

GROWERTALKS

Features

5/15/2009

Foliage

Chris Beytes

Room for Improvement

A handful of floriculture businesses nationwide are considered iconic—the best at what they do. Pot mums? White's Nursery. Seed geraniums? Henry Mast Greenhouses. Service? Bell Nursery.

In the houseplant world it's Hermann Engelmann Greenhouses. Since 1971, when Hermann and his family moved to Florida from New Jersey to expand their growing business (they came to the States from Germany in 1960), the Engelmanns have focused on one mission: being the best foliage growers in the world. Few, if any, would dispute that they've achieved that goal, at least in the world of small (3 in. to 8 in.) houseplants—they're on par with the best from Holland and Denmark, where growers set the standards.

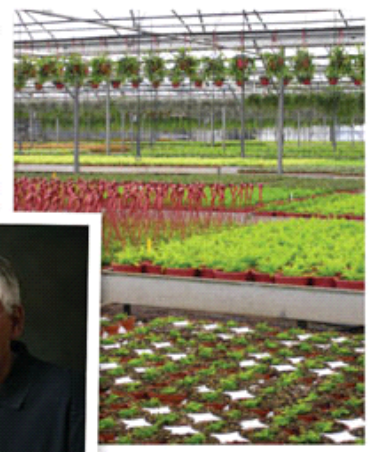
Today, Engelmann is the largest grower in Apopka (the "indoor foliage capital of the world") and the 21st largest grower in America, with nine facilities covering 2.8 million sq. ft., staffed by 260 employees who produce tens of millions of pots in some 450 varieties.

During the houseplant heydays of the '70s and '80s, when Engelmann was expanding and the profit margin on foliage was 50% or more, making money was easy. So how does Engelmann's continue to maintain such high quality with their Exotic Angel brand in these days of razor-thin margins?

We sat down with Hermann's son, Wolfgang, who took over the business 20 years ago, to get the scoop on how they manage to stick to their mission of being the best in the world.

GT: Wolfgang, on the surface Engelmann's doesn't seem to have changed much to keep up with the times.

WE: That's totally wrong. The only thing we have not changed is the core belief of the company. When we established this business, we wanted to be the best foliage growers in the world, quality-wise. We started from roughly 50 varieties of plants; we grow about 450 varieties now. What we've done is continually improve the company every single year. We've tried to upgrade the quality of the product, like better soils, better growing conditions, smarter growing. [For instance,] we started about 15 years ago with Dr. [Lance] Osborne, using biologicals. A perfect example, ivy stock: We went from spraying for spider mites 52 times a year to five or six times a year. But we're also doing a lot with merchandising, marketing, packaging ... for a small company, we do a lot of things that a lot of people don't see."



GT: I think that's the key: The product the public sees—those hundreds of varieties of small foliage plants at retailers across the country—have remained consistent through the years.

WE: When my father started this company, he always told me, "Make sure when the customer opens the box, they don't go "Oh," they go "Wow!" That's what we try to do. The problem with that is that it's very expensive to do that. To grow as many different varieties as we do at the high quality standards we have, it's really tough to make money. Ask anybody in foliage. It's hard enough to make money in foliage, but to constantly do a really top-notch job is very expensive.

GT: Who were your customers back in the '70s? Because WalMart, Home Depot and Lowe's certainly weren't in the picture then.

WE: It was all brokers. We also sold to Kmart and grocery stores. But a lot of it was brokers—which made sense. You have geographic producers and regional experts who knew their customers and could bring in small quantities to the stores weekly.

GT: How easy was business back then?

WE: It was very easy. I mean, most of the nurseries were making 50% to 60% profit margins. [Today] we try to run this place on 4% ... in a good year!

When my father came here, there were no real quality growers. I remember the first greenhouse we built. It had 60 benches that had 60 varieties of plants. When you grow 60 varieties of plants in one greenhouse, you really learn what not to spray on different crops, and things like that. We learned everything the hard way. But there is no other way to learn this business. You do it, you screw it up, you figure out how to do it right, and then you keep on doing it. That's pretty much agriculture.

GT: When did the foliage business start getting tough?

WE: It's been tough for probably the last 15, 20 years.

GT: Why? What changed?

WE: Prices. All our costs have gone up, but prices have not. I mean, come on, a 4 in. sells today for less than

it did in 1977! Then, we sold a saucered 4 in. for \$1.75 I think. Same things sells for \$1.40 now. Your quality goes up, but all your costs go up, too. And you can only go so far with efficiency. Eventually you get to a point where the investment is so great, there's no payback. Especially in today's economy.

GT: When I look around Engelmann's, on the surface it looks like it did when I used to buy from you 20 years ago. You haven't gone to full automated moving benches, you've got multiple locations, it's still a lot of hand work ...

WE: Granted, this location (Location 1, their headquarters) is not automated. But Location 6 has all movable benches. That's 5,000 movable containers. Location 8 has 2,500 movable containers in it. We've done a lot of automation. We've spent a lot of money on automation. But not like in a bedding plant facility. In a bedding plant facility you've got, what, a five-week or six-week crop? It's a different animal. And growing 450 different varieties of plants? ... Our company would look totally different if we grew just three. But we can't. So everything we do has to be incredibly flexible.

GT: What about consolidating your business under one roof?

WE: Well, we're about \$65 million into that equation now, so ...

GT: In other words, you're too far down the nine-location road to change now?

WE: The locations came about because we bought facilities from other people, rebuilt them and retrofitted them. Like when we bought Oakdell, we got it very reasonable, but it was really run down. We had to put about \$4 million back in that facility to get it where it was working properly.

GT: You've got some tough competitors out there. It's easy to grow a cheap 4 inch. So how do you keep customers appreciating the quality you put into your product.

WE: Sell-through. I mean, barcodes were a real pain to implement, and they're expensive to put on, but they also give the customer a way to see what sells.

What does the typical 4 inch sell for? Somewhere around \$3. For \$3, it's a tremendous value. And the cheap stuff retails for the same amount. But when someone takes it home and it dies, you're doing a disservice to the consumer. Also, it's very hard to grow quality 4 inch. That's the reason a lot of people don't do it. You have a short window to do the job, and every single thing you do has to be exactly right. If you don't, you throw it away.

GT: So what are a few things you do that adds to your quality, but also your costs?

WE: All our soils cost typically twice as much as cheap soils. We're paying at least \$50 a yard. And every single one of our crops is separated out by growing conditions. We don't grow plants together that don't belong together. We put them together by spray, by light and by temperature groupings. So everything is grown the way it should be. We're at the size now where we can do that, but it's very difficult when you're growing this many varieties, trying to find out what grows together and what doesn't.

And it's the selection of what we put into the plants. Some inputs cost a lot of money. That's why profitability can be tough. But it works. [For instance], in the last 10 years we've managed to drive down the costs of pesticide use. Every year. And that's with prices going through the roof. That's why I say there's always something we can do better. (Laughs) I mean, thank God there are so many things we do wrong that we can

make right! It's not big things, but if you can save 2% here, 5% here, 1% there, you're always going to be moving forward.

GT: It seems like you have production figured out. What else can you do to streamline your business?

WE: There's a lot we could do [to upgrade] production. The problem is the expenditure you put into it. Like in Locations 8 and 6, we put all the workers in a central area so they wouldn't have to make half-mile runs to the break rooms. And they're all working on conveyor belts—wherever I can I'm putting people on belts.

But as I said before, everything has to be flexible. We can't design a system that works for just one crop. We're constantly looking at our company and improving every single operational thing. Our goal is to improve everything we do every year—and there's always something to improve. No matter how good you are, there's always something you can do better—and thank God there is! If you're making low profit margins and you do everything exactly right, you're screwed. We have plenty of room for improvement.

GT: When it comes to the marketing side of the business, your father was an innovator.

WE: My father got into "talking" labels. Not just the botanical name, it was, "I am the so-and-so plant." My job everyday after school was gluing floral picks onto the back of labels and letting them dry and then bundling them—you know, the nursery business, all kids are slave labor! If I didn't get the pick on straight I'd have to rip it off and put it back on straight. He would literally hand-write labels, every night. Then we got to the point where we made enough that we could print them.

GT: You still use those talking tags. What new things are you doing in marketing?

WE: We're doing plenty of things that are outside of our comfort zone right now, with foliage. I mean, with planters and containers A lot of the things we do in marketing ... well, it's not something I really want to discuss on the record because we put a lot of money into it. We invest in travel and visiting trade shows outside our industry There is a reason our customers come to us, because we do a very good job. We know our facts, we go to the right shows.

What we do really isn't about plants, it's about home décor. You have to hit the colors right, you have to hit the shapes right ... it's very complicated to do. And you have to really be careful, because you can lose a ton of money. I mean, if you misjudge one container that's a \$200,000 promo, and that thing doesn't sell and you're stuck with 100,000 pots that cost \$2 or \$3 apiece, it's not good!

GT: So why not sell to houseware retailers like Crate & Barrel and IKEA?

WE: IKEA has, what, 30-some stores scattered across the country? It's a cube issue—how do you get it there?

GT: But if this is home décor, how do you put it in front of customers who are shopping for home décor and not for plants?

WE: That's next. That's what we're looking at next. And we're also doing some internet sales. That's all for the future.

GT: Speaking of the future, is there a sixth generation being groomed to take over?

WE: Several of the next generation are in school right now and are working towards the future for the company, from MBA to marketing degrees. We'll see what happens. You can't force anyone to come into the business, of course. There will be a family board, even if they don't work directly for the company.

GT: Do you worry that the industry is changing so much that whoever is running Englemann's 20 years from now, whether or not it's family, will have to move away from your mission?

WE: No. You can't change that. We are what we are because we're the best at it. All of my key people "get it." Everybody works here because they want to work here and because they believe in what they're doing. I surround myself with good people. I don't have "yes men" working for me, I hate that. Our managers meeting is, um, "interesting"! I mean, this is one of the few companies in the world where, if I come up with a really dumb idea, one of my managers will look at me and say, "Boy, that's stupid." I don't always like it, but ...

It's like when we developed this new self-watering pot. It's come full circle back to the original size. I had all the ladies in the office come in, I lined all the designs up, and I asked them, "What do you like?" And the newest design, the one I was most happy with? Everyone of the ladies said, "I don't like it." I'm thinking, "Great!" Because we had to redo the molds. I've got 420,000 of them shipping in July, and we don't have them produced yet. And they're coming from China. It made it very interesting. But I listened!

GT: In your view, what's the key to success in this business today?

WE: Love what you do, but do it right. You have to do it right. For instance, if you specialize, and you grow one variety, don't make your goal, "I want to be good at this." Make your goal, "I want to be the best in the world at this."

The bottom line: You've been asking me about quality and if you can afford to do it. How can you afford NOT to do quality? You've got to remember: If we turn off the consumer more than we have in the past ... I mean, so much junk has gone into stores that we're lucky we still have an industry.

There's no trade secret about quality. You just have to work very hard at it, and you have to really know how to grow a plant—you have to feel it. In Germany they have a saying, "fingerspitzengefühl"—"A feeling in the end of your fingers." You've got to be able to walk in a greenhouse and feel if it's right or it's wrong. I know that sounds kind of goofy. But you've got to "get it." It's as simple as that. As growers, you either get it or you don't get it. If you don't get it, you can do whatever you want to, you're never going to be a good grower. My father always told me, "If the plant looks too happy, something's wrong. He's right. It means you're over-fertilizing it or you're pushing it too hard. Again, five generations of growing—maybe a lot of it is genetic now.

GT: What else did you learn from your father?

WE: Be here. Work hard. Treat your people fairly. Do it right. I guess that's the bottom line: do it right. Always try to give the customer a little more than what they feel they paid for. Look, we could have made a lot more money by doing it half-way over the years. Wealth-wise, we would have had a lot more wealth in the family. But I can get up every morning and look in the mirror and say, "We do it right." I mean, everything we do is ... (pauses and laughs). No, not everything. We try our best to do it right. We honestly give it our best try to constantly do it right.