By Stan Pohmer

Twenty Years and Counting

That's a long time in an industry as dynamic as ours — but there are big movements and trends that bear mentioning

The changes we'll have to make and the rate at which we'll have to make them will both challenge us and make us better and stronger as an industry.

When Tim Hodson, editorial director of *GPN*, asked me recap the last 20 years of the floriculture industry in celebration of the magazine's 20th anniversary, the request sounded fairly straightforward and easy to fulfill. But as I started to mull over the last 20 years and all of the challenges and changes that our industry has gone through, I was amazed at the significant transformation, not only of the infrastructure of our industry but also the way end consumers view and use our products. Though many of these changes have been created by the constantly evolving market dynamics of relationships and expectations between growers and retailers, the most significant have been dictated by the constantly evolving demands of the real customer we all share: consumers. Like it or not, we've had to learn that consumers drive our businesses and decisions; those who have applied this lesson have survived and thrived. Those who did not are either struggling or out of business.

Yes, life — and our business models — was far simpler 20 years ago. Breeders worked with growers to determine what products to produce. Growers grew them and sold them to retailers. And retailers made them available for consumers to buy. There wasn't a lot of interaction between breeders and retailers, or growers with consumers. We operated largely on a "If we grow it, it will sell" mentality; we were a production-driven industry, not a consumer-driven one. Fighting, biting and scratching, we've evolved — to some, it's been a revolution — and continue to evolve into more collaborative, more interconnected businesses, all driven by the realization that no matter where you are in the demand chain (what 20 years ago we called the "supply chain"), we all share the consumer.

Looking back at the trends that have affected the floriculture industry, the following have created the greatest amount of change, whether positive and negative: Consolidation; data collection and application, demand-chain collaboration; and marketing approaches.

Consolidation

Let's take a look first at consolidation, which I consider to be the single most impactful trend that affected our industry over the past 20 years. Consolidation can stem from a number of different factors, from the interests of outside investors, to retailers or growers simply unable to compete with the larger players and remain financially solvent, to a changing distribution strategy.

Before Home Depot and Lowe's dominated the home-improvement channel, smaller regional chains proliferated, purchasing their floriculture products from local growers. When these regional chains left the market, these regional growers needed to find a home for their production, which led them to make some hard decisions: get larger to accommodate the supply needs of the larger (and growing) home improvement and discount chains; expand their customer bases to enter the independently owned garden center channel; change their business models to become grower/retailers; or cease to exist altogether. How significant was the number of regional home improvement chains that closed their doors during the '90s and the first decade of the 21st century? Let's take a stroll down Memory Lane (and I'm sure I've missed quite a few):

- Grossman's
- Kmart's Builders Square and Hechinger chains
- Builders Emporium
- Coast to Coast
- Eagle Hardware
- Ernst
- Handy Andy
- Handy City
- Home Base
- National Lumber
- Rickel
- Pergament Home Centers
- Yardbirds
- Scotty's

And while Kmart slowed their expansion and ultimately ran into major financial trouble, Wal-Mart and Target continued to expand, especially with Wal-Mart growing its Supercenter strategy to become the largest food retailer in the United States within 15 years of its inception. Some chains were acquired by these growing national discounters, but others simply ceased to exist: TG&Y, Caldor, Ames, Bradlees, G.C. Murphy, Gemco, FedMart, Gold Circle, Richway. Remember any of those names?

Then there were the visions to build national chains of independent garden centers that could more effectively combat the growing influence of the home improvement and discount chains. Some of these no longer exist; others are a shell of their former selves. Anyone remember Sunbelt Nurseries, Frank's (which acquired Flower Time) or Pike?

One unique initiative was an attempted rollup on an entire channel, from grower to retailer. This was U.S.A. Floral Products, modeled after a rollup of the fragmented office-supply industry. Some big idea guys convinced Wall Street investors to front some major cash (IPO) that would allow them to verticalize the retail florist channel, enabling them to acquire domestic and South American growers, importers, wholesalers and retail florists. Some of the initial companies that were acquired were paid 100 percent cash, but most were purchased on a cash/stock basis. When this effort failed, some of the original owners were able to buy their individual companies back, and some were acquired by other companies, but some simply ceased to exist. (Note: If anyone wants to learn how not to do a rollup, this would be a great case study to read!)

As the home improvement and discount chains continued to grow, they wanted to reduce the number of suppliers they did business with to achieve more consistency, negotiating power and centralized control of their businesses. Some growers were able to expand their geographic reach organically, but many had either to acquire other growers in markets they couldn't serve, or develop relationships with other growers who could produce for them on a contract basis (some of these contract growers were prior suppliers to the chains but were eliminated during the supplier consolidation program).

At the same time the big box vendor consolidation program was being initiated, the investment community was taking an interest in growers. They saw opportunity in consolidating our highly fragmented production and distribution; they liked our industry growth trends and consumer demographics that pointed toward continued growth; they saw the opportunity to cash out within three to five years. Growers saw this as an opportunity to liquefy the financial and sweat equity they had built, and to acquire grower relationships with shared customers, allowing accelerated growth. The problem with all this is that the investors were risk averse and had a hard time accepting a bad year because of weather or other factors out of their direct control. The parent growers quickly learned that it was more difficult to manage multiple geographic markets that didn't necessarily share seasonality, product types/varieties, and marketing/merchandising programs. Some of the grower/investor relationships included:

- Color Spot/PacifiCorp, Heller Investments (Fuji Bank), KCSN Acquisition Corp (Kohlberg & Co.)
- Sunrise Growers/Fremont Group
- Powell Farms/Weiss, Peck & Greer
- Tuttles Nursery
- Hines Horticulture/International Garden Products

Some of these growers have gone out of business, some have been acquired by other producers and others have survived a number of investment permutations and continue to exist.

The mass-marketer expansion took its toll on the locally owned garden center channel, as many couldn't compete on the top and bottom lines. As some left the industry, it created a void for their suppliers. One alternative for these smaller growers was to open up their own retail garden centers and become wholesaler/retailers. This trend has continued to grow and thrive.

My mantra for the next 20 years? Learn, think and do!

Data Collection and Application

Capturing POS data at the SKU level at retail and using systems and technology at the producer level have enabled our industry to operate more intelligently and efficiently, resulting in better inventory control and improved bottom lines.

Using systems and data at retail have allowed both mass market and locally owned garden centers to identify their most loyal customers to create targeted marketing efforts; build more productive inventories and assortments; reduce markdowns and shrink; and, when integrated with backroom operations, systematize and make accounting, payroll, cash flow and other functions more manageable, efficient and profitable.

The real power of this data comes when retailers share it with their demand chain partners. Suppliers can use this information to better plan their production, which will provide improved inventory flow and reduce shrink. It helps reduce speculation production to better anticipate retailer needs and helps ensure that the inventory is in the store when consumers want it, at the optimum quality levels they expect.

Demand Chain Collaboration

Information sharing has been a major factor in facilitating one of the major collaborative initiatives in the past 20 years: vendor-managed inventory and pay by scan.

In the '80s and '90s, the first conditional guaranteed sales programs were in place in the Western markets, with suppliers providing in-store merchandising and assortment guidance to retailers. Product was delivered and put into retailers' financial inventory, and unsold product was returned to the grower for credit. Under this program, retailers still had the major control over the assortments, inventory levels and responsibility for C&H.

In the next permutation of collaboration, VMI and PBS, suppliers received payment only for product that was rung up/scanned through the register, and any shrink was their responsibility. Inventory selection and levels were recommended and controlled by producers within guidelines established jointly with the retailer. Though VMI and PBS put more responsibility and ownership on growers, it had one major benefit: It forced — or enabled, depending on how you look at it — producers to get closer to customers and make decisions on what would drive consumer sales. It was to the growers' benefit to have the best-merchandised, best-maintained, best-quality and most appropriate assortments at the individual store level. For the first time, growers had more direct control over their own destiny.

Marketing Approaches

Though our industry has attempted many times in the past 20 years to create a generic (channel neutral and not product specific), coordinated, industry-wide promotion order — with mandatory funding participation at the producer level — through USDA-managed and industry-controlled initiatives, we haven't been able to get one off the ground for many reasons. Challenges with seasonality variances, retail channel competition, industry fragmentation (with some suppliers selling exclusively to mass-market or independent channels) and the fact that, while consumers view all of our products as the "green industry," we as an industry look at our products as separate (and often competing) categories: bedding plants vs. cut flowers vs. flowering potted vs. foliage plants. We don't view our industry through the same eyes as consumers do.

In the past 20 years, product branding has grown substantially. Think Martha Stewart, Vigoro, Viva!, Proven Winners, Burpee, Hort Couture, Stepables and Wave petunias, just to name a few. Though there's been (and always will be) debate on whether retailers are/should be the brand that consumers relate to, there's no arguing that the additional consumer marketing and merchandising that brand owners provide helps to increase exposure and builds confidence and trust in our products.

As our industry addresses the challenge of changing consumer demographics, we're learning to tailor our marketing approaches to the different demographic segments. While baby boomers are still our core customers, we recognize the need to better reach and develop relationships with our future customers, especially generation Y and the millennials. In the past three years, our industry has started climbing the steep learning curve of social media as a means for communication and relationship building at all levels of the demand chain.

Where Do We Go From Here?

Looking back at the 20-year trends, accomplishments and challenges, just in the four areas I've discussed, I'm amazed at what's happened and how we've reacted to these changes, mostly for the better. Trying to predict with any certainty where we're headed in the next 20 years requires the skills of an economist (like they can accurately forecast where the economy will be even 6 months from now!?). I won't even venture a guess. But I feel confident about a few things:

- We'll need to be more about consumers, anticipating what they want and *why.*
- We'll need to go beyond "plants are pretty" and communicate the real personal and lifestyle value our products provide.
- We'll need to develop stronger relationships with consumers, not just sell stuff.
- We'll need to work even closer together as an industry than in the past. We're all mutually dependent on meeting consumers' ever-changing needs and expectations.
- We're facing Moore's Law — which gauges change based on the theory that technological capacity doubles every two years — on steroids! The changes we'll have to make and the rate at which we'll have to make them will both challenge us and make us better and stronger as an industry.

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