

# GROWERTALKS

## Features

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## Certain About Uncertainty

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Charlie Hall, Professor and Ellison Chair in International Floriculture at Texas A&M University, uses a lot of different data points to assess how the economy will fare in the future. This includes the Conference Board's leading economic index, the Chicago Fed's national activity index, various labor and housing reports, and unemployment rates and filings.

For industry-specific data, he collects a lot of grower-level benchmarking data on income statements and balance sheet performance, much of it from the participants in his EAGL and Your Market Metrics programs. He gets help on garden center data from his friends Ian Baldwin and Danny Summers.

And at the start of every year, as the chief economist for AmericanHort, Charlie calculates an index of prices paid by growers for inputs and the costs of production, which he tracks over time, to gauge industry-wide profit margins.

Charlie looks at a lot of numbers.

"Those are my tea leaves; that's how I read things," he told me in a brief phone chat we had in early December. After the craziness of 2020, I wanted to pick Charlie's brain to get a feel for what we can expect for 2021 based on all of the numbers he's always crunching. (Here's a hint: the focus will be on two things—having a conservative plan and COVID-19.)

### **So what are your tea leaves telling you? What are you seeing?**

They're telling me my crystal ball is fuzzy. (laughs) Because right now, you hear the media say, and those without economic training say, "Look how good the economy is—the stock market is at an all-time high." And I've always said just because the stock market is doing well does not mean that the economy is doing well. The stock market is doing well right now because we're propping it up. Any time you have news about de-regulation and tax cuts, the stock market is going to respond accordingly, regardless of how disastrous some of those policies may be. Only 55% of Americans own stocks, and 84% of that 55% is owned by the top 10% of income earners, so the stock market is not necessarily a good barometer for the overall economy.

Here, we've got 2020 and it was a good year for the green industry. We started out the first three or four weeks saying, "It's Armageddon and the wheels are coming off the bus!" And then all of a sudden, staycations and people started spending on plants, as we've seen in previous recessions.

I've said this before that during any downturn we've ever had, where people are staying at home, they buy more

plants, both for exterior and interior use. When the recovery starts, historically, people start making the switch to durable goods—cars, refrigerators, clothing, furniture and so forth. That's when our industry generally takes it on the chin, in the aftermath of the recession. And we've seen that in 2020, people staying home and working from home, they've got more time on their hands, they did more gardening and landscaping, they did more interiorscaping and decorating—so it was a good year all the way around. We've got the grower-level data, the retail data—they're both up for most firms in the industry, but not all. The customer count is up, the average sale is up, the gross-margin dollars are up. So it's been a good year.

Is this going to continue during spring? Are we going to continue the sheltering in place and having to stay at home? If so, are we going to continue gardening and landscaping at the pace we have? Are the newbies going to come back for more? Because historically our industry has not been all that good at keeping the newbies engaged. They put it down as hard work even though it does reduce stress and has all the health and well-being benefits. We don't always satisfy them to the degree that they become repeat customers. There have been some recent surveys, like the Axiom [Gardening Insights] survey, that bodes well. But, again, those are stated intentions and when you survey folks they don't always end up doing what they say they're going to do.

So the jury's still out about whether they're going to garden and landscape at the same rate. History will tell whether the effect of people staying at home is going to be greater or whether they're going to continue switching off to durable goods (like cars, appliances and furniture)—I just don't know at this point. But what I DO recommend to my EAGL firms and others is don't use 2020 as your gauge for what's normal now. I've been telling my EAGLs to use 2019 as your base and then you want to go 10% above that, that's probably conservative. But I wouldn't necessarily project 25% growth over 2020; I am reticent to say that it's going to be that much up.

However, it could be. That's the thing—I just can't say with 100% certainty. And we don't have enough econo-metric data built for our industry to be able to predict that. However, if you fit a regression line through the last six years' worth of sales at the grower level, I'm projecting a 7% increase just based off of that regression line. And that's the most conservative approach.

So I'd say you could plan for 7% to 10% and be in good shape. Now, could you bump up production 25% over 2020 levels and sell all of it? Which means that retailers and landscapers are going to sell that much more? Man, that scares me.

Another thing that worries me is that young plants are flying out of the growers' greenhouses right now. If people are buying that many young plants, that means they're going to be producing a lot more finished plants, so we may move from a shortage situation that we saw this past spring to being oversupplied again. In June and July, we had just banner months compared to history. And you could see it in the shrink-level data for growers, that shrink was way down. So the industry found a way to sell the plants. But to sell another 25% or more next spring—that's perhaps more aspirational than realistic.

We've been very adept as an industry going from shortages to surplus in record time. And I think that may be where we're headed if folks aren't at least conservative in their mindset and how they're planning. If they get over-aggressive ... that may be on them. They may be right, but based off of what I've seen historically, I don't think that I would shoot to be that aggressive.

**You've said that not everybody had a great 2020—that should play a part in this year's outlook, too, right?**

That is indeed the case. It was a mixed bag depending on where they were located geographically and whether green industry businesses were deemed to be essential or not. In states like Michigan, nobody was essential, so a lot of Michigan firms took it on the chin.

If you look at firms whose sales were up year-over-year, probably a third of the folks are up anywhere from 10% to

15%. Then there's probably another quarter that are up a little bit more than that. That leaves another quarter that's between 0% and 10% up in terms of sales. Now, that also means that there are 10% to 15% of growers who were down and some down significantly—some 20% to 25% over 2019. It's a very mixed bag depending on what sector of the industry they're in and depending on where they are in the country. So I'm reluctant to say it was a banner year for everybody because it wasn't.

### **What did we learn from 2020, regardless of whether you had a terrible year or a fantastic year?**

It goes back to the very last slide I usually put in my presentations about always having a contingency plan in place. And that contingency plan is:

- 1) Don't be overleveraged, meaning the bank has more skin in the game than you do.
- 2) You gotta be lean and mean. That is, you've got to be very efficient (from a Lean Flow standpoint) and you've got to avoid having a lot of "slack labor." I've noticed historically that when times get better, folks tend to hire more people than they need, so you need to be "right-sized" in terms of your labor.
- 3) Manage your working capital, period. You gotta be able to cash flow downturns.
- 4) You gotta make sure your value proposition is right because you need to be deemed essential. A lot of people found out that they hadn't been properly convincing people of the benefits of plants. You can't just talk about how pretty they are—you've got to talk about the functional and health benefits, and make sure that the value proposition is first and foremost. That's how you get to be considered essential—not by how pretty your plants are, but by the function that they provide society.

Whatever the downturn is—COVID-related, financial crisis, housing crisis—whatever the impetus that is causing the economy to go down, that's the basic contingency plan I recommend to folks. If you have that four-point plan in place, you can weather the storm and even do okay or pretty well in hard times.

### **Is there anything about 2021 that we should know or watch for in the economic outlook that has nothing to do with COVID?**

A lot of people are looking at Joe Biden's cabinet appointments, and while he's not making any friends on the progressive side, he is assuring at least the Republican base that he's going to take a more moderate approach. And he's making those implicit signals to the stock market.

Now, from a policy standpoint, the first 100 days are kind of a nebulous concept—there's nothing magical about it. But it's a proxy for what priorities an administration is going to put forward, what they're going to work on first. There's no doubt that immigration will be an emphasis, but I just don't know which piece of the immigration picture they're going to try to fix first.

And, of course, Biden's been talking about climate change, so that issue is likely to have some emphasis early on. And, ironically, folks in our industry have tended to view that as a negative in terms of the regulatory pressure that's going to be put on their business. Well, for our industry, we're actually positive for the environment, so I think our industry has to recognize that. We're actually part of the answer. What better way for companies to offset carbon emissions than to plant trees and other plants?

But no doubt COVID will be the No. 1 priority and that brings me to the vaccines under development. There are a number of vaccines—283 of them—that are in development and now we're getting news of those frontrunners. And there are going to be many challenges these vaccines will face. Number one, how do you ramp up manufacturing quickly? How do you distribute the vaccines equitably? It's not just the U.S.—it's the world that needs to be vaccinated. And do we have a supply chain that's going to keep these vaccines cool before they're used—do we

have enough cold-chain capacity to handle it?

And there's a hesitancy that goes along with being the first one vaccinated; you've got to have people willing to take the vaccine. Most experts are thinking it's going to be the middle of next year before we really get a handle on all these types of questions. Those are some of the unknowns that we need to consider. Just because we have vaccines coming out right now doesn't mean that we're going to flip the switch and everything will be good again.

Bottom line, the shape of the economic recovery curve is inversely correlated to the shape of the COVID curve. Yeah, we bounced back in the third quarter of 2020, but we didn't get all the way back to where we were at the end of 2019. So the speed at which the recovery continues from this point on is directly correlated to COVID, how many businesses end up failing during 2020 and 2021, and the relief policies that we put in place. So while many are hoping that we continue along a very rapid V-shaped recovery, more than likely it's going to be a slower recovery (shaped much like a square root symbol). And for some industries it's going to be K-shaped, meaning that while some industries are recovering, there are some that will continue to go down, like airlines, restaurants, bars, etc. It's going to be a long time before those companies are made whole.

### **Any last words, even though your crystal ball is fuzzy?**

Even in the midst of all of this, I'm still optimistic because we (plants) are part of the answer to many societal issues like dementia and Alzheimer's, obesity, crime and climate change—just to mention a few. And I think we have the attention of some potential consumers right now and we don't need to simply talk about how you grow this flower more successfully, but we need to talk about the benefits that those consumers who are using those flowers are getting out of it. It's a teachable moment for us. And if we waste this opportunity to tell people our story—not just about the better genetics, not just about the better garden performance—but about how their lives are enriched by flowers and plants, then shame on us. This is a health crisis and our plants improve health and enhance well-being. So let's use every platform we can to get that message out. **GT**