



What's Up With the Plug Industry?



Plugs are the starting point for many greenhouse crops. As such, any problem with the plug industry ripples through growing operations large and small. Roger Styer's analysis of the plug industry is a much-needed awakening for the entire floriculture industry.

By Roger Styer

With the recent demise of Suncoast Greenhouses in Seffner, Fla., I started thinking about the health, practices and problems of the plug industry. Now, when you see my name connected to a plug article, you expect to see cultural practices, and normally, that's what I would write about. However, I need to speak my mind about disturbing trends I see happening in the plug industry. If I get some of the facts a little mixed up, forgive me. My focus is more on the trends in the industry than the individual facts. Remember too, these are my opinions, and I'm sticking to them until proven otherwise.

PLUG SUPPLIERS

Almost all plug suppliers in the United States work through brokerage companies that have their own sales force. There are some direct accounts, but generally, plug suppliers do not want the credit risk of selling directly to growers. That doesn't mean, however, that plug suppliers would not go direct if they felt that it was in their best interest and that it would not tick off their brokers, causing more lost business than gained. One area where plug suppliers could go direct is with large customers (5-10 million or more plugs per year). Some brokers are already taking a lower margin in working with plug suppliers to get and keep these accounts; however, the pricing is pretty low.

Pricing is the next biggest issue with plug suppliers. When Fernlea came into the market with low plug prices, everyone else felt they needed to

respond with low prices. Unfortunately, it's easier to lower prices than it is to raise them. Now, plug growers are finding it difficult to quote higher prices. In addition, some suppliers are trucking plugs long distances at very cheap prices to keep their market share. Another issue we need to consider about pricing is when a broker or salesperson tells a plug supplier that it will take a particular price to get into the ballpark with a particular customer. The problem is whether or not we should be selling plugs based only on price. What about reliability, service, quality and other attributes?

Plug suppliers also have to deal with seed quality and the demand for 100 percent full plug trays. Seed companies have been improving seed quality over the last few years, which means that plug growers can get better stands. However, this improvement applies mostly to the main crops. So, what's a plug supplier to do with stands on the rest of the varieties? Without better seed quality, the cost to get 100 percent full trays increases drastically as it takes more seed, trays, bench space and labor to replug the trays. Are plug suppliers really charging what they should for these items, or are they scared that customers will balk at the prices? I think many plug growers balance losses on specialty crops with better profit margins on the "standard" varieties, where they get better stands, hoping that they stay profitable overall.

Each supplier wants a listing large enough to attract good customers. However, the more varieties they grow, the smaller the runs, which

drives up production costs. It is cheaper to sow 20 or more trays of the same variety than it is to sow five trays of four different varieties.

When customers request varieties that are not on the producer's listing, we get into what are called custom requests. Generally, custom requests have a higher tray purchase requirement, longer lead times and higher prices. However, some producers are not sticking to these requirements, which makes these items less profitable. In addition, many of the custom requests are for older varieties for which seed is hard to find, let alone get decent germination. ♦



Above left: Ordering the appropriate size plug for the intended use is often overlooked during the rush to order. Above right: Because different finish growers prefer plugs at different stages of development, plug growers are often challenged to satisfy every customer.

I find plug suppliers are still trying to identify what customers they have and which ones they want. Some suppliers service the small to mid-size growers very well, specializing in small orders, lots of customs and last-minute

order changes. Other suppliers focus on larger customers and cater to large runs of fewer varieties, offering cheaper prices. The difficulty occurs when suppliers cross over into customer bases they are not familiar with, causing

headaches with order entry, price quotes, seed purchases and loss of trays — ultimately creating unsatisfied customers.

Shipping plugs has become more of a problem since Fed Ex and air freight are not as dependable as they

should be. Fed Ex doesn't seem to care if the boxes are shipped upside down or thrown all over the place. As long as the outside of the box doesn't show damage, they don't feel liable. This puts a bigger burden on plug suppliers to find ways to ship that keep the plugs intact in the trays. As mentioned earlier, truck shipping has become more popular. However, not all plug suppliers are set up for truck shipping. One possibility for trucking plugs would be for brokers to provide more support, grouping customers together into large truck shipments, or for suppliers to go after larger customers that would warrant running a truck shipment.

BROKERS

The role of brokers in our industry is continually changing. The salesperson develops the customer base, places the orders and handles any problems with the shipments. However, in the past few years, brokers have had a lot of turnover, losing some experienced people, changing territories for others and changing customer focus.

Large growers generally rely less on the salesperson for the products they need. In addition, many of these large growers would like to go directly to the suppliers for better pricing and service. Changes at brokerage firms do not affect these growers. Small- to medium-size growers depend on the salesperson for advice on what to grow, which new products to order and even when to schedule crops. These customers want to continue dealing with brokers and even particular sales people, but the volume of the smaller growers may not be profitable enough for the salesperson to spend as much time with the customer as the customer wants.

Competition among brokers is intense. Large growers, and some mid-size growers, get quotes from several brokers and play them against each other to get the best price and terms. Nothing wrong with this approach, except that all of the focus is on price. Plugs can be treated as a commodity if the only questions are price and availability. Plug programs are designed to be different in many ways, and these differences need to be considered at order time. For example, what plug size is best for the cus-

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tomer's container size? Are the newest crops being offered? What about custom requests? How reliable are plug suppliers? Are they known for quality and service? Will they provide some help if trouble occurs with the product?

Finally, customer service and handling of complaints varies widely between brokers. When customers do not get what they want, when they want it and of the quality they want, the first to hear about the problem is the broker. How they handle the complaint will determine how satisfied the customer will be. The longer the time needed to resolve the complaint, the less happy the customer will be. Some brokers have good customer service and will resolve many complaints quickly. Other brokers will just pass the problem back to the supplier. Are plug suppliers set up to handle those types of complaints? Should they talk directly with the customer or only through the broker? What information is needed to resolve the problem? Who is responsible for getting the information?

CUSTOMERS

Plug customers come in many different sizes, but they have one thing in common — they want the best price they can get. Unfortunately, pricing also depends on volume. So the larger customers get the best pricing. Some finish growers try to get around this pricing issue by ordering smaller plugs, which cost less than larger sizes. But the smaller plug may not be able to handle the growing conditions, cannot be held before transplanting and takes longer to finish. Order the plug size that is best for your container size.

Customer expectations can sometimes exceed what plug suppliers can provide. For instance, on custom requests, seed quality and availability can be a problem, resulting in delays, lower numbers or higher costs. Customers need to work with plug suppliers to set realistic expectations for custom requests.

Some customers want plugs to be on the larger side, whereas other customers want plugs to be on the smaller side. These differences are usually due to how the customer holds the plugs before transplanting and how they trans-

plant. It is difficult for plug suppliers to grow the same crop to meet different standards.

As mentioned previously, custom requests can be hard to fill properly. Plug customers need to understand the minimum number

of trays required, how this variety compares to newer and better varieties, and the higher costs involved if seed quality is low. This is where the broker and salesperson really need to get more involved.

Nothing gets plug customers

more upset than when they receive an incomplete shipment. Substitutions and "cannot supply" should be handled by the broker as early in the ordering process as possible. Are the orders marked properly? Did the salesperson find

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industry issues



In an effort to save money, a sizeable number of growers keep stock plants and produce their own plugs.

out if seed for that variety was available before committing to the order? What is a "reasonable substitution" for any particular variety?

Plug customers could get better fulfillment of their orders if they would plan their production ahead of time. Calculate how many plugs are needed for each turn and each variety. Too often, growers order the first turn, but wait until the last minute to order for the next turn. This means the order is placed after the crop should have been sown. From the time the order is placed until sowing, the order may require 1-2 weeks, if the seed is available. Lead times for order placements are there for a reason. Plug suppliers need to have seed available, trays available, sow the seed and have the proper grow time to get the final size and quality the customer wants.

WHERE DO WE GO FROM HERE?

The biggest area that needs improvement is the communication among plug customer, broker and supplier. I encourage plug suppliers to talk directly with customers to understand their needs, requests and problems. Many plug customers want to know their suppliers better, so they can trust that their special needs will be filled. It takes a long time to build trust, but just a short time to destroy it. Some salespeople have earned the trust of their customers so much that when they leave a broker, the customers follow. Plug suppliers need to build that same loyalty.

Some sanity needs to return to plug pricing. I'm not talking about adjustments for higher energy prices, but overall understanding of production costs and shipping. Some suppliers are not figuring all of their indirect costs into the final price, only their direct costs. I find it hard to believe that plug suppliers make a profit on a fall pansy plug quoted at \$0.032, when the seed cost is \$0.015-0.017 per seed. Sure, you can fill up your greenhouse with lots of pansy plugs, but are you really making a profit or just covering overhead?

Plug suppliers need to keep working internally on their quality and reliability. This means emphasizing problem prevention, not just problem solving. Remember, plug suppliers are only as successful as the last order they shipped. If your batting average is not above .950 (95 percent), then you have some serious problems to fix in the eyes of the brokers and customers.

Brokers, salespeople and suppliers need to work better with plug customers up front. Taking an order and then figuring out how to do it is a reaction — we need to be proactive. Be aware of lead times, customs, seed availability, germination problems and anything that can lead to not filling the order properly. Better communication with the customer and offering choices if problems do arise will go a long way to a successful and profitable business for everyone. GPN

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