# Where Have We Been in 2011 and Where Are We Headed?©[1]

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The green industry is comprised of wholesale nursery and floriculture (greenhouse) growers; landscape service providers (e.g., architects, design/build firms, contractors, and maintenance firms); retail garden centers, home centers, and mass merchandisers with lawn and garden departments; and marketing intermediaries such as brokers and horticultural distribution centers (re-wholesalers). This outlook paper will continue to use the term "green industry" but most of the comments herein refer specifically to nursery and greenhouse growers.

## RECENT HISTORY IN THE GREEN INDUSTRY REVISITED[1]

Prior to the recession, total economic contributions for the United States Green Industry in 2007, including regional economic multiplier effects, were estimated at $175.26 billion in output (revenue), employment of 1.95 million fulltime and part-time jobs, labor earnings of $53.16 billion, and $107.16 billion in value added impacts, representing 0.76% of U.S. Gross Domestic Product in 2007.

Economic contributions for the United States Green Industry:

- For the Production and Manufacturing Group, including Nursery and Greenhouse Production and Lawn and Garden Equipment Manufacturing sectors, total output impacts were $52.57 billion, employment impacts were 469 thousand jobs, earnings impacts were $13.14 billion, and value added impacts were $32.13 billion.
- For the Horticultural Services Group, Landscape Services, and Landscape Architectural Services sectors, total output impacts were $92.83 billion, employment impacts were 1.12 million jobs, earnings impacts were $30.15 billion, and value added impacts were $54.52 billion.
- For the Wholesale and Retail Trade Group, total output impacts were $29.86 billion, employment impacts were 358 thousand jobs, earnings impacts were $9.87 billion, and value added impacts were $20.51 billion.
- The largest individual industry sectors in terms of employment and value added impacts were:

[1] Since USDA-ERS discontinued its data collection regarding nursery and greenhouse crops, the only nursery-related data available is the Nursery Crops Survey conducted by USDA-NASS (last conducted in 2006) and the Floriculture Crops survey (conducted annually but only reflecting data collected from 15 states). Another helpful resource is the National Nursery Industry Survey and the Economic Impact Study conducted by the Green Industry Research Consortium, which is available online at: <ellison-chair.tamu.edu> (under the marketing and economics emphasis area).

- Landscaping Services (1,075,343 jobs, $50.28 billion),
- Nursery and Greenhouse Production (436,462 jobs, $27.14 billion),
- Building Materials and Garden Supplies Stores (190,839 jobs, $9.71 billion).

■ Other industry sectors with employment impacts exceeding 10,000 jobs were:

- Miscellaneous Store Retailers (59,829 jobs),
- Landscape Architectural Services (48,085 jobs),
- Lawn and Garden Equipment Manufacturing (32,230 jobs),
- General Merchandise Stores (39,433 jobs),
- Merchant Wholesalers of Durable Goods (19,218 jobs),
- Merchant Wholesalers of Nondurable Goods (15,732 jobs),
- Food and Beverage Stores (14,074 jobs),
- Non-store Retailers (12,170 jobs).

Obviously, these levels of economic contributions by the green industry are impressive. However, nursery and greenhouse growers who experienced remarkable growth in sales and profits for most of the decade prior to the recession now face stagnant demand, with prospective buyers only willing to purchase product only if and when needed. Maintaining liquidity (meaning cash or credit available to handle daily operations) is a key industry challenge. The decline in sales and increased expenses to maintain nursery and greenhouse products combined to reduce cash reserves and forced many growers to attempt to source additional credit from lenders or suppliers.

The USDA/NASS (National Agricultural Statistics Service) has not generated a Nursery Crops report since 2006 and this has left a significant void in the economic data available for the nursery sector. Greenhouse-related data is available, however, with USDA releasing their latest Floriculture Crops Summary on April 21, 2011. The 2010 wholesale sales value increased 3.4% from 2009 for the 15-state survey to $4.13 billion. California was the leading state, accounting for $1.01 billion, or 24.4%, of the total survey sales. California's sales increased 8.1% from 2009. Florida remains state Number 2, with $809.6 million in sales. Florida sales declined 0.7% from 2009. The 2010 survey tallied 6,126 producers in the 15 states. This was down 6.9% from the revised 6,561 total.

Total wholesale value for firms with at least $100,000 in sales was also up 3.3% from 2009 to $3.98 billion. For these firms the wholesale value of bedding/garden plants — including perennials — was up 4.1% from the previous year to $1.91 billion. Sales of flats increased about 3%, sales of potted bedding/garden plants increased about 5% (potted annual sales were up 7%, while potted perennial sales were up almost 3%), and flowering hanging basket sales were up about 1% from 2009 levels.

Sales of potted flowering plants, at $668.5 million, were up 4.0% from 2009. Foliage plant sales were up 2.5% to $571.1 million. Cut flower sales were up 3.8% to $375.2 million. Sales of cut cultivated greens were up 5.8% from 2009 to $78.3 million. Total value of propagative materials and prefinished plants declined 1.2% to $376.4 million. Total finished floriculture sales were up 3.8% from 2009 to 2010 to $3.47 billion, mainly reflecting the strong spring bedding season in 2010.

## OUTLOOK FOR THE REMAINDER OF 2011 AND NEXT YEAR

In general, plant availability was greatly reduced going into 2011 from 2010 levels. Because of this, landscape service providers and retail garden centers found that locating material to book for 2011 was more challenging. With the decline in plant inventory numbers, however, pricing is starting to go up.

Plant availability across the industry has reduced for several reasons. First, we are seeing nurseries both large and small going out of business altogether. The ones that remain have planted smaller crops or opted to not plant a crop at all during 2010 and 2011. I have not toured a single nursery/greenhouse grower that has a larger or even an equal quantity of inventory at this point compared to last year. At best, individual nursery inventory is down 25% to 30% and some firms have indicated they are down as much as 80%.

Perhaps of even greater concern is that many plants have remained on the growing location too long and have passed the stage of salable quality. Dumping significant numbers of old material has been common in the last 2 years. In some cases the nursery or greenhouse did not have the labor remaining to dump the plants and have simply turned off the water. Those plants are dead in the growing space. In several nurseries, small areas of ground cloth have been removed and vegetable gardens now occupy that irrigated space. Nurseries that specialize in propagating and selling liners and rooted cuttings for other growers to grow reported lower than expected orders for material that was to be delivered in this year's planting season. This will contribute to a possible continuation of the shortage well into 2012.

As mentioned, plant quality is of a bigger concern. Plants have been held too long in hopes of making a sale at some point in the future. Those plants are no longer viable for the retail trade and in many cases simply need to be dumped. Some growers have planted, yet not fertilized for various reasons ranging from lack of labor to put the fertilizer out to not having the money available to buy the fertilizer. Those plants have grown much more slowly and will not be ready for sale in Spring 2012. Older and unfertilized plant material will result in fewer plants that can be purchased for retail sales. Additionally, some plants cannot be purchased due to the overwhelming weed pressure that has resulted from the lack of labor and money to hand weed and or put out herbicide. All of these factors can be summarized by the following comments that I have heard across the industry this year:

- "I am not going to plant anything until I see the market turn."
- "We are not going to spend the money to fertilize until someone orders the plants."
- "I need several days' notice to load a truck so that I can find some help; we do not have any labor left."
- "I am sorry for the weeds; we just do not have the labor or money to take care of them."
- "We are too late planting anything this year and as a result will be basically out of salable plants during 2011."
- "I went out to tour some of my plant sources and the first three I tried to tour were all closed and out of business."

These quotes and more are quite common this day and age. I have no doubt that in 2012 there will be additional plant shortages. Some plants may not be found at all and for others we may have temporary outages in certain sizes.

The upside of all of this is that some growers are sensing the shortage and are already quoting higher pricing. Usually price increases are a sore topic. In our current economic climate, cost cutting has become a way of life as businesses have fought to conserve cash and preserve margins. The unwelcome news of a price increase from a supplier is usually the last thing a buyer wants to hear.

Of all of the green industry sectors, the ornamental tree sector has been hit particularly hard over the last 2 years. Growers have suffered through a crushing oversupply of trees that was, in fact, developing 6–7 years ago, but was masked by the frenetic pace of construction through the middle part of the decade. When the bubble burst in 2007-2008, the demand for trees was reduced dramatically, beyond what few of us have ever witnessed. Since that time, growers, desperate to maintain market share, reacted by cutting prices for each of the last 3 years to the point where prices, on some items, have reached 30-year lows.

Unlike their perennial and shrub-growing counterparts, tree growers cannot simply downsize their company to a scale that matches their sales. Existing inventory requires upkeep and that costs money. Like everyone else, tree growers have aggressively cut costs to try to offset the effects of multi-year negative flow of cash. That is a tall order in a world where the costs of raw materials such as burlap, diesel, and plastic have only increased. So, in many cases, fertilizer, pesticides, pruning, and staking have gone by the wayside. The results of excessive cost cutting are evident in the marketplace this year and many growers are simply not capable of supplying trees of adequate quality. For most growers, even the cost of culling bad trees is daunting when cash is tight and so the trees sit around, on display in the fields or, in the case of containerized trees, growing increasingly pot-bound.

The other major area of cost cutting has been a sharp decrease in tree planting in nurseries. Many cash-conscious growers have decided that if they cannot afford to maintain what they have, then there is little point in putting more trees in the ground. As a result, tree planting has declined 70%–80% over this period. This reduction occurred progressively: first by about 20% in 2008–2009 and then an additional 30%–40% in each of the two following years. This trend has only just begun to become evident, with many smaller-sized trees and evergreens becoming scarce this spring. Over the next 2 years the breadth of shortages will increase dramatically and progressively, as more gaps appear while the old inventory outgrows the market, becomes ruined from neglect, is cut down to increase spacing, or grubbed out entirely to prepare fields for re-planting.

Growers are watching carefully to see which items are selling out and they will raise prices whenever market conditions allow. This is not a matter of greed as much as survival. Most nurseries are just hanging on and absorbing losses, if they are even doing that. We are all watching while prominent nurseries fail, unable to continue in an economic meltdown that was nearly impossible to predict and one that is particularly harsh on those who are overleveraged.

The shock waves from the subprime meltdown will continue to be felt, but will soon be felt in different ways. The crash of demand will be followed by a crash in supply caused by a reduction in the number of nurseries that have been willing and able to continue to risk investment in the planting and maintenance of quality inventory these last 3 years. And just as the construction boom masked the over-supply of trees 5–6 years ago, the construction bust is masking the currently developing shortage. When we experience even a modest resumption in new construction, the shortages will be difficult to manage.

It is important for green industry growers to educate their landscape and retail customers for what is coming. There is a special challenge for those who are bidding commercial projects that are further out. There is a shocking gap between the desperate pricing of 2010-11, and the prices of even the over-supplied market of 2007. But when scarcities become prevalent, prices will return to their former levels, and eventually go higher still. That market of shortages may be much closer than most realize. Buyers should be prepared for price increases in fall 2011 and very large increases in 2012 and 2013.

## SUMMARY

The current health of the economy is extremely fragile, with some of our leading indicators continuing to be negative, yet some trending positive. Mixed performance in the economy coupled with extreme weather conditions across much of the country makes for a terribly challenging environment. I remain optimistic about the recovery, but then again, I pretty well find the silver lining in most economic storms.

But what if my optimism does not pan out and things do not continue to improve, even modestly? What if Europe's financial market unravels and propels the rest of the world into Great Recession: Part 2? What if the gloom and doom economists are the ones that are right and this is only the beginning of financial Armageddon in this country? Can the green industry make it through another recession like this one?

If I can elaborate on a couple of my earlier comments, I still have reason to believe that the most successful nursery and greenhouse firms in 2012 will be those that are: (a) well positioned with their customers in the marketplace, (b) not overleveraged, and (c) clearly articulating their value proposition. However, those that aren't probably won't be around much longer.

We will likely see continued structural changes across the industry supply chain as we morph into the more compact and efficient industry of the next decade. This will not only mean fewer key players in the industry but deeper, more strategic relationships among those left from the transition. The green industry will not look the same; not even close.

Yes, the industry will still be around (if it maintains value, relevance, and authenticity to end consumers), but the factors that will guarantee success in the future are going to change. Better brand management, more detailed SKU movement and replenishment analysis, greater efficiency in distribution and logistics, closer integration of genetic innovations and supply levels with consumer demand, and the assimilation of innovative marketing technologies (social media and otherwise) are the new key success factors of the future. Notice that growing a quality plant isn't listed; that's because it's a given. Growers will continue to have to have quality to even play in the game. Growers that master these key success factors will not only be postured better for the potential double dip in the short-run (if it does occur), but they will lay the groundwork for solid performance during any future economic downturn.