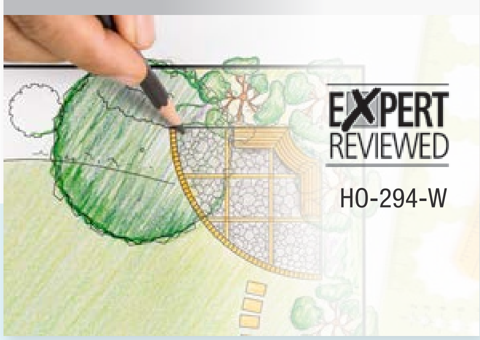
PURDUE EXTENSION



U.S. LANDSCAPE FIRMS SURVEYS

Business Practices of Landscape Firms

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The U.S. environmental horticulture industry (or green industry) is comprised of many sectors, including:

- Wholesale nursery, greenhouse, and turfgrass sod producers
- Landscape design, installation, and maintenance firms
- Wholesale and retail distribution firms (such as garden centers, home stores, mass merchandisers with lawn/garden departments, brokers, and re-wholesale distribution centers)
- Allied trades suppliers of inputs to the industry

Among the industry sectors, landscaping and horticultural services is the largest single sector in terms of employment and gross domestic product (GDP) contributions — they provided 1,105,526 jobs and produced $54.70 billion in gross domestic product (GDP) in 2015 (Hodges et al., 2015b). However, the academic literature does not document firms that provide landscape services well.

Given the importance of landscapers in the green industry, we surveyed a wide variety of green industry firms to include data from landscape firms who provided a variety of functions (for example, landscape services, retail sales, and plant production) (Hodges et al., 2015b). A wide variety of green industry businesses answered questions about the types of products they offer, the forms those products take, how they sell their products, how they advertise, the factors they use to determine prices, and the factors that affect business growth and management.

This publication provides information about the product mix, advertising, marketing, and other business practices of U.S. landscape firms and compares them by their business diversification strategies (landscape only; landscape and retail; and landscape, retail, and grower).

The Survey

The 2014 Trade Flows and Marketing Survey gathered information about business practices for the calendar year 2013 or fiscal year 2013-14. This survey represented the sixth national survey conducted by the Green Industry Research Consortium — they conducted previous surveys in 1989, 1994, 1999, 2004, and 2009.

For the 2014 survey, we developed a list of more than 110,000 grower and plant dealer firms in the United States. We targeted a total of 32,000 firms (including 15,000 grower or grower/dealer firms we randomly selected) to receive the questionnaire. We mailed the survey via the U.S. Postal Service and emailed it to all 17,000 firms with email addresses.

Hodges et al. (2015a) summarizes the general findings from the study.

The Firms

For this study we divided landscape businesses by type (that is, business diversification strategies). In the survey, the businesses could identify themselves as: landscape only (LO); landscape and retail (LR); or landscape, retail, and grower (LRG).

Our respondents included:

- Landscape only (LO): 59 businesses
- Landscape and retail (LR): 39 businesses
- Landscape, retail, and grower (LRG): 22 businesses

For this report, we analyzed respondents who categorized themselves as landscapers with more than $10,000 in yearly sales, which represents businesses that could potentially provide more than a second income. After removing a number of very small firms, there were 120 useful responses (businesses).

Of the 120 responses, most businesses were in Indiana (27), Florida (22), Washington (13), Wisconsin (12), and Georgia (11). Fewer firms were located in Nebraska (7), Oregon (7), South Carolina (5), Kentucky (4), Tennessee (4), New York (3), Mississippi (1), Oklahoma (1), Rhode Island (1), Utah (1), and Vermont (1).

Product Mix

The product mix (what the company sells) is an important business attribute. Our survey found that the product mix shifted slightly when retailer and/or grower functions were integrated into landscape firms (Figure 1). Thus, businesses that are looking to diversify their operations should consider their current product mix and how this mix fits the market demand and competitors' supply.

LRG firms sold more than twice the percentage of deciduous shade trees compared to LR firms. LO firms had a percentage of deciduous shade trees intermediate to LRG and LR firms. However, LO firms sold a higher percentage of deciduous shrubs than LRG firms. LR firms sold a higher percentage of Christmas trees than LO firms, and LRG firms sold an intermediate percentage. LRG firms sold 3 percent of propagation material while sales of propagation material by LO and LR firms only accounted for 0.5 percent.

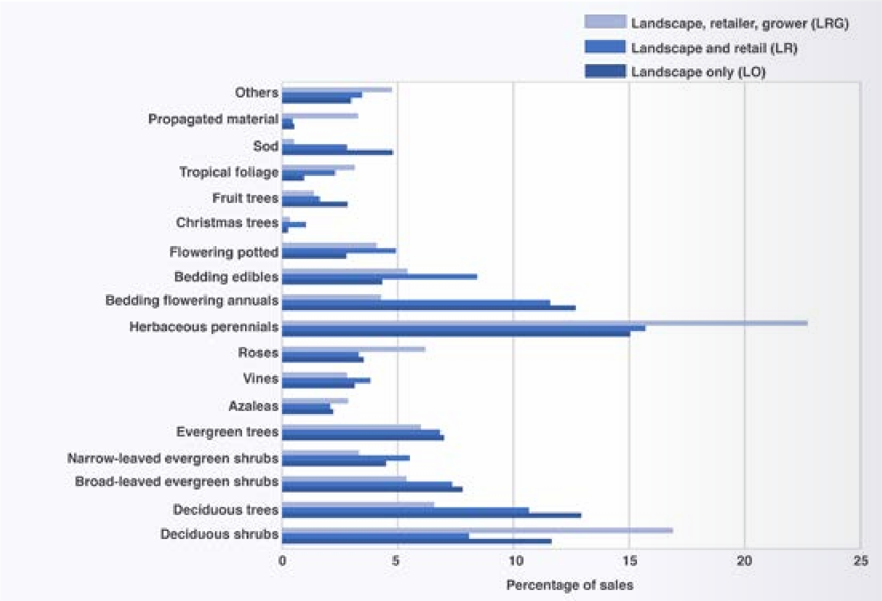

Figure 1. This graph shows the percentages of product sales by type of business diversification.

We compared the percentage of sales by product form for the three types of landscape companies and found no significant differences (Figure 2). In other words, the product type is consistent across businesses with different diversification strategies. For example, three-quarters of all products were sold in containers and 16.1 percent were sold as balled-and-burlapped. These two forms accounted for most of the sales (90 percent). All other product forms (pot-in-pot, bare root, field grown, and ball-in-pot) generally accounted for 4 percent or less of sales and was similar across firm types.

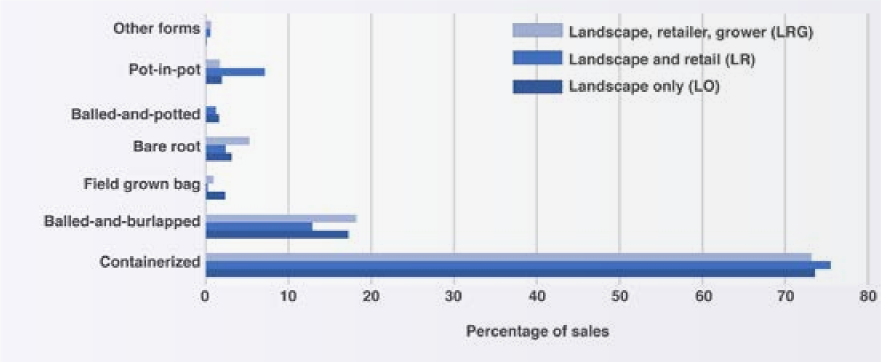

Figure 2. This graph shows the percentage of product form sales by type of business diversification.

In comparing how landscape firms generated sales, all LO businesses generated 100 percent of their sales in person (that is, a salesperson sold all goods and services). We found that landscape businesses diversified their sales methods as they diversified their business functions (that is, growing and retailing).

Landscape businesses looking to diversify should also consider labor access and skills to diversify their sales methods (in addition to resources). For example, LR businesses generated nearly 12 percent of their sales over the telephone, which was similar to LRG businesses, which generated 17 percent of their sales over the telephone.

Mail, trade shows, and the internet generated less than 8 percent of sales each for all types of landscape businesses. In comparing new sales versus repeat sales, more than 60 percent of all sales came from repeat business (LO = 66.4 percent, LR = 64.8 percent and LRG = 66.7 percent).

We also observed changes in advertising expenditures when businesses added retailer or grower/retailer functions (for example, retail sales and plant production) (Figure 3). Advertising expenditures as a percentage of sales was highest for LRG operations (12.4 percent), which was three or four times greater than for LO (3.8 percent) and LR (4.5 percent) operations.

When we combined internet (using a business' website) with social media advertising, we found that online advertising accounted for nearly half of all landscape business advertising. It seems that diversification requires a change in the traditional advertising processes, in which online advertising can help businesses draw customers from various niche markets.

For example, most respondents (32.5 percent) listed internet advertising as their primary advertising method. The Yellow Pages were listed by 11.2 percent of respondents. Social media advertising was listed by 9.3 percent of respondents. Radio and television advertising was listed by 5.8 percent of overall respondents. And newsletters were listed by 6.1 percent of overall respondents.

Trade shows, catalogs, bills, journals, and publications generally accounted for less than 5 percent of advertising methods each. When we compared advertising forms by business type, we found one difference: radio and television advertising was ten times the magnitude for LRG and LR firms compared to LO firms.

Figure 3 highlights the advertising expenditures by type of business diversification. Newspaper was not listed as an option on the survey (an unfortunate omission), but based on fill-in responses in "other," most of these responses were for newspaper advertisements, making newspapers the second largest category after the internet.

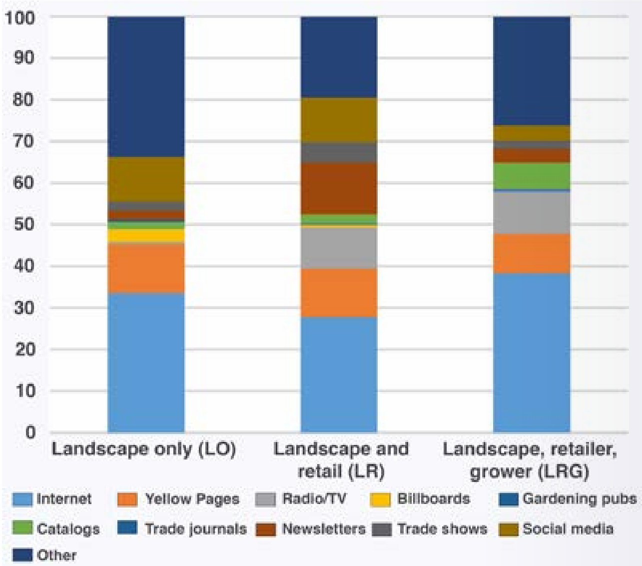

Figure 3. This graph shows the advertising expenditures as a percentage of sales by type of business diversification.

We asked each firm to rank nine factors that may affect price setting (Figure 4). The top three factors influencing prices in all landscape businesses were:

1. Plant grade (94 percent)
2. Market demand (81 percent)
3. Uniqueness of plants (80 percent)

However, diversification strategies are likely to increase the complexity of operations, which may result in different production constraints. For example, when comparing the price setting factors across business types we found two differences. About 20 percent more LR companies indicated product uniqueness was important compared to LO companies — but product uniqueness for LR companies was similar to LRG companies.

The factor that had the highest percentage of LR businesses responding was plant grade (94.6 percent). A higher percentage of LRG companies (95 percent) responded that production costs were an important factor to determine prices compared to LO (70 percent) and LR (76 percent) companies. LRG businesses did not report the category “other” as a factor determining prices.

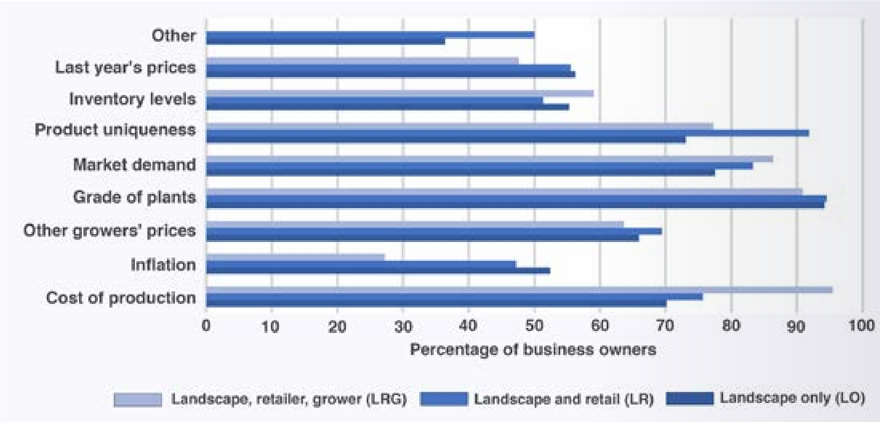

Figure 4. This graph shows the percentage of business owners responding to the factors that are important for determining their prices.

We also asked companies to indicate the factors that determine the growth and management of their businesses (Figure 5). Market demand, their own managerial expertise, weather uncertainty, and labor (generally) were the most important factors affecting businesses.

We found two differences when comparing firm types. Land was important to 64 percent of LRG companies but was important to only 29 percent of LO companies. Forty-four percent of LR companies indicated land was an important factor for business growth. The ability to hire competent hourly labor was more important for LR (77.8 percent) and LO (65.5 percent) firms than for LRG firms (50 percent).

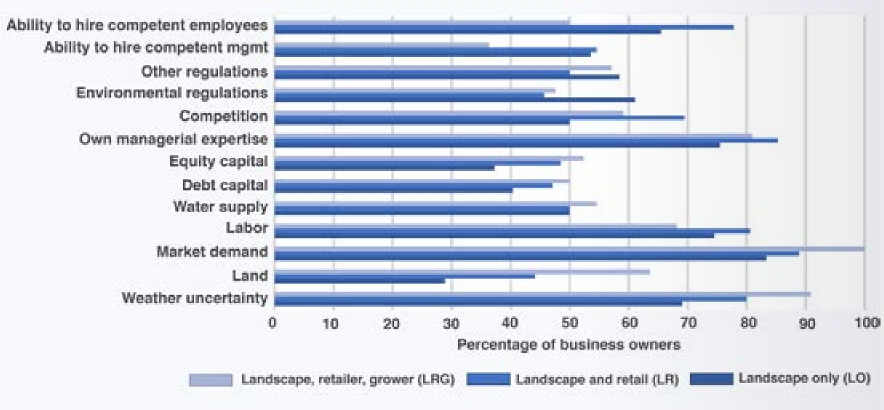

Figure 5. This graph shows the percentage of business owners responding the factors that are important for business growth and management.

Conclusions

Landscape firms exhibited several differences when we compared them by type of diversification strategy (LO, LR, and LRG). Landscape service providers have traditionally relied on word-of-mouth communication rather than investing in formal advertising methods (Heiler, 2010).

If a company is producing plants and retailing them (in addition to providing landscape services), the business owners tend to use more traditional communication/advertising measures (newspaper/television/radio) to connect with their current customers and attract new ones. The number of potential consumer niches likely expands as the firm expands its functions. This would explain why more vertically integrated businesses engage in more diverse types of advertising.

Diversifying functions may benefit from diversifying sales methods, and we observed differences here, too. The two major differences in factors determining prices were a higher rating of product uniqueness for businesses including retail and a higher rating of cost of production for businesses including the grower function. Retailers depend on impulse sales; therefore, product uniqueness is an important characteristic for a retail business.

Two important factors that affect business growth are production costs and labor. Businesses that incorporate growth into their business models clearly must control their production costs in order to maintain competitive pricing. Labor has traditionally been a major factor in determining business growth for landscape businesses, so labor costs are more likely to limit the growth of firms that have a larger percentage of their business associated with landscaping.

This publication provides an industry baseline describing the business practices and factors that drive the pricing and growth of landscape operations. The survey findings help highlight the diversification strategies landscape businesses use. This publication can be a benchmark for landscape firms to use internally.

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