

# What's On The Horizon?



The Economy.  
Labor Costs.  
Consumers' Preference.  
Supplier Partnering.  
These are just some of the issues expected to impact growers in 2007.

Compiled by Tim Hodson

As the calendar pages turned to 2007, *GPN* asked six industry experts where they thought the industry is headed. A new year usually brings new opportunities, but what kind of opportunities will be available for growers in 2007? Will they be the same as in 2006? What about hurdles? What kinds of challenges are lurking out there? Have they changed over the years, or are they the same?

The ever-shifting economy is always a conundrum for growers. This year will be no different. Labor and immigration issues are expected to be another major concern in 2007, too. Questions about energy costs will also continue to nag at growers of all sizes. This is just a sampling of what to expect.

It's fun to speculate about the future. If we knew exactly what was on the horizon, everyone's job would be so much simpler. Hopefully, our panel will provide you with a good idea of what lies ahead in 2007. I think you will find their predictions to be informative, educational and enlightening.

## More Of The Same?

*John Holmes, OFA — An Association of Floriculture Professionals*

Generally, there are few indications the 2007 floriculture market will be much different than 2006, which is not necessarily the best news. The total number of growers will probably continue to shrink, but the largest of growers will continue to get bigger.

One possible trend will be more contract growing, as efficiencies continue to be sought. Some greenhouse operators, wanting to keep current clients, will likely look to other growers to supplement what and how they grow. Another opportunity will be for those growers to tap into the do-it-for-me (DIFM) trend, either through their own retail/landscape division or by "partnering" with someone with that capability.

Everyone is still struggling with pricing, and that boils down to the basic economics of supply and demand. There continues to be overproduction, and the excessive supply easily meets the demand, and prices fall out accordingly. Once supply is in line, any efforts to increase demand will be that much more fruitful.

But even if supply issues are addressed, there will still be a need to get back to the practice of pricing for value, not just cost. We have unintentionally undervalued the product by thinking it was always about price for the customer. It is as much about lifestyle choices.

The issue of increasing demand is something that is getting a great deal of discussion. In 2007, there will be debate among cut flower growers about the necessity of a mandatory promotion order program. What I hope does not get lost in the discussion are the important and productive programs that already exist to improve and increase demand — SAF's ♦



*John Holmes, OFA — An Association of Floriculture Professionals*

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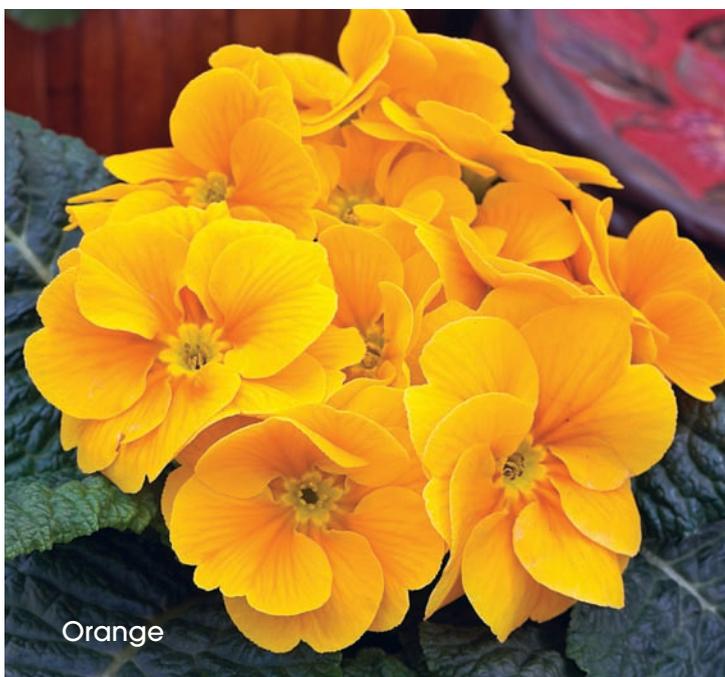
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## industry issues

National PR Fund, the Flower Promotion Organization, America in Bloom, Plants at Work and the American Floral Endowment to name a few. With increased financial support, all of these programs can meet their full potential. Broad marketing alone is not the answer to our problems.

The current programs have had a real impact, and a pre-set percentage of the dollars collected in a promotion order should go directly to them. Any other remaining dollars could be used for a broad marketing campaign if that was deemed necessary.

No matter what is done in the way of promotion or efforts to increase demand, everyone must assume some responsibility to do their parts. No generic program can meet the varying needs, cultures and personalities of our individual communities. That's a major reason why OFA is developing a marketing "tool kit" to provide our members the tools and resources necessary to take charge of their own destinies.

### Learning From The Past

Jack Williams, Ecke Ranch

Looking to 2007, many growers will be pleased just to have survived 2006! Who could have predicted the issues of energy, labor, pests and other challenges that have shaped the course of these past few years? While not everyone survived, the lessons learned will prepare growers for the future and, hopefully, start to turn back to the direction of profitability and market growth.



Jack Williams, Ecke Ranch

Some trends we expect to see include:

- Suppliers more actively will be "partnering" with growers to create stronger synergies for mutual sustainability. These relationships will be built in an effort to identify market opportunities that make good financial sense and reduce risk typical of so many crops. As retailers con-

tinue to push purchasing decisions further into the season, making it difficult for growers to fulfill these orders due to inadequate lead times, having strong supplier relationships will help growers respond to product fulfillment needs. Many young plant suppliers have developed product forms (QT-72, Quick Turns, Supernova, etc.) that require less "greenhouse time" than traditional rooted cuttings or plugs; it is these technologies that will be taken advantage of to help keep product flowing into the market!

- Energy efficiency will continue to be a topic of focus by growers and breeders. The protocols for growing crops are being developed and documented for growers to utilize, and breeders will make lower energy requirements for production one of the highest priorities for any introductions in new and existing species! We can no longer expect energy costs to do anything but increase, so if the crop cannot be grown cool and still be ready for market at the right time, product supplies may become impacted.

- Product packaging will gain importance as retailers look to increase interest and hold market share. This packaging will need to be more than just an addition of pot cover/sleeve/tag programs already in the market. New and innovative retail-ready programs are needed to help move product from greenhouse to retail and to the consumer in attractive yet functional packaging. These programs will allow for diverse market segmentation and help retailers focus on everything from "bio-friendly" to upscale gift packaging their particular customers are looking for. In this environment, the package soon becomes more important than the plants themselves! However, this shift in focus may become one of the most significant changes made toward improving profitability for everyone.

- The level of creativity in our industry will continue to rise to the challenge! When faced with difficulties, we are forced to reevaluate process and procedure in an effort to cut unnecessary costs out of the production

Who could have predicted the issues of energy, labor, pests and other challenges that have shaped the course of these past few years?

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and distribution system. The thing I look forward to most in the coming year is seeing how our breeders, growers and retailers take on these issues and find solutions that take us into the future!

### It's The Economy

Ryan Hall, Pacific Plug & Liner

The new year should prove to be another year of challenges and opportunities for the horticultural business. Uncertainty in the economic health of the country will prove to be one of the biggest obstacles that companies will face. Other challenges will be similar to years past, such as tighter pressure on margins and inevitable rising labor and energy costs.



Ryan Hall, Pacific Plug & Liner

The major change for 2007 that the nation and industry will be facing is the downturn in the housing market. A booming market gave consumers a greater amount of perceived wealth. Now that the market has cooled, consumers' perceived value in their homes will decrease, thus reducing the amount of disposable income they may be willing to spend on items such as flowers. On the flipside, consumers are seeing some relief at the pump with lower fuel costs. However, general sentiment seems to be that the savings will be short lived, and any global event small or large could send costs skyrock-

eting once again. The health of the economy is in constant debate, and a general consensus by experts seems far off. In 2007, consumers are most likely to be skeptical of the economic future and more conservative with their spending.

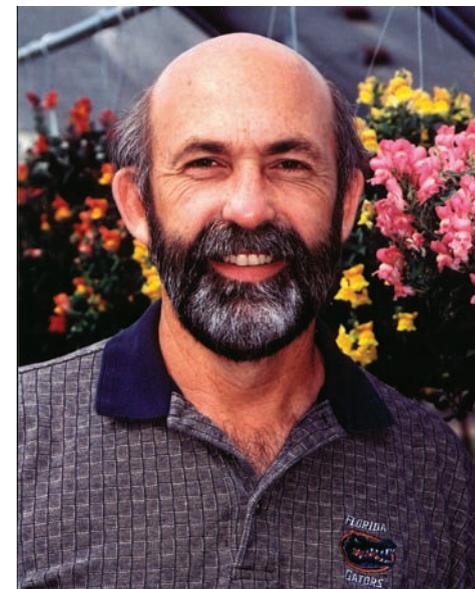
With this skepticism and limited disposable income, businesses will be challenged to retain and create new customers. Businesses that look for innovative ways to capture customers' attention are more likely to have a successful 2007. Growers will continue to blur the lines of their traditional product offerings. Woody plants will see a push toward the front of the store, with an increase in national branding programs and a greater amount of traditional color growers trying their hands at woody product lines. New and unique products and how they are presented will be key to grabbing the limited time and income that consumers will have in 2007.

### Laboring To Make Money

Jim Barrett, University of Florida

As I sat down to formulate my thoughts on the outlook for the industry in 2007, I went back and looked at what I wrote in January '06. I do not see major new issues ahead; rather, I feel the business pressures and issues we have been dealing with will continue and become even more critical in many cases.

The single biggest issue that could dramatically affect the floriculture industry is labor



Jim Barrett, University of Florida

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## industry issues

supply and cost. This is a huge political issue that is critical for so many industries that I feel it will be resolved without creating excessive turmoil...we can hope anyway. Whatever develops, the direct and indirect costs for labor will increase.

This year there will be more discussion of the need for an industry-wide promotional program. I am of two minds here. Do we need a program, and would it help the industry? Yes. Will we be able to develop a program? No. As I have stated often before, this leaves open an opportunity for larger and

more capable companies to promote their own programs and products and gain greater influence in the market. This also leaves it up to retailers and their suppliers in individual markets to influence the percentage of discretionary dollars spent on plants and associated garden products and services.

In general, a good trend that will evolve even more is the increased coordination among big box retailers and growers. While I feel this is good for the industry as a whole, it certainly puts considerable pressure on those companies that will lose market share.

It is not too difficult to see the pressures in place that are causing changes in our industry. Also, it is not difficult to see that individual companies at all levels of the industry must change to be successful in the future. However, the most successful companies will be those that are most innovative in their approaches to the issues.

### What's In Store For Big Boxes?

*Dave Edenfield, The Visions Group*

As we dust off the crystal ball, I must admit that mine looks a little foggy. Stating the obvious, it will be another year of change and questions.

Looking at the big boxes, several questions arise. Can Lowe's continue to grow the lawn and garden segment of its business? Lowe's was first to really do a complete job of branding live goods and will continue to do a great job of differentiating and selling perennials in particular. Can Home Depot (and the growers) master the roll out of multiple brands?

I guess the real question is whether the ultimate customer will see value in the various brands and actually buy more plants. I certainly hope so. Will Wal-Mart become a greener, more environmentally friendly (kinder and gentler) retailer related to live lawn and garden products? Is the consumer ready to buy an environmentally friendly bedding or shrub product? I would



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*Dave Edenfield, Visions Group*

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Good independent retailers will reinvest  
in their businesses and their employees  
and will become great retailers in 2007.



suggest not in 2007, and I'm afraid that Wal-Mart might not be the consumer's first choice even when they are ready. I do applaud the effort of Wal-Mart. Keep pushing the "green" agenda — the demand is coming.

The real winner in the big box segment will be the retailer that finally understands and supplies world-class customer service. It will grow demand and sales to all-time levels.

For independent retailers, 2007 will be a record year to remember. Increased sales and demand will be driven by consumers who are fed up with not being able to get answers to basic gardening questions, long checkout lines, the same "tried" varieties and so-so quality products. Independent garden centers (IGC) will need to focus on creating a "shopping event" every time a customer comes through the door. Independent True Value Hardware/Ace Hardware stores will have the best year ever — as long as they have employees that truly care about being problem solvers. Good independent retailers will reinvest in their businesses and their employees and will become great retailers in 2007. By the way, IGCs, you can raise your retail prices — consumers will pay for your knowledge and service.

**Miscellaneous thoughts for 2007.** This will be a year of industry correction. After years of gross over-supply of product, growers will take no or very little risk if they are selling under the umbrella of vendor managed inventory programs. Growers simply will not be able to take the risk of producing product and hoping it will sell. By the way, lending institutions will not be willing to let growers take the risk if they experience high waste and shrink numbers in 2007.

Three years of very tight margins will take its toll on several large and medium-sized growers. They will be forced to sell, close and/or right size their companies. We will see shrub and color growers get back to basics and refocus on their "core business." Sound familiar?

Large growers will take an even greater role in managing big box garden centers. Are you ready to supply cashiers and other critical store employees? ▶

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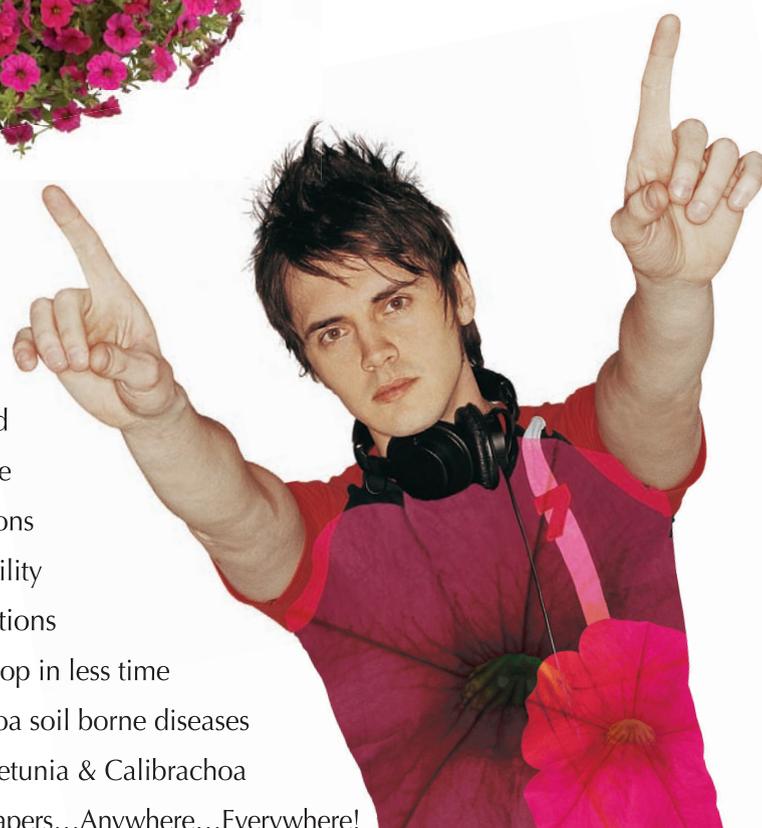
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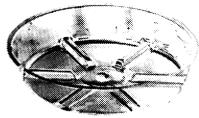
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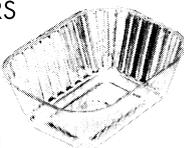
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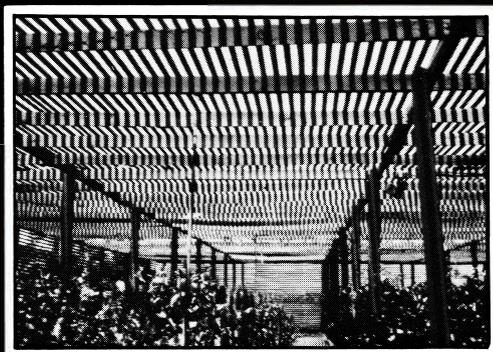
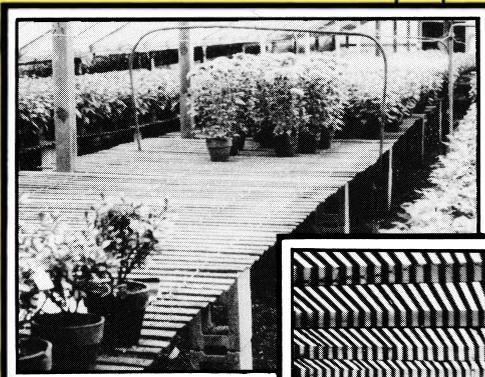
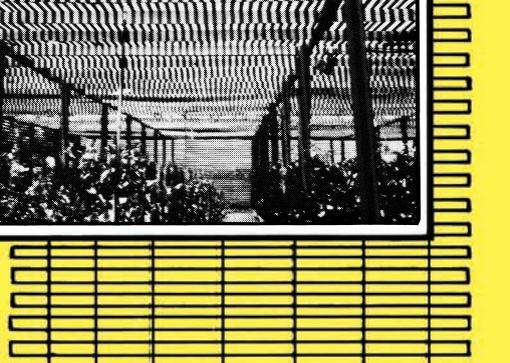
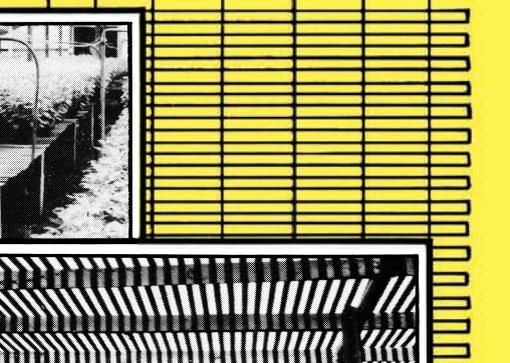
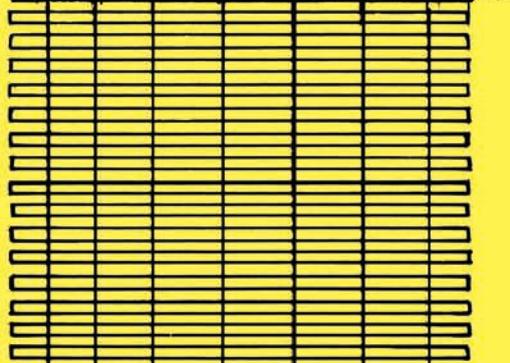
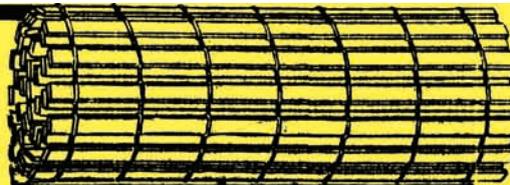
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## industry issues

The DIFM customer will have an even greater impact on market trends and opportunities than ever before.

Merchandising at store level has been the big topic the last 6-8 years. The next big topic and area to watch will be growers providing landscape installation services sold and provided through big box retailers.

Indoor and patio gardening interest will hit an all time high level of demand. Huge opportunity again!

Outdoor landscape demand will rebound in 2007 after soft years in 2005 and 2006. This is based on the fact that new home buyers are finished decorating inside and are ready (and feel they can afford) to "decorate" the outside of the home. Do your products appeal to the outdoor decorators? Do you have outdoor decorators on staff to help customers?

2007 will be a huge year full of opportunities for those who think creatively, have their eyes and ears wide open to consumer trends and understand why consumers buy what they buy.

### 2007 — The Year Of The Consumer

Stan Pohmer, Pohmer Consulting Group

History demonstrates that the fourth-quarter performance of the prior year is a pretty good predictor of what's in store for retail sales for the first half of the following year. If this holds true, based on the retail sales for October and November (the jury is still out on December), we can expect a very price-focused marketplace, with customers being very selective and prioritizing their purchases on what they deem to be important to them.

What this means for our industry is that unless we provide compelling reasons for our products, sell the benefits of plants and flowers, and demonstrate the lifestyle solutions consumers can relate to, our market will be dominated by price-value selling propositions that will further erode profits.

Some retailers, especially the progressive independent garden centers, will position themselves to offer more than just plants and flowers...they'll market the experience plants and flowers provide...and they'll be successful.

Growers, whether controlling their own destinies through pay by scan programs and managing displays or just by providing creative POP and tags that the consumer can relate to, can play an active role in meeting these consumer needs. You can't rely on the retailer to provide this customer interface on your behalf. You need to take ownership for the consumer and the way they perceive your products!

2007 will be the year of the consumer. Those growers and their retail partners who focus their efforts on them rather than just operations and logistics will reap the benefits; those who don't will struggle for not only sales but profits. GPN



Stan Pohmer, Pohmer Consulting Group

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