Horticultural Distribution Centers and the Marketing of Greenhouse Crops

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This is the first in a series of articles discussing the role of Horticultural Distribution Centers (HDCs) in the greenhouse/nursery/landscape industry and the results of a recent national survey of HDCs. Horticultural Distribution Centers are generally not well understood in our industry. They are however widely used by the landscape trade. In a previous study (1995), I found that about 35% of the plant material purchased by Georgia landscape installers and maintenance firms was obtained from HDCs. Considering that many growers do not use HDCs as a distribution/ marketing outlet, these growers are missing out on about one-third of the landscape market. In Georgia the HDCs are located primarily in the Atlanta area. The major firms include Shemin Nurseries, McGinnis Farms and Buck Jones and Associates. These firms serve as a one-stop shop for landscapers. A landscapers can secure a landscape job in the morning, visit the HDC and obtain all the plant material and hardgoods for the job, and potentially install the job that day. The HDCs are especially important to the small landscaper that can not afford to purchase large quantities of plants material or to hold plant material. In essence the HDC serves as a warehouse for the landscaper. Most HDCs handle the full range of plant material including trees, shrubs, herbaceous perennials, bedding plants, and potted flowering crops. In the remainder of this article, I have summarized findings from a national survey of HDCs. If you have any questions about HDCs or the fit of these firms with your marketing plans, please do not hesitate to contact me.

Horticultural Distribution Centers (HDC) are an integral part of the sales and distribution of products to the lawn and garden industry. The first stand-alone business was established in 1955 by Emanuel Shemin. In the distribution channel, HDCs are positioned between the producers (plant material and hardgoods) and their customers, primarily landscapers. Other customer groups for HDCs include retail garden centers, landscape maintenance firms, and golf courses, and government entities. Landscape firms appeared to value the convenience of obtaining green goods and hardgoods at one location that is in close proximity to the landscape job.

Even thought HDCs are considered a growing segment of the lawn and garden industry, relatively little information is available on the characteristics of HDCs. In 1990, the American Nursery and Landscape Association (ANLA) officially recognized HDCs and in 1993 commissioned a study to define the size, scope, and impact of HDCs. The survey questions in this study allow for selected comparison with the 1993 study and gather information in new areas.

Surveys were mailed to all members (158) of the HDC committee of American Nursery and Landscape Association (ANLA) in 1998. Firms with multiple locations received one survey per location. The initial mailing was sent in March, 1998, with a follow-up mailing to non-respondents in April, 1998.

The data provided by respondents was analyzed as a group and by region of the country. The region destination was the same as used by the USDA in their data collection and as defined in a national survey of pest management practices in the U. S. greenhouse and nursery industry. The four regions were Northeast, North central, Southeast and West.

Total surveys returned were 51 for a 32.3% response rate. The position of respondents in the firm was primarily the owner (68%), followed by manager (30%) and employee (2%). The relatively high response rate and the percentage of owners/manager suggest that the survey results represent the views of a large portion of the HDC decision makers in the United States.

The location of respondent firms was consistent with the geographical distribution of the total membership. The greatest number of HDC firms was in the Northeast (about 35%) and North Central (about 26%) regions of the U.S., followed by the Southeast (about 21%) and West (about 18%). The number of states represented by respondents (7, except 6 in West) was essentially the same in each region.

The time in business for the HDCs varied substantially across all regions of the country. The average age of HDCs was 26.5 years and was consistent across regions. The wide range in age of HDCs suggests that HDCs have been a long-term evolving segment of the lawn and garden industry. Also, new businesses continue to start-up which is a healthy sign for this segment of the market.

HDCs have been described as either a stand-alone profit center within a nursery firm, or a nursery firm with a primary business (51% or more) to purchase, take possession, maintain, and resale plants and/or related horticultural products through warehouse and yard operations to professional classes of customers. To assess the status of vertical integration in HDC businesses, firms were asked to select one of three options that best described their business. About half (45.2%) of firms, pooled from all regions, described their business as rewholesale and growing, followed by rewholesale and retail (27.4%) and rewholesale only (27.4%). Overall, about half of the firms were involved in growing and about one-quarter of the firms were only involved in rewholesale activities. The percentage of firms involved in growing activities in 1998 (45.2%) is down from 62% of the firms in 1993. Also, the percentage of firms involved in retail activities in 1998 (27.4%) is down slightly from 35% in 1993. The survey results indicate a slight shift toward specializing in rewholesale activities even though 45.2% of the businesses are still growing operations in conjunction with rewholesale operations.

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The type of business activity varied among regions. The Northeast had the highest percentage (47.1%) of firms involved in rewholesale only activities. Most of the firms in the Southeast were involved in rewholesale and growing (45.4%). Most of the firms in the North Central region were either rewholesale and retail (46.7%) or rewholesale and growing (46.7%). In the West region, two-thirds of the firms were rewholesale and growing.

To better understand the type of business activities at HDCs, respondents were asked to indicate the percentage of their revenue associated with rewholesale, retail, and growing activities. The percentage of revenue from rewholesale ranged from a low in the West (31.9%) which was significantly different from a high (68.3%) in the Northeast region. Revenues from rewholesale activities in the other two regions of the country (NC and SE) were intermediate, and not significantly different, from either Northeast or West. There was no significant regional difference in revenue associated with retail. While regional differences were not significant, the West (48.5%) and the Southeast (39.6%) had the highest percentage of revenue from growing. The data demonstrates that most of the HDC businesses in the U.S. obtain a majority of their revenue from rewholesale activities. That is, rewholesale is not just a minor part of a larger business of the HDCs.

The mean annual revenue for all regions was $3.4M. Annual revenue ranged from a low of $3.1M in the West region to a high of $3.6M in the Southeast and North Central regions, with no significant regional differences. The total revenue in each region for respondent firms ranged from a low of $27.9M in the West to $59.8M in the Northeast. With $174M in revenue for all respondents and a 32.3% response rate, the HDCs may represent annual revenue of $540M. The average annual revenue in 1997 of $3.4M compares with an estimated $2.7M in 1993. This represents about a 6.5% annual growth rate.