



15 IN 15



By Anne Nagro

PCT looks at the **15 trends** that shaped the industry — and companies on the Top 100 list — over the past 15 years.



W hoo hoo! It's hard to believe PCT is celebrating its 15th Top 100 list this year.

Over the past decade and a half of list making, we've sliced and diced data, watched companies come and go, and asked pest management professionals to report their annual earnings. Still, we're a little surprised by how a single list in 2002 grew into one of our most popular issues and a biennial special event attended by the industry's largest firms.

What's the appeal? Seeing who made the list, certainly. But the Top 100 is so much more than a yearly ranking by revenue; it is symbolic of all the strategies, hard work, risk taking and challenges that companies embraced in the drive to become (and remain) industry leaders.

Multiply this by 15 and you can get some serious insights into what has fundamentally shaped the industry. We think you'll agree these 15 trends over 15 years have made an impact.

1 M&A VOLUME SOARED

If it seems like more big-dollar deals have occurred lately, you're right. In fact, 2015 "was a bellwether year" and "the zenith in (dollar) volume" for merger and acquisition activity with more than \$750 million changing hands, said Paul Giannamore, managing director, The Potomac Company. "There has definitely been a run up" in both transaction volume as well as valuations compared to the "relatively constant" volume of years' past, he noted. "In 2007, the average \$5 million pest control business would sell for 1.1 or 1.2 times revenue. Now two times revenue is not uncommon," he explained.

Why? Central banks have artificially propped up the economy driving up asset prices and Rentokil became a serious buyer in the market; both gave exiting Baby Boomers more reasons to sell. This year's list saw six companies that were on last year's list get gobbled up because of M&A activity.

Many PMPs think the top five buyers — Rollins (#1), Terminix (#2), Rentokil (#3), Massey Services (#5) and Arrow Exterminators (#6) — always will need to acquire companies because they have a lot of cash on hand, but "the reality is money's so cheap, they have to chase returns," said Giannamore. When the government stops "printing money," "I think you'll see a big collapse in the U.S." in terms of M&A activity, he said.

THE BIG 15

1	M&A volume soared
2	A sleeping giant woke up
3	The industry grew big time
4	D2D sales made gains
5	Outsiders arrived
6	The Internet changed everything
7	Tech improved productivity
8	Service lines expanded
9	Commercial service took off
10	Service frequency shifted
11	Products changed business models
12	Termite revenue tumbled
13	Bed bugs returned
14	Demographics forced change
15	The industry owned its message



2 A SLEEPING GIANT WOKE UP

Rentokil North America (#3) entered the U.S. market in 1974. In 2002, the U.K.-based company ranked 24 on the Top 100 list with \$18 million in revenue, growing slowly until 2006. That's when it acquired J.C. Ehrlich Co., then the fourth-largest pest management company in the U.S., for nearly \$142 million. Since then it has aggressively snapped up companies, expanding its footprint in the U.S., Canada, Mexico and Central America. Parent company Rentokil Initial sold off its low-margin U.K. facilities management business in 2014 to focus on this effort; it now operates pest control businesses in more than 60 countries around the world.

Last year, Rentokil acquired 21 pest management companies worldwide, bumping three players off this year's Top 100 list: Eradico, Alpha Ecological and Buffalo Exterminating (ranked #57, #63 and #76 in 2015). In September, it acquired The Steritech Group (#7) for a whopping \$425 million, and closed on Oliver Exterminating (#23) in December. (The Top 100 list will reflect these late-year acquisitions in 2017.)

"Over the past 10 years, we have expanded our influence across the North American footprint and have gained valuable experience with each new acquisition," said CEO John Myers in a statement. "Overall, as we continue to accelerate our growth program, we will add more companies that share our vision and values to our portfolio."



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While mergers and acquisitions stole headlines, the industry quietly grew much bigger. In 2015, there were 20,500 pest management companies compared to 18,425 in 2002 — that's 2,075 more, said Gary Curl, president of Specialty Consultants. "With all of the consolidation, we're ending up with higher percentages of single-office operations, which leads me to believe that there are one- or two-man operations that are heading out on their own," he said.

Total industry service revenue in the U.S. also grew, from \$5.65 billion in 2002 to \$7.815 billion in 2015, according to Specialty Consultants' research. Even revenue for the newest entrants to the Top 100 list increased. On the 2002 list, Bill Clark Pest Control and Bizzy Bees Pest Control tied for the #100 spot with \$2.6 million in revenue. Fifteen years later Blue Chip Pest Services entered the Top 100 at almost \$5 million.

4 D2D SALES MADE GAINS

Selling door-to-door (D2D) isn't new, but companies that excelled at this tactic charged up the Top 100 list. Alterra (#12) was generating revenue of more than \$70 million when it was acquired by Terminix in November 2015. Frontline (#90) jumped five spots after entering the list last year.

In 2015, an estimated \$200 to \$250 million in annual pest control account value was added to U.S. companies through door-knocking campaigns, reported the Potomac Company in PCT's February issue.

"No one can deny the impact of door-to-door sales in the service industry, and in the last decade we have seen an enormous increase in that type of marketing where companies hire specialized groups, saturate the market area and promote reoccurring pest control programs," said Rusty Markland, COO, PestNow (#44), in the February issue.





5 OUTSIDERS ARRIVED

Traditional pest management companies are a tight-knit, open-book group, but the number of “outsider” companies flying under the industry’s collective radar seemed to increase... or at least draw much more attention when acquired by Top 100 firms. A prime example: EcoShield Pest Control, a regional company operating in multiple states with more than 200 employees that was acquired in part by Massey Services (#5) in a series of acquisitions in 2015 and 2016.

Expect these fast-growing companies to keep on coming. “There are guys who come from outside this industry and disrupt it,” explained Giannamore, who consults for five such companies (two conduct D2D sales; three do not) that “have never stepped foot at (NPMA) PestWorld” and don’t participate in industry meetings and initiatives.

Outsiders deliver the same pest control service, but differ in how they manage the customer life cycle, relying on data, technology and different marketing channels. “They exploit every angle they can and it leaves a lot of the older, traditional companies in the dust,” he said. One to watch: Ap-tive Environmental, started this year by David Royce, who founded Alterra (#12) and EcoFirst (both now owned by Terminix).

THE INTERNET CHANGED EVERYTHING



6 Fifteen years ago, only 36 percent of PMPs had websites, 14 percent offered online scheduling and 4 percent accepted online payments (2002 PCT Readership Study). We know. Crazy! Since then, the Internet and digital marketing have had an exponential impact on the industry (and on everything else in our lives) and has been key to Top 100 company growth.

Consider Turner Pest Control (#53), which had a record first quarter in 2016 and a record month in March with more than \$1.4 million in revenue. Much was due to the company’s new website, offering “a hassle-free experience” to customers comparing prices, scheduling jobs and paying online, as well as to search engine optimization and Google AdWords campaigns that last year increased web traffic 39 percent with three-quarters being new visitors, said Marketing Director Stacy McKinney. Organic traffic increased 21 percent and hits to the site from social media increased 497 percent. In the first quarter of 2016, web-based marketing leads jumped 145 percent from the same period last year, she said.

Still, many PMPs may be missing out on digital opportunities: Nearly half of small businesses in the U.S. do not have a website, according to a 2016 survey by Clutch, a business-to-business research firm.



7 TECH IMPROVED PRODUCTIVITY

Advanced customer relationship management and routing software. GPS and drive cams. Cloud-based services, apps, smartphones and tablets. This is not the pest management industry of yore. Back then Jamie Ogle, president of Lloyd Pest Control (#26), had a part-time IT technician to fix broken computers; today he has a full-time IT professional backed by a support team “because the world is different today than it was 15 years ago and we live and die by our technology platform working.” Technology helped “make our business better” and “allowed us to be more efficient in the field” with technicians spending more time performing service and less time driving, arranging schedules and pushing paperwork, he explained.

Next, technology will change how we control pests, such as with Forward Looking Infrared (FLIR) technology to detect rodents, biotechnology advances that target specific species, and devices with electronics and sensors that connect to the Internet (a.k.a., the Internet of Things). “Sensing is going to revolutionize the pest control industry,” said Andy Deering, COO of ServicePro, an industry software company that introduced the first remote sensor for bait stations and catch traps.

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Over 15 years, Top 100 companies broadened their service menus, offering handyman, lawn care, insulation, holiday lights, pool and window cleaning, power washing, encapsulated crawlspaces, HVAC, plumbing and on and on. Those that did it right saw big gains and none did it better than ABC Home & Commercial Services in Austin, Texas. Diversifying services has “probably been the driving component to our continued success and growth,” said Owner Bobby Jenkins, who began offering non-pest service lines to add value to the customer relationship and help the company continue to meet double-digit growth goals. Rather than open far-away locations that are harder to manage, the company has focused on building out the service menu at its four branches and cross-selling customers on four separate services (a goal it’s close to achieving). The approach works: ABC rose from 34 on the Top 100 list in 2002 with \$12.7 million in revenue to number 14 this year with almost \$65 million in revenue.

Adding new business lines prompted ABC to change its name (a few times), as did others like Killingsworth Environmental of the Carolinas (#41) and Heron Home & Outdoor (#42). Some, like J.P. McHale Pest Management (#38), offer non-pest services through separate divisions.



SERVICE LINES EXPANDED

9 COMMERCIAL SERVICE TOOK OFF

From 2000 to 2015, the compound annual growth rate for commercial service revenue was 5.8 percent, according to Specialty Consultants.

What caused it to take off? During the recession of 2001-02, many companies terminated employees who performed in-house pest control and contracted outside services, allowing PMPs to pick up accounts they never had before, said Gary Curl, Specialty Consultants. Bed bugs led to more work in the hospitality industry, rodent control saw double-digit revenue growth in 2015, and companies now have a “heightened awareness” of how pest issues can hurt their brands, he said.

The introduction of global food safety audits and increased regulation mandated by the Food Safety Modernization Act prompted the food industry to pay more attention to Integrated Pest Management programs, said Hank Hirsch, president of RK Environmental (#79), which exclusively serves the food and pharmaceutical industries. “This ultimately has created opportunity for our organization to grow and focus on IPM for food safety,” he said.

This is one instance where regulation “has actually been beneficial to the industry,” said Tim Pollard of Arrow Exterminators (#6), whose commercial division has grown 50 percent since its inception three years ago.

10 SERVICE FREQUENCY SHIFTED

According to Specialty Consultants research, the percentage of PMPs performing monthly service — once an industry mainstay — dropped from 24.8 percent in 2012 to 16.5 percent in 2015. Over the same period, the percentage of those performing quarterly service calls jumped from 40.7 percent to 49.2 percent.

Lloyd Pest Control (#26) made the switch to quarterly service about 15 years ago, phasing in this service model as it has acquired companies still doing monthlies. “It’s been a good move for us,” said Ogle. The customer gets the same guarantee for less cost and inconvenience and “we increase capacity without adding people,” he explained.

To further increase capacity, companies like Terminix began training technicians in both termite baiting and general pest management duties, a revolutionary idea at the time. Today, the term “universal technician” is used rarely; having employees with diverse skill sets has become the norm.



11 PRODUCTS CHANGED BUSINESS MODELS

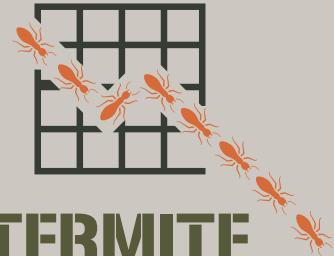
Game-changing products and active ingredients were introduced and widely adopted that reduced callbacks and labor costs, saved time, had less environmental impact and helped retain customers. A couple of products stand out during this period: Termidor termiticide/insecticide, BASF’s non-repellent liquid featuring the active ingredient fipronil, and Dow AgroSciences’ Sentricon System for termite baiting.

Termidor was introduced in 2000 and transformed how PMPs sold, performed and warranted the control of subterranean, Formosan and drywood termites.

It also “greatly improved our ability to control Argentine ants,” the top residential pest in Southern California, said Ogle. Termidor made it possible for him to switch from monthly to quarterly service calls.

The Sentricon System was introduced to the industry in 1995, and the number of its Authorized Operators (now Certified Sentricon Specialists) blossomed in the 2000s. And Dow AgroSciences’ required training raises the professionalism and knowledge of those using the product to treat for termites.

Additionally, as chemical companies consolidate with various mergers and acquisitions, it’s given other mid-range companies the opportunity to introduce new products or enhance existing products, which has given rise to various new products and technologies.



TERMITE REVENUE TUMBLED

12 In the early 2000s the housing market was king, setting records for starts, sales and valuations. It was the gravy train for the many pest control companies performing WDO/WDI inspections and new construction termite pretreatments. In 2002 termite revenue accounted for 26 percent of overall service revenue, or about \$1.47 billion, reported Specialty Consultants. In 2005, it peaked at \$1.76 billion.

You know what happened next: The housing bubble burst in 2008, sending the U.S. economy and the pest management companies that relied heavily on termite revenue into a tailspin. Some PMPs went out of business; others like Arrow Exterminators (#6) took pains to lessen their reliance on this pest.

Early on, Arrow Exterminators was mostly a provider of termite control as founder Starkey Thomas worked closely with builders and real estate agents to build the business, said COO Tim Pollard. Over the past 15 years, the company has focused on developing its general pest and commercial service lines. Today, 44 percent of revenue — almost \$71 million — at Arrow Exterminators is from termites, down from 63 percent in 2002. “We still do a lot of termite work and it’s very important to us; we just wanted our portfolio to be more balanced,” said Pollard. Last year for the first time in the company’s 52-year history, general pest control trumped termite control as a percentage of revenue, he said.

Termite revenue still lags. Although it increased 8.3 percent in 2014 due to a better housing market, it accounted for 18.9 percent of total industry service revenue, reported Specialty Consultants.



BED BUGS RETURNED

No pest has shaped the industry recently like bed bugs. But in 2002, controlling bed bugs were so “off the radar” PCT did not even ask our readers if it was a “popular service” in our 2002 Readership Study; eleven years later, it made up 13.2 percent of general pest control revenue at typical companies (PCT-NPMA 2014 business operating ratio survey).

Bed bugs replaced declining termite revenue, created a “whole new world of companies and people and products,” and spurred global conferences and research, said Phil Cooper, CEO of Cooper Pest Solutions (#69), a company that has experienced tremendous growth largely as a result of being a leading bed bug control service provider.

Fifteen years ago, pest control companies were just learning (or re-learning) how to treat bed bugs. Today, companies not only know how to control bed bugs, but they are refining their protocols and strategies. Technology such as mattress encasements and interception devices have been introduced and new treatment approaches (e.g., less prep work) are being employed. In 2016, perhaps the biggest bed bug question in the pest control industry asks itself is: “Is bed bug work a sustainable service?”

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14 DEMOGRAPHICS FORCED CHANGE

The Baby Boomers are on their way out; Millennials became the largest share of the U.S. workforce. These demographic shifts helped fuel M&A activity as retiring owners looked to exit. They also influenced how PMPs hire and retain employees and interact with customers.

Ten years ago, Northwest Exterminating (#20) in Marietta, Ga., changed its mission from controlling pests to creating healthier living environments. Offering green pest and termite services appealed to new consumer values and was “a huge catalyst for our growth” with more than 80 percent of new sales being green sales, said Vice President Stanford Phillips.

Although the traditional middle class — long the target market for pest control services — contracted, Terminix (#2) considered “the changing demographic of our consumers as more of an opportunity than a threat,” said Chip Colonna, vice president, product management, in the March issue of PCT. Millennial homeowners want instant results and “that attribute of wanting someone to ‘do it for me’ is a benefit,” he said. PMPs will need to employ different marketing tactics to reach these digital natives.

To appeal to next-generation employees, Cooper Pest Solutions (#69) offers flexible hours, leadership training for up-and-coming leaders, and opportunities to collaborate on team sales and share in the payout, which doesn’t appeal so much to Baby Boomers. Northwest Exterminating’s new mission attracts Millennials who “really care about having a purpose when they’re looking for a place to work,” said Phillips. One reason why companies train technicians to perform multiple services is that younger employees prefer more variety in their workdays.



THE INDUSTRY OWNED ITS MESSAGE

15 Consumers didn’t always view the industry as protectors of public health, food and property. But that’s changed due, in part, to efforts of the Professional Pest Management Alliance (PPMA), which was created in 1997 to defend the industry and educate consumers on the value of professional pest services. PPMA really gained traction in 2002 when Bobby Jenkins, then president of the National



Pest Management Association, appeared on NBC’s

Today Show in a segment on pests and childhood asthma.

Since then, PPMA has become the go-to resource on pest-related issues for media

outlets like The Weather Channel, Real Simple and USA Today.

Last year, it generated more than 2 billion positive media impressions for the industry.

PPMA is “one of the most significant things that have happened in our industry,” said Mike Rottler, president of Rottler Pest & Lawn Solutions (#47). It led consumers to look at the industry differently, which helped it grow. In 2014, 37 percent of American homeowners used professional pest control services, up from 18 percent in 2001, according to a PPMA survey. Just as important, “it helped us look at ourselves differently” by elevating the industry’s professionalism, Rottler recalled.

Among its many outreach activities, the industry-funded group operates social media channels and four websites. Nearly 3 million consumers visited its pestworld.org site in 2015. **PCT**

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