PRODUCTS THAT MAKE YOU PROFITABLE

Congratulations on another prosperous year. As we celebrate your business successes from a busy season, we also share your optimism as we look at what 2020 has in store for the turf industry.

At Kubota, we believe products and equipment that reduce time for commercial contractors will continue to be a focus of the industry. These products will allow landscapers to compete, remain profitable and grow their businesses. A large time saver for commercial cutters are the stand-on mowers Kubota just introduced – three new machines in this segment aimed at filling this need.

Service support is also important to the landscape segment. Contractors must be able to quickly get parts and service when they need them to keep their businesses running. We understand that down time does not pay the bills and so finding the right dealer to service and support your business is key to growing and maintaining a profitable business. Considering certain types of equipment can also reduce dependence on service support; for example, contractors can consider equipment that reduce the impact of ethanol related issues, like the new EFI's which are designed to eliminate these issues and need for service. This equipment promotes up-time and productivity. The EFI segment of the industry is growing just over 20% per year, which is an indicator that many landscape pros see the benefit.

Employee retention and performance is also a major consideration for contractors; reducing operator fatigue while improving productivity will continue to lead product development in commercial mowing equipment. Kubota focuses its product development on delivering these results. Improved operator performance yields better results and reduced time on the job. We understand this and are continually adding and improving our equipment accordingly.

Kubota looks at 2020 with an unwavering commitment to the turf segment. With product introductions and complete "one stop shop" equipment offerings for landscape professionals, we will continue to innovate and work with our dealer and landscape partners to provide the best equipment and service.

These products will allow landscapers to compete, remain profitable and grow their businesses.

Best regards,

Todd Stucke
Kubota Tractor Corporation
Senior Vice President, Marketing,
Product Support & Strategic Projects

TIME FOR THE '20s

AS WE HEAD INTO A NEW DECADE, our State of the Industry survey shows some signs that revenue growth in the industry may be slowing down, but contractors remain confident. The median revenue for landscape contractors is down once again decreasing from $287,000 in 2017 to $273,000 last year. The mean revenue decreased from $1.13 million in 2017 to $1.05 million last year. In the chart on the next page, you can see the revenue decrease in the last couple of years, but it's still better than 2014 and 2015.

Of the concerns that we asked contractors about, only two increased – bad weather and slow housing market. With rumblings of a recession, we added that in our list of concerns to rank, but it barely cracked the top 10 with a 4.9 score out of 10. – Brian Horn

THE MEAN REVENUE DECREASE FOR LANDSCAPE CONTRACTORS FROM 2017 TO 2018:

$80K

EDITOR'S NOTE: One new wrinkle in our SOI coverage this year is the involvement of a few of our columnists – Jim Huston, J.R. Huston Consulting; Ed Laflamme, the Harvest Group and Bruce Wilson, Bruce Wilson & Co. We sent some of the survey results to the trio to get their thoughts.

MEDIAN REVENUE

- 2018 $273,000
- 2017 $287,000
- 2016 $291,000
- 2015 $256,000
- 2014 $217,000

MEDIAN: The number in the middle where extreme outliers are removed like respondents with extremely high or low revenue

MEAN REVENUE

- 2018 $1.05M
- 2017 $1.13M
- 2016 $900,000
- 2015 $979,000
- 2014 A calculation could not be made because of the high proportion of respondents in the bottom category of revenue

MEAN: The average of all respondents

SURVEY METHODOLOGY

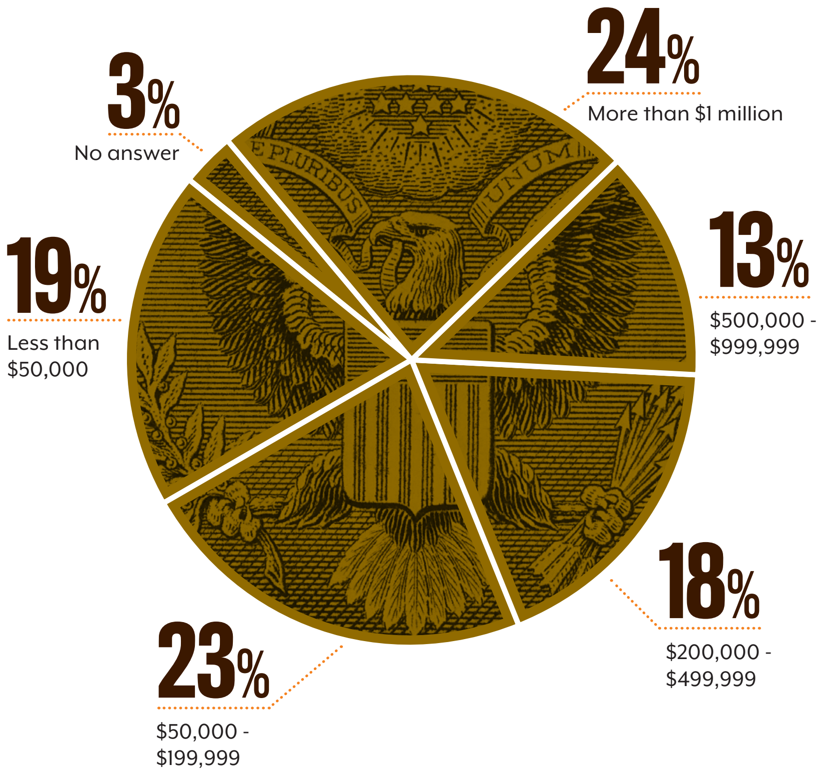
The survey sample of 18,583 represented emailable Lawn & Landscape recipients at unique company locations (one record per company location) in the U.S. and Canada classified with titles of owner, president, partner, executive, or general manager. The survey was fielded by Readex Research from July 8-22, 2019. The margin of error for percentages based on 544 landscape contractors/lawn care operators is ±4.1 percentage points at the 95% confidence level.


Jim Huston
J.R. Huston Consulting


Ed Laflamme
The Harvest Group


Bruce Wilson
Bruce Wilson & Co.

Approximately what was your location's gross revenue in 2018 (in USD)?



What percentage of your location's customers in 2018 were new customers vs. returning customers?

72% RETURNING CUSTOMERS

28% NEW CUSTOMERS

OUR PANEL SAYS ...

JH: For irrigation, lawn care, maintenance services, you should retain 80-90 percent. Over 90 percent is fantastic and below 75% is very poor.

EL: This seems low. A good goal is between 90% and 95%.

BW: Retention rate should measure retention based on what percentage of jobs on the books at the beginning of the year are on the books at the beginning of the next year. In this response, the new customers could be replacing old customers, which does not necessarily mean the company is growing.

How would you rate your concern with each of the following issues and their impact on your location's business in the next three years?

(On a scale from 1 to 10)

- 6.9 Quality labor shortage
- 6.1 High workers' compensation costs
- 5.8 High fuel prices
- 5.8 Low-ball competitors
- 5.7 High health insurance costs
- 5.7 Bad weather
- 5.4 Personal life stress
- 5.4 Lower margins on work
- 5.2 Difficulty raising prices for work
- 4.9 Economic recession

53% OF RESPONDENTS RANKED QUALITY LABOR SHORTAGE AS AN 8, 9 OR 10

OUR PANEL SAYS ...

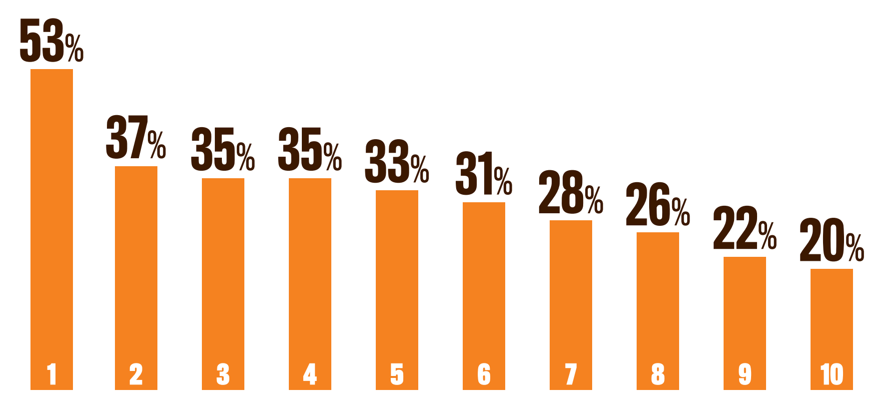
JH: It was a bad spring, so this was probably high on people's minds. Otherwise, it would be lower. It's interesting that recession it is so low with all the recent talk of one.

EL: Bad weather, mostly rain, had a huge impact on many companies along the East Coast, especially Pennsylvania. I don't think they are figuring the lack of labor high enough. I think the lack of labor should be the highest and probably twice the others.

BW: I was surprised to see that labor shortage is not at the top by a larger margin. Of the people I talk to, I think labor is the most pressing concern for 75% of our industry. Fear of recession would be next.

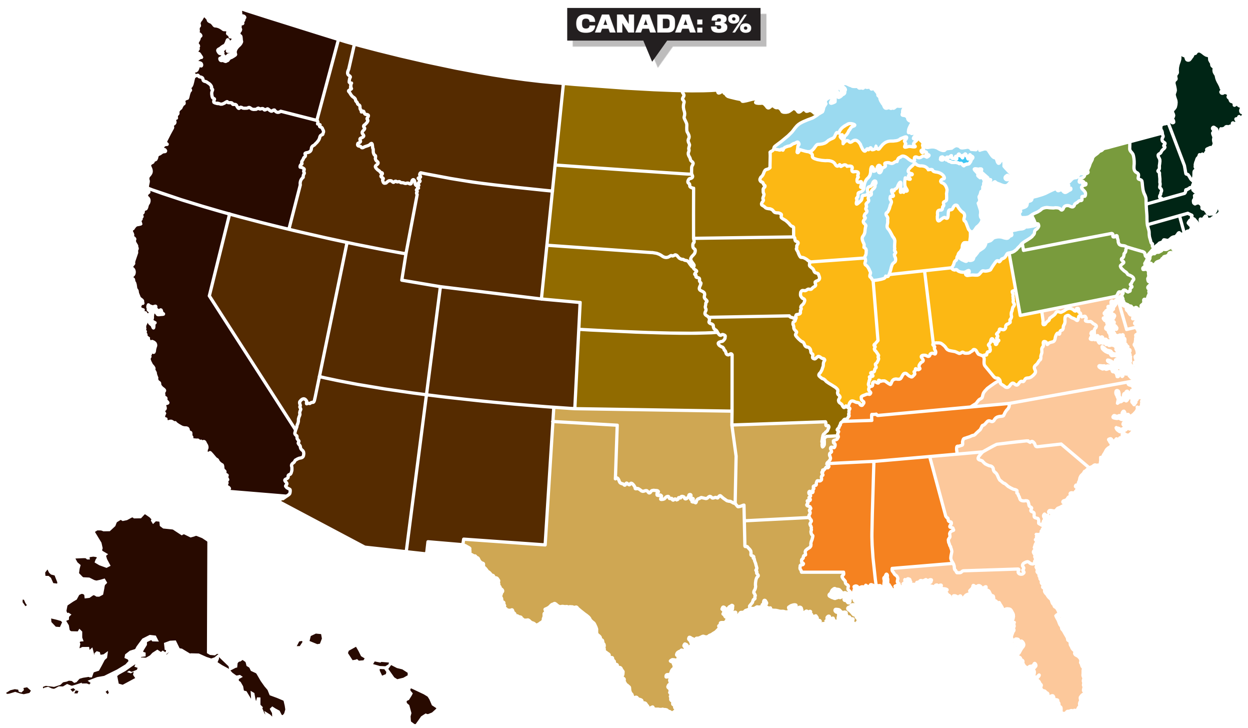
Fuel prices are decreasing. Many owners are paying attention to quality of work/life balance. As an aside I think low ball competition is a myth. I have never met a contractor that has being a low-ball bidder part of their strategy. Everyone who gets under-bid considers the low bidder a low-ball contractor. I have lost work by 20-30% and wondered the same only to see the contractor maintain the property at a high level for five years.

The percentages below show how many respondents ranked an issue as a major concern in the next three years by scoring it as an 8, 9 or 10.



1. Quality labor shortage
2. High workers' compensation costs
3. Low-ball competitors
4. High health insurance costs
5. Bad weather
6. High fuel prices
7. Personal life stress
8. Lower margins on work
9. Difficulty raising prices for work
10. Regulation of or ban on pesticide/fertilizer use

NOTE: Some charts don't total 100 percent due to rounding and because not all answers are included with some questions.



In which state/province is your company located?

NORTHEAST
- **New England:** CT, MA, ME, NH, RI, VT 5%
- **Middle Atlantic:** NJ, NY, PA 12%

MIDWEST
- **East North Central:** IL, IN, MI, OH, WI 19%
- **West North Central:** IA, KS, MN, MO, NE, ND, SD 8%

SOUTH
- **South Atlantic:** DC, DE, FL, GA, MD, NC, PR/VI, SC, VA, WV... 27%
- **East South Central:** AL, KY, MS, TN 5%
- **West South Central:** AR, LA, OK, TX 10%

WEST
- **Mountain:** AZ, CO, ID, MT, NM, NV, UT, WY........4%
- **Pacific:** AK, CA, HI, OR, WA 4%

Which of the following services does your location currently offer?

- Lawn care/chemical application: 85%
- Landscape maintenance: 81%
- Landscape design/construction: 72%
- Trees & ornamental: 62%
- Irrigation: 46%
- Snow and ice mgmt.: 39%
- Vegetation mgmt.: 15%
- Holiday lighting: 14%
- Mosquito control: 12%
- Perimeter pest control: 12%
- Nursery/grower: 9%
- Sports turf: 8%
- Garden center: 7%
- Interiorscaping: 4%

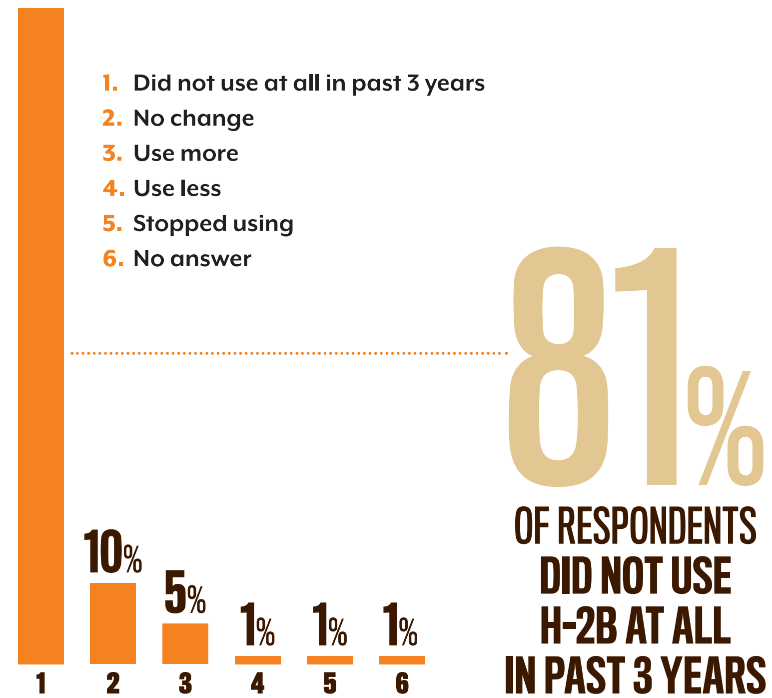
OUR PANEL SAYS ...

JH: Most companies that do landscape maintenance do trees and ornamentals. The top 5 numbers seem high to me. The "other services" numbers seem reasonably accurate.

EL: I find more and more clients are subbing lawn care out, so they are offering it but not performing it in house. They say it's too much liability and don't have the expertise to do it. There are big profit margins in snow and ice and mosquito control. Snow and ice do however require a lot of equipment where mosquito control does not. Mosquito control is really growing in certain areas – I see new franchises popping up.

BW: Of the services described, I would agree that more companies are considering snow removal as potential profit. Snow belt residential companies are adding commercial snow and moving into doing more commercial maintenance in order to get more commercial snow.

How has your location's use of the H-2B program changed in the past three years?



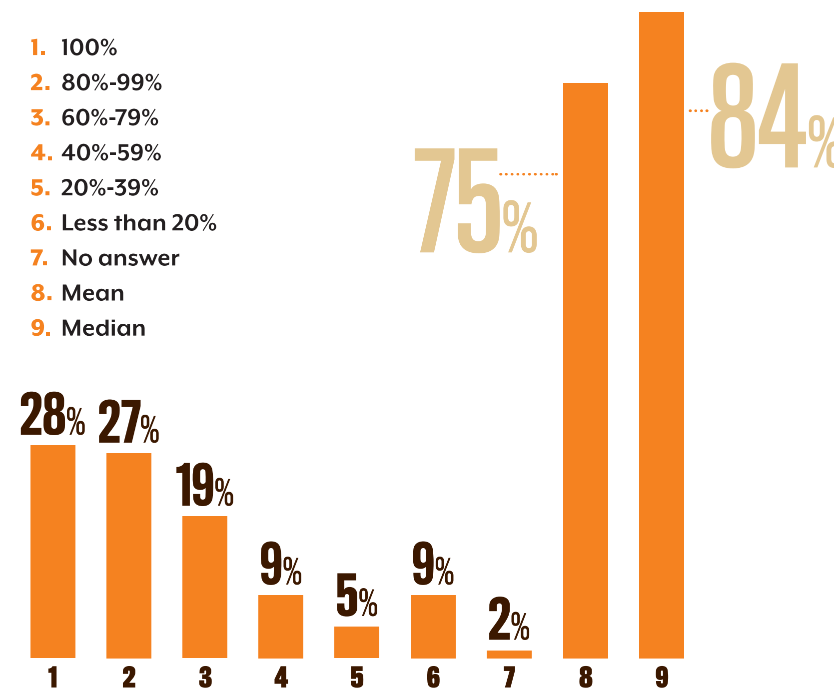
OUR PANEL SAYS ...

JH: Many moved away from H-2B over 5 years ago. Some have trickled back to use it as there are few if any alternatives. These figures seem somewhat accurate to me.

EL: I find that companies want to use the program, but they are far more cautious than in the past. They do not want to have too many, so they are not overly dependent on the program – too many horror stories. Numbers sound OK.

BW: Companies response to the H-2B dilemma is mixed. Generally, companies are trying to reduce their dependence on the program. It varies by market based on how much local Hispanic labor is available. The problem is acute in E-verify states. There simply is not enough labor. Too many industries competing for too few workers. Wages have risen 40% or more in the last few years. A few of the larger companies have sworn off H-2B. They have developed some pretty good recruiting strategies. The big ah-ha is that recruiting is not an event. It is a process that goes on 365 days a year.

What was your location's employee retention rate for the past 12 months?



OUR PANEL SAYS ...

JH: Non-seasonal retention should be 80-90%; seasonal should be 50-60%.

EL: Numbers seem OK on average but 28% not losing any must be smaller companies. Companies that have great orientation, on-boarding and mentoring programs have much less turnover.

BW: It is very difficult to compare retention rates. I think only very small companies can retain over 90%. The method I use with peer groups is to measure how many employees are still on the payroll one year after the benchmark date. For year-round operations that could be Jan. 1-Dec. 31. For seasonal employees, it could be of those at the start of the season how many make it until the end. Say for example April 1-Oct. 31.

We felt that a better measure of employee retention is what percentage of employees have been there for more than one year. Our branches at Valley Crest / Environmental Care performed well if that number was above 60%.