Retail Garden Outlets: Business Characteristics and Factors Affecting Industry Performance

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This is the first in a series discussing results of a recent survey of retail garden outlets in Georgia and the implications for grower marketing plans.

Retail garden outlets are an important customer group for greenhouse and nursery growers. Retail outlets account for much of the plant material that moves through the distribution channel. The type of retail garden outlets in the United States include mass merchants (such as Wal-Mart and K-Mart), home centers (such as Home Depot and Lowe's), traditional garden centers, feed and seed stores, and hardware stores. A well focused grower marketing plan should be based on reliable data for the target type of retail outlet. A thorough understanding of the factors that influence success of retail outlets would enable growers to develop marketing plans to support sales at the retail level.

The paper reviews the type of retail garden outlets in the state of Georgia including type of customers, mix of garden products sold, sourcing of plant material and factors that could have a negative impact on retail plant sales.

Survey questionnaires were mailed to 421 firms which were listed as licensed retail nurseries by the Georgia Department of Agriculture. The initial mailing was sent in July 1996, with follow-up mailings to non-respondents in August and September, 1997. The survey did not include the mass merchants, home stores, or the large multi-store garden center chain, Pike's Family Nurseries. Each of these groups is worthy of a separate survey and the method of survey and the content of the survey would probably vary.

Forty-three percent of the firms (181 respondents) completed the survey. The respondents represented 123 cities located through-out Georgia with no city representing more than eight respondents. Most (79%) of the respondents were owners of their business. Therefore, the results discussed in this paper represent a large portion of the decision makers in the retail garden industry and they seem to be evenly distributed throughout the state of Georgia.

The retail garden outlets in Georgia were comprised of hardware stores with a garden center (31.3%), independent garden center with one location (25.8%), feed and seed/farm supply stores with a garden center (15.9%), independent garden center with multiple locations (4.9%), supermarket/grocery store with garden center (4.9%) and 17% of the firms that checked the category, other, which is not described. The traditional garden centers with one or more locations (30.7%), and the hardware stores (31.3%) represented the two largest group of retail outlets. With the relatively larger number of respondents for garden centers, feed and seed stores and hardware stores, the survey data was analyzed for each of these types of firms. For analysis by type of firm, the two garden center categories, one-location and multiple-locations, were combined. In addition, all respondents were analyzed as a group,and are refered to as "all firms". Market segmentation can provide specific information on different types of firms and is beneficial to development of marketing plans for suppliers. Earlier research demonstrated that different size landscape architectural firms, landscape installation firms, and landscape maintenance firms in Georgia had different service requirements.

The mix of products sold varied with the type of retail garden outlet. For all firms, plant material was the largest portion of retail sales (36.1%), followed by chemicals and fertilizers (20.2%). Hardgoods (12.7%), and seeds (11.9%), were equally distributed and gift shop items (3.4%) was the smallest catergory of products sold. Several respondents indicated that the category,other(11.6%), included vegetables transplants but most respondents did not disclose the product type classified as "other".

The primary retail sales item for garden centers was plant material (54.4%), followed by much less frequently sold chemicals/fertilizer (12.5%), seeds (10.4%), and hardgoods (9.4%). The gift shop items constituted about 5% of the total sales at retail garden outlets. The plant material sales is consistent with the characterization of garden centers as primarily an outlet for plant material.

The retail sales of feed and seed stores were weighted to chemicals/fertilizers (35.2%) and seeds (27.1%). Hardgoods accounted for 11.6% of retail sales followed by plant material (10.5%) and gift shop (1%). The "other" category represented 14.6% of sales and probably includes various animal husbandry suppliers. The seed sales would include ornamental and agronomic seeds. The large portion of sales represented by chemicals/fertilizers may be due to the fact that they serve both landscape and agronomic customers.

Over three-fourths of the sales for hardware stores were about equally divided among plant material (26.4%), hardgoods (26.2%) and chemicals/fertilizers (25.5%). The sale of seeds (10.2%), gift shop (2.1%) and other (10.0%) accounted for the remainder of retail sales. Hardware stores had the greatest emphasis on hardgood sales (26.2%) compared to feed and seed (11.6%) and garden centers (9.4%). The hardgood sales for hardware and feed and seed stores probably included landscape as well as agronomic and animal husbandry customers.

The value of the different types of products sold provided additional insight into the focus of each type of retail outlet. The average annual retail sales for all retail garden outlets was $344K. Hardware stores averaged $159K, garden centers averaged $498K and feed and seed stores averaged $767K. The high average annual retail sales for feed and seed stores was driven by chemicals/fertilizers and seeds, both items being supplied to agronomic and animal husbandry customers, in addition to the landscape market. Despite the high mean store sales, the total sales for feed and seed outlets accounted for only 25% of the total sales for all firms combined.

The average annual retail sales for plant material was similar for hardware ($40K) and feed and seed stores ($44K) and was much lower than the average garden center ($229K). The total plant sales for all firms was approximately $12M. With 107 respondents for this question, the total retail plant sales for the retail garden outlets surveyed was estimated at $47M. The

total retail sales, for all products, was estimated at $86M. Based on the survey results, the sales potential for nurserymen suppplying plant material appears greater for garden centers than for feed and seed or hardware stores. However, the appropriateness of each type of retail outlet, for a particular grower, would require analysis of several factors including the type of plant material purchased. The opportunity for higher average sales of plants would appear greater for garden centers than for hardware or feed and seed stores.

The customers for all types of retail garden outlets were primarily individuals. The percentage of customers represented by individuals was 87% for all firms. The feed and seed (88%) and hardware stores (93%) had a higher percentage of individuals as customers than did garden centers (80%). Garden centers had a higher percentage of landscape customers (15.2%) than did hardware stores (5.7%). The higher level of sales by garden centers to landscapers confirms the findings of previous studies on the suppliers of plant material for landscape installers and landscape maintenance firms. The remaining small percentage of retail sales were represented by government entities (1.7% for all firms) and other types of customers (1.1% for all firms).

Most of the plant material purchased by retail garden outlets was sourced locally. For all firms, about 2/3 of plant material was sourced in-state. Hardware outlets (76.6%) accounted for the highest percentage of in-state plant material sourcing, and feed and seed stores sourced the least in-state (59.3%). The emphasis on local sourcing is consistent with individual garden outlets making their own buying decisions and requiring relatively small quantities of plants on a frequent basis.

Retail garden outlets produced some of the plant material that they retail, in addition to the plants purchased from growers. Approximately 31% of garden centers produce plant material, averaging 29% of the value of their plant material requirements or about 9% of the total plant material requirements for retail garden outlets. The feed and seed and hardware stores are less involved in plant production than are garden centers. Only 7.7% of feed and seed stores produced plants and those firms averaged 10% of their plant material requirements or less than 1% of the total plant requirements for feed and seed stores. For hardware stores, 3.8% of the firms produced plants, averaging 25% of plant material requirements or about 1% of the total requirement for hardware stores.

Several factors were identified as having the potential for negative impact on plant material sales. The three most frequently listed factors, for all firms, were adverse weather (25.9%), competition from mass merchants (23.4%) and a slowing economy (21.5%). These were the three most frequently identified factors for each of the three types of retailers, although the ranking varied. Competition from mass merchants was the most frequently identified factor for garden centers (31.5%) and feed and seed stores (35.3%), followed by adverse weather (20.4% and 23.5%, respectively) and a slowing economy (20.4% and 17.6%, respectively). Hardware stores were more concerned with the negative impact of adverse weather (32.6%) and a slowing economy (26.1%) than competition from mass merchants (13.0%). Apparently garden centers and feed and seed stores feel that they compete directly with the mass merchants. Of the three firm types, the garden centers (11.1%) were most concerned with their ability to obtain necessary plant quality and variety to compete in the market place. Garden centers indicated in their written comments that they need an advantage over mass merchants in regards to plant quality and variety. This advantage may be necessary to get the higher price typically charged by garden centers. If growers can help garden centers to obtain a higher price through value-added products or services, the result may be higher prices, and hopefully higher margins, for growers.

Retail garden outlets are an important part of the distribution network for greenhouse and nursery crops as evidenced by the value of plant sold by the survey respondents. This study provides insight into the characteristics of retail garden outlets and the differences among three types of outlets. This information should be used by growers to develop strategic marketing plans and to target marketing efforts to a specific segment of the retail garden industry.