

Horticultural Industry Drivers

Hilton Head Island, SC

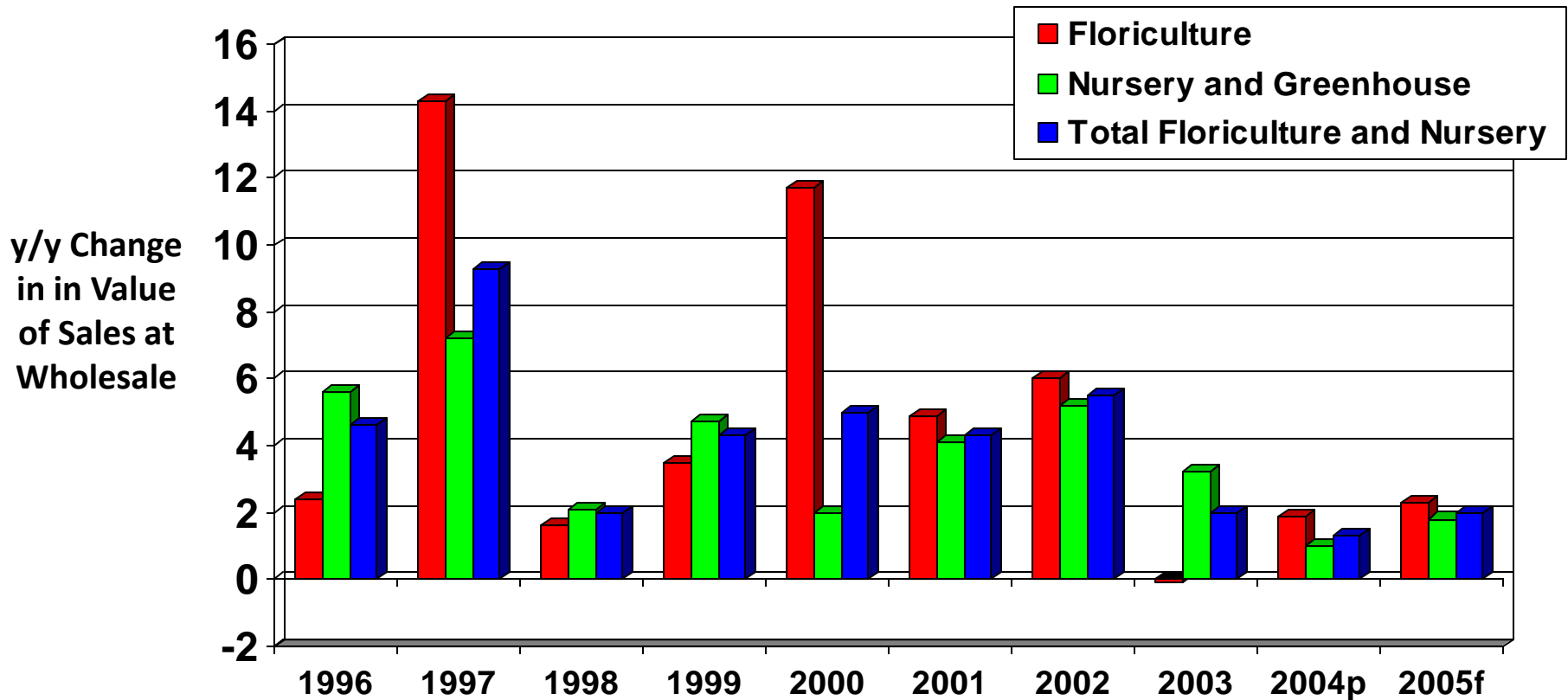
October 13th, 2005

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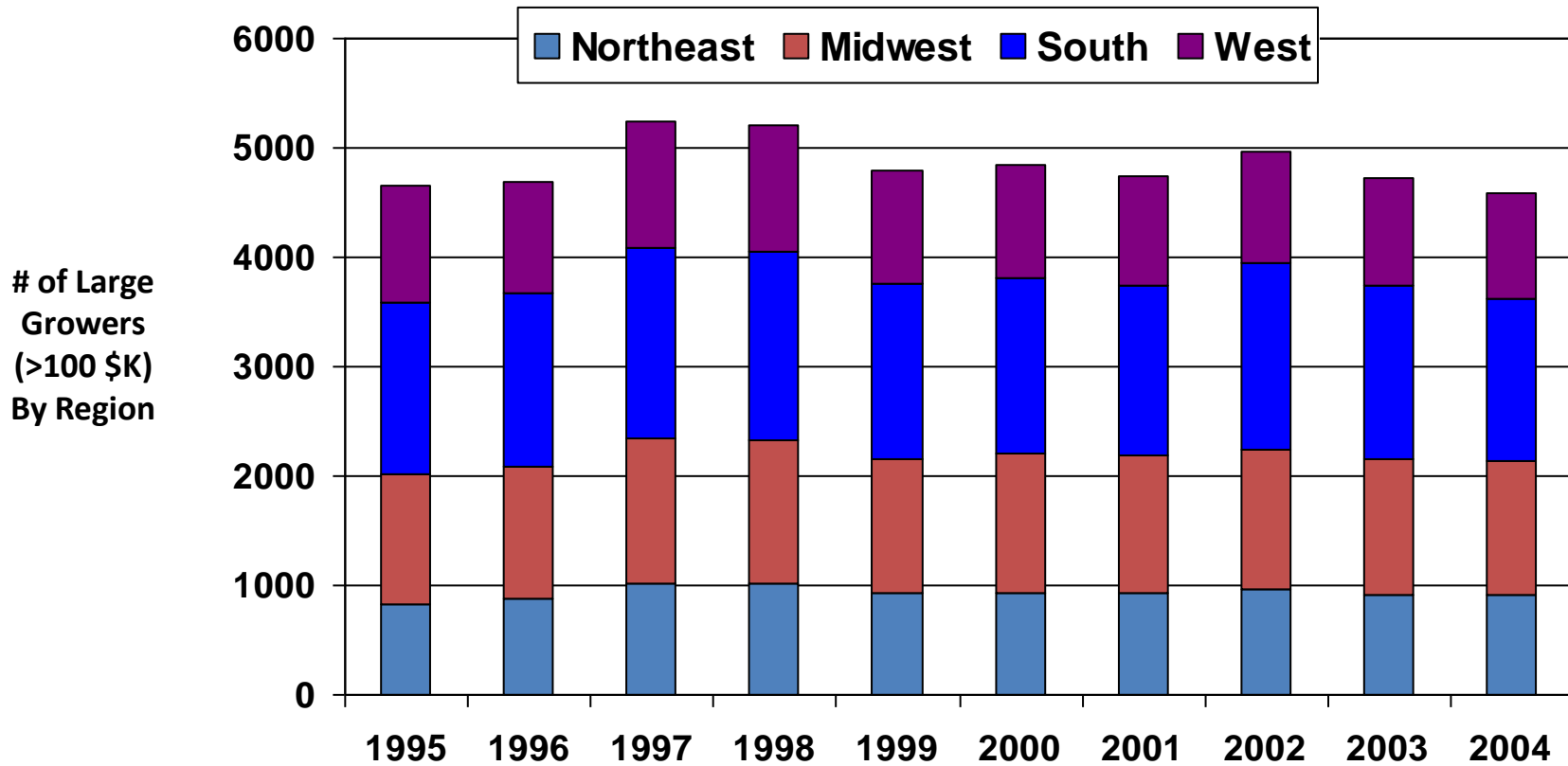
Key Hort Industry Issues

1. Growth
2. Demographics
3. Energy
4. Imports
5. Retailers

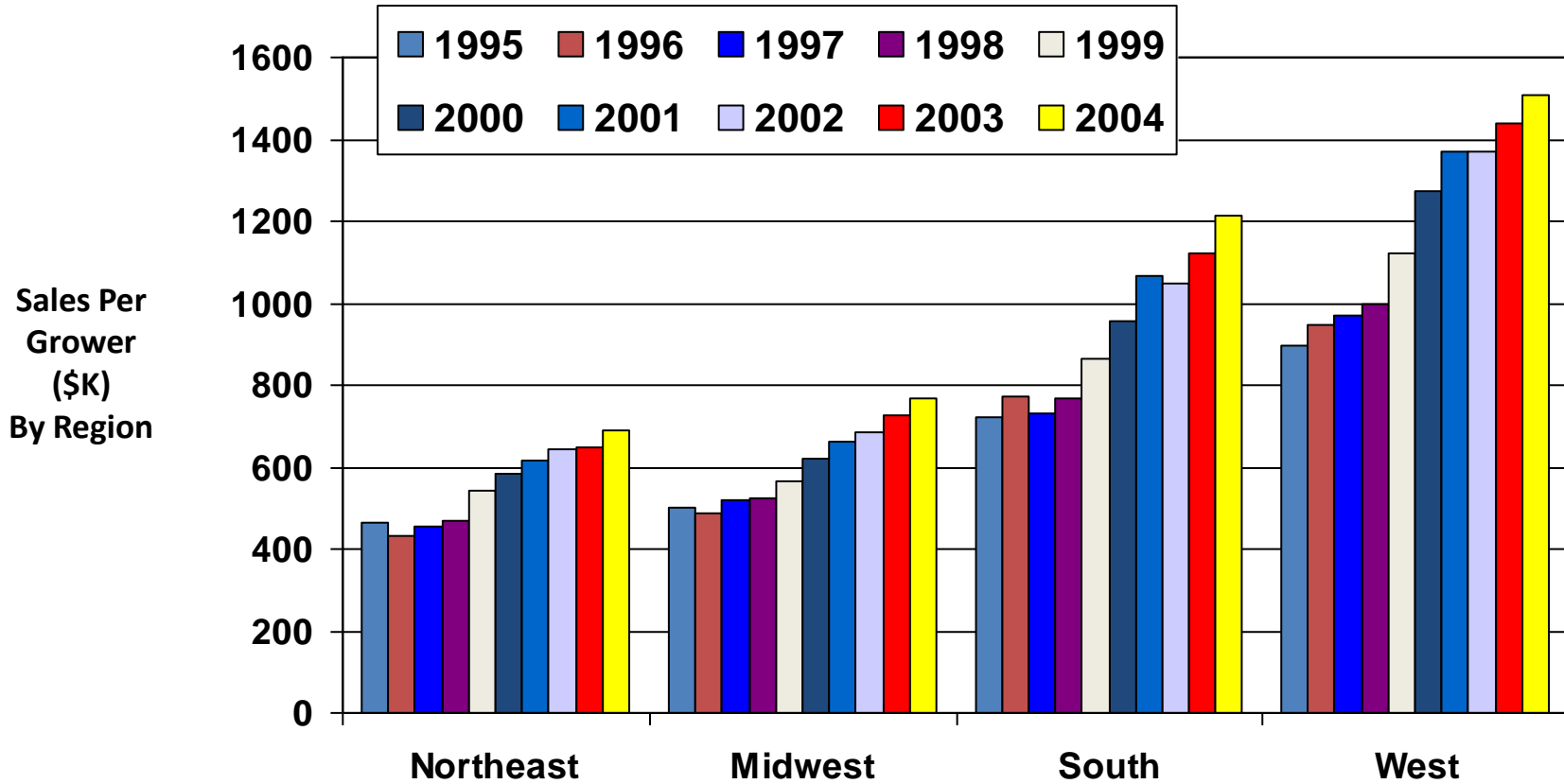
Growth Rate of Floriculture and Nursery Markets



Grower Numbers Are Declining...

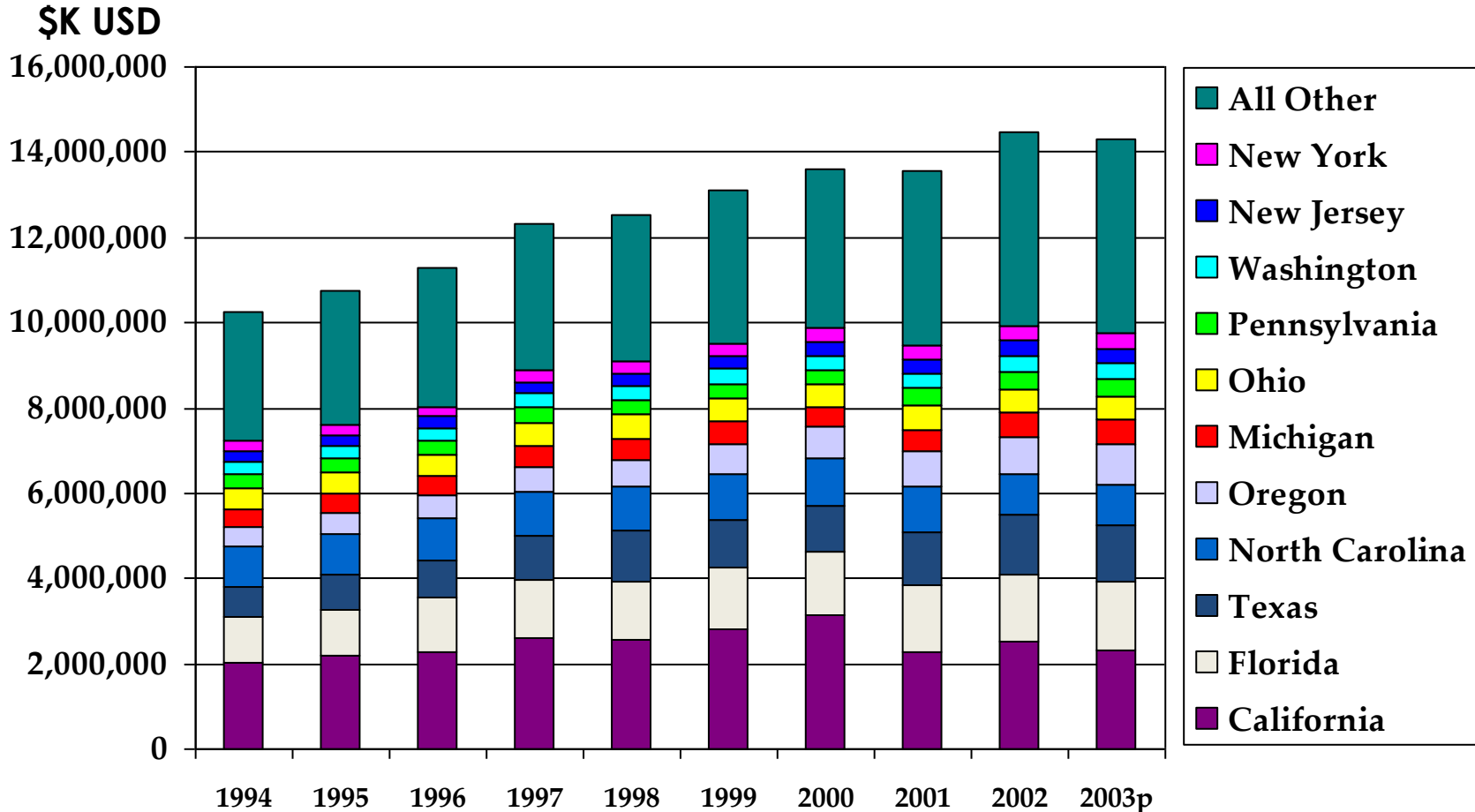


...But Size is Increasing

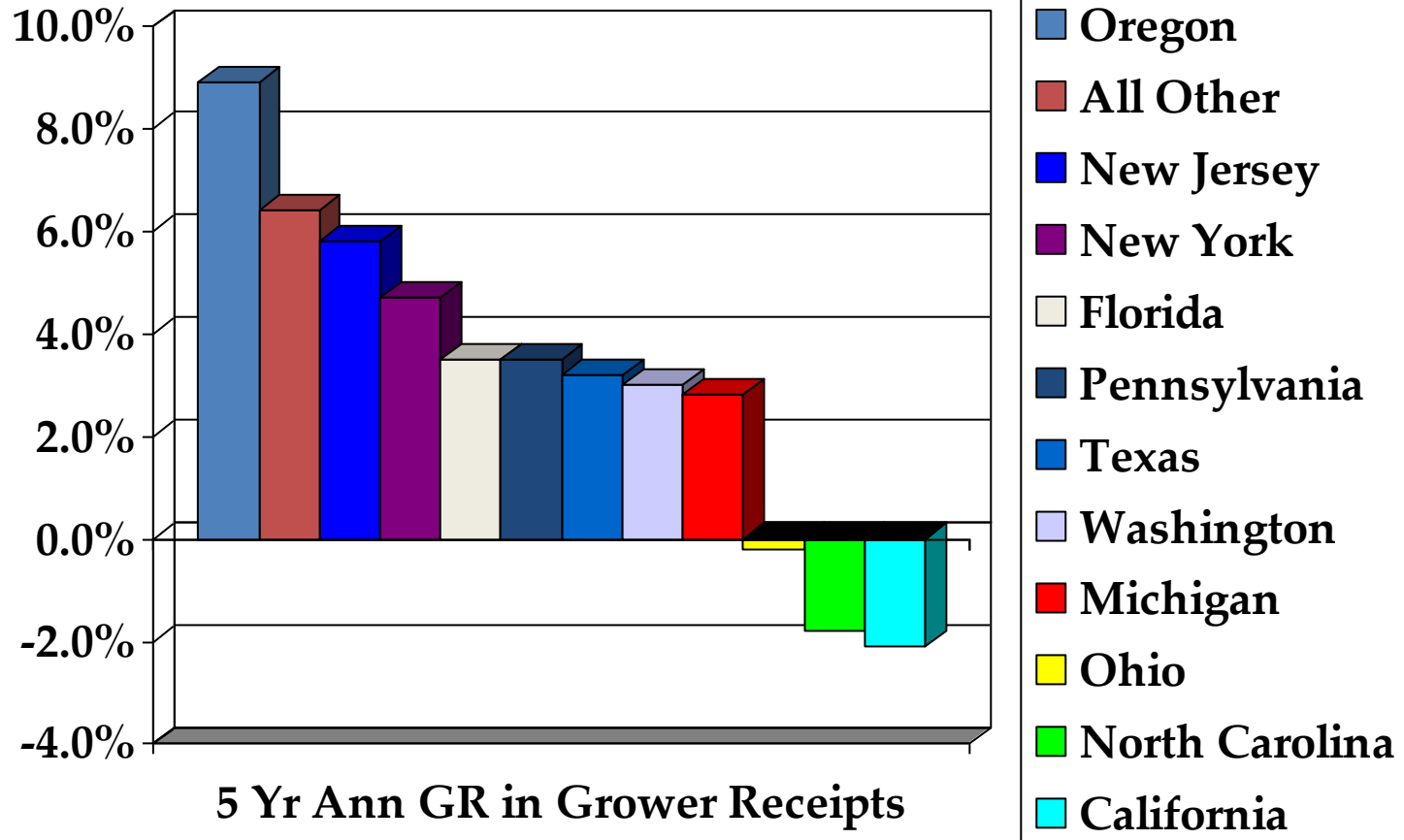


Greenhouse and Nursery Crops

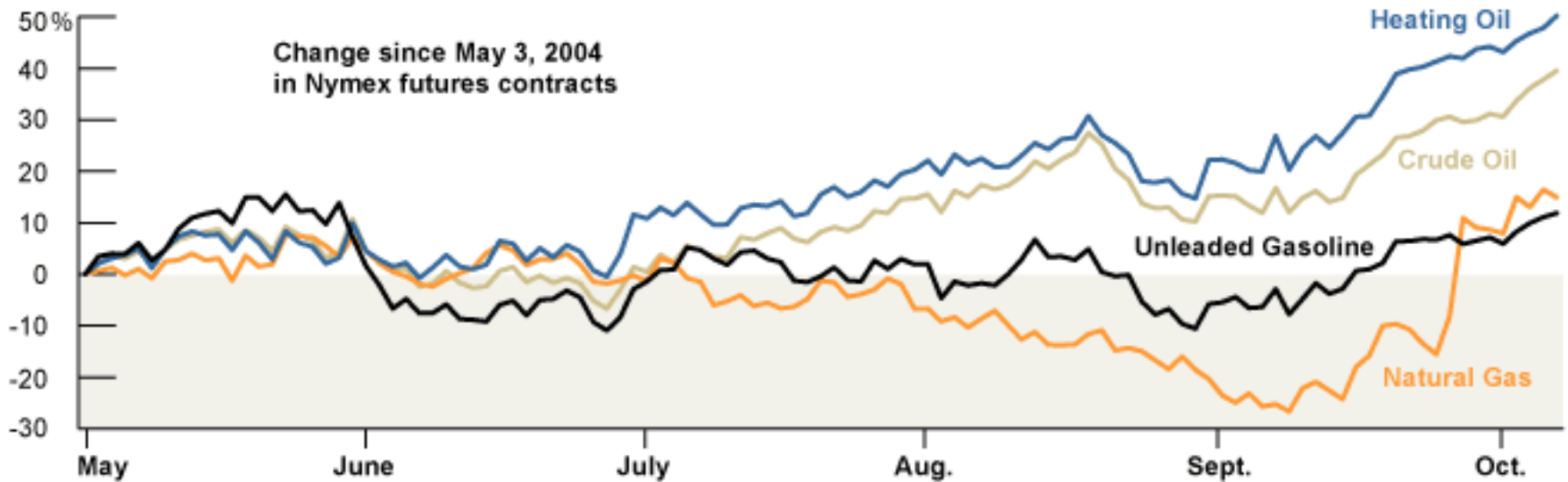
Grower Cash Receipts by State



Greenhouse and Nursery Crops Five Year Average Annual Growth by State



2004 Fuel Price Increases



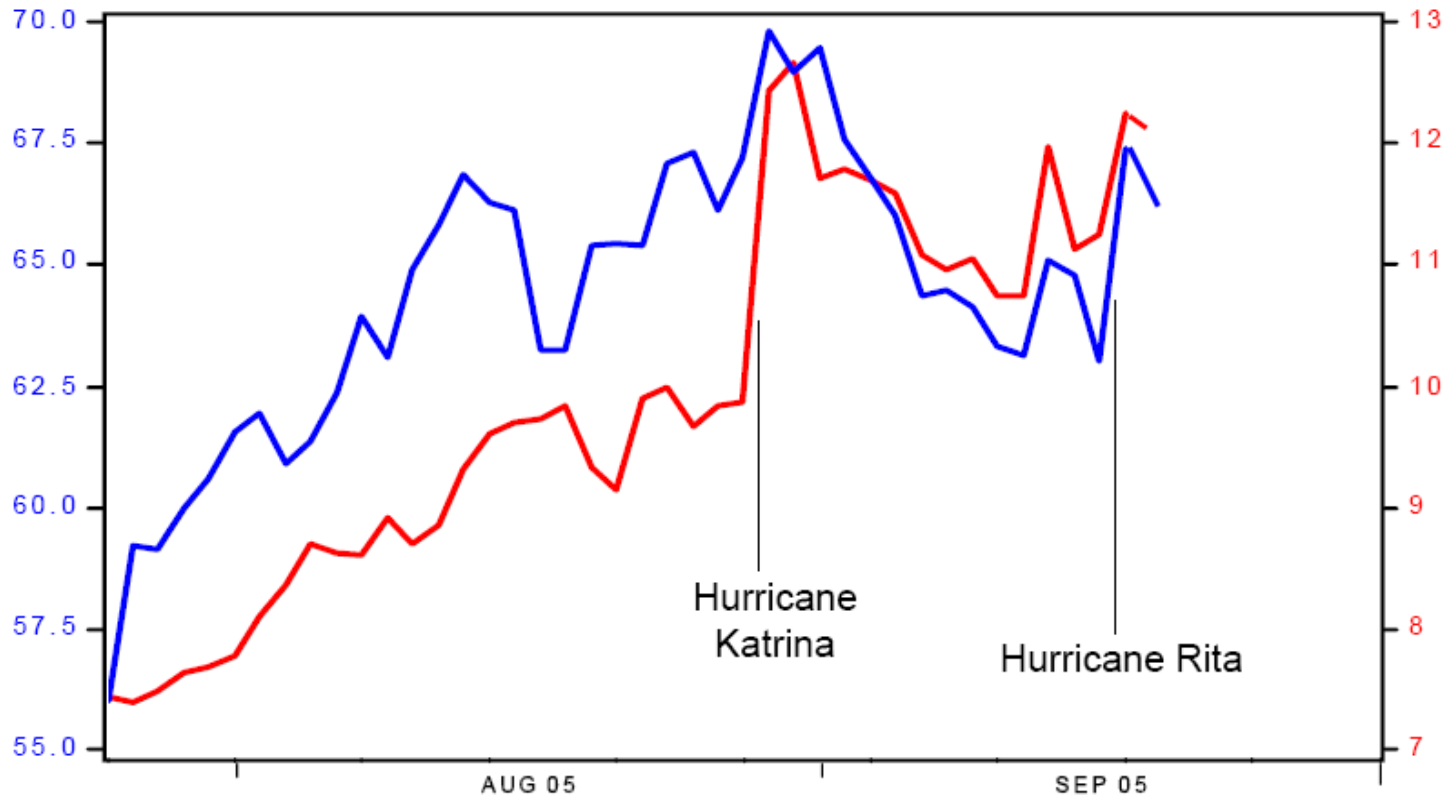
Source: Thomson Datastream

Wall Street Journal 10.13.04

U.S. Oil and Natural Gas Prices

Domestic Spot Mkt Price: West Texas Intermediate, Cushing
\$/Barrel (l)

Natural Gas Price, Henry Hub, LA
\$/mmbtu (l)

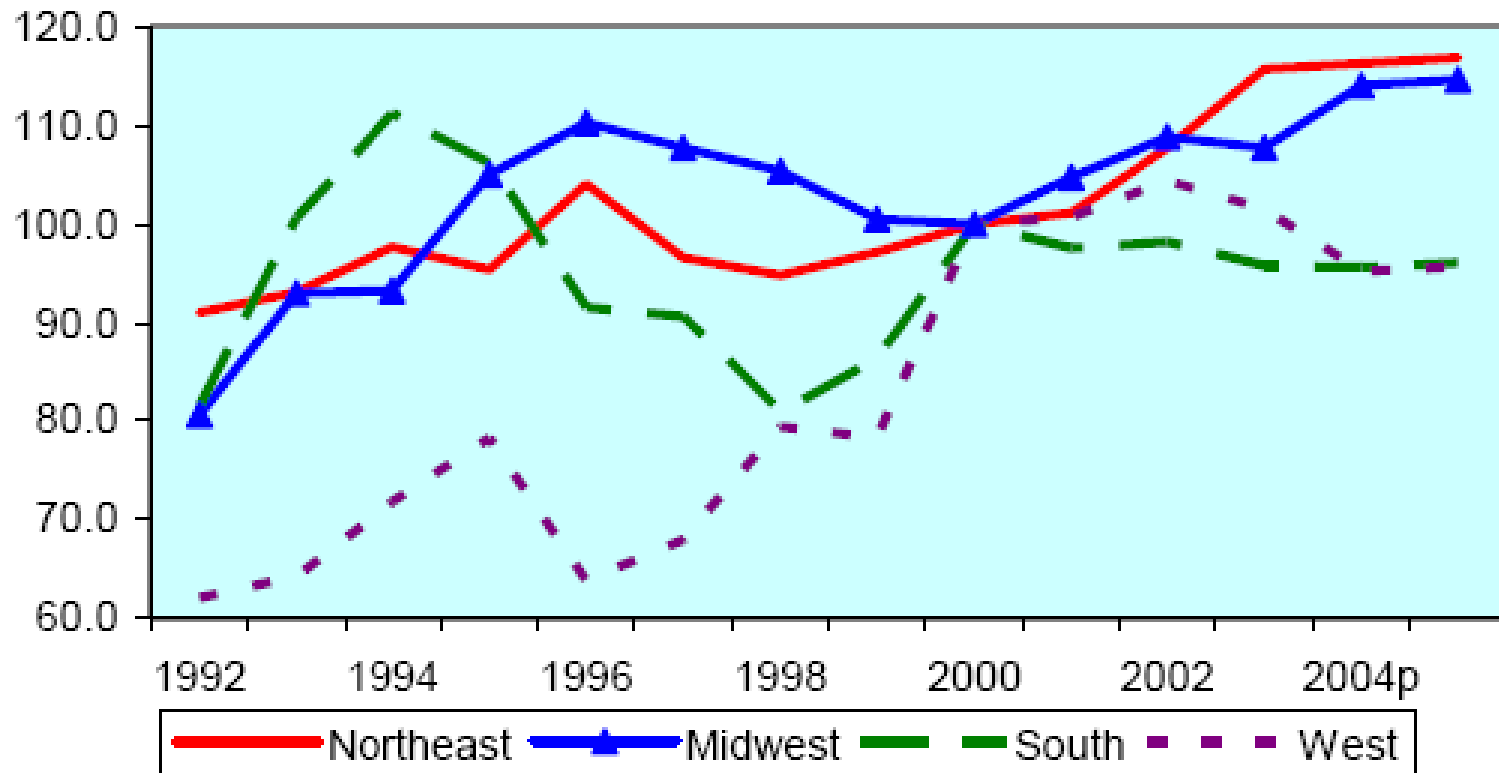


Source: Wall Street Journal /Haver Analytics

Energy Driven Price Inflation?

Price inflation of potted flowering plants since 2000 is higher in the Northeast and Midwest

2000=100



Source: *Floriculture Crops*, NASS. 2004 is projected.

Imports

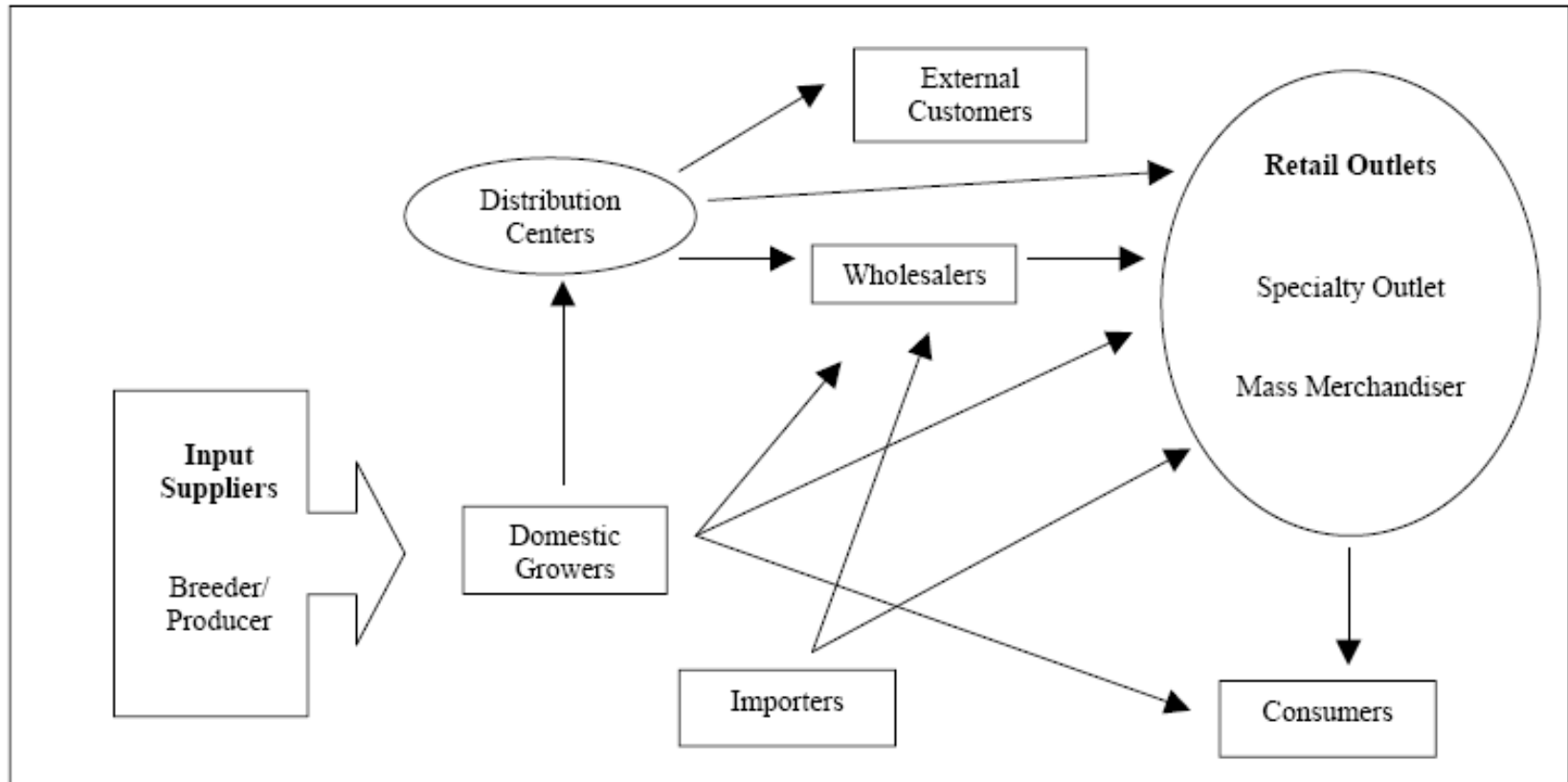
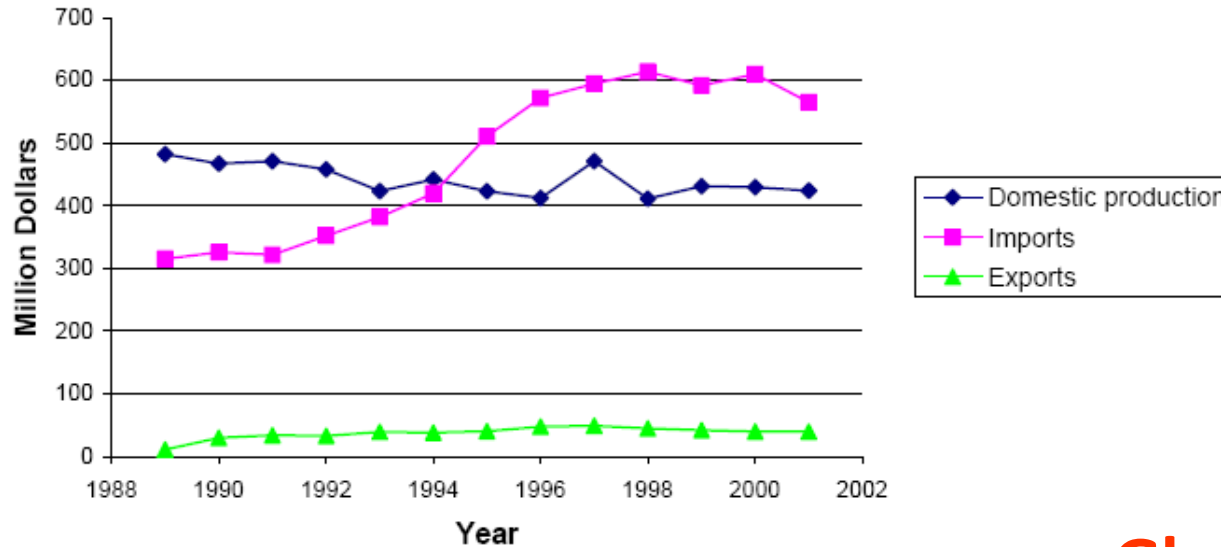


Figure 4. Marketing chain for cut flowers in the United States. Source: SAF, 2000.

Cut Flower Imports

Value of U.S Cut Flower Production and Trade



**Globalization at
Work!**



The Shift to Higher Value Varieties (Less Import Competition)

Growing US Production

- Delphinium
- Larkspur
- Gerbera Daisy
- Gladioli
- Iris
- Lilies
- Orchids
- Tulips

Declining US Production

- Roses



- Chrysanthemum

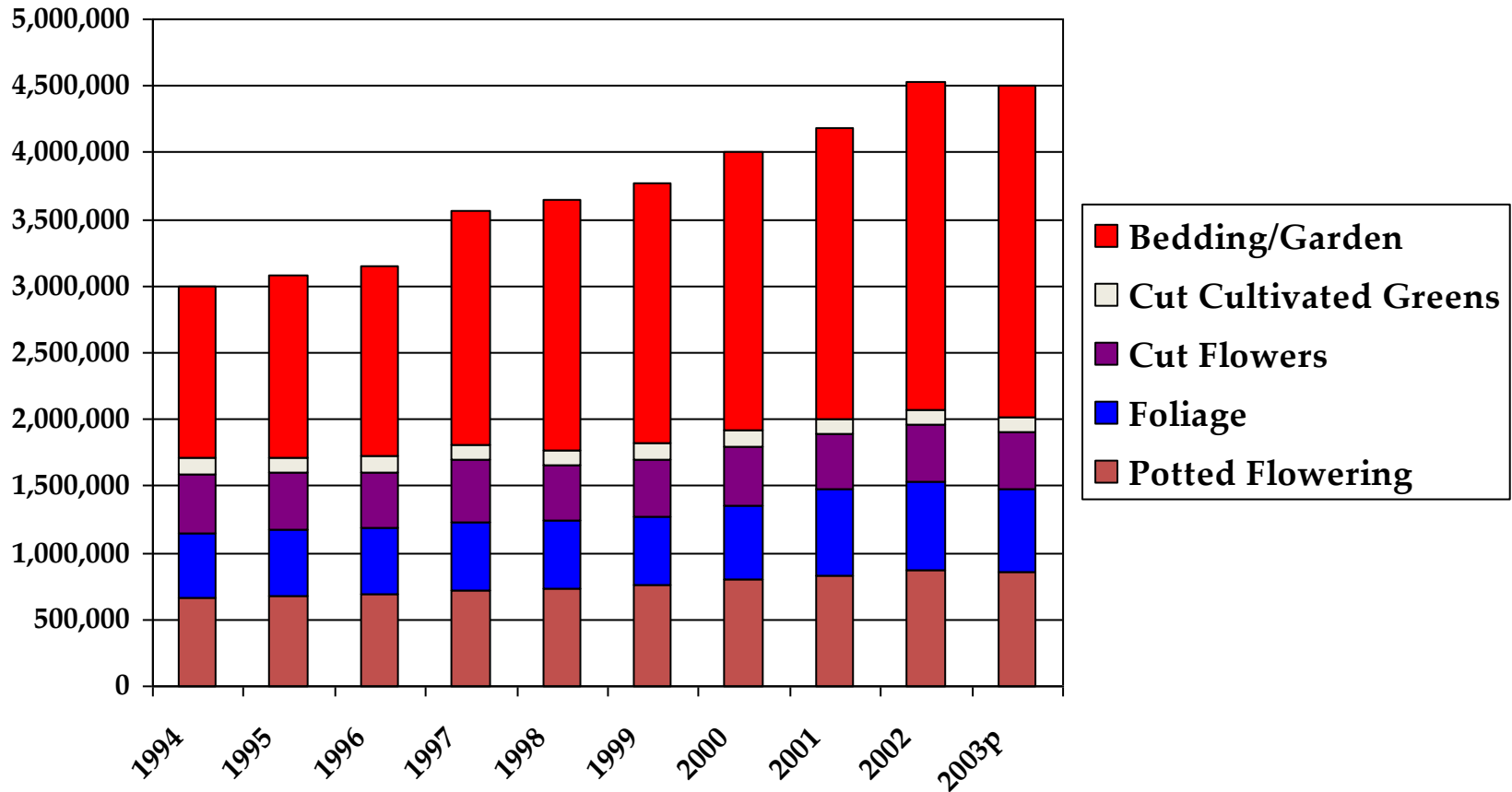


- Carnations



Commercial Floriculture Crops

Grower Cash Receipts by Type of Crop



Mass Market Retailers

Aggressively Moving Into Nursery



- Supermarkets
 - Primary Position in Cut Flowers
 - Big in Potted Flowering Plants
 - Holiday Flowers and Gift Plants
 - Some Foliage Plants
 - Seasonal Bedding/Garden Plants



- Discount Stores (WMT, TGT)
 - Bedding/Garden Plants in Spring
 - Potted Flowering Plants for Easter and Christmas
 - Some Foliage Plants
 - Superstores Often Include Cut Flowers



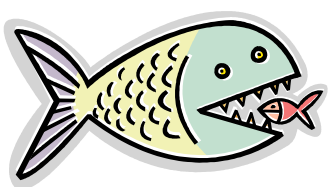
- Home Improvement (Lowe's, Home Depot)

- Bedding/Garden Plants
- Trees and Shrubs (Extension of Hard Goods)
- Potted Flowering and Foliage Plants in Established Garden Centers
- Seasonal Lilies and Poinsettias



Impacts of Mass Market Players

- **Retail Price Erosion**
 - Low Consumer Knowledge Allows Generic Selection of Dominant Colors and Varieties, Especially as Loss Leader
 - Retailers Vary Greatly in Selection - Force Multiple Channel (Price) Shopping
- **Scale Driven Consolidation**
 - Chain Buyers Often Consolidate Suppliers
 - Placing Limits on Who Producers Can Sell
 - Options Dwindling Where Chains Dominate
 - Many Producers Have 50-100% of Business with Single Customer
 - Growers Producing for Mass Marketers Produce Large Quantities of Limited Number of Outputs Under Controlled Circumstances
 - Mechanized Open Field Production – Fewer \$/Ac. More “Ag” Driven
- **Wholesale Price, Not Quality Focus**
 - Supermarket Chains Increasing Doing On-line Reverse Auctions
 - Reinforces Meeting Minimum Standards at Lowest Possible Cost
 - Some Pushing for Pay-by-Scan Transactions
 - Forces Producers to Accept All Shrink, Increase Working Capital
- **Aggressive Importation**
 - Retailers Facilitate Offshore Producer Growth
 - High Volume, Low Price Focus
 - Buying Many Other Lines from Abroad



Summary – Hort Industry Issues

- Growth in **Domestic Demand Weak**, Despite Housing Boom
- **Fewer, Larger Customers**, But More **Geographically Diverse**
- Energy Prices will **Raise Northern Nursery CODB**
- **Mass Market Retail Chains and Imports Will Continue to Gain Share**; **Winners Will Differentiate**

6. Options for Action

Nursery

A purple petunia at the Wal-Mart store in Mohegan Lake, N.Y., sells for 26 cents. A short drive away, Matterhorn Nursery in Spring Valley, N.Y., sells the same purple petunia for more than triple Wal-Mart's price -- 83 cents.

Yet on Mother's Day, the unofficial kickoff to gardening season in the area, long lines of customers at Matterhorn waited to pay a premium for their flowers and shrubs. The Wal-Mart nursery was nearly empty.

How does this happen?

Quality

"I'd rather pay the extra," said Donna Robbins of Stony Point, N.Y..... "If you pay half the price, you get half the quality."

Differentiation

Petunias may seem like a commodity, indistinguishable without their packaging, but Matt Horn, owner of Matterhorn Nursery, has figured out how to produce and merchandise plants and other garden supplies so customers drive miles out of their way to pay higher prices. Even a **bag of dirt** from Matterhorn is special: It **contains composted kelp, shellfish shells and barnyard manure** and sells for \$12.98. At Wal-Mart, the same amount of humus and manure costs about \$4.

Variety

Nurseries run by discount stores like Home Depot Inc. or Wal-Mart Stores Inc. keep costs low by stocking a huge volume of a limited number of varieties. Matterhorn offers petunias in miniature, giant, trailing and spreading varieties -- all in several colors. "Everything you can think of is here," says Karen Bell of Stony Point.

Knowledge

At large chain stores, employees may not know the difference between floribunda and grandiflora petunias; most of Matterhorn's 60 staff members are **knowledgeable gardeners**.

"Most **independent garden centers are run by plant people learning about retail**," says Carol Miller, editor of Garden Center Merchandising and Management, a monthly trade publication based in Fort Worth, Texas. "Most **mass merchants are business people learning about plants**." Matterhorn's annual revenue of \$3 million puts it in the top 10% of independent garden centers, according to Ms. Miller.

Buying Experience and Presentation

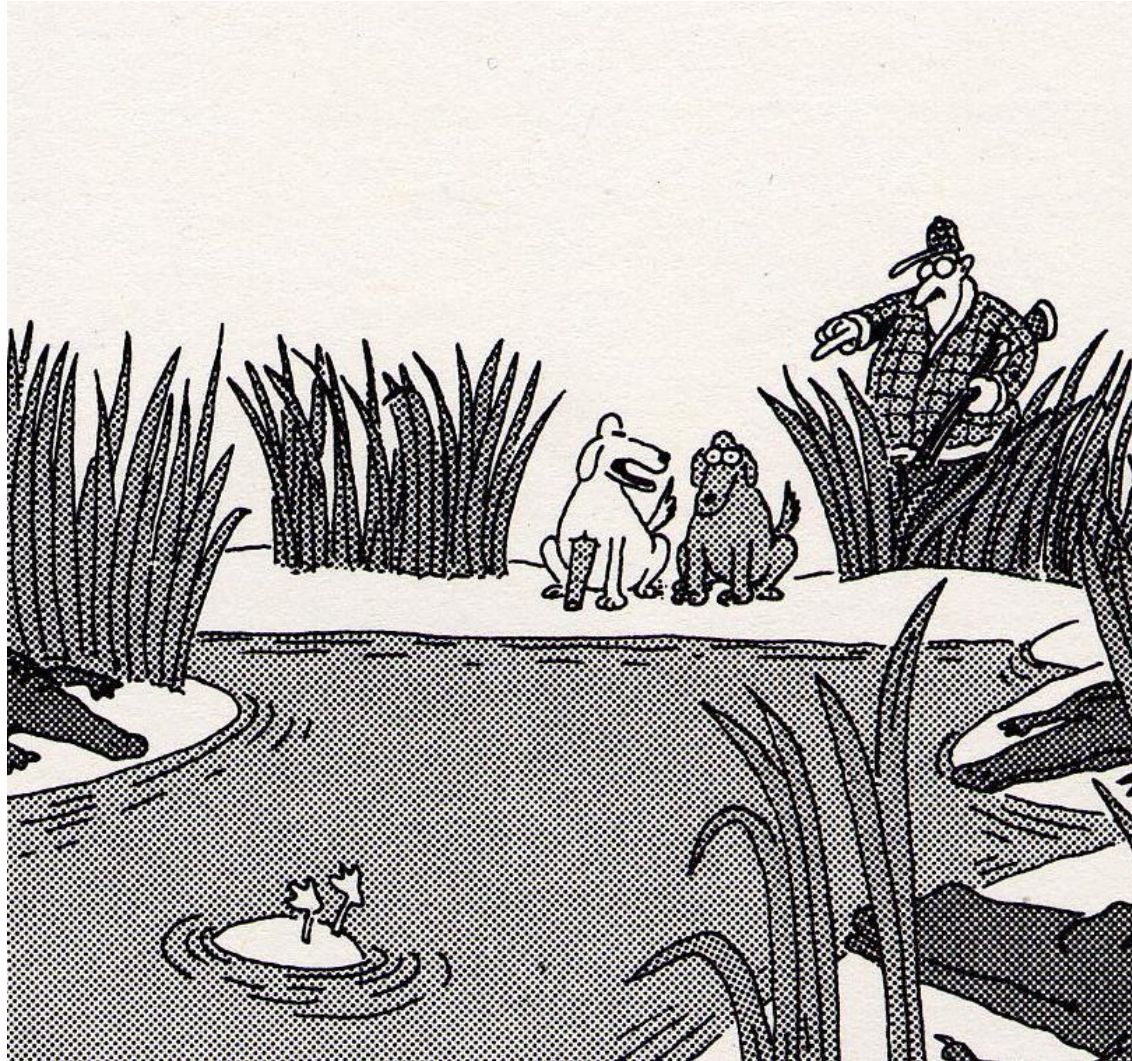
"I think of the higher prices as an entry fee, because **coming here is like coming to a park,**" says Judy Lauster of Westwood, N.J. **"It's all so beautiful."** Matterhorn's 18 wood-and-stone buildings sprawling over 20 acres give the nursery what Mr. Horn calls **"a village effect."**

Indeed, Matterhorn has been called the **"Disneyland of garden centers"** because of its variety of eye-catching displays. There's an aquatic center with koi and water lilies; a **bird pavilion** with feeders, baths and cages; a gift shop; a florist; 10 acres of **display gardens**; a **nature walk**; and a cafe. Mr. Horn has even applied for a license to sell wine. And starting in June, Matterhorn will become the site of the **David Austin Rose Garden** in America, a three-acre showcase of roses bred by the prestigious English grower.

The Horns display their products with whimsy and style, blending colorful pottery and English watering cans with mosquito killers and weed wackers. Odd items, such as faucet fixtures or sundials, are tucked into every corner. "We're selling a thing of beauty, but **90% of garden centers are dumps,**" says Mr. Horn.

Diversification

Until the past decade, most nurseries were **mom-and-pop greenhouses that specialized in annuals** (plants, like petunias, that die when the temperature falls below freezing). They might have a small selection of fertilizers or gloves, but most of their revenue came from plants. The selling season lasted two months -- May and June -- which meant their stores were mostly idle the rest of the year except for a few holiday periods. Recently, however, many garden centers have added **hundreds, even thousands, of new products**, from table linens to skin lotions, gargoyles and gas grills. **"They're selling a whole garden lifestyle, not just plants and herbicides,"** says Ms. Miller.



“You’re up, Red.”