H o r t i c u l t u r a l   E n g i n e e r i n g

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Website: www.cook.rutgers.edu/~roberts/

Bedding Plant Outlook for 99 Strong!!

Ralph Freeman
Cornell Cooperative Extension

Early indications have clearly shown the 1999 bedding plant, perennial and potted flowering plant season should be another winner and record breaker in sales this spring.

An air of excitement of above average prevails through the industry. The excitement towards the spring season is shown from seedsmen, suppliers of all greenhouse related goods, growers and retailers.

National and state statistics have shown growth patterns continually. The economy is stable. Consumers have money and are willing to spend a fair portion on their interior and outdoor landscapes. Therefore, with all this adding up — it appears we are in for an extraordinary year.

As an added bonus Easter, being April 4th, a fairly early Easter, there will be three solid months for spring sales.

The question is "Will there be sufficient product available?" Another question is, "Can growers and marketers handle three solid months of high pressure?"

Article taken from Long Island Horticulture News, January 1999

Website of Interest

This Issue of Horticultural Engineering like previous ones is available on the web at:

www.cook.rutgers.edu/~roberts/

Our hope is that many of you will want to make use of the website and eliminate the need for us to send you a hard copy.

Please let us know so that we can save the duplicating, postage and handling costs in our department, *Bill Roberts*

OPEN ROOF GREENHOUSES

Construction on the new 58' by 60' open-roof greenhouse on campus is progressing. The roof sections are nearly completed and the motor, rack and pinion attachments and accompanying hardware are in place. We anticipate covering soon or perhaps it will have occurred by the time you read this.

We are anticipating a spring bedding plant crop and the installation of computer controlled environmental control equipment in the near future.

Industry interest continues to be high and results to date from growers using this type of structure have all

Consolidation Good or Bad For the Industry?

Bill Miller Publishing Director
Greenhouse Grower Magazine

From a presentation at the November 5, 1998, “Floriculture in the Global Village,”
Cook College Campus Center
Rutgers University

For the past few years consolidation has been the hottest topic in the floriculture industry. Whether it’s growers, retailers, suppliers, or floral wholesalers – talk of who’s buying whom, where the money is coming from, who’s going public, and who has filed for bankruptcy resonates throughout our industry. Even if we’re not directly a part of it, it’s so new for an industry largely made up of smaller family run operations that we can’t help but be drawn in by the plans that are changing the industry forever.

The consolidation we’re seeing among growers mirrors the changes they’ve seen in their customer base – a shift to fewer but larger retailers selling greater volumes of plant material over vast geographic areas. While select growers in Michigan, Ontario and Florida have been successful meeting big retailers’ needs through marketing co-ops, the new strategy capturing industry attention comes from large growers establishing market dominance through acquisitions financed by outside investors.

It’s not just our industry that’s being targeted. Consolidation is everywhere. There are fewer, larger companies in all types of industries.

The pages of Greenhouse Grower magazine have breaking news
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items all the time on industry consolidation, but we’ve been tracking this trend most extensively in our Top 100 report which appears each year in our May issue and covers the largest growers in the country. Each of the past few years there’s been about 10% turnover in the operations on our Top 100 list. Although some of this turnover has been due to operations downsizing or not expanding as fast as the rest of the growers ranked, most of this is due to consolidation. Historically the smallest operation listed in our Top 100 has been increasing in size every year. This, however, was the first year it dropped, which is due to fact that so many of the players were bought by others. The greenhouse production for #100 on our list dropped from 600,000 to just under 530,000 square feet.

TOP 100

Before I go much further I should ask if there is anyone in the audience who is from one of the consolidators in the Northeast? -- Atlantic Greenhouses? Floral Plant Growers?……….With that in mind I’ll be a bit more cautious as to how I proceed.

I’d like to start our discussion today by reviewing the players behind the movement and then go into where the money is coming from, why growers are interested, advantages and pitfalls associated with consolidation, and the impact on other growers.

Some of you may recall when large corporations like Pillsbury and Weyerhaeuser tried to jump into our industry and reap rewards years ago. Most of the players involved with those at-

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tempts are no longer part of the industry, so I've chosen to focus my discussion on the current movement that began about three years ago. We see the current wave of grower consolidation beginning with the abandoned Fremont Group plans in 1995.Our coverage of this effort started with the April 1995 issue of Greenhouse Grower.

THE FREMONT GROUP

The Fremont Group in San Francisco is a private investment group that manages more than $5 billion in assets for the Bechtel family. As you may know the Bechtel family also operates a giant engineering and construction company that is one of the largest privately held companies in the United States.

Negotiations started with David Sasuga of Sunrise Growers, who was trying to buy Color Spot which was at the time owned by Pacificorp, a bank in the Northwest. Instead of starting regionally, Fremont and Sunrise were trying to put together growers in different parts of the U.S.—Powell Plant Farm in Texas, Greiling Farms in the Midwest and Florida, Floral Plant Growers in Maryland, and Dominion Growers in Virginia. The goal was to provide uniform marketing programs to national mass merchandising chains.

By the year's end, Fremont changed its mind, deciding the industry was too fragmented. Ironically, it was this same fragmentation that attracted Fremont to our industry in the first place.

The consolidation efforts since Fremont have taken more of a regional approach and spread. After the Fremont plans crumbled, the players involved went their separate ways. While

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Color Spot, Powell's, and Floral Plant Growers started their own regional consolidation movements, Sunrise Growers and Dominion Growers went out of business. Sunrises' debts and assets were taken over by Color Spot and the facility that was Dominion Growers is now one of the Village Farms tomato facilities. Greiling Farms reorganized under Chapter 11, sold two of its large plug facilities—Natural Beauty of Florida in Apopka to Canadian bedding giant Fernlea Flowers and the Blairsville, GA, facility to Speedling. Greilings recovered, paid its debts, and is now operating as Natural Beauty Growers, a division of Floral Plant Growers. We plan to do a cover story on these merged companies in our January issue.

Color Spot

In 1996, former owner Michael Vukelich, whose father Mike Sr. started Color Spot, regained control of the business from Pacificorp. with the backing of Heller Investments, a Chicago extension of the Fuji Bank that specializes in jump-starting distressed industries. Ranking at No. 1 on our Top 100 Growers, Color Spot has been the most dominant consolidator with 15 acquisitions in California, Oregon, Washington, Arizona, and Texas. Back in 1996, it was striving to be the General Motors of the bedding plant industry. It has broadened its product lines beyond bedding to include blooming potted plants, perennials, tropical foliage, groundcovers, woody ornamentals, and Christmas trees. While 1996 and

1997 were big acquisition years, the company took a financial hit this year when California weathered one of the worst springs ever. This summer, the company ended its fiscal year with \$187.7 million in net sales but losses of \$8.2 million before ***continued on next page***

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income taxes, depreciation and amortization. Fortunately, the company's Southwestern division based in Texas did much better than the Western one which helped to reduce their losses .

Color Spot is currently financed by primary shareholder, KCSN Acquisition Co. LP (an affiliate of Kohlberg & Co. LLC), about 100 management shareholders, Heller Investments, \$40 million in publicly held preferred stock, and \$100 million in subordinated notes held by 25 institutions.

A year ago, the company decided not to pursue an initial public offering of publicly traded common stock, but is still reporting its financial affairs to the Securities and Exchange Commission so that it has the option of moving forward with an IPO at a later date. Going the preferred stock route allowed it to raise nearly the same amount of money with less risk.

Powell Farms

Billy Powell and his sons started their own consolidation movement in Texas backed by Weiss, Peck & Greer, and a New York investment company called Private Equity. They hired Charlie Chapman, who was going to head up the Fremont growers, as chairman. Chapman has directed marketing programs for consumer goods conglomerates like General Foods and RJ Reynolds. A year ago Powell's purchased Young's Nursery and Greenhouses in Tennessee.

Powell's sells to home improvement chains, mass merchandisers, independent garden centers and smaller customers. According to Cliff Powell, no one customer accounts for more than 17% of sales. The company is using the outside ***continued in next column***

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financing to invest in expanding production facilities, adding merchandising services, developing marketing programs, and improving supply line efficiency. Its goal is to provide consistent quality and compelling marketing concepts at a very good value.

Floral Plant Growers

Ken & Art Van Wingerden sold their ownership of Floral Plant Growers to their employees and Sentinel Capital which launched regional consolidation in the Mid-Atlantic States. While plans had been percolating for two years, the company made its first acquisition when they purchased Greiling Farms this fall, bringing consolidation to the Midwest.

The two operations had good working relationship growing plugs together in the early 90s. They both have complementary product lines and customer bases—plugs, liners, and prefinished material for growers and finished plants for mass merchandisers and home improvement chains. Both lead the industry in in-store merchandising programs. The company's president Bruce Daniel says Floral Plant Growers isn't going for dominance or market share but to build value by providing standardized quality and promotions with broader geographic coverage.

Two other regional consolidation movements began taking shape a year before Fremont captured the industry spotlight—Tuttle's Nurseries in Florida and Atlantic Greenhouses in Pennsylvania.

Tuttle's Nurseries

In 1994 Brian Tuttle of Tuttle's

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Nurseries began the first of his six acquisitions of bedding plant, foliage, and woody ornamental operations in Florida with the backing of venture capitalists. The business has been surrounded by turmoil for the past few years and really went sour in July, when Tuttle filed to reorganize under Chapter 11 bankruptcy protection. Most recently he has been under pressure to change the filing to Chapter 7, which certainly does not bode well for his business. He's also been faced with the challenge of resolving disputes with investors, former employees who left him to start a competing business, and the incomplete acquisition of Caple Farms.

A year ago, his plans were to move all of his production to a 1000-acre site in the Palm Beach County Agricultural Reserve and present an IPO on the New York Stock Exchange. But, as a result of his financial difficulties things are not looking as optimistic now. In the next few months we should know exactly what's going to happen to his businesses.

Atlantic Greenhouses

Atlantic Greenhouses started near Philadelphia when former owner Arie Van Wingerden sold his East Coast Growers operation to venture capitalists Canaan Partners and William E. Simon & Sons. It spent the first 4 years reorienting its marketing, production and service efforts and then purchased Baker Greenhouses in New York and Newark Florists in New Jersey.

It has taken a careful approach because the investments required to serve the Northeast markets are substantially higher than say those in some other

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parts of the country.

It's team management style and sophisticated cost analysis methods have really set it apart from more traditional growing operations. It's also launching innovative marketing programs. Last spring it partnered with local garden celebrity Derek Fell to market its own brand of perennials in five mixes.

While the operations we've just reviewed are core players to the floriculture industry, I'd also like to briefly touch on the movements in the woody ornamentals and floral wholesaling markets.

Hines Horticulture

In the woody ornamentals arena, Hines has dominated and is starting to get into bedding plants more. The company went public this year. While most of its holdings are on the West Coast, it does have some in the East, like Iverson Perennials in South Carolina.

International Garden Products.

This company has taken an interesting approach, buying companies with complimentary but different product lines in different parts of the country. Acquisitions to date include Iseli Nursery in New Jersey, Skagit Gardens in Washington, and Weeks Wholesale Rose Grower in California.

Floral Wholesalers

We've also seen a lot of activity on the cut flower wholesaling front this year. The most prominent consolidation movements have been driven by USA Floral Products and Dole. Several other ones

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have started, but none have captured the attention these two have.

USA Floral Products

Based on years of experience working for 1-800-FLOWERS and other floral companies, USA Floral's president and CEO Robert Poirier says he knew the strengths and weaknesses in the floral distribution chain and realized there was significant room for improvement. He is targeting companies with profitable, well-managed operations and a proven track record in the industry. The companies he targets continue to retain their name and identity. Through initial acquisition efforts he lined up a deal involving multiple wholesalers, and took it public. The IPO was very successful and profitable. So far this year, I believe the company has acquired 20-30 fresh cut flower companies ranging from importers, to wholesalers, to bouquet makers.

The company has hired a former Wal-Mart executive as its Chief Operating Officer and Jim Wanko, who was formerly involved with PromoFlor, as its marketing director. USA Floral is answering the branding challenge thrust on them by Dole through a partnership with Sunkist.

Dole

A produce powerhouse, Dole entered the flower market this year by purchasing some of the largest Latin American cut flower producers, importers and bouquet makers. It also purchased 60% of Sweden's Saba Trading AB, a flower, fruit, and vegetable distributor. Dole has been innovative and aggressive in marketing fruits and vegetables, especially to children, promoting the 5-a-day program.

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It will be interesting to see exactly what they do with flowers.

Other consolidated floral wholesalers that have been less prominent include : Sun Cut Floral Network Inc., Floraculture Investments, and International Floral Alliance Corp. Plans are also in the works to consolidate 15-20 retail florists under International Floral Network, Inc.

Where's the money coming from?

The flurry of activity we've been seeing by outside investors reflects the leveraged buyout (LBO) frenzy that has swept the nation. Forbes magazine explains LBOs as a way to buy companies using large sums of borrowed money. Firms that specialize in LBOs can deliver high returns by putting leverage to work. For example, if the leverage is 5-to-1, for every dollar of equity money they put into a deal, they borrow $4. And when these firms take the conglomerates they've put together public, it's not unusual for the value of the stock to double in a bull market. Thus, giving them a handsome return not only on their investment, but also on the money they borrowed.

Sometimes called private equity limited partnerships, LBO funds are pools run by a general partner that contain money contributed by limited partners. Many contain funds from pension and endowment administrators who are willing to invest about 5% of their total portfolio in riskier ventures to maximize returns.

Forbes says LBO firms are raising funds much faster than they can invest them and that it would take more than 10 years to put all of the money that's available to work! More hunters are search-

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ing for a dwindling number of good deals and are willing to assume more risk.

KEY POINTS MOTIVATING INVESTORS

Why are these Wall-Street guys interested in our industry?

They see opportunity in highly fragmented production and distribution.

They like the statistics. According to Color Spot, the industry is currently valued at $7 billion and has been growing at 7% per year compounded over the last 15 years. I think, however, that they may be including woody ornamentals in this figure. According to USDA, in 1997 floriculture crops were valued at $3.33 billion with a 5.7% increase over 1996. Bedding plants alone were $1.57 billion with a 10% increase from the previous year.

They like the demographics. All kinds of market surveys single out gardening as America's favorite leisure activity. An aging baby boomer population and trends toward coccooning—spending more time at home—also favor gardening. Lifestyle guru Martha Stewart, the Home & Garden TV network, and an explosion of consumer gardening magazines and related spinoffs should also continue to promote our industry.

It's an appealing product. Who doesn't like flowers?

The industry has a fairly stable, predictable cash flow from year to year. These venture capitalists are looking for a return on dividends or stock increases over 3-5 years and the opportunity to cash out. They're not interested in running the businesses themselves, but retaining proven staff that is receptive to ideas for growth.

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At the same time, they are wary of too much risk. The prominent bond rating agency Standard & Poor's gave Color Spot a lackluster rating because of the high risk. Concerns expressed were high debt level, concentrated customer base, vulnerability to extreme weather conditions. Offsetting the risks, however, were Color Spot's leading position in a highly fragmented industry and plans to spread out geographically and expand product offerings. This point speaks to the willingness to take on a certain amount of risk if the potential payback is great enough.

LIST OF KEY POINTS MOTIVATING GROWERS

Why are growers interested?

It's a way for owners who have worked their whole lives to liquify their investment; an exit strategy for those who want to retire, but don't have heirs who are interested in running the business; an option for growers who have built businesses that are too big to sell.

There's opportunity for faster growth through acquisitions. As a rule it's hard to grow a company faster than 10-15% internally and hard to get chain stores to change relationships they've established with suppliers. But, you can get more business by purchasing those relationships.

Chain stores and mass merchandisers are driving the consolidations. Many of the consolidators we've spoken with feel it is the chain store market that is dictating consolidation. They claim that independent growers no longer have the ability to serve this market well. They feel the chain store customer base requires product volumes
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and services beyond the scope of most independent growers.

The outside financing gives these growers the resources they need to invest in automation, service programs, marketing efforts, and expansion without mortgaging their personal assets.

More than a few critics have said the growers pursuing these investors with plans to take over their companies are just looking to make a fast buck. But in our conversations with these growers, we've found a sincere interest in serving the mega retailers and consumers better and growing the market. And it's not just words. They're making serious investments in marketing and service programs and new product development.

KEY ADVANTAGES

- Offer uniform, one-look programs over wide geographic areas
- Offer wider selection in large quantitites
- Can gain efficiencies in administration and distribution
- More buying power with suppliers and selling power to customers
- Critical mass to become a low-cost supplier
- If selling more to each store, it makes branding, merchandising, and service programs worthwhile and affordable
- Financing makes it easier to improve one's position for growth, whether that means investing in acquisitions, facilities expansion, new technology, or marketing and service programs
-

POTENTIAL PITFALLS

Many retailers don't like consolidation - Ironically, many of the retailers these
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consolidators are trying to serve aren't keen on the idea of dealing with larger suppliers. While it would make life easier for them to deal with fewer suppliers, they don't want to put all their eggs in one basket. They also like to have leverage in negotiating price, which often means playing one grower off of another. The chain store buyers we've listened to have said they like smaller, service-oriented growers and that they fear larger suppliers will lose sight of the quality of the product. While market control may be the dream of many consolidators, the buyers don't want to surrender it.

Giant operations could become less efficient as they assimilate multiple operations. It's much harder to manage a huge operation with multiple facilities than an operation at a single site.

Other pitfalls of grower consolidation center around the unique aspects of your business:

- Perishable product—It takes diligence to maintain and serve the quality chains have come to expect from independent growers.
- Vulnerability to weather extremes.
- Losing entrepreneur who knows plants.
- Losing decision makers who know the industry.
- Pressure to perform for share holders - profit margins aren't there to satisfy Wall Street.

GROWER IMPACT POINTS

The flashy headlines and attention these consolidators have been capturing have left many growers on the sidelines wondering where they fit into this changing marketplace.

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Difficulty in sustaining investments needed …..

Since these consolidated growers are zeroing in on mass merchandisers and home improvement chains, it's the stand-alone growers who sell to these retailers who will be and are under the most pressure to develop marketing and service programs and increase their distribution capabilities while containing costs – no easy feat! The bar will be raised considerably higher. In fact, just this September at the Bedding Plants International convention in Denver, two of the Western growers on a panel discussion were talking about the heightened competition they've been facing with Color Spot. They said, "We're both in the same boat. It's us versus the Spot." They've been coping by going the extra mile to be dependable suppliers, doing the basics really well, and adding value by promoting consumer web sites on tags or promoting freshness through regional brands like Rocky Mountain Grown or Northwest Grown. They're doing the best they can to make themselves valuable to their customers.

The independent growers who thrive in this new business environment will be the ones who **study their competition closely and define a clear niche** that they can market and convert to profits. Growers who don't meet the needs of the new business environment may become casualties.

It will be increasingly difficult for independent growers to sustain the investments in production capacity, technology and marketing services needed to be competitive in the future. Many independent growers who serve chains may

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find they have to be content being a chain's No. 2 or No. 3 supplier in their region. More medium-sized growers are becoming retailers themselves. Some that serve chains are looking for niche profit centers that fit local needs—retail florists, landscapers, etc. They're finding they have to diversify.

The small grower who serves independent garden centers or grows for their own retail shop, will be the least affected by consolidation. These growers have survived the invasion of the Wal-Marts of the world and adjusted their business practices accordingly.

One thing to keep in mind is that **there are voids left open by consolida-**

tion. It creates opportunities for regional independents who want to remain independent to distinguish themselves in product selection, quality, and service.

No player—no matter how big—can satisfy each need of every retailer, even if focused solely on the chain store market. This leaves the door wide open for niche marketers to fill the gaps. Although we've heard many growers say, "There's always room for a quality producer," defining a niche or marketing strategy is more important than ever before.

We believe there's plenty of room for growing operations of all types and sizes that are committed to creating value for both retailers and consumers.

KEY POINTS ON GG's POSITION

So all of this has probably left you wondering where Greenhouse Grower stands on the consoldiation movement. **Well, we aren't for it or against it**.

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We believe **parts of it really make sense for chain store market**. In many regions there is entirely too much duplication—competing growers' delivery trucks passing each other on the highway selling the same product to the same stores. And in those stores, growing operations are fighting for floor space and four or five merchandisers are doing the same work. There's also no denying that these chains demand more service and have a crying need for standardized programs.

We really **like the cooperative approach that has served growers so well** in Kalamazoo and Ontario. It's too bad that more regions haven't embraced it. We feel this approach offers the best of both worlds. It retains individual grower entrepreneurs, allows them to specialize and to provide wide selection of consistent product together. They have the advantages of size, but control over their financial affairs. They share advantages of buying and selling power. If they could step up their marketing efforts to match those behind consumer products in terms of promotion and presentation and forge innovative partnerships with retailers, that would really be something.

When asked what the industry will look like in 10 years, Cliff Powell of Powell Farms said he believes that, "in the long run three to five national retailers will supply the majority of bedding plants and other plant categories to a similar number of retailers, who will serve the majority of consumers. These national growers will have their own brand trademarks on a portion of the products they sell and will regularly engage in advertis***continued in next column***

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ing and other direct-to-consumer marketing programs to build brand identity."

We agree that this is the direction the industry is headed, but it will probably be a rocky road getting there and may even take longer than a decade to get there. The consolidators who are taking a more careful, gradual approach seem to be in a better position to succeed than those who are acquiring companies faster than they can manage them.

Special CCEA Conference
ACESYS III
"From Protected Cultivation to Phytomation"
Friday July 23, 1999
Cook College Rutgers University
New Brunswick, NJ USA

Conference Chair Dr. Gene Giacomelli
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The Conference will include a Phytomation Special Lectures Forum, comprised of an outstanding international field of experts in controlled environment agriculture, and chaired by Dr Tadashi Takakura of Nagasaki University and Dr. K.C. Ting, Chair of the Bioresource Engineering Department of Rutgers University.

The morning Forum will provide a foundation for the day's program, offering a firm background and promoting the discussion for visioning of Phytomation which will follow in an afternoon program. The Forum will be open to include growers, research, industry and interested academics.

The special CCEA afternoon session will also include several speakers and a discussion session. The entire conference should be of especial interest to those interested in planning the future of Phytomation as it develops from controlled environment agriculture.

The day will conclude with an evening retirement banquet in honor of Professor William J. Roberts.

HORTICULTURAL ENGINEERING

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