standpoint

MARKETING RESEARCH

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Where Have All The “Gardeners” Gone?

Strategy Workshop

Mailorder Gardening Association

Representing Exceptional Companies That Offer Superior Products

Agenda and Outcome

1. Quick review of the Strategic Planning Process
2. Quick review of the Marketing Mix
3. Marketplace Realities
4. Case Studies
    - Individual Group Discussion
    - Team Reports to Larger Group
5. Linking to the Consumer Focus Groups

OUTCOME → Set of "Big Ideas" for the Industry as it relates to Product, Pricing, Distribution, and Promotion

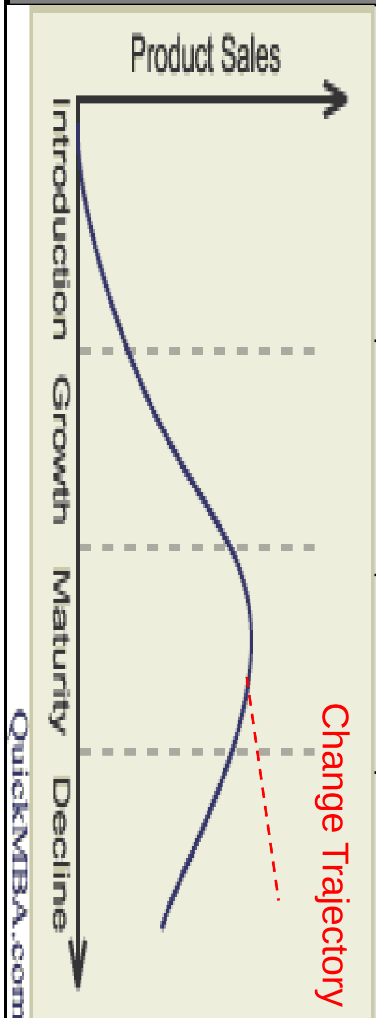
The Planning Process	Outcome
FUTURE VISION	What do you want to accomplish in 5-10 years?
SETTING GOALS / PRIORITIES	Where do we want to go?

– Is goal consistent with organization's mission & values?
– What is the strategy to meet the goal? (set of decisions)
– What are the constraints to meeting this goal?
– What resources are required?
– Who owns implementation?
– What is the timing on reaching the goal?
– How is success measured once goal is implemented?

IMPLEMENTATION	How do we get there?

- Tactics

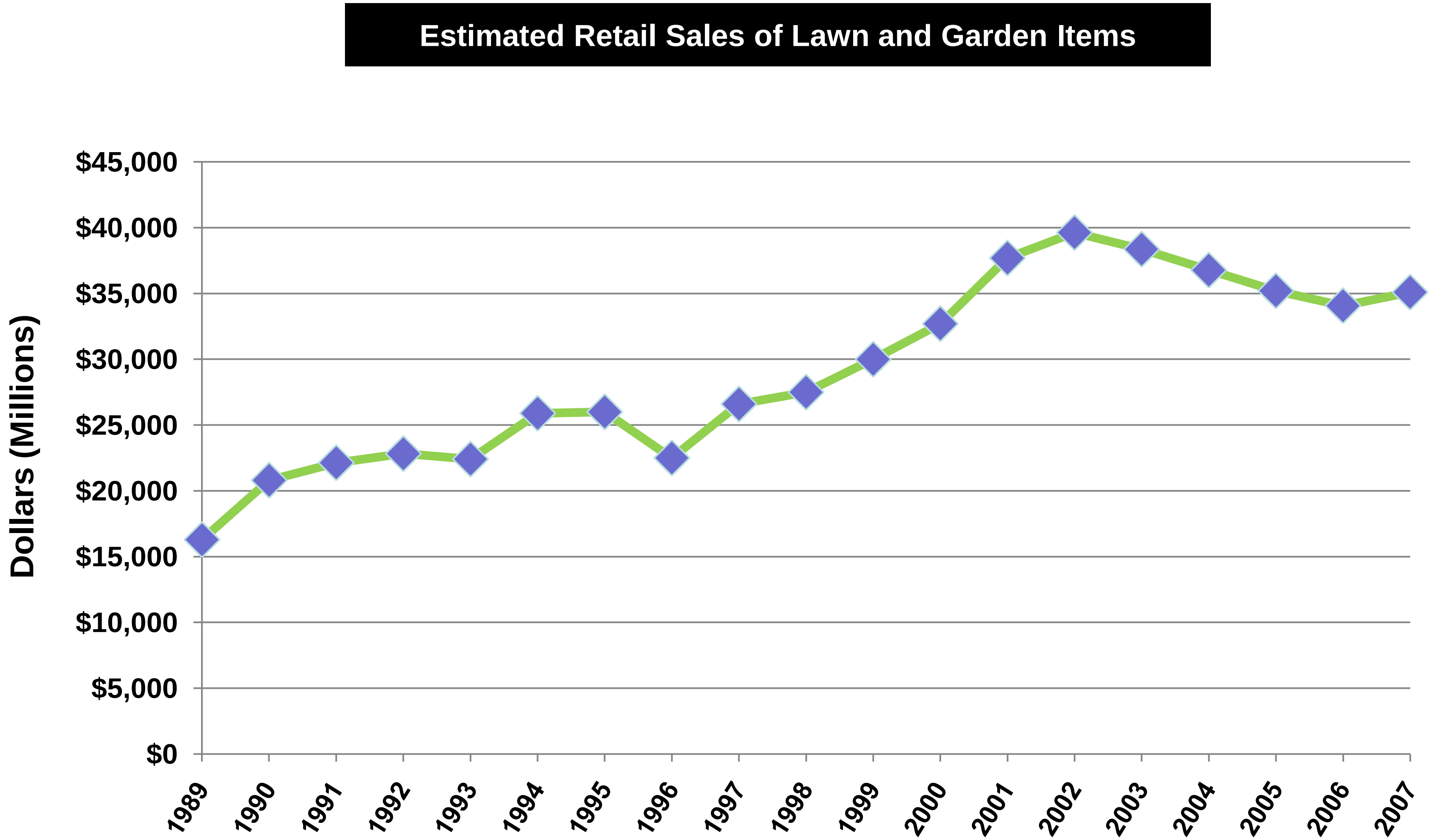
Marketing Mix



Stage	Product	Pricing	Distribution	Promotion
Introduction	• Branding • Quality level • IP protection	• Market share vs. fixed cost recovery	• Selective	• ID innovators or early adopters • Build product awareness • Educate
Growth	• Quality maintenance • Brand maintenance • New features and services	• Growing relative share: maintain prices • Shrinking relative share: measure value proposition	• New channels	• Emphasize product differentiation
Maturity	• Enhance features • Product differentiation	• Pricing the market will bear given new competition. Consider new features.	• Channel management • Incentives • Switching costs	• Product differentiation
Decline	• Product rejuvenation • New uses • Innovation	• Harvest price • Discontinue	• Maintenance of loyal segments/ profitable segments	• Maintain loyalty

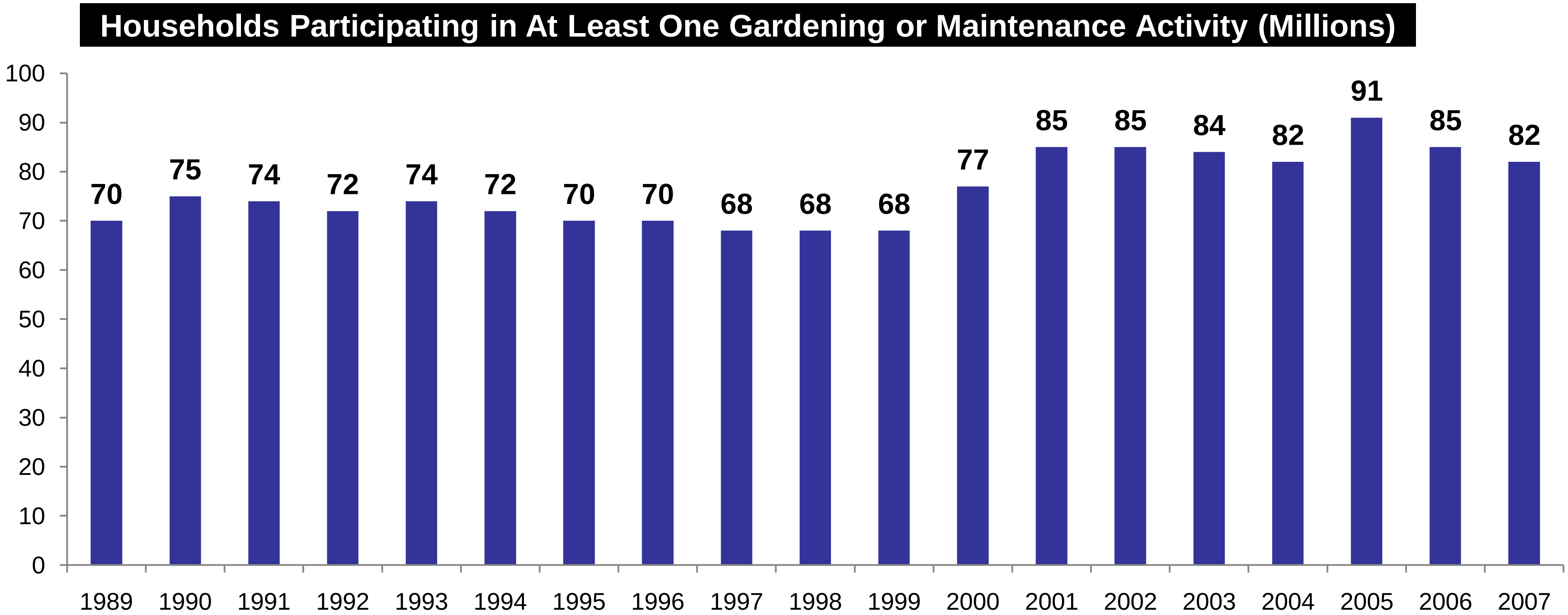
Marketplace Realities

The Industry is Maturing



Source: The National Gardening Survey

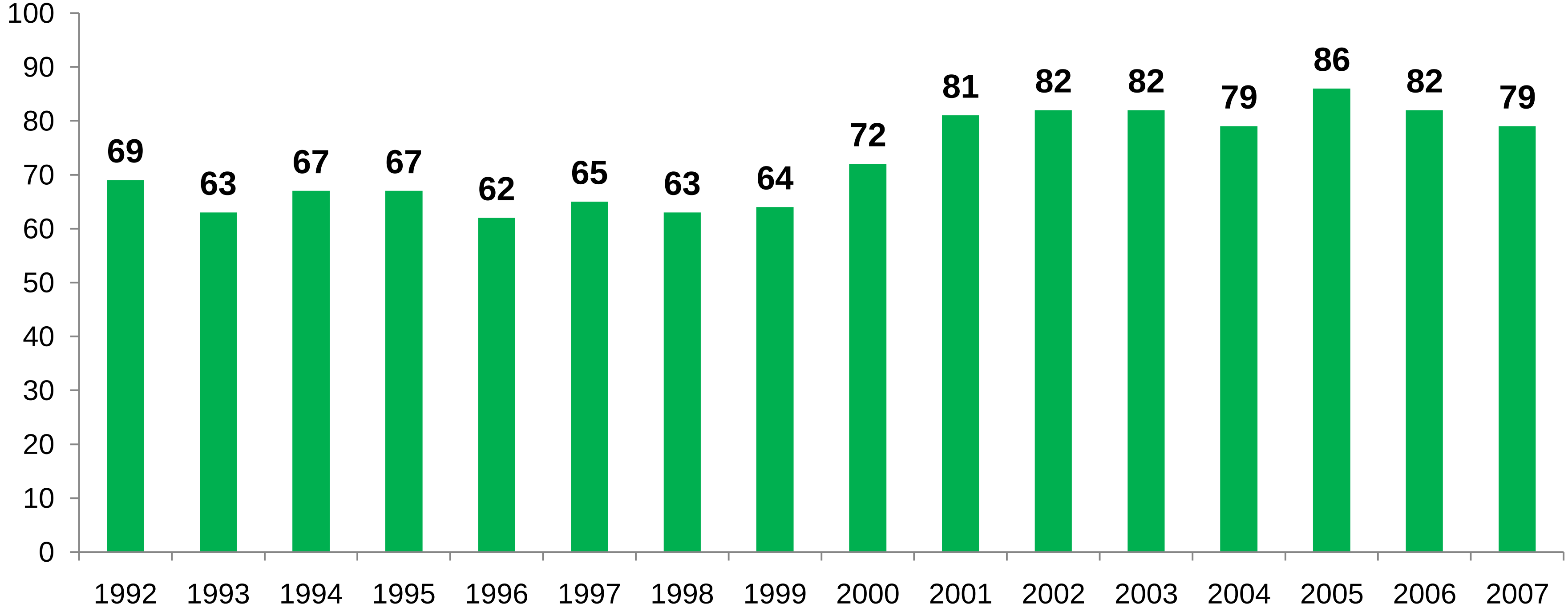
The Industry is Maturing



Source: The National Gardening Survey

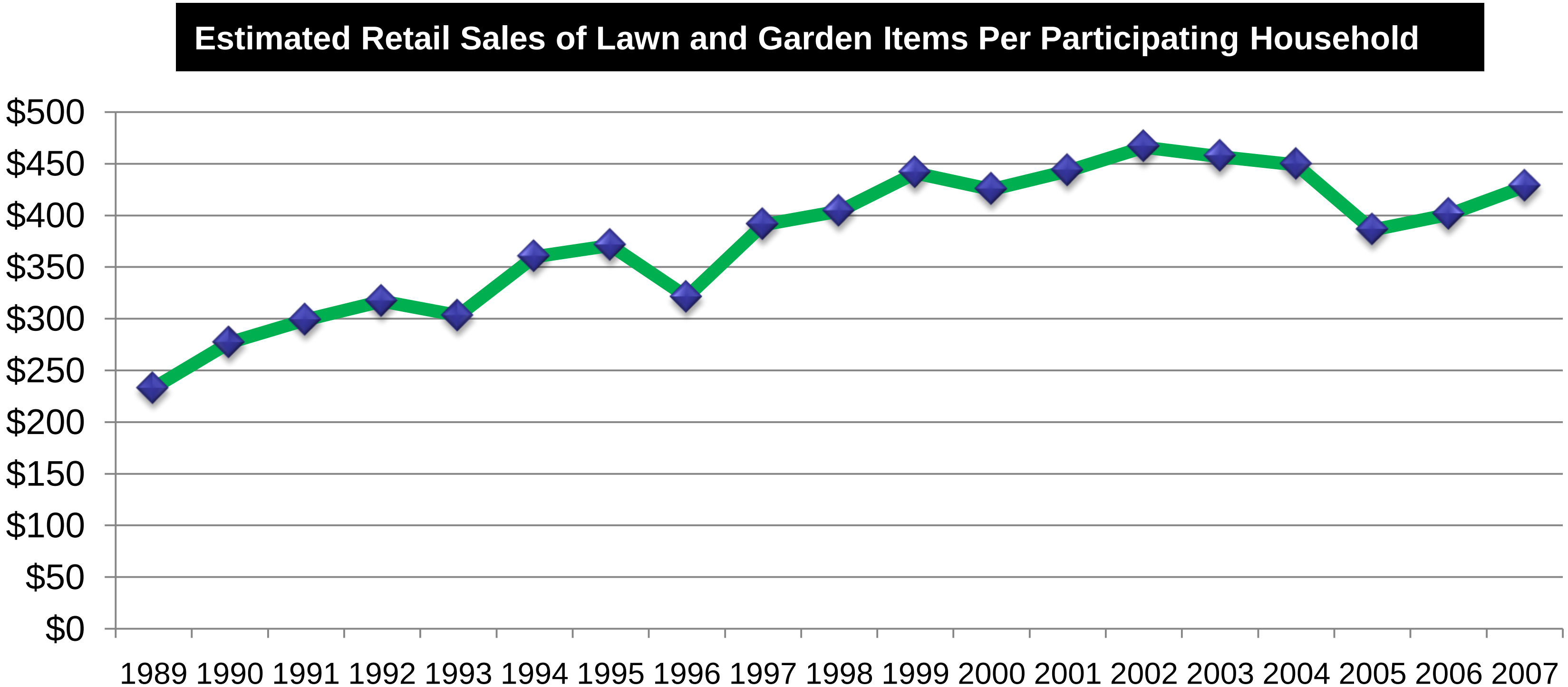
The Industry is Maturing

Number of Households Purchasing (Millions)



Source: The National Gardening Survey

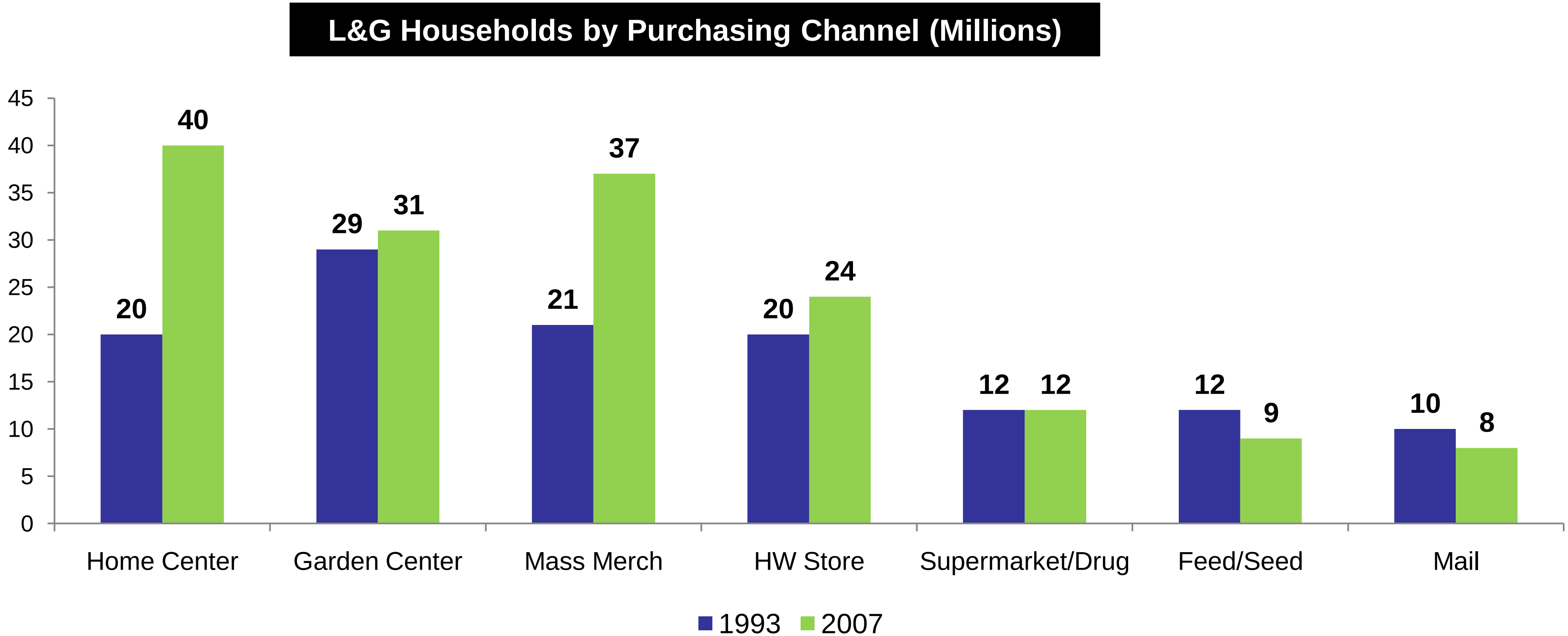
The Industry is Maturing



Source: The National Gardening Survey

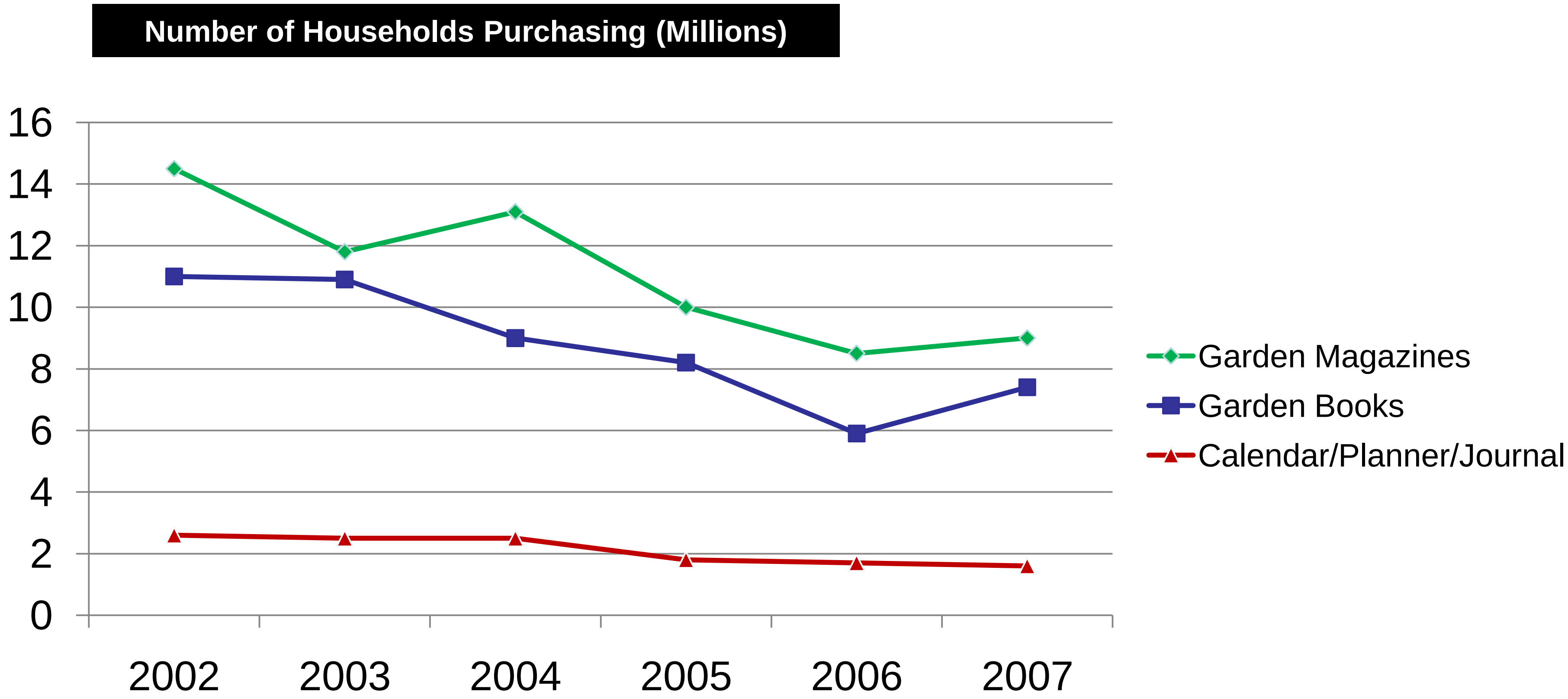
- Depth of penetration declining
- Shrinking of "hardcore hobbyists"
- More dollars classified as services

Channel Trends



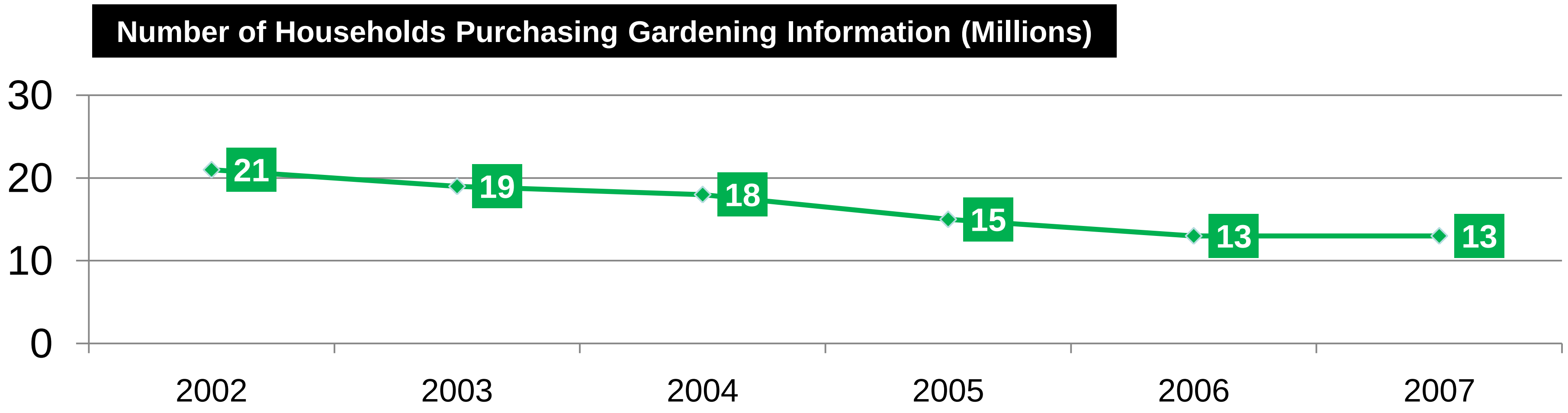
Source: National Gardening Association

Changes in Consumption of Gardening Information



Source: National Gardening Association

Gardening Information Consumers

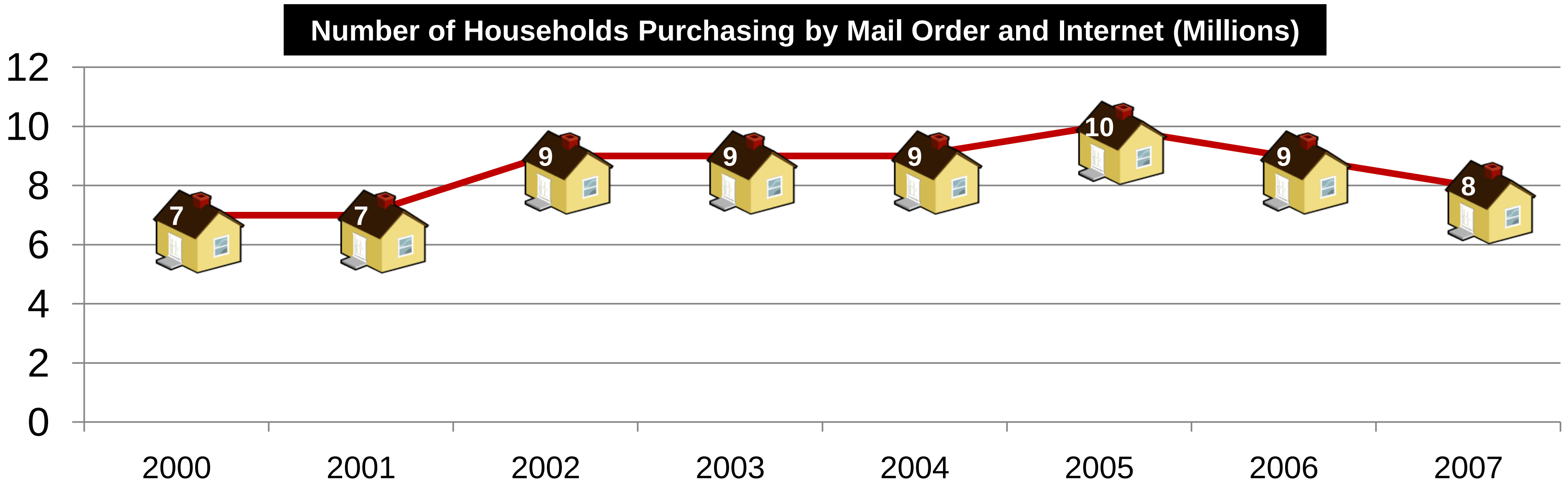


The most important consumers for gardening information in 2007 were:

- Women
- 45 years of age and older
- College-educated
- Annual incomes of $75,000 and over
- Married
- No children at home
- Households in the South

Source: National Gardening Association

Usage of Mail Order and Internet

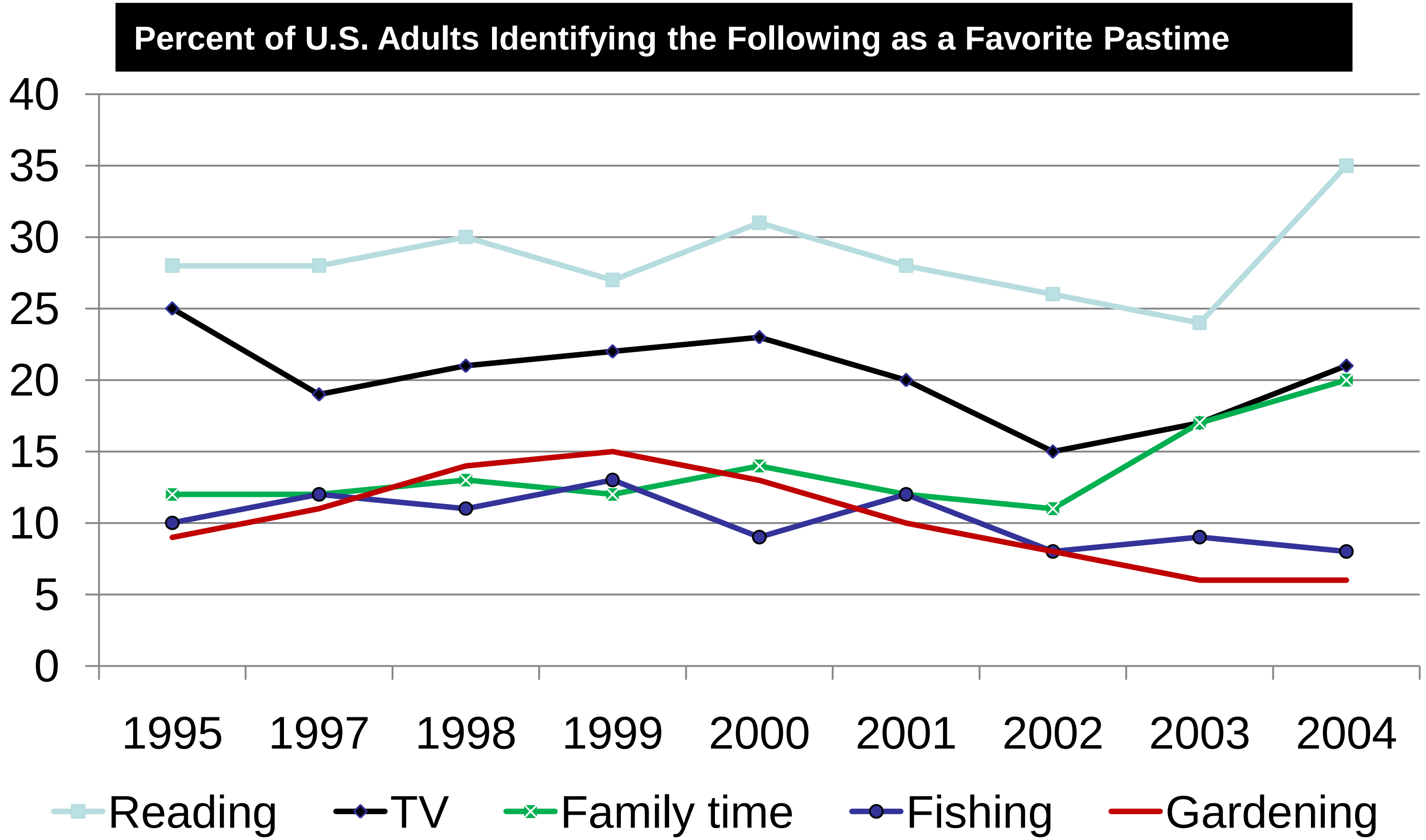


The key demographic groups that shopped online or by mail order in 2006 were:

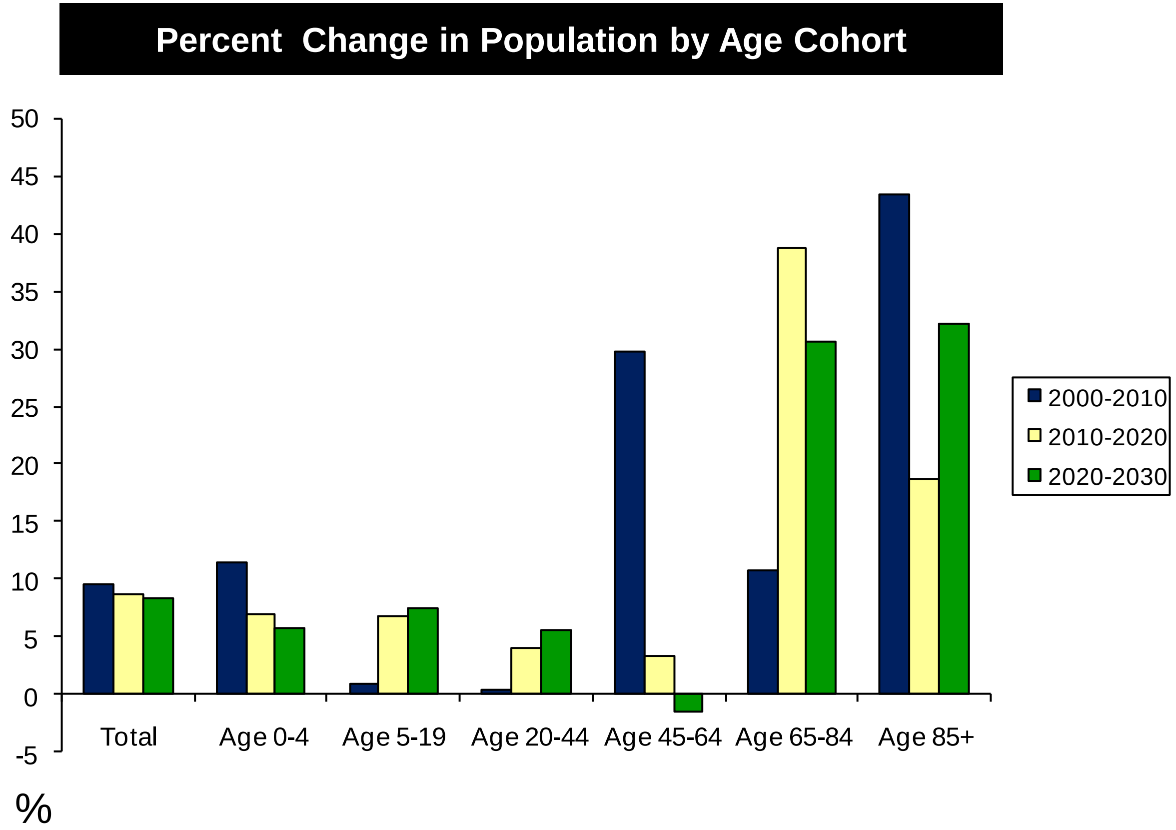
- Women
- Ages 55 and older
- Two person households
- Married
- College educated
- Households in the South and Northeast

Source: National Gardening Association

The Hobbyist is a Shrinking Segment



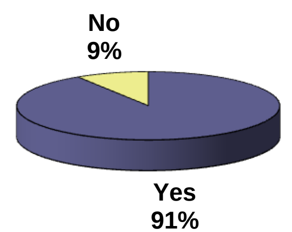
Source: The Harris Poll, December 8th, 2004

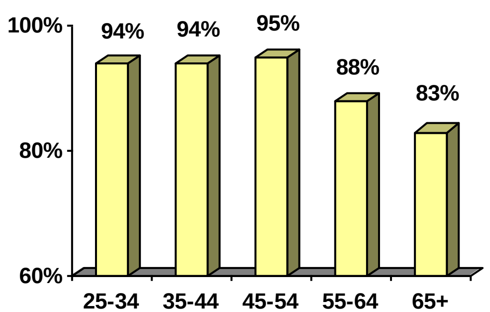


Source: U.S Census

The Core Customer is Changing

In the last three months, have you completed any type of lawn maintenance, gardening, or landscaping project <u>without</u> the help of a professional?

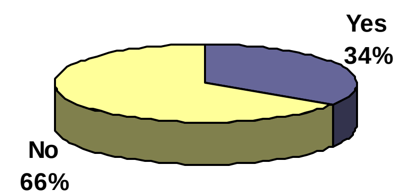


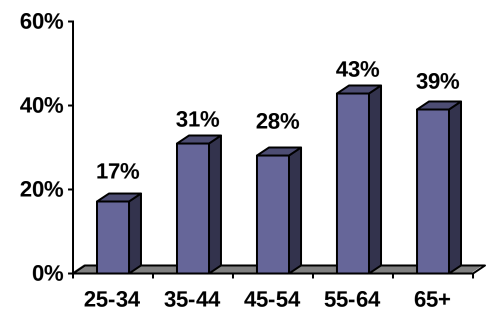


Percentage of respondents who have completed any DIY activity, by age.

Source: StandPoint

In the last three months, have you <u>hired</u> the services of a professional for any type of lawn maintenance, gardening, or landscaping project?





Percentage of respondents who have hired a pro, by age.

Source: StandPoint

The Core Customer is Changing

Segment	2000	2006
DSOIFM	46%	35%
DIFM	22%	34%
DIY	**32%**	**31%**

Source: StandPoint

DSOIFM = Do Some of It For Me
DIFM = Do It For Me
DIY= Do It Yourself

During peak gardening months, how many hours each week would you say that you devote to caring for your lawn and garden?

	2000	2006
Average	8.2	7.0
Median	**6.0**	**5.0**
Minimum	1.0	0.0
Maximum	35.0	50.0
Standard Deviation	6.7	6.3

Source: StandPoint

The Core Customer is Changing

On an annual basis, approximately how much money do you spend on garden purchases – this includes live plants, garden chemicals, fertilizers, garden hand tools, and other accessories but NOT big ticket items like lawn mowers, weed eaters, chain saws, or professional services.

	2000	2006
Average	$481	$417
Median	**$300**	**$250**
Minimum	$25	$0
Maximum	$4,000	$5,000
Standard Deviation	$611	$577

2006 dollars have not been adjusted for inflation.

Source: StandPoint

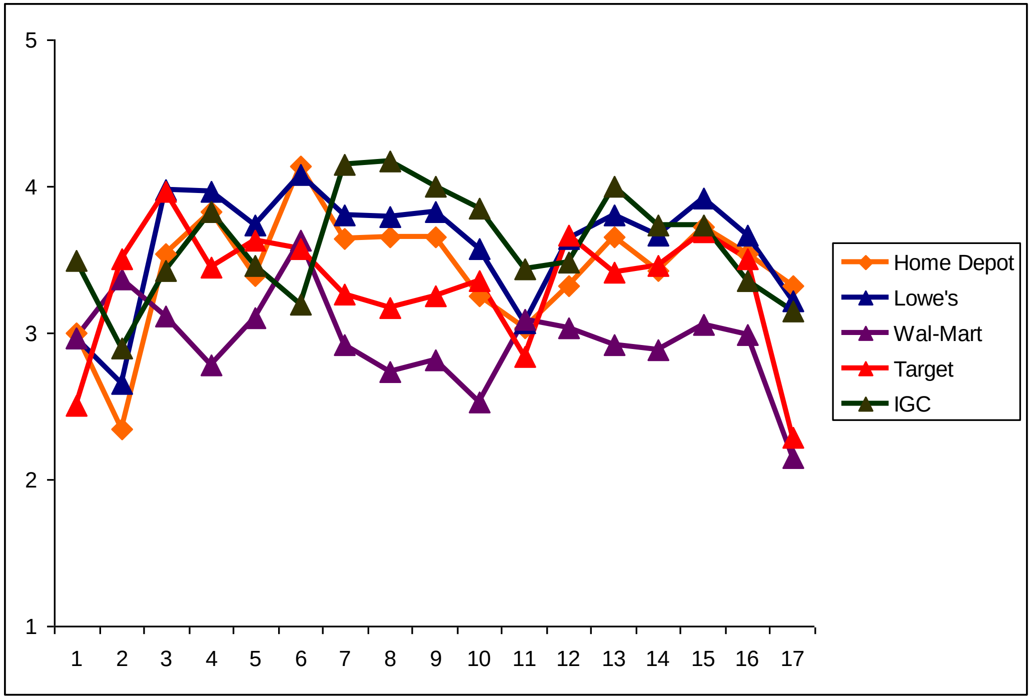
Attitudes Have Changed

	2000 Agree	2006 Agree
I garden in order to keep my property values up	**42%**	**51%**
If I had to cut back on household expenses, I would cut back on my lawn and garden purchases	**23%**	**31%**
The extent of my gardening involvement is just mow the lawn and keep things clean	**14%**	**14%**
I prefer to buy plants at garden stores that are NOT part of chain stores	**35%**	**22%**
The appearance of my yard is more important to me than keeping the interior of my house updated with the latest colors and styles	**30%**	**27%**

The "Agree" column is those who agree or strongly agree with this statement (4 and 5 on a 5-point scale.)

Source: StandPoint

Value Proposition of Retail Has Changed



Source: StandPoint

1	Young shopper	vs.	Old shopper
2	Male shopper	vs.	Female shopper
3	Dirty stores	vs.	Clean stores
4	Low quality products	vs.	Quality products
5	Difficult to navigate	vs.	Easy to navigate
6	Small variety of products	vs.	Large variety of products
7	Unhelpful staff	vs.	Helpful staff
8	Unknowledgeable staff	vs.	Knowledgeable staff
9	Unprofessional staff	vs.	Professional staff
10	Hectic environment	vs.	Relaxed environment
11	Modern product selection	vs.	Traditional product selection
12	Dreary environment	vs.	Vibrant environment
13	Undependable service	vs.	Dependable service
14	Have to shop	vs.	Want to shop
15	Unorganized	vs.	Organized
16	Not innovative	vs.	Innovative
17	Products for consumers	vs.	Products for professionals

Channel Dynamics

Channel	Impulse Occasion*	Planned Occasion*	What's Impacting Future Direction?
IGC	29%	**71%**	• Plant Destination / Variety Destination • Other "non-plant" categories not "top of mind" • Inventory control / cash flow a big challenge • In-store service / expertise is only clear differentiator • Annuals still king • Operations with a "home services" component fairing better • Customer counts flat to declining • Revenue was growing via product mix / pricing / not volume. This has hit a peak • Store count declining
Home Center	23%	**77%**	• Quality gap narrowing • Pay-by-scan: growers taking less marketing / variety risk • Large distributors locking up genetics on new products: will need box store distribution. • Customer counts flat • Growth in store count slowing
DDS	**55%**	45%	• Bread and butter Items • Narrow and deep
Grocery	**67%**	33%	• Impulse • Households buying gardening items on decline

**Source: ANLA and StandPoint*

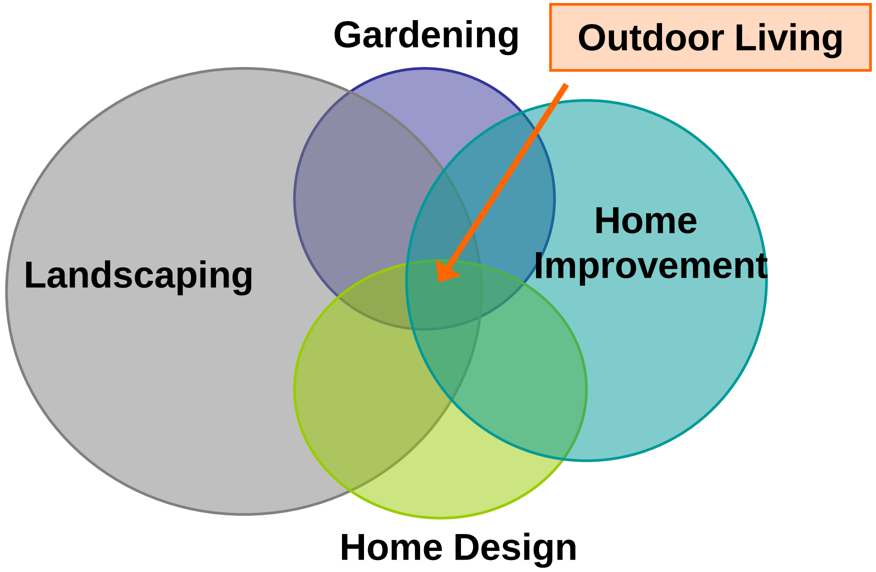
Other Notables

- Time-starved consumers
- More service-oriented culture and generations
- Decline in “gardening intelligence”
- Compression of buying cycles
- Channel disloyalty increasing
- Smaller yards. Market will correct toward smaller homes / denser development
- Growing affluence and home equity
- Growing belief that better landscaping improves resale value and sales rate
- The media is fueling this belief: Gardening is work. Landscaping is sexy.
- Desire to create spaces. Form and function over this color vs. that color or sun vs. shade.
- “Need some help but I can do some of the work myself”
- In the age of the Internet, it is all about monitoring and protecting your reputation and brand
- The trend is toward “locking up” plant exclusives
- Green: Attitudes are changing / Purchasing habits changing much more slowly (Vegetables leading the way). It is more about being “kid and pet friendly.”

Outdoor Living is NOT a trend, but a fundamental shift in how consumers use their "backyards."

Converging Trends:

- Gardening is "work"
- Landscaping is sexy
- Form and function are mainstream
- Next frontier of home improvement will be outside
- Curb appeal sells
- Outdoor to mimic interior home design (open spaces, informal living, etc.)
- Additional opportunity to personalize space
- Growing confidence in DIY interiors
- Outdoors as a destination for entertaining and hibernation



Cohort	Age	General Trends
Baby Boomers	45-60	• Significant migration to landscape professionals • Loyal to IGC • Peak earning power • Indoors complete. Moving outdoors • Outdoor kitchens
Generation X	35-44	• Migrating to professionals faster • Motivated by design • Significant DIY activity • More affluent at this age than Baby Boomers • IGC has different relevance
Generation Y	21-34	• Significant DIY activity • Indoors a priority over outdoors • Mimic behavior of Baby Boomers

	Retail
Product Opportunities	• DIY customers need a plan • Creating livable spaces (cushions for furniture, candles, area rugs, climate control products)
Target Customers	• Household income of $75K+ • Age 35-45 (Younger) • High incidence of shopping IGC for plants • Quality, style, design story of IGC must be translated to new product categories
Retail Distribution Opportunities	• Showroom? • Use plants in “defined spaces” • Products that reflect “your personal style” • Affordable design • Order and pickup • Services

Case Studies

- Break into equal-sized teams
- Each team picks one case study
- One team will present “Big Ideas” and upsides and downsides to each
- Everyone weighs in

Case Study #1: Weird Dave's Weird Perennials

Situation: $1.5 million in annual sales direct-to-consumer via a bi-annual catalog and website. Sales growth of 5% annually due to product mix and price increases, not volumes. Needs to grow business volume. Price increases alone will not compensate for sudden increases in business volume. Specializes in new and unique perennial varieties. Each year it is becoming increasingly harder for him to get access to the newest varieties. Maintaining access to new varieties is critical to his future business success.

Case Study #1: Weird Dave's Weird Perennials (continued)

Relevant Marketplace Realities?

- Consolidating access to genetics
- Dilution of product mix at retail
- IGC still a primary destination for products in his class
- IGC having a difficult time managing broad inventory
- Shrinking of hobbyists

Case Study #1: Weird Dave's Weird Perennials (continued)

Marketing Mix	Opportunities	Assumptions	Verify?
Product			
Price			
Distribution			
Promotion			

Case Study #2: Helen's Hobby House

Situation: Large direct-to-consumer operation with $25 million in annual sales via a quarterly catalog, flyers and website. Sales growth of 3% annually. Actual number of transactions has been stubbornly flat over the past 5 years. Sales increases have been the result of changes in the product mix and price increases. Has noticed that consumers are trading down recently given the current strain on household budgets.

A recent survey of the customer base indicated that 20% of Helen's customer base accounts for 80% of her sales. The median age of this top 20% is 55 years or older. A survey of "lost customers" indicated that nearly 25% were also over the age of 55 and had cut back on gardening participation. The National Gardening Survey indicates the biggest spenders are age 55+. The number of true hobbyists has declined. A private equity firm has recently invested in Helen, and is expecting customer growth / more transactions. Management is uncertain as to the best course of action.

Relevant Marketplace Realities?

- Shrinking of hobbyists
- Aging population

Case Study #2: Helen's Hobby House (continued)

Marketing Mix	Opportunities	Assumptions	Verify?
Product			
Price			
Distribution			
Promotion			

Case Study #3: Garden World of the Midwest

Garden World of the Midwest (GW) dates back to 1937 as a nursery grower. In 1997, the business opened a retail establishment and still grows 40% of its inventory (which includes a mixture of nursery and greenhouse items). Today, GW is a $35 million operation. It is widely regarded in the region and enjoys strong customer loyalty. During a typical May, the retailer will have over 5,000 retail transactions and 750 wholesale transactions.

Its landscape wholesale division accounts for $9 million, its retail accounts for the balance. For the past 5 years the landscape division has been growing 10% per year. Due to the housing market, sales have slowed in 2007 and 2008 to date. Retail sales have been growing a more modest 5% annually. Customer counts in the retail operation have been steady for the past 3 years. Like most retailers, inventory management and the seasonal nature of its cash flow are its biggest business issues.

In the past 2 years, the company has been getting a noticeable number of calls and emails about drop-shipping supplies direct to customers' homes and web orders. At the same time, they have seen a 20% increase in telephone inquiries to their horticultural help-desk. A recent tally over the course of a week indicated that 3 out of 10 of the calls were from customers looking for a specific plant they did not carry but could order. Website traffic and length of web stay have also increased 15%, but they are not sure why. The owner's gut tells him that e-commerce of some type may be an untapped distribution channel, but he struggles with pursuing strategies that "dis-incent" a visit to his store.

Relevant Marketplace Realities?

- Shrinking of hobbyists
- Aging population

Case Study #3: Garden World of the Midwest (continued)

Marketing Mix	Opportunities	Assumptions	Verify?
Product			
Price			
Distribution			
Promotion			