Nurseries

Industry Snapshot

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Industry Definition & Segments

The nursery and garden center industry consists of stores selling trees, shrubs, plants, seeds, and sod. In addition, retail farm supplies such as animal feed (but not pet food) are included in this industry (IBISWorld, 2010).

The industry as a whole generates revenues of nearly $30 million annually and is highly fragmented, with the top 50 companies generating only about 25% of the total industry revenue (First Research, 2011). Sales by product segment are as follows, (IBISWorld, 2010):

Equipment*	48.8%
Grain & Animal Feed	16.7%
Chemicals	14.8%
Plants	10.6%
Tools & Parts	5.4%
Other Supplies	3.7%

**Equipment includes items like lawnmowers, leaf blowers, chainsaws, and other gardening machinery.*

Industry Data

Key industry figures for 2010 including forecasts through 2015 for revenue, establishments, and employment show a slight improvement in 2011 and 2012 followed by a downturn in 2013, (IBISWorld, 2010):

Year	Revenue ($m)	% Change	Establishments	Emp. Per Est.	Employment	Rev. Per Emp.
2010	$26,420.8	-4.6%	14,901	8.13	121,081	$218,210
2011	$26,859.4	1.7%	14,602	8.39	122,548	$219,170
2012	$27,128.0	1.0%	14,440	8.32	120,194	$225,700
2013	$26,639.4	-1.8%	13,991	8.41	117,669	$226,390
2014	$25,833.1	-3.0%	13,687	8.35	114,338	$225,940
2015	$24,743.4	-4.2%	13,333	8.25	109,981	$224,980

This downturn is anticipated due to increasing pressure and competition from home improvement stores (Home Depot, Lowe's) and mass retailers (Walmart, Target). It is anticipated that this will cause smaller, under-performing businesses in this industry to close and will reduce industry revenues, (IBISWorld, 2010).

Success Factors

Key success factors identified for this include, (IBISWorld, 2010):

- A specific market position: Specializing or targeting a specific market position allows firms to capitalize on their area of expertise (this could be in the form of rose nurseries, vegetable starts, etc.)
- Location: Having access to consumers in key areas and increasing visibility maximizes the likelihood of success.
- Inventory/stock management: Being able to effectively manage inventory on hand helps players in this industry reduce their holding costs, increase turnover, and keep their stock fresh.
- Product presentation: It is important that products are displayed well and offer an attractive presentation for consumers. This can help drive impulse buying as well.
- Relationships with suppliers: Supply connections help businesses to keep their products properly stocked and ensure that the products meet consumers' expectations of quality.
- Experienced work force: Employees who are informed and knowledgeable are much more able to assist customers with their purchases, answer questions and offer guidance on care and plant selection.

An additional component important to businesses in this segment is promoting quality. Nurseries and garden centers that promote the quality of their products are likely to see better margins and customers who are less price-oriented. Combining quality products with great customer service can increase loyalty and build valuable customer relationships (First Research, 2011).

Risks & Challenges

There are several key challenges facing this industry, namely the competition between nursery and garden centers and mass retailers/home improvement stores. Additional challenges include, (First Research, 2011):

- Real estate and construction drivers: Trends in new home construction and home sales are an important demand determinant for stores in this industry. In a tight economy, contractors and consumers often cut back on landscaping or look to lower-cost suppliers.
- Farm industry decline: In general, the decline in the farming industry has impacted garden and farm supply stores. Between 1978 and 2007 the total number of farms declined. In addition, large farms represent more than 60% of production and most stores in this industry rely on smaller farms for sales.
- Manufacturer prices: As prices from manufacturers vary greatly, profitability at nursery and garden centers is affected. Commodity prices can also cause fluctuations and make managing profitability challenging.

Trends & Opportunities

Orchids: Orchids are a rapidly growing segment of the gardening industry. They rank as the number 2 potted plant behind poinsettias, (Richard K. Miller & Associates, 2010).

Nursery plant growth: Additional categories in nursery production that have seen recent growth are: ornamental grasses, palms, woody ornamentals, vines, ground cover, fruit and nut plants, and coniferous evergreens.

Organic gardening: Another rising trend is organic gardening. According to surveys conducted in 2004 and 2008, the number of households using all-natural fertilizer, insect and weed controls rose form 5 million to 12 million in the four-year period. This trend is expected to increase, (Richard K. Miller & Associates, 2010).

Food gardening: A 2009 report from the National Gardening Association identifies food gardening in the United States as an up-and-coming trend. Participation in food gardening at home is up 19% in 2009 over 2008. Most households turning to gardening at home choose to do so for better-tasting food, saving money on food bills, better quality food, and to grow food they know is safe. The most popular vegetables grown are: tomatoes, cucumbers, sweet peppers, beans, carrots, summer squash, onions, hot peppers, lettuce and peas, (National Gardening Association, 2009).

Heirloom Plants: Heirloom and rare varieties of plants and vegetables are also gaining popularity. Flowers and vegetables that have never been genetically engineered are seeing a gain in sales and these sales are sometimes restricted by supply, rather than demand, (Richard K. Miller & Associates, 2010).

Consumer Expenditures & Profile

Approximately 45% of industry consumers are households and 42% are farmers, (IBISWorld, 2010). Farmers who purchase from these stores are often hobby or weekend farmers (First Research, 2011).

In 2008, 81 million US households participated in one or more do-it-yourself lawn or garden activities during the year, representing 70% of all US households. Among these households, average spending was $444 in 2008, up 4% from the year before. This spending breaks down into the following categories, (Richard K. Miller & Associates, 2010):

Landscaping	47%
Lawns	25%
Flowers	10%
Edibles	7%
Houseplants	6%
Insect Control	5%

The same report states that lawn and garden project participation was most commonly identified with households with married couples, ages 35-44 years or 55 and older. Additional factors that increased participation in these activities were, (Richard K. Miller & Associates, 2010):

- College-educated households
- Households with annual incomes over $75,000
- Households with children at home or retirees

Most popular activities include: lawn care, flower gardening, growing houseplants, landscaping and vegetable gardens. Specific to food gardening, the profile suggests these gardeners are largely ages 55 and over, college-educated, have no children at home, and are married (National Gardening Association, 2009).

Financial Benchmarks

Profit margins in this industry are very low at 1.3% on average. In the last five years, this margin has shrunk due to decreased demand and intense competition. A reduction in home sales and new home construction has also had an impact. Industry cost structure, as a percentage of revenue is, (IBISWorld, 2010):

Purchases	72.6%
Wages	11.1%
Other*	8.5%
Rent	3.2%
Depreciation	2.1%
Utilities	1.2%
Profit	**1.3%**

**Other includes interest, insurance, advertising, distribution, general and administrative costs.*

Resources

1. IBISWorld Pty Ltd., "*Nursery & Garden Stores in the US*." New York: IBISWorld. December 2010. http://www.ibisworld.com.
2. First Research, Inc. 2007, "*Garden Centers and Farm Supply Stores*." Austin, TX: First Research. March 28, 2011. http://www.firstresearch.com.
3. National Gardening Association. *The Impact of Home and Community Gardening in America.* www.garden.org. Pages 1-17. 2009.
4. Richard K. Miller & Associates. *The 2010 Leisure Market Research Handbook.* Pages 175-177. 2010.