The key to profitability in this industry is not selling more flowers/plants, per se.

The key to profitability is getting more dollars for the flowers/plants we do sell.
We Must Raise Our Prices!
Value of a 5” Poinsettia corrected for inflation, 1965-2007

ROIC = (net income – dividends)/capital

ROIC > Cost of capital = value created

Return on invested capital (ROIC) is the appropriate measure of profitability for strategy formulation, not to mention for equity investors. Return on sales or the growth rate of profits typically account for the capital required to compete in the industry. Here, we utilize earnings before interest and taxes divided by average invested capital less excess cash as the measure of ROIC. This measure controls for idiosyncratic differences in capital structure and tax rates across companies and industries.

Source: Standard & Poor’s, Compustat, and author’s calculations.
Results of Market Complexity

- More markets = more places for supply chain problems to occur
- More participants = more competition
- Less individual firm control = limited market influence
- More of a need for knowing your market!
Components of Marketing

**UTILITY**
- form
- time
- place
- ownership

**MUTUAL PROFIT**

**VALUE**
- value added
- perceived value

---

**Importance of marketing efforts**

Marketing efforts

Prices of substitutes

Objective value (OV) = \( \sum \) of all benefits

Perceived value (PV) = \( \sum \) of perceived benefits

Product price (P)

Cost of goods sold (COGS)

Customer’s incentive to purchase: \( (PV-P)>0 \) (economic utility)

Firm’s incentive to sell: \( (P-COGS)>0 \)

The Value Map

Elements of perceived value

1. Functional/instrumental value
2. Experiential/hedonic value
3. Symbolic/expressive value
4. Cost/sacrifice value
Elements of perceived value

1. Functional/instrumental value
   a. features, functions, attributes, or characteristics (such as aesthetics, quality, customization, or creativity)
   b. appropriate performances (such as reliability, performance quality, or service–support outcomes)
   c. appropriate outcomes or consequences (such as strategic value, effectiveness, operational benefits, and environmental benefits)

2. Experiential/hedonic value
   a. sensory value (such as aesthetics, ambiance, aromas, feel/tone)
   b. emotional value (such as pleasure/enjoyment, play/fun, excitement, adventure, and humor)
   c. social–relational value (such as relational or network benefits, bonding/connectedness, personal interaction, developing trust or commitment, and responsiveness)
   d. epistemic value (such as knowledge, curiosity, novelty, or fantasy)
Elements of perceived value

3. **Symbolic/expressive value**
   a. appeal to consumer’s self-concepts and self-worth—that is, they make us feel good about ourselves—either in possession or in giving
   b. personal meaning—associations with people or events that only have meaning to a particular consumer
   c. a means of self expression
   d. social meaning—how others see us
   e. Conditional meaning—symbolism or meaning relating to sociocultural events and traditions

4. **Cost/sacrifice value**
   - economic costs, such as product price, operating costs, switching costs, and opportunity costs
   - Psychological/relational costs include cognitive difficulty/stress, conflict, search costs, learning costs, switching costs, and relationship costs
   - personal investment of customers—the time, effort, and energy consumers devoted to the purchase and consumption process
   - personal, operational, financial, or strategic risks
Sources of value
(see handout)

• Information / knowledge
  A large portion (76%) of participants indicated that they would be more likely to purchase a container garden if extensive care information was included with the purchase and 85% of participants said they would be willing to visit an Internet Web site that would provide more information on how to care for and maintain a container garden.

• Ownership / possession transfer

The Consumption Value of Floral Products

CV = The multifaceted consumer choice to buy or not to buy, to choose one type of product or service over another, and/or to choose one brand over another entails a variety of forms of value.

• Sensory hedonics (19% of value)
• Emotional conditioning (14% of value)
• Curiosity fulfillment (13% of value)
• Monetary worth (10% of value)
• Showing care for others (10% of value)

Source: Yeh et al. HortTechnology manuscript
Top Reasons for Outlet Choice

1. Convenience
2. Price
3. Selection
4. Product quality
5. Reputation
6. Delivery
7. Service
Signaling Value ≥ Delivering Value

• Incomplete knowledge of buyers causes them to judge value based on such signals as:
  – Price
  – Attractive packaging
  – Advertising content and image
  – Facilities/ambience
  – Professionalism and personality of employees
  – Who shops there (prestigious customers)

Signaling Value ≥ Delivering Value

• *Signals of value* may be as important as actual value when:
  – Nature of differentiation is hard to quantify
  – Buyers are making first-time purchases
  – Repurchase is infrequent
  – Buyers are unsophisticated
So the $64 question is this…

How do we compete successfully in a maturing market?

“I skate to where the puck is going to be . . . not to where it has been.”
- Wayne Gretsky
Two Elements of Strategy

- Align all activities to the firm’s market position and make them consistent
- Develop core competencies which lead to new and better competitive advantages

Best-in-class companies are like decathletes

- Top ranking athletes excel across a set of activities:
  - The winner accumulates the most points among all events.
  - They win some events, but not all.
  - They know their own strengths & weaknesses and focus their training in these “must-win” events.
  - They spend remainder of training time being minimally competitive in the other events.
Best-in-class companies are like decathletes

- Best-in-class companies excel across a set of processes:
  - They beat competitors in some areas but not all.
  - They are not best-in-class in all performance areas, but are in those that match strategies and priorities.
  - They know their core competencies and those of their competitors.
  - They spend most of their resources in areas they know they must win and minimally competitive in other areas.

Two Elements of Strategy

- **Internal Alignment**
  - Align all activities to the firm’s market position and make them consistent
  - Develop core competencies which lead to new and better competitive advantages

- **External Positioning**
  - Understand the external environment completely
  - Match firm’s strengths and weaknesses to external opportunities and threats
  - Selecting appropriate strategy
External strategic responses...

1. Become a low-cost operator and play the volume (commodity) game.

2. Differentiate in some way - specialize by product, service, customer type, or geographic area.

3. Increase customer value via horizontal and/or vertical coordination.

As firm size increases, economies of scale and scope lead to decreasing per unit costs.
Many firms are becoming increasingly automated leading to improved cost performance.
climate control systems
tissue culture and plug production

biotechnology
container technology

slow-release and soluble fertilization
My thoughts...

- All of these technologies have been used to decrease costs of production, **successfully**.

- While some firms have a ways to go, many have stretched their production systems as thin as they can be stretched. **Lean manufacturing is important, but will only take us so far.**
My thoughts...

- Any meaningful increase in margins in the future (for most firms) will have to come from the demand side of the equation (price).

- There is but one way to accomplish this – by successfully differentiating ourselves in the mind of customers!

External strategic responses...

1. Become a low-cost operator and play the volume (commodity) game.

2. Differentiate in some way - specialize by product, service, customer type, or geographic area.

3. Increase customer value via horizontal and/or vertical coordination.
Differentiation Strategy Defined

• An integrated set of actions taken to produce goods or services (at an acceptable cost) that customers perceive as being different in ways that are important to them.

Keys to Success

• Incorporate differentiating features that cause buyers to prefer firm’s product or service over brands of rivals

• Customers value the differentiated features more than they value the low cost

• Find ways to differentiate that create value for buyers and are not easily matched or cheaply copied by rivals

• Not spending more to achieve differentiation than the price premium that can be charged
Types of Differentiation Themes

- **Unique taste** – Dr. Pepper
- **Multiple features** – Microsoft Windows and Office
- **Wide selection and one-stop shopping** – Home Depot, Amazon.com
- **Superior service** – FedEx, Ritz-Carlton
- **Spare parts availability** – Caterpillar, Kubota
- **Engineering design and performance** – BMW
- **Prestige** – Rolex
- **Product reliability** – Johnson & Johnson
- **Quality manufacture** – Michelin, Toyota
- **Technological leadership** – 3M Corporation
- **Top-of-line image** – Ralph Lauren, Starbucks, Chanel

Benefits of Successful Differentiation

A product / service with unique, appealing attributes allows a firm to:

- **command a premium price and/or**
- **increase unit sales and/or**
- **build brand loyalty, thereby**
- **gaining a competitive advantage.**
Drivers of Uniqueness

- Product features & performance
- Complementary services (credit, delivery, repair)
- Intensity of marketing activities
- Technology in design and manufacture
- Quality of purchased inputs

Drivers of Uniqueness, cont.

- Rigor of procedures (quality control, service, frequency of sales visits)
- Employees’ skills and experience
- Location, location, location
- Degree of vertical integration (in-house control)
Examples of Value-Creating Activities Associated with a Differentiation Strategy

- **Highly developed information systems to better understand customers’ purchasing preferences**
- **A company-wide emphasis on the importance of producing high-quality products**
- **Compensation programs intended to encourage workers’ creativity and productivity**
- **Somewhat extensive use of autocratic rather than objective performance measures**
- **Strong capability in basic research**
- **Investments in technologies that will allow the firm to produce highly differentiated products**
- **Systems and procedures used to find the highest quality raw materials**
- **Purchase of highest-quality replacement parts**
- **Superior handling of incoming raw materials so as to minimize damage and to improve the quality of the final product**
- **Consistent manufacturing of attractive products**
- **Accurate and responsive order-processing procedures**
- **Rapid and timely product delivery to customers**
- **Extensive granting of credit buying arrangements for customers**
- **Extensive personal relationships with buyers and suppliers**
- **Product, process, and customer innovations**

**Differentiation Strategy: New Entrants**

- **Can defend against new entrants because:**
  - New products must surpass proven products
  - New products must be at least equal to the performance of proven products, but offered at lower prices

**The Threat of Potential Entrants**

- Favoring among competing forms
- Bargaining power of suppliers
- Threat of substitute products
- Rivalry among existing firms
- Threat of new entrants

Differentiation Strategy: Suppliers

Bargaining Power of Suppliers

- Can mitigate suppliers’ power by:
  - Absorbing price increases due to higher margins
  - Passing along higher supplier prices because buyers are loyal to differentiated brand

Differentiation Strategy: Buyers

Bargaining Power of Buyers

- Can mitigate buyers’ power because well differentiated products reduce customer sensitivity to price increases
Differentiation Strategy: Substitutes

**Product Substitutes**

- Well positioned relative to substitutes because
  - Brand loyalty to a differentiated product tends to reduce customers’ testing of new products or switching brands

Differentiation Strategy: Competitors

**Rivalry with Existing Competitors**

- Defends against competitors because brand loyalty to differentiated product offsets price competition
Competitive Risks of Differentiation

- The price differential b/t the differentiator’s product and the cost leader’s product becomes too large
- Differentiation ceases to provide value for which customers are willing to pay
- Experience narrows customers’ perceptions of the value of differentiated features
- Knock-off goods replicate differentiated features of the firm’s products

Examples of innovative differentiation strategies used in the green industry:

- New plant introductions.
- Innovative packaging & labeling.
- Advertising and branding efforts.
- Generic promotions.
- Value-adding services.
new plant introductions
Ellison’s Greenhouses, Brenham, Texas

2008 Pack Trials, Photos by Chris Beytes
While new products have generated interest, the product life cycle has shortened!

- **Introduction**
- **Growth**
- **Maturity**
- **Decline**

**Dollars**

**Sales**

**Profits**

**Time**
innovative packaging
Under the Foot Plant Co.

- Good For Your Sole – a national campaign for the Stepables® brand of plants, a line of groundcovers that withstand foot traffic.

- Under the Foot Plant Co. — “… innovative new plants designed to solve specific landscape challenges.”
“sustainable” branding
Wollemi pine

Here are the top 5 reasons we love houseplants:

1. Plants produce oxygen (O2) and absorb carbon dioxide (CO2), one of the causes of Global Warming (heating up the house too hot).
2. The EPA ranks indoor air pollution as one of the top five health threats, and plants are a natural solution.
3. Since we spend as much as 90% of our lives indoors, we need plants for a healthy environment. NASA research proves houseplants remove up to 75% of indoor air pollutants.
4. Plants reduce stress, fatigue, and headaches, lower blood pressure, and reduce the incidence of colds and flu.
5. Plants in your space make you feel better and help you concentrate so you’re more productive.

Top 10 plants:

1. Ficus
2. Peace lilies
3. Zamioculcas
4. Ferns
5. Schefflera
6. Dracaena
7. Alocasia
8. Drought-tolerant
9. Sun-loving
10. Low-maintenance

www.costafarms.com
ONE WAY AHEAD
No Greenwashing!

generic promotions
Project Evergreen

Project Evergreen’s goal is to promote the qualities of healthy landscapes to U.S. consumers and is funded primarily by turfgrass and lawn-chemical companies.

- civic pride
- community involvement
- cooperation between government, business, private citizens & communities
- economic development
- increased property values
- increased tourism
- decreased vandalism
- feedback from judges
Color Your World ➔ Buy Trees Online

Visit the Tree Store

Pretty in Pink Garden, Hick’s Nurseries

'Gage’s Shadow’ Perilla

Help Us Help Those with Cerebral Palsy

For every ‘Gage’s Shadow’ Perilla sold, Proven Winners will make a donation to United Cerebral Palsy to promote research and provide services for those with cerebral palsy.

cause marketing

Lend a Helping Hand... Plant for a Reason.
Paradox of choice?

- the paradox that more choices may lead to a poorer decision or a failure to make a decision at all. It is sometimes theorized to be caused by analysis paralysis, real or perceived, or perhaps from rational ignorance (when the cost of educating oneself outweighs any potential benefit).

Value added services

Dutch grower Kwekerij Sassen’s created the Snowy Pink Mountain treatment on Avalanche roses.

Ball Seed’s Ball Bling program provides growers with holiday season extenders, such as Ball Bling Irish Green for St. Patrick’s Day.
Value added services

Gainan’s Flowers and Garden Center at a glance

- Owners: the Gainan family
- Number of shops: 2 retail flower shops and 1 garden center
- Location: Billings, Montana
- Opened: 1951
- Shop size: 25,000 square feet at the flagship store in downtown Billings
- Clientele: mostly middle-to-upper-income women ages 29-64
- Average sale of all merchandise: $50
- Average fresh flower sale: $45
- Annual sales sources: 78% flower shops, 22% garden center
- Number of employees: 19 (full-time equivalents)
- Web site: www.gainans.com
External strategic responses...

1. Become a low-cost operator and play the volume (commodity) game.

2. Differentiate in some way - specialize by product, service, customer type, or geographic area.

3. Increase customer value via horizontal and/or vertical coordination.
THE VERTICAL COORDINATION CONTINUUM

Characteristics of "Invisible-Hand" Coordination
- Self Interest
- Short-term Relationship
- Opportunism
- Limited Information Sharing
- Flexibility
- Independence

Characteristics of "Managed" Coordination
- Mutual Interest
- Long-term Relationship
- Shared Benefits
- Open Information Sharing
- Stability
- Interdependence

**NOTE:** The diagonal line represents the mix of invisible-hand and managed coordination characteristics found in each of the five alternative strategies for vertical coordination. The area above the diagonal indicates the relative level of invisible-hand characteristics and the area below the diagonal indicates the relative level of managed characteristics.

Source: Peterson and Wysocki. 1998 AAEA Symposium

Examples of Coordinated Marketing

[bellnursery.com]

[maumeevalleygrowers.com]
Examples of Coordinated Marketing

Meet the Winner

Winner: Baisch & Skinner, Inc., St. Louis
Campaign: St. Louis Flowers Network
What: Radio, print, event promotions, funded by cooperative processing orders from network participants.
Network members: 31 retail florists, 26 growers and manufacturers.
Annual budget: $60,000, plus $25,000 in start-up costs (almost $100,000 over 3 years).
Results: 10,000 stems of roses with head in a bag were distributed; 1,300 potential customers added to database; 300 coupons redeemed at member shops; $40,000 in additional Valentine's Day business from new radio campaign.
Next steps: Get more retailer participants, create and market network designed co-op products.

Examples of Coordinated Marketing

Meet the Winner

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Examples of Coordinated Marketing

What causes alliances to succeed (fail)?

Reasons for failure:
- Not a win-win
- Lack of commitment
- Poor management
- Poor communication
- Individual relationships

Reasons for success:
- Accomplishes goals
- Each party gains
- Respect & trust
- Promises delivered
- Open communication
- Long-term outlook
The reasoning behind coordinated strategies...

- “If we can’t live together, we’re going to die alone.”


- Formal contracts do not make successful relationships. People do.

**RECAP: It’s all about value!**

- Objective value (OV) = \( \sum \) of all benefits
- Perceived value (PV) = \( \sum \) of perceived benefits
- Product price (P)
- Cost of goods sold (COGS)

Relationship between price elasticity and total revenue

Long-run Industry Pricing Equilibrium
Questions?

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Ellisonchair.tamu.edu
### APPENDIX A

**Customer Value Creation Framework**

<table>
<thead>
<tr>
<th>Sources of Value</th>
<th>Functional/Instrumental Value</th>
<th>Experiential/Hedonic Value</th>
<th>Symbolic/Expressive Value</th>
<th>Cost/Sacrifice Value</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Correct/accurate attributes • Appropriate performances • Appropriate outcomes</td>
<td>• Sensory</td>
<td>• Self-identity/worth</td>
<td>• Economic</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Emotional</td>
<td>• Personal meaning</td>
<td>• Psychological</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Social/relational</td>
<td>• Self-expression</td>
<td>• Personal investment</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Epistemic</td>
<td>• Social meaning</td>
<td>• Risk</td>
</tr>
<tr>
<td><strong>Information</strong></td>
<td></td>
<td>Copy and creativity can provide or enhance sensory, emotional, relacional, and epistemic experiences.</td>
<td>Can position a product, help consumers identify with the product, help them make associations, and interpret meaning.</td>
<td>Helps consumers evaluate alternatives; make more informed, faster, and less stressful decisions; helps lower prices by greater competition.</td>
</tr>
<tr>
<td><strong>Product attributes</strong></td>
<td>Products directly provide features, functions, and characteristics that allow performances and outcomes.</td>
<td>They provide sensory (e.g., restaurants, emotional (e.g., Six Flags), relational (e.g., board games), and epistemic (e.g., Disney Land) experiences: augmenting goods (e.g., IKEA) or as the focal product (e.g., Club Med).</td>
<td>Products enhance consumer self-concepts (e.g., Mac cosmetics), provide personal meaning (e.g., Campbell's soup), offer self-expression (e.g., Gap clothes), and provide social meaning (e.g., Hallmark cards).</td>
<td>Product price and augmented product considerations, such as operating costs, assembly, ease of use, warranty, and service terms, help to reduce costs and sacrifices.</td>
</tr>
<tr>
<td><strong>Interactions (with employees and systems)</strong></td>
<td>Sales call frequency and duration, service interactions and responsiveness, and interactions with systems (such as the telephone, billing, or customer support system) provide or enhance desired performances and outcomes.</td>
<td>Service attributes, such as staff politeness, friendliness, or empathy, create sensory, emotional, relational, and epistemic experiences for customers, as do service recovery, customer support, and other systems.</td>
<td>Staff and system interactions can make customers feel better about themselves and provide personal meaning to customers; privileged interactions support status and prestige. Equity policies can enhance sociocultural meaning.</td>
<td>Interactions with people and systems (such as electronic data interchange) add to or reduce the economic and psychological cost of a product and increase or reduce the personal investment required to acquire and consume the product.</td>
</tr>
<tr>
<td><strong>Environment (purchase and consumption)</strong></td>
<td>Furniture, fixtures, lighting, layout, and other decorative features and attributes of the purchasing or consumption environment contribute to functional/instrumental value by enhancing or detracting from product performances and outcomes.</td>
<td>Features and attributes of the purchasing or consumption environment such as music, ambiance, and atmosphere can create sensory, emotional, and epistemic experiences for customers.</td>
<td>Where a product is purchased or consumed can provide personal, social, or sociocultural meaning and can enhance self-worth and expression—a cup of coffee at an outdoor cafe may have more symbolic value than coffee at home.</td>
<td>Contributes to the economic cost of a product (e.g., popcorn at a movie theater), psychological cost (such as finding parking downtown), personal investment (how much searching is required), and risk (personal safety).</td>
</tr>
<tr>
<td><strong>Ownership/Possession Transfer</strong></td>
<td>Correct, accurate, and timely fulfillment processes (such as order taking, picking/packing, and delivery) provide functional/instrumental value.</td>
<td>Fulfilling delivery promises and how a product is delivered (such as the presentation of a meal) can enhance the customer experience—as can pride of ownership and product potency (future potential).</td>
<td>How a product is delivered (such as gift wrapped or via a ceremony) and by whom (such as the manager of a car dealership) can create symbolic value.</td>
<td>Can be enhanced with payment terms, delivery options, return policies, billing accuracy, order tracking systems, access to supplier personnel, and dispute resolution procedures.</td>
</tr>
</tbody>
</table>