

Ann's Nursery – A Feasibility Plan Case Study

Ann's Nursery is a fictitious case study which we use in this course in order to show how to develop the information and data that are relevant to building a Feasibility Plan.

As you go through this workshop series you will see the marketing, financial and operational choices and decisions that Ann had to make, many of which are similar to the ones that you will need to make for your own business.

Background

Ann received her Bachelor's Degree in Horticulture from Penn State University in **1995**. She worked for the university for four years developing different varieties of small ornamental trees, shrubs and vines. During this period she also worked with the local nurseries around the Philadelphia region as a consultant helping them select, grow and maintain their small ornamental plants.

Note that as a result of her studies, her work with the university and with the local nurseries, Ann developed a great deal of technical and business expertise related to the nursery business.

In **1998**, Ann and her husband bought a small farm in western Chester County, Pennsylvania, for \$157,000. The farm had approximately 12 acres of land, a small farmhouse, three old greenhouses and a barn. Ann began immediately fixing up the greenhouses and barn so that she could continue to develop her love of growing and experimenting with her specialty ornamental plants.

In **2005** Ann decided that she wanted to start her own business. She wanted to produce and sell her specialty ornamental plants, putting to work the assets that she and her husband had on their farm.

Given her farm's buildings and land, her background knowledge of producing specialty ornamental plants, her working relationship with the local area nurseries, and the fact that their farm was close to a rapidly growing suburb, Ann had many choices to consider.

Not having the knowledge of what steps to take next, **Ann decided to attend the SCORE Simple Steps for Starting Your Business** workshops where she could develop her business plan to pursue her dream of having a successful nursery focused on producing small ornamental plants.

Ann's Vision and Business Idea

Ann's Nursery will be a **producer of ornamental vines, shrubs and trees** and will **sell to retail nurseries and end consumers**. The offering of these ornamental plants will be **suitable for most of the United States, except the far southern climates**. The offering also **focuses on the hard-to-grow-from-seedling plants that retail nurseries usually prefer to purchase rather than grow in-house**. Having a high quality, reliable producer of

these varieties is a strong desire of most retail nurseries that prefer to grow the faster, easier, and high volume plants.

This factor, plus the **free offering of considerable “best practices” information in growing and maintaining these plants**, are the unique features offered by Ann’s Nursery. The production of plants is on our farm north of Coatesville, PA. The property that will be a part of the business includes 11 acres of land, three greenhouses and a barn that will be used for packaging and storage.

Personal Background

This **business idea has been a long-term dream for Ann**. With a Bachelor’s Degree in horticulture from Penn State, Ann has been researching and producing the specific varieties that she is going to offer on a commercial basis. Also, while at Penn State working on her internship, Ann developed the reputation in the Delaware Valley as one of the experts in producing and maintaining ornamental plants. In fact, she provided consulting services to some of the retail nurseries that will be her target customers. Ann’s love of growing plants is one of the reasons why she purchased the farm. With the exception of the house, the farm will be used to produce and package a selected variety of ornamental vines, shrubs and trees.

Industry Profile and Competitive Data Resources

Researching the NAICS data base Ann found the following: “**111421 Nursery and Tree Production,**” is described as: “*—establishments primarily engaged in growing nursery products, nursery stock, shrubs, bulbs, fruit stock—.*” However, producing nursery plants also occurs in the NAICS industry entitled “Retail-Nursery, Garden Center and Farm Supply Stores.’ Nursery products are also offered by retail groceries and large building supply stores. In looking at the RMA data for “nursery producers” and “retail nurseries,” the **US market is \$3.2 billion** in net sales per year for the nursery producers, and an additional \$1.5 billion for plants sold by retail nurseries at wholesale prices. From just these two sources the combined industry for nursery plants in the US is therefore around \$4.7 billion in sales per year.

Another view of industry size comes from “The **American Nursery Retailer Association**” which estimates the industry to be **\$6 billion** in sales with 4000 retail outlets. The industry has a 5% growth rate per year, about 1.5% better than average GDP. Ann estimates that the varieties of ornamental plants she will offer would represent 5% to 10% of the total market, or approximately \$300 to \$600 million. However, she believes that she can capture an additional part of the \$6 billion total “gardener dollar” with attractive offerings and promotions.

Competition

The competition will be defined **by customer type** and will address the following key areas: **1) offering benefits/features, 2) pricing, 3) sales size and mix, 4) marketing strategy by channel, and 5) business model/competitive cost advantage.**

From the earlier industry discussion there are two types of competitors: one is the pure producer of plants and the other is a larger retail nursery that also produces plants.

About half of the retail nurseries produce some varieties that we offer and therefore can be considered competitors. However, for most retail nurseries the profit is in selling a product that is marked up an average of 150% over its cost (cost \times 2.5). If retailers can get high quality plants at competitive pricing, they will buy from a producer.

The local market in the Delaware Valley consists of roughly 20 producers of ornamental plants and 100 retail nurseries (about half of the area's total) that produce some ornamental plants. The 20 producers range in size from \$100,000 to \$10 million in sales per year. The retail nurseries range in size from \$200,000 to \$30 million in sales per year. The quality of their plants varies widely. We know of none that can consistently match our varieties for quality and we know of no producer or retailer that has the wealth of information that we have in transplanting, growing, and maintaining our specific varieties of ornamental plants.

Most of the 20 producers stay within market price as their pricing strategy. On occasion some will discount to move their inventory. The marketing strategies for the producers are mostly direct sales calls with little supporting literature. Our marketing will be superior since we will promote our benefits advantage. Their business models vary only slightly. However, a cost advantage can be seen in the size or scale of the producers. We think we can overcome our initial size disadvantage with some of our producing techniques, and by the third year we should achieve cost parity with the largest local producers.

In looking at the distant producers servicing our distant nursery customers, we see Ann's Nursery superior in product feature benefits, neutral in pricing advantage and roughly neutral to slightly positive in marketing strategy. However, because of the high freight component to cost, local plant producers have a healthy cost advantage over more distant competitors. Some of the largest producers are in the West and Midwest. It will be difficult to compete with these nurseries where the freight cost component is in their favor, especially in the western United States.

Internet producer/sellers are relatively small. One of the more prominent Internet producers is Nature Hills Nursery which has annual sales of \$1 million per year. They have an excellent web site that we can emulate as a starting point, and then expand. As with the other customer type, we think our offering is superior except that they currently offer more varieties (which we will match by the third year). In consideration of the other factors, pricing is neutral and so is their business model. Their business size gives them no scale advantage.

Ann's Competitive Comparison

	Ann's	Comp. A	Comp. B	Comp. C
Benefits Features	++	0	-	0
Pricing	0	+	0	0

Products Size/Mix	0	-	0	+++
Market Strategy	+	0	++	+
Business Model	0	0	0	+

Legend: 0 Neutral + Positive - Negative

Product and Services Description

From Trumpet Creeper and Wisteria to Japanese Cut Leaf red Maple and Kwanzan Flowering Cherry, we will produce and sell over 100 varieties of ornamental plants to both retail nurseries and end consumers/gardeners.

There are two major attributes that are highly desired by our customer. First is a plant that is very healthy and hardy. Second is the best information for each variety that allows the buyer to transplant, grow and maintain those plants. Ann's horticultural experience at Penn State and consulting experience with some of the leading Delaware Valley nurseries gives us a significant advantage in both producing healthy plants. Also, from many research papers and horticultural experience, we have already developed a large body of "best practice" information about transplanting, growing and maintaining plants that we will provide free to clients that purchase our product.

Our product liability will be limited to the purchase price of materials. This policy is reinforced in all our literature and invoicing statements. Our product guarantee follows industry norms, which limits returns to one year from purchase.

Production is done solely at our farm in the three greenhouse and adjacent gardens. With these greenhouses we can produce up to our projected third year sales volume. With plenty of land, expansion for further sales is relatively easy and inexpensive. Our plants will be packaged in our barn which has been converted into a mini-packaging line for our Internet and distant retail nursery customers. Delivery will be made via our truck(s) for local nurseries and UPS and common carriers for the Internet customers and distant nurseries. All supplies for this business are basic commodities, with plenty of available suppliers and very competitive prices.

We have no intellectual property to protect and no special permits required. Our zoning for the farm is suitable for plant production.

Pricing Strategy

Retail pricing from our plant varieties ranges from \$40 to \$600, depending on the variety and size of the plant. At wholesale those prices range from \$15 to \$250, again depending on variety and size. Our pricing strategy is to match the market pricing for similar plants. With our advantage in plant quality and the best practice information we provide, we will not pursue short-term price discounting offered by our competitors.

Handling and delivery is a key cost item for nurseries. We will separate plant pricing from handling and delivery charges for all retail nurseries so that they can save money if they wish to pick-up their orders. Pick-up will not be an option for Internet customers to minimize conflict with our local nurseries. Also for each customer type there will be a minimum order size. For our local nurseries handling and delivery charges will be by zone and Internet and distant nurseries charges will be based on cost from UPS or common carriers.

Target Markets and Channels of Distribution

Ann's nursery had four alternative channel and target markets to consider. We have selected three key markets that have significantly different potential for top line and bottom line growth. We **eliminated the option of establishing a local retail outlet** at our farm. A retail store at our farm was possible, but would not produce many sales. Also it would detract from the core work of producing plants.

We plan on **selling to three separate target groups of customers:**

- 1) **Local retail nurseries**, those in the Delaware Valley area around Philadelphia
- 2) **Distant retail nurseries** in the rest of the US and sold **through a producer representative organization**
- 3) **Direct to consumers via internet**, usually to experienced gardeners who shop the Internet.

Target Market Research Results

Target Markets	Local Nursery	Distant Nursery	Internet Gardener
Channel Position	producer/ retailer 30/70	producer/ retailer 30/70	retailer/ consumer
Key Demographics	\$1-30M sales; broad product	\$1-30M sales; broad product	high end, experience
Buying Habits	trust of product; personal connection	trust of product; pricing	reputation; delivery
Market Size and Share	200 x \$50k share 5%	4000 x \$50k share 1/10%	2M x \$100 share 1/5%

Target Markets Comparison

Target Markets	Local Nursery	Distant Nursery	Internet Gardener
Need	+	+	+
Profit	++	0	+
Sales	+++	++	+
Channel Conflict	+	+	0
Competition	0	-	0
Fits Me	++	0	+

Local Retail Nurseries - They will be pursued first because they are most important; by year three they will represent our highest profit margin and our highest volume target customers. In the first year we will pursue local retailers first, the Internet customers will be pursued second, and the distant retailers will be third. Total sales for the third year of operations are projected to be \$710,000 per year.

There are over 200 retail nursery outlets in the Delaware Valley. These nurseries are can be easily supplied by our own trucks, and are within a maximum of 45 minutes for personal sales call. As it relates to our offering, the paramount need of a retail nursery is plant quality, in other words, a healthy plant from the root system up. Their reputation depends on it. They also want up-to-date “best practice” information on transplanting, growing and maintaining the different species of plants.

Our offering and Ann’s reputation in the local area makes these retail nurseries our largest volume and most profitable target market. There are over 200 in the area that range in size with annual sales from \$200,000 to \$30 million per year. Half of the 200 nurseries produce some of their own stock. Even so, many of these nurseries are prime prospects. We estimate the total local market for our plants to be \$10 million, an average of about \$50,000 per year, per location. We have already approached five of the leading nurseries and two have

committed to buy our plant offerings next year. One of the largest, Hasting Gardens, has stated that they will purchase approximately \$150,000 in the first year or about 30% of their current volume for our varieties. To get this commitment, Ann agreed to personally conduct four Gardener workshops for the customers at Hasting Gardens. Our third year sales projections for this target market represents about a 5% penetration of the local market.

In the local area there are 20 nursery producers ranging in size from \$100,000 to \$10,000,000 in sales per year. Of the 200 local-area retail nurseries, half also produce some of our varieties of ornamentals plants. We have already approached five of the major retail nurseries that produce some our varieties and have commitments to supply our plants to two of the largest retail nurseries in the area. Our offering of quality plants, supporting services, and Ann's reputation appears to be a winning combination. For the other two target markets we will have many competitors and our anticipated penetration in these very large markets will be small.

Distant Retail Nurseries - This target market is by far the largest but it 1) has the most competition, 2) is the most difficult to sell and service, and 3) will be the least profitable segment in terms of contribution margin. The needs of these nurseries are no different than those in our local market. The issue is that we will have to sell to these nurseries through a producers representative organization (American Nursery Wholesalers), thus the message about Ann's horticultural expertise will be more difficult to convey. Also, freight is a major cost factor in plants. So the more distant retail nurseries will have less incentive to buy. The market is huge with 4,000 nurseries buying \$50,000 per year or \$200 million per year of related products. Also some very large producers like Monrovia serve this market very well. Even so, our third year sales represent a conservative penetration rate of less than one tenth of a percent.

Internet Gardeners- Although most customers buying our product will be individual gardeners, there will be nurseries and other businesses that may also use this channel. The end consumer/gardener needs both plant quality and "best practice" information. Even though the end consumer/gardener is more sophisticated than the normal retail customer, they are not as knowledgeable or discerning as the retail nurseries. This means that branding Ann's Nursery will be as important, if not more important, than the quality assurances and "best practice" information that is typically offered to retail nurseries.

From the American Nursery Retailer Association there are approximately 2 million gardeners per year purchasing plants via the Internet. We estimate that for our plants the annual sales volume market size is about \$100 million. At our projected third year sales our penetration will be only two tenth of a percent. A more meaningful comparison is with Nature Hills Nursery, one of the more prominent online nurseries. Their annual sales are about \$1 million. Ann's Nursery projected third year sales are only 20% of their current volume—a reasonable goal to achieve.

Marketing Strategies to Reach Target Customers

Our first order of business in reaching our target customers is to develop our common set of business cards, tri-folds, technical information, catalogs of products, and other collateral that conveys our core message.

The marketing message is “Ann’s Nursery offers high quality ornamental trees, shrubs and vines to discerning nurseries and gardeners. These quality plants are grown and backed by well-known horticulturalist, Ann Murphy. The latest “best practices” for transplanting, growing and maintaining are provided with each purchase to enable you to enjoy healthy vibrant plants for years to come.” Ann’s tag line is “Quality plants grown with confidence.”

Local Retail Nurseries: We will sell directly to local nurseries. Ann will be the primary salesperson. Her horticultural reputation in the Delaware Valley provides her easy access and credibility. This sales activity will take about half of Ann’s time in the first two years of startup. Besides the above supporting materials, Ann will provide samples of the ornamental plants, offer tours of our greenhouses, and offer to deliver gardening seminars to the larger purchasers. Promotional articles will be developed and submitted around the special events such as the grand opening of Ann’s nursery, gardener seminar events at the selected nurseries and related conference events. Both TV and radio will be pursued for talk shows featuring local experts.

Distant Retail Nurseries: Our marketing arm for this target customer group is American Nursery Wholesale (AMW), a producer’s representative firm that calls on retail nurseries and offers a wide range of products. Because of the sales commission expense, our profit margin for this target customer group will be the lowest of the three target customer groups. The marketing needs for this group are: 1) catalogs and samples, 2) sales rep development time, and 3) major metro flower show booth expense and time commitment. We estimate that ¼ of a staff person’s time will be required to support the sales effort of AMW. Although selling this target market has its problems, it should improve our branding effort and help sales to the other target markets.

Internet Gardeners: A home page is already being developed with the domain name of www.annsnursery.com. We will pattern our web page after the very successful web page offered by Nature Hill Nurseries. However, we will emphasize the quality control techniques that we use in making our high quality plants and also provide the online viewer a sample of the “best practice” information about transplanting, growing and maintaining our different varieties of plants, which they will receive upon purchase of our plants. Initial web design costs are approximately \$4,000 and it will take about ¼ of a staff person’s time to maintain the website. As we become more confident in our process of packaging and shipping to our Internet customers, we will start expanding our marketing effort by improving our links and overall exposure online.

Marketing Message

Ann’s Nursery (*business*) offers to discerning growers and gardeners (*target customers*) high quality ornamental trees, shrubs and vines (*products*) backed by well-known horticulturalist, Dr. Ann Murphy, a one year money back “guarantee to grow” and extended plant care documentation (*unique features*).

Marketing Expenses Summary

	Local Retailer	Distant Retailer	Internet to Customer
One Time Expenses	\$1000 for samples	\$3000 for displays	\$2000 for web page
Monthly/ Annual Expenses		\$2000 year for travel	\$100 per month for web hosting
Labor Cost	0.5 staff person	0.25 staff person	0.25 staff person

Other Key Factors

We see no major risk to the business. Our “money back guarantee” is limited to material value and typical of the industry. The producing facilities and employees, plus local shipping, will be covered by the appropriate insurance. We are structured as an “S” corporation. Also, zoning is in compliance with the township.

Business Structure

We have registered our name with the state. We have also recently formed an “S” corporation and placed all but the farmhouse and one acre of land into the company. This includes 11 acres of land, three greenhouses and the barn.

Our management structure will start out with Ann as president, Tom (Ann’s husband) as vice president/treasurer and two part-time staffers. For the first three years of operation, we see this as a full time job for Ann and nighttime job for Tom as he continues to keep his current day job. The part-time staffers will become full time by the end of the first year. To produce and package the plants, part-time/seasonal laborers will be needed. Part-time laborers are seen as a direct variable cost and will be accounted as such. As a part of Ann’s Nursery business community, we have our own lawyer, accountant and insurance agent. We will be approaching banks soon to obtain a line of credit.

Our insurance coverage includes the following: general liability, product liability, property and vehicle insurance, and worker’s compensation. Employee health insurance will be added, as our staff employees become full-time.