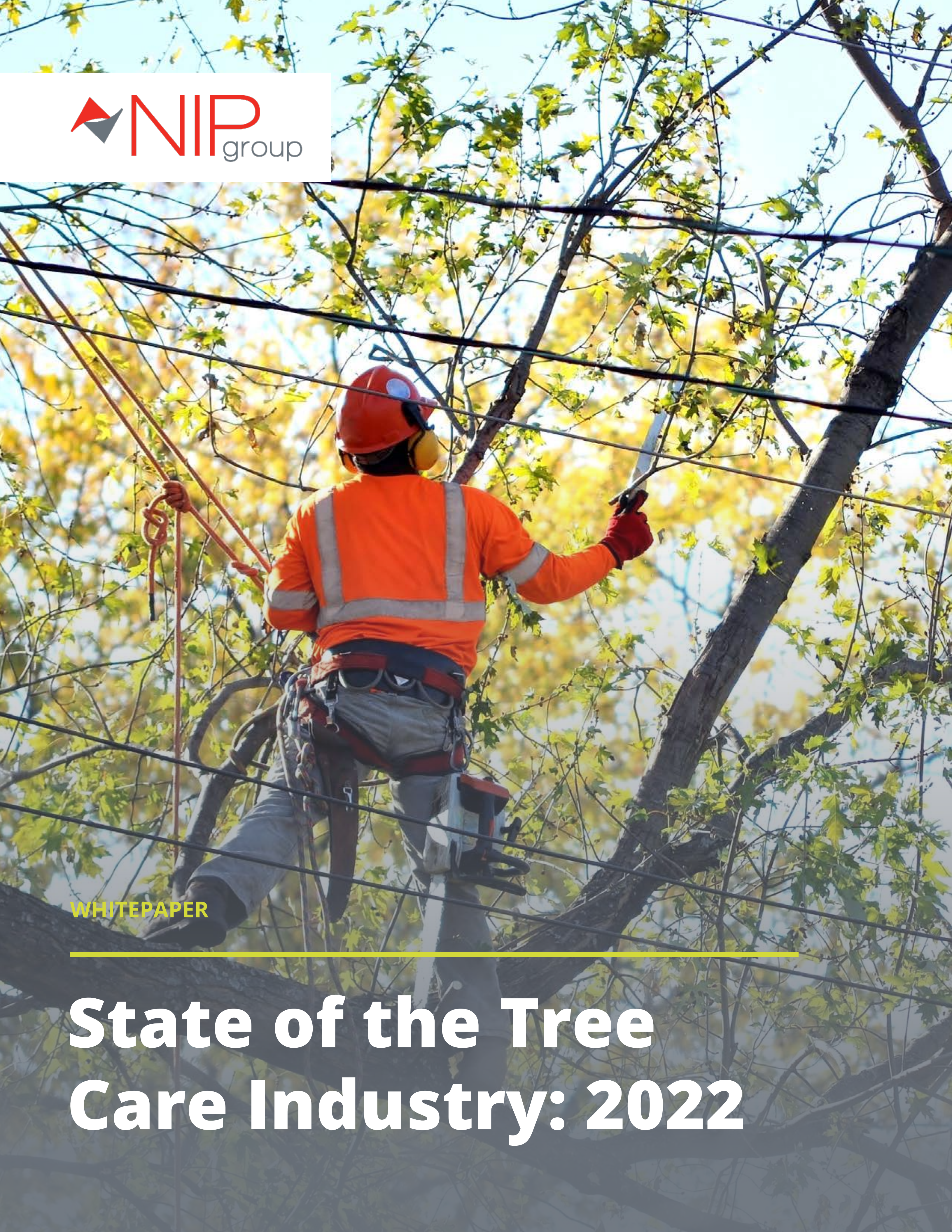

WHITEPAPER

State of the Tree Care Industry: 2022

Executive summary

The tree care industry is heavily impacted by climatic conditions, local and global economic conditions, and government spending. The industry has experienced steady growth over the past five years. It remained mostly stable during the early stages of the COVID-19 pandemic in 2020, but demand and revenue have grown as it grew out of the pandemic in 2021.

The increase in residential property value was expected to fuel industry growth in the five years to 2026, bringing total industry revenue to $31.7 billion. This growth rate is expected to cause the number of firms and employees in the industry to increase as well.

The industry still faces numerous challenges, however. Immigration restrictions hurt those that depend on seasonal migrant workers, while pandemic-related challenges like supply chain disruption and labor shortages are likely to cause problems for firms in the short-to-medium future. Still, the outlook for the industry is positive as the tree care industry continues to grow and demand stabilizes.

The tree care industry today

The tree care industry experienced a healthy level of performance over the five years to 2021. Industry revenue was expected to increase at an annual rate of 10.1% in the five years prior to 2021, bringing total revenue to $28.5 billion in that period. A steady increase in disposable income combined with a higher rate of residential construction drove this rate of growth.

The industry has not been without its challenges, however. It was hit especially hard in 2020 in the wake of the COVID-19 pandemic, as commercial properties closed and demand plummeted, dropping revenue to just 0.5% that year. However, industry performance has largely recovered as businesses emerge from the pandemic, leading to a 19.8% growth in revenue in 2021.

The external factors shaping the industry today include:

Government funding: The tree care industry serves numerous government and government-funded buildings, including museums, offices and community centers, meaning much of its annual revenue depends on local government investment. As local government agencies responded to pandemic-related budgetary constraints by cutting back on spending, investment levels were expected to decline in 2021.[3]

Private nonresidential property value: The shift away from in-person work to hybrid/remote models has significantly impacted all industries attached to private nonresidential property. The persistence and permanence of these work models have caused the value of private nonresidential property to decline, and that has led to fewer business opportunities for tree care firms in this area.

Residential property value: The pandemic caused people to spend more of their time inside their homes, leading to a greater number of home improvement projects like lawn care and tree trimming. This has both created new opportunities for arborists while increasing the value of residential property at the same time, giving homeowners more disposable income to spend on tree care services.

Utilities construction: The value of utilities spending has increased markedly in recent years, particularly in western states that have had to manage major wildfire prevention and disaster recovery efforts. For example, the Pacific Gas & Electric Company recently announced an almost $6 billion wildlife mitigation plan to limit the damage caused by wildfires in 2022.[4] Much of those funds will go to tree care companies to assist wildfire prevention efforts.

Minimum wages: Many firms in the industry rely on minimum wage labor. As national and statewide debates around minimum wages continued, minimum wages in many districts were expected to increase in 2021. This will put a strain on resources for tree care firms, which could eventually be offloaded to consumers if firms decide to raise prices, possibly leading to a negative effect on demand.

Projections for the tree care industry

The amount of spending on residential property, home improvements and housing starts all decreased during the COVID-19 pandemic. After rebounding in 2021, these figures are expected to stabilize in the five years to 2026, leading to an annualized revenue growth rate of 2.1% to 2026 — significantly lower than the 10.1% rate the industry saw in 2021, but still higher than the low of 0.5% experienced in 2020.[5] Total industry revenue is expected to reach $31.7 billion by 2026.

This level of demand and growth is expected to contribute to a gradual expansion of the industry in the five years to 2026. The total number of firms is forecasted to grow at a yearly rate of 3.4% during that period, while industry employment is expected to see a growth rate of 2.8%.[6]

Despite that growth, it's unlikely the industry will experience higher market share concentration. Concentration in the industry tends to be low, with the largest four firms generating less than 20% of total revenue. New tree care establishments are expected to be small and mostly focused on local markets.

Concentration in the industry tends to be low, with the largest four firms generating ***less than 20% of total revenue.***

Challenges and risks facing the industry

Immigration

Many firms in the industry depend on seasonal labor supplied in large part by migrant workers. The industry is significantly impacted by changes to national and statewide immigration regulations, whether relevant laws are tightened or loosened.

At the heart of this challenge is the H-2B work program. H-2B allows migrant workers to enter the United States to fill temporary agricultural jobs.

The program has been at the center of state and national debates around immigration, and recent changes restricted the supply of available labor for many firms.

These changes forced affected firms to hire more expensive labor, which either caused them to cut into their revenue or led them to raise prices, directly impacting profitability.

Technology

Similar to many other companies operating in the digital and automation age, the tree care industry has been impacted by technological change. Many firms have adopted specialized equipment to automate several manual tasks that have drastically reduced the number of personnel required to complete those jobs.

However, the capacity of specialized equipment to enhance the volume of work completed is still somewhat limited, and that has led some firms to rely on traditional methods, tools and techniques.

Supply chain disruption

COVID-19-related restrictions and protocols have caused worldwide supply chain disruptions affecting virtually every industry connected to the global market. Much of the tree care industry depends on importing essential materials like parts, equipment and pesticides from China and India, where supply chain disruptions are expected to stretch well into 2023.[7] This is making it difficult for tree care firms to conduct routine maintenance of their equipment, especially for vehicles. The result is that upgrades are taking significantly more time than they normally do.

Not only does that mean tree care firms will find it more difficult to source the materials they need to operate, it also means they'll have to pay significantly higher prices for the same materials. To use one example, one tree-care professional told TCI Magazine that shipping containers will now cost roughly $20,000, up from $2,000 before the worst of the supply chain issues.

Natural disasters

Climate change is increasing the frequency and intensity of natural disasters every year. In the United States, 2021 saw 20 natural disasters that caused financial losses of more than $1 billion each, according to NOAA.[8] The annual average prior to this was just 7.4.

Natural disasters cause serious damage to trees, both in urban areas and woodlands, creating a significant need for arborists to help clean up the damage.[9] As natural disasters become a more frequent and regular part of people's lives, communities are taking steps to put tree management and disaster recovery plans in place before natural disaster strikes, creating new opportunities for arborists to leverage their skills and expertise and deepen relationships with customers.[10]

Labor shortage

Like most industries that rely on manual labor, the tree care industry has been heavily impacted by the pandemic-related labor shortages. However, the roots are much deeper, as the industry had faced labor shortages for several years prior to the public health crisis.

Behind this trend is a severe shortage of young, skilled labor in suburban communities closer to the coasts, where tree services are highest in demand.

Referring to information housed in NIP Group's open inventory of claims, the percentage of litigated files has risen from 2.1% in February 2021 to 7.1% by the end of February 2022.

According to Landscape Business, millennials are among the highest suppliers of tree-care labor, yet that demographic group is also migrating in droves away from the coasts to more affordable areas inland, making it difficult for tree care firms to continue meeting demand.[11]

Claims and risk management trends

As the public health crisis begins to recede and courts reopen, there has been a substantial increase in the number of litigation files being processed. Referring to information housed in NIP Group's open inventory of claims, the percentage of litigated files has risen from 2.1% in February 2021 to 7.1% by the end of February 2022.

Not only does this signify higher rates of losses reported in the frequency-driven lines of coverage, it also means higher costs:

- The number of first-party auto losses reported per 1,000 vehicles increased by 80% in Q4 of 2021 compared to the same period in 2020.
- The cost per closed file on inland marine losses was 23% higher in the three months ending with February 2022 than in the previous nine months combined.
- The cost per closed file on auto physical damage losses was 16% higher in the three months ending with February 2022 than in the previous nine months combined.
- As tree care firms increasingly rely on larger equipment, there has been an increase in the number of equipment rollovers.
- The number of reported catalytic converter thefts has increased exponentially in recent years. The National Insurance Crime Bureau reported an increase in thefts from 1,298 to 14,433 between 2018 and 2020, respectively.[12]

These trends are likely to continue into the near-term future, meaning tree care firms will have to continue grappling with the consequences of property damage and losses, while also exploring long-term mitigation strategies.

80%

The number of first-party auto losses reported per 1,000 vehicles increased by 80% in Q4 of 2021

Risk control and safety trends and best practices

The tree care industry is inherently dangerous, and completing daily tasks requires extensive technical skills and deep precision. Tree workers experience a fatality rate 15 times that of other industries, according to data obtained from the Bureau of Labor Statistics by TCI Magazine.[13] For that reason, safety and loss control has been critical to the tree care industry for decades, but recent societal changes have heightened their importance.

Labor Shortage

The lack of qualified labor continues to have a negative impact on the tree care industry. Experienced employees are consequently in higher demand, making them harder to locate and forcing firms to rely on inexperienced workers to fill an expanding number of roles. These employees are more exposed to job hazards due to their inexperience, leading to higher incidences of workplace injury.

Earmarking the resources necessary to properly train employees can be a challenge for tree care firms as the number of projects continues to increase, straining company resources. Of course, this situation is unsustainable for company owners and managers. They can be held personally liable for gross negligence in the event of a workplace injury (or worse, fatality), and this can lead to further costs later that could ultimately derail the business.

It's important that tree care firms prioritize employee training and ensure that every employee — no matter their experience level — has access to adequate training programs whenever they need it. According to Survey Monkey, around 86% of employees say they consider job training important, and almost three quarters said they were willing to learn new skills outside of normal working hours.[14]

Investing in comprehensive employee training helps tree care companies:

- Protect employees.
- Reduce costs.
- Increase productivity.
- Boost employee retention.

Companies that make workplace safety a central part of their organizational culture are much better able to attract and keep employees. Moreover, keeping employees safe on the job ensures projects get completed on time and on budget. Tree care firms stand to receive significant financial returns when they invest in workplace safety programs, which can help them further devote funds to other cost-savings strategies and hire more experienced talent.

Vehicle Safety

Although they are often overlooked, vehicular accidents are among the leading causes of fatalities for tree care professionals. These types of accidents are usually caused by overloading, improper driving techniques, and failure to conduct proper maintenance.

These are some of the steps firms can take to mitigate the risk of accidents and keep employees safe while driving company vehicles:

- **Properly maintain vehicles:** Taking a few minutes before and after a shift to inspect vehicles helps ensure that safety issues are identified and addressed before an accident occurs. Inspections can include ensuring tires are in good shape and properly inflated, all lights are operational, and windshield wipers and horns function appropriately. Firms should schedule regular preventative maintenance checks for all vehicles with a professionally trained mechanic.

- **Put the best drivers behind the wheel:** Accidents often occur because an inexperienced driver took the wheel. These situations are made significantly worse when a more experienced driver was available. Leaning on drivers with experience is a significant workplace safety strategy. According to data from the American Transportation Research Institute (ATRI), drivers involved in a collision have a 74% higher chance of suffering a future crash compared to those who were never involved in an accident.[15]

- **Consider speed and weight when driving:** The distance required to bring a vehicle to a complete stop depends on its velocity and weight, in addition to other factors like heat and friction. Moreover, the brake power the driver is required to exert will vary depending on those factors. Drivers need to be more cautious when operating vehicles carrying heavier loads, taking care to drive at slower speeds to remain in control.

- **Maintain ongoing training:** Many people were not practicing their driving skills during the pandemic, and that seems to have led to an uptick in motor vehicle accidents. The National Safety Council (NSC) estimated that the total number of motor vehicle deaths in 2021 was 46,020, an increase of 9% from the 2020 figure of 42,339.[16] Ongoing driver training can help employees keep their skills and awareness sharp while on the road, mitigating the chances of preventable accidents.

Staying ahead of a changing industry

Despite a positive outlook for the industry, tree care firms face a number of risks and challenges that could shape the industry for years to come. Tree care companies will have to stay ahead of those changes and make the proper plans to mitigate the possible impact of all emerging risks.

Doing that successfully starts with partnering with the right team of insurance professionals. At NIP Group, we're committed to providing customers with a wide range of brokerage, underwriting and risk management services across a number of different industries to overcome the specific challenges they're facing and deliver business success.

Reach out to our team at **nipgroup.com** to get started.

NIP group

900 Route 9 North, Suite 503
Woodbridge, NJ 07095-1003
800.446.7647
www.nipgroup.com

1. IBISWorld Inc.
2. IBISWorld Inc.
3. https://www.cfr.org/backgrounder/how-covid-19-harming-state-and-city-budgets
4. https://www.sacbee.com/news/california/fires/article258792163.html
5. IBISW orld Inc.
6. IBISWorld Inc.
7. https://tcimag.tcia.org/current-issue/supply-chain-woes-overhang-tree-care/
8. https://www.ncdc.noaa.gov/billions/overview
9. https://www.nytimes.com/2020/10/07/climate/new-england-trees-forests.html
10. https://planning.org/research/treemanagement/
11. https://landscape-business.com/utility-arborist-labor-shortage-highest-in-areas-most-in-need/
12. https://www.nicb.org/news/blog/catalytic-converter-thefts-skyrocket-across-nation
13. https://tcimag.tcia.org/tree-care/tree-worker-safety-update-by-the-numbers-another-us-vs-them/
14. https://www.surveymonkey.com/curiosity/why-employees-crave-more-training-and-how-employers-arent-delivering-it/#:~:text=Roughly%2086%25%20of%20employees%20say,to%20improve%20their%20job%20performance.
15. https://truckingresearch.org/2018/07/31/atri-releases-updated-crash-predictor-model/
16. https://injuryfacts.nsc.org/motor-vehicle/overview/preliminary-estimates/