The 2008 *GPN/OFA* State of the Industry Survey

From concerns about the cost of fuel to cautious optimism that conditions will improve, growers weighed in and we have the results.

By Darhiana Mateo

Who is better equipped to answer questions regarding the current state of the floriculture marketplace than you, the growers whose hard work and determination have always driven the industry forward?

That's why *GPN* partnered with OFA — an Association of Floriculture Professionals — to survey growers and understand who you are, compare company demographics, analyze the hard numbers and examine what issues are having the greatest impact on your business.

ABR Research, an independent research company based in New Jersey, conducted the second annual State of the Industry survey via e-mail. A total of 512 surveys were completed.

So how does your business stack up to competitors? How are factors like soaring energy costs and the push for sustainability reshaping your business plans? How has the industry changed since we first conducted this survey in 2006? Join us as we explore where the floriculture market stands today and what tomorrow might bring — from the perspective of those who know the industry best.

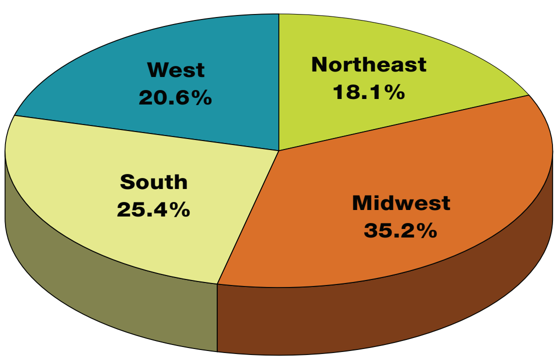
Grower Demographics

The average respondent in this year's study is 49 years old and has worked at his current company for almost 13 years. The businesses surveyed have deep roots in their communities, with the average company being in business for 31 years. Most of the respondents hold management positions, with 63 percent classifying themselves as owners and/or presidents.

More than half of respondents (51.6 percent) said they operate as both wholesalers and retailers. Growers surveyed said their sales are split mainly between their own retail operations (38.2 percent), independent garden centers (18.7 percent), landscapers (9.6 percent), big box/discount retailers (8.1 percent), grocery stores (4.5 percent) and other (20.1 percent).

As you well know, all growers are not created equal. It's important to keep in mind key differences — such as geographic location — when reflecting on how your business compares to others. For example, growers in the drought-stricken South will likely have a very different story to tell than those in the Northeast.

Where is your company located?



The Hard Numbers

By most accounts, the last couple of years have been challenging. The trickle-down effects of skyrocketing fuel costs, as well as some of the worst weather we've had in years, probably had many growers bracing for a decline in revenue compared to their 2006 numbers. However, survey respondents said their gross revenue had actually climbed 7.4 percent in 2007 versus 2006 sales. But there is a catch: Respondents also said profit margins dipped 0.3 percent over that same time period.

When analyzing these figures, it's important to differentiate between large growers and smaller operations, says Jim Barrett, professor of floriculture at the University of Florida in Gainesville, Fla., and consulting editor for *GPN*. "For large growers, because of the consolidation occurring in the market, their total revenues are going up," Barrett says. "But because of additional costs and difficulty in getting higher prices, their margins are tighter."

+7.4
percent revenue in 2007 versus 2006 sales

For smaller growers, the situation varies greatly depending on geographical areas, with "some strong spots, some weaker areas," he adds.

According to survey respondents, average gross sales in 2007 were $4.6 million. About 31.2 percent reported sales under $100,000, and a small percentage — 8.8 percent — boasted sales of $25 million or more.

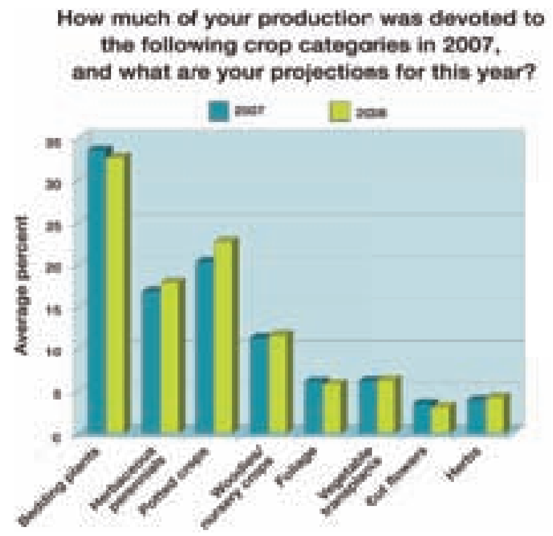
What's in an Acre?

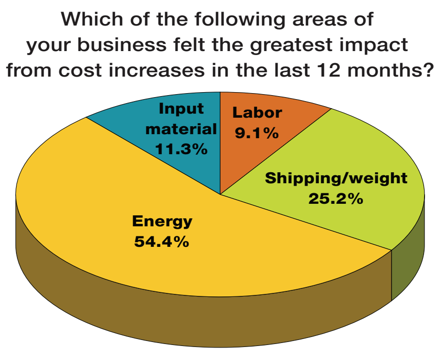
It's no secret that the size of an operation impacts other areas, such as labor costs, automation efficiencies, quantity of product sold and even the general business model approach. And the sizes of our respondents' operations ran the gamut, from sprawling to ➧

conservative. About 42.9 percent said their total growing area occupied less than 50,000 square feet, and 22.6 percent said their growing area spanned more than 500,000 square feet.

Production Space

Bedding crops maintain their popularity, with growers devoting 33.5 percent of their production space to this crop in 2007 and 32.6 percent this year. Potted crops came in second, with growers devoting 20.3 percent of their production space to them in 2007, and a slightly higher percent, 22.7 percent, in 2008. Herbaceous perennials (16.8 percent in 2007 and 17.8 percent in 2008), and woodies/nursery crops (11.3 percent in 2007 and 11.6 percent in 2008) trailed behind. The herb category, perhaps driven by heightened consumer demand, experienced a slight jump.





Production Costs

As the cost of doing business keeps climbing, it's no surprise that growers reported a rise in their average production cost per square foot: $10 in 2007 compared to $8.30 in 2006.

Many growers are reassessing their business plans and making the necessary adjustments to make up for the higher costs of production.

To Expand or Not to Expand?

Almost two-thirds of growers (63 percent) said they do not have expansion plans this year, compared to 57 percent in 2006. Many growers are cautiously optimistic, waiting to see how the rest of the year goes before investing money in any major expansions.

Even those growers who report higher sales are mostly looking at contract production rather than expanding their own production.

63%
no plans to expand

Immigrant Labor

As the immigration debate rages on with no permanent, comprehensive solution looming any time soon, some growers are feeling the impact. Depending on what part of the country they're based in and the size of their operation, growers count immigrant labor as a vital part of a dwindling workforce. However, this survey's respondents tell a different story: Only 17.8 percent of their employees are immigrant laborers, down from 23 percent in 2006.

When it comes to immigrant workforce, size really does matter. "Larger growers with large production areas are much more dependent on immigrant laborers than smaller growers [relying on] local labor," Barrett says.

The Energy Headache

Industry wide, growers point to escalating energy costs as their biggest headache. More than 54 percent said energy was where they felt the greatest impact from cost increases in the past year.

"That's a recent change," Barrett says. "Many growers are now finding that the cost of heating is overtaking labor [costs]. This is forcing a lot ➧

of growers to make decisions…to reduce that cost."

One respondent points to rising energy costs as the biggest obstacle to expansion: "Energy prices continue to slow the ability and rate at which we can expand."

Shipping costs (25 percent), input material costs (11 percent) and labor (9 percent) are among other top concerns for growers.

Doing Business with Big Boxes

Some larger growers, or those with niche markets, have found success partnering with big boxes: About 12 percent say they supplied product to box stores.

Doing business with the big boxes can be tricky, says Dave Edenfield, president of the consulting firm Visions Group LLC. With the partnership often comes higher expectations and responsibilities than growers are typically used to — albeit with bigger payoffs (sometimes).

In fact, Edenfield predicts a decline in the number of growers choosing to go the big box route. "I suspect you will see fewer and fewer people lining up to do business with big boxes, and more and more [growers] cultivating opportunities with smaller chains and independent retailers," he says.

Looking Forward

Ask growers to peer into a crystal ball and predict the most important issues facing the industry in five years, and the answers range from "increasing profitability in a tight labor market" to "the ability to increase

The Sustainability Debate

When it comes to the hot-button issue of sustainability, growers are once again taking a cautious approach before diving in. As Dave Edenfield of the Visions Group explains, "There was so much discussion in 2007 about it, that as we look at 2008, I think a lot of people are saying, 'I'm going to wait until either I'm required to do it or until this thing sorts itself out. My customers are not demanding it yet, so until they do…I'm not going to do anything.'"

The numbers seem to echo Edenfield's prediction. Although 60 percent of growers surveyed claim to have a good understanding of the issue, 75 percent of growers surveyed said they do not plan on pursuing a third-party sustainability certification in the next 12 months.

Of those growers that supply to big boxes, only 7 percent said they think it's "very important" to be certified as sustainable, and 48 percent said it was "not important."

"Until one of the big boxes requires it, that won't change much," says Edenfield. "They're certainly listening to growers who are coming in [and sharing their sustainability progress]…. they certainly applaud it and endorse it, but they're not ready to come out with a requirement for their vendors yet."

For those growers supplying to independent garden centers, 55 percent said it was "not important" to be certified as sustainable, while 36 percent said it was "somewhat important." Only 8 percent of the independent garden center growers said sustainability certification was "very important."

As one respondent states, "at the moment, survival is more important."

sustainability 2008

our prices to cover our skyrocketing costs." Without a doubt, the cost of doing business has rapidly increased in the last few years, and new issues keep emerging.

According to survey respondents, the most pressing issues the industry will face in five years are energy, labor, input costs, the economy and water issues.

For growers grappling with a changing consumer base, new challenges and an evolving industry, staying in the game sometimes demands going back to the drawing board — or, at the very least, recognizing the opportunity in the challenge. "Right now, the industry is in a real state of flux," Barrett says. "There is a lot more up in the air. Big growers are having to make big strategic decisions and changes with how they run their businesses. Smaller growers have to find ways to differentiate themselves. It's hard to predict how operations are going to look [a few years] from now." GPN

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