Further development of the Garden Market Monitor

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Further Development of the Garden Market Monitor

A concluding report

Project NY08015

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Garden Market Monitor

Overview

The purpose of this document is to review and conclude the Further Development of Garden Market Monitor (GMM) project NY 08015 that has operated over the two-year period ending 30 June 2010.

During this period, under the two-year project, four reports on the domestic Garden Market were delivered. These reports covered the following periods.

- *Garden Market Monitor - Year ending 30 June 2008*
- *Garden Market Monitor - Spring to 31 December 2008*
- *Garden Market Monitor - Year ending 30 June 2009*
- *Garden Market Monitor - Spring to 31 December 2009*

During the life of NY 08015, the outputs were further developed in both refining the existing content as well as incorporating new content. This was undertaken to improve the relevance of the report and provide greater insight on the drivers of performance and future prospects of the garden industry.

The diverse audience of the GMM remain the stakeholders in the Garden market and of which the main groups are:

- Greenlife producers
- Allied garden product manufacturers and distributors who provide inputs to greenlife producers and products for resale through garden retail
- Garden product retailers
  - Specialist Garden Centres
  - Hardware retailers who offer garden products
  - Supermarkets and Discount department stores selling garden products
  - Direct-to-consumer channels (including bulbs, seeds and garden gift lines)
- Seed producers

This is a concluding document for project NY 08015 and it has been compiled to provide a basis for others to see the rationale for what was included in the outputs and potentially guide Garden Market stakeholders in assessing their options in garden market. This document can also serve as a guide for resources in NGIA or HAL who may wish to evolve the GMM findings and practices into new types of information outputs.

Major market findings over this period

A number of key trends were evident during the 2-year period of this project and they were:

1. The growth of the retail hardware chains continued as they captured more market share and moved into dominant gatekeeper roles for those seeking to reach gardening consumers.
2. The water restriction negative has peaked and eased as a constraint on gardening. The number of long-term gardeners this has discouraged will only be revealed over time.
3. New gardeners were being stimulated by a desire to “do something” about their local environment and this was reflected in an increased interest in home gardening and increased sales of vegetable seedlings and fruit trees. This was supported by a consumer demand for “greener” food and reflected in the sales of free-range foods. The systems to endorse these ethical benefits are behind demand and there are real risks that false promises will be exposed and long-term credibility damaged.
4. The new gardeners are seeking advice and this is leading them back to the specialist garden centres, which they see as being the experts in gardening.
5. The education curriculums and school gardening programs have created a higher environmental and sustainability awareness with students. This awareness, particularly among primary school children, is a common catalyst for bringing the parents of these children back to gardening. In 10-15 years, more new home owners will hold and act upon more informed views about how to manage the sustainability impact of their households.
6. The global financial crisis (GFC) has stimulated a new level of value discernment in consumers and this has lead to levels of “trading down” in the consumable products they purchased and in the retail outlets they patronise. This has flowed into creating challenges for those in the garden retailing who were leading with ranges of discretionary products like gifts and full-service cafes.
7. The MIS sector has crashed and looks unlikely to be revived to its former scale. Consumer investment confidence has been eroded as major corporate enterprises have failed. This has flowed on to eliminate a major customer group for propagation sector and lead to some contraction.
8. The likes of rooftop gardens and green gardening elements that work in small spaces and enhance building energy efficiency have enjoyed strong media exposure. This has raised awareness and elevated the inclusion of gardening into smaller inner city spaces. Property premiums are now associated with buildings that incorporate these sorts of gardens.
9. The media landscape has altered with the Internet rapidly increasing its market share. This has lowered the barriers to entry for small- to medium-sized advertisers who were previously constrained by economies of scale issues. It is now possible for small to medium enterprises to engage with consumers in their market as this can be localised via the Internet medium.

Enhancements to GMM content and effectiveness as an information output

The approach to the design and content in the GMM outputs underwent continuous improvement. There was a constant drive for new elements and fresh insights. If a new element was found to be relevant and an active variable was linked to market conditions, it was integrated into an ongoing monitor. The changes and improvements that occurred over this period were as follows:

Market conditions

This section was incorporated into the GMM for the spring report in December 2008 to support the need for a point of reference towards the prevailing conditions and consumer attitudes in the market. This was sparked by the GFC, which was an event that had a far-reaching impact that flowed into all consumers' spending.

The core relevance of this section is to profile the factors that are outside the garden market but will impact on how the market performs.

It is an accumulation of a variety of economic and consumer technical factors, including price history, economic reports, seasonal factors, and national and world events.

Economic Indicators draw on a number of key economic statistics. These indicators allow an analysis of the current economic performance and help predict future performances. The key aspect of this analysis is to profile how these factors have impacted the availability of discretionary spending income and thereby, provide an understanding of the purchasing behaviour of consumers.

Key indicators and the messages they provide include:

- Variable Mortgage Interest Rate: This is an indicator of the cost of housing and therefore changes in this rate will impact on spending availability. Lower levels are also a proven stimulus for new house sales which have a clear extension into garden product sales as part of the new house or as new home owners establish their gardens.

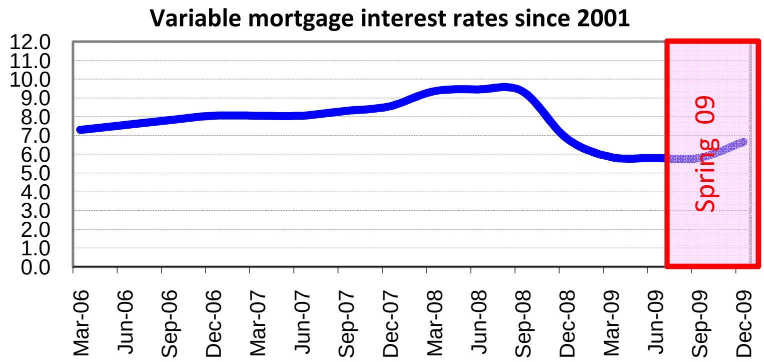


Figure 1 - Variable Mortgage Interest Rates since 2001

- Unleaded Petrol Price: This is another indicator of the available discretionary dollars as petrol for vehicles requires an average of $30 per household per week. Given the range of pricing in recent year, this cost has varied substantially and has also impacted some households' use of their vehicles, especially in travelling to retail outlets on the urban fringe, where some garden outlets are located.

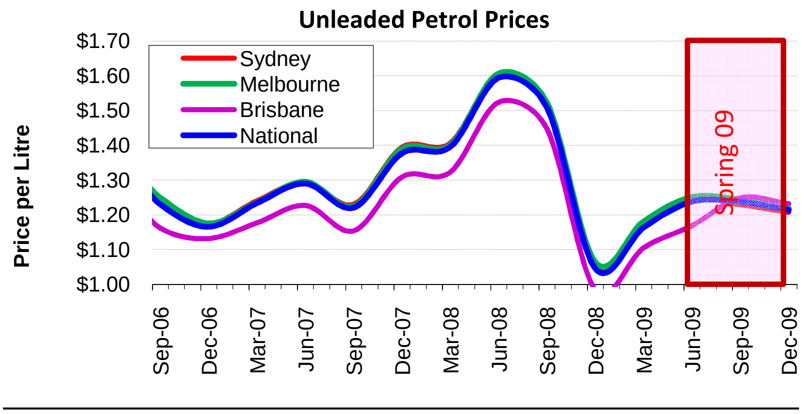


Figure 2 - Unleaded Petrol Prices

- <u>CPI- All goods & services vs. Food:</u> This is a summary monitor that reflects the total cost of living.

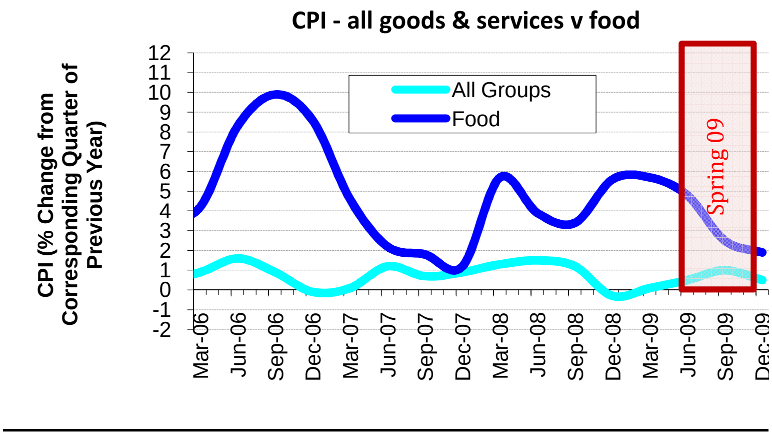


Figure 3 - CPI - All Goods & Services v Food

These three indicators have profiled the major impacts on the costs of living and the flow of pressure on disposable incomes, which have been particularly relevant as Australia has managed its way through a near recession and a series of stimulus packages over the last 2-3 years.

Consumer Sentiment is measured through different types of consumer barometers available in the marketplace, including monitored levels of actual or surveyed spending along with the consistent sentiment gauges published by the researchers.

Key indicators and the message they provide are:

- <u>Comparison of consumer sentiment & variable home loan interest rate:</u> This indicator combines the leading monitor on consumer sentiment published by the Westpac-Melbourne Institute, with the variable home interest rates. Consumer sentiment has a strong relationship with consumer propensity to spend or save and therefore, directly impacts retail sales.

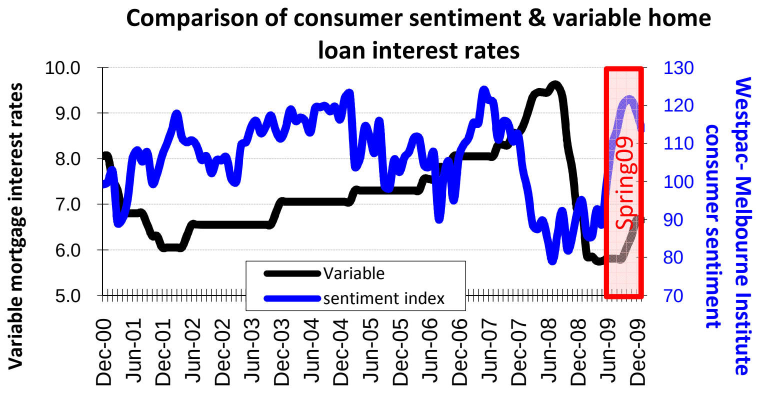


Figure 4 - Comparison of Consumer Sentiment & Variable Home Loan Interest Rates

- <u>Credit card use- change in spend vs. same time last year:</u> This indicator reflects consumers' willingness to spend and the sharp changes in the chart below.

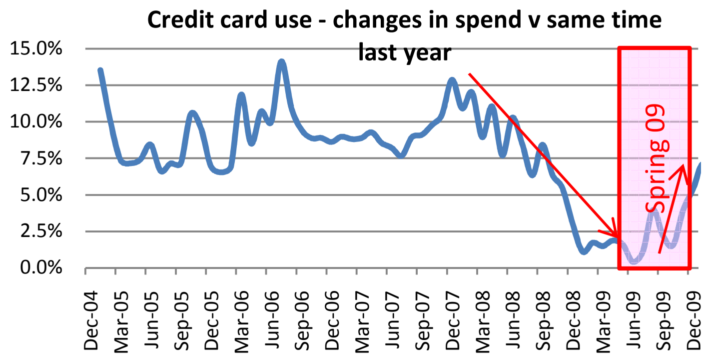


Figure 5 - Credit Card Use - Changes in Spend v Same Time Last Year

- <u>Unemployment %:</u> This indicator plays a crucial role in forecasting consumer sentiment as it denotes a direct reflection of Australia's demand for goods and services, flow of income and discretionary spending.

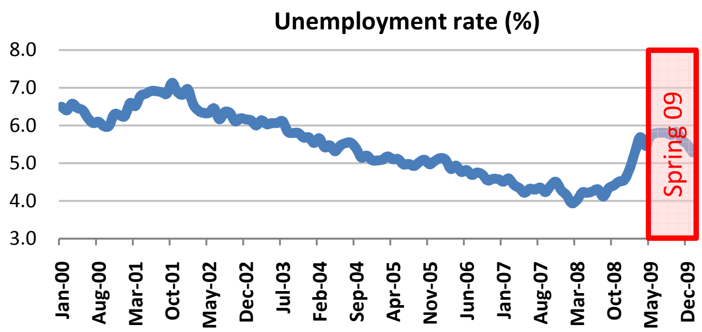


Figure 6 - Unemployment Rate (%)

Growth Drivers

A series of market factors that are deemed to have a direct impact on the garden market were identified and their statuses were reported in each of the six-monthly monitors. Some of these variables, like weekend weather suited to gardening, can have a dramatic impact on garden sales. A model was build to profile the status and combined impact. The purpose of profiling these variables is to allow garden market stakeholders to assess their own commercial performance in the context of these changing variables.

Skills & Attitudes - Looks at Government and Community initiatives that are facilitating the development of skills and attitudes towards sustainable practises and environmental issues, both in schools and the broader community. This is generating growth for the gardening industry, while also fostering a new generation of gardeners to help back-fill the skill and knowledge gap of their parents.

Housing statistics - This involves the collection of data on dwelling numbers and styles, and through further analysis of this data, it provides a platform to gain an understanding of how these trends may impact gardening sales. New house sales have direct link into demand for garden products.

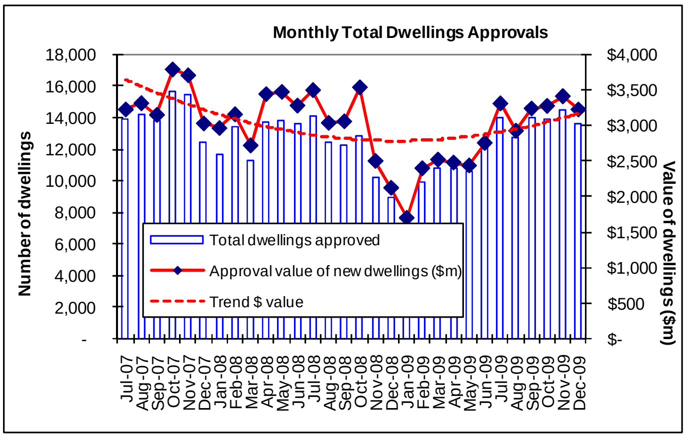


Figure 7 - Monthly Total Dwellings Approvals

Design & Décor - This involves the assessment of house and garden design trends and includes a subscription to colour palette forecast.

Water restrictions - This involves the tracking of changes in legal restrictions and the consequential weight given to gardening as a result of this. This was consolidated into a population weighted national water storage level as profiled in Figure 8.

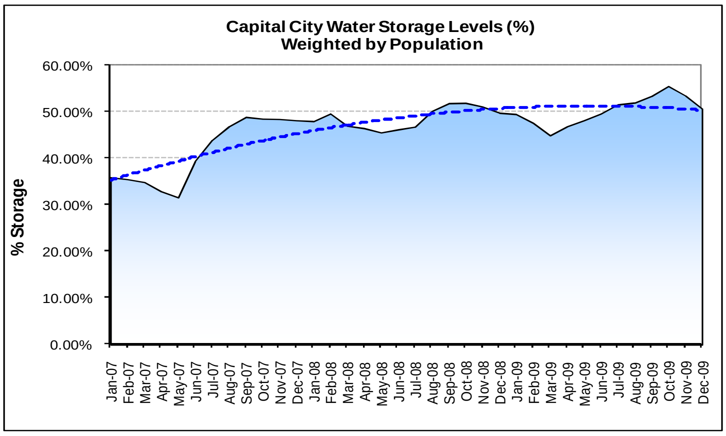
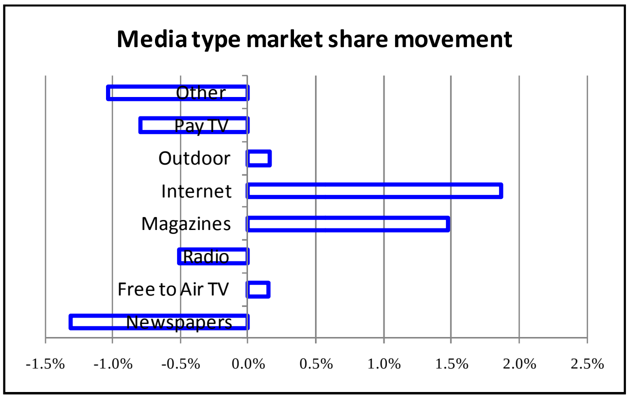


Figure 8 - Capacity City Water Storage Levels (%) Weighted by Population

The availability of water, and particularly domestic water restrictions which had a marked impact on attitudes to gardening was tracked, as were the incentives and participation for infrastructure to harvest domestic water. However, some of these water solutions are of less relevance, as water reserves have allowed water restrictions to be eased.

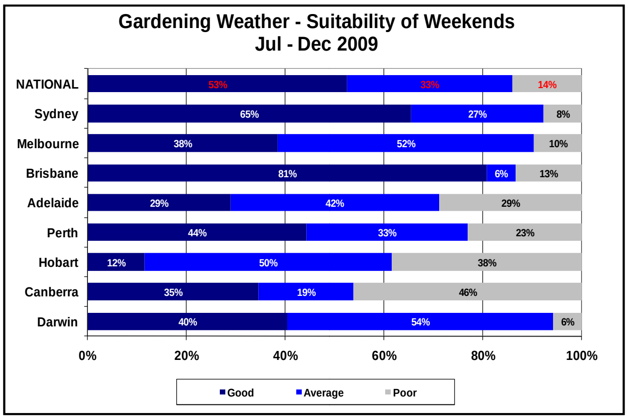
Discretionary dollar - This involved tracking the changes in the available discretionary household spending and this was drawn from the economic and consumer sentiment indicators included in the earlier analysis.

Media - This involves the monitoring of garden media expenditure including exposure analysis of the garden and gardening as a component of lifestyle TV. The status of media was deemed to be of high importance due to the level of exposure that gardening enjoys in general lifestyle media. This data was consolidated into a summary movement of media type market share as per Figure 9, as knowledge of the media market was deemed as useful information for garden market participants who assess garden promotional exposure and invest in media.



are Movement

Weekend weather - This involves the collection of data on relevant weather variables and subsequently the creation of a model to calculate the optimum gardening weather conditions. This data is then profiled into its potential impact on gardening conditions in each state capital as per Figure 10.



Suitability of Weekends July -

Summary Impact - Profiles an estimate of the status of the market drivers for the period based on a scoring and weighting system of many different factors for each driver. This profile can serve as a guide to assess individual enterprise performance in the content of market conditions. Figure 11 is the summary profile from the last GMM that covered the spring period ending 31 Dec 2009.

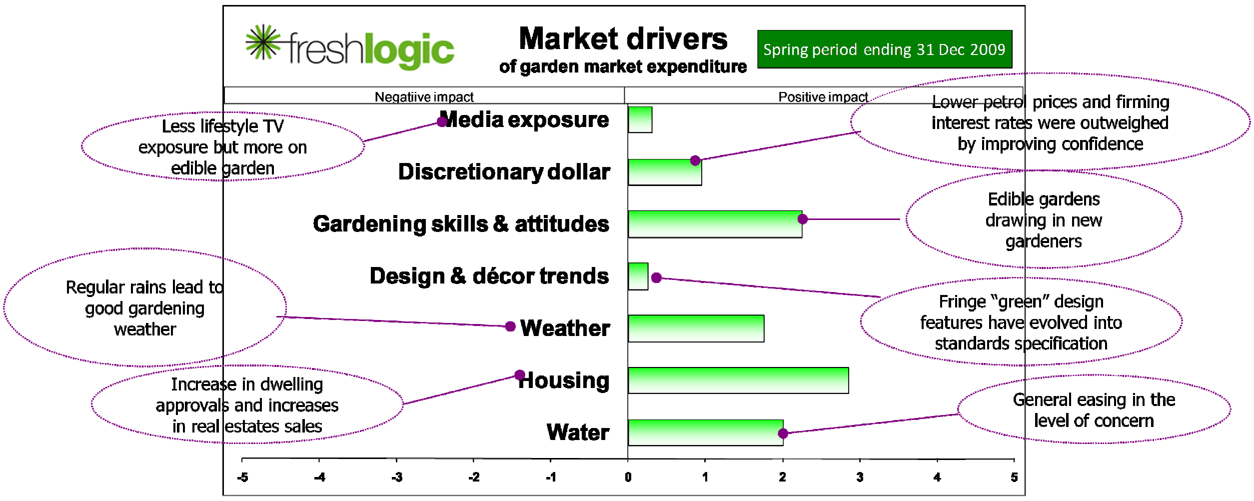


Figure 11 - Market Drivers of Garden Market Expenditure

Selected Insights

To add further value to the GMM outputs, two to three current market issues that could have future ramifications for the garden industry, both positive and negative, were analysed and insights were profiled. The last four versions of this have included the following subject matter.

Edible gardening - This has been a new addition to the report due to the growing consumer interest around producing food in their garden. This interest has been picked up quite quickly by city councils and by the community, which has been reflected at a commercial level with an increase in fruit and vegetable seedling sales.

MIS sector - This provided commentary on the rise and fall of the Managed Investment Schemes (MIS) and how this has impacted the propagation channel that experienced the extremes of strong growth following sharp declines in servicing the MIS sector.

Propagation update - The move to sell carbon credits from forestry plantations has faltered and failed to generate sales momentum for the propagators who were producing forestry seedlings for the MIS schemes. This has been affected by the failure to establish a local market price for carbon in a carbon-trading scheme.

Urban planning impacts - Social, economic and environmental trends have converged to change the urban landscape. Smaller private gardens, more communal spaces, higher density living and water saving measures are not only features of the city but also of the policy directions outlined by state and local governments.

New dynamics for environmental action - After enjoying new levels of consumer and political support, the action that was taken to support environmental concerns has come up against a tighter scrutiny in terms of its impact on the ailing economy. Media coverage has shifted from a climate change filter on everything to a dominant focus on the economy. The political gains from leading the support for environmental responsibility have eased to require a new balance with the impact on the economy and particularly, employment.

Rooftop inner city gardens - The planning incentives and demand from tenants have combined to generate premiums for properties that use rooftop gardens to enhance energy use, provide recreational space and in general soften the harness of conventional building materials.

Market growth, size and share

Model outputs are generated by the market models developed in the project. They enable the profiling of the total market, which is then further broken down to examine the values by state, channel and category. This provides an in-depth view of the entire garden industry. This type of profiling is designed to allow garden market stakeholders to assess their own performance against the total market. The key outputs that are drawn from the last GMM report for the spring period ending 31 Dec 2009 include:

Total Garden Market details the sales for that period into the various channels by the product category. This allows a complete profile to be built, giving the capacity to measure the growth and share of each category and channel based on the figures from the previous year. This is profiled in Figure 12.

Total Garden Market Spring 6 months to Dec 31 2009							
($'000) & Including GST	Amenity	Garden Maintenance	Retail	Propagators	**Total**	+/- LY	Share
Greenlife	$ 593,991	$ 4,902	$ 548,856	$ 54,090	$ 1,201,839	**7.8%**	**31.8%**
Allied Garden	$ 231,987	$ 5,348	$ 776,552		$ 1,013,887	**2.3%**	**26.8%**
Café & Gifts	$ -	$ -	$ 81,316		$ 81,316	**3.6%**	**2.2%**
Services & Bulk	$ 819,139	$ 212,586	$ 448,829		$ 1,480,554	**5.2%**	**39.2%**
Total	$1,645,118	$ 222,837	$1,855,552	$ 54,090	**$ 3,777,597**	**5.2%**	
+/- LY	**6.2%**	**4.1%**	**6.0%**	**-30.2%**	**5.2%**		
Share	**43.5%**	**5.9%**	**49.1%**	**1.4%**			

Figure 12 - Total Garden Market - Spring 6 Months to 31 Dec 2009

Total and State Markets details the sales of each category by state for the given period. This allows for the construction of a complete state-by-state profile of sales dollars for each category. Once the figures are compared to the previous period, it allows tracking growth and share at both state and category levels.

Distribution Channels - Through an assessment of the market values of each distribution channel, it allows the ability to build a platform that tracks growth and share movements between the distribution channels. This is profile on Figure 13.

Retail Channels - This summarises the overall retail channel through an assessment of the market value of the available retail outlets, where the movements of growth as well as share are tracked between the various outlets.

Greenlife Categories examines the involvement of each of the major plant products that make up this category by way of market value. This then transpires into a detailed analysis of the processes that reciprocate these movements on the previous period. This is profiled in figure 14.

Allied Garden Categories provides a further breakdown by valuing each of the allied products that make up the category, allowing for an extensive analysis on the activities that profile these movements through an evaluation of growth and share changes from the previous period.

Total Garden all Distribution Channels Spring 6 months to Dec 31 2009			
Distribution Channel	**Market Share**	**+/- LY**	**Market Value ($'000)**
Landscapers	39.1%	6.5%	$ 1,477,626
Local Govt & Sports	1.5%	5.0%	$ 55,927
Revegetation	1.6%	1.5%	$ 60,870
Plant Hire	1.3%	3.5%	$ 50,695
Garden Services	5.9%	4.1%	$ 222,837
Retail Nursery	13.1%	6.5%	$ 495,982
Discount Dept Store	2.6%	0.4%	$ 98,066
Garden Supplies	12.9%	3.3%	$ 485,861
Hardware	18.2%	8.8%	$ 688,551
Mail order & E-comm	0.4%	4.8%	$ 15,249
Markets	0.2%	5.5%	$ 8,967
Supermarkets	1.3%	3.0%	$ 48,418
Wholesale Direct	0.4%	2.5%	$ 14,457
Propagation	1.4%	-30.2%	$ 54,090

Figure 13 - Total Garden All Distribution Channels - Spring 6 Months to 31 Dec 2009

Greenlife Category Share of Total Spring 6 months to Dec 31 2009			
Greenlife Category	**Share of Total**	**+/- LY**	**Market Value ($'000)**
Bedding Plants & Colour	14.0%	16.4%	$ 167,677
Bulbs & Seeds	3.7%	5.9%	$ 45,027
Indoor & Patio	8.0%	15.2%	$ 95,980
Propagation Stock	4.5%	-30.2%	$ 54,090
Trees & Shrubs	63.4%	9.8%	$ 761,781
Turf	5.5%	4.9%	$ 66,048
Others Plants	0.9%	7.0%	$ 11,236
Total		7.8%	**$ 1,201,839**

Figure 14 - Greenlife Category Share of Total - Spring 6 Months to 31 Dec 2009

Other enhancements

Conclusion & Implications - Provided an enhancement to the document by drawing conclusions at various points in the document and then by combining and extending those conclusions to implications for those operating in the garden market. This provides a 1-2 page summary of conclusions and implications, which will allow the time-pressured reader to receive the key findings and assess if they want to read the document in more detail.

The first two conclusions and implications from the report for the spring period ending 31 Dec 2009 are profiled in the table below.

Conclusions	Implications
1. Real estate and stock market turnaround combined with an improvement in the level of unemployment has led to an improved consumer sentiment. However, while consumers are more optimistic, they are still cautious with their spending.	• Despite several market and personal wealth indicators providing solid reasons for confidence, consumers remain cautious.
2. The volume of the number of new dwellings approvals steadily increased over the same months as in the previous spring. This must flow on to firm demand for garden products and services to support new house construction.	• Building driven demand for garden products and services looks solid in the near term.

Forecast for the next period - The market model has been drawn upon to create a forecast for the next 6-monthly period. This was developed in direct response to requests from garden industry stakeholders. The latest forecast is profiled in Figure 15 and shows an expected market growth of 3.75%, which would generate sales of $2.512b and growth in dollar terms of $94.4m for the Autumn 2010 period.

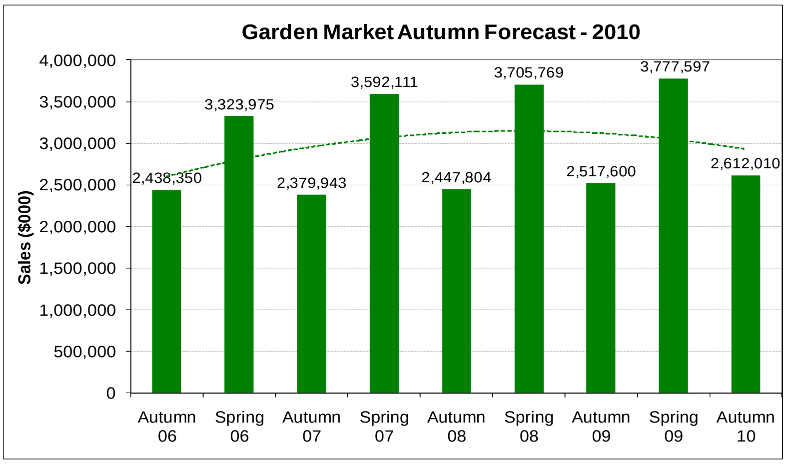


Figure 15 - Garden Market Autumn Forecast - 2010

Data Sourcing - Data is obtained from all sectors of the industry, including growers, wholesalers, retailers, garden maintenance, and landscapers. Data is provided on a regular basis or captured through interviews and from a range of commercial operators. The identity of the organisations and individuals that provide data, or data related to one individual organisation, is treated as strictly confidential. Data is also obtained from conventional sources like the ABS Statistics and from other garden industry consumer studies.

Recommendations for future Garden Market Monitoring

During the course of the project, feedback about improvement has been received from several sectors of the garden market. The common denominators in this feedback included:

1. Our view of the market is different to what is published in the GMM. We think the market is either smaller or larger.
2. How many Growers, Garden Centres, Hardware stores and/or Supermarkets are there in the market?
3. Can you provide product level market size and share information?
4. What do you mean by a channel and/or what is in the "XYZ" product category in the GMM?

During the course of managing the project, the following conclusions were arrived at as to how the coverage of the garden market and the provision of useful market information could be enhanced or improved.

1. Source the available retail scan data from the major retailers on conditions of individual confidentiality being maintained and publish only the market total.
2. Set up an (or align with an existing) online consumer panel of gardening consumers to assess the market size and household level. The cost of this rich and flexible capture of consumer data has reduced substantially in recent years to be an affordable tracking option.
3. Seek to align with the ABS researchers in their four-yearly HES survey, particularly in the selection of product categories and questions asked, so that other garden consumer/household research undertaken between the HES surveys can be better be assimilated with the HES data.
4. Converse with the ABS/ABARE primary to align their collection and forecasting processes that calculate nursery production farmgate values with the end market data collection organised by the industry R&D resources.

Recommendations

1. Produce a Garden Market distribution channel map that profiles all the pathways to market, describes how they work and quantifies the number of participants in each channel. This can serve as common definitions for market structure and enable easier and smoother combining of different sets of garden market data. It should also pave the way to the availability of more detailed market data.
2. Define and collate the relevant available market data including:
   a. Housing statistics
   b. CPI
   c. Consumer sentiment
   d. Petrol price/Interest rates
   e. Water reserves
   f. Weekend weather

   Then based on this data, develop a series of tracking monitors that can be accessed on the NGIA website. This would provide a cost-effective way of profiling these market impacting variables to the stakeholders in the garden market who want to use them.

3. Explore and cost the use of a consumer panel to provide more detailed household expenditure on garden products and services.

4. Negotiate with the ABS & ABARE to align and streamline the collection of production and consumption data to enable greater accuracy and increase the industry use of market information.