says Janssen.

“Next year money is going to be spent,” says Janssen, who works out of Jacksonville, Fla. “I’m seeing some development occurring that I haven’t seen for the past couple of years.” Indeed, the recently released McGraw-Hill Construction Report indicates that “total U.S. construction starts for 2013 will rise 6 percent to $483.7 billion, slightly higher than the 5 percent increase” that was estimated for the 2012 calendar year.

Also, two of the nation’s most authoritative national housing price indices say the housing recovery is underway. The S&P/Case Shiller U.S. National Home Price Index recorded a 3.6 percent gain in the third quarter of 2012. The Federal House Finance Agency’s seasonally adjusted house prices rose 4 percent for the same period. Also, on Nov. 20, the National Association of Home Builders (NAHB) predicted U.S. housing production at 894,000 units for 2012, the highest pace of new-home construction since July of 2008. Housing starts rose 17.2 percent in the West, 8.9 percent in the Midwest, a storm-related decline of 6.5 percent in the Northeast and 2.4 percent in the South.

Janssen says that the maintenance market appears to be holding steady, too, but “right now everything seems to be driven by price.”

That being the case, Janssen advises contractors to be diligent in crafting service programs and prices for each individual site they survey and bid. Obviously, “A” properties require a different level of service and offer a different financial return than “C” or “D” properties. “But, there’s still opportunities for reasonable margins if you can manage each of those category of properties very closely,” he says.

Prospering in 2013’s tight-money economy will challenge owners’ creativity, especially in terms of “flexibly employing their labor,” says Janssen. “At the end of the day we’re selling labor. That’s really what we’re selling.”

Rod Bailey, Alder Springs Enterprises, LLC, Salem, Ore., says that 2013 will challenge owners to become better financial managers.

“This isn’t something new. But in today’s economy it’s even more important that owners thoroughly understand their financial information, that they get the right chart of accounts and that they receive financial reporting on a regular basis,” says Bailey, who ran a successful landscape company in Washington State for 30 years before selling it and getting into the consulting world.

Almost all landscape business owners can do a better job of strategic planning and outlining where they want their companies to be in three to five years, says Bailey. Veteran owners with established companies have the added challenge of preparing their exit strategies. If not this year, then when?

“Looking into the next 10 years or so, 70 percent of all small businesses are going to turn over. A lot of people are going to find out that it was a lot easier to get into this industry than it is to get out it, or at least being fairly compensated for all that they’ve put into it over the years.”

Bailey adds that all landscape company owners, regardless of year or economic conditions, should always be attempting to increase the value of the companies as if they intend to sell it in the next couple of years. This means implementing strong financial, administrative, operations and marketing/sales systems. He says that 2013 is as good a time as any to begin, getting a handle on financials first and going from there.

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