Characteristics of Horticultural Distribution Centers[1]

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Abstract

A national survey of Horticultural Distribution Centers (HDCs) resulted in a 32.3% response rate with owners representing 68% of respondents. The greatest number of respondents were from the Northeast and firms have been in business from 3 to 115 years for an average of 26.5 years. About one-fourth of the firms surveyed (27.4%) were engaged only in distribution activity. However, for all firms, distribution activity accounted for over half (54.2%) of their revenue. The average HDC had annual revenue of $3.4M. The mean number of full-time employees was about 33, with an additional 16 part-time hourly. Average hourly compensation rate ranged form $15.67 for manager/supervisor to $10.58 for staff and $8.94 for full-time hourly workers. Data were analyzed by region of the country and regional differences are discussed.

Index words: distribution, marketing, nursery crops, survey, market research.

Significance to the Nursery Industry

The HDCs are a relatively new and emerging segment of the nursery/landscape industry. The information in this study can be used by HDCs to benchmark their own business with industry standards, increase the understanding of HDCs by other segments of the industry, and provide insight into the financial impact of this important industry segment.

Introduction

Horticultural Distribution Centers (HDCs) are an integral part of the sales and distribution of products to the lawn and garden industry. They are a relatively new segment of the industry (1) with the first stand-alone business established in 1955 by Emanuel Shemin. In the distribution channel, HDCs are positioned between the producers (plant material and hardgoods) and their customers, primarily landscapers (1, 2). Other customer groups for HDCs include retail garden centers (1, 5), landscape maintenance firms (3), and golf courses and government entities (1). In a 1995 survey, Georgia landscapers indicated that about 30% of their plant material was purchased from HDCs (2). The smaller landscape firms (2, 3) purchased a higher percentage of plant material from HDCs. Landscape firms appear to value the convenience of obtaining green goods and hardgoods at one location that is in close proximity to the landscape job.

Even though HDCs are considered a growing segment of the lawn and garden industry, relatively little information is available on the characteristics of HDCs. In 1990, the American Nursery and Landscape Association (ANLA) officially recognized HDCs and in 1993 commissioned a study to define the size, scope, and impact of HDCs (1). The survey questions in this study allow for selected comparison with the 1993 study and gather information in new areas.

Materials and Methods

Surveys were mailed to all members (158) of the HDC committee of American Nursery and Landscape Association (ANLA) in 1998. Firms with multiple locations received one survey per location. The survey contained a letter jointly signed by the chairman of the ANLA's HDC committee and the senior author of this paper highlighting the goals of the survey. The initial mailing was sent in March 1998, with a follow-up mailing to non-respondents in April 1998.

HDC committee members of ANLA were asked to identify: (a) their business location and position in the firm, (b) years in business, (c) the predominant business activity(s) of their firm and the revenue associated with each activity, (d) gross annual revenue, and (e) type, number, and compensation of employees. Data were tabulated and an analysis of the response was conducted using PROC FREQ, PROC MEANS, and PROC GLM of SAS (6).

The data provided by respondents were analyzed as a group and by region of the country. The region destination was the same as used by the USDA in their data collection and as defined in a national survey of pest management practices in the U.S. greenhouse and nursery industry (4). The four regions were Northeast, North Central, Southeast and West. Least square means of region were compared using the PDIFF option of LSMEANS.

Results and Discussion

Total surveys returned were 51 for a 32.3% response rate. The position of respondents in the firm (Table 1) was primarily the owner (68%), followed by manager (30%) and employee (2%). The relatively high response rate and the percentage of owners/manager suggest that the survey results represent the views of a large portion of the HDC decision makers in the United States.

The location of respondent firms (Table 2) was consistent with the geographical distribution of the total membership. The greatest number of HDC firms was in the Northeast (about 35%) and North Central (about 26%) regions of the United States, followed by the Southeast (about 21%) and West (about 18%). The number of states represented by respondents (7, except 6 in West) was essentially the same in each region (Table 2).

The time in business for the HDCs varied substantially across all regions of the country (Table 3). The age of HDCs ranged from 3 to 115 years in business. The average age of HDCs was 26.5 years and was consistent across regions. The wide range in age of HDCs suggests that HDCs have been a long-term evolving segment of the lawn and garden indus-

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Table 1. Position of respondents in the firm.

Position	Percent
Owner	68
Manager	30
Employee	2

Table 2. Location of respondents horticultural distribution centers.

	Respondents		
Region	No.	Percent	States
Northeast	18	35.3	MA, ME, CT, NJ, MD, PA, NY
North Central	13	25.6	OH, IN, IL, KA, SD, MN, MI
Southeast	11	21.5	VA, KY, TN, GA, FL, OK, TX
West	9	17.6	CO, UT, AR, CA, OR, WA

Table 3. Age of horticultural distribution centers.

	Years in business	
Region	Mean[z]	Range
North Central	22.0a	13– 50
Northeast	27.5a	4– 75
Southeast	27.9a	3–115
West	28.7a	12– 52
All Regions	26.5	3–115

[z]Region means, within a column, followed by different letters differ $p < 0.01$.

Table 4. Business activity for horticultural distribution centers.

	Region[z]				
Business activity	NC	NE	SE	WEST	All regions
	---------------- Percent response ----------------				
Rewholesale only	6.6a	47.1b	36.4b	11.1a	27.4
Rewholesale and retail	46.7a	23.5b	18.2b	22.2b	27.4
Rewholesale and growing	46.7a	29.4b	45.4a	66.7a	45.2

[z]Region means, within a row, followed by different letters differ $p < 0.01$.

Table 5. Source of revenue for horticultural distribution centers.

	Region[z]				
Revenue source	NC	NE	SE	WEST	All regions
Rewholesale	51.7ab	68.3a	55.0ab	31.9b	54.2
Retail	26.5a	11.3a	5.4a	19.6a	16.0
Growing	21.8a	20.4a	39.6a	48.5a	29.8

[z]Region means, within a row, followed by different letters differ $p < 0.01$.

try. Also, new businesses continue to start-up which is a healthy sign for this segment of the market.

HDCs have been described as either a stand-alone profit center within a nursery firm, or a nursery firm with a primary business (51% or more) to purchase, take possession, maintain, and resale plants and/or related horticultural products through warehouse and yard operations to professional classes of customers (1). To assess the status of vertical integration in HDC businesses, firms were asked to select one of three options that best described their business (Table 4). About half (45.2%) of firms, pooled from all regions, described their business as rewholesale and growing, followed by rewholesale and retail (27.4%) and rewholesale only (27.4%). Overall, about half of the firms were involved in growing and about one-quarter of the firms were only involved in rewholesale activities. The percentage of firms involved in growing activities in 1998 (45.2%) is down from 62% of the firms in 1993 (1). Also, the percentage of firms involved in retail activities in 1998 (27.4%) is down slightly from 35% (1) in 1993. The survey results indicate a slight shift toward specializing in rewholesale activities even though 45.2% of the businesses are still growing operations in conjunction with rewholesale operations. The type of business activity varied among regions (Table 4). The Northeast had the highest percentage (47.1%) of firms involved in rewholesale only activities. Most of the firms in the Southeast were involved in rewholesale and growing (45.4%). Most of the firms in the North Central region were either rewholesale and retail (46.7%) or rewholesale and growing (46.7%). In the West region, two-thirds of the firms were rewholesale and growing (Table 4).

To better understand the type of business activities at HDCs, respondents were asked to indicate the percentage of their revenue associated with rewholesale, retail, and growing activities (Table 5). The percentage of revenue from rewholesale ranged from a low in the West (31.9%) which was significantly different from a high (68.3%) in the Northeast region (Table 5). Revenues from rewholesale activities in the other two regions of the country (NC and SE) were intermediate, and not significantly different, from either Northeast or West. There was no significant regional difference in revenue associated with retail. While regional differences were not significant, the West (48.5%) and the Southeast (39.6%) had the highest percentage of revenue from growing. The data demonstrates that most of the HDC businesses in the United States obtain a majority of their revenue from rewholesale activities. That is, rewholesale is not just a minor part of a larger business of the HDCs.

Table 6. Sales revenue for respondent horticultural distribution centers.

	Sales[z]	
Region	Mean[y]	Total
North central	3,609a	46,925
Northeast	3,320a	59,775
Southeast	3,590a	39,500
West	3,097a	27,875
All regions	3,413	174,075

[z]Expressed in $000.

[y]Region means, within a column, followed by different letters differ, $p < 0.01$.

Table 7. Staffing for horticultural distribution centers.

	Region									
	NC		NE		SE		WEST		All regions	
Position	Mean	Range	Mean	Range	Mean	Range	Mean	Range	Mean	Range
Manager/supervisor	5.8	1– 20	7.5	1– 40	6.3	2– 30	5.1	2– 16	6.4	1– 40
Staff secretarial/clerk	2.8	1– 8	6.6	1– 25	2.9	0– 8	2.4	1– 5	4.2	0– 25
Full-time hourly	12.7	2– 30	28.2	1–160	13.3	7– 33	29.2	4– 86	22.0	1–160
Part-time hourly	11.5	2– 30	24.1	1–110	5.2	1– 10	11.4	1– 65	15.7	1–110

Table 8. Compensation ($) for horticultural distribution center employees.

	Region[z]									
	NC		NE		SE		WEST		All regions	
Position	Mean	Range	Mean	Range	Mean	Range	Mean	Range	Mean	Range
Manager/supervisor	14.84a	8.50–20.00	16.71a	9.50–25.00	15.40a	8.50–20.00	14.84a	12.00–17.00	15.67	8.50–25.00
Staff (secretarial/clerk)	11.14a	7.50–16.00	10.64a	9.00–15.00	10.85a	9.00–15.00	9.75a	7.00–11.25	10.58	7.00–16.00
Full-time hourly	9.64a	7.50–12.00	9.55ab	6.00–15.00	8.59ab	6.50–10.00	7.68b	6.00–10.00	8.94	6.00–15.00
Part-time hourly	7.18a	6.00– 8.00	7.34a	5.50–10.00	6.70a	5.50– 7.50	6.42a	5.15– 9.50	6.99	5.15–10.00

[z]Region means, within a row, followed by different letters differ $p < 0.01$.

The mean annual revenue for all regions was $3.4M (Table 6). Annual revenue ranged from a low of $3.1M in the West region to a high of 3.6M in the Southeast and North Central regions, with no significant regional differences. The total revenue in each region for respondent firms ranged from a low of $27.9M in the West to $59.8M in the Northeast. With $174M in revenue for all respondents and a 32.3% response rate, the HDCs may represent annual revenue of $540M. The average annual revenue in 1997 of $3.4M compares with an estimated $2.7M in 1993 (1). This represents about a 6.5% annual growth rate.

The staffing levels of HDCs have been examined in terms of total employees (1). In this survey respondents were asked to identify the number of employees by category, manager/supervisor, staff (secretarial/clerical), full-time hourly, and part-time hourly (Table 7). The average firm had 33 full-time employees, which included 6.4 manager/supervisor, 4.2 staff, and 22 full-time hourly, and 16 part-time employees. The range in number of employees per firm was substantial for each category. In 1992 (1), the average HDC had 13 full-time employees compared to 33 in this survey for the year 1997. Sales during the same period rose about 26% suggestive of a growing segment of the industry. The data suggest that full-time employment increased 2.5 fold while sales increased 26%, a substantially lower revenue per full-time employee. The average number of part-time workers in 1997 (15.7) was about twice that of 1992 (6.8) (1).

There were no significant differences among the regions in number of employees in each of the four categories. The Southeast had an average of about 5 part-time workers compared to a high of 24 in the Northeast region (Table 7). Part-time workers tend to be used during peak sales periods and the Southeast had the lowest seasonal variation in sales (1) compared to the Northeast. The range among regions for full-time hourly and staff positions was about two-fold. The range for managers/supervisors was much less among regions.

When all regions were combined, the mean hourly compensation rate for full-time positions in HDCs ranged from $15.67 for managers/supervisors, to $10.58 for staff, to $8.94 for hourly workers (Table 8). The average part-time hourly worker earned about $7.00 per hour. The West region had a significantly lower compensation ($7.68) for full-time hourly employees than the Northcentral ($9.64) region. There were no significant regional differences in compensation for the other three employee categories. The earlier HDC survey (1) did not provide compensation rates for comparison.

The HDCs appear to be increasing their sales at a rate comparable to the general industry and the distribution aspect of the firms generally represents a majority of activity. The HDCs continue to increase their employment of hourly and salaried personnel as they grow. Business characteristics such as sales revenue, employees and compensation varied among firms but generally there were no major differences between regions of the country. The survey does not indicate any regional competitive advantages among firms.

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