

GROWERTALKS

GT in Brief

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Sun Gro Goes Direct

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In news that may not have come up on your radar, but has the hardgoods distribution world buzzing, potting mix giant Sun Gro has decided to bypass the traditional hardgoods distribution channel and sell their drop-shipped products directly to growers. Their retail product line will continue to be sold through traditional distributors, and they say they hope distributors will continue to warehouse and sell their grower products in spite of the decision regarding drop-shipped product.

Sun Gro is known for their Sunshine, Metro-Mix, Sun Gro and Fafard brands on the grower side; and Black Gold, Fafard and Sunshine brands on the retail side.

In a press release dated June 8, Sun Gro CEO Ken Elsbury stated the reason as “the continued escalation of costs to move raw materials into production sites and finished goods to growers.” In other words, trucking.

For more details and some clarification, *GrowerTalks* contacted Ken. First question: What was the main motivating force behind the decision?

“The key driver is what’s going on with freight,” Ken answered. “It’s been affecting all of us, including the grower, for the last three or four years, and it’s not getting any better.”

Sun Gro has seen freight price increases of 18% to 25%, Ken says, with some freight lanes (common routes) up 30% over a year ago.

“We had to do this [go direct] to avoid crippling the grower by passing those costs on to them. This is a way to at least offset a portion of it.”

Unfortunately, this change won’t be enough to prevent Sun Gro from implementing a price increase. Ken simply hopes it will allow them to “soften the blow.”

“We have to,” he says. “We’re one of the few in the market that hasn’t taken [a price increase] in the last three years and we’ve got to keep pace with the market.”

Ken says he’s visited about 150 growers since making the announcement in May. When he explains Sun Gro’s freight cost woes, they commiserate and share their own trucking cost horror stories.

“Everybody’s feeling it,” he says. “There’s quite a bit of understanding of what we’re doing and why we’re doing it.”

And how are distributors reacting to the news?

“There have been some tough conversations along the way,” he admits. “I’ve had relationships with some of these guys for 30-plus years. But you know what? The ones that I thought were going to be the most difficult conversations were probably the most understanding.”

He says they say things like, “I’m surprised it hasn’t happened before now” and “If it was my business, I’d be doing the same thing.”

“It tells you that the relationships really do mean something,” he says, adding that it was the customers who were most “transactional” who were the most negative and emotional about the announcement.

What the press release doesn’t say

Ken filled us in on three important points that were not in the press release and which no other source had said:

I First, 90% of Sun Gro’s product is already shipped direct to customers. It never sees the inside of a distributor’s warehouse. This is the drop-ship business that Sun Gro speaks of.

I Second, Sun Gro only does about 35% to 40% of its total sales through distributors. The rest is already being sold direct, so this isn’t a radical change to Sun Gro’s overall business. Ken says they hope to retain as much of their distribution business through warehouses as possible to serve those smaller growers they wouldn’t otherwise reach.

“I want to maintain relationships with every one of the distributors we have on the warehouse program,” says Ken, “Because there’s a significant amount of business that’s LTL [less than truckload] that, quite honestly, we’ll have to stop servicing through combined orders [putting multiple orders on one truck].”

He says he’s received a “pretty favorable response” from a number of distributors “who recognize that this is going to be an opportunity for them to grow their business.”

We asked Ken if he thought other manufacturers and suppliers were watching Sun Gro’s move closely.

“I was down in Georgia last week and there’s a box manufacturer that communicated that they’re changing their model as well,” he said in illustration. “I think there are going to be more and more folks considering moving to a direct model.”

He concluded by pointing out that Sun Gro makes or manages over 140,000 truck runs per year.

“It’s huge. We are a material handling company at the end of the day ... we’re all going to be dealing with these issues of labor and freight the rest of our careers. That’s just the way it is—it’s the new normal.”

A distributor’s perspective

Curious about how the distribution world might be reacting to the Sun Gro decision, we called Rick Hyslip, President and CFO of Griffin Greenhouse Supplies. Based in Tewksbury, Massachusetts, Griffin has locations in 10 states.

Acres Online: Is Sun Gro's decision a big deal to Griffin and other distributors? If so, why?

Rick Hyslip: Sure, it's a big deal. Sun Gro is a large supplier in the media market and Griffin has represented them and/or Fafard for more than 30 years.

AO: What impact will this have on Griffin?

RH: While we were surprised by Sun Gro's announcement, we're also well positioned to handle the change. Griffin has always represented multiple growing media providers and will continue to do so.

AO: Will you continue to warehouse Sun Gro's product, as their letter offers? Or will you say, "forget you!" and find a new source to sell?

RH: We continue to inventory Sun Gro products in our warehouses today. We're currently evaluating our growing media product mix, and any changes in our go-forward approach will be decided in due course.

AO: How do you fill the supply hole if you decide to drop them?

RH: Griffin's growing media portfolio has always been well-rounded, representing a range of products and suppliers. We're fully ready to service our customers' media needs, as we've always done.

AO: If Sun Gro is successful in going direct, do you worry that other suppliers might make the same decision, cutting out distributors?

RH: Every business must evolve, as the market itself does, to maintain vitality and profitability over time. It's every supplier's prerogative to make the changes they deem necessary to meet those objectives. Griffin has certainly done that. We remain focused on our customers, and how we can support them with the right mix of products and services to thrive in today's marketplace. **GT**