



# What's Ahead?

Will the box stores play more fairly, will growers keep specializing, is there any hope? A panel of industry leaders weighs in on some of the biggest challenges and opportunities facing greenhouse growers in 2006.

Compiled by Bridget White

**E**ven with a magical crystal ball, most people think predicting the future is more entertainment than science. I disagree. We may not be able to predict the future down to the smallest detail, but if you can gather evidence, assess the situation and make an educated guess you can get pretty close.

That's what we try to do every year with our industry-leader forecast: take some of the guesswork out of guessing by asking other people to do it for us. We asked a group of seven industry leaders to answer the same question: What do you think are the biggest opportunities and challenges for growers and/or floriculture in 2006? Their answers contain some good hints about what we can expect in the coming months, and they give you a good starting point for making your own predictions.

Our thanks goes out to those of you who stuck your necks out to share your predictions with 20,000 of your closest friends...we'll try not to make too much fun of you next year!

## Find Your Niche

*Randy Tagawa, Tagawa Greenhouses*

The big challenge for our industry is finding a way to create a niche for yourself market wise or change your business model to reflect financial performance, customer satisfaction and appropriately valued products. I think this segment of the industry will probably get worse before it gets better because of many growers'

inabilities to really pass the value on.

I saw poinsettias in Florida in early January for \$1.89 that you wouldn't even pay \$1 for. On the flip side, you will see a nicely grown poinsettia for the same price in another store even in the same market. I've also seen 6-inch plants that looked good ▶



*Randy Tagawa, Tagawa Greenhouses*

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and were priced well. So there are value points that you can create throughout the chain. I think most of us growers definitely can't find our way through the retail environment.

If you have hardships you find yourself looking at ways to change, and maybe those changes are the opportunity. How do you change your business model, the way you grow products, the way you market them, the way you sell? We either need new ideas or to look at successful businesses out there that have made those changes. Many growers just say, "Well, you can never change a big box store." We need to change ourselves, and the box stores need to change. With box stores you can create those niche markets and premium items if you work at it.

### Winning At The Box Stores

*Dave Edenfield, Visions Group LLC*

Certainly the majority of challenges affecting growers can be summed up in the following areas — rising energy costs affecting both greenhouse heating and distribution; mass-market pressures for lower prices and more services; labor shortage and management issues; continued vendor consolidation; and pressure to make a sustainable multi-year margin that allows for the continued rise in cost of operations and a small return on investment. But along with those challenges I think growers and the industry also face some other concerns, obstacles and opportunities.

Let's face the facts — we are producing fewer plants for fewer people. It is imperative the industry understands who our true competitors are. Those competitors include places other than gardening activities for consumers to spend time and money. We must work together to promote the "love of gardening." It's time again to look at a national marketing promotion directed at gardening as a pastime and hobby.

Another concern is the possibility of some very good family businesses not continuing on as a part of our industry. Two main reasons for that: economic pressures and family members (second and third generations) not wanting to deal with the pressures and commitment of horticulture. The backbone and growth of our industry has always been those good, family-owned-and-operated businesses. The industry needs these companies to survive.

There is a real opportunity for small- and medium-size growers to streamline and become specialty growers. As the mass marketers force more grower consolidation — larger growers are faced with providing a full line of products. In many cases, these are products they simply cannot efficiently produce. This opens the door for a



*Dave Edenfield, Visions Group LLC*

specialty grower. Partnerships and alliances are available for those growers who truly understand who their competition is and where they fit into the distribution channel.

For those who service mass-merchant retailers, a very large concern is staff to assist and service the ultimate consumer. As margins tighten up at all levels it seems the first area to be cut by retailers is labor. The products we grow and wholesale are interesting and bring enjoyment to consumers, but those consumers need help to understand how to grow them. The grower today is providing all the service up to (and sometimes including) answering and directing the consumer how to be successful with the products.

Maybe we will have to accept the fact that we need to provide that service as well. Maybe it's time to rent or lease the space from the mass merchandiser and do it all. The grower would then simply pay the retailer a percent of the sales. The first large box retailer to solve this problem will win the ultimate consumer battle.

### Understanding The Facts

*Abe Van Wingerden, Metrolina Greenhouses*

Energy prices will continue to dominate our priorities. In the last energy crisis we all learned to become more efficient and generate savings, but the savings from additional efficiencies this time around are not as big as the last time. With crude hovering near \$60, natural gas in the double digits and diesel above \$2 per gal., only the most efficient operators and best negotiators will have profitable years.

A later Easter will hurt early sales in the Southeast, as some consumers kick off their spring on Easter weekend no matter where it falls on the calendar. A late Easter will also hurt greenhouses that do both Easter lilies and annuals. With Easter later, lilies are taking up space for an additional three weeks, and this slows the ability to drive out that first turn of annuals.

The horticulture business will grow as we continue to be exposed to more consumers — just between Walmart, Lowe's and Home Depot, there will be 582 new garden centers built in 2006, and they are bigger and better than ever with retractable shade roofs, etc. This is nearly a 10-percent increase in locations and garden center square footage just from these three chains. Our business is impulse driven, and the more opportunities we give consumers to buy our product, the better the chances they will purchase our product.

Demographics are also very strong for our industry, and these facts will help business continue to grow as it did in 2005. Other factors that will help our industry: ♦



*Abe Van Wingerden, Metrolina Greenhouses*

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the aging population (the over-55 crowd gardens at a rate of at least 1.5 times higher than the base consumer), higher home-ownership rates (68 percent of consumers own a home in 2005 vs. 62 percent in 1998, and home owners garden at a rate four times higher than non-home owners) and the economy driving people to stay at home more in 2006.

"Do it yourself" is out; "do some of it for me" is in. Prediction: We will sell more garden-ready material that is easier to execute for consumers (i.e., bigger sizes, finished containers and instant gratification). Installation services will begin to be provided by our customers.

Investing in technology (both people and systems) will be key to success. ERP systems, instant communication devices, mobile office ability and an ability to have information at your fingertips at a moment's notice (both data and pictures) will be vital to success.

### It's All About Customer Choice

*Stan Pohmer, Pohmer Consulting Group*

Because of the squirrely economy, high energy costs that will impact consumer purchasing decisions, added costs growers will incur in producing product, and increasing demands of the big-box retailers and pay by scan, this will be the year growers really need to think about whom they want as their customers. More than ever, growers will need to know their fully allocated costs so they really know how to price their products to generate a profit (albeit, not enough profit). Only then can they target the retailers who can support them as customers. If there is a large gap between your asking price and your customer's purchasing price, this is the year you may need to fire a customer!

And, once decided, growers need to dedicate their assortments and varieties 100 percent to what these selected retailers need for their customers. No longer will you be able to grow what you like; rather you will have to focus on the needs of your retail customers and their consumers. I believe the year 2006 will see a dramatic shift into the "pull" distribution mindset instead of the "push" mindset we've employed for too many years.

In short, 2006 will be a shake-out year. Those growers who have focus and are innovative will be successful and survive, but those who try to second-guess the market, be all things to all people and don't march to the beat of the consumers' drums will find additional challenges for top- and bottom-line success. This year could put growers

who have had a string of no or (low) marginal profit years out of business.

The retail market will be okay, not stellar, in 2006, and growers can have a decent year if they hitch their wagons to the right channels and chains and respond to market needs, rather than their own agendas.

### A Long-Term Perspective

*Joel Goldsmith, Goldsmith Seeds*

There are a lot of challenges with increasing costs overall, and if growers are dealing with the box stores, there is very little price elasticity on the income side. It's a real challenge to be able to balance out the increasing costs and grow your business. The cost of everything is going up. The cost of energy is the most dramatic at this stage, but energy affects everything. All of us are reliant to some degree on energy and transportation costs. Labor...I haven't seen it getting any cheaper. So you have lots of costs going up.

Many people see pay by scan as a challenge, but I think the opportunities could be really appealing. Growers are able to decide what to ship to the store instead of being told by a buyer; they really have more control over their destinies, and although I don't think it was the main reason pay by scan was started, it has ended up meaning better quality at retail. I've even been told that sales people are out in the greenhouse now. Before, all they had to worry about was making the buyer happy; now, they are more concerned with what product looks good to send to the store.

I see increasing our prices as a possible long-term opportunity for our industry associated with pay by scan. I think most of our pricing issues are self imposed, compared to a consumer-driven industry. It's not the case that if you raise the price \$1 per flat people are going to walk away. This is a once- or twice-a-year purchase, and people are going to buy it. The surveys I've seen show that price is really not an issue; people are going to choose the best-looking plant to suit their needs.

I also think we have a big opportunity as an industry in helping people make that buying decision. With all the Internet accessibility now, if we could make it easy for people to get information on the plants they just bought...where to put them, what to expect from them...that would be a big help. I think there's a huge hole in the educational process with our customers. I don't think they know what to expect, so they don't know if they're successful. That would be the best thing we could do for the industry. ▶



*Stan Pohmer, Pohmer Consulting Group*



*Joel Goldsmith, Goldsmith Seeds*

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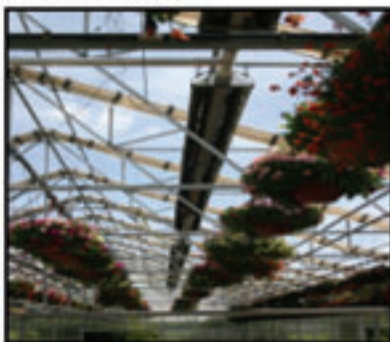
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### Surviving Pay By Scan

*Jim Barrett, University of Florida*

During the Christmas season I was thinking that it was about time for Bridget to call to discuss the annual crystal-ball predictions for this year, but I did not let that spoil the season. When the call did come, she told me the topic this year was challenges and opportunities. My immediate response was "those are synonyms, right?" While that is somewhat of a cliché, it seems to be true in much of our industry right now.

The industry is going through a significant period, with major changes emerging. No matter what the government does with the guest-worker issue, we must deal with the fact that labor costs will be increasing significantly. Poinsettias are a big part of the industry, but it is a crop that has become considerably more expensive due to fuel prices. We will either have to learn how to produce poinsettias differently, or the market situation for poinsettias will have to change. The trigger to this change could be a decrease in supply in many markets. Many large production companies, even ones not on pay by scan, are finding retailers grading their performance based on sell through. This is certainly an area where the rules in the market place are changing, but the producers who can demonstrate better performance under this system have a significant opportunity.

For retail growers, the challenge is to stop themselves from competing with the big boxes; that is where the opportunities have been for several years. However, it will be more difficult to differentiate an independent garden center from the better chain garden centers of the future.

Pay by scan is here; we may complain, but it is here. Many production companies are trying to understand it. The opportunity is in the potential for increased sales and a stronger position with the retailer. There will be significant rewards for those companies that figure out how to manage production and retail inventory and learn to think like a retailer. The industry has a history of individuals complaining about how poor mass merchandisers are at running garden centers. But it was clear years ago that the mass merchandisers were not going to change, and individual growers needed to take more control at the retail level. When kinks in pay by scan are worked out, this situation will be good for the producers involved, but it will also be beneficial for the industry as a whole. Plant quality and customer service in mass-market garden centers will be better.



*Jim Barrett, University of Florida*

### The Price Of Fame

*Jonathan Bardzik, American Nursery & Landscape Association*

The continued strength of mass merchants retailing greenhouse products creates two clear strategic options for growers. Those selling into the mass-market channel are selling into a commodities market. Even with differentiation, by brand or product design, these products are still entering the channel under significant downward-pricing pressure, leading to shrinking margins. Those businesses choosing this course can look to trends in technology and supply chain management for success. Working in high volume, any efficiencies in order pulling, shorter crop time and improved dollars per square foot will be critical.

Those selling into the independent channel face a very different challenge and opportunity. The current model of production does a poor job of matching supply and demand. While retailers are closest to consumers, growers continue to decide what and how much to produce. While last year's sales can predict demand, using previous sales to predict demand has two major flaws: One, you are measuring what the demand was last season and not next, and two, you miss any demand for products you did not grow or have available. There is a clear opportunity to work with retailers to identify the products that should be on their shelves each week and grow them in appropriate numbers.

Our industry has seen unprecedented success in the past two decades. Sales have grown dramatically. We are the fastest-growing sector of agriculture, and we are featured on two networks, countless books and shelf after shelf of magazines in every bookstore in the country. This has also attracted some unwanted attention.

Now, more than ever, we have come onto the radar screens of regulators and legislators. In just the past few years, we've seen regulators pushing for compliance with labeling laws and several serious insect and pathogen introductions — one of which was on the bio-terrorism list! We are also facing an unprecedented hostile environment to the immigrant labor force that is foundational to this industry. Businesses will face much bigger threats to their continued existence than pay by scan if they fail to support strong local and national regulatory and legislative programs. GPN

**Bridget White is editorial director of GPN. She can be reached by phone at (847) 391-1004 or E-mail at [bwhite@sgcmail.com](mailto:bwhite@sgcmail.com).**

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*Jonathan Bardzik, American Nursery & Landscape Association*