

STATE OF THE **TERMITE** **MARKET**



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Looking Back and Ahead

How does today's termite market compare to five years ago? And what can you expect five years from now?

Housing Market Rebounds

After some challenging years, the housing market is once again showing signs of life. Here's what it means for you.

Upon Closer Inspection

What can PMPs expect this year in terms of swarms, weather, jobs and income? The experts weigh in.

Greetings from Syngenta

As a proud sponsor of the 2014 PCT State of the Termite Market report, Syngenta is fully committed to supporting the termite control market. The termite market has been and continues to be a very important component of the overall revenue stream and the outlook is bright. With an increase in the housing market, an upswing in the economy and a rise in population, termite control will continue to play an important role in the industry.

Just as PMPs are always looking for new business opportunities, Syngenta is always seeking to develop new and innovative products so you can provide your customers with effective termite control. An excellent example was the launch of Altriset[®] termiticide in October of 2010. Altriset has a mode of action with unique termite behavioral effects and offers both preventive and curative termite control in an effective manner — all while providing structural protection for nine years and counting. Additionally, Altriset controls termites with a low use rate and features an excellent environmental profile when used according to the label, which your technicians and customers will both appreciate.

By offering this technologically advanced termite solution, Syngenta demonstrates its commitment to provide unique chemistry to the termite market. Additionally, the active research and development program at Syngenta supports our belief that innovation has a significant place in the termite control market space. Syngenta will continue to invest in the termite market and provide termite control products to help meet the needs of the PMPs, so you can provide your customers with a termite-free environment.

Mark Coffelt
Head of Technical Services
Syngenta Professional Pest Management



Mark COFFELT

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Looking BACK AND AHEAD

How does today's termite market compare to five years ago?
And what can you expect five years from now?

It's been an interesting five years for the termite control industry. To see how the industry fared, we checked in with the professionals we interviewed in 2009 — and a few new ones — to get their take on the current state of the termite industry. We also asked folks to predict where the industry might be five years from now. Here's what they said...

THE SEASON

Then — More than 46 percent of pest management professionals surveyed considered the 2009 termite season below average, according to research conducted for PCT. Nearly 37 percent called it average; about 17 percent said it was above average.

Now — More than half of PMPs called the 2013 termite season average. Nearly 28 percent cited a below average year, and almost 19 percent reported an above-average season. Last year "surpassed all my goals," said Jerry Schappert, owner of The Bug Doctor, Ocala, Fla.

Future — Opinions are mixed on how the economy, housing, swarms and product availability will impact termite seasons to come. Termite work is improving, but likely won't recover to levels experienced during the hyper-active real estate and home-building markets of the mid-2000s, said Glenn Laycock, Mid-Atlantic territory manager, Residex.

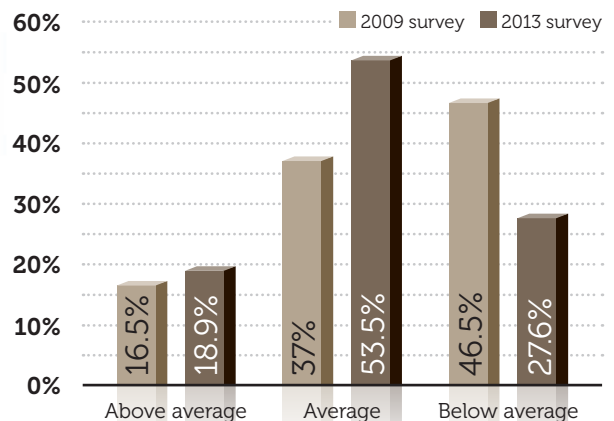
THE ECONOMY

Then — The recession caused consumers to delay and shop termite work. Andy McAngus, owner of Noble Resources Pest Control in Richardson, Texas, saw "a lot more spot treatments than full treatments." People were "just trying to get by with what they absolutely have to," he added. Norman Connolly, owner of Connolly Pest Management, Mesa, Ariz., had more treatments "being put on credit cards." Schappert said homeowners were shopping services when five-year pretreat warranties expired.



AVERAGE IS BETTER (2009 vs. 2013)

How would you characterize the termite season?



Sources: PCT readership survey (September 2009), PCT research survey (October 2013)

Now — The economy has improved, but termite work is “still not as good as we’d like it,” said McAngus, whose customers continue to push for spot treatment. The increasing numbers of exterior-only and partial treatments may negatively impact revenue and profit compared to five years ago, said David Bulk, vice president, Rhodes Chemical Co.

Profit is a focus of Arizona Exterminating Company. “We’re doing a lot less jobs for more money,” said Bert Putterman, president of parent company, Oliver Exterminating. Jerry Martin, vice president of Martin Exterminating in Tobaccoville, N.C., saw termite work increase 12 percent; a quarter of the work came from customers who delayed treatment five years ago due to money issues, he said.

Future — Most expect the economy to improve, but new consumer expenses could crimp spending. Rising health-care premiums concern Martin. He’s already lost some pest control contracts to people who cut service when their health-care costs tripled.

First it was the recession; now housing is stabilizing but people are holding off spending money because of health-care costs, agreed McAngus. “Just give us a few good years of no fear for the customer,” he lamented.

HOUSING

Then — More than 50 percent of PMPs surveyed by PCT characterized the housing market in their region as below average or very weak; about the same said the slow national housing market affected their business in a negative way. Putterman described “losing a significant piece of our renewal income to empty houses.”

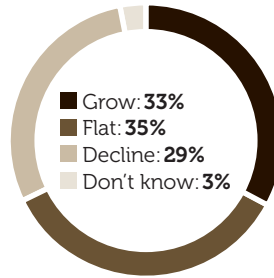
In Georgia, where WDI inspections were no longer mandated in real estate transfers, termite inspections had “pretty much gone by the wayside” for Carl Brown Sr., president of Cobra Exterminating in Cordele.

One bright spot: repossessed properties, a big source of termite inspections for Schappert. Arizona Exterminating targeted short sales and foreclosures, raising inspections to levels not seen since 2006, said Putterman. The \$8,000 first-time homebuyer’s credit also spurred inspections, PMPs said.

Chris Donaghy, former president of Residex, in 2009 predicted vacant homes in Florida could become a “gold mine

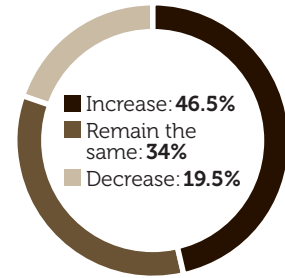
REVENUE RISES

In 2009 did your termite revenues grow, decline or remain flat compared to 2008?



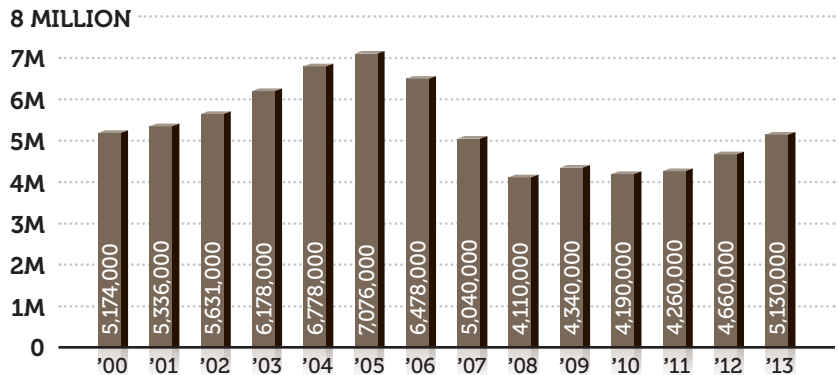
Source: PCT research (June 2009)

Did your 2012 termite treatment revenues increase, remain the same, or decrease compared to 2011?



Source: PCT research (October 2013)

EXISTING HOME SALES 20% cumulative increase over 2 years



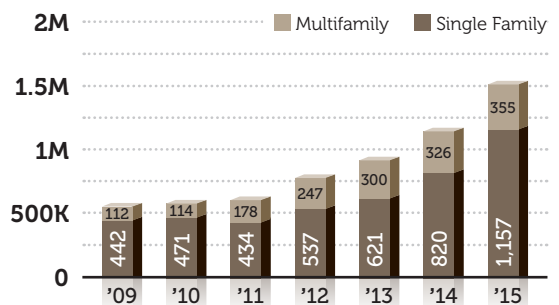
Source: National Association of Realtors, November 2013

of opportunity” for PMPs when the housing market rebounded.

The glut of existing homes stalled home building, which meant sales of pretreat products were “still fairly depressed,” reported John Bolanos, then vice president for Univar’s professional products division (Bolanos retired from Univar earlier this year). Pretreats accounted for 23 percent of termite revenue in 2009, according to PCT research.

Now — New housing and construction offer the most significant opportunity for growth for more than 22 percent of PMPs, according to a PCT survey. The housing

TOTAL HOUSING STARTS



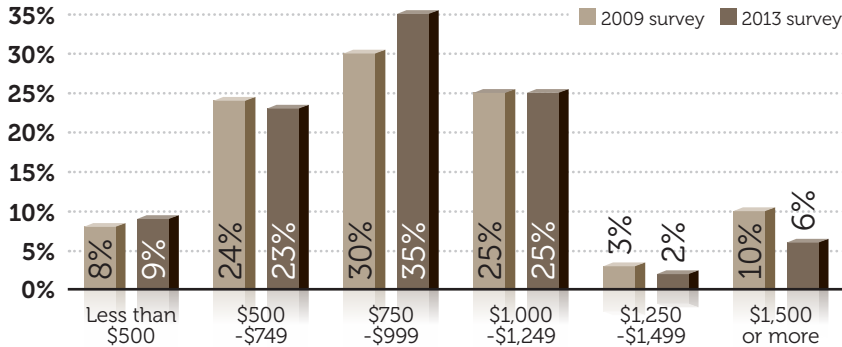
Source: National Association of Home Builders, December 2013. Note: Numbers are reported in thousands.

market was “definitely in a better position” to help termite revenue, said Karl Kisner, vice president of marketing at Univar.

Rhodes Chemical customers reported

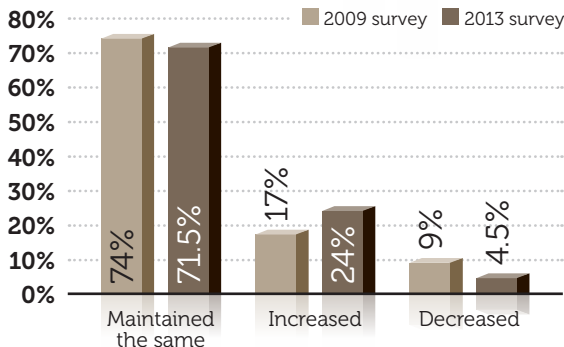
SLOW AND STEADY PRICING (2009 vs. 2013)

What is your company's "average" charge for a residential termite treatment?



Sources: PCT readership survey (September 2009), PCT research (October 2013)

Have you increased, maintained or decreased your termite treatment prices?



Sources: PCT research (June 2009), PCT research (October 2013)

performing more inspections in 2013, which is consistent with data showing improved sales of existing houses and new construction, said Bulk.

Brown had "a decent season" due to customers remodeling homes. When termites were discovered they wanted to protect the new addition or the entire house, he said. Pat Markey, who operates an Orkin franchise with wife, Toni, in Alexander City, Ala., said termite work grew 30 to 50 percent each month over 2012.

Housing did not recover in central Florida, reported Schappert. Inspecting and treating repossessed homes still make up a big part of his business. And in Mesa, "inspections are way down," dropping more than Connelly expected. Many homes are being sold "as is" and real estate agents and title companies are not pushing for

termite inspections, he explained.

The new-construction pretreat market was spotty, depending on the region of the country; the square footage of new homes also is growing smaller, said Kisner. According to PCT research, pre-construction treatments accounted for 12 percent of termite revenue in 2013.

Future— Generally, PMPs see slow, steady improvement in the

housing market. Even in hard-hit central Florida, Schappert expects consumers to start buying, selling and remodeling homes again. PMPs are "poised and ready" for "good things to happen," he said.

REGIONS/WEATHER

Then — Some regions fared better and recovered faster than others. The Midwest, which didn't over-build or depend on pre-treats, wasn't hit so hard, reported Roland Rhodes, president of Rhodes Chemical Co., Kansas City, Kan. North Carolina recovered quickly: Martin saw inspections triple in 2009.

More active termites in some regions helped inspections jump nearly 10 percent for Jeff Cochran, owner of Bosch Pest Control in Muscatine, Iowa. Optimum swarm conditions resulted in a "bizarre"

2,000 percent increase in termite work for Toni and Pat Markey, who then owned the Orkin franchise in Traverse City, Mich.

Now — Swarm coverage remained spotty. Better weather made for better swarms in some regions, though swarm times were shorter in duration or occurred later in the season, which made scheduling treatments a challenge, said Residex Northeast Region Manager Tom Algeo.

In Texas, an "average to below average" season was marked by a colder-than-normal spring followed by drought, said Dr. Roger Gold of Texas A&M University. Swarms "dribbled out" but weren't "revenue swarms," he said.

The Midwest suffered a long, cold spring and saw "no swarm season after a couple of decent swarm years," said Bulk.

Future — Swarms may be history. Dr. Dini Miller of Virginia Tech said swarms have declined since the advent of non-repellent termiticides. No data supports this, but "it kind of makes sense," given non-repellents' effectiveness in wiping out colonies and the limited potential for termite re-infestation, she said. Termites either have to swarm in from nearby areas or be transported in, Miller explained.

PRICES


Then — In 2009, 74 percent of PMPs maintained termite treatment prices; 17 percent increased prices, found PCT. Most (30 percent) charged between \$750 and \$999 for residential service.

Now — Nearly 72 percent of PMPs maintained termite treatment prices and a larger number — 24 percent — increased prices, according to a PCT survey.

Future — Still to be determined. The lower cost of generic products entering the market may help PMPs committed to profitability improve margins, or it may cause price wars.

CONCLUSION

PMPs who are "willing to adapt and always looking for alternatives" can "survive anything," reminded Gold. "The people who are in trouble are those that don't change or change too quickly," he said.

Don't waste effort complaining how the industry is changing, advised Putterman. "This industry needs a heavy dose of vision." As for his operations, "we're taking a hard look at the future." 

Upon Closer INSPECTION

Let's get down to brass tacks: What can pest management professionals expect this year in terms of termite swarms, jobs and income? The experts weigh in.

Some Regions Will Have Better Swarms Than Others

A robust swarm season depends on many factors: Temperature, moisture, light intensity, wind velocity and atmospheric pressure, according to Dr. Michael Potter, University of Kentucky, in the *Mallis Handbook of Pest Control*, 10th edition. Different species emerge at different times, and many experts believe the highs and lows of swarm activity are cyclical and tied to termite biology. Food supply, drought and flooding also affect populations, said Dr. Gregg Henderson, Louisiana State University. (See map on page 7 for drought predictions for the first four months of this year.)

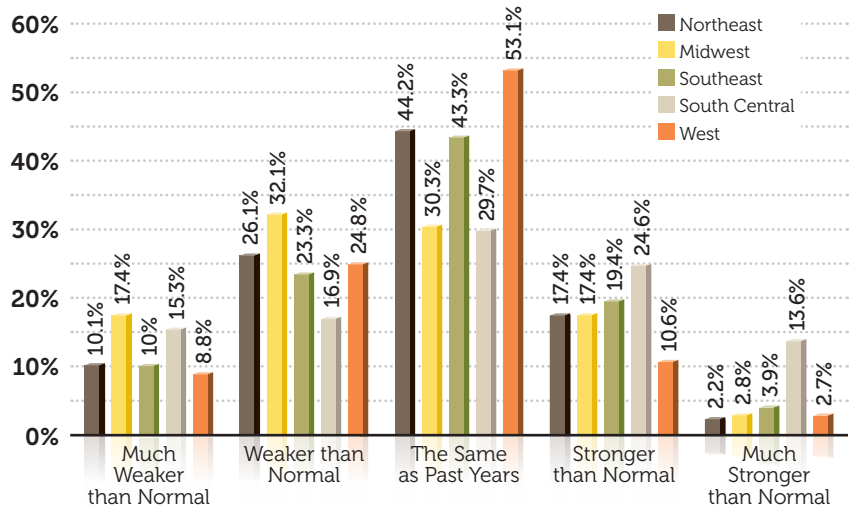
Swarms are "very much regional," explained Dr. Roger Gold, Texas A&M University. An area's freezing weather may delay swarms; higher-than-normal temps may cause earlier ones, he explained. In Arizona, swarms follow the fall monsoon season, said Andy Witcher, president of ScorpionTech Termite & Pest Control in Mesa. If the region gets more moisture early, pest populations spike, he said.

In 2012, termite swarms in the Midwest were weaker than normal; about the same in the Northeast, Southeast and West; and slightly stronger in the South Central U.S., according to a report by Specialty Products Consultants.

Swarms have been "on the up-tick" in the Southeast over the past four years, said Ben Walker, president of Gregory Pest Solutions, Greenville, S.C. Dr. Brian Forschler, University of Georgia, said the number of yearly termite swarms on the university's main campus doubled from an average of 5 between 2001 and 2006 to 10 between 2007 and 2013. His research program has performed termite treatments for more than 200 campus buildings since 2000.

Last year, Louisiana had an "excellent" Formosan subterranean swarm season with

2012 TERMITE SWARM SEASON DATA By Region



Source: Gary D. Curl, Specialty Products Consultants, www.spcresearch.com



What makes these termites swarm? Temperature, moisture, light, wind, atmospheric pressure and more.

the weather "perfect for growth," reported Henderson. In Washington, D.C., swarms were moderate; up and down temperatures pushed the season into summer, said Josh Kramer, vice president of Innovative Pest Management in Columbia, Md. Texas

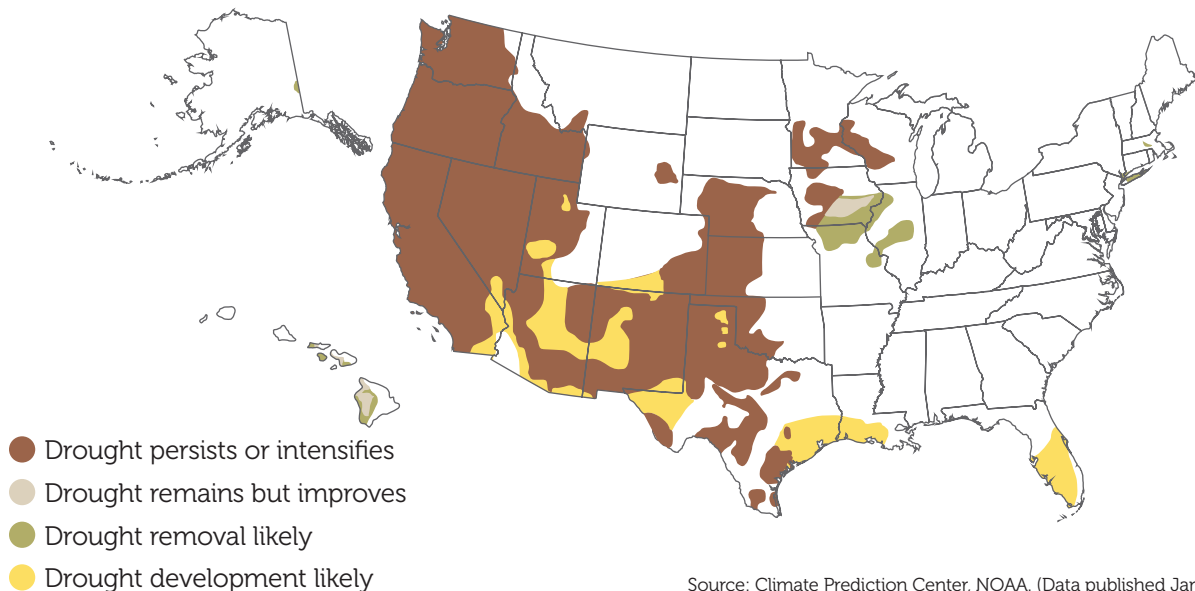
swarms were "weak" in 2013, said Gold.

This year, experts and PMPs are optimistic. Gold expects a "wonderful year in pest control." Henderson said "2014 will produce a bumper crop of termites." But Mother Nature will have the final word.

The Number of Post-Construction Termite Jobs Will Increase

As the economy and housing market have improved, so, too, has post-construction termite work.

According Specialty Products Consultants, the number of post-construction termite treatments hit a low in 2010 and has steadily increased through 2013. The research company's president, Gary Curl, expects 850,000 treatments will be performed in 2014. This number surpasses the high of 817,000 treatments in 2008,

U.S. SEASONAL DROUGHT OUTLOOK | DROUGHT TENDENCY FROM JAN. 16-APRIL 30, 2014

Source: Climate Prediction Center, NOAA. (Data published Jan. 16, 2014)

before the decline began.

Gold thinks the number of jobs PMPs reported is low. “People never tell you how many cattle they have,” he smiled.

Forschler said post-construction termite jobs in his region are on “an upward trajectory” in keeping with the data. Witcher has “seen that trend” in his Mesa, Ariz., business. Walker budgeted for a 10 percent increase in termite work for 2014.

“The market is going to continue to increase,” said Kramer. Historic homes in D.C. with brick foundations and moisture problems are ripe for infestation, he explained. The efficacy of pre-treatments for properties built five years ago is winding down, Kramer added.

Swarms remain a wild card. “The big seasons are when we have lots of swarms,” said Walker. Some homeowners don’t believe they have termite problems unless they see the pests, he explained. Swarms can “make-or-break” the season, he said.

Gold said PMPs should plan for swarm events, advertising the same as last year, competing for customer relationships (but not on price) and preparing to deliver service as promised.

Because swarms are unpredictable, focus on selling *proactive* termite prevention instead of *reactive* remedial treatments,

advised Forscherler. Many infestations are found not by swarms but through remodeling and repair, he reminded.

Technicians at Gregory Pest Solutions try to be proactive in sales, said Walker. Witcher would like to do more of this. It’s an “area that’s promising,” he said.

Just don’t sell untruths. Sometimes PMPs tell homeowners if they don’t have termites now they will later, said Henderson. “That simply is not an accurate statement,” he said.

The Price of Post-Construction Termite Jobs May Decline Further

Between 2008 and 2012, the average price of a post-construction termite job fell \$123, according to Specialty Products Consultants, to \$793.

The data is “disconcerting,” said Curl. The number of post-construction termite jobs increased in 2012, but industry revenue declined, he explained.

“We fall in line with that, unfortunately,” said Witcher, who is earning \$1 per linear foot less than he was in 2007 for post-construction termite work. Witcher claims the “downward spiral” is due to “so many companies under-bidding,” which he thinks “comes back to bite them.”


Some PMPs have turned to generic products; lower chemical costs have let

them drop prices, said PMPs. New labor-saving chemicals and bait systems also have contributed to lower prices, said Walker. In competitive markets, PMPs will sacrifice on the bait installation price to get the renewal, and sacrifice on the renewal price because of “huge savings with labor,” he said. “We’re able to do the jobs at a lower cost for the consumer and keep our profit margins where they’ve been for the last 15 to 20 years,” Walker explained.

Middle class customers aren’t interested in paying more for extended warranties or for treatment when they hear of the low prices paid by friends and family, Witcher said. He has adjusted by offering one- and three-year warranties compared to the five-year warranty of five years ago.

Innovative Pest Management sells customers on its safety, professionalism, knowledge and expertise, not merely termite treatments, said Kramer. “Price is just one of the many factors” customers consider, he said. As such, prices have remained stable.

Price jobs according to your costs and expected profit margin, not your competitors, reminded Forscherler. “Think long-term customer satisfaction and your liability rather than short-term sales goals,” he said.

“Some jobs you can’t afford to accept,” advised Gold. 

TERMITES ARE A COMMON PROBLEM. CONTROL THEM WITH A UNIQUE SOLUTION.

Grow your business with Altriset® termiticide by offering your customers unique features they will appreciate along with the long-lasting structural protection and termite control they need. Take it from these Pest Management Professionals (PMPs) who choose Altriset to help differentiate their business and provide their customers with a termite-free home.

“The proof is in the numbers. After going through a year of swarm season and coming out with a less than one percent retreatment rate, Altriset has proven itself to be a very effective termiticide.

“Our customers like that we use Altriset on their home, the chemistry of the product is effective and we get the best customer support from Syngenta. It’s a win-win situation all the way around.”

Tim Nininger

*General Manager at Bug Man Exterminating
Roanoke, Va.*

“GreenPro is a tough organization with really stringent tests. As long as Altriset is used according to the label, it does not present a hazard to humans or domestic animals, so we can remain certified by GreenPro.

“We haven’t had a re-infestation yet, and I’m thrilled with it. Now we offer a termite treatment warranty to our customers whose properties have been treated with Altriset for as many years as they want — that’s how comfortable I feel with Altriset.”

David Roe

*Operator at Leading Edge Pest Management
Pleasant Hill, Calif.*

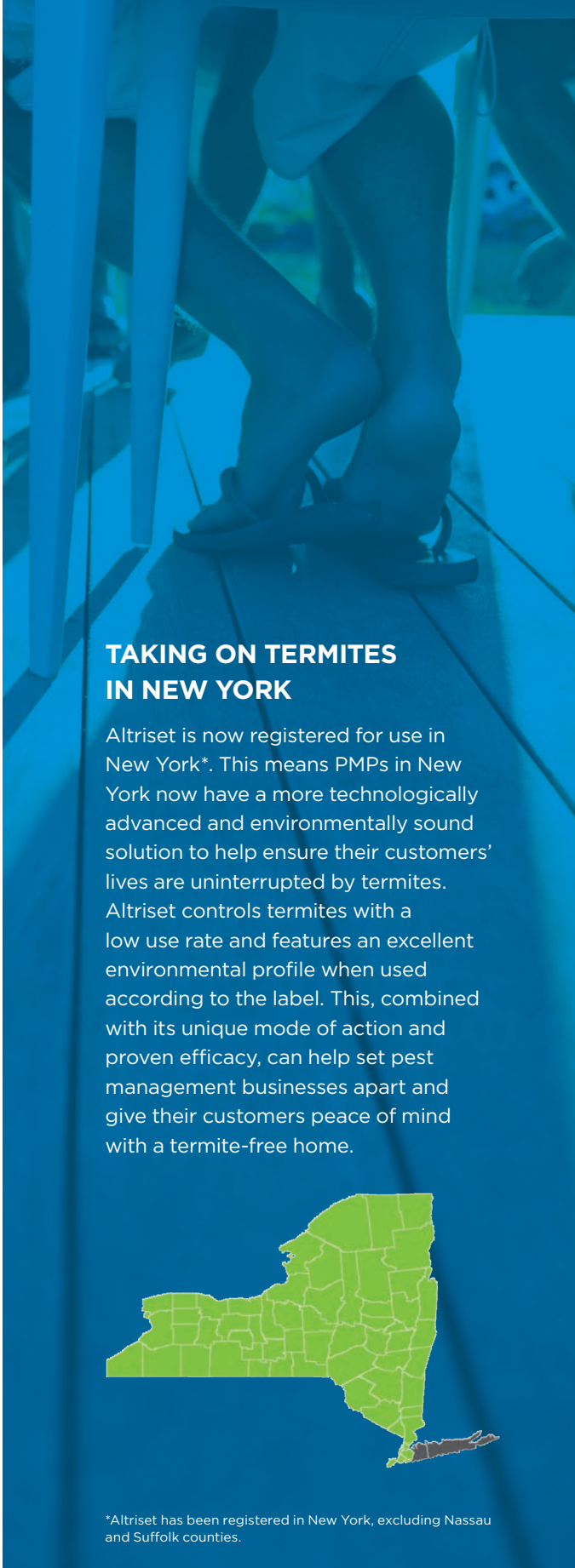
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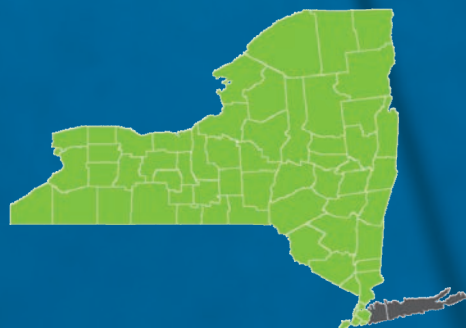
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TAKING ON TERMITES IN NEW YORK

Altriset is now registered for use in New York*. This means PMPs in New York now have a more technologically advanced and environmentally sound solution to help ensure their customers’ lives are uninterrupted by termites. Altriset controls termites with a low use rate and features an excellent environmental profile when used according to the label. This, combined with its unique mode of action and proven efficacy, can help set pest management businesses apart and give their customers peace of mind with a termite-free home.



*Altriset has been registered in New York, excluding Nassau and Suffolk counties.

