A Road Map To a More Profitable Future!

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**Extractive & Manufacturing**

- **MINING**
  - Chemical plants
  - Fertilizer plants
- **OIL WELLS**
  - Petroleum products
- **FISHERIES**
  - Paper mills
- **FORESTRY**
  - Plastics manufacturing
- **PAPER MILLS**
  - Wrapping, containers, packaging materials
- **EXTRACTION MATERIALS**
  - Targeted materials

**Production**

- **NURSERY & GREENHOUSE FIRMS**
- **AG COLLEGES; RESEARCH FARMS**

**Distribution & Landscape Firms**

- **DIRECT MARKETING**
  - Retail nurseries
  - Retail greenhouses
  - Retail chains
  - Supermarkets
  - Discount mass merchandisers
  - Home improvement centers
  - Farm markets
  - Mail order
  - Electronic marketing
- **INDIRECT MARKETING**
  - Brokers
  - Landscape contractors
  - Lawn maintenance firms
  - Re-wholesalers
  - Terminal market firms
  - Co-operators

**INSTITUTIONAL FIRM**

- **HOTELS, RESORTS**
  - Hospitality resorts
  - Recreational
  - Exterior landscaping
- **Malls**
  - Corporate landscaping
  - Public buildings
  - Community parks
  - Churches

**Regulatory**

- Trade Agreements
- Trade Barriers & Import Restrictions
- APHIS/PPQ
- Patents, Royalties & Copyrights
- Environmental Protection
- Pesticide and other chemical regulations

**Imports**

- Colombia, The Netherlands, Ecuador, Mexico, Canada, Guatemala, Australia, Israel, England, Costa Rica, Hawaii, Philippines, Japan, China, Africa

**Exports**

- Market Area to Market Area
- Other states
- Canada
- Europe
Results of Market Complexity

• More markets mean more places for distribution and quality problems to occur
• More producers and suppliers = more competition
• Less individual firm control; limited market influence
• More of a need for market know-how and knowing your market!
• Increased relationship risk!

State of the Industry

Where are we now?
U.S. nursery and greenhouse grower cash receipts, 1994-present (1,000 dollars).

Industry has shown recession resistance and a strong correlation to housing starts.


- In the 1970’s: **13.64%**
- In the 1980’s: **9.91%**
- In the 1990’s: **4.64%**
- In the 2000’s: **3.56%**

The Cost-Price Squeeze for Growers

Retail consolidation
Fewer buyers
Oversupply

• Product tags/labels
• JIT delivery, setup & care
• Barcode/pre-pricing
• Returnable shipping equipment
• Pay-by-scan
• Take back unsold product
• Consistent pricing
• Continuous volume replenishment
• Rising input costs (e.g. fuel)
• Labor availability

Nursery and greenhouse crops consumption by household, 1994-2006.
Total U.S. household lawn and garden retail sales, 1999-2006.

Source: National Gardening Surveys, NGA.

Total U.S. household lawn and garden retail sales vs. lawn/landscape services, 1999-2006.

L&L services = $44.7Bn in 2006

DIY L&G activities = $34.1Bn in 2006

Source: National Gardening Surveys, NGA.
Trend in Total U.S. Housing Starts

The Cost-Price Squeeze for Service Firms

- Retail price pressure
- Lowball competitors
- Oversupply

Landscapers

- Rising fuel costs
- Labor costs (wages) and availability (H2B)
- Increased costs of materials (top soil, mulch)
- Increased workers’ compensation rates
- Cost of health care insurance
- Increased equipment costs
- Regulatory compliance (air & noise)
Signs of a maturing industry

✓ Slowing demand breeds stiffer competition.
✓ More sophisticated buyers demand price alignment.
✓ Greater emphasis on cost reduction and service.
✓ Product innovation & new end uses are harder to come by.
✓ Industry profitability falls due to decreasing margins.
✓ Mergers and acquisitions reduce number of industry rivals.

Future of the Industry

Where are we headed?
Economic recession ahead???

- High oil prices ($100/barrel).
- Housing market adjustments.
- Credit market recalibration.
- Low dollar.
- Falling stock market.

Trend in Consumer Confidence
Mega Trend #1: Outdoor Living

- Homeowners are now viewing their inside and outside space as a whole.

- Backyards and patios now serve as playgrounds, living rooms, home offices and kitchens.

Source: Garden Media Group

Mega Trend #1: Outdoor Living

40% of the Luxury Market said this year they plan to invest in a major outdoor living project.

Some 45% spent on average $1,000 on luxury garden “enhancements” for their yard.

Look for plasma screen televisions, Viking grills, and outdoor fireplaces complete with art over the mantel.

Source: Garden Media Group
Mega Trend #1: Outdoor Living

“The demand for outdoor living goods and services has only just begun to blossom.”

2005 Survey of Luxury Consumers
Unity Marketing

Source: Garden Media Group

• Outdoor living products and services, reached $62.5 billion in 2004

• Plants accounted for only 31% of the total market in 2004

Source: Garden Media Group
Mega Trend #9: Eco Chic

Gardening With Nature

• Healthy living trend is gaining force in all aspects of our lives.

• Newsweek says environmentalism “appears to be on the upswing.”

• 66% of U.S. consumers reported in 2004 that they use organic products at least occasionally. That’s up from 55 percent in 2000.

• The Organic Trade Association says annual sales of organic products in the US leapt from $1 billion in 1990 to $20 billion in 2005.
In keeping with the healthy living trend, consumers are seeking sustainable gardening principles.

As a result, there is a shift to get plants off chemicals and on a healthier, holistic lifestyle.

National Gardening Association reports that some 5 million American families are using all-natural gardening methods

NGA predicts that the demand for earth friendly products could “quadruple in the next few years.”
Your future?

What do YOU need to do to minimize marketing risks and compete successfully in a maturing market?

Internal responses...

1. Continue to tear apart the value chain and reengineer to reduce costs (lean flow).

2. Analyze resources & capabilities to determine competitive advantages.

3. More effective financial management (cash flows, benchmarking, etc).
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.
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.

Examples of cost minimization strategy

Many firms are becoming increasingly automated leading to improved cost performance.
As firm size increases, economies of scale and scope lead to decreasing per unit costs.

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 dollars as thin as they can be stretched. Lean manufacturing is important, but will only take us so far.
Therefore...

• 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!

Examples of differentiation strategies

• New plant introductions.
• Innovative packaging & labeling.
• Advertising and branding efforts.
• Generic promotions.
• Value-adding services.
While new products have generated interest, the product life cycle has shortened!
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.

• Each variety has its own 7-by-11-inch display card with care information and each plant is accompanied by the foot-shaped Stepables® tag.

www.plantdelights.com
“sustainable” branding

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).
THE VERTICAL COORDINATION CONTINUUM

Spot/Cash Market | Specification Contracting | Strategic Alliances | Formal Cooperation | Vertical Integration

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 are below the diagonal indicates the relative level of managed characteristics.

Source: Peterson and Wysocki. 1998 AAEA Symposium

Examples of Coordinated Marketing

bellnursery.com

Maumee Valley Growers
Choose the Very Best.

kvpg

Examples of Coordinated Marketing
Examples of Coordinated Marketing
Importance of marketing efforts

Marketing efforts
Prices of substitutes
Customer’s incentive to purchase: (PV-P)>0 (economic utility)

Firm’s incentive to sell: (P-COGS)>0

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

(a) Typical Firm

(b) Total Market

Making Cents

OF GREEN INDUSTRY ECONOMICS

Thursday, January 31, 2008

Green roofs generate green dollars
Green roofs are not only a significant part of sustainable development but represent a potentially significant market for Green Industry products and services. Dr. Brad Rowe, Associate Professor in the Dept of Horticulture at Michigan State recently presented a seminar on this timely topic. Click here to view his presentation.

Posted by Dr. Charlie Hill at 10:21 AM 0 comments Links to this post

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Economic indicators point to uncertain times in 2008

Ellisonchair.blogspot.com
Questions?

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