GROWERTALKS

Cover Story

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Locals Only

Chris Beytes

“Locally grown” might sound impressive on a sign, but its definition is open for widespread interpretation. Consider that your crop’s genetics may have started in Japan, your seeds and cuttings probably came from Mexico, Costa Rica or Guatemala, and your plugs were grown in Michigan, Florida or some other state than your own. Peat moss from Canada or Europe, plastics from who-knows-where … this truly is a global marketplace.

So what classifies as “local”? How far can or should you truck your products and still expect to make it cost-effective? What can you do to meet the demands of your customers without losing your shirt on freight costs? And what opportunities exist in today’s expensive distribution model for growers and retailers?

Local? In a global economy?

Floriculture started out quite local. Every town had its own wholesale/retail florist. Bigger greenhouses and high-volume production, plus the advent of chain stores, brought us the concept of trucking product farther and farther down the road, until 600-mile shipments weren’t uncommon. And for those growing regional specialties like foliage or woodies, nationwide distribution became—and still is—the norm.

Then enter the new millennium and a new business model. Chains, which used to accept massive quantities of plants, now want smaller, more frequent deliveries. And diesel, which was just $1.62 in 2000, has shot up to $5 per gallon in 2008.

What that’s done to freight costs is almost unprecedented. One large greenhouse, Green Circle Growers in Oberlin, Ohio, which ships some 80,000 racks of plants per year, expects that their actual freight cost will go up 22% next season, if diesel stays near $5 a gallon. Freight will then account for nearly 10% of sales, compared with 8% a year ago, says sales manager Scott Giesbrecht. South Central Growers in Springfield, Tennessee, has seen the same kind of increase, with their freight costs nearly doubling in the last five years, to 8.4% of sales this year. Monrovia, which ships to 48 states and Canada from locations in five states (California, Oregon, Ohio, North Carolina and Georgia), saw common-carrier freight rates increase 10% from the previous year, according to company president Elin Dowd (they ate the entire increase rather than pass it along to customers, she says).

Shortening the drive

It's those kinds of increases, along with other factors (which we'll get into), that have led growers to rethink their delivery distances and strategies.

"Five years ago we would have said that we could deliver effectively within a 300-mile radius," says Scott Giesbrecht when asked what "local" means to Green Circle. "I would say now that that radius is down within 150 to 200 miles."

Other nurseries report the same tight delivery radius. To Bell Nursery co-owner Gary Mangum, "local" means roughly 100 miles—close enough to be on a customer's doorstep within two hours, he says.

For Altman Plants, local is 100 to 150 miles for their California facilities, except when it comes to cactus and succulents, which ship more efficiently than annuals. In Florida, they ship from their Palm Beach County location as far north as the Panhandle, but Deena Altman says "we really have to watch our loads" with those long-distance shipments.

South Central Growers expands "local" out to about a four-hour trip—250 miles. While 70% of orders stay inside that radius, the rest might travel up to 600 miles, to Little Rock, Arkansas. South Central's Alex Vanderhengst says diesel fuel for that 600-mile trip isn't his biggest concern, it's all the other costs associated with having his trailers and carts gone for two days.

"Ideally, we'd have another location in Memphis that would handle our Arkansas customers, and everything would ship within a 150-mile radius."

What retailers want

Not surprisingly, growers want full carts, full trailers, and as few stops as possible—that's the most cost-effective way to deliver. Which is fine … except their retail customers are asking for the exact opposite: smaller deliveries made more frequently, so product is fresher. And actually, with pay-by-scan, growers want that, too, because it means better-quality plants in the stores, and the ability to react quickly to customer demand.

Another factor comes in to play: Big-box retailers want fewer vendors. The number of primary chain store providers has dropped drastically in recent years, from several hundred to possibly just a few dozen around the country. But those big players, such as Costa, Metrolina, Bell, Masterpiece, Smith Gardens, Color Spot and others, are being asked to service more stores with more products. But they don't want to build more greenhouses, not in this economy. So they need contract growers. And they want to send larger loads to each customer, which means they need more SKUs—more individual products to sell to customers. Which means the primary supplier to chains are now providing more than just annuals, they're also bringing in perennials, foliage, woodies, tropicals, groundcovers … even sod.

Of hubs and spokes

What's the solution for this distribution conundrum? Hubs and spokes. The hub is the main greenhouse location that handles all delivery logistics to the store. And the spokes are contract growers (or secondary locations owned by the hub) across the region or even across the country.

In the case of Bell Nursery, for instance, they bring in trees, shrubs, foliage, annuals and perennials from a wide range of sources that contract grow specifically for Bell. Product is shipped closely spaced on racks packed into semi trailers, maximizing space. With the help of leased CC trolleys, Bell's contract growers can ship one-way loads on third-party carriers, minimizing freight costs and equipment investments.

Once the plants hit one of Bell's facilities in Maryland, Ohio or Virginia, it's repacked onto Bell's carts for delivery to the local stores via straight trucks. Bell uses wide shelf spacing and sells right off the racks, so these loads aren't nearly as space efficient as the first ones were. But with the shorter delivery distances and Bell's careful control of quality and shrink, this system is efficient.

Most large growers use a similar model, although most only have one central hub from which they ship. But like South Central, many are considering additional hubs. However, as Alex says, it can't just be a cross-dock warehouse. It has to be a production greenhouse. "If we were going to start another facility in the Memphis location, it would have to be self-sufficient (a full-fledged production facility) in order for us to really see the savings come out of that." He says he'd like to look at that in the next five years. Bell purchased two existing businesses to act as hubs for their new regional ventures. And certainly, Color Spot, Costa, Weiss, Natural Beauty and others have followed that same model, adding contract grower "spokes" as they expand.

What impact has this had on equipment utilization? In the case of South Central Growers, they're now at about 95% utilization of trailers, up from 75% to 80% before. Green Circle, which looks at dollars per cart as a benchmark, shoots for $525 to $550 in product per cart—up from $450 before. But Green Circle's David Van Wingerden is quick to point out that optimum dollars per cart varies by season. "We have to make sure we don't shortchange our customer," he says, emphasizing that you can't fall into the trap of putting profit before product mix.

Alex Vanderhengst says he looks at the value of the entire trailer load, because otherwise there's a temptation to ship only six-packs or 5-in. pots or other high-dollar products. "I like to look at the overall mix—how many dollars I'm putting on a trailer. Obviously, all things being equal, I'd love to have every cart worth $600. But that's not reality. So we look at a mix of how many dollars are on our trailer and where they're going."

Shifting solutions

What are some other options for reducing deliver costs? How about convincing customers to pick up their plants? Certainly, a generous pickup discount can help encourage this. Dedicated pickup areas have been used by several growers around the country, including Nurserymen's Supply, Heartland Growers and Kerry's Bromeliads.

On the mass market end, we predict that distribution hubs, either grower-owned or perhaps third-party operated, will become the norm. And while South Central's Alex Vanderhengst feels that it will have to be an actual production facility in order to help defray its costs, Bell Nursery has recently leased an Emporia, Virginia, warehouse from which to serve their southern customer base. They chose the 40,000 sq. ft. warehouse over their recently purchased Virginia greenhouse location because it's "significantly closer to the marketplace," says Gary Mangum.

When you've got your trailer loads optimized, you can next look at the trucks themselves, and even your drivers. Green Circle has a giant fleet: 20 tractors, 50 trailers, five 36-ft. straight trucks … and they only do about 30% of their total trucking themselves. Scott Giesbrecht says they recently purchased three new Kenworth trucks with automatic transmissions, which should help drivers achieve optimum fuel mileage. In addition, they're now tracking fuel mileage by each driver, rewarding those who get the best mileage and "exposing" those with lead feet.

Going my way?

Finally, one more solution is a rack pool, like the one in Europe developed by Danish company Container Centralen (CC). The CC trolley is ubiquitous in Europe, with millions circulating between growers and retailers. CC hopes to make inroads here with the same kind of service, and they're having some luck since their 2005 launch: there are already 200,000 in the pool here in the U.S. CC's Sonny Costin says they hope to increase that by another 30% next year.

With a rack pool, you don't buy racks, you lease them for either a span of time or for a one-time use. You don't own the racks, so you don't have to worry about maintenance or losing them. When you leave your batch of CC trolleys at the store, you can bring back any other CC's—your lease give you access to a quantity of racks, but not to any specific ones.

The one-way option is very attractive, especially for long-distance deliveries. You don't have to worry about retrieving your racks; that's CC's job. That means no empty backhauls. And you can use third-party shippers without worrying about them having to retrieve your empties.

Bell, South Central and quite a few other growers are making use of both services. Gary Mangum says it has allowed him to expand without increasing his inventory of purple Bell Nursery carts. They use CC's for shipments coming in from contract growers, then shift plants over to Bell carts for delivery and merchandising.

Alex Vanderhengst also occasionally uses one-way CC trolleys, but he says the cost ($25 for a CC rental vs. $30 to use and retrieve his own rack) makes it a bit of a wash right now. He's hoping the cost will come down as CC increases its market penetration.

A necessary evil

In a global economy, "locally grown" will never mean what it did 50 years ago. Seasonal differences and growing conditions will probably always make it beneficial to produce some crops in Florida and others in Michigan. But it's safe to assume that, as long as freight costs remain high, growers will search for ways to shorten the distance from the greenhouse to the garden.