



Grower Summary

CPM 001

Import substitution and export opportunities for UK ornamentals growers

Final 2014

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Headline

UK ornamentals production value totalled just under £1 billion in the year 2012-13. This compared with import values of £324m of ornamental plants and bulbs, and £598m of cut flowers. Potential therefore exists for UK to substitute these imports with home-grown product and thereby increase sales. Sales growth potential also exists in emerging eastern European countries where spend is currently low but growing rapidly. In some Nordic and alpine countries there is both high spend on, and growing imports of ornamentals which may also hold export opportunities.

Background

In the context of one of the worst economic downturns since the Wall Street Crash, government policy is increasingly likely to be guided by evidence of potential benefits to the UK economy. This presents challenges insofar as relatively little data exists on the value of UK ornamentals production. Certainly detailed information such as the value of different crops and different sectors supplied by growers was lacking at the start of this project. This has created challenges in demonstrating the economic value and potential of ornamentals production to policy makers.

This lack of data is also a handicap in terms of investigating specific opportunities for UK growers to develop and deliver sales and economic growth. Two of these revolve around international trade flows. Firstly, the scale of the opportunity for UK growers to win share from overseas growers supplying ornamentals to the UK was unknown. A second unknown was the extent of opportunities for exporting ornamentals. Furthermore, data on the potential size and potential attractiveness of overseas markets was not easily accessible for UK growers.

To address these issues, the HDC commissioned the Horticultural Trades Association (HTA) to run a pilot research project to fill some of these information gaps, and to provide a detailed analysis of the opportunity for UK growers to increase sales and substitute imports in the specialist garden retailer sector (e.g. among specialist garden centres and retail nurseries). The objectives of the research were:

- To estimate the value of imported ornamental plants to the UK
- To estimate the value of imported ornamental plants as a proportion of UK plant sales

- To provide a breakdown of the channels into which UK growers supply different crops
- To assess and rank the attractiveness of different export markets for UK ornamentals growers
- To identify UK ornamentals growers' perceived barriers to exploiting export markets.

The research comprised a survey of specialist garden retailers, a survey of UK ornamentals growers and desk research into trade flow and other market statistics on European countries.

Summary

The research findings show that ornamentals production by UK growers was slightly less than £1 billion (excluding VAT) in the year August 2012 to July 2013. The following table and notes show how this breaks down by supply of ornamentals plants to different sectors. It is based on a survey of growers with a sample size of 80 from a population of around 650 growers. As such the estimates are subject to statistical margins of error (particularly in sectors and crops with small reported values) but are likely to represent broadly accurate estimates of UK ornamentals production as a whole.

Table 1. Estimated value (ex VAT) of UK grower production by crop and sector (July 2012 to July 2013) as derived from the survey of growers (sample size = 80 respondents).

	Consumers direct	Specialist garden retailers	DIY stores	Other retailers	Amenity customers	Forestry	UK pack houses	Export*	Other	Total
Bedding plants	£4.3m	£74.4m	£94.9m	£52.4m	£9.4m	£0.0m	£0.0m	£3.9m	£3.2m	£242.4m
Hardy Nursery Stock	£56.4m	£185.5m	£36.5m	£27.5m	£158.5m	£1.1m	£0.0m	£63.3m	£20.8m	£549.5m
Herbaceous Perennials	£3.2m	£62.9m	£2.2m	£2.6m	£23.9m	£0.0m	£0.0m	£1.3m	£1.0m	£97.1m
Edible ornamentals	£1.0m	£17.0m	£0.7m	£3.0m	£0.5m	£0.0m	£0.0m	£0.4m	£0.3m	£22.9m
House plants	£0.1m	£7.0m	£0.0m	£8.7m	£0.0m	£0.0m	£0.0m	£0.0m	£0.1m	£15.8m
Dry bulbs ♦	£0.0m	£0.2m	£0.1m	£0.8m	£0.4m	£0.0m	£0.0m	£1.1m	£0.0m	£2.6m ♦
Other garden plants	£0.2m	£1.8m	£0.0m	£0.4m	£0.0m	£0.0m	£0.0m	£0.3m	£0.0m	£2.7m
Cut flowers ♦	£2.2m	£0.0m	£0.0m	£2.7m	£0.0m	£0.0m	£2.3m	£7.8m	£3.0m	£17.9m ♦
Total	£67.4m	£348.8m	£134.3m	£98.1m	£192.7m	£1.1m	£2.3m	£77.9m*	£28.4m	£950.9m

Caveats and notes on estimates:

♦ The grower survey did not achieve adequate responses for robust estimates of dry bulbs and cut flowers to be generated. The total estimated production value for dry bulbs is in the region of £30m based on known turnover of major UK bulb producers, taking overall production values to around £980m. Cut flowers production values are estimated at between £18 and £32 million (see appendix for method for achieving this estimate).

* The value of exports is skewed by a small number of responses with atypically big export businesses in the survey sample. International Trade Centre data for 2012 (calendar year) estimates the value of UK exports of these crops to be in the region of £47m (using a £ to Euro conversion rate of 1:1.24)

Set against this data, analysis of trade flow data sourced from The International Trade Centre (<http://www.intracen.org/>) shows that the UK imported around £324 million of ornamental live plants and bulbs, and £598 million of cut flowers in 2012 (the most recent data available at the time of the research).

These imports end up in a range of different sectors, and the scope of this research is to look at the potential opportunity for UK growers to substitute imports in the specialist garden retailer sector (e.g. among garden centres and retail nurseries). A survey of these retailers conducted as part of this project achieved responses from 77 businesses representing 100 garden centre/retail nursery outlets. It showed that around 15% of their plant sales by value were accounted for by imports, which represents an import substitution opportunity for UK growers of around £69 million, largely achievable by substituting imported hardy nursery stock crops and house plants, the latter of which are produced in relatively small values by UK growers (£15.8 million compared with hardy nursery stock production of £550m). Based on the finding from the HTA's *Survey of Wages and Labour Costs* report which shows that staff costs in ornamental growers are on average 29% of turnover, and that a general nursery worker is paid on average £16,000 per year, this £69m roughly equates to a potential addition of 1,000 general nursery worker jobs to the economy.

There is something of a mismatch between growers' perceptions and retailers' opinions on what UK growers need to do to win share from overseas growers. Growers were most likely to cite barriers relating to price competitiveness. By contrast, although price is clearly important to retailers, the most frequently mentioned areas in which they want UK growers to improve relate to distribution and supply chain efficiency and effectiveness. The following tables show the most frequently reported views on this topic from growers and retailers.

Table 2. Barriers to competing in the UK for business won by overseas growers, as reported by UK growers

	All growers	Hardy nursery stock growers
Price (including exchange rate variations and competing with product dumping)	41%	47%
Not having the same ranges offered by overseas growers, including crops that don't grow well in the UK or being a specialist in certain types of crop	13%	16%
Transport costs or difficulty delivering to buyers' time and volume needs	13%	20%
Being too small or unable to operate as a one stop shop	13%	13%
Buyers preferring overseas growers or stock or being apathetic about UK growers	10%	11%
No barriers	6%	9%
Lack of information (e.g. about demand)	6%	4%
Marketing costs	3%	4%
Other reasons	28%	27%

Sample size: 68 respondents (45 HNS growers). Percentages exceed 100% as some respondents list more than one barrier.

Table 3. Specialist garden retailers' suggestions for improvements UK growers could make to win business currently going to overseas growers

	The 15 respondents who import most plants (note the small sample size)	All respondents
Improve the delivery service	38%	42%
Improve the quality of plant information available when ordering	38%	15%
Be more competitive on price	31%	22%
Better plant labels, POS, and marketing materials or promotions ¹	23%	13%
Have a wider range of forms and varieties available	23%	20%
Improve the quality of plants produced	8%	13%
Improve service (generally)	8%	5%
Stress the UK provenance of plants	0%	5%
Other	8%	24%

Sample size: 55 respondents (15 retailers accounting for around 80% of the value of imports across the sample show separately). Percentages exceed 100% as some respondents list more than one barrier.

¹ NB – respondents were not necessarily saying overseas growers' POS is better than that of UK growers, but more simply that improving this would help UK growers compete more effectively.

Table 4. Specialist garden retailers' suggestions for improvements UK growers could make to win business currently going to overseas growers

	The 15 respondents who import most plants	All respondents
Improve the delivery service of which . . .	38%	42%
Improve the cost of delivery	0%	2%
Get better at delivering small volumes	0%	15%
Improve the speed and flexibility of delivery	31%	15%
Generally work with other growers to improve delivery	8%	11%
Improve the quality of plant information available when ordering of which . . .	38%	15%
Better information on availability of plants	23%	9%
Better information on plants, including images of the plant	15%	5%

Sample size: 55 respondents (15 retailers accounting for around 80% of the value of imports across the sample show separately). Percentages exceed 100% as some respondents list more than one barrier.

The following quotes are taken verbatim from the responses retailers gave on this topic. They provide a flavour of the types of suggestions being made relating to these themes:

“Offer larger volumes and offer more flexible delivery schedules often its quicker to get a delivery from Boskoop than the UK”

“Quicker delivery turn around. Better promotions. Better ordering facilities, like online ordering WITH PICTURES.” [respondent’s capitalisation]

“They need to collaborate more for shared transport as meeting minimum orders from five different growers for example is difficult and time consuming. Perhaps they should consider some type of cooperative marketplace with stock from different growers going onto one delivery”.

“Get a website going that we as retailers can look at with pictures of the actual plant, size, Price per plant, Price per shelf, Price per Trolley delivered. We as retailers can pick and choose all our plants the growers can pick and deliver to one hub, the people at that hub sort out deliveries to each retailer pre pricing and barcoding as they go then we get less lorries delivering one or two trolleys a week when we could have ten or twenty trolleys in one go all pre priced and barcoded ready to sell. I know it’s the Dutch system but it works I can order on Monday and get my order in Thurs/Friday”

Overall, specialist garden retailers rated the quality of UK growers’ plants more highly than those of overseas growers. However this preference was much less pronounced among the retailers which accounted for the bulk of importing reported in the survey sample, as is

shown in the following two charts which show how specialist garden retailers rated UK ornamentals growers across several dimensions in comparison with overseas growers. It is important to note though that this latter comparison is qualitative in nature, based as it is on just 15 responses.

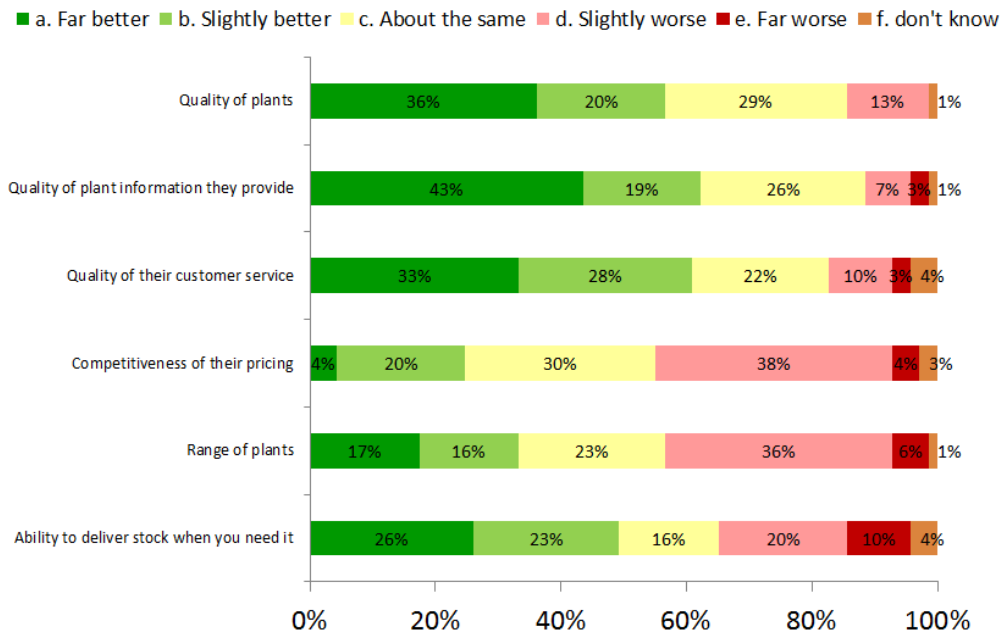


Figure 1: Specialist garden retailers' ratings of UK growers in comparison with overseas growers. Sample size = 69 specialist garden retailers who import plants.

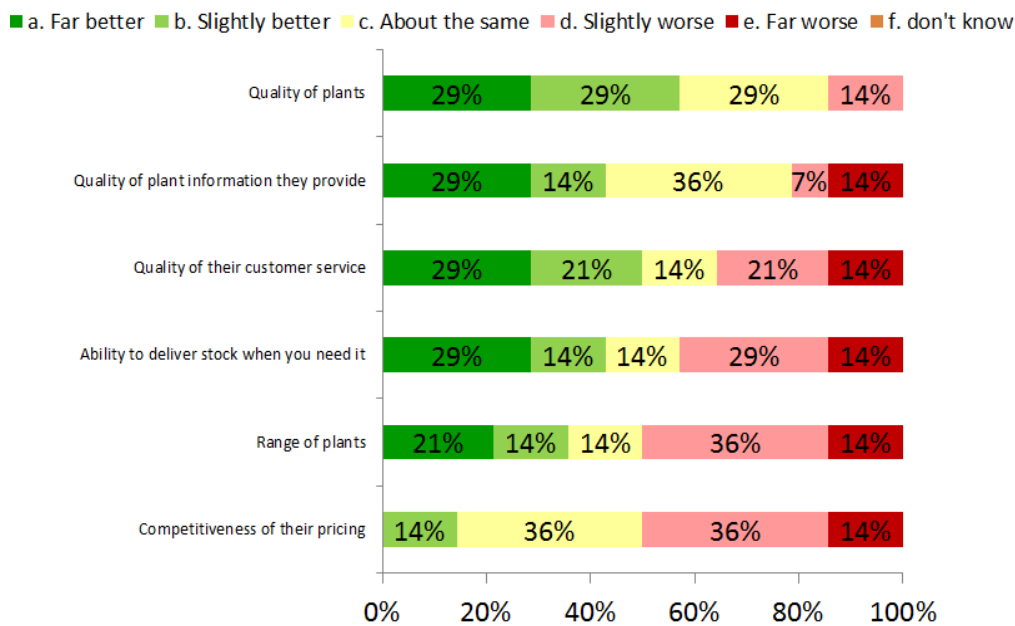


Figure 2: Specialist garden retailers' ratings of UK growers in comparison with overseas growers. Sample size = 15 specialist garden retailers who account for over 75% of reported sales of imported plants in the survey sample.

Exporting is relatively undeveloped as an opportunity by UK ornamentals growers, with around 5% of UK growers' sales by value being made up of exports. However six of the 80 businesses which provided full sales figures in the survey sample reported six-figure export sales per annum. The following chart shows the proportion of UK growers who at different stages of 'export readiness', ranging from businesses which currently export through to those who currently express no interest in exporting.

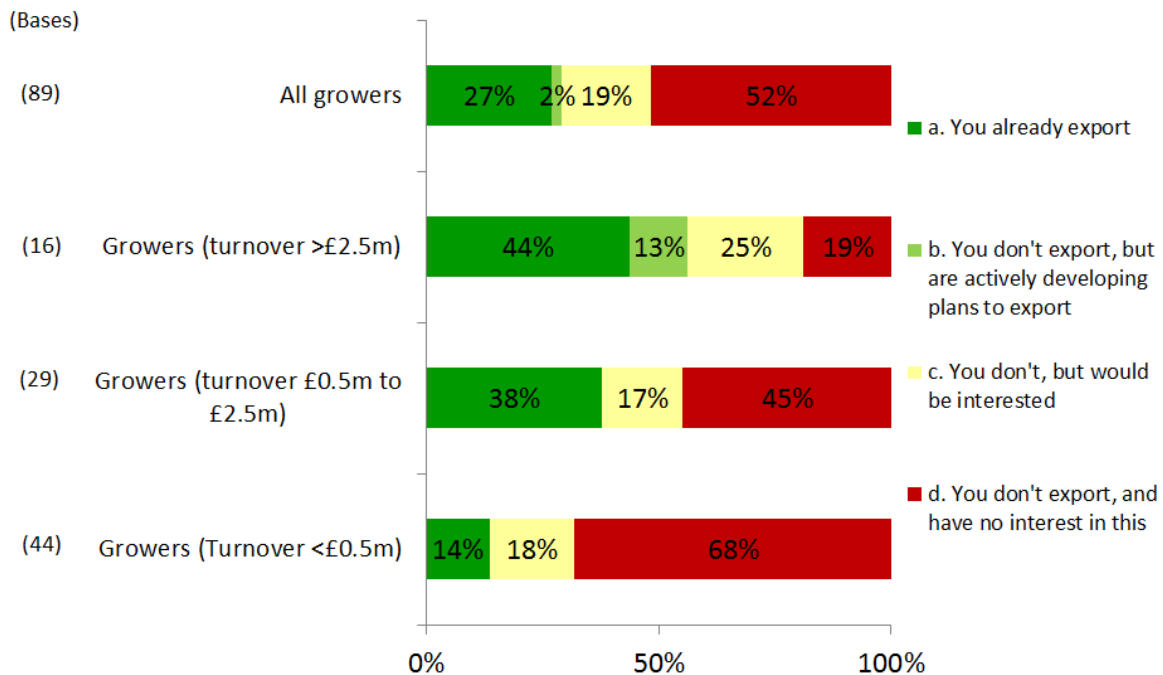


Figure 3: Proportion of UK growers exporting, interested in or considering exporting. Note the small sample size for growers with a turnover of more than £2.5m

The chart shows a clear correlation between business size and willingness to consider exporting. Among businesses turning over more than £2.5m per annum 81% are either already exporting or showing some level of interest. This suggests potential value for UK growers (particularly among larger hardy nursery stock producers) in developing export outlets.

Such support would need to address the key perceived barriers to starting exporting or developing existing export sales reported by UK growers. The following tables are based on growers' open-ended responses to the barriers they feel exist for their businesses in starting or developing exports.

Table 5. Growers' perceived barriers to beginning exporting

	Percentage of respondents mentioning
Price/cost competition	21%
Finding appropriate countries, customers or varieties to export	16%
Being paid by customers	11%
Transport/distribution logistics and costs	11%
It's not a priority compared with the domestic market	11%
Perceived lack of interest in UK plants or lack of a unique selling point	11%
Language barriers	5%
Exchange rate risks	5%
Others	32%

Sample size: 19 growers which do not currently export, but would be interested.

We can see that growers' main concerns (as with supplying the UK market) run immediately to price competition, followed by a lack of information on possible export markets or customers. Credit control across national borders is also a concern, as is the cost effective shipment and distribution of product overseas.

The following table shows the same information but based on grower businesses which are already exporting.

Table 6. Growers' perceived barriers to developing existing export business

	Percentage of respondents mentioning
Transport/distribution logistics and costs	33%
Perception that supply exceeds demand in EU markets	19%
Price/cost competition	10%
Being paid by customers	10%
Finding appropriate countries, customers or varieties to export	10%
Exchange rate risks	10%
Trade barriers or phytosanitary regulations	10%
Perceived lack of interest in UK plants or lack of a unique selling point	5%
Paperwork or bureaucracy	5%
It's not a priority compared with the domestic market	5%
Others	33%

Base: 21 growers which currently export.

In terms of addressing the barrier relating to lack of information on overseas markets, this project should provide a starting point for UK growers. The 'Overseas Markets Toolkit' spread sheet that accompanies this report provides data on ornamentals market size and growth rates on most EU and some other countries. Grouping countries together based on their per-capita spend on ornamental products and market growth rates identifies four broad categories of countries, two of which in particular may hold growth potential for UK growers.

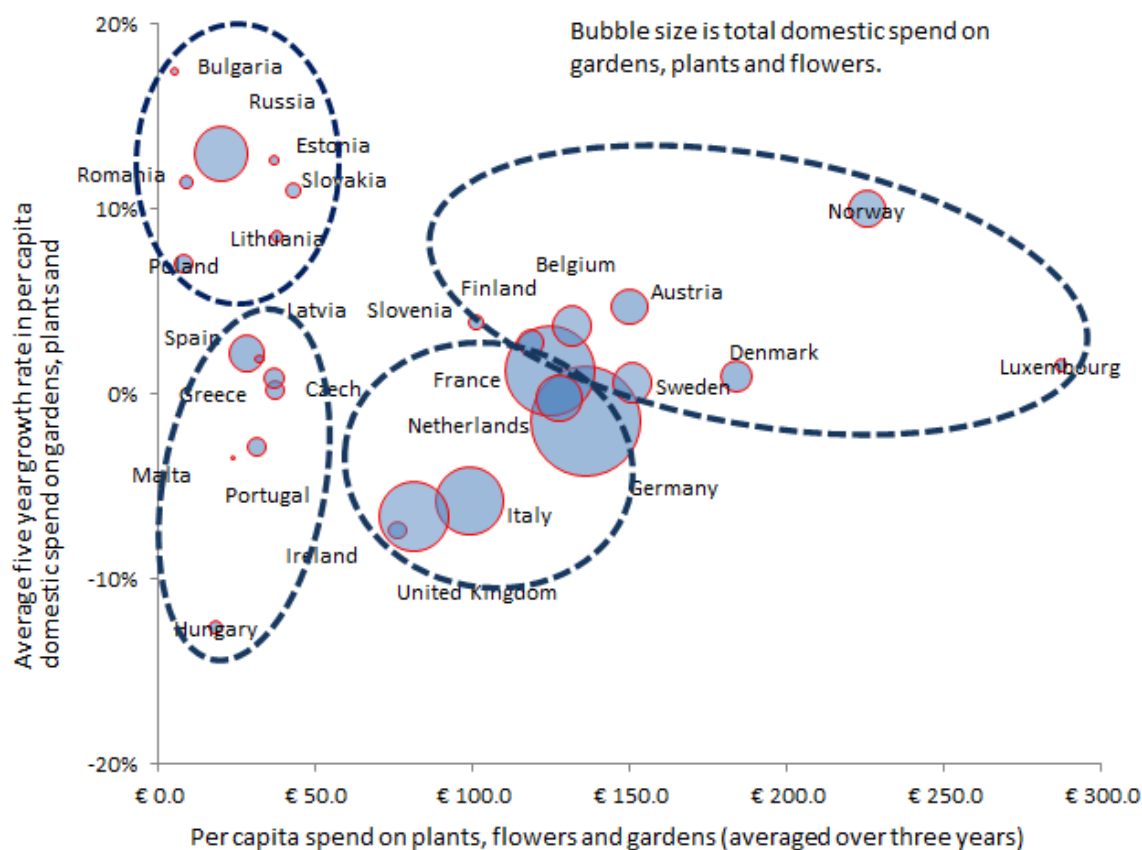


Figure 3: Four segments showing potential export markets' relative attractiveness

The Emerging East (top left) is made up mainly of former eastern bloc countries several of which have recently ascended to the EU. Spend on ornamentals is low in absolute and per capita terms, but growing rapidly. In most cases this growth is also seeing import growth.

Northern and Alpine Affluence (top right) is made up mainly of Nordic and alpine countries with high standards of living and high per capita spend on ornamentals. Access to detached housing (and presumably relatively large gardens) is also high in this segment. Growth rates are more modest than in the Emerging East segment, but still considerable and in many cases fuelled by import growth.

The ***Squeezed South*** (bottom left) segment is potentially less attractive and is characterised by low and falling per capita spend on ornamentals and gardens.

The ***Mature Mainstay*** represents mature markets where domestic production is often substantial and competition for UK exporters would likely be fierce.

Whilst the data provided cannot determine whether or not a country is more or less attractive than another (factors such as potential customer analysis and political stability are not reported for instance), this does suggest that there are several countries which may represent potentially attractive opportunities for UK growers in markets which have not yet matured.

Financial Benefits

This research has identified a potential opportunity of roughly £70m per year in import substitution sales opportunities for UK growers supplying to specialist garden retailers. It has also provided – in a single place – basic market metrics on over 25 potential European export markets. Working on a conservative assumption that gathering, collating and analysing this data from scratch would take 30 man hours, and that the data will be used by 50-100 growers either currently exporting or planning to export, this research project has delivered efficiencies for UK growers of 1,500 to 3,000 hours.

Action Points

There are several potential actions from this research. Data on the value of the sector should be used by bodies such as (but not limited to) the HDC and HTA when representing the interests of growers to stakeholders such as policy makers and the media. There may be benefits in UK growers (perhaps through their representative bodies and in partnership with specialist garden retailers) exploring and further defining opportunities to increase efficiency in the UK supply chain for ornamentals into the retail sector through improved systems, information and distribution processes. Although outside of the scope of this project, retailers of plants such as supermarkets and DIY multiples should be engaged in any such work. As well as increasing the prospect of import substitution in the sector, this has the potential to increase value in the supply chain of existing sales of UK ornamentals into retail.

The data on overseas markets, along with this report, will be made available to HDC levy payers. Gardenex and the Commercial Horticulture Association should also be briefed on the findings and engaged in reviewing ways in which it can be used to support UK growers in developing export businesses.

There are also potential opportunities for import substitution not explored in detail in this project (for instance in amenity supply). Further research could be conducted among amenity customers to assess levels of reliance on imports, and identify action points for UK amenity suppliers to develop business from import substitution.