



**2006 ANLA MANAGEMENT CLINIC
(Louisville, Kentucky)**

Presentation of John R. Hesse

“Avoiding the Glut”

Sound Long Term Growth Plans

Today I will address the subject of this session – which the ANLA dubbed “Avoiding the Glut” but which I’d like to recharacterize as Sound Long Term Growth Plans.

What I will cover today

I want to focus my discussion today on my views and experience in disciplined product planning. I will specifically address:

- (1) What I consider to be the flaws I have seen in product planning – I will dramatize these by characterizing them as “The Seven Deadly Sins in Product Planning”
- (2) The hidden costs of inadequate product planning, and
- (3) Disciplines in product planning

The Importance of Product Planning

Why is there such a need for a disciplined approach to product planning? The largest investment in most horticultural businesses is in the inventories that for growers of woody ornamental plants typically take two to as many as seven or eight years to reach saleable finished size for shipment to retailers or re-wholesalers. Irrespective of whether these businesses utilize cash accounting for tax purposes where the costs of inventories are not recognized, my experience has shown me that the investment in production cost to grow the inventories is quite likely to be equal to be in the range of 50% to as much as 125% of the annual sales of such businesses. Given the magnitude of these costs as growers you cannot afford to address your product plan in any thing but a disciplined manner and devote the necessary time to the process.

The costs of dumpage, inadequate sell-through, and product carryover

Let us take the cases of a \$5,000,000 and \$15,000,000 annual sales businesses. Their characteristics are likely to look like the following:

	Smaller Company	Larger Company
Annual Sales	\$5,000,000	\$15,000,000
Cash Operating Profit	600,000	2,000,000
Profit Margin	12.0%	13.3%
Inventories	\$4,000,000	\$10,000,000
Inventories for Future Sale	1,200,000	3,000,000
Inventories Available for Sale	2,800,000	7,000,000
Portion of Inventories Sold	2,380,000	5,950,000
Portion Unsold	420,000	1,050,000
Percent of Cash Operating Profit Reduced	70.0%	52.5%

The sad news about the above situations is that the problems of the unsold inventory started 2 or 3 years previously and that this event could repeat itself in the following year or years.

Why did these problems occur?

I would suggest that the reasons for the existence of the problems lie within what I call: “The Seven Deadly Sins in Product Planning.” They are:

1. We stick to planting schedules we used in the past because we know how to grow the plant material
2. The sales representatives tell us what to plant and in what amounts
3. The production department tells us what to plant and in what amounts
4. We don't have time to spend on extensive product planning
5. If we make a mistake and have an excess of certain products, it's a small cost to bear
6. When we have an excess of plant material of a particular cultivar, we'll never be guilty of overreacting and we'll wait to see what our competitors do
7. It isn't worth the time and expense to keep detailed records of dumpage – whether due to quality issues or lack of demand

Some thoughts on eliminating or minimizing the risks inherent in unsatisfactory product planning

1. Utilize your management to research independently the markets that you are capable of serving need in terms of product demand; talk to your customers
2. Understand what the other nurseries with whom you are competing are doing; note specials and available for sale lists of competitors for indications of excesses in the marketplace; apply quantitative analysis to this information

3. Utilize the data you have on historical production, sell-through and dumpage, and sales with your market research to plan your future multi year product plans
4. Utilize but avoid simple extrapolation of product line trends of the past
5. Conduct in depth dialogues with your sales people as to what products are needed in your line, bearing in mind that at least some of what you learn may be suitable for the current year but not of value for products started today and available in 2 to 4 years
6. Be generally moderate in adding or reducing product lines in general, but ruthless in adjustments if excesses have been building for several years or reflect a clear imbalances in product lines
7. When you decide to increase your production of particular products from prior years, ask yourself how the increases will be moved; ask yourself whether you have added sales strength or new customers who are likely to take the increases
8. Always consider new introductions to enhance your product line, but if the new introductions are needed by your customers but require cultural practices with which you have limited experience, either test grow such products or add production expertise in that area; we all know that container growing differs from field growing and that flowering plants differ from conifers and that cultural difference arise even within these categories.
9. Accept the recommendations of the production department as to their ability to grow new products or expand production, but recognize that in many cases they may be more familiar with what has been historically grown and not with projected demand in the markets being served.
10. Establish a new at least five year production plan supported by definitive propagation or plant purchase plans every year, based upon a five year marketing plan; quantify variable and fixed production costs and overhead applications.