

# 2015 STATE OF THE INDUSTRY REPORT

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JOHN DEERE

A SUPPLEMENT TO

Lawn & Landscape



**2**

Doing our part

**4**

Ready for takeoff

**8**

Hamstrung by H-2B

**14**

Mowing goes mobile

**16**

Shake the money tree

**20**

Maze of regulations

# Doing our part

**ONCE AGAIN, JOHN DEERE** is proud to support Lawn & Landscape's State of the Industry Report. This valuable information helps all of us gain a deeper understanding of industry trends, identify opportunities and gain insight into what's ahead for our industry.

As you review the data, you'll find 2015 has been a significant year for many in the industry. In fact, many landscape contractors report that they are experiencing one of the best – if not *the* best – year since the Great Recession. Many report that customers are spending again, especially on outdoor living spaces and landscape enhancements.

This is great news for all of us, but the year was not without challenges. A lack of labor is creating a bottleneck in operations – 77 percent say a lack of qualified employees is a limiting factor to business growth. Finding quality employees also ranks as the top item on the list of

concerns for contractors – 45 percent say it will have the most impact on their location's business in the next three years.

But despite these challenges, the landscape business is a good business! Landscape contractors are generating a median revenue of \$217,000, and nearly 70 percent of the contractors surveyed have been in business for 10 or more years.

Also, other indicators such as housing starts, home values and employment figures support a continued positive outlook for the industry.

After you read through this issue and examine how your business compares to those included in the survey, I encourage you to tune in to what's happening in your community and local government.

As landscape professionals, you certainly understand the value of well-managed green space in your community. But do your customers? How about your local officials?

Turfgrass provides significant environmental benefits to our communities like stormwater management and filtration, environmental cooling, carbon sequestration, oxygen production, dust control and more.

Managed landscapes are not only important to our bottom lines, they are important for our environment. We all need to do our part to educate our customers and our lawmakers about the benefits of turf.

I also urge you to get involved with industry associations, such as the National Association of Landscape Professionals and the National Hispanic Landscape Alliance. Both associations work on behalf of the landscape industry to ensure that policies and laws are created to protect



**KEN TAYLOR, CLP**

General Manager  
John Deere Corporate Business Division

the rights of landscape professionals and their customers to create and maintain healthy, viable and beautiful landscaped spaces.

We need to work together to ensure the outlook of the professional landscape industry continues to be bright.

In addition to supporting the industry, John Deere is committed to supporting you, the landscape professional. Yes, we offer the most extensive line of equipment to meet your demanding needs, but we also support your business through the best dealer network in the industry. With GreenFleet Loyalty Rewards, Uptime Solutions and customized financing through John Deere Financial, John Deere can support you, and your business, like no other equipment manufacturer in the industry.

We'd welcome the opportunity to earn your business and provide you with the support you need to harness the positive trends we see in the landscape industry. **SOI**



For those who want to be on the cutting edge of mowing, now's your chance.

Be among the first to buy a ZTrak™ zero-turn mower with MICHELIN® TWEEL® TURF™ tires at the John Deere booth (#1110) at the Green Industry Expo, Oct 22–23.\*



\* Applies to select ZTrak models equipped with TWEELS and ordered onsite at the John Deere booth during the GIE Expo only. Quantities are limited. Available while supplies last. MICHELIN® X® TWEEL is a registered trademark, and MICHELIN® X® TWEEL® TURF™ is a trademark, owned by Michelin North America, Inc.

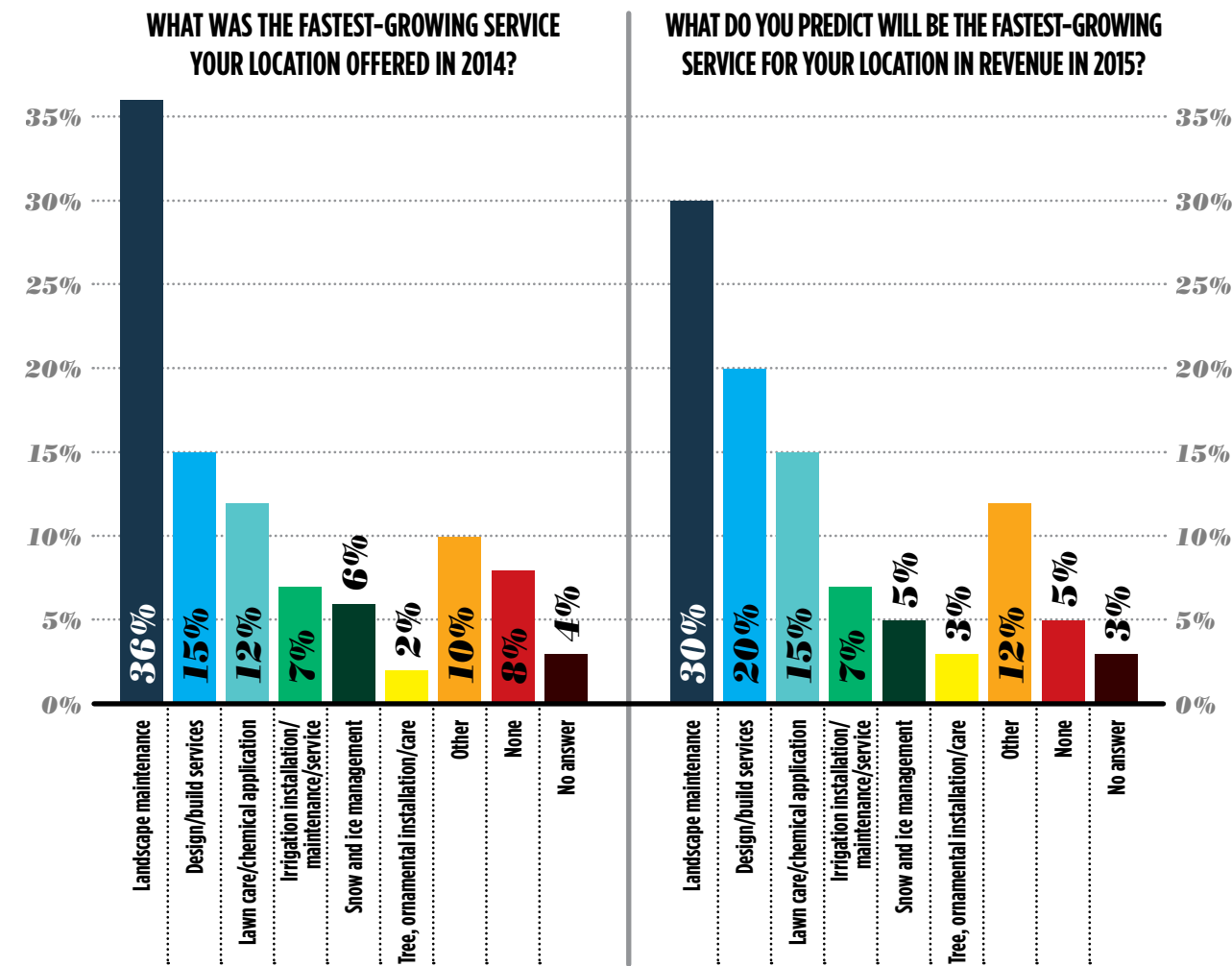
JohnDeere.com/GIE



Our latest data tell a story of an industry poised for more (and steady) growth.

**I**N THE NEXT FEW PAGES, we've pulled out some of the most important data from this year's State of the Industry survey to help you better understand what's happening nationwide, and put your own operation in context. The landscape industry has finally recovered from the hangover of the Great Recession. Contractors across the country are raising prices, and report that customers are spending again – especially on outdoor living and construction projects. Maintenance continues to dominate the share of trailer (and P&L) for most landscapers, topping

lists for both the fastest-growing and most-profitable services offered. As owners age (more than half are 45 or older, and the median age is 51) and as more private equity money continues to pour into the industry, landscapers are looking to sell. A quarter of contractors say they plan on selling their business in 10 years, and 40 percent of those say they have an articulated exit strategy. The biggest limit on business is a lack of labor – owners cite a dearth of quality employees as having the biggest impact on their business in the next three years, more than insurance costs, low-ball competitors and fuel prices. – *Chuck Bowen*

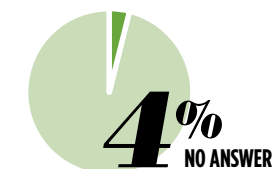


WHAT WAS YOUR LOCATION'S GROSS REVENUE IN 2014?

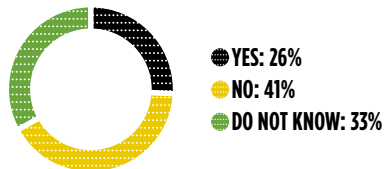


Median revenue nationwide:  
**\$217,000**

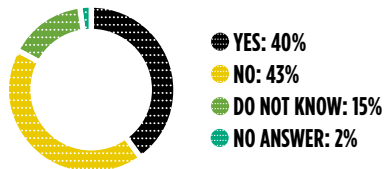
DID YOUR LOCATION TURN A PROFIT IN 2014?



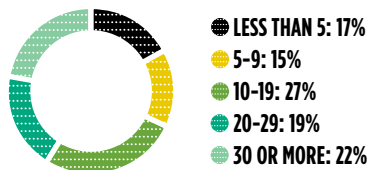
**DO YOU ANTICIPATE YOUR LOCATION'S BUSINESS WILL BE SOLD IN THE NEXT 10 YEARS?**



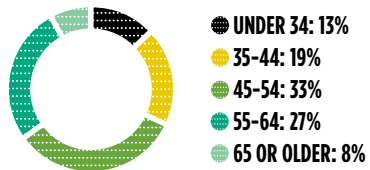
**IS THERE AN EXIT STRATEGY – AN ARTICULATED PLAN TO SELL THE LOCATION'S BUSINESS?**



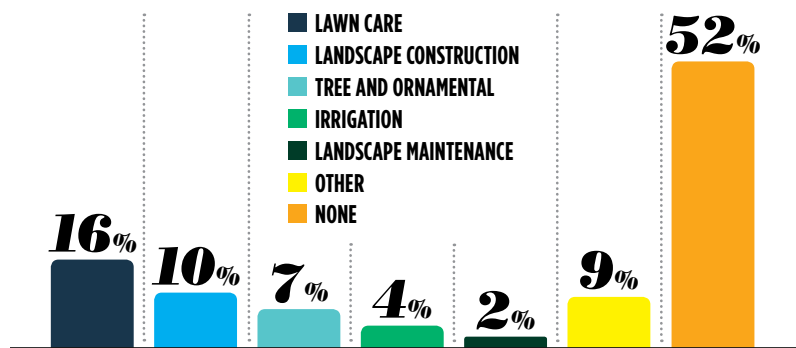
**HOW MANY YEARS HAS YOUR COMPANY LOCATION BEEN IN BUSINESS?**



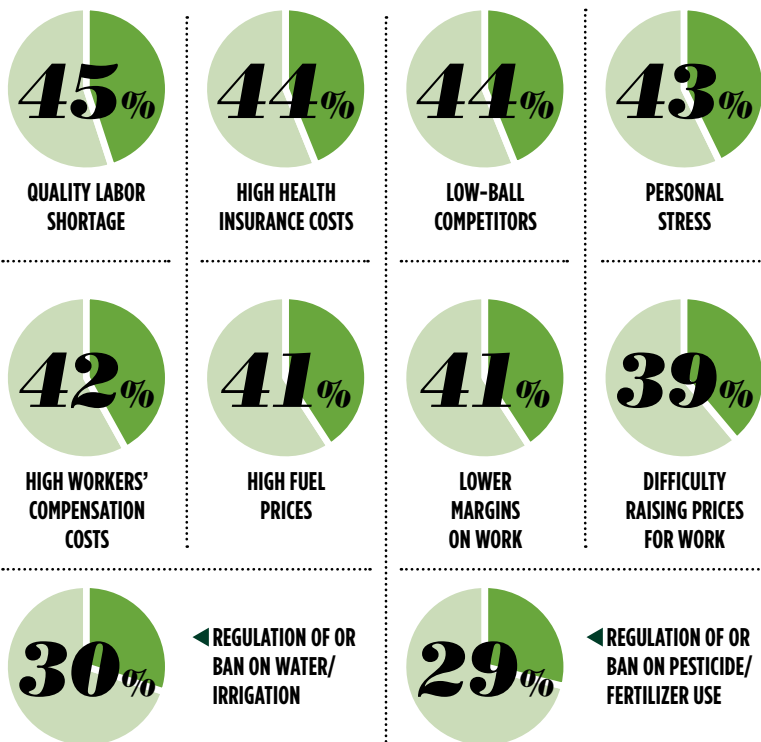
**WHAT IS YOUR AGE?**



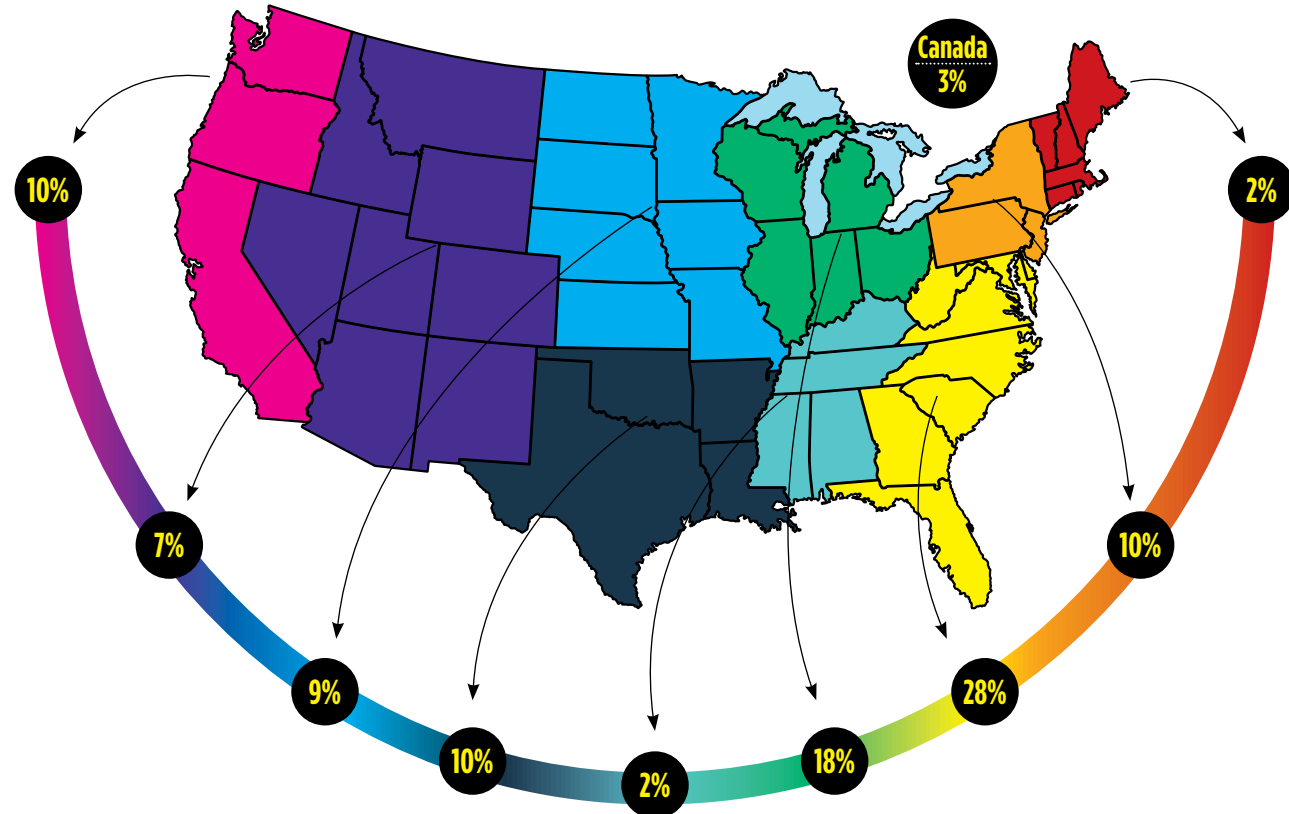
**WHAT SERVICES HAS YOUR LOCATION STOPPED OFFERING IN THE LAST THREE YEARS?**



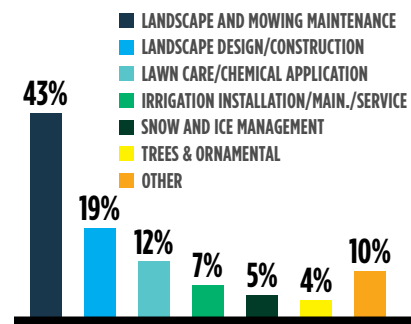
**WHICH OF THESE ISSUES WOULD YOU RATE AS A TOP CONCERN FOR YOUR BUSINESS IN THE NEXT THREE YEARS?**



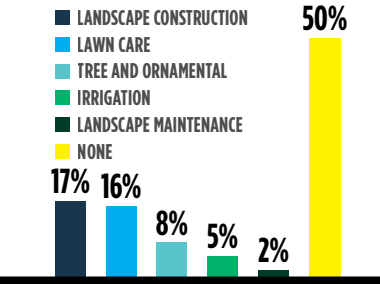
**WHERE'S YOUR COMPANY LOCATED?**



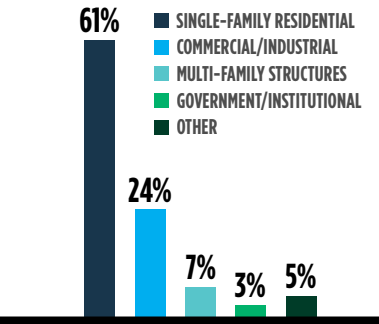
**WHAT PERCENTAGE OF YOUR LOCATION'S 2014 GROSS REVENUE CAME FROM THE FOLLOWING SERVICES?**



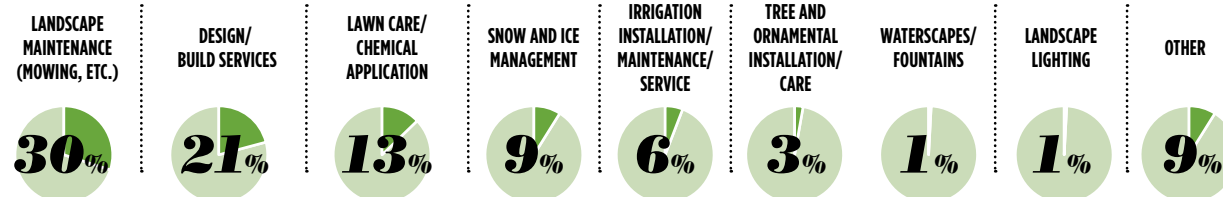
**WHICH OF THE FOLLOWING SERVICES DO YOU PLAN ON OFFERING IN 2015 THAT YOU DON'T OFFER NOW?**



**WHAT PERCENTAGE OF YOUR LOCATION'S 2014 SALES CAME FROM THE FOLLOWING PROPERTY TYPES?**



**WHAT WAS THE MOST-PROFITABLE SERVICE YOUR LOCATION OFFERED IN 2014?**



**SURVEY METHODOLOGY**

THE SURVEY SAMPLE OF 10,584 WAS SELECTED IN SYSTEMATIC FASHION BY LAWN & LANDSCAPE AND READEX RESEARCH FROM A LARGER SAMPLE REPRESENTING 21,167 RECIPIENTS. THE SURVEY RAN FROM JULY 7-16, AND THE MARGIN OF ERROR FOR PERCENTAGES BASED ON 241 USABLE RESPONSES IS 36.3 PERCENTAGE POINTS AT THE 95 PERCENT CONFIDENCE LEVEL. SOME CHARTS DO NOT TOTAL 100% DUE TO ROUNDING.

## HAMSTRUNG BY H-2B

How a government shutdown of the seasonal program exacerbated the industry's ongoing labor crisis. By Kristen Hampshire

**F**

OR THE LAST 15 YEARS, Schill Grounds Management has prepared for the season by hiring H-2B workers in the early spring. These are skilled, seasonal employees who help tackle the large volume of work through the start of summer.

"We can't make the grass grow all winter and we can't make it snow all summer. Our H-2B staff only come in and fill seasonal jobs," says Jerry Schill, president of the North Ridgeville, Ohio-based company.

**"We can't make the grass grow all winter and we can't make it snow all summer. Our H-2B staff only come in and fill seasonal jobs."**

**Jerry Schill, owner, Schill Grounds Management in North Ridgeville, Ohio**

© KEVIN KOPANSKI

In the spring, a lawsuit and intra-agency bickering forced the H-2B program to shut down for two weeks. Applications started being processed again, but the program's future – and landscapers' ability to secure workers through it – remained in question throughout the season.

In Ohio, the 20 H-2B workers Schill expected to start work in April weren't admitted into the program at all. And Schill didn't find out that this critical labor pool would not be available for the firm until May.

In the past, by the time Memorial Day came around, an estimated 60 percent of man-hours dedicated to cleanup, pruning and mowing were already completed.

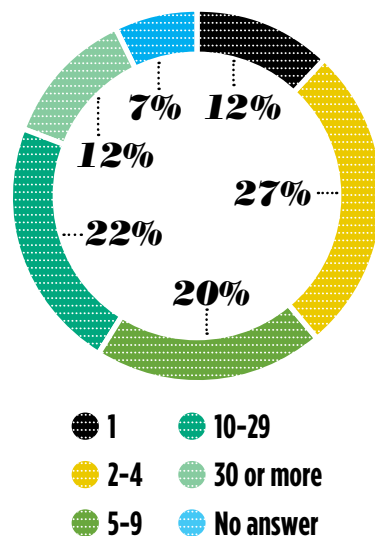
"It was all hands on deck when we lost that staff," Schill says. "We had to hire a fractional HR firm and spend a ton of money on social media and advertising to recruit in any way, shape or form that we could. We were forced to expedite training and cram what we might take a couple weeks to do into five days to get people out in the field."

In all, he spent \$19,500 for the HR firm, \$2,450 on advertising, \$18,522 for online training assessments and orientations and figured an acquisition cost per employee of \$336. The company's attrition rate was 55 percent. And after all that, Schill's crews still blew budgeted hours on jobs, and quality suffered.

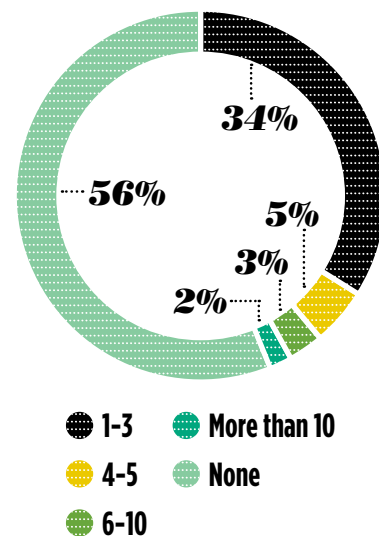
Not getting the H-2B crews this year set Schill back for the year, and there's a trickle-down effect of how a labor shortage impedes his business in the long term.

"You slow down growth, stop buying trucks and mowers, quit opening other locations, stop hiring managers," he says, and the list goes on.

**HOW MANY EMPLOYEES (FULL-TIME, PART-TIME, SEASONAL) DOES YOUR LOCATION HAVE?**



**HOW MANY OPEN POSITIONS (FULL-TIME, PART-TIME, SEASONAL) DOES YOUR LOCATION HAVE?**



**LABOR CRISIS.** The delays and problems with the H-2B program are long-standing and are just the latest chapter in a growing labor crisis in the landscape industry. Based on the latest State of the Industry data, more than a third of landscapers have one to three open positions at their companies. And two-thirds say a lack of quality employees hinders their location's growth. A shortage of good help is cited as the top problem facing landscapers' business success in the next three years – more of a problem than fuel costs, prices, health insurance costs and low-ball competitors.

**LOCAL REPLACEMENTS.** Josh Denison, vice president of labor and human resources at D.C.-based Denison Landscaping, knows Schill's story all too well. His company's

H-2B workers were 9½ weeks late this year, and he figures actual revenue lost at \$70,000 per week – or about \$665,000 for the season. Add in opportunity loss (work turned away, missed deadlines, lost contracts) and that figure jumps to \$120,000 per week.

To cover the missing crews, the company clocked a total of 90,000 hours of overtime in the spring and workers were "dead on their feet," Denison says. "It was like working a 36-hour snowstorm and continuing at that pace for two months in a row," he says. Denison finally finished spring cleanup on July 2.

H-2B has been a significant part of the labor pool for Denison Landscaping for many years, but the program has become increasingly difficult to manage. But the

company struggles to find employees domestically.

"There is a lack of local workers," Denison says. "If companies such as my family's cannot perform on our contractual obligations, then we lose business. If we lose business, we lose customers. If we lose customers, we do not need our current employees. Without the H-2B program or a viable labor force, Denison and many companies will not survive and will be out of business."

Denison took a gamble while watching the cap ahead of time, seeing that he might not receive his 200 workers on the date of need he prefers in February.

"So, I called my agent and I asked, 'Is it too late to change my date of need?' He said, 'You're crazy,' and I said, 'I don't care,'" Denison says. "If I would have gone with the Feb. 15 or March 1 date like I normally do, we would have been capped out of the program completely. I would not have gotten any of my guys. But through all of the processing delays and the governmental red tape, I made the call to move our date of need to April 1."

Denison's first group of H-2B workers showed up on April 24. The last group arrived by May 8. To make up for the delay, Denison hired 142 people locally between mid-February and late May. Of those, only a half-dozen were still working for Denison Landscaping in August.

"The average turn-around time was one week," he says.

**CAREFUL PLANNING.** Shayne Newman, president of Yard Apes in New Milford, Conn., posts a "help wanted" sign in the window of his high-visibility headquarters every spring. Usually that sign is up for a month before the busy spring season starts.

"We kept the sign up all year," he says.

Recruiting quality part-time labor locally is one of the biggest challenges for landscape firms, and programs like H-2B fill a critical personnel void. With the construction industry more vibrant now, the local labor pool in many regions is even

more scarce, says Joe Gonzalez, president of ArtisTree Landscape Maintenance & Design in Venice, Fla.

ArtisTree did not get its H-2B workers this year, and usually the company is awarded the same team of individuals from Mexico who have become part of the company over the last decade. "They know what the job requires, so they come and get right to work," Gonzalez says.

When Gonzalez found out two weeks before the expected arrival of his H-2B that no one was coming, he scrambled. "We sent scouts out around town, and we ran ads, of course," he says. "We went to a temp agency and got the required people."

But the quality of work dropped and overtime increased. "We only accumulated half of the number of employees we needed, and the quality level was much lower so our jobs came under more scrutiny in that first month or two before we were caught up," Gonzalez says.

Gonzalez estimates overtime cost of \$20,000 per week because of not having his usual H-2B crews on board, and the local part-timers he brought on just didn't compare. "Their pace of work and familiarity of the job and endurance is just not there," he says.

Gonzalez knows he will have to curtail growth if he cannot recruit dependable labor – either H-2B or domestic. With the healthy HOA market in his region, there is plenty of maintenance work, he says. In spite of labor challenges, the company grew its landscaping business (staffed by local workers) by 30 percent in 2015. "We are getting ready for next year," he says, "and I believe that whether or not we have H-2B we can plan more intelligently and not get caught by surprise."

**WORTH THE HEADACHE.** Planning in advance for H-2B requires at least a seven-month window, says Newman of Yard Apes, who got his 12 H-2B workers this year. He can tell the labor market is getting even tighter, though. When Yard Apes put out its fall advertisement for local workers



**90,000 HOURS**

**HOW MANY HOURS OF TOTAL OVERTIME DENISON LANDSCAPING'S CREWS LOGGED IN THE SPRING**

**"IT WAS LIKE WORKING A 36-HOUR SNOWSTORM AND CONTINUING AT THAT PACE FOR TWO MONTHS IN A ROW," SAYS JOSH DENISON, VICE PRESIDENT OF LABOR AND HUMAN RESOURCES AT THE D.C.-BASED COMPANY.**

as part of the H-2B process, the company received no applications. Usually, the firm receives 10 or so phone calls in response to the ad.

During peak season, Yard Apes needs 20 seasonal workers. Half of those are local staff, and the other positions are fulfilled by H-2B visas.

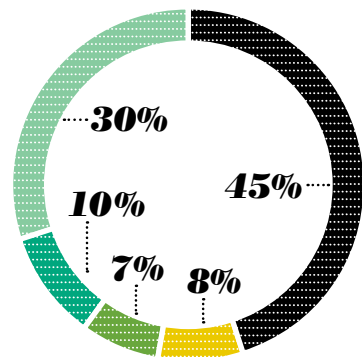
"H-2B employees are proud of our industry; they're proud to call themselves landscapers, and they're real happy to show up to work every day," Newman says. "They are eager to learn."

That's also why Denison has brought on more than 200 H-2B workers on average per year for its three locations since 2001 – even though the cost and headaches, and downright risk of not getting employees, are a reality of the program. This year, Denison spent about a quarter-million dollars on the H-2B program. He figures the cost of one H-2B worker – "to get

**"H-2B employees are proud of our industry ... and they're real happy to show up to work every day."**

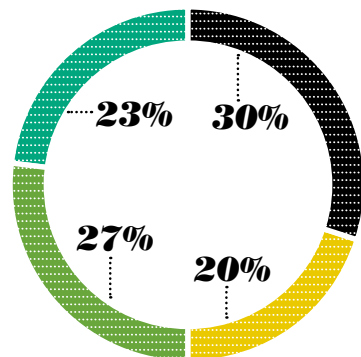
Shayne Newman, president, Yard Apes

HOW MANY NEW EMPLOYEES DOES YOUR LOCATION HIRE EACH YEAR?



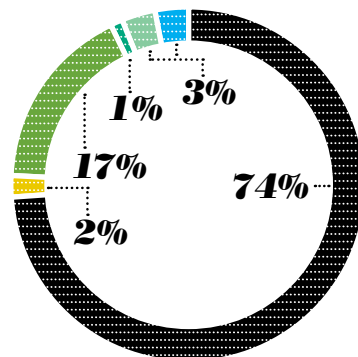
- 1-3
- 4-5
- 6-10
- More than 10
- None

HOW MUCH DOES A LACK OF QUALITY EMPLOYEES HINDER YOUR LOCATION'S GROWTH?



- Hinders a lot
- Hinders
- Hinders somewhat
- Does not hinder

HOW HAS YOUR LOCATION'S USE OF THE H-2B PROGRAM CHANGED IN THE LAST THREE YEARS?



- Did not use at all in last 3 years
- Use more
- No change
- Use less
- Stopped using
- No answer

them up the road, processed and to work” – is \$1,600. That includes processing and visa fees, transportation/travel costs and uniforms.

That’s nothing compared to the loss of revenue when H-2B workers are not on the team, as Denison learned for two months last spring. Denison says politicians and even other business owners are shocked when he shares the numbers. Denison has traveled to Capitol Hill several times a month for the last nine months to make the case for removing cost and administrative obstacles from a program that provides the workers that are so vital to his business.

“I tell people this and they look at me like I’m crazy,” he says. “But that is the truth behind what the federal government has done to the H-2B program.”

Denison wonders what will happen if he doesn’t use the H-2B program next year. His company has already moved forward

with the application process – as have Schill, Yard Apes and Artis Tree. Denison wants to wean off the program. Right now he’s spending as much as \$2,000 a week advertising for fall labor. But as Gonzalez noted, it’s not that easy. Workers in Mexico and El Salvador are a dependable part of the team for nine months out of the year, and have been for the last decade and more. They’ve come to rely on the work just as much as the landscapers who hire them.

**ONE MORE FIGHT.** With prevailing wage a concern and the DOL no longer accepting private or government wage surveys, the cost of paying H-2B and all employees could make the program, and simply keeping people on board, more expensive than what companies can afford. Denison is expecting his prevailing wage to come in at \$13.80/hour, which is a 35-percent wage increase.

“This causes a ripple effect in all wages across the board,” Denison says. “If your \$10.30 basic domestic or H-2B laborer has an arbitrary wage increase, then you have to adjust wages across the board in a sliding scale to keep it fair and balanced. What happens to the \$12 guy if the new guy is making more? And what happens to the \$15 guy?”

Prevailing wage is one more labor battle to fight. In the meantime, Denison doesn’t want to cut off H-2B.

It’s a conundrum. You can’t work with the program; you can’t work without it. The cost and administrative stress is mounting, but backing off isn’t a solution if there’s no other labor to fill the gap.

“These are jobs we have proven (to the government) that we cannot fill domestically, so H-2B is not a short-cut or a crutch,” Schill says. “We have this need.” **SOI**



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## Mowing goes mobile

Homeowners can now hire you with the tap of an app.  
How instant-ordering is changing the landscape industry for the better.

By Chuck Bowen



**HERE'S AN EXCESS OF SMARTPHONE APPS** that let homeowners order lawn mowing services with the tap of their finger. The apps are the next generation of online directories like Angie's List and Thumbtack, and join tech giants Google and Amazon, which have both invested in their own home services software.

The app LawnStarter announced earlier this year that it's raised \$6 million, and is the latest in a long list of mostly regional apps that are building armies of landscapers in select markets who can provide services – mostly lawn maintenance, but also snow plowing and tree work – for a fixed price. They remove the burden of selling new work and collecting payment, sending vetted leads directly to contractors and paying regularly twice a month.

Steve Schell, who runs Schell's Lawn Care with his son, Ryan, typifies the contractor who uses these apps. He offers full-service landscaping to a mostly residential customer base. He started his part-time business this year – he does about \$10,000 in annual revenue – and relies on an app called Mowz almost entirely for marketing and new business.

"We took off like gangbusters, and a lot of it's thanks to Mowz, to be honest," Schell says. "It's given us a lot of exposure to some interesting neighborhoods we probably wouldn't have ever thought of."

Schell says he gets about 30 to 40 leads a day through the app, of which he accepts about four or five. Many of the jobs he accepts are repeat customers, too, as homeowners become more comfortable ordering lawn service via their phone.

"I think this is becoming more the norm. I've definitely noticed over this last summer, we're getting a lot of repeat customers," he says.

Mowz, which also offers snow plowing services, is the largest app of its kind with 2,500 contractors across 38 markets. Mowdo is beta-testing in Seattle, Austin and Omaha, and works with the website Thumbtack to provide contractor contacts in other markets. CEO Mike Fingado said that when the app launched in Seattle, it got more than 250 requests from contractors to join. He's currently working with 15, and has requests from 15 other states to expand. Ryan Farley, co-founder at LawnStarter, which just netted \$6 million in funding, used to run his own landscaping company in high school. His app has about 100 contractors in Austin, Washington, D.C., and Orlando.

The apps' algorithms set prices for services, using a combination of the lawn's size, length of grass, obstacles like fences and some market pricing data. From interviews with contractors, the prices are typically on par with the local market – often between \$25 and \$40 per cut. And users said they can report back if a homeowner's report of their lawn's condition isn't accurate.

"They set the price until I get there. That's a big problem with the app – I get there and people say they don't have a fence. They have a fence. They say their grass is short. I get there and it's 3 foot tall," says Lauren Cress, who runs HillCress Lawn Care in Atlanta with his uncle, Christopher Hill.

ALL ILLUSTRATIONS: © WATT COLLINS

**"We took off like gangbusters, and a lot of it's thanks to Mowz, to be honest. It's given us a lot of exposure to some interesting neighborhoods we probably wouldn't have ever thought of."**

Steve Schell,  
owner of Schell's Lawn Care

Cress projects he'll hit \$80,000 this year in total business, and says Mowz jobs bring in about \$3,000 to \$4,000 a month.

Developers say most contractors on their rolls are one-man operations, or run a couple of crews. They must have some level of general liability insurance and commercial-grade equipment.

Landscapers we spoke with say they use the apps as a turn-key marketing and lead-gen service, picking up new work that helps fill gaps in their schedules and increases route density. There's no selling involved – leads come right to their phones – and they're free to accept or reject as they see fit.

"At the end of the month, we send out statements and theoretically people pay in 15 days. That doesn't mean they all do," says Erik Carvotta, owner of ETC Services in Hendersonville, Tenn. "I don't have to sit around printing invoices.... I don't need to be on the phone hours every day talking to somebody if they had an issue. As far as payments, I don't have to worry about when we'll get paid."

Carvotta has used GreenPal, Mowz and Task Easy to pick up

business. GreenPal, which solicits bids from several contractors and allows the homeowner to choose, has been the biggest hit, he says. In July, it added \$7,000 to his top line revenue.

Last year, ETC did \$270,000 in annual revenue, and Carvotta credits the apps for a good chunk of his growth, and for saving him a lot of aggravation.

"There's no selling or haggling over prices. They get set by the app," he says. "I don't have to go out and hunt down customers. I don't have to advertise. I don't have to go out and quote. ... I don't have to chase anyone down." **soi**





© MATT COLLINS

# Shake the money tree

Landscapers across the country are raising prices (and profit margins) as the economy improves. **By Brian Horn**

**A**S COSTS FOR LABOR, MATERIALS AND EQUIPMENT CONTINUE TO INCREASE, landscapers are finding some solace in their success with raising prices. Nationwide, almost two-thirds – 63 percent – charge more for services now than they did three years ago. Here’s how landscapers in several markets are taking initiative and upping the ante for their operations.

## POLITE PASS

**W**hen Randy Newhard presents customers with a price increase, he doesn’t know if they will accept, but he is hoping they are at least open to negotiating.

“Sometimes it’s 2 percent, up to 5 if you can get it,” says Newhard, owner of New Way Landscape & Tree Services. Newhard really only goes up to 4.8 percent so it doesn’t seem as high as 5 percent. He has parted ways with smaller customers who rejected a price increase and who didn’t fit in the company’s ideal route density, as well as customers who haven’t seen an increase in a few years and the jobs are 20 percent or more below where they should be price-wise.

“We will politely say we can’t perform to expectations at current rate and we will offer our 30-day notice,” he says.

The only customers he doesn’t increase prices for are those who have been with the company less than a year, and any

### New Way Landscape and Tree

**Location:** San Diego  
**Revenue:** \$17.5 million  
**Employees:** 235  
**Services:** Design/build, maintenance, tree care



contracts for military housing, since those are non-negotiable contracts. Newhard’s increases have been for cost of living, and he can’t recall the last time he increased prices for existing customers to improve profit margins. But he is doing that by building in a 7-12 percent increase on new work he’s bidding on this year.

“All of us in San Diego are pretty close to the same bid rate,” he says. “It’s all a function of hours, which equals a monthly price. Say we come in at \$3,300 and someone comes in at \$3,000, well we probably aren’t going to turn down the job, we’ll just adjust the man hours.”

**“If we lose them, we lose them. ... We really want good, quality clients.”**

Liza Lightfoot, Avant Gardening and Landscaping

## A NUANCED APPROACH

When pricing jobs, Robin Luce is always cautious about how to approach new clients compared to existing ones.

"I am raising prices on new jobs," says Luce, owner of Jubilee Landscape in Fairhope, Ala. "On existing jobs, it's always sensitive. We are not as tolerant of bad customers. We've fired a few customers, and we will be seeking some increases."

On new jobs, Luce will seek a 7-8 percent increase, while on existing jobs he'll try to negotiate a 3-4 percent increase. He's parted ways with some customers who won't accept a steeper price, but tries to find them someone new to do the job.

"Everybody agreed to move on, no hard feelings," he says.

### Jubilee Landscape

Location: Fairhope, Ala.  
Revenue: More than \$4 million  
Employees: 65  
Services: Design/build, maintenance

But Luce isn't always willing to let a customer go and sometimes margins have to take a backseat, he says. Luce says he hasn't gotten too much resistance, partly because customers expected prices to go up this year, and because of the good relationships he's built with clients.

"It's the person that you don't have a good relationship with that is really hard to raise prices on," he says.

## ROLLER COASTER APPROACH

Business has been good for Nelson Lee and Landscapeworks, but that doesn't mean he's been able to increase his profit margins. Instead, he's only raised prices an average of 3-5 percent for more than half his customers to cover increases in materials and insurance.

"A lot of people expected prices weren't going to increase, so there was a lot of expectation and a lot of competition," says Lee, president at the Hawthorne, N.J., company. He says there was also an expectation to cut some prices, which he did for 6-8 percent of commercial maintenance customers.

"Commercially, the only thing I can explain is we had two bad seasons, snow-wise, back to back," he says. "Usually when you have two bad seasons of snow back to back commercially it's a little more difficult because they were not expecting to sell that budget."

The one area he was able to increase somewhat significantly was design/build where he raised prices 10-12 percent. If he received a call asking why he was raising

### Landscapeworks

Location: Hawthorne, N.J.  
Revenue: More than \$2 million  
Employees: 41  
Services: Design/build, lawn care, irrigation

the prices, he explained the cost of materials and insurance increased, so he had to cover that somehow. Plus, Lee hadn't raised their prices in a while. Lee says the last time he raised prices was seven or eight years ago, and that was a 5 percent increase.

"They were on the low side to begin with. In order to come out with any kind of profit we had to increase them," he says.

The customers that Nelson let stay at the same price had multi-year contracts or he promised when they were negotiating in the spring that he wouldn't ask for an increase.

"We mentioned we wouldn't increase the prices and if we didn't increase, they wouldn't have to go out to bid and they would re-sign with us," he says.

### The Plant Concierge

Location: Dallas  
Revenue: \$1.25 million  
Employees: 16 full time  
Services: Design/build, irrigation maintenance, maintenance, interiorscape

## PURGING FOR PROFIT

In the past three years, Thomas Fancher has been steadily increasing prices, and decreasing his count of unprofitable customers.

"Little by little, especially as we are bringing on new clients, and purging non-profitable clients, with every new client we have been increasing (prices)," says Fancher, who runs The Plant Concierge with co-owner Darren Ezell.

"About three years ago we went up about \$3 per man-hour, so roughly 10 percent or so. We continued to go up until we felt we reached our peak as to what the customers were willing to pay based on our services."

He made increases to current maintenance customers where needed but capped it at a 10 percent increase. On new jobs, Fancher raised rates from \$35-\$42 a man-hour on maintenance and \$40-\$50 on installation work.

At the \$42 and \$50 (level), we felt we'd reached that and increased our profitability margin to a point where we were happy and the clients were happy," he says. He only received pushback on the price increase from about four to five of his more than 150 customers. "The customers that we lost due to price increase were the ones we were anticipating and hoping we would lose," he says.

Since the company does high-end residential work – the average home is worth \$1.2 million – clients understand if they want a nice property it will take a lot of maintenance.

"We are constantly seeking out better, more profitable-properties and/or larger properties that allow our guys to be on a property for a longer period of time so we can continue to increase without having to add more crews, because the Dallas market is very tough now," he says. "Labor is at a premium and it is very scarce. Your smallest properties are your biggest problems."

### All American Lawn & Limb

Location: Davis, Okla.  
Revenue: \$20,000  
Employees: 3 seasonal/part time  
Services: Maintenance, lawn care, tree service

## ACROSS-THE-BOARD INCREASE

This year was the first time Daniel Sierra has had to significantly increase prices since he founded All American Lawn & Limb in 2008.

He raised prices for his accounts 5-10 percent across the board, and 10-15 percent for some of his bigger clients, where he did chemical lawn care and took care of flower beds with seasonal color.

Sierra says he has raised tree prices a minimum of 10 percent based on the difficulty of the job.

When Sierra first approached customers about a price increase he thought he'd get pushback, but says he experienced none.

"I went in there with each customer preparing for a battle to explain myself in depth, but it didn't turn out that way," he says. "I said, 'This is where I need to be,' and they were happy with my work so they weren't resistant to paying a little bit more."

Sierra, who is also a manager at a lumber company, has 15 steady customers and 10 more he services occasionally.

Sierra says he forecasted out a bit, so, for example, instead of raising a customer's price \$10 now, he raised it \$20, but promised he wouldn't increase it again for a few years.

He increased prices because of some upgrades in equipment, but also for more money in his bank account.

Sierra charges \$75 for smaller jobs and \$150 for the larger maintenance jobs, and most are residential, but he has a few commercial accounts.

"I had a little more cost there, but ultimately I needed a bigger margin. Life changes. I was married and I had a son," Sierra says.

"He was a new addition to the family when I took some of these accounts in, so I had to grow my margins as well."

## YOU GET WHAT YOU CHARGE FOR

Liza Lightfoot decided enough was enough and it was time for a change.

The president of Avant Gardening and Landscaping says she got fed up with her 2-3 percent profit margins and decided to raise prices to generate a 9-10 percent margin. That meant raising prices in 2014 about 20 percent on average, and she wishes she would have done it 30 years ago.

"Coming out of the recession we had profit margins that were really low," she says. "I just decided with the upturn in the market that I was going to take advantage of that and it hasn't hurt me at all."

The frustration led Lightfoot to approach any pushback without fear. To her, the team at Avant Gardening does quality work and she wants clients who will pay for it. She didn't get much resistance to a price increase, and didn't see any decrease in new customers.

"If we lose them, we lose them," she says. "Our philosophy is we really want good quality clients. We've really changed our mindset from accepting at 2 percent to trying to hold steady at 9-10 percent."

### Avant Gardening and Landscaping

Location: McFarland, Wis.  
Revenue: \$1.4 million  
Employees: 21  
Services: Design/build, maintenance, snow removal

In addition to price increases, she now charges \$100 an hour for a design, and views it as a way to weed out clients who are price shopping.

"It's made a tremendous difference to the business," she says. "We vet clients at the outset. So, if people aren't serious, they don't pay the fee. If they are, they do. It saved us time and increased success."

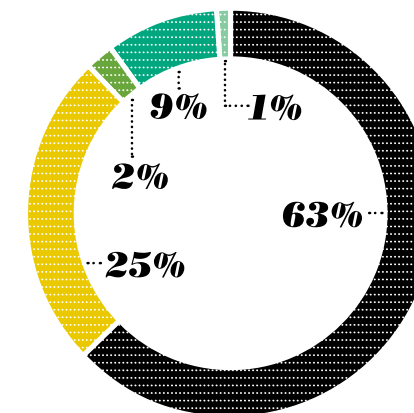
While it may not be easy to get in the mindset of raising prices and possibly losing customers, Lightfoot has some advice: "Have courage," she says. "You aren't tearing your hair out running after lots and lots of work. You are doing better work with fewer customers and getting paid for it. Having fewer customers is not a bad thing if they are high-end customers." **SOI**

**"I needed a bigger margin. ... I was married and had a son."**

Daniel Sierra, All American Lawn & Limb

Compared with three years ago, how have your location's prices changed in general?

- I charge more now
- I've made no change
- I charge less now
- I can't compare – I wasn't in business three years ago
- No answer



**“Thanks to the ACA, employers can offer more and better quality benefits.”**



# A maze of regulations

**Despite a ruling from the Supreme Court on the Affordable Care Act, landscapers still struggle to cut their way through increasing levels of red tape.**

By Mark E. Battersby

**T**HE U.S. SUPREME COURT HAS RULED that the tax subsidies for health insurance provided by the federal government to citizens in the 34 states that have not established the health insurance marketplaces or exchanges were legal. That means some 6

million people, including the nearly 3.5 million people on small business plans and small business owners, self-employed professionals and early retirees who depend on subsidized health care costs, will continue to receive them.

Unfortunately, despite those subsidies and other tax incentives, healthcare costs

continue to skyrocket. And, according to a report from the Urban Institute, a Washington, D.C.-based think tank, small businesses are among those most vulnerable to the steep healthcare cost increases. In 2013, just 32 percent of businesses with fewer than 25 workers offered health coverage to employees.

**THE ACA TODAY.** Admittedly, the Affordable Care Act (ACA) provides professional landscape contractors and their businesses with insurance options and increased buying power via the government-sponsored marketplace – as well as an overwhelming amount of confusion and paperwork. What can lawn care and landscaping business owners do to keep healthcare costs manageable while complying the ACA’s updated and ever-changing rules?

First, it should be understood that the

ACA’s taxes and tax credits are based on the number of full-time equivalent employees (FTE) and their average annual wages, not solely on the number of full-time employees. In simple terms, FTE equals the total number of full-time employees plus the combined number of part-time employee hours divided by 30. Seasonal employees, contractors and business owners don’t count toward the total.

**THE DOWNSIDE.** Other than the sharply escalating costs, every landscape contractor should be aware of the ACA’s downside. Although the negative side effects of the ACA are very real for some landscape businesses, many of the earlier radical claims were over-dramatized.

Of those who are required to comply,

## Overtime could get overhauled

**T**he U.S. Department of Labor has proposed a change to federal overtime pay requirements, raising the exempt status of overtime pay to \$50,440 in 2016. Under current rules, an employee is exempt from overtime if he earns a salary of more than \$23,600 annually, and his primary duties are managerial, professional or administrative.

The DOL’s new proposal more than doubles the threshold to \$50,440 annually. Employees who makes less than \$970 a week would be classified as hourly, and would be paid overtime if they work more than 40 hours a week.

According Lawn & Landscape research, the average landscape company pays its salaried employees (account managers, supervisors, crew foremen/leaders and designers) less than \$50,000 a year. Under the DOL’s proposal, all of these positions would become hourly jobs.

“Everybody is going to have to look at their workforce, how they’re being paid and how they’re being classified, and make decisions of whether they’re going to change how they do that to meet the requirements,” says Tom Delaney, director of government affairs for the National Association of Landscape Professionals.

The proposal hasn’t been finalized, and likely won’t be until 2016. – Katie Tuttle

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## Waters of the United States rule stays murky

In September, a federal judge in North Dakota clarified his Aug. 27 decision blocking the implementation of the EPA and the U.S. Army Corps of Engineers' Waters of the United States rule, which went into effect Aug. 28. He refused to impose a nationwide injunction on the EPA's rule clarifying the scope of the Clean Water Act.

The rule is meant to clarify which streams, tributaries and wetlands are covered by the Clean Water Act. The judge's injunction applies only the 13 states that filed for it: Alaska, Arizona, Arkansas, Colorado, Idaho, Missouri, Montana, Nebraska, Nevada, New Mexico, North Dakota, South Dakota and Wyoming.

Most other cases have been consolidated into one lawsuit at the U.S. Court of Appeals for the Sixth Circuit in Cincinnati.

Proponents of the rule say it does not expand the Clean Water Act's coverage or add new permitting requirements, but opponents are calling the rule a power grab. Many are concerned about the impact this will have on land use and construction, as well as public and environmental health. If expanded, the rule could require landscapers and LCOs to file permits when working near vastly more bodies of water; it could also impose Total Maximum Daily Load limits on smaller bodies of water. — *Chuck Bowen*

## EPA tightens up training

EPA in September proposed stronger standards for applicators who apply restricted-use pesticides. The agency's changes would require all applicators to be at least 18 years old, and certifications would have to be renewed every three years. And employees working under the supervision of certified applicators would now need training on using pesticides safely and protecting their families from take-home pesticide exposure. — *Chuck Bowen*

or less, qualify for the maximum credit of 50 percent. The amount employers do pay is tax deductible and can be carried forward or backward.

- Thanks to the ACA, employers can offer more and better quality benefits. In fact, because small businesses are able to shop for group health plans on their state's health insurance marketplace via SHOP, a landscape contractor now has the same buying power as larger businesses. Along with tax credits and increased buying power, many landscaping businesses may now be able to provide benefits to their employees.

- The self-employed with no employees can get health coverage through the health insurance marketplace for individuals, but not through SHOP.

**OPTIONAL STRATEGIES.** Instead of shifting to the individual markets, some businesses have opted for a high-deductible group plan and set up a health reimbursement arrangement (HRA) to help offset employees' medical expenses. An employer can dictate the expenses they will reimburse, thus limiting their out-of-pocket exposure.

An HRA can be structured so that if an employee does not use the money in an HRA, the money will still belong to the landscaping business. An HSA is another option, but it gives employers less control over how the money in an account is spent.

**THE SUBSIDIES.** Self-employed contractors and workers in small businesses can buy subsidized individual health insurance plans on government-run exchanges. This has reduced the uninsured rate among non-elderly workers at businesses with fewer than 50 employees from 23.5 percent in June 2013 to 13.2 percent currently. The uninsured rate among self-employed workers fell from 30.4 percent in mid-2013 to 19.6 percent.

The subsidies, available to anyone who earns between 100 and 400 percent of the poverty level, have helped reduce the cost of insurance — at least until recently. Escalating insurance costs have already begun impacting landscaping businesses.

Despite the ACA's benefits to contractors and their employees, deciphering its ins and outs has been a challenge to many landscapers. Be sure to consult with a professional adviser to make sure you understand the law's implications for your company. **SOI**

The author is a financial writer based in Ardmore, Pa.

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