Industry Outlook

SAF’s much awaited biannual ‘State of the Industry’ offers a snapshot view of the industry’s best prospects and most daunting challenges.

By Mary WestBrook

You already know that consumers shop differently than they did 10 or even five years ago — but have you considered how the widening of the Panama Canal will affect your business? How failing infrastructure could hurt flower sourcing and delivery? What the baby boom of 2007 could mean for your shop?

These were some of big-picture issues raised during the Society of American Florists’ biannual State of the Industry address, presented at SAF Marco Island 2014 in August by SAF CEO Peter Moran and SAF Chairman Robert Williams II, AAF, PFCI, vice president of Smithers-Oasis North American Operations. For many attendees, the address is a singular opportunity to step away from the day-to-day grind and consider big questions and challenges about the overall floral industry, consumer behavior and the U.S. and global economies.

“Get us thinking about the future — that’s part of the effect that the State of the Industry address has,” said Robert Shibata, AAF, of Mt. Eden Wholesale in San Jose, Calif. “You may agree or you may disagree [with every point] — whether it’s production areas or trends or shifts — but it always gets you thinking about issues we should all consider.”

Highlights from the address include:

Measured economic optimism

“Despite higher taxes, surging gasoline prices and federal budget cuts that plagued much of 2013, consumer spending stayed resilient,” said Moran, who also noted that the National Retail Federation is predicting a 4.1 percent uptick in retail sales. And that’s good news, indeed, according to Williams, who said, “there is no country in the world that’s more dependent on consumer spending and retail sales than the United States of America. It is the economic driver of everything we do.” Significant challenges loom, however, and threaten to restrict consumer spending, including mounting student debt ($1.1 trillion overall), stubbornly high unemployment rates and geopolitical issues, including sanctions on Russia.

Refined understanding of customers today — and in the future

Baby Boomers “are still the most coveted generation,” said Williams, a Boomer himself. “We spend $2 trillion annually” and are more likely to patronize a retail florist than members of Gen X, who are often time-starved and more apt to spend their income on big-ticket items (electronics, mortgages and — here it is again — college tuition.) Williams also provided insight on Gens Y and Z, who have less purchasing power now but are worth studying. “Gen Y is fascinating to us,” he said. “They’re constantly researching products online, but only buy 36 percent of the time … Once they’ve researched online, they usually go to a brick-and-mortar” to finalize the purchase. “Millennials buy the experience,” rather than simply assessing the quality and price of a product, he said. In addition, Williams noted 2007 was the “largest birthing year” in the history of the U.S.; 25 percent of the babies born that year were Hispanic.

The retail florist advantage

Finding employees remains a tricky area (more on that later) but for the employees you do have, Moran and Williams had a shared message: train, train, train your staff to offer the best service and increase average transactions. Pointing to recent SAF and AFE studies on consumer purchasing patterns, Williams underscored the importance to consumers of quality, perceived value, service and personalization. “When convenience trumps, the supermarkets will win,” he said, “but when emotion is involved in a purchase, [retail florists] are the channel of choice. On traditional events and on holidays, unless you give [the business] up, you are the channel of choice.” The Internet, and consumers’ ability to Google local shops, has helped “level the playing field” in some ways — many florists report 10 to 15 percent of their orders now come from their websites — but customer relations are “as important...
as ever,” Moran said. “The big corporate business model and organizational structure has never really flourished in this industry. What has proven successful is employee-owner operations, whether it’s family-owned businesses or ESOP. Culturally, they’ve been positioned to operate at all levels” of the industry.

**Insight on FTD-ProFlowers deal**

The news of FTD’s deal to purchase ProFlowers broke shortly before convention, and Moran said the impact of that change was still impossible to pin down precisely. “Some florists who have the volume and production models to fill these orders are going to jump at the chance for increased business, while other florists may put their energies into other florists may put their energies into

**Addressing labor shortages — or not**

“Across so many industries, obtaining qualified talent is a challenge, especially with our aging workforce,” Moran said. “We especially hear this from SAF members,” including growers, wholesalers and retailers, but also transportation companies, who have increasing difficulty finding drivers. “This country needs a comprehensive immigration policy to add both skilled and unskilled labor,” he said. “It better be sooner than later.” (Unfortunately, given President Obama’s recent announcement that he’ll delay any executive action until after November, and the midterm elections, it looks like it will be later.)

**Stabilized industry but ongoing contractions**

While the pace of contraction has slowed, Moran said he expects it to continue. For instance, while best estimates indicate there are currently around 12,000 retail florists in the U.S., Moran expects that number to drop to 8,000 to 9,000 by 2020. He also expects the 500 to 600 current wholesale doors to drop to about 300 (with 10 major players dominating in major regional hubs). Currently there are 59 cut flower growers in California with sales of $500,000-plus; he predicts there will be 30 large cut flower producers in California, in addition to regional specialty cut flower growers, by 2020.

**Import shifts**

The economy in Colombia was up 6.4 percent for the first quarter of 2014, second only to China worldwide, Moran noted. Three companies control about 50 percent of the country’s flower production. In Ecuador, the industry is more fragmented, with smaller farms but lots of innovation in new rose varieties. Product from Mexico is also finding its way increasingly into U.S. holiday bouquets. “The lack of infrastructure [in Mexico] holds them back, but this is an emerging market to watch,” Moran said.

**Questions of sustainability and origin**

The origin of products isn’t necessarily a good-bad proposition, but where flowers are grown and how they are grown will continue to interest some consumers, Moran said. “It will be important to educate the consumer on branding, origin and sustainability practices,” he said. “In other words, flowers aren’t just flowers, in the same way that wine isn’t just wine and cheese isn’t just cheese. It all depends on where and how they’re produced and it’s the taste of the consumer that decides what they’ll buy.”

**Roads, bridges, canals and ports**

“A major concern across industries is the health of U.S. infrastructure,” Moran said, noting that The American Society of Civil Engineers gave the state of U.S. infrastructure a D-plus, just a step above failing. “The problem of deteriorating, underinvested infrastructure has become a serious crisis,” he said. “[Improved infrastructure is] imperative to the floral industry, which needs to move perishable product rapidly through the distribution chain.” Congress, he noted, has the opportunity to provide stable, long-term funding to the Highway Trust Fund; this year they approved only a short-term fix.

Moran also touched on the widening of the Panama Canal to accommodate so-called mega-ships. By offering a direct route for container ships traveling from Asia to Miami, the expansion could significantly change the dynamics of freight ship and transportation on both coasts. “Currently, container ships coming into Miami hold about 2,500 containers,” he said, by way of one example. “With the widening of the canal, they’re going to be able to handle ships that carry between 6,000 and 7,000 containers.”

**Mary Westbrook is a contributing writer and editor for the Society of American Florists. mwestbrook@safnow.org**

**Interested in hearing more?** The full video of the State of the Industry is available to SAF Marco Island 2014 attendees for free (plus $5 shipping and handling). SAF members who didn’t attend the convention can purchase it for $19; non-SAF members pay $49. To order your copy, email Krissy Doyle at krissydoyle@safnow.org. The State of the Industry powerpoint presentation can be downloaded for free at safnow.org/Marco2014handouts.