

Profitable Or Not: A Guide to Evaluating Garden Centers

Learn the results from a study about costs of establishing and operating retail garden centers, particularly regarding capital needs, operating costs and general procedures for creating and operating such businesses.

By Roger Hinson

Consumer expenditures for lawn and garden activities have experienced strong growth over the past 15 years and were estimated to be about \$35 billion in 2005, according to the National Gardening Association. Others estimate even higher sales

levels. This growth occurred in response to many factors, including rising incomes, housing starts and increases in expenditures for home landscaping. Industrial and commercial organizations, public and private institutions, and others also have increased their landscaping expenditures.

The independent garden center is the traditional retail outlet for products such as plants, supplies and hard goods, but other kinds of retailers, particularly home centers and mass merchandisers, have gained market share rapidly. Size in green products retailing is a continuum from the many small, locally owned

and operated firms that capture a relatively small portion of sales to the few large firms that capture the majority of sales. Many independent garden centers have remained viable by following differentiation or niche strategies and offering convenient access to many consumers, unusual plants and varieties, knowledgeable staff and a service orientation.

Establishing And Operating Study

One problem area for independent garden centers is access to objective business and economic information. Books and other publications are available from a variety of sources, including industry associations, trade shows and online stores. However, little public research has been reported to provide support in particular aspects of the industry. In particular, critical decisions about whether to expand a business or start a new garden center are areas of sparse information. In response, results from a study of costs of establishing and operating retail garden centers, particularly regarding capital needs, operating costs and general procedures for creating and operating these businesses, are going to be reported here.

The study drew on research in economics, business and horticultural expertise to create a general guide to the process of valuing physical facilities and operating inputs for garden centers. Capital budgets were developed, operating costs were estimated and financial statements were created for hypothetical firms. The study also contained summaries of marketing strategy, promotion, merchandising



Point of purchase material, like this program promoting native plants in collaboration with the National Federation for Wildlife, are becoming more popular at garden centers. (Photos: Sue Barton, University of Delaware)

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and personnel that should be understood and used by the owner/manager of a garden center. In this article, an outline of the method of generating capital requirements is provided, indicating the investment needed to generate a dollar of sales along with a summary of financial results.

Given the objectives, the analysis illustrates a methodology to estimate costs and use the results to calculate financial ratios that indicate business health. Capital needs are based on unit costs, such as cost per acre of land. The values used here may be very different from those that actually would be paid in a given market. So these results should not be used to suggest a particular situation might be a successful (or unsuccessful) garden center business. Such a recommendation would result only from a study designed to answer the question for that specific situation.

Methodology

Data on physical facilities, equipment and personnel requirements, product mix profiles, and marketing and financial evaluations were collected from garden center managers. This information was evaluated by a group of professionals with extensive industry experience. Business models for two firm sizes were developed:

a small garden center with facilities and operations that could generate gross sales of about \$350,000 and a larger retail garden center with gross sales capability of about \$1 million.

The business activity of each model firm was assumed to be the retail sale of plants and supplies only. In contrast, many garden centers have related businesses such as nursery production, landscape installation or landscape maintenance to diversify their positions.

The firms were modeled to portray realistic differences in the options available to operators. The larger garden center was big enough to gain some economies of size and scale but could not compete with the buying power and other scale efficiencies of mass merchandisers and home centers. So, as a strategy, both garden centers would want to differentiate themselves or focus on some particular facet of the market.

For each model size, capital investments in land, buildings and facilities, outdoor sales areas, and vehicles and equipment were estimated. Operational expenses were itemized for the two firms, emphasizing costs like personnel, marketing margins and product turnover using representative industry values. An individual following our methodology would adjust these costs to reflect local costs.

Initial Cost For Representative Garden Center Sizes

Item	Initial cost in \$	
	Large	Small
Unimproved land	400,000	200,000
Improvements (road)	137,383	50,000
Parking lot and bumpers	52,258	4,498
Security (fences, lights, etc.)	35,398	4,150
Signs	5,000	1,000
Other	35,089	13,684
Total land and improvements	667,128	273,332
Sales building (and storage)	192,000	37,800
Greenhouse, work area, overwintering	50,000	13,550
Lath shade	6,510	1,240
Pole barn, bulk bins and apron, gazebo	17,495	n/a
Interior display shelves	6,800	2,050
Cashier counters	2,000	500
Total buildings	275,095	54,590
Total equipment (not itemized)	88,180	21,445
Total land, improvements and buildings	1,030,403	349,367

Figure 1. The capital items and their costs are presented in this figure. Results presented suggest investment costs were about \$1 of investment for \$1 of sales capability in a mature garden center.

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Angled bench displays and built-in endcaps enhance display space at this southwestern garden center.

Pro-forma financial statements were developed for the model firms. The statements were based on parameters such as product mix, turnover and gross margins that were representative of garden center retailing. Key financial measures were verified by secondary business, financial and economic sources, helping to ensure the reliability of the models.

Required Capital Items

Investments were accumulated under the headings of land and improvements, such as buildings and parking lots. Land cost varies with location and other factors. Tradeoffs between desirability (visibility and access) and affordability often happen as a location is chosen.

Basic layouts that followed design principles were defined for the garden centers to provide data for cost determination. The larger facility was located on 4 acres of unimproved land with 300 ft. of frontage to allow safe entry and exit. The cost at \$100,000 per acre was \$1,333 per frontage ft. The smaller facility had 2 acres of land and the same frontage at the same cost per acre. Land improvement costs would vary, but a value of \$25,000 per acre was used for both facilities, which would include clearing, grading, gravel, drainage (retention pond) and a well and/or municipal utility hook-ups.

Other cost/design items were included:

- Parking affects customer turnover and should be sufficient for the "peak usage" number of cars. Landscaped traffic islands added 10 percent to the parking space requirement. The larger facility's lot was paved with 66 spaces, while the smaller was graveled with 18 spaces.

- Security requirements depend on zoning regulations and uses of surrounding property. It might be as simple as a chain across the entrance, while other situations require a security fence that meets visual appeal standards.

- Handicap access must be considered.

- A sales building for each facility had indoor display space, offices, restrooms and indoor storage and was a wood-frame building with interior dry wall, concrete floor and HVAC. The larger facility's building had about 6,000 sq.ft.; the smaller facility had about 2,000 sq.ft.

- A display greenhouse (attached to the sales building) helped extend the season by providing an area for the display of indoor plants and provided a selling space in inclement weather. In the larger facility, this was a 4,000 sq.ft. gutter-connected, acrylic greenhouse with heat and ventilation, while the smaller facility had a 2,000 sq.ft. heated and ventilated poly quonset house. For both firms, unheated poly quonset overwintering houses were included.

- An outdoor sales area consisted of an overhead lath shade structure, wooden display tables, display beds (for balled-and-burlapped plants) and display blocks (for container plants). For the larger facility, it was a combination of gravel and asphalt, while the smaller facility was gravel.

- Space for storage may be included in the sales building or made available in a variety of separate facilities. In the first case, it was a 12-ft.-high pole barn with metal siding and concrete floor enclosed on three sides, while the smaller facility had an outdoor shed (100 sq.ft.).

Vehicles and equipment for the larger garden center included a ►



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pick-up truck, a stake body truck with dump bed, an adapted skid loader with bucket and steel frame for pallets, and additional equipment. The smaller facility had only a pick-up truck and selected additional items.

Product Mix And Turnover

Product mix included product lines, plant species and cultivars, varying size and quality, and services offered. The mix was selected to

meet customer wants and needs and to fit the image of the garden center. The larger facility was assumed to sell more non-plant materials and to include more gift and seasonal items (a Christmas shop, for example).

Profitability Estimates

Financial statements were calculated for the third year of operation. Assumptions regarding management expense, payroll, advertising/promotion and other expenses were based on principles discussed above. Then profitability could be calculated. For the larger model with sales capability of \$1 million, net profit before taxes was about \$31,000, or 9.8 percent return on investment (ROI). For the smaller model, the value was about \$16,600 in net profit, which was 12.1 percent ROI.

Are these estimates high, low or about right? Part of the answer depends on an evaluation of alternative uses of resources. For example, values of \$30,000 for the smaller and \$50,000 for the larger model were expensed as a charge for

management. These management skills might return a different salary if employed at another business. The ROIs exceed current interest rates, but are they high enough as premiums for small business risk? These questions require answers before dollars are invested in a garden center. ❧

Author's Note: This article is based on a publication titled Establishing and Operating a Garden Center by Susan Barton, Bridget Behe, Charles Hall, John Haydu, Roger Hinson, Robert McNeil, Travis Phillips, Russell Powell and Forrest Stegelin, which may be ordered at www.nraes.org.

Roger Hinson is a professor in the Department of Agricultural Economics and Agribusiness LSU AgCenter at Louisiana State University, Baton Rouge, La. He can be reached at rhinson@agcenter.lsu.edu.

Product Turnover For Representative Garden Center Sizes

Merchandise	Product mix percent by garden center size		Gross margin percentage (same by size)
	Large	Small	
Balled-and-burlapped trees and shrubs	9	10	75
Container trees and shrubs	26	30	67
Bedding plants and perennials	11	17	50
Other plants	15	15	50
Hard goods	39	28	40
Total	100	100	n/a

Figure 2. The annual turnover for the alternative firm sizes was assumed to differ in that the larger model had a higher turnover of container trees and shrubs. To estimate inventory, a weighted annual average turnover (product mix percentage x annual turnover) was calculated. Cost of goods was calculated from an estimate of gross margins for each category of items in the product mix. The same gross margin calculation was used for each garden center. Gross margin ranged from a low of 40 percent for hard goods to 75 percent for balled-and-burlapped trees and shrubs.

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