

ARBORICULTURE IN THE 1980's¹

by Thomas D. Smith

Smith Tree & Landscape Service is thirty-five years old. We cover all aspects of the tree and landscape business. We do decks, walls, patios and pools, as well as plantings. We have a complete shade tree maintenance department. We have done, but no longer do, utility line clearance. We have an associate firm, a professional landscape architectural office. Also, we own and operate a nursery. We employ approximately forty people and use a computer to manage our books.

We are quite diversified. There are pro's and con's to diversification. On one hand it increases the overhead, but on the other hand, there is more balance. If sales are slow in one area, you can pick up the slack in another.

The 1980's are going to be tough. The United States economy went on a spree in the 50's, a bender in the 60's, a come-down in the 70's and in the 80's we will have to put up with the hangover and all of it's headaches. The economy of the 80's will be a time of getting along with less for everyone, from fewer and smaller cars and houses to less monies being available for tree maintenance and landscaping. Energy and inflation threaten the economy the most. For most middle class Americans, the 80's will bring a more austere life. For this reason, we will lose much of the middle class market, with the exception of those that will be forced to stay at home more, and will probably improve their grounds because they spend more time there. There are a lot of people in Michigan who can no longer afford to maintain both their home and their cottage in northern Michigan. Some of these people are selling these summer cottages and installing swimming pools and landscape plantings at their regular residences.

But Americans with whom our industry deals (at least our clients) will not be affected nearly as severely as the middle class Americans. They are much less affected by recession because they have more money. Nonetheless, all of us will have

to sell much harder to get our fair share of the market.

In the 1980's management will have the real challenge. Unfortunately a good share of the people managing business in our industry are terrific arborists, foresters and horticultural people, but very poor business people. Many do not even use C.P.A.'s and keep very poor books themselves. Therefore, they have little or no understanding of what their true costs are, nor do they take into account how seasonal our work is. Warren Purdy gave an excellent lecture on the subject at the National Arborist's Association Meeting in 1978. Reprints may still be available.

Let's face it. In Michigan, we have five months for prime production. Much of the rest of the year is pure overhead. If you can't make your money during the working season, you won't be around for many more seasons.

Management should not figure on doing business as usual with their bank, as in the past. You should now formalize credit relations with banks or other lenders and make absolutely sure that the company credit line is firm. Don't try to expand your company faster than your credit line can support. If everything you own is on paper and you have no real assets, you may be in trouble in a bad year. One year we had a bankruptcy client which was the then largest construction company in North America. They overextended their credit and bankruptcy followed. The result was a \$60,000 loss that year for us. Without a solid credit base we may also have had to declare bankruptcy.

In the years past, it was possible to start a small business on a shoestring. It's a different story today, unless you consider a shoestring as \$100,000 or more. With interest rates soaring, credit and cash flow are critical. Accounts receivables have to be watched closely. Watch your slow paying customers and contact them often. If they remain slow, drop them or increase

¹Presented at the annual conference of the International Society of Arboriculture in Hartford, Connecticut in August 1980.

their charges to cover the added expense of working with them.

Our firm has changed its standard billing terms from net in thirty days. It has worked well. People seem satisfied with the ten days as cash terms and pay promptly. We have also gone to a 25% down payment when materials are involved, primarily in the landscape department.

We also update our overhead and expenditures monthly and adjust our charges accordingly. Gone are the days where you could stay with the same hourly rate and material charges for a whole year. Our suppliers treat us in the same manner.

Our industry is made up of strong individualists. What works for one person may not work for the other. Everyone has his own means of meeting his goals and as long as the goal is accomplished in the same amount of time or less, and as well, it should be encouraged. Improving productivity calls for a good balance between equipment, people and job satisfaction.

Labor is our biggest expenditure and a good share of our overhead is tied to it. So improving productivity is always our aim. Your men should understand what their true cost is, i.e., vacations, sick time, hospitalization, retirement, etc. This works out to a load rate of 40% higher than the hourly rate. They should also be aware of what a wasted hour means in terms of dollars (especially a crew hour) and how that can affect their rate of pay.

One mistake is made here at the convention. We discuss the wages and rates that so and so is paying and then go home and try to use this information as a guide for what we pay our employees and charge our customers. Labor is no different than auto parts trees, cables, insecticides, etc. You buy it. The price you pay is determined by what the going rate is in your area. You can't compare Michigan to Connecticut, or even Lansing, Michigan, which is a strong auto town with a

strong union, with a town like Boyne, Michigan, which is a resort town with no union.

Your charges to customers goes hand in hand with labor. Don't set a rate for your charges to compete with competitors. There's a good chance that they don't know their costs. Look around at what other service companies in your area charge, i.e., mechanics, electricians, furnace repairmen, etc. Your costs are at least as high as these other businesses and we should charge our customers accordingly.

It's time that our industry unified and becomes more consistent in their pricing. Where, but in our industry, can there be a 30, 40 or even 50% spread in bids made on the same specifications?

The 1980's appear as though they are going to be rough. There are many obstacles, i.e., government regulations, unions, E.P.A., inflation, fuel cost, etc. There are pluses, however, More people are aware that the 'green' industry (forestry, arboriculture, landscape) are a REAL natural resource, and this should be good for the services we offer. I believe that there is going to be much more municipal, state and federal contracting in the future to the commercial operators. Most governments can no longer afford to have year-round municipal union employees do the services that we can offer. These governments will hire foresters to write specifications and inspect the work that is being done, but it will be the commercial operator's crews doing the work.

Our biggest challenge is to be better businessmen, to sell harder and more effectively, unify as an industry, and educate the public to make them aware of the importance of the services we offer.

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