

# 3 Keys to Selling Your Landscape Business

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by Jacob Orosz | Jan 11, 2017

At some point, you will exit your business. Make no mistake, you cannot own your business eternally. You will eventually exit your business.

Most landscape businesses compete on price and offer services that are often viewed as commodities by their customer base. What does this mean for sellers? If your business competes solely on price, when it comes time to sell, buyers will view your company as nothing more than a commodity and, as a result, [your company will be priced accordingly](#).

Thorough preparation puts you in a strong position to sell because most of your competitors – other landscaping companies that are available for purchase – have done little to prepare their companies for sale.

The keys to gracefully exiting your business are: 1) rigorous preparation; 2) confidential marketing; and 3) successful negotiations. Here's a 3-step framework to guide you through the sales process:

## Step 1: Prepare

The first step is preparation. You must fully prepare before you begin actively selling your business. While there is no rigid process you can follow to prepare your company for sale, this checklist will help you consider some of the most important variables:

- **Document your workers** – Some buyers, whether individuals or other companies, may be ok with your undocumented workers. Others may not be. You are in the best position possible if you document all of your workers.
- **Update your equipment** – Maintained, up-to-date equipment will set your business apart from the others on the market and will greatly enhance your ability to sell your company.
- **Sign contracts with your client base** – Buyers love a diverse long-term customer base, especially if you have long-term contracts with your key customers. Contracts help ensure the clients will be passed on to the new buyer. Check with your attorney to ensure the contracts are transferable in the event of a sale.
- **Differentiate your business** – If your business is easy to replicate, then buyers will consider replicating your business.
- **Focus on maintenance and other repeat services** – Lawn care and landscape maintenance companies receive higher multiples than construction-related landscaping businesses.
- **Update your fleet** – Buyers will deduct from the purchase price the cost necessary to bring your fleet up-to-date. Buyers may view this action as a nuisance, and this

may later be the straw that breaks the camel's back when it comes to negotiating time.

- **Clean up your account receivables** – Having too much money tied up in assets such as account receivables may lower your company's valuation. Sophisticated buyers consider this a hindrance to the company's growth. The longer the cash flow cycle of your company, the more working capital a buyer must tie up in your business. Sophisticated buyers consider an investment in working capital as any fixed asset, just as an investment in a new fleet or equipment.
- **Polish up your billing arrangements** – Pre-billing is ideal and increases the valuation of your company. Try to get as much of your client base as possible on pre-billed arrangements. Avoid post-billing.
- **Avoid customer concentration issues** – If a large percentage of your revenue comes from a few customers, then any potential buyer of your company will view this as risky, especially if you have a personal relationship with these customers.
- **Build a management team** – What would happen if you walked away from your business today? If the business would run without problems, then your business will be much easier to sell.
- **Build your commercial base** – Landscaping contractors that focus on commercial work have much more value to buyers than those that primarily focus on residential business.
- **Improve retention of employees** – Focus on developing programs and a culture that will ensure long-term retention of your employees. Buyers, even if they have no experience in the industry, will do their research and they will quickly learn that finding and keeping talent is a perennial problem in the industry.
- **Have key employees sign non-compete agreements** – If non-competes are illegal in your state, then, at a minimum have employees sign a non-solicitation agreement. This prevents your employees from actively poaching your current employees or customer base if they decide to start a competitive business.
- **Build dense routes** – Route density drives fuel and labor consumption, and a dense route decreases the cost of each, which will increase the value of your company.

## Step 2: Marketing

Marketing your landscape business for sale is all about positioning. Focus on three critical elements:

### *1 – Make your company difficult to replicate*

A buyer will replicate your business if they can do so at a lower cost. If you are selling your landscaping business for \$500,000 and a buyer can go out today and purchase equipment for \$100,000, hire 3-5 employees, invest \$50,000 in marketing, and develop a company similar in size to yours within a 12-to-18-month timeframe, then why should they buy your company?

The landscaping industry has low barriers to entry. With a truck and some equipment you are in business. What makes your business difficult to replicate?

Below are specific actions you can take to make your business difficult to replicate. Note that working on one item will not be enough; to increase your company's value and set it apart from your competitors, you need to implement as many of these as possible. These can be summed up in three broad categories based on the preparation tips I cited above.

In implementing these, which are also listed above, I recommend focusing on one category at a time:

### 1) Customers

- • Build a repeat customer base
- • Ask all customers to sign a long-term contract
- • Pre-bill all customers
- • Improve customer retention
- • Build dense routes to minimize fuel, labor and other expenses

### 2) Services

- • Minimize design/build services, unless you are in a niche protected from competition
- • Focus on niche services to avoid price-sensitive clients
- • Develop other services to mitigate the impact of seasonality
- • Focus on maintenance services, especially with commercial clients

### 3) Staff

- • Build a long-term management team that is difficult to replace
- • Have key employees sign non-compete and non-solicitation agreements
- • Have the management team establish strong relationships with your customer base; avoid personal relationships with your customers

## 2 - *Build your business so anyone can run it (and I mean anyone)*

This might seem counterintuitive, but the more important you are to your business, the less your business will be worth. Why? What happens if you are paramount to the success of your business and you sell your business? All your knowledge, skills and relationships do not come with the business and are therefore not factored into the value of your company, unless you plan to stay with the company as long as the buyer continues to run it.

Additionally, building your company so anyone can run it vastly opens up the universe of buyers that can potentially own and therefore purchase your company.

Doing this requires two things:

**Build a management team** – Your management team should be the ones developing relationships with your customers and running your company. Although building a strong management team takes an enormous amount of work on your end, doing so will dramatically increase your chances of successfully selling your business. Few buyers will be interested in purchasing your company if you cannot take a one-week vacation without your company falling apart.

**Document and streamline your operations** – If you don't want to work too hard, then first build your management team, and then ask your management to perform this crucial step. Streamlining your operations ensures a smooth transition for a buyer and greatly enhances the chances of a successful sale.

### *3 – Be able to articulate the benefits of buying a company in the landscape industry*

Be prepared to present the advantages of operating a business in your industry. If the buyer is a competitor, then you will not have to make this argument; however, you often attain the highest valuations from someone who wants to buy into the industry, which they often do at a premium. Here are the advantages of the landscape industry that may be highlighted should you decide to sell your business:

**Fragmented Industry** – The lawn and garden business is highly fragmented. It is therefore easier to differentiate oneself because most competitors are underfunded.

**Opportunity for consolidation** – The industry presents options for consolidating many competitors into much larger companies (these are called roll-ups). It is possible to start small and build a behemoth of a company. The five largest companies in the industry based on [Lawn & Landscape's Top 100 list](#) all have 2015 revenues of over \$200 million.

**Persistent need** – Landscaping services may be viewed as discretionary by some; however, a [2015 survey](#) by the National Association of Landscape Professionals (NALP) indicated that 84% of Americans believe in the importance of having a well-maintained yard, and most of them see the need to seek help from landscape professionals to have a “nicer yard.”

**Barriers to entry** – While some may view the capital intensiveness as a drawback, we view it as a mote that restricts competition.

**Ease of transition** – Most landscaping services are simpler to learn than more complex services, and this ensures a smooth transition for buyers who are new to the industry.

**Growth by acquisition** – Successful companies can grow by acquisition, which is simpler to do in this industry than in others.

### **Step 3: Negotiate**

Fortunately, Step 3 is simple if you have properly performed Steps 1 and 2. To succeed at negotiations, you need confidence. If you have properly prepared and effectively positioned

your business for sale, then you will have the confidence to bring another buyer to the table if the current buyer doesn't pull the trigger.

When negotiating, it is far too easy to let your emotions get the best of you, especially if you have never sold a company before. In most cases, managing your own emotions is more important than managing your adversary. It is therefore essential to hire experts to negotiate on your behalf. Experts can remain level-headed throughout the negotiating process and can assist you in managing your emotions.

### **Conclusion**

Preparing your company for a successful exit requires conscious effort and 100 percent dedication if you want to get the best price for your company. At this point, perhaps you don't necessarily have to determine the exact date of your exit. But remember that things happen. You don't want to leave your company's fate to chance. The best time to start planning for your exit is now.

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