

MARKET ANALYSIS: MARKETING PLAN

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Without customers, the business does not exist. A marketing strategy or plan is about defining the customer or target market and tailoring the product, pricing, distribution, and promotion strategies to satisfy that target market. Greenhouse businesses that are product oriented—those that try to sell what they can produce without first looking at customers' needs—risk growing plants and flowers that will not sell at a price that will produce a profit. Instead, most successful greenhouses are customer oriented—they design marketing strategies around the needs of their customers.

A marketing plan is the engine that drives the business. A marketing plan describes what the firm will market and how it is unique (product); how and when the firm will market the product (distribution and packaging), to whom (target customers), and for how much (price) the firm will sell its products; and how and what the firm will communicate to the customers (promotion). This includes what has been called the four Ps of marketing: *product*, *price*, *place* (distribution), and *promotion*.

Developing a marketing plan will help managers confidently answer the following questions:

- **Markets:** Who are the target customers and what do they value?
- **Product:** What product will be offered and how is it unique?

- **Competition:** Who are our competitors and how will we position ourselves to compete? Are there threats from new entrants?
- **Distribution:** How and when will we move our product to market? What market channel will we use?
- **Packaging:** How will we present the product to the customer?
- **Prices:** How will we price our product? What is the perceived value of our product to the consumer? Is our price in line with the market's perceived value?
- **Promotion:** How and what will we communicate with buyers or customers? Do we have a marketing strategy with appropriate promotional, advertising, and branding strategies in place?

Markets: Who are the Target Customers and What Do They Value? To fully define the target market and corresponding marketing strategy, the firm will need to identify the target market segment (who the customers are and what they value) and sales potential (how much customers are willing to buy). Target markets are most commonly characterized as either individual households (*direct marketing*) or businesses (*wholesale marketing*). Direct marketing tends to be more profitable than wholesale marketing because of value-added opportunities and the lack of middlemen. Market channels are discussed in Chapter 16. Developing *customer profiles* or segmenting the market can help determine if a market segment is large enough to be profitable. By identifying and targeting specific market segments, a firm can also develop more effective packaging, price, and promotion strategies.

Market Segments

Markets can be segmented in a variety of ways. The most common form of segmentation is by

demographics (age, gender, income, race, ethnicity, disabilities, mobility [in terms of travel time to work or number of vehicles available], education, home ownership, and employment status). A market can also be segmented geographically, for example, domestic and international subgroups, various neighborhoods where consumers live, or location of different stores owned by wholesale buyers. Another common way of segmenting markets is by psychographic characteristics (attributes relating to personality, values, attitudes, interests, hobbies, or lifestyles). Another important question to ask is, what are the customers' needs? This applies whether the product is going directly to the final consumer or to an intermediary. Do they need convenience? a particular size? Sunday delivery? unique products? high-value products? large volumes?

Size of the Market

To begin a business, producers need to ask, How many potential customers are there? How often and how much will they buy? What is the total size of the market? Is the market emerging, growing, or shrinking? Will this market yield a high-enough volume of sales?

Analyzing USDA statistics, visiting potential buyers, and attending industry and university educational meetings to learn and network are good places to start answering these questions no matter what market channel is selected.

Wholesale deliveries are usually kept to a distance that a truck can deliver and return in one day, or about 200 miles. New producers will want to visit potential customers (usually another business). These customers will probably be willing to indicate how much they would be willing to buy short-term (one to two years) through either a written contract or a verbal agreement. Projecting long-term sales potential may prove more difficult. Projecting sales potential can be even trickier for direct marketers. As a general rule, 75 percent of direct market customers of a business will live within 20 miles of the business. Using this rule of thumb, a simple way to project direct market sales potential is to locate the business on a county map and draw 25- and 50-mile-radius circles around it. The manager can count how many towns or cities fall within the circles and add up the number of potential households in the nearby cities. These households represent the core potential customers. Then, with a feel for the number of potential customers, the manager can estimate the potential value of sales per household. This is the *sales potential*. The next step is to estimate the number of customers in each segment and project their weekly, monthly, or annual purchases. These sales estimates can come from household or county purchasing records (available at the public library), from the firm's own surveys of potential customers, from in-person interviews, or from secondary sources, such as New Strategist Publications' *Household Spending: Who Spends How Much on What*. Many businesses find it useful to hire a marketing consultant to develop surveys, lead focus groups, or conduct telephone interviews. The local Extension service or state Department of Agriculture may be able to assist in locating qualitative and quantitative information for a customer profile. They may have already done some studies that could be helpful. The Small Business Administration may also provide assistance. The Sustainable Agriculture Research and Education (SARE) program has a

competitive grant program for farmers and may be willing to fund some market research for sustainable production (<http://www.sare.org/>).

Product: What Product Will Be Offered and How Is It Unique?

The products that the business will offer should be described in terms of the value they will bring to the customers. What is it that customers are actually buying? What exactly does the product or service do for the consumer? What is the life cycle of the product? How will consumers use this product? Will special knowledge or service be required?

Another way to look at the product is what makes the product truly unique. What are the unique benefits the customer will receive from using this product? What is the real value versus perceived value to the consumer? Why would customers prefer this product to one produced by the competition? How does it compare in terms of quality, appearance, performance, price, versatility, durability, postharvest life, speed of installation, consistency, ease of use, ease of maintenance, knowledge required, and so forth? Why would customers prefer this product to some other alternative way to spend their money, such as wine, candy, food, or entertainment? Can it appeal to the environmentally conscious? Are there opportunities to add value through processing, packaging, and customer service? How might the product line change over time?

Recommendations for Approaching Buyers

1. *Become knowledgeable about the market*, by talking with other growers selling in that market. Try to find out individual buyers' expectations of volumes and prices to see if they match your situation before approaching the buyer.
2. *Prepare an availability sheet or a Web site listing products and prices*. Make sure that enough product is available to meet possible demand.

3. *Send the availability sheet to buyers* whose expectations best match what you have to offer. Buyers often prefer to see this sheet before they talk to a producer.
4. *Project a professional image* and be well informed about production, supply, and quality, and be confident in the business's ability to meet the buyer's needs.
5. *Work out the details of the sale with the buyer*, such as volume, size, price, delivery dates, and labeling requirements. Some buyers have a set of written requirements for growers.
6. *Keep in touch with the buyer*. Growers need to keep the buyer informed about potential problems so that buyers can look elsewhere for a product if there is a supply problem.

Nearly every business or product has competition of some kind. Questions to consider are who are the competitors and what do they offer customers? where are they located? and what is their market share? who are the key “minor players”? A trip to the big box store, florist, garden center, farmers' market, or even a bit of time on the Internet to research what the competition is offering may help to answer these questions. The idea is to find out everything possible about the competitors' business or their buyers. One option is talk to current and potential competitors and their customers. What share of the market can the new product realistically capture? Where does the new product have an advantage over them? What are the strengths in terms of size, price, quality, speed, location, and service? Can the new product be produced with a new twist? Does the firm have access to markets that competitors cannot reach? Is the firm better at working with people—at attracting and keeping customers? Does the firm have better business skills? What competitors' weaknesses can be capitalized on? In other words, is there a niche? How much

market share will the new product take away from competitors? How will competitors respond to the new product? Will they respond by changing price? Will they change their product?

Distribution of the Product or Service

Distribution refers to how and when to move the product from the greenhouse to the customer's home, store display, or wholesaler. Distribution strategies typically describe scope, market channel, packaging, and scheduling/handling. The *scope* defines how widely will the product be distributed? Will the distribution strategy be intensive, selective, or exclusive? *Intensive product distribution* typically involves widespread placement of the product at low prices. The aim is to saturate the entire market with the product. This strategy can be expensive and very competitive. Large-scale producers who market nationally or internationally often employ this method. *Selective product distribution* involves selecting a small number of intermediaries, usually retailers, to handle the product. If the product is large, for example, premium quality poinsettia plants, the grower may want to be selective about the stores that stock them and choose only upscale garden centers or florists, or retail directly out of the greenhouse. Selective distribution offers the advantages of lower marketing costs and the ability to establish better working relationships with customers and intermediaries. *Exclusive distribution* is an extreme version of selective distribution. In this case, the producer agrees not to sell to another buyer. In exchange, the buyer may agree to buy that product only from the producer. The producer works closely with a retailer to set market prices, develop promotion strategies, and establish delivery schedules. Exclusive distribution carries promotional advantages, such as the creation of a prestigious image for your product, and often involves reduced marketing costs. On the other hand, exclusive distribution may mean sacrificing some market share for the product.

The most common distribution strategies or market channels for moving product to the final customer are direct marketing and wholesale marketing. Because flowers are a perishable product, *delivery schedules* will be critical. Moreover, for producers marketing through an intermediary, the ability to meet delivery commitments may determine their continued business. Retail buyers rely on delivery at the promised time so they know how much product they will have on hand to meet demand and so they can schedule workers to handle delivery and display. Since most greenhouses are seasonal businesses, delivery schedules will vary and will be most crucial for both producers and buyers during peak production periods.

Packaging

Product or service packaging can be both functional and promotional—serving to preserve the product for shipment and to advertise and differentiate the product. Wholesale buyers may require certain packaging as well as bar codes. Direct market producers will have more flexibility in packaging and point-of-purchase advertising materials. This can be a daunting yet exciting task. Producers should begin their research at visiting retail outlets where competing products are sold. They should make note of how products similar to theirs are packaged and labeled. Producers should think about what the customers will see, hear, and smell when visiting the greenhouse or retail outlet or communicating with the owner and staff. Customer needs, such as convenience, and intermediary requirements are important.

Values and goals, as well as target market preferences, will also affect the greenhouse owner's packaging choices. For instance, more and more biodegradable containers are available. By potting in biodegradable pots, or establishing a program to recycle plastic pots, producers will be able to satisfy an environmental concern for themselves and their customers—namely, to minimize their impact on the land through reusable or biodegradable packaging. Packaging is discussed more thoroughly in the “Packaging” section in Chapter 16.

Pricing: How Is Product Price Determined?

Prices charged will always have an important effect on sales programs. The pricing strategy depends on the market channel. In some markets (especially wholesale markets), producers will be price takers. In other words, the market, rather than the seller, sets the price. In other markets, producers can set their own prices. Even price takers can still *do things to obtain a higher price*. To have more control over pricing, producers will need to differentiate their product.

In general, prices are set by determining how much it costs to produce the product and adding a fair price for the benefits that the customer will enjoy. The cost of production becomes the *price floor*, that is, the lowest price. The *price ceiling* is the *value* consumers place on the product, that is, how much they are reasonably willing to pay for the product. Most customers will be willing to pay a price somewhere between the price floor and the price ceiling. To stay in business for the long run, the price has to cover costs. A place to begin developing a pricing strategy is to calculate the cost to produce the product. The costs include all the fixed and variable costs—including production, marketing, and promotion—as well as a return for the owner's time and investment. Examining what others are charging for similar products will give an indication of the price customers are willing to pay. Another source of prices for flowers and plants is the floriculture crop summary published every year by USDA (USDA, 2010).

With prevailing market prices and costs of production in hand, managers are ready to begin developing a pricing strategy. Common pricing strategies for differentiated products are discussed below. Each has advantages and disadvantages. Depending on the business goals, vision, target market, and product strategy, the firm may want to consider more than one pricing strategy. While pricing will be determined in part by the competitor's price, a small or mid-sized producer selling in a local market should not place too much emphasis on price competition. Competing on price can be intense, and larger firms will probably have lower costs. Instead, it will probably be easier to find ways to differentiate the product from the competition and compete on quality, value, and service. Still, price is an important consideration. In choosing a pricing strategy, managers should think through their rationale. Are they trying to undermine the competition by offering a lower price? Do they want to set a high price that reflects an image of quality? Are they simply looking to cover costs and reduce volatility?

Product Pricing Strategies for Differentiated Products

1. **Competitive Pricing** Competitive pricing strategies are common among large companies and are aimed at undermining competition. Predatory pricing, where a company sets its price below cost to force its competitors out of the market, is a typical competitive pricing strategy. Although these strategies may work well for large commercial companies, they are not recommended for small-scale, independent businesses. Price wars are not easily won. However, the greenhouse industry is considered a mature market. Supply has exceeded demand for the last few years, and several well-capitalized players offer similar products. The ability to compete on the basis of price may be very important.

2. **Cost-Oriented Pricing** The cost-oriented pricing strategy is probably the most straightforward. Based on production costs, the manager makes a subjective decision about whether to price the product at 10 percent, 50 percent, or 100 percent above current costs. Of course, marketing research should be done to determine whether or not customers are willing to pay the cost-plus price that is established.

3. **Flexible or Variable Pricing** Flexible pricing strategies involve setting a range of prices for the product. Flexible pricing is common when individual bargaining takes place. Prices may vary according to the individual buyer, time of year, or time of day. For instance, growers who sell at farmers' markets often establish one price for their products in early morning and by day-end are willing to lower their prices to move any excess product.

4. **Penetration or Promotional Pricing** A penetration pricing strategy involves initially setting the product price below the intended long-term price to help secure the market. The advantage of penetration pricing is that it will not attract competition. Before pursuing a penetration pricing strategy, producers should thoroughly research prevailing market prices and calculate their costs to determine just how long they can sustain a below-cost, penetration price.

5. **Product Line Pricing** A line of products may be marketed within a limited range of prices for all of the products in that line. For instance, a line of products may be promoted and priced as "affordable" while another line may be a premium line with higher prices.

6. **Relative Pricing** Relative pricing strategies involve setting the price above, below, or at the prevailing market price.

7. **Price Skimming** The price skimming strategy is based on setting a high market-entry price to recover costs quickly (to *skim the cream off the top*) before lowering the price to the

long-term price. This pricing strategy is possible only when there are few or no competitors. The primary disadvantage of the skimming strategy is that it attracts competition if prices remain too high for too long. Once competitors enter the market, producers may be forced to match their lower prices.

8. **Contract Pricing** Contracts are arrangements between the buyer and the seller in advance and usually include the price, payment conditions, grower responsibilities, storage, and shipping arrangements. The advantage of pricing on contract is that the producer knows in advance what price will be paid for the product.

Following are common pricing mistakes:

1. **Pricing too high relative to customers' existing value perceptions.** If customers think the plant is worth \$5 and the price is \$6, they simply will not buy it. Producers must be aware of the value consumers place on the product.
2. **Failing to adjust prices from one area to another based upon fluctuating costs and the customer's willingness and ability to pay from one market to another.** Some growers have successfully marketed to more than one market by offering different products and price structures. For example, they may grow plants in larger pots with more cuttings per pot for their retail greenhouse, and sell plants in smaller pots with fewer cuttings to the mass market.
3. **Attempting to compete on price alone.** This results in a highly competitive market, and buyers will switch suppliers for someone selling only a few cents cheaper. Even in a price-competitive market, it pays to build relationships with the customers.

4. **Setting prices too low with the intention of raising the prices later.** Businesses with this strategy will struggle from the outset just to cover costs. It positions the company as lower in quality versus most of the competitors (whether or not it is true), and makes it difficult to raise prices later.
5. **Discounting prices.** This communicates that price is overinflated. It is much better to couple any price discounts with an equal reduction in services or product offered, in quantity purchased, or in payment terms. For example, reduce the price, but make all sales final (remove the 100 percent guarantee on the discounted product). Or producers can offer volume discounts, or discounts for early payment. This way, they have shown flexibility in meeting the needs of their buyer, yet have maintained their pricing integrity.

Promotion: How and What Will We Communicate to Our Buyers or Customers?

Promotion is a must to gain product recognition among customers. Promotional strategies should be built around a *message* or the firm's *unique product value proposition*. The image the business wants to send to buyers should be incorporated into everything the firm does. This image should be clear on business cards, invoices, landscaping, building design, signage, brochures, Web sites, social media contacts, and vehicles.

A business may use a *brand* or logo to identify the products of the business and to distinguish them from those of competitors. Although the establishment of a brand can be expensive, particularly for small businesses, many direct market greenhouses are concentrating their promotional efforts on image advertising—promoting the concept of *locally produced, eco-friendly, or quality* products.

The best approach to advertising is to think of it in terms of media and which media will be most effective in reaching the target market. Then an advertising budget can be allocated to each medium. The advertising budget should include not only the cost of the advertising but also projections about how much business the advertising will bring in. Advertising media options include the Internet—Web sites, blogs, Facebook, YouTube, and Twitter; television; radio; newspapers; magazines; telephone books/directories; billboards; bench/bus/subway ads; direct mail; newsletters; and cooperative advertising with wholesalers, retailers, or other businesses. Some low cost product promotion alternatives are point-of-purchase displays, demonstrations, coupons, rebates, frequent-buyer clubs, publicity, and samples. Every business should also include some marketing material such as business cards, brochures, and pamphlets. Another avenue for promotion is free publicity, such as press releases, product launches, special events, including community involvement (e.g., America in Bloom), articles, and use of testimonials. Tradeshows can be an incredibly effective promotion and sales opportunity—if a firm attends the show that attracts its target customers and the promotion plan is in place.

Promotional activities are limited only by the imagination. Teaching a course, sponsoring a community event, or conducting an e-mail campaign can all fit into an advertising and promotion plan. Sporadic, unconnected attempts to promote the product or service are bound to fail; the goal is to plan and carry out a sequence of focused promotion activities that will communicate the unique product value proposition to potential customers. No business is too small to have a marketing plan. After all, no business is too small for customers. And a business that has customers needs to communicate to those customers about its products and/or services.

Marketing Strategy

Most producers have more than one market for their products, whether it is a direct market right

out of their greenhouse, garden centers, big box stores, or customers at a farmers market. Price takers have very little control of the market price. Price takers can reduce business risk through product diversification and by adding new customers or markets, and they can use pricing strategies to increase sales, such as multi-unit pricing. To differentiate their products and receive a higher price, producers can (1) find a market niche that local competitors are not serving, (2) grade according to quality and offer higher-quality products for premium prices, (3) adapt to changes in consumer tastes and preferences, (4) add service to the product, or (5) if it is possible, choose an ideal location.

Marketing Plan for Mrs. Greenjeans Greenhouse

Mary Wilson is the Owner and Marketing Manager for Mrs. Greenjeans Greenhouse. Our aim is to serve an upscale market niche for gardening and indoor plants. We will strive to offer high-quality products. Our direct customers will be local garden centers within a four-hour radius (200 miles) of our greenhouse. We do not want to sell farther than our delivery trucks can deliver and return in one day. We will attempt to sell even closer and encourage garden center customers to pick up the product from our greenhouse. We want to give our garden center customers products that are not offered at the big discount stores. We are striving for a high-quality differentiated product. The final consumers of our products are homeowners and renters who are involved with their home and landscape. These customers will be a little more educated and have a higher income than customers who purchase from other market channels. We are competing for discretionary dollars. We compete with other garden centers, but we also compete with other luxury products such as candy and wine. We feel since we will be the “new kid on the block” we will have to strive to have a little better product and something that our competitors don’t have. We plan to constantly look for ways to add a little extra value (such as making sure our pots are

clean and won't soil the final consumer's car). Mary will visit all of the garden centers within the marketing area to establish a relationship with them. She will also develop flyers to mail out to her customers, letting them know what products will be available for the next season. She will strive to establish written contracts with them so that we can plan our production schedule around the marketing plan. This is not very common in the greenhouse industry, so we will offer discounts for contracts that are made before the beginning of the production season. We will develop a Web site, open Facebook and Twitter accounts, and tweet our customers weekly during the season to remind them to check out our Web site for our product availability.

We grow high-quality, unique blooming plants and bedding plants. We select varieties that will perform well in the landscapes and home of our customers. We look for disease, insect, and deer-resistant plants, unique colors, and unusual varieties to perform well for our customers and stand out from the competition. If some of our products are not top quality, we will sell them to local greenhouses who sell to the mass market. We want to protect our primary market by keeping the quality and prices high.

Mrs. Greenjeans Greenhouse also looked up information about the green industry from USDA and the National Gardening Survey. US expenditures for floriculture and environmental horticulture were \$15.9 billion in 2009. The green industry, also called the environmental horticulture industry, includes cut flowers, flowering potted plants, foliage plants, bedding plants, sod, ground covers, nursery crops, and bulbs. It does not include food crops produced in greenhouses. The green industry represented 5.6 percent of agricultural cash receipts in 2009. Thus, it was ranked the 6th largest commodity group in the United States in cash receipts in 2009, behind beef, corn, soybeans, dairy, and broilers. Environmental horticulture is the top commodity in Florida, New Jersey, and Oregon. From 1986 to 1990, the growth in grower cash receipts for the green industry was a phenomenal 10 percent per year. From 1991 to 1995, this growth rate slowed to 3.4 percent per year. After years of rapid growth, it appears the industry is now a mature market. U.S. wholesale value for all floricultural crop categories were down 6 percent in 2009 to \$3.69 billion for the 15 states surveyed annually (see tables). However, tremendous opportunity for growth still exists in the green industry with per capita sales of only \$13.65. While sales for most crop categories were down in 2009, the wholesale value for annual bedding plants increased by 1 percent in spite of the recession. The trend is back to gardening. The National Gardening Association found that 71 percent of U.S. households participate in some type of gardening activity and 30 percent participate in flower gardening. Two million more households participated in gardening activities in 2010 compared to 2009, from 81 million households in 2009 to 83 million households in 2010. While people spent more time gardening, they spent less money on gardening activities. The average annual amount spent on gardening activities decreased by \$81, from \$444 to \$363. Unlike other agricultural commodities, which are limited by the size of a person's stomach, the growth potential for the green industry is almost

unlimited. We want to tap into the reasons people garden: to improve or maintain the appearance of their property, to save money by gardening themselves rather than hiring services for it, because they enjoy gardening, to grow fresh and nutritious food, for exercise, to make their outdoor space more livable, and to be more self-reliant.

Total and U.S. Per Capita Consumption Floricultural Crops for 15 States Surveyed for Sales Over \$100,000

| Crop | 2008 | 2009 | % Change | Per Capita (\$) |
|------------------------------------|-------------------------|-------------------------|----------|-----------------|
| | <i>1,000 US dollars</i> | <i>1,000 US dollars</i> | | |
| Annual bedding plants | \$1,308,664 | \$1,316,676 | 1 | 3.24 |
| Herbaceous perennials | \$545,126 | \$491,739 | -10 | 2.63 |
| Flowering hanging baskets | \$668,170 | \$632,356 | -5 | 1.12 |
| Foliage plants | \$510,311 | \$454,340 | -5 | 2.43 |
| Cut flowers | \$417,098 | \$359,227 | -14 | 1.92 |
| Cut cultivated greens | \$91,748 | \$73,956 | -19 | 0.40 |
| Propagative floriculture materials | \$383,836 | \$357,660 | -7 | 1.91 |
| Total or Average | \$3,924,953 | \$3,685,954 | -6 | 13.65 |

Source: *Floriculture Crops 2009 Summary* (USDA, 2010 based on only the top 15 states).

Percentage of U.S. Households That Participate in Garden Activities

| Activity | Percentage |
|-------------------------|------------|
| Gardening | 71 |
| Lawn care | 48 |
| Grow indoor houseplants | 31 |
| Flower gardening | 30 |
| Landscaping | 27 |

Source: National Gardening Association, 2007 (<http://www.garden.org>).

The Number and Percentage of People Who Say They Participated in Do-It-Yourself Lawn and Garden Activities

| Reason | Millions | % |
|-------------------------------|----------|----|
| To maintain the appearance of | 53 | 64 |

| | | |
|------------------------------------------|----|----|
| my property | | |
| To improve the appearance of my property | 50 | 63 |
| To save money by doing more myself | 47 | 57 |
| To enjoy the activity | 47 | 57 |
| To grow fresh and nutritious food | 25 | 48 |
| For exercise | 37 | 45 |
| To make my outdoor space more livable | 37 | 44 |
| To be more self-reliant | 27 | 32 |

Changes in Gardening in the United States from 2009 to 2010

| Change | Percentage |
|---------------------------------------------------|------------|
| Spent more time on lawn and gardening activities | 20 |
| Spent less money gardening | 16 |
| Spent more time food gardening | 22 |
| Spent more time flower gardening | 19 |
| Spent more time container gardening | 19 |
| Spent more time on lawn care | 14 |
| Spent more time on yard and landscape maintenance | 13 |
| Spent less time on lawn and gardening activities | 10 |

Source: National Garden Survey, National Gardening Association, 2007 (<http://www.garden.org>).