A supplement to

Lawn&Landscape

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2013 State of the INDUSTRY REPORT

L&L helps you connect the dots with our latest report. LOOK INSIDE TO LEARN:

Five years later, what was the real impact of the Great Recession?

The best data on fastest-growing services, backlog averages and profits.

How landscapers are preparing for the Affordable Care Act.

Industry **Insight**

John Deere is delighted to sponsor the 2013 ***Lawn & Landscape*** State of the Industry Report. The opportunity to gain insight into the projected trends and financial health of the industry is essential to your business planning and ours.

Upon reviewing the valuable information in this issue, you'll find the outlook for the lawn and landscape industry is promising. Nearly half of the contractors surveyed have more work backlog than they did a year ago. Looking at the year-over-year profit perspective, 90 percent of the contractors responding to the survey indicated they would also generate a profit this year. That's good news, indeed!

Other leading indicators such as weather, housing starts, home values and landscape services employment figures support the positive trends you'll see in this issue. It appears the overall industry may have turned a corner with a projected growth of 3 percent for 2013 and 3.7 percent for 2014.

One thing I have learned over the years is that there is tremendous benefit in listening and learning from those who have experience and insight within our industry. As the major sponsor of the Green Industry Conference, as well as various industry conferences throughout the year, we continue to gain greater knowledge into the opportunities and challenges that you, our customers, face.

As you read through this issue and start planning for next year, I would encourage you to get involved! Be an active member in your state or national trade associations. PLANET members cite education and networking as their top reasons for joining.

I would also invite you to join John Deere in expanding the Come Alive Outside movement in the communities where you work, live and play. The Come Alive Outside Challenge encourages and rewards FFA and 4-H Club members who conduct service projects within their local communities that promote and reinforce the benefits of well-maintained green spaces.

To take full advantage of the projected continued growth in the industry, you will need to implement new and innovative approaches to business. John Deere is dedicated to providing you with the products, dealer support, financing and other integrated solutions to help you grow and prosper.

Growth is important for all of us. There has never been a better time to clearly define your brand, your niche, strengthen your business and better serve your customers.

We wish you a safe and prosperous year!

Sincerely,
Ken Taylor, CLP
General Sales Manager
John Deere Corporate Business Division

Connecting the dots

We do the state of the industry report every year, and every year we try to make this high-level research report as useful and helpful to our many thousands of readers as possible. In an industry where so many people can be called a landscaper, it can be challenging to wade through so much data to find the most relevant information. And we ask a lot of questions. So, first, to the more than 600 contractors who made it through our entire survey, I want to say, "Thank you." We quite literally couldn't have done this without you.

Apart from the data collected in our survey, the *L&L* editors, frequent contributors and I spend the year talking with landscapers to get a handle on how things are going in the market. The main purpose of this report is to give you an idea of what's happening across the country to landscapers of every stripe.

Here's what we've been hearing:

From our initial read of the data, things are going pretty well. Key numbers like profitability, revenue and backlog look good. Nine in 10 owners say they'll end up in the black this year, net profit margins remain an average of 10 percent nationwide, and average yearly revenue is $664,038. For the first time, we asked about average backlog for contractors, and about half reported that they're ahead year-to-date compared to 2012. Another third of the industry is about the same as last year.

If landscapers could fix anything, they'd fix labor. A full quarter of owners say they would improve the quality of their labor pool if given the chance in 2014. A lack of quality employees is a perennial complaint of contractors, and a close second this year is customers cancelling or cutting back services.

Input costs – fuel, chemicals, labor – continue to rise and the prices contractors charge aren't keeping pace. So owners are turning toward technology – everything from mobile devices to equipment tracking devices to custom customer management and marketing software. It's part of a larger trend on efficiency and a focus on how to wring even more profit out of top line revenue.

Gas prices remain the No. 1 concern of landscapers. As a result, more are starting to explore the use of alternative fuels like propane in their businesses. Propane has a small foothold in the market – about 6 percent of contractors use it so far, and use it to power just 3 percent of their equipment – but it's going to get bigger. Gas and diesel prices aren't going to go down, and a reliable supply of any kind of cheaper fuel will help contractors budget better.

All of this – difficulty finding labor, prices and stabilizing margins – contributes to owner stress. For the second year in a row, stress appears in the top three worries for landscapers across the country. For the largest companies, it's tied for second with health insurance costs.

Contractors by and large are legitimately scared of what's going to happen with the Affordable Care Act. And it's less because of the politics of the law, but of the uncertainty it causes

for them trying to run their businesses. That's not unique to landscapers, but most everyone I've talked to just wants to know what they'll have to do to comply so they can start planning for it.

The main theme of this year's report is how landscapers have fared since the Great Recession started in the fall of 2008. Five years later, contractors have learned a lot of lessons.

Many went out of business, and many more had to reinvent themselves to stay afloat. The bottom line is that many landscapers, in the last five years, have chosen or have been forced or some mix of the two, to start thinking more like business owners.

Thousands of landscapers across the country have focused, worked hard and grown in the years since the world ended. Turn the page to read how they did it, and get an in-depth analysis of our 2013 data. – *Chuck Bowen*

5 years later

The down years weren't all bad. Many contractors got leaner, smarter or even bigger. This year's State of the Industry Report connects the dots from when the economy bottomed out five years ago to today.

by Kristen Hampshire

For some, the last five years were a wrinkle in time. Finally, revenues in 2013 are on pace to meet or beat 2008, before the economy bottomed out. This year feels like shaking off after a sweaty, bad dream when you wake up wondering: What the hell happened here?

For others, the recession years were like running a business headquartered in quicksand. You had to fight so you didn't sink. But you got really strong swimming against gravity like that.

Then there were companies that admit they were somewhat insulated from the economic catastrophe because of their market, their customer base or complete anomalies – a good snow, a lucky break with a multi-millionaire client, good timing. Of course, many companies didn't survive this. And to be fair, the story you're reading is a bit skewed because we talked to landscapers who are still in business. Survivors. The ones who had to cut back, invest their personal savings to keep things alive or who were positioned to eat up market share in vulnerable times.

"I feel like I just went through the 'Biggest Loser' where we show up, we don't know what to do and by the time we're done, we come out feeling great and ready to roll," says Russ Marsan, owner of Carpenter & Costin in Rutland, Vt. "I just feel like a whole different person."

Here are snapshots from across the country – stories that illustrate how landscape businesses were faring in 2008 before the crash, how they responded in those dark times, and why the last five years have changed these companies forever. Sure, we all have a few signs of aging thanks to this economic recession. But most of us look in the mirror and see a more distinguished, wise and mature business that's ready to face the future.

Switching the mix after a merger

Three weeks after Marsan merged with a neighboring landscape firm in 2009 – expecting that combining forces, networks and talent would position the company for success during the downturn – the fresh new entity lost $1 million in business. Just like that.

"We lost about 50 business clients who canceled projects," he says. "We had a major free-fall and it really shook myself and my partner to the epicenter – right to the core."

In 2008, Marsan's business had the best year in its history. Back then, the operation was 75 percent construction and 25 percent maintenance/snow. Today, that business model has flip-flopped. Three-quarters of revenues come from recurring services after an aggressive shift in 2009 toward commercial maintenance.

Vermont is a different market, Marsan admits. And in his region, which is rural, the switch to commercial was a survival move. "We're very much unlike the suburbs of Boston where there are a lot of affluent single-family residents," Marsan says, calling central Vermont a somewhat limited market. "The best way for us to afford our overhead and succeed was to focus on what was available, and there was a pretty good opportunity in the commercial end of things."

Of course, Marsan didn't expect the bottom to drop out when he merged with another company about 20 percent of his firm's size. So that bounce to commercial was a survival tactic, and one that stuck. As for the partnership, it helped the business stay strong during tough times. "We knew two different networks, so that was a great opportunity for us to mesh our customer capacity," Marsan says.

The company has grown from about 15 employees to 30 since 2008, before the merger and the economic bust. But the ship runs tighter. *Profit triangle* was not a phrase Marsan used in 2008. It is today.

Now he runs two-man crews – not crews with three, four or five members. The workweek is one day shorter. The business runs Monday through Thursday. "That cuts 10 hours, reduces 20 percent of road time and that means cutting back on 20 percent of my setup and breakdown on jobs, drive time, etc.," Marsan says.

He's lean. But what does that mean exactly?

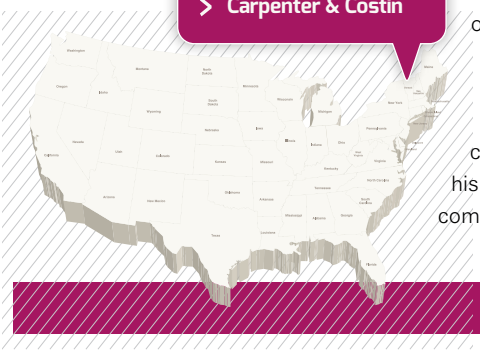
"Benchmarking," Marsan says. "Profit equals opportunity for growth, equals great customer service, equals team-building."

"When I think lean, I think profit," Marsan continues. "I think maximum efficiency. That means taking a daylong project, doing it 10 percent faster and therefore reducing expenses on that job."

And as for now – and 2014? Last year, the company finally hit the $2.2 million mark, a goal Marsan set in 2009. "It took us this long to get back to that point, and it was a long road," he says. This year could look like $2.5 to $2.75 million. With a branch office open in New Hampshire, there are two locations and more opportunity for growth. "It's going to be even better," he says of the future.

> "Profit equals opportunity for growth, equals great customer service, equals team-building."
> – Russ Marsan

> Carpenter & Costin



FORWARD AGAIN IN 2013

"I put all my life savings into the business." Zech Strauser didn't pull back during the recession. Instead, he put his financial life on the line and pulled about $300,000 from his personal savings to invest in a new facility for Strauser Nature's Helpers in East Stroudsburg, Pa.

The timing wasn't all bad. "We started to have opportunities to buy land and invest in the business at a cheaper price," he says.

Fortunately, Strauser had saved when times were good and had the reserves to make some moves. "Before, we were so busy getting work done, we didn't have time to spend money, really," he says. From the time he started the business in 1998 until 2008, "It was pretty much, the sky is the limit," and the business grew 20 to 30 percent each year. Strauser played his spending smart during that time.

Even so, to sustain operations and take advantage of market opportunities, he relied on his own cash to fund growth during the recession. "At least it's equity in property – it's not like I lost that money," he says, adding that building up that savings again will take time. But at least the business is healthy.

Meanwhile, the last five years has afforded Strauser an opportunity to really take a closer look at operations.

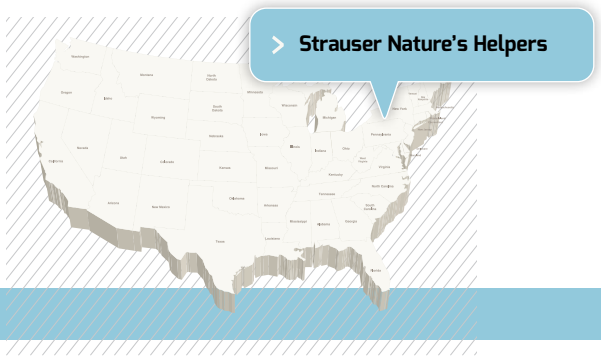
"The recession really allowed me to grow up a little," says Strauser, 36. I started the business when I was in my 20s, and I was full bore until I was 30." Slower times gave Strauser breathing room to stop, plan and build a strategy for what's next at his firm. And, like most companies, he got just uncomfortable enough to learn why running lean is critical. In 2001, he launched a Working Smarter Challenge. "We started to basically look at how we do things from an operational and financial standpoint," he says.

Finally this year, the company has a backlog. "We are starting to put a high focus on construction and installation services," Strauser says of the primarily maintenance and snow business. Currently, recurring service work is 75 percent. Five years ago, 75 percent of the business was installation.

Meanwhile, revenues are finally reaching pre-recession levels, Strauser says. He expects to match the company's 2007 numbers, which were its highest. The company has been growing an average of 10 to 15 percent. "We haven't had one flat year," Strauser says. But that growth has come from maintenance, which yields smaller profit margins and lower-dollar sales. "That was good for cash infusion and more steady growth each month, which I'm all for," he says.

Strauser says 2013 is the year his business began moving forward again.

"If the recession would have happened during our first five years of business, we would not be here, I think," he says. "My drive and money saving got us through everything. So, now we are trying to replicate that (work ethic) but be smarter than we were in our first decade of business."



INSULATED, BUT PROACTIVELY DIVERSIFYING

BP was a big-spender with Foret Contracting Group in Thibodaux, La., following the oil spill in 2010. Foret Group already had BP as a client. But that year, revenues swelled to $7 million. (Today, it does about $3.5 million.)

"We did anything and everything for those folks – we wanted to help our client get through that situation," says Ryan Foret, COO and landscape division manager at the firm.

The recession really caused no tug on the business. "We feel like we were a little bit insulated from the recession because the predominant business in southern Louisiana is oil field related," Foret says.

But Foret Group has carefully watched and learned from the last five years of economic strife throughout the country. The firm is focused on diversifying its operation and growing its capability to serve as a total facility manager. "We want to be the one-stop shop for clients," Foret says of the group's general contracting and facility maintenance division.

Currently, the company is working with corporate clients who contract out an array of services, from plumbing and electric to landscaping – whatever happens on the property. Foret Group sees an opportunity to serve as a reputable single point of contact. Essentially, the firm is working as a general contractor of trades, which means building relationships to fulfill large, complex facilities management contracts.

The division is doing well, Foret says. "The few clients that we are doing this work for keep us very busy, and this is definitely a service we will put some time and effort in the future to grow," he says.

Promoting growth, winning talent

"We made the bet that things would turn around," says Chris Clifton of his approach to business the last five years. In 2009, Southview Design in Minneapolis did $4.7 million. "We are on track to do $12 million this year."

The landscape market in his region shrank by at least half, he says. And Southview Design did slow down, but not exponentially. During that time, the firm backed away from the homebuilder business and began to focus on consumer-direct services: residential design/build, which is 95 percent of what it does now.

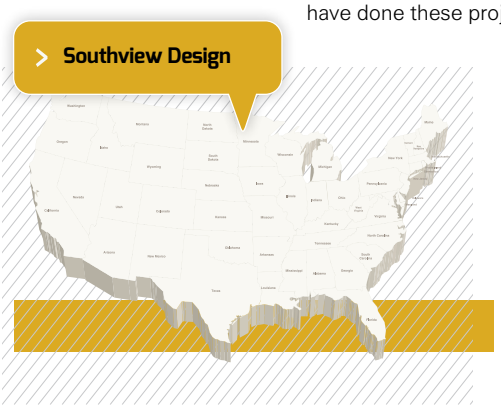
Clifton made sure that homeowners recognized Southview's name. He credits his company's growth to assertive promotion efforts – a combination of radio, TV, newspaper, magazine and direct mail – along with creating a sought-after company culture. "We are absolutely leaner now," he adds.

A different approach to assigning roles in the organization has drawn in talent. Rather than hiring a landscape designer who also sells, manages projects and serves as a project foreman, these roles are broken down into separate jobs. "That way, people can focus on the parts of the chain they are good at, so our average competency level for any given function in the business has gone up," he says. "It's the best team with the best players."

Clifton says this concept isn't special. But apparently, it isn't the norm among landscapers in his area, either.

Meanwhile, business is steadily growing as consumers in the Twin Cities market loosen up spending. Clifton says 2011 and 2012 were the best years on record for Southview Designs. "I think we were a little bit on the front end of the recovery because of all the promotion we have done," he says. "When people came back into the market (to spend), they were willing to take a look at us.

"I also think there was pent-up demand," he continues. "For some clients, the money was always there, and I think they would have done these projects sooner."

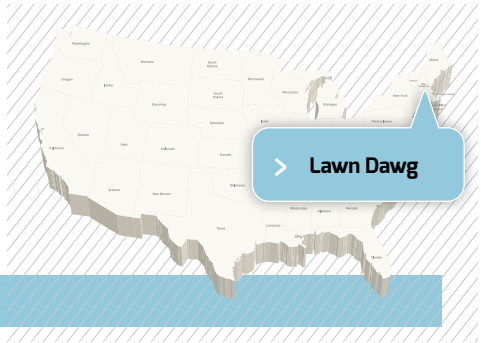


A BRAND NEW APPROACH DRIVES GROWTH

"This might not be the story you were expecting to hear," says Jim Campanella of Lawn Dawg, Nashua, N.H. His business doubled since 2009, from $5.6 to $12 million. "We got hit just as hard here as everywhere else in the country," he adds. So, the market in upstate New York wasn't especially kind.

But lawn care is a service that makes the cut in tough times. Vacations got trimmed and so did large design-build projects. "But you've got to keep the grass alive to protect your property investment," he says.

At Lawn Dawg, growth was propelled by a brave new brand, a handful of acquisitions and aggressive marketing. In 2009, Campanella recruited a private equity group to recapitalize the business so he could buy out his partner. He brought in a full-time property manager, then centralized sales and processing. "We launched a new and improved Lawn Dawg and that has really paid off for us," he says.



The look and feel of the firm got a makeover. "If we wanted to get taken seriously on a regional and maybe a national basis, which is my goal, we needed a more professional image," Campanella says.

Meanwhile, Lawn Dawg captured opportunity to expand into new markets through organic growth and acquiring operations. Its footprint has increased from five to 10 branches in the last four years. "There were some really nice strategic opportunities out there," Campanella says.

This assertive growth will continue. And so will the firm's careful watch over the budget. "We negotiate everything from print material to trucks and equipment," Campanella says of a significant change in purchasing since the economic downturn. "We make sure we are getting the best value across the board."

BORN IN THE RECESSION

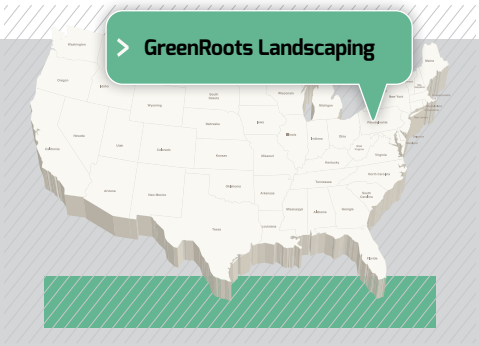
Joshua Cauffman launched GreenRoots Landscaping in the Philadelphia area in 2009. Tough is what he knows – business has never been all that different. But what has changed since his first year operating is the size of the design/build projects his company performs.

The $100,000-plus jobs that used to come in the door look more like $25,000 now. GreenRoots Landscaping's volume has been steady, but billing has decreased.

Still, Cauffman is investing in his team. This year, three additional staff members bring the roster of this $2 million company up to 15 people. Cauffman is positioning the firm for growth by bringing on professionals to manage administrative functions. Now, he's got an office staff. And that is stressful, in a way, because sales volume is not ramping up significantly. But Cauffman sees potential. "This year, it looks like we'll be a little better than last year – not hundreds of thousands better, but a little better," he says.

One struggle he's facing is bidding against design/build firms that dole out free designs to win jobs. Cauffman subcontracts his design work. He is hiring freelancers that he has to pay, so freebie designs just aren't possible if he plans to make a profit (and he does). "I have to figure out how to get a professional design to clients without it costing me an arm and a leg," he says.

And Cauffman would also like to edge away from residential clients and take on more commercial work. For now, up to 70 percent of his clients are homeowners. "I'm telling you, they take 10 quotes on you and … it's really tough." Cauffman says GreenRoots is on track internally to support commercial clientele; it's just a matter of pursuing the work.



His friends in other trades like HVAC, for example, haven't experienced the same economic stress. If people have a limited budget, necessities come first, Cauffman says. "They're going to fix their heaters."

STEPPING OUTSIDE THE MULTI-FAMILY NICHE

The rental market in Florida is booming. Buildings are full. Real Estate Investment Trusts (REIT) buy up foreclosed properties to hold and/or lease need landscaping services, too. Today, Ameriscape Services in the Tampa Bay area is servicing about 500 homes per week for REITs. Last year, the firm did no business in this sector.

Diversity has been crucial for Ameriscape because its core business – the multi-family world – was bombarded with competition since the market was so ripe. "It's very cutthroat. I'll tell you, that market is a blood bath now," says Joe Chiellini, president. "No one can buy a house, so they have to rent," he continues. "From a business standpoint, the competition for multi-family contracts has been tough."

So Ameriscape has diversified heavily. There's no loyalty in the multi-family market, he says, even if Chiellini gave them a price break during the recession. When a lower priced bid lands on the desk of a property owner, guess who wins?

But Ameriscape held on strong during the last five years. And in the last year, the company has staged a strategic growth spurt thanks to new REIT business. The opportunity in this market is huge in Florida and other states that were hit hard by foreclosures, including Arizona and California. The largest REIT in Chiellini's market has 3,000 properties in the Tampa Bay area. "They are writing leases on these houses just like they are apartment complexes," he says.

Because Chiellini has worked in the multi-family market for so long, he has relationships with property managers, some of whom moved over to work at REITs. "They reached out to us, and we saw a niche," he says.

Now, REITs are about 30 percent of Ameriscape's business. The company is going to do at least a half-million dollars this year from these clients. Meanwhile, Ameriscape also expanded into municipal work, capturing a significant contract with the City of Tampa.

"Before, we never diversified, and I've been in business for 13 years," Chiellini says. "Halfway through last year, we realized that we better start diversifying, so we aggressively went after office park and municipal work, and now we have something in every arena, so that's a good place for us now." As for 2014, Chiellini says he'll "put on the brakes" and harness the fast 30-35 percent growth the company is experiencing this year "We are getting back to what has helped us stay in business, and that's getting rid of 'bad business' and continuing to find good business," he says.

Steady but stuck

After idling at the same revenue mark for five-plus years, Dave Rykbost says he's ready to hit a higher target. He'd like to grow Dave's Landscape Management Co. by $1 million in the next few years. That's about 13 percent growth each year for the Hudson, Mass.-based business. "I'm kind of sick of $2.5 million," he says.

But playing a conservative hand has been crucial in maintaining the business since 2008. For example, Rykbost has been repairing equipment rather than making purchases. Not until recently has he added to his mower fleet. Last year, he replaced six mowers, and he ordered a couple more this season (all propane). And, he's shopping for trucks again. This comes after a few years of steady-as-she-goes.

About a week before the market crashed in October 2008, Rykbost sealed the deal on a business purchase. He bought 200 maintenance customers from an area contractor, picked up four of its employees and spent about $250,000 on new equipment.

Then the phone stopped ringing.

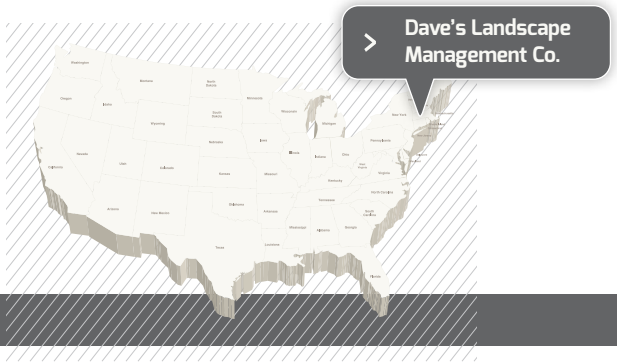
That was OK in fall 2008 because of backlog, and 2009 was strong because of a few anomalies: a big snow season, that business purchase (which added recurring revenue accounts), plus a big installation job that continued from the prior year and kept Dave's busy through fall 2009.

But in 2010 and 2011, the business felt the recessionary squeeze. The firm was about break-even and sales were down slightly. "We were afraid to raise our prices," Rykbost says.

Meanwhile, the company did not get its H-2B labor back. Rykbost had to pull from the domestic labor pool, which was growing thanks to rising unemployment. "But it would have been nice to have the guys we had for the last several years who knew what they were doing," he says.

Over the past few years, profit margins have eroded. This year, Rykbost made price adjustments (with no resistance from clients). "I've been blessed with some prudence and I didn't spend it all when I had it," he says of sustaining the business over the years. Now, he has money in reserves he can invest in the company. "I guess I have just been reluctant to buy a whole lot of equipment through the recession," he says.

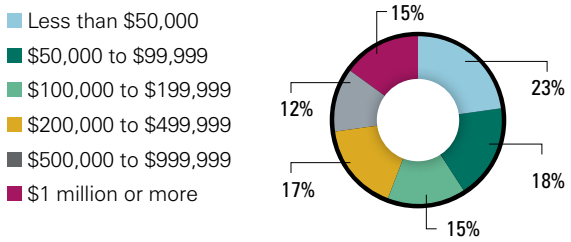
The economy still isn't great, Rykbost says. Though, it has picked up from last year. He's bidding on larger jobs and more of them. "But it's still a competitive market and you have to keep your numbers very tight," he says. "And, it's definitely not 2007 or 2008." **L&L**



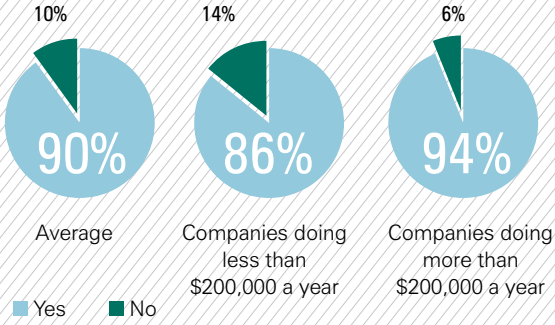
By the **numbers**

Wrap your arms around the industry with this guide to some of the State of the Industry's key data points on revenue, profits and owner worries.

In what range will your company's gross sales be for 2013?



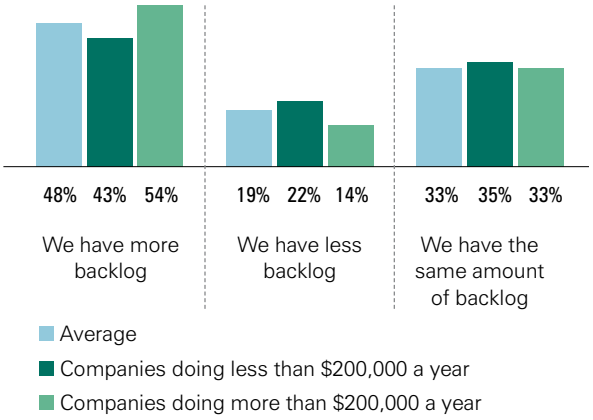
WILL YOU TURN A PROFIT THIS YEAR?



We ask about revenue every year, but this is the first year we asked if contractors would actually make any money at the end of December. A vast majority say they will – just one in 10 owners said they would end up in the red. But when we break down the data by relative size of company, we see smaller companies, on the whole, are less profitable than large ones: Eighty-six percent of companies grossing less than $200,000 turn a profit, while 94 percent of companies making more than $200,000 do.

Backlog

At this point in the season, how does your backlog compare to last year?



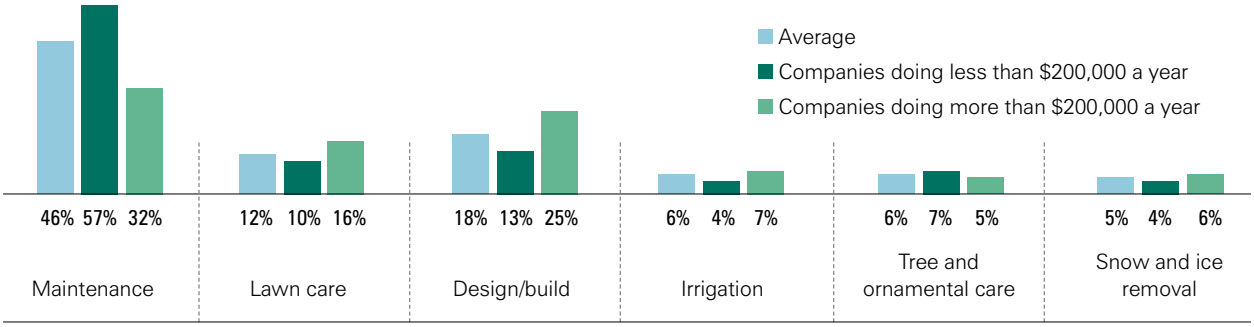
About half the industry has more backlog this year than last year across all services. Just 20 percent of companies have less and a third have about the same. Those numbers look a little worse for smaller companies, which when broken out show 22 percent with less work in the pipeline and 35 percent have the same. Of larger companies, 54 percent have more work on the books and just 14 percent have less waiting than last year.

STATE OF THE INDUSTRY METHODOLOGY

A RANDOM SAMPLE OF 18,639 subscribers to *Lawn & Landscape* magazine were selected to participate in this research project conducted by ABR Research, a nationwide independent research company. E-mail messages were sent out to the sample group between Aug. 6 and Aug. 23. A total of more than 600 surveys were completed. The margin of error based on these returned surveys is calculated to be no greater than +/- 4.0 percentage points at a confidence level of 95 percent. All research in the State of the Industry report is drawn from this survey.

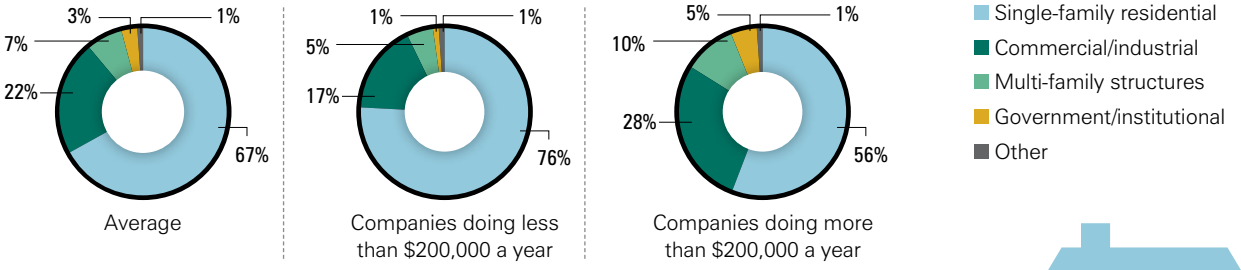
Service mix

What percentage of your annual sales comes from the following services?



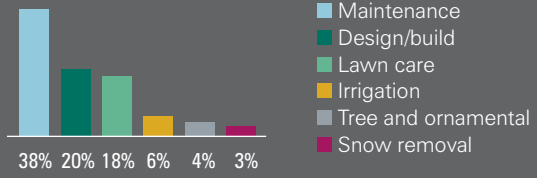
Larger companies are more reliant on construction, but are also more diversified in terms of revenue from each service – they do more lawn care and less maintenance than the average contractor. Smaller companies bring in the majority of their sales from maintenance contracts and rely less on lawn care and irrigation to balance their P&L. Niche services like snow and tree care get about the same attention regardless of company size.

What percentage of your sales comes from the following property types?



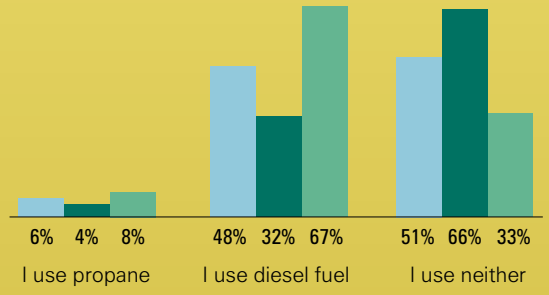
Residential service still is the bread and butter of the average landscaper, producing two-thirds of sales. Commercial work (here different from HOAs and government contracts) makes up about a quarter of the average top line. For smaller companies, those numbers are thrown into higher relief: A full three quarters of sales come from single-family homes for companies earning less than $200,000 a year. That number is just more than half for larger companies, which show slightly more diversity in their clientele.

WHAT WAS YOUR FASTEST GROWING SERVICE IN 2013?



These data are on par with what contractors reported in 2012. Maintenance again ranks as the fastest-growing service in the industry. And while construction sales are up in many parts of the country, contractors are hesitant (or unable) to scale that segment the way they can for recurring revenue businesses like maintenance, lawn care and irrigation services.

Do you use propane and/or diesel fuel in your equipment?



Note: These add up to more than 100% because some contractors use both propane and diesel fuel.

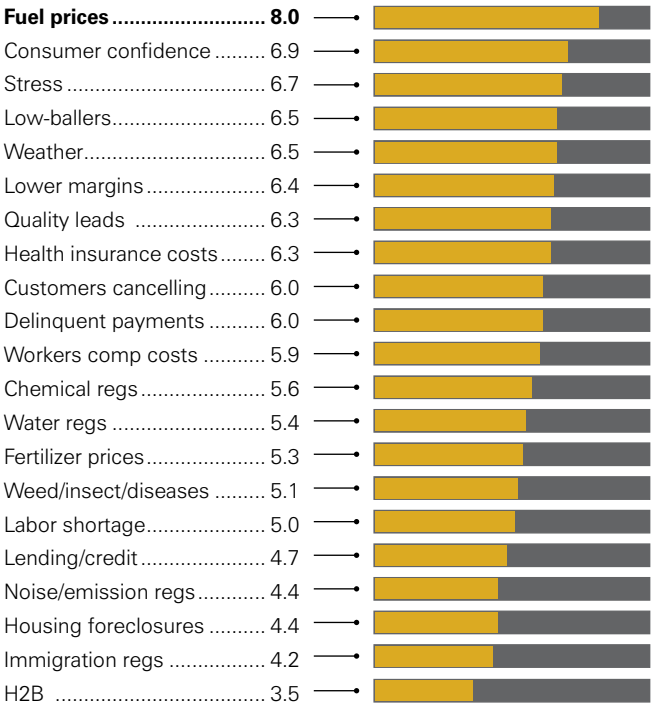
- Average
- Companies doing less than $200,000 a year
- Companies doing more than $200,000 a year

Alternatives to traditional gasoline fuel (the perennial top concern among landscapers – see "Top worries," right) have become more and more prevalent as the price of gas continues to go up and up. The top choices among contractors are propane and diesel fuel, which have been accepted by about half the market. Diesel remains the favorite, as it's readily available and can be used easily in equipment and trucks alike. Despite some evangelists, propane hasn't taken off quite yet. Widespread availability, cost of conversions and trust in its performance are likely keeping more contractors from trying it out.

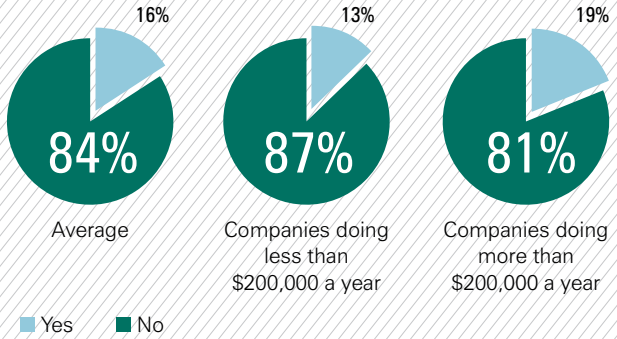
Top worries

Fuel prices top the list of contractor concerns every year, and stress makes its second showing in the top three in 2013. Compared to five years ago, housing concerns and the credit crunch have dropped toward the bottom of the list and aren't weighing heavily on landscapers' minds. Worries about H2B rank dead last on our list of 21 choices. As the program has become more regulated, it's become not just more difficult to get workers, but more cumbersome and expensive as well.

On a scale of 1 to 10, with 1 being low concern and 10 being high concern, rate how concerned you are about each issue and its impact on your business.

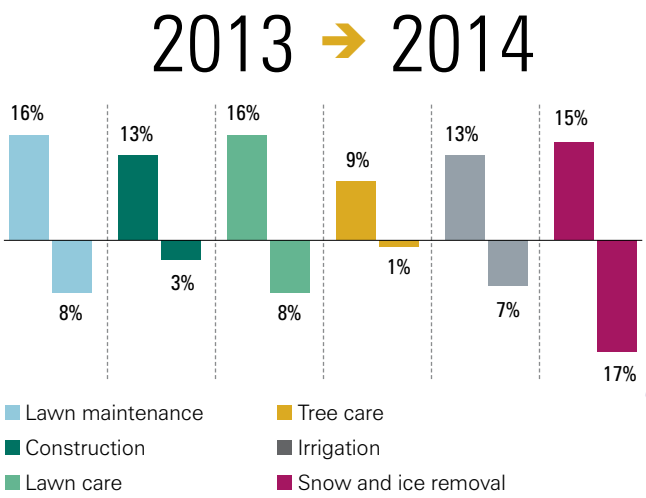


Do you share your P&L numbers with your employees?

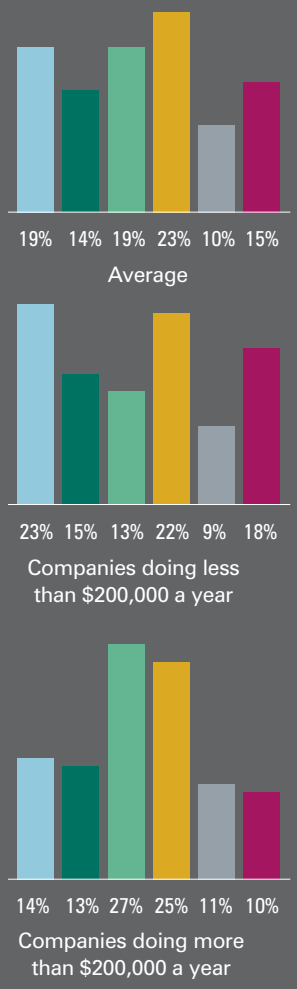


Overall, the vast majority of owners keep their financial information private. By and large, smaller companies are more concerned about keeping P&L numbers secret, with nearly nine in 10 owners saying they don't share with employees. As those companies grow, however, that number drops to about eight in 10.

By what percentage do you predict your total gross sales revenue will change from 2013 to 2014 for the following services?

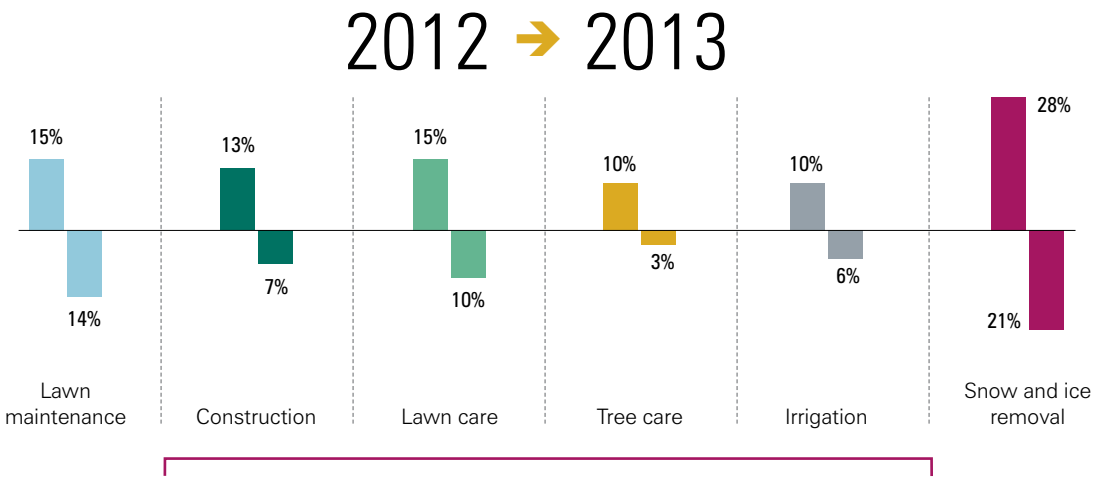


WHAT DO YOU PROJECT YOUR 2013 NET PROFIT WILL BE?



About half of landscape contractors predict they'll end the year with net profit at 10 percent or better. The national average of all contractors is at exactly 10, and that average remains the same for large and small companies alike. Companies grossing more than $200,000 tend to be more evenly distributed, but have the most owners between 6% and 15%. Those companies grossing less than $200,000 show their largest concentrations at the lowest, middle and highest points of our scale: less than 4%, 10%-15% and more than 20%.

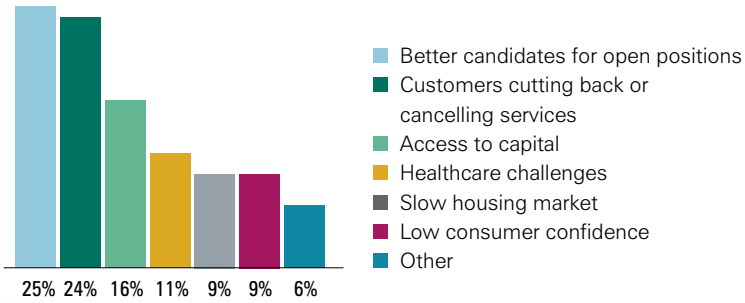
By what percentage have your total gross sales revenue changed from 2012 to 2013 for the following services?



Tree care, lawn care and construction saw the best performance for owners in 2013, with more growth in up markets than contraction in down markets. Irrigation, which includes service and installation, showed promise as well, whereas maintenance was a wash.

[If you could fix one economic challenge to help your business in 2014, what would it be?]

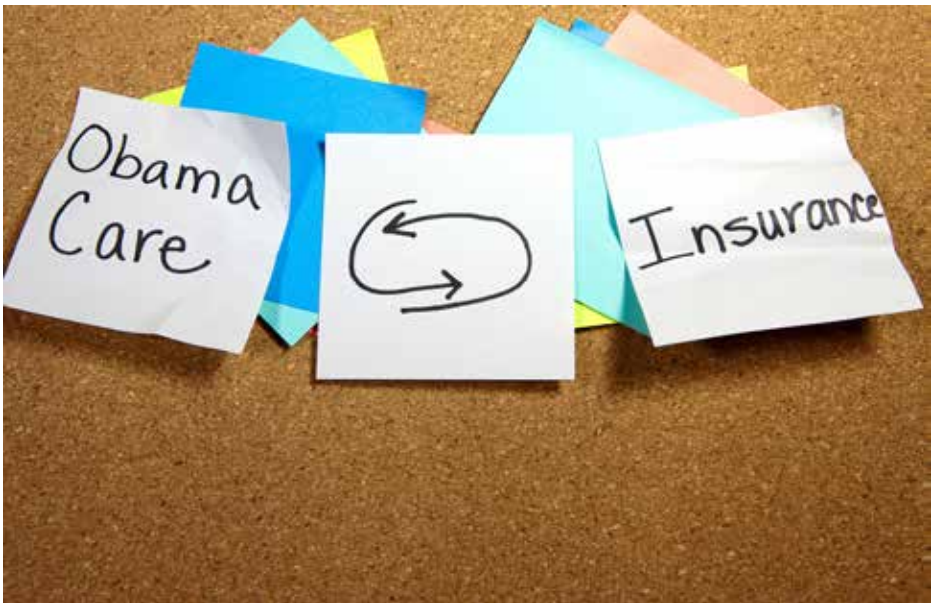
25% BETTER CANDIDATES FOR OPEN POSITIONS



No surprise here: A full quarter of owners say they would improve the quality of their labor pool if given the opportunity. A close second is customer cut-backs and cancellations. Fewer owners cited healthcare challenges, consumer confidence and the housing market as in years past, which shows a concentration by owners on the problems they can solve and less focus on things beyond their control.

Sick days

Healthcare reform worries many contractors. Here's how three companies are preparing for the delayed – but still looming – Affordable Care Act.



Editor's note: The deadline for the employer mandate for the Affordable Care Act has been pushed back to 2015, which gives landscapers more time to prepare. But even with the extension, changes to health care are coming, and the final form of the new regulations weigh heavily on the minds of contractors across the country. We talked with three companies to see how they were preparing.

By Lee Chilcote

Lawn and landscape companies offer a microcosm of the effects of the Affordable Care Act on small businesses. The industry is diverse, ranging from mom-and-pop shops to big companies with thousands of employees across multiple states. Many are young males who decline coverage when it's offered, yet they'll soon be required to have it.

No matter the size of the company, the effects of the healthcare law will be far-reaching and complex. To begin with, any company offering insurance must meet new, federally mandated levels of coverage. Beyond that, what you are required to do hinges on whether you have more or less than 50 full-time equivalent (FTE) employees.

Those with less than 50 FTE's are not required to offer health insurance to their full-time employees under the new law, while firms with more than 50 FTE's must offer coverage to all full-time workers – and pay for much of it – or face penalties of $2,000 per worker.

That's a huge distinction that not only affects how companies prepare for the law, but also impacts their bottom line. Many large company owners are crying foul, saying they'll be at a competitive disadvantage if they have to offer healthcare to their employees but smaller companies do not. Nonetheless, that's how it works. Recently, *Lawn & Landscape* caught up with several companies whose owners are wrestling with the impact of this still-unfolding law on their businesses.

CURRENT PLANS. While it's fair to say that the type of healthcare that's offered across the industry varies widely, plenty of employees don't enroll. Yet that's something that is very likely to change as the law is rolled

out in the coming years. Like many landscape companies, Senske Lawn and Tree Care offers healthcare to its full-time employees, yet only about 20 percent sign up for the plan. That's partially because many employees are young and healthy and don't consider it a priority. Another reason is that the plan is costly, even though the company pays half.

"They're typically young, healthy males that don't feel like they want to spend money on healthcare," says Chris Senske, whose family-owned company employs 350 people in Washington, Idaho, Utah and Nevada. His father, Bill Senske, founded the firm in Spokane, Wash., in 1947. "They want to spend their money on fun things," he says.

Senske has already begun planning for how the healthcare law will impact his company, and he says the increased costs are steep. He expects that his healthcare expenses will rise about 10 percent because more of his workers will sign up once the mandate kicks in and the amount he's required to pay towards workers' healthcare plans will be higher.

Dean Murphy of Terracare Associates, a landscape maintenance company with more than 400 employees in Colorado and northern California, says that his company will also alter its plans. The firm will "adjust different levels of coverage in order to meet the requirements of the act while working to remain competitive in the marketplace," he says.

Chatham Landscape Services of Atlanta, began offering healthcare to all employees several years ago (offering to pay half), but only 25 percent signed up, says president Scott Chatham.

This factor caused Chatham's rates to skyrocket as its insurance company assumed only the sickest workers were enrolling, so it narrowed the program to full-time, salaried workers. Now the company is examining how to offer healthcare to all its full-time workers while keeping costs down – it estimates the ACA will cost $150,000 per year.

DETERMINING HEAD COUNT. Every lawn and landscape company must determine how many FTE employees it has on the payroll in order to comply with the new healthcare law.

It's often more complicated than conducting a simple headcount, since it doesn't matter how many employees you have, but rather how many full-time equivalent workers you have.

Although all companies with more than 50 FTE employees are required to offer healthcare coverage to employees, determining who is considered a full-time worker – and total FTEs – is far from simple.

The IRS is requiring contractors to document employee hours in 2013 in order to determine how many FTEs they currently have on staff.

The Affordable Care Act has many layers to it, so contractors are wise to study as much as they can now, and avoid problems later.

"Every company should know that if they have more than 50 FTE employees, they're in a measurement period right now," says Senske, noting that conducting a head count for landscape contractors can be difficult due to the seasonal nature of the workforce. The IRS considers employees who work 30 hours per week on average to be full-time.

Senske estimates that about half of its 350 employees are now considered full-time. Yet a number of employees are on the cusp of full-time status, a factor that could heavily affect the company's healthcare costs once the law is fully rolled out. "We have guidance from the IRS, but still don't know the total measurement process," he says.

Chatham says that 100 of his 130 employees will be considered full-time under the law. He says he doesn't believe that companies will get anywhere by trying to skirt the law, which has complex provisions that determine whether a worker is full-time.

"If you think you can work a guy 60 hours a week for three months and then lay him off and call him part time, that doesn't work," he says. "The IRS has hired 6,000 extra agents to make sure if any company is getting shady, they're right on top of it."

CHANGING PLANS. Even companies that offer healthcare to their full-time employees will have to make

changes. The PPACA says large companies must offer full-time employees a plan that doesn't require them to pay more than 9.5 percent of wages to healthcare. Additionally, the plan must meet levels of coverage defined by the government.

For example, while Senske offers a benefits-rich plan and pays half, it doesn't meet federal guidelines. "Right now, we could still face penalties," he says, because the worker contribution of 50 percent of the total premium exceeds the ACA mandate.

To comply with the law, Senske plans to offer a "bronze" level plan to full-time workers. Even though the new plan offers a more modest set of benefits than his current plan – which is considered "gold" under the terms outlined by the Affordable Care Act – Senske says that the annual cost per worker will be around $3,600 to $4,000.

Murphy says that in addition to Terracare's administrative costs going up as it complies with the new law, the firm's healthcare costs are going up, too – a double-whammy that many companies are struggling with. "There are a limited number of levers available to pull," he says. "You can increase your portion of 'self-insurance,' adjust the level of out of pocket costs relative to co-pays and other coverage, or adjust the overall quality of the coverage. The overall goal being to provide our employees with a benefit they find valuable."

Chatham plans to begin offering tiered levels of healthcare to all full-time employees in January. "There will be different tiers based on the different types of employees – salaried are at the more expensive tier," Chatham says.

> "We have guidance from the IRS, but still don't know the total measurement process." – Chris Senske

EMPLOYEE ENROLLMENT. Given that many young, healthy employees don't sign up for health coverage because they don't want to pay for it, how will the new law change this?

The law tries to address this issue by levying fines on individuals that don't sign up for some form of healthcare. Although initially modest, the fines grow substantial by 2017. Senske predicts that the law's impact will be fairly negligible within the next two years. However, he expects full-time employees will rush to sign up for his firm's plan before April 15, 2017, when the federal government will begin penalizing people lacking coverage (undetermined fines will be deducted from returns at that time). "In the 2016 tax year, the stuff hits the fan when people who haven't bought healthcare find out that they're getting these fines and they won't get their tax refund back." Chatham says he believes his enrollment will skyrocket from 30 employees to 100 or more once the law is rolled out. "I'm anticipating that most of my full-time workers will sign up."

BOTTOM LINE CHANGES. For lawn and landscape companies, the financial impact of the Affordable Care Act is a moving target. That's because the costs of complying with the law will depend upon whether or not a company has 50 or more FTE employees, how many of those employees are considered full-time and how many sign up for coverage.

Senske says the 10 percent rise in his costs stem in part from low participation in his existing healthcare plan, which has kept costs down. "Assuming that we have a substantial increase, this will have a big impact." he says.

Because Senske competes with smaller companies that do not have to offer healthcare to their employees under the new law, he says he will have to absorb cost increases rather than raising prices. "It's an irritant – smaller companies will have an advantage at the front door, because they just won't have the costs larger companies have," he says. Chatham and Murphy both say they fear that large companies forced to pass on price increases to their customers will make it harder for them to compete.

Yet there may be a few silver linings in the ACA, after all. "Larger companies should be able to compete for employees by offering healthcare plans that might not be available at smaller companies," Chatham says, who also adds that prices could level out once large companies implement the law. "That could put us at a competitive advantage."

He also argues that there are major upsides to the law for employees and employers. "They can't deny you for pre-existing conditions," he says. "A 21-year-old kid should have healthcare – he should not use the emergency room as a healthcare provider."

Regardless of how lawn and landscape owners feel about the new law, it's time to get ready for it. Companies that plan ahead will be rewarded because they'll understand how the law impacts them and be able to plan their finances around it.

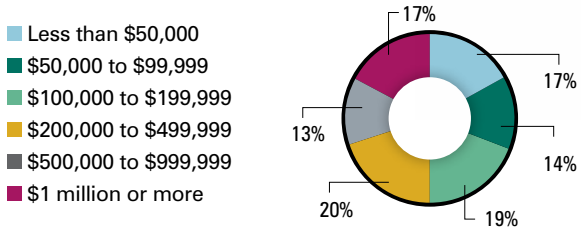
"We're going to have to tiptoe through the Affordable Care Act and figure out how to make it work," says Senske, who has spent the past few months consulting with tax advisers and others. "We've been studying it a while – it won't be a surprise." L&L

The author is a freelance writer based in Cleveland.

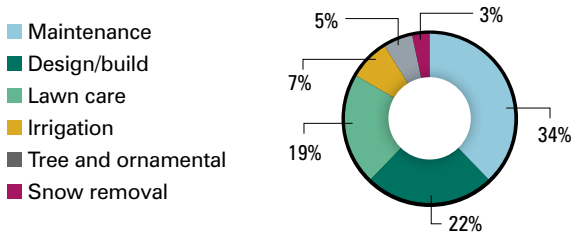
The year ahead

We asked contractors to make predictions about how they and the industry will perform in 2014. Here's what they said.

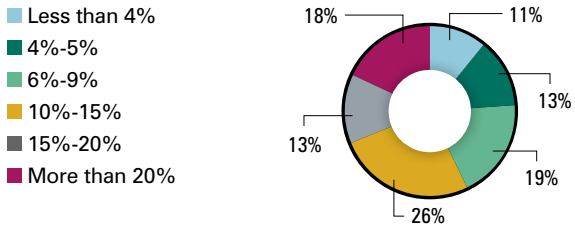
In what range will your company's gross sales be for 2014?



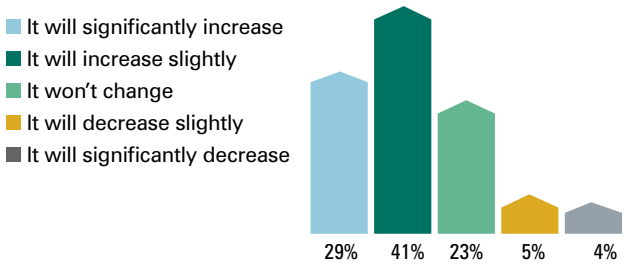
What do you predict will be the fastest growing service for your business in 2014?



What do you estimate your 2014 net profit will be?



How will your equipment budget change in 2014?



HOW CONFIDENT ARE YOU THAT THE LANDSCAPE INDUSTRY WILL **GROW** NEXT YEAR?

VERY CONFIDENT	47%
SOMEWHAT CONFIDENT	46%
NOT AT ALL CONFIDENT	7%