WF&FSA INDUSTRY TRENDS & REVIEW DISCUSSION

Panelists

Herbert Jordan, The Queens Flowers Corp.

John Baisch, Baisch & Skinner Wholesale Florists

Pat Dahlson, Mayesh Wholesale Florists, Inc.

Gustavo Gilchrist, Kennicott Brothers Co.

Moderator: Bob Williams, Smithers-Oasis

October 2016

STATE OF U.S. FLORICULTURE INDUSTRY TRENDS AFFECTING WHOLESALE

Resources:

- Prince & Prince Survey on cut flowers on wholesale florists (sponsored by Asocolflores) (2015)
- SAF State Industry Presentation (September 2016)
- Sundale Research (2016)
- Danco Inc. – SAF Current President (September 2016)
- Kantar Retail (2016)
- AFE, SAF, FPO – Consumer Generational Study (2015)

Prince & Prince Study On Wholesale Florists

- Conducted 2009, which will allow comparisons and statistical trending
- Additional dynamics of wholesale florist operations have been added in 2015 – for current state snapshot and future trending opportunities
- Over 200 metrics measured across 15 broad areas of interest

Methods

- Six-page questionnaire distributed to 480 wholesale florists
- Web survey version using Survey-Monkey® distributed to 340 wholesale florists

Operational & Business Areas Surveyed

- Financial Performance
- Product Mix
- Cut-Flower Mix
- Cut-Flower Sourcing
- In-Bound Cut-Flower Transportation
- Out-Bound Cut-Flower Deliveries
- Cut-Flower Care & Handling Practices
- Labor/ Staffing
- Customer Mix
- Order Modes
- Type of Sales
- Credit Practices
- Marketing, Advertising, & Promotional Practices
- Market "Reach"
- Hardgoods/Supplies

"Profiling U.S. Wholesale Florist Operational Practices & Financial Performance", by Prince & Prince.

Survey Reliability

“Profiling U.S. Wholesale Florist Operational Practices & Financial Performance”, by Prince & Prince.

Number of Survey Respondents & Response Rates

- Total Surveys Mailed Oct. 12th, 2015 . . 480
- Total Surveys Deliverable 438
- Number of Respondents by Nov. 15th . . . 70
- Overall Survey Response Rate 16%
- Estimated Wholesale Florist Store Locations Represented by Respondents . . 217
- Estimated Wholesale Florist Annual Sales Represented by Respondents. . . $790M
- Sampling Tolerance at 90% Conf. Level . . 7%

"Profiling U.S. Wholesale Florist Operational Practices & Financial Performance", by Prince & Prince.

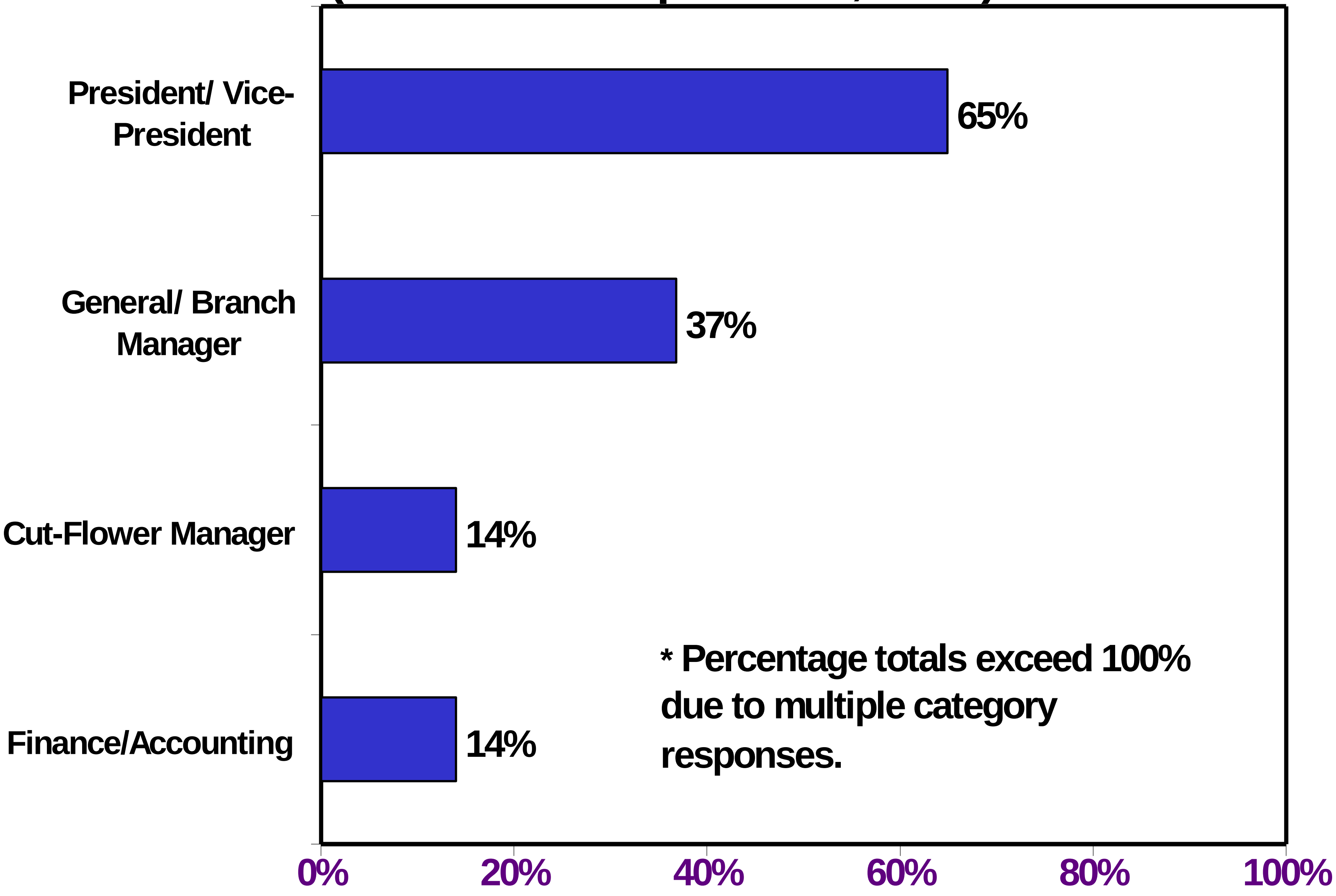
Number of Survey Respondents & Response Rates

- The 7% sampling error means that we are 90% confident that the “true score” lies within 7 percentage points of our reported survey measures.

“Profiling U.S. Wholesale Florist Operational Practices & Financial Performance”, by Prince & Prince.

Position in Company Responding to Survey *

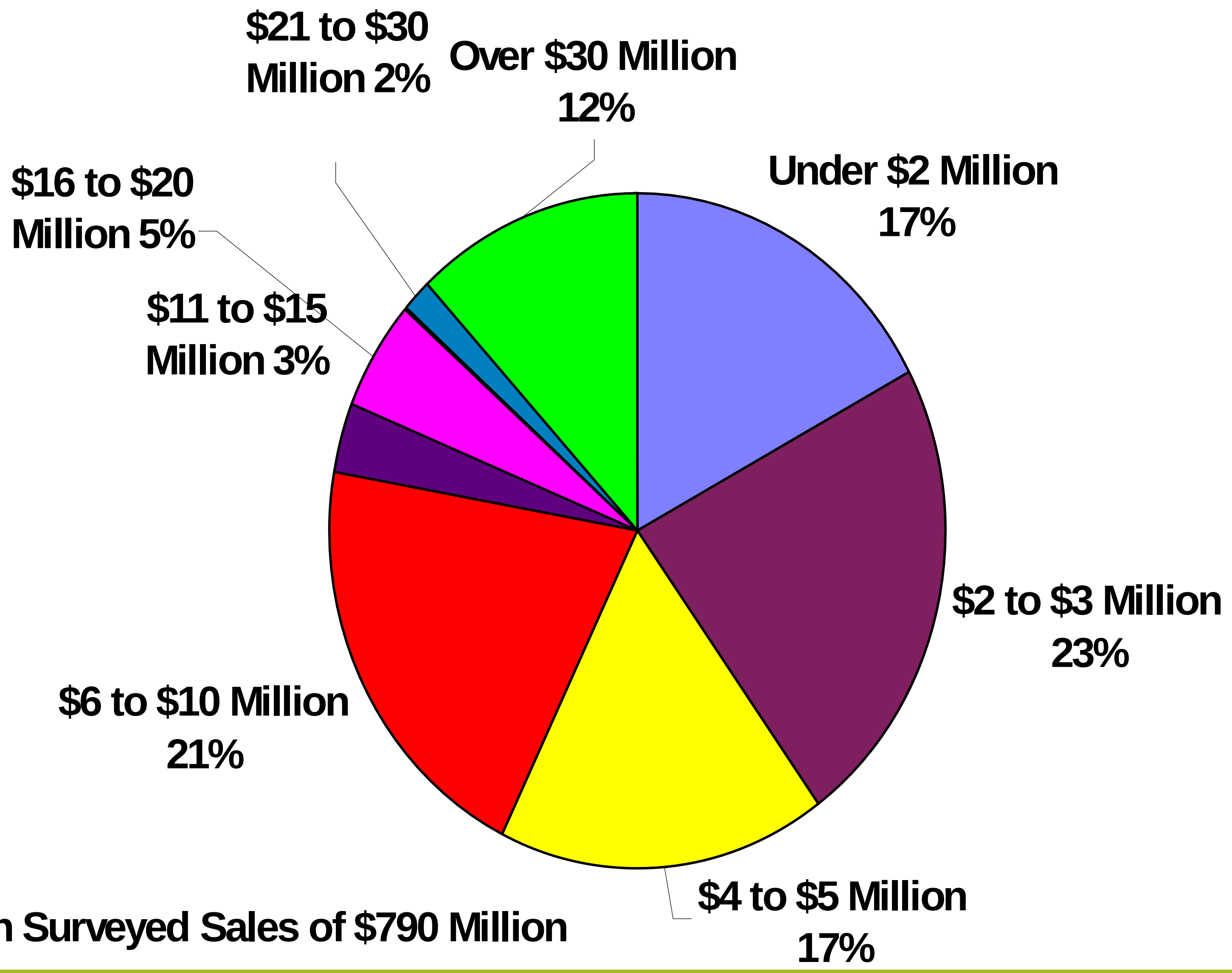
(Percent of Respondents, 2014)



"Profiling U.S. Wholesale Florist Operational Practices & Financial Performance", by Prince & Prince.

Annual Sales of U.S. Cut-Flower Wholesalers

Percent of Respondents, 2014 *

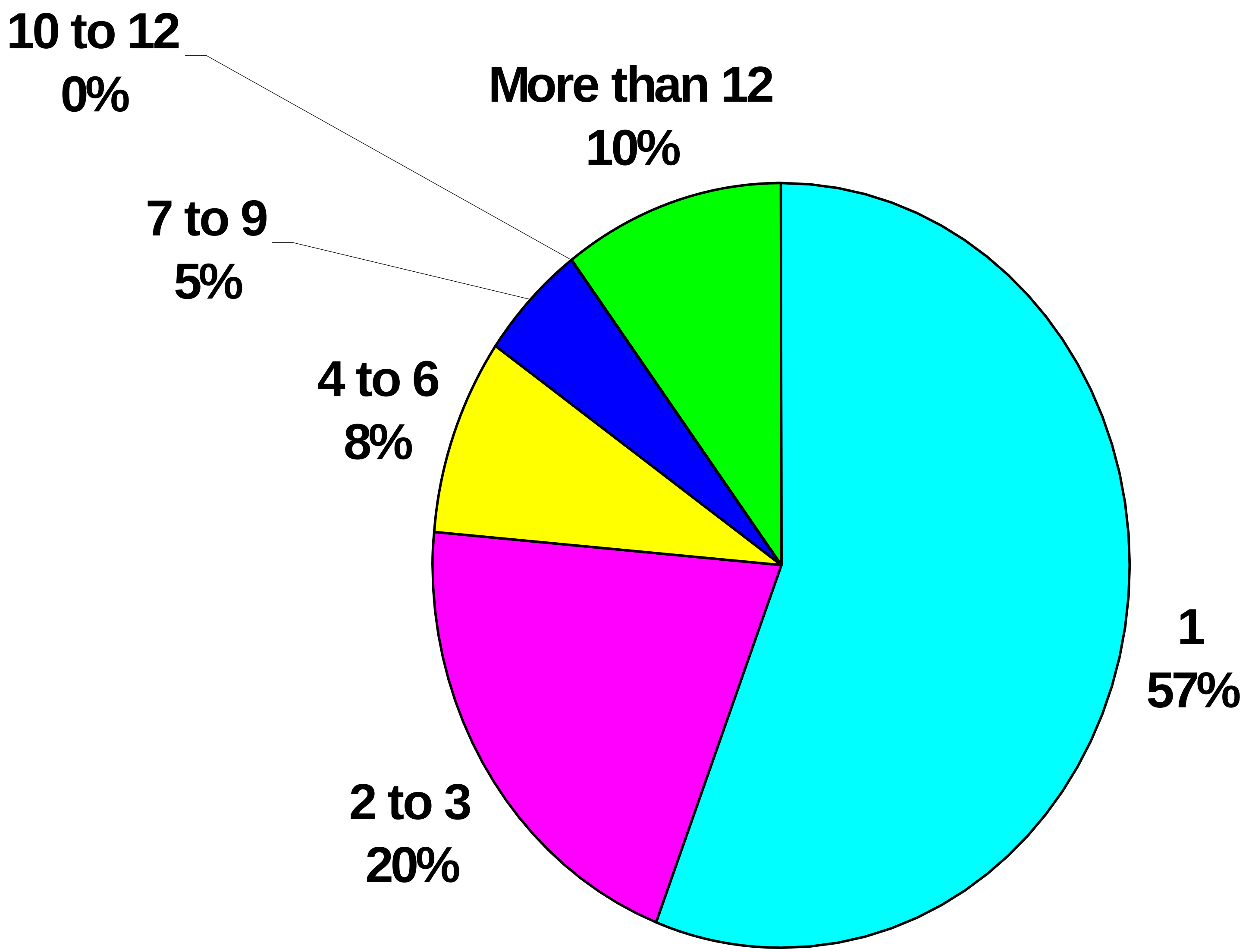


* Based on Surveyed Sales of $790 Million

"Profiling U.S. Wholesale Florist Operational Practices & Financial Performance", by Prince & Prince.

Number of Stores in Respondent's Organization

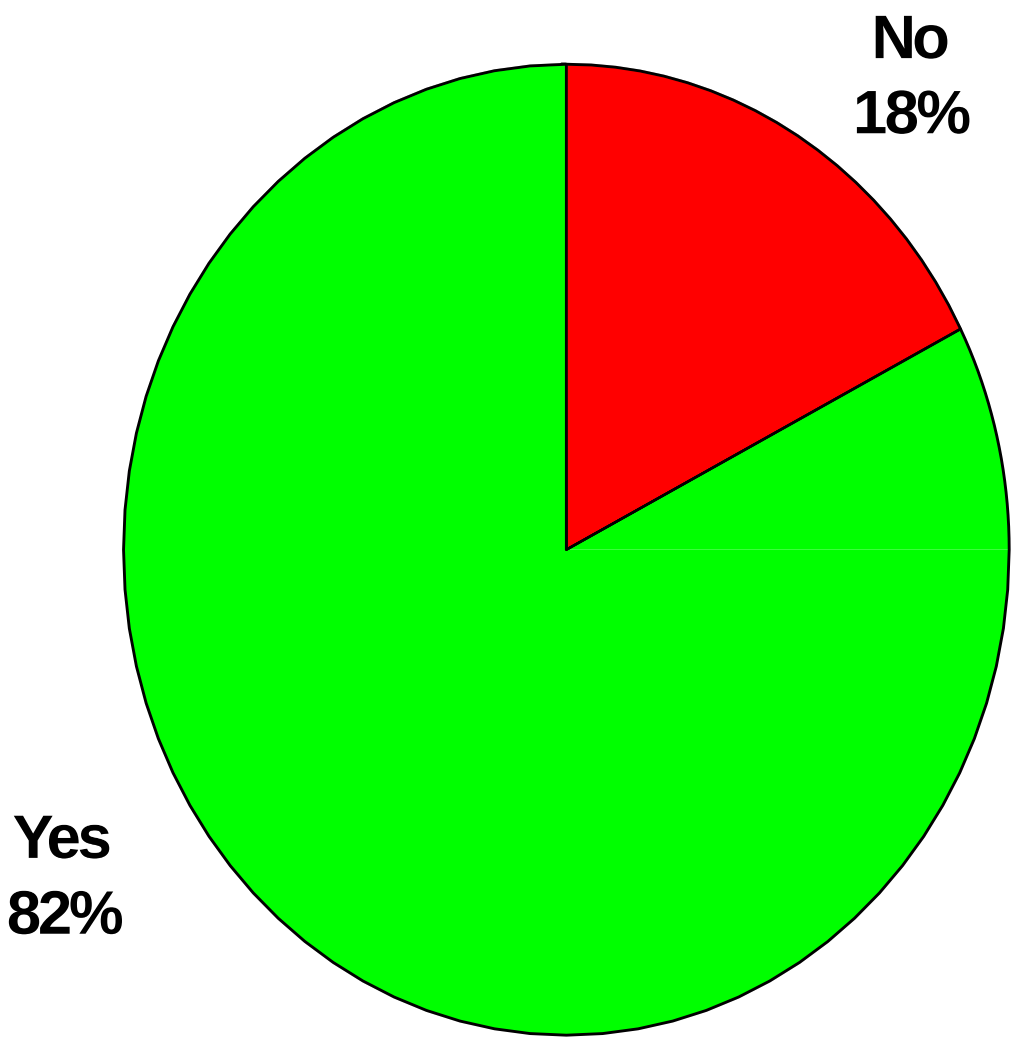
Percent of Respondents, 2014



"Profiling U.S. Wholesale Florist Operational Practices & Financial Performance", by Prince & Prince.

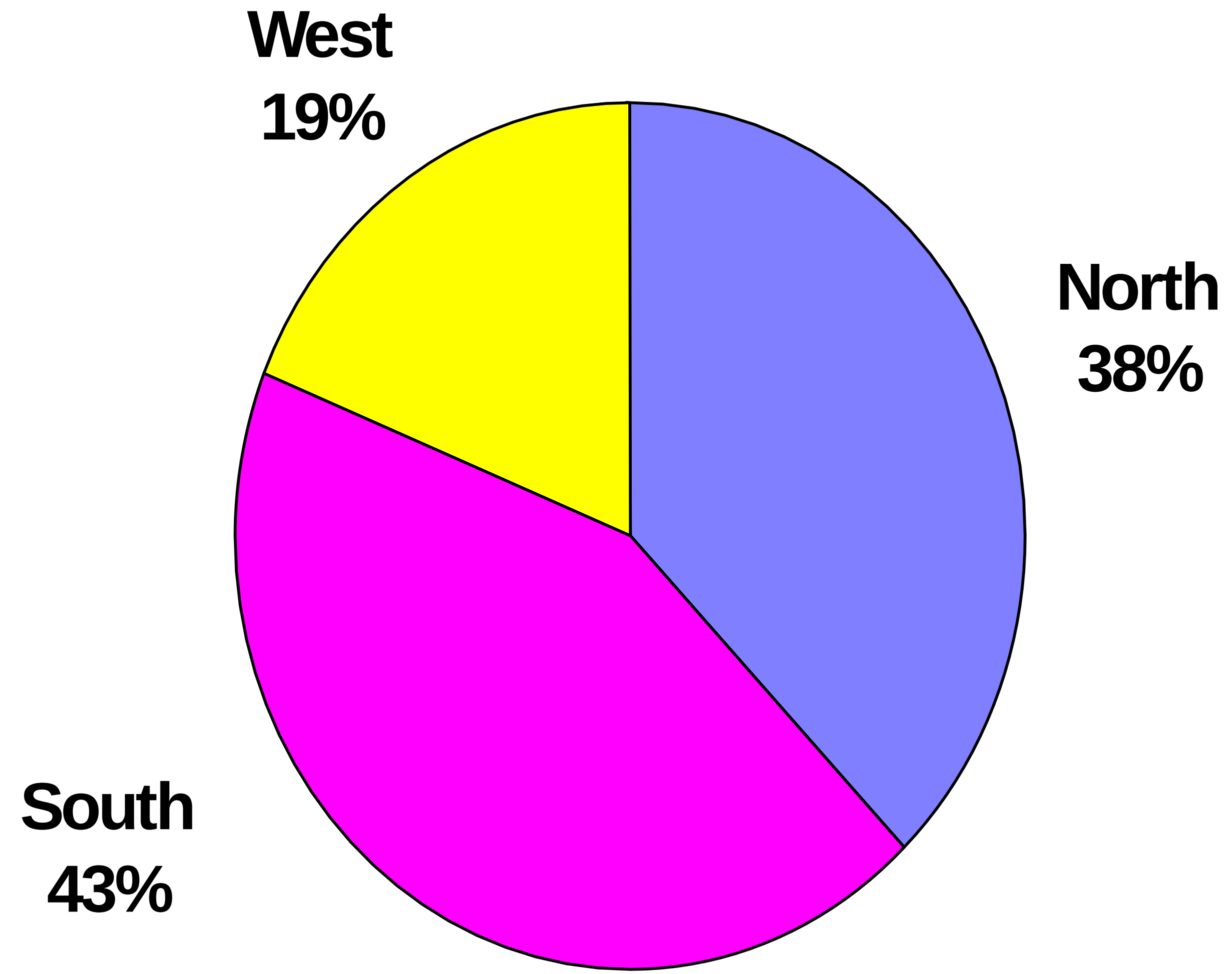
WF&FSA Membership

Percent of Respondents, 2014



Regional Representation

Percent of Respondents, 2014



"Profiling U.S. Wholesale Florist Operational Practices & Financial Performance", by Prince & Prince.

Financial Performance

"Profiling U.S. Wholesale Florist Operational Practices & Financial Performance", by Prince & Prince.

Trend in Sales Growth of U.S. Cut-Flower Wholesalers

Year Over Year Sales Growth	Percent of Respondents 2009	Percent of Respondents 2014
Decline Over 20%	5	2
Decline 11 to 20%	23	5
Decline 6 to 10%	30	9
Stable (+/- 5%)	28	40
Growth 6 to 10%	8	31
Growth 11 to 20%	4	11
Growth Over 20%	2	2
Average Sales Growth (Loss)	(-5.5%)	2.6%

"Profiling U.S. Wholesale Florist Operational Practices & Financial Performance", by Prince & Prince.

Financial Performance of U.S. Wholesale Florists, 2014 & 2009

	Percentage Scores	
	2009	2014
Gross Margin (mean)	34	38
Gross Margin (median)	34	38
Profit (Loss) Before Taxes (mean)	0.4	2.3
Profit (Loss) Before Taxes (median)	0.3	3.0

	Percent of Wholesalers	
	2009	2014
Experienced a Profit	56	77

"Profiling U.S. Wholesale Florist Operational Practices & Financial Performance", by Prince & Prince.

Trends in Expansion (Contraction) Plans for Wholesalers

	Percent of Respondents	
	2009	**2014**
Made Acquisitions	5	**4**
Seeking Acquisitions	11	**16**
Stable	57	**78**
Consolidating Stores	8	**2**

"Profiling U.S. Wholesale Florist Operational Practices & Financial Performance", by Prince & Prince.

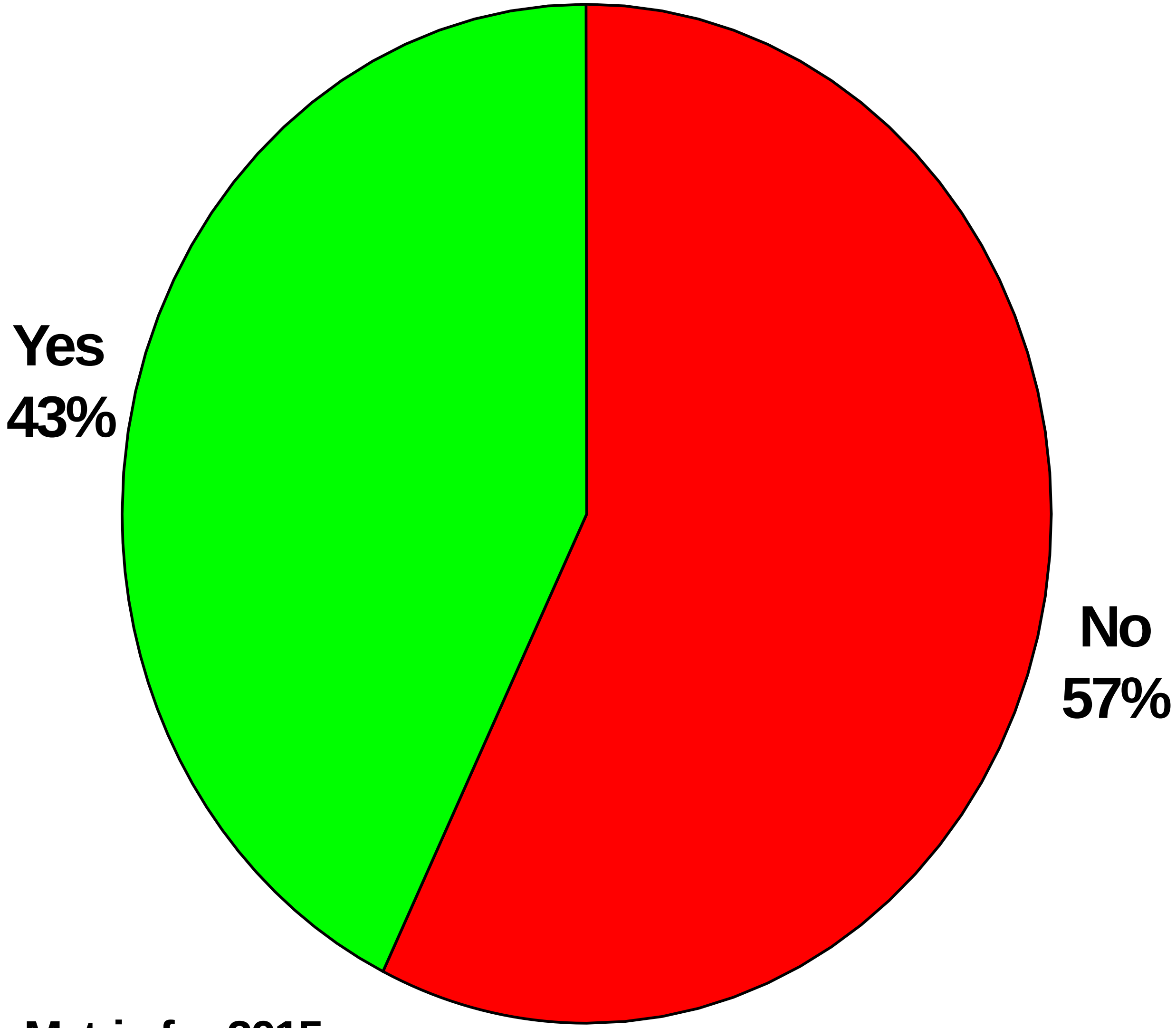
Trend in Succession Plan in Place for Business

	Percent of Respondents	
	2009	**2014**
No	49	**45**
Yes	51	**55**

"Profiling U.S. Wholesale Florist Operational Practices & Financial Performance", by Prince & Prince.

Succession Plan in Place for Key Employees

Percent of Respondents, 2014 *



* New Survey Metric for 2015.

"Profiling U.S. Wholesale Florist Operational Practices & Financial Performance", by Prince & Prince.

Trend in Wholesale Florist Product Mix

	2009	2014
Fresh-Cut Flowers	62%	57%
Bouquets	7%	7%
Cut Foliage/Greens	8%	8%
Potted Plants/Planters	6%	6%
Basic Supplies	14%	14%
Seasonal/Specialty Supplies	3%	6%
Services	n/a	2%

"Profiling U.S. Wholesale Florist Operational Practices & Financial Performance", by Prince & Prince.

Trend in Wholesale Florist Cut-Flower/Greens Mix

	2009	2014
Roses	29%	30%
Basic Cuts/Greens	29%	28%
Novelty Cuts/Greens	24%	20%
Filler Cuts	13%	14%
Tropical Cuts/Greens	5%	4%
Christmas Greens*	N/A	28%

**Christmas Greens category added to 2015 survey*

"Profiling U.S. Wholesale Florist Operational Practices & Financial Performance", by Prince & Prince.

Trend in Wholesale Florist Cut-Flower Sourcing

"Profiling U.S. Wholesale Florist Operational Practices & Financial Performance", by Prince & Prince.

Cut-Flower Sources	2009	2014
Colombia	42%	34%
Ecuador	20%	22%
California	17%	17%
Holland	11%	5%
Mexico	3%	5%
Canada	3%	4%
Central America *	N/A	4%
Other U.S.A. *	N/A	3%
New Zealand/ Australia *	N/A	3%
Other International *	N/A	2%

** Source added to 2015 survey; Previously combined into "Other".*

Trend in Wholesale Florist Cut-Flower Importation Modes

Importation Modes	2009	2014
Farm Direct	48%	53%
Miami Importers & Brokers	36%	36%
Other Importers & USA Brokers	7%	7%
Foreign Brokers	9%	3%

"Profiling U.S. Wholesale Florist Operational Practices & Financial Performance", by Prince & Prince.

Trend in Wholesaler Involvement in Receiving Practices

"Profiling U.S. Wholesale Florist Operational Practices & Financial Performance", by Prince & Prince.

Percent of Shipments Received (Mean)*

	2009	2014
Shipped in Wet Pack	11%	11%
Refrigerated Shipment	90%	89%

**Means are unweighted*

Trends in Outbound Delivery Modes

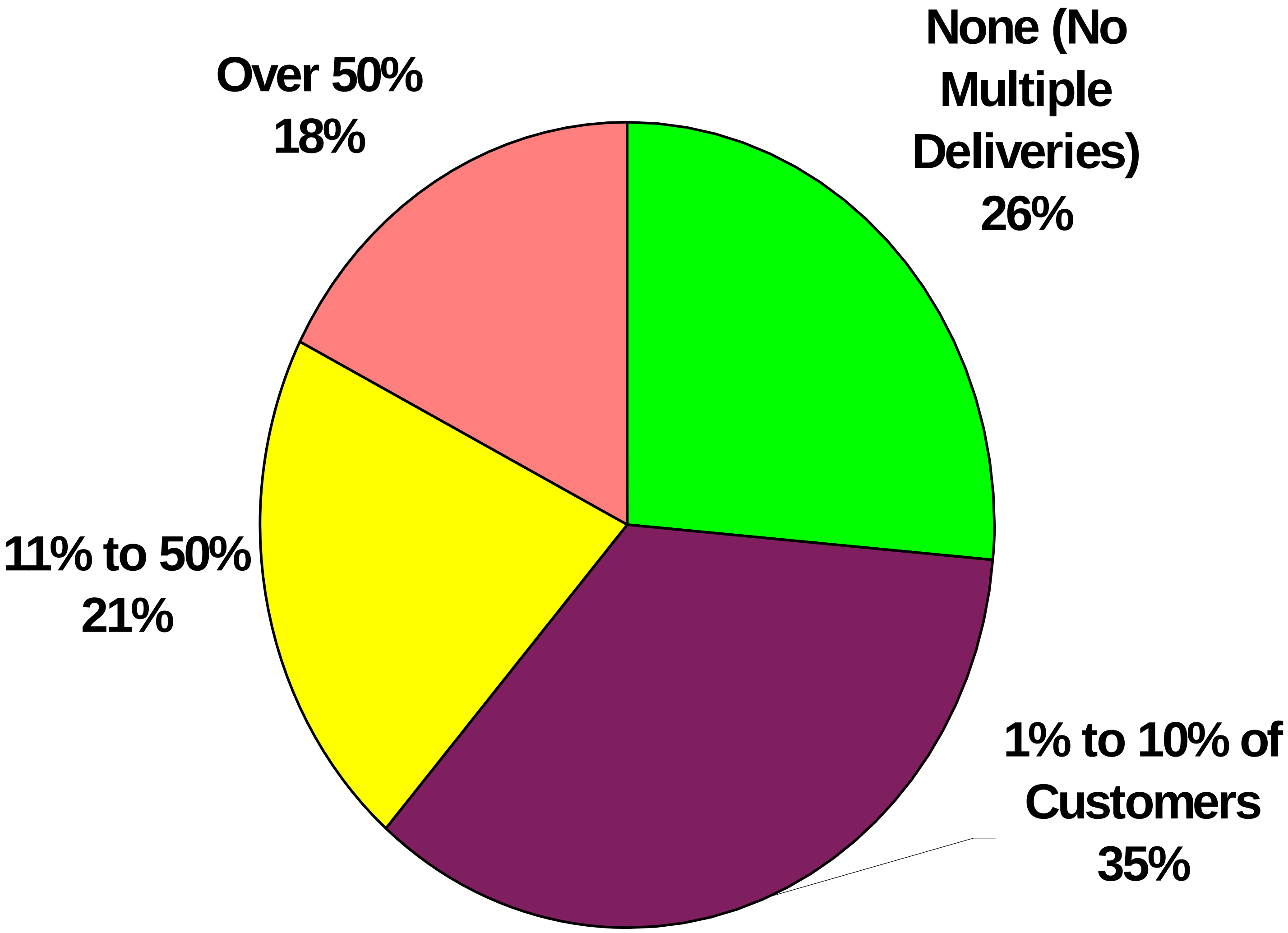
	Percent of Deliveries by Volume (Means)*	
	2009	**2014**
Route/ Bucket Trucks	82%	86%
Third-Party Trucks	11%	4%
UPS/ FedEx Ground	8%	3%
Overnight Air	4%	7%

**Means are weighted by cut-flower, bouquet and cut-greens sales*

"Profiling U.S. Wholesale Florist Operational Practices & Financial Performance", by Prince & Prince.

Wholesaler Provision of Multiple Deliveries Per Day for Customers

Percent of Wholesalers' Customers Receiving Multiple Deliveries



Average = 21% of Customers

"Profiling U.S. Wholesale Florist Operational Practices & Financial Performance", by Prince & Prince.

Trends in Outbound Processes for Cut Flowers

	Percent of Shipments (Means)*	
	2009	**2014**
Refrigerated Deliveries	**46%**	**36%**
Deliveries in Wet Pack	**12%**	**11%**

**Means are unweighted*

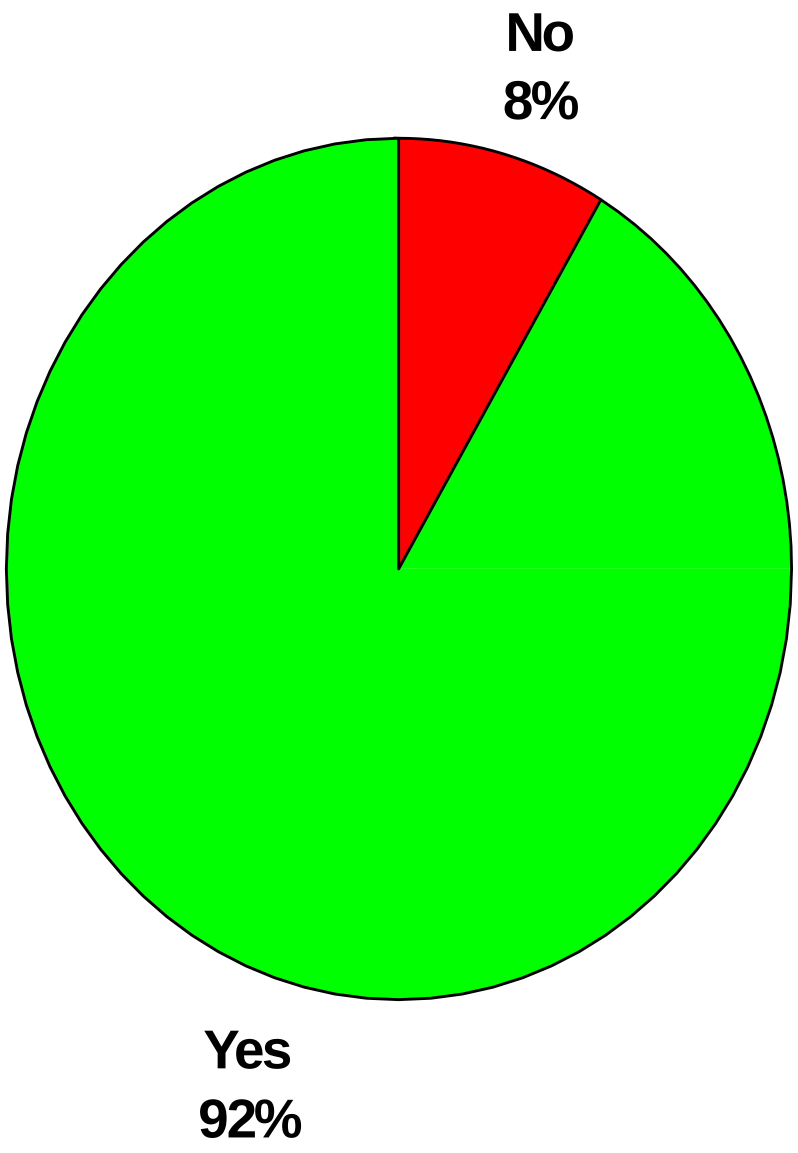
"Profiling U.S. Wholesale Florist Operational Practices & Financial Performance", by Prince & Prince.

Trends in Wholesalers’ Basic Delivery Fee

	Unweighted Means	
	2009	2014
Basic Delivery Fee	$9.00	$10.38

“Profiling U.S. Wholesale Florist Operational Practices & Financial Performance”, by Prince & Prince.

Charge an Explicit Delivery Fee, 2014



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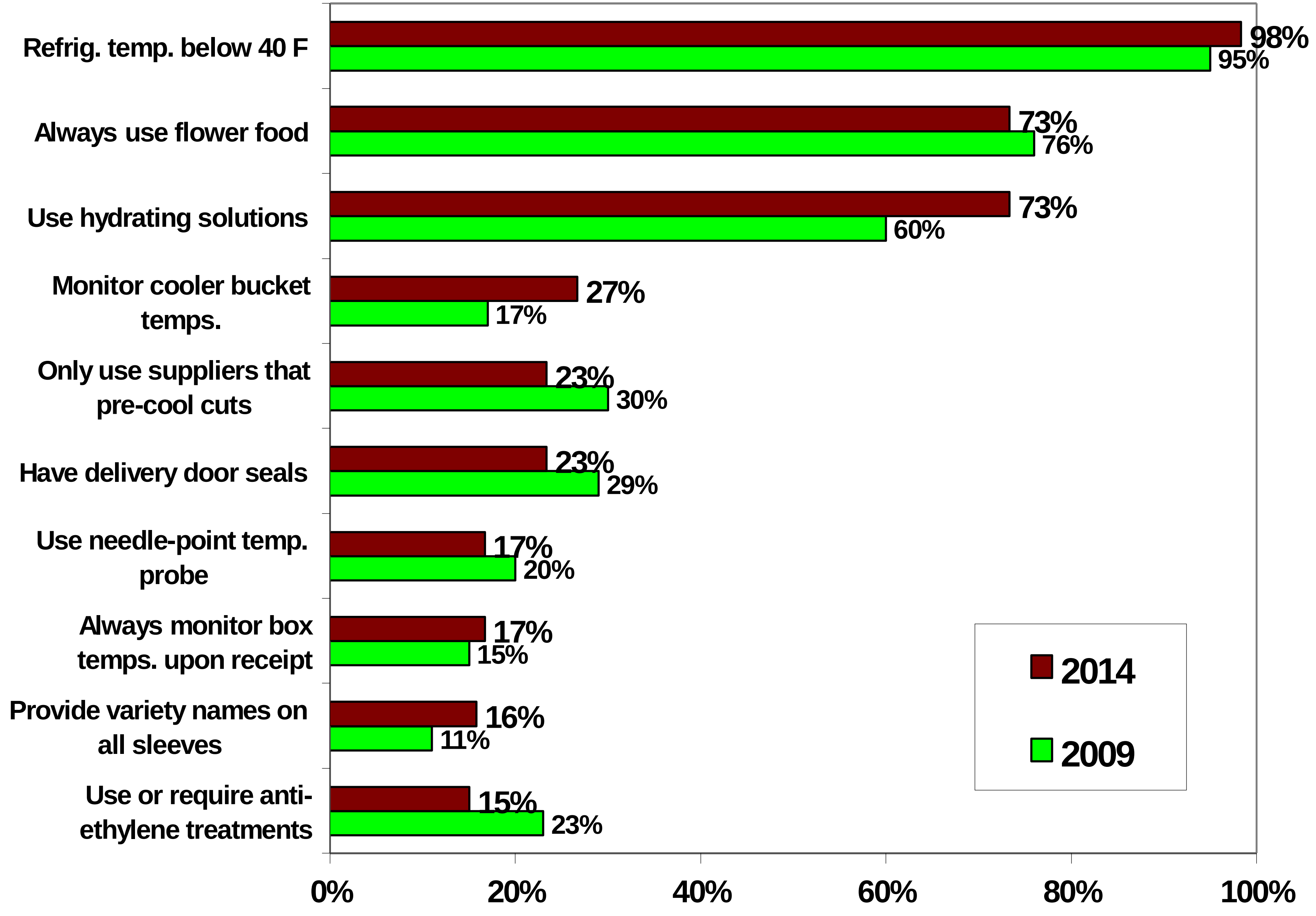
Trend in Wholesaler Floral Care & Handling



"Profiling U.S. Wholesale Florist Operational Practices & Financial Performance", by Prince & Prince.

Trends in Wholesale Florist Customer Mix

	Percent of Total Annual Sales	
	2009	2014
All Retail Florists	63%	61%
Supermarket Florists	14%	19%
Event/ Party	11%	10%
Garden Centers	3%	3%
Hotel/ Food Service	2%	2%
Direct to Consumer	1%	1%
Fundraisers	2%	1%
Home/ Hardware Stores	N/A	1%
All Other Channels	4%	2%

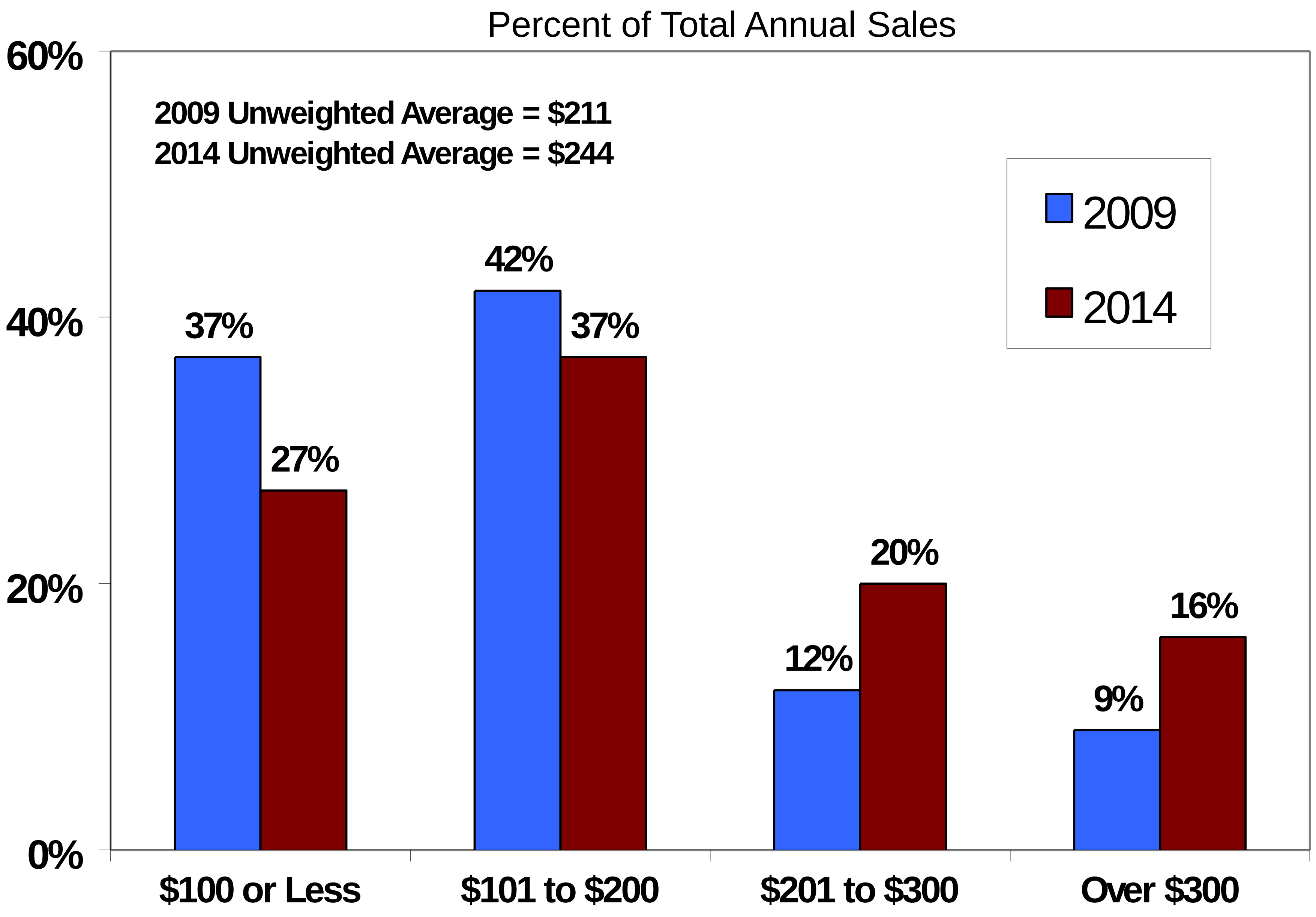
"Profiling U.S. Wholesale Florist Operational Practices & Financial Performance", by Prince & Prince.

Projections for Wholesale Florist Customer Mix in 2015

Cut-Flower Sources	Percent of Wholesale Florists			
	Percent to Decrease	Percent No Change	Percent to Increase	Net Percent to Change *
Retail Florists with Store Front	34	46	20	(14)
Retail Florists - No Store Front	8	42	50	43
Supermarket Florists	0	74	26	26
Event/ Party	0	43	57	57
Garden Centers	0	91	9	9
Hotel/ Food Service	2	89	9	7
Direct to Consumer	2	80	18	16
Fundraisers	0	91	9	9
Home/ Hardware Stores	0	95	5	5
Farmer's Markets	0	98	2	2
Convenience/ Pharmacies	2	94	4	2
Super-Discount Stores	2	96	2	0
Wholesale Clubs	2	94	4	2

** Net Percent to Change is "Percent to Increase" minus "Percent to Decrease".*

Trends in Wholesale Florist Order Modes



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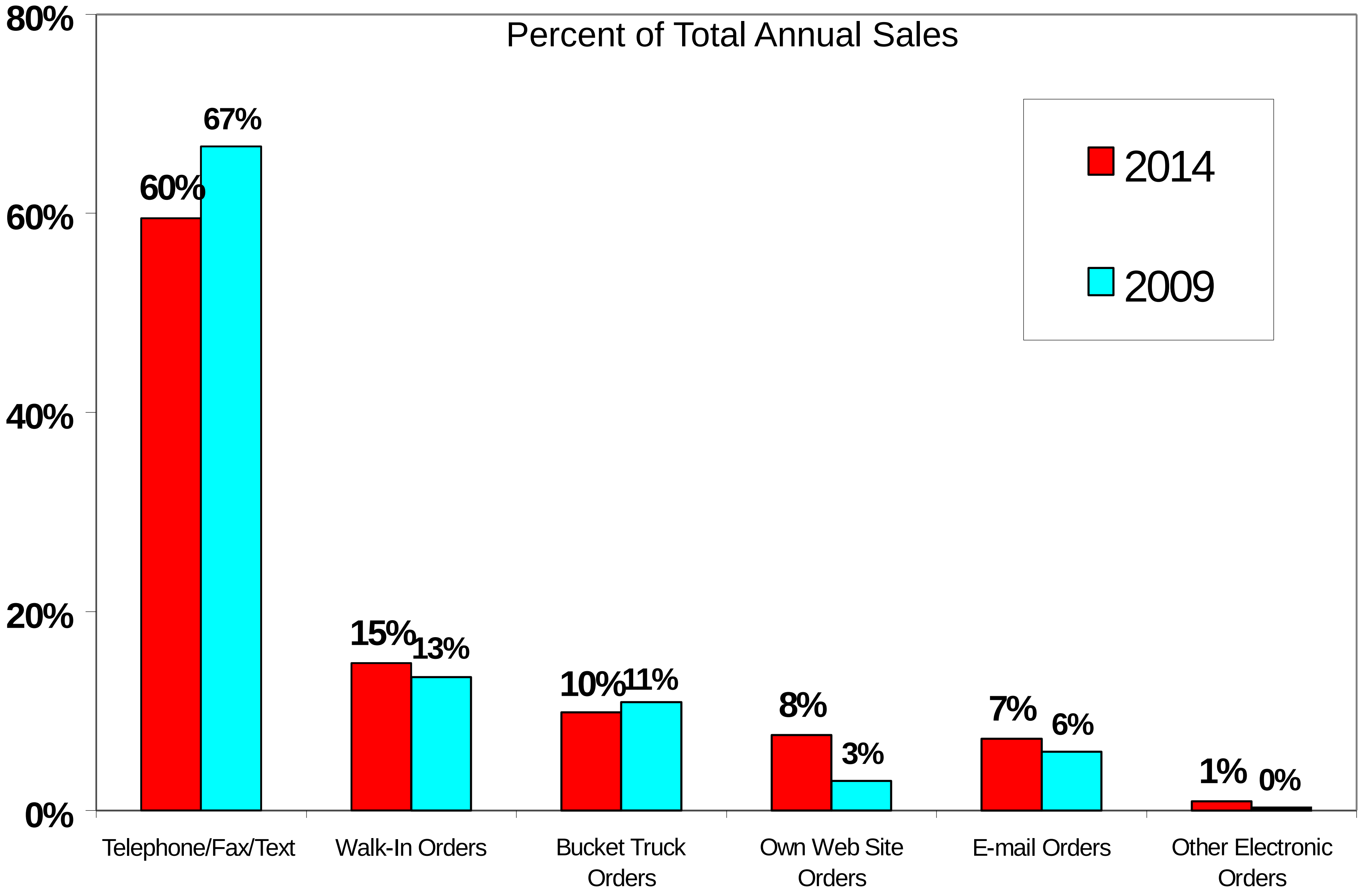
Trends in Wholesale Florist Order Modes



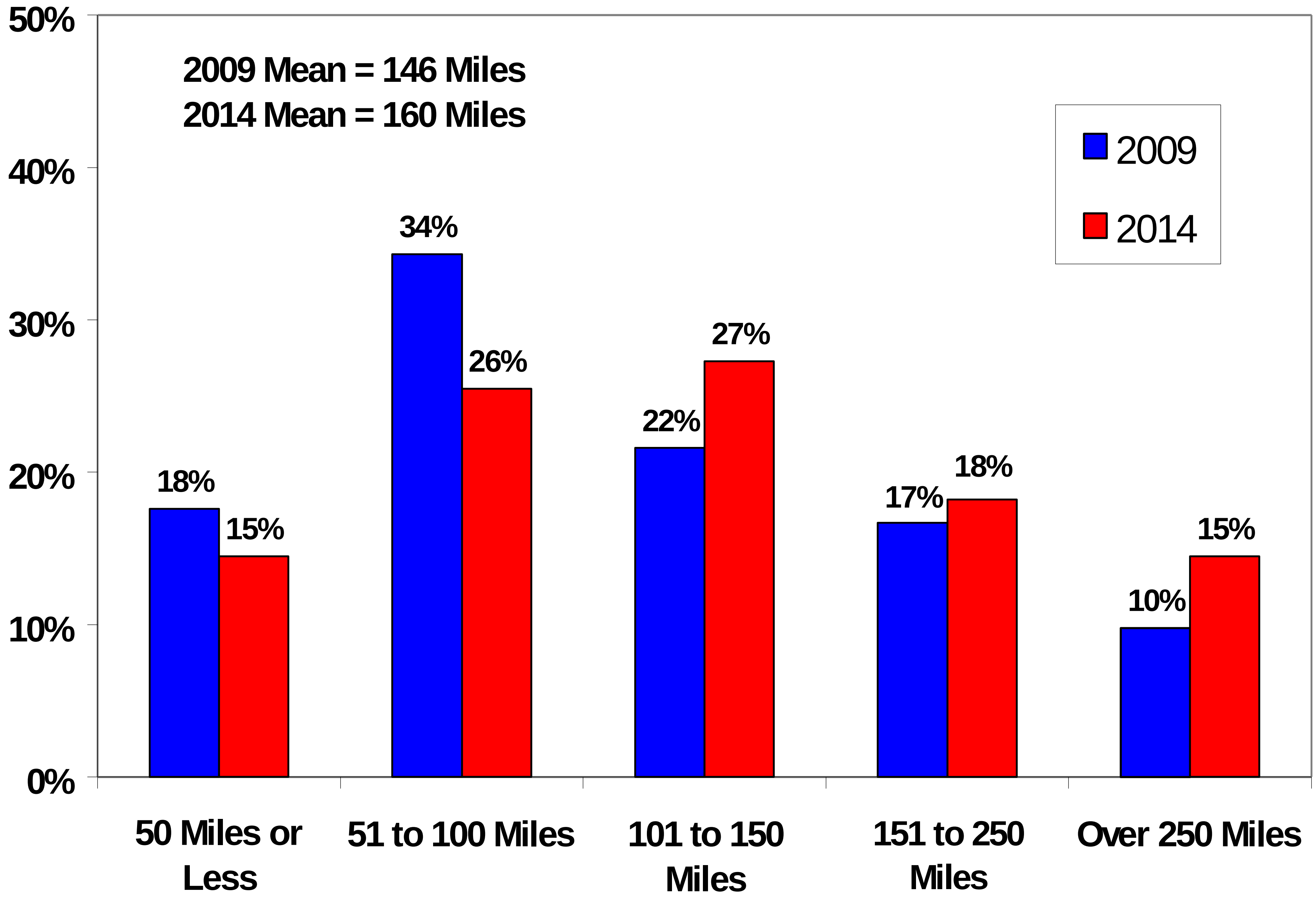
"Profiling U.S. Wholesale Florist Operational Practices & Financial Performance", by Prince & Prince.

Trends in Wholesale Florists' Receivables

"Profiling U.S. Wholesale Florist Operational Practices & Financial Performance", by Prince & Prince.

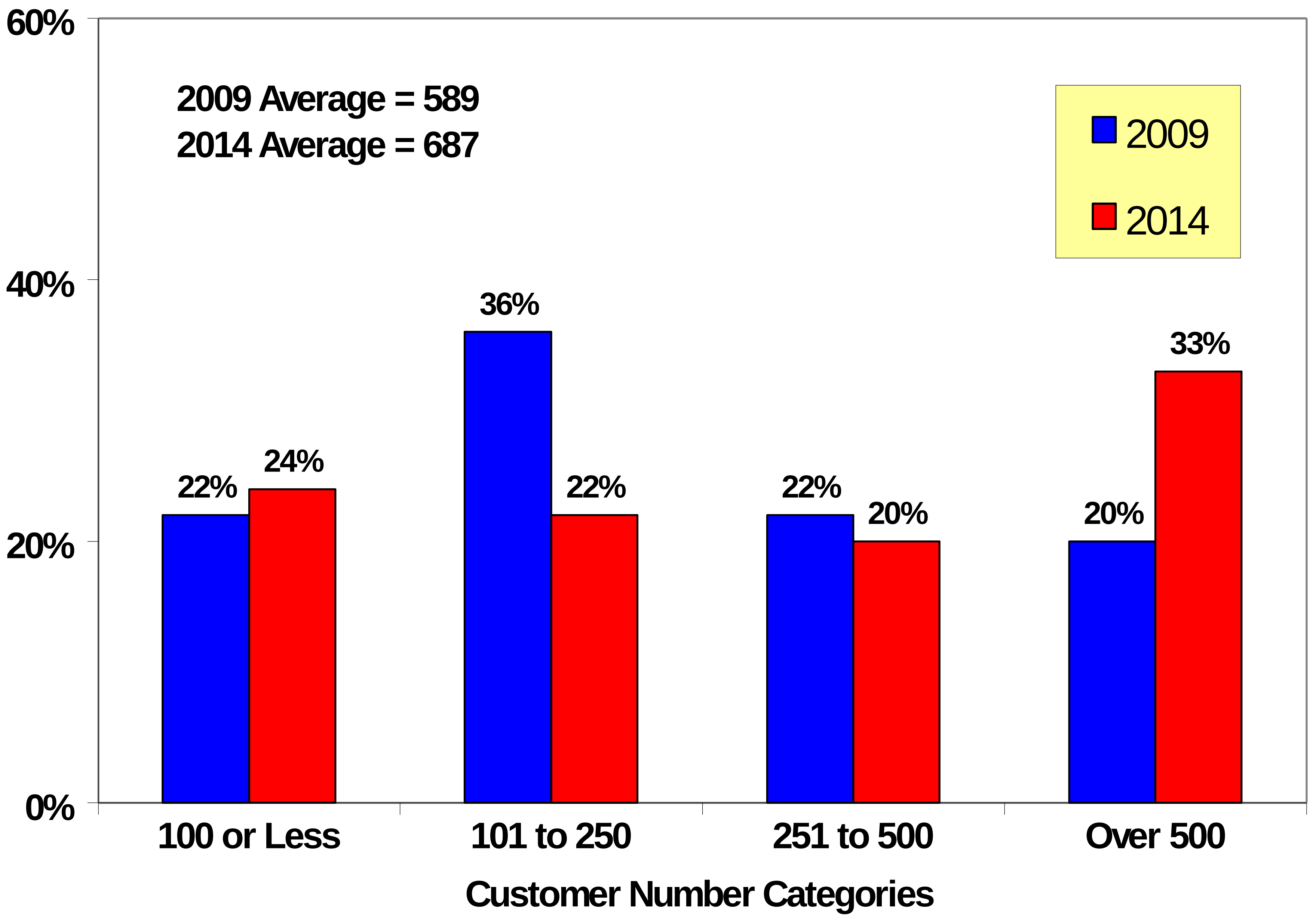
	Percent of Receivables	
	2009	2014
60+Days	21	15
90+Days	11	7
120+Days	10	8

Trends in Delivery Radius of Wholesale Florist Markets



"Profiling U.S. Wholesale Florist Operational Practices & Financial Performance", by Prince & Prince.

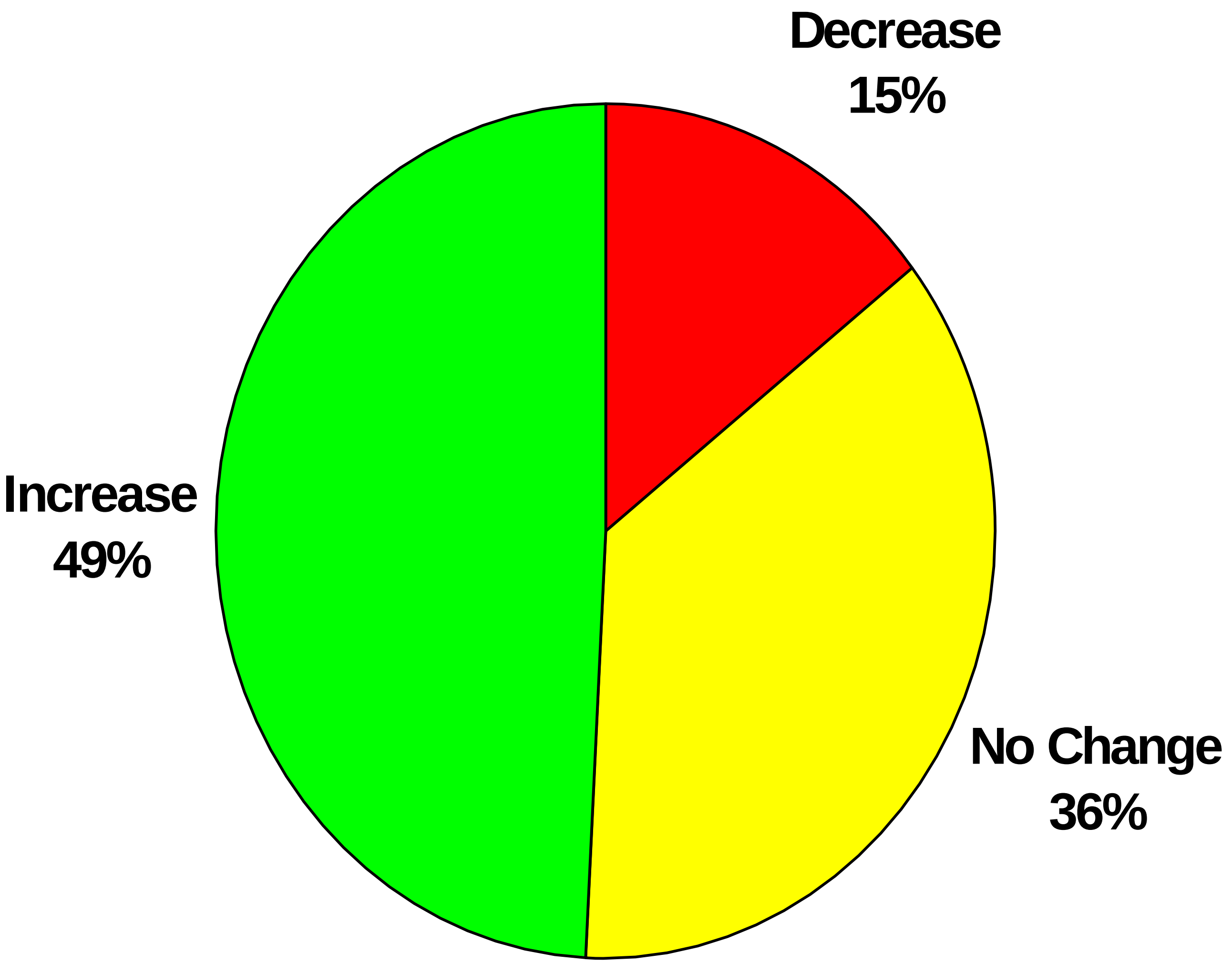
Trends in Number of Active Customers



"Profiling U.S. Wholesale Florist Operational Practices & Financial Performance", by Prince & Prince.

Projection for Number of Active Customers for 2015

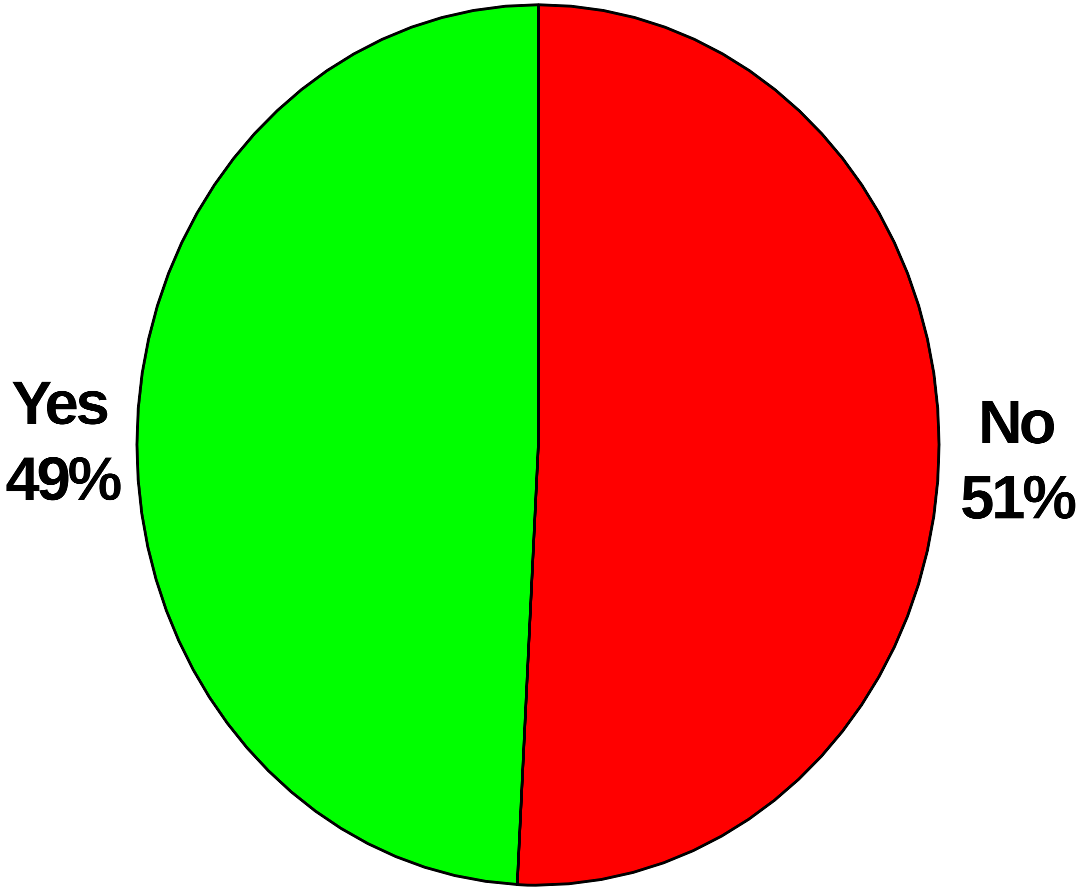
Percent of Wholesalers



"Profiling U.S. Wholesale Florist Operational Practices & Financial Performance", by Prince & Prince.

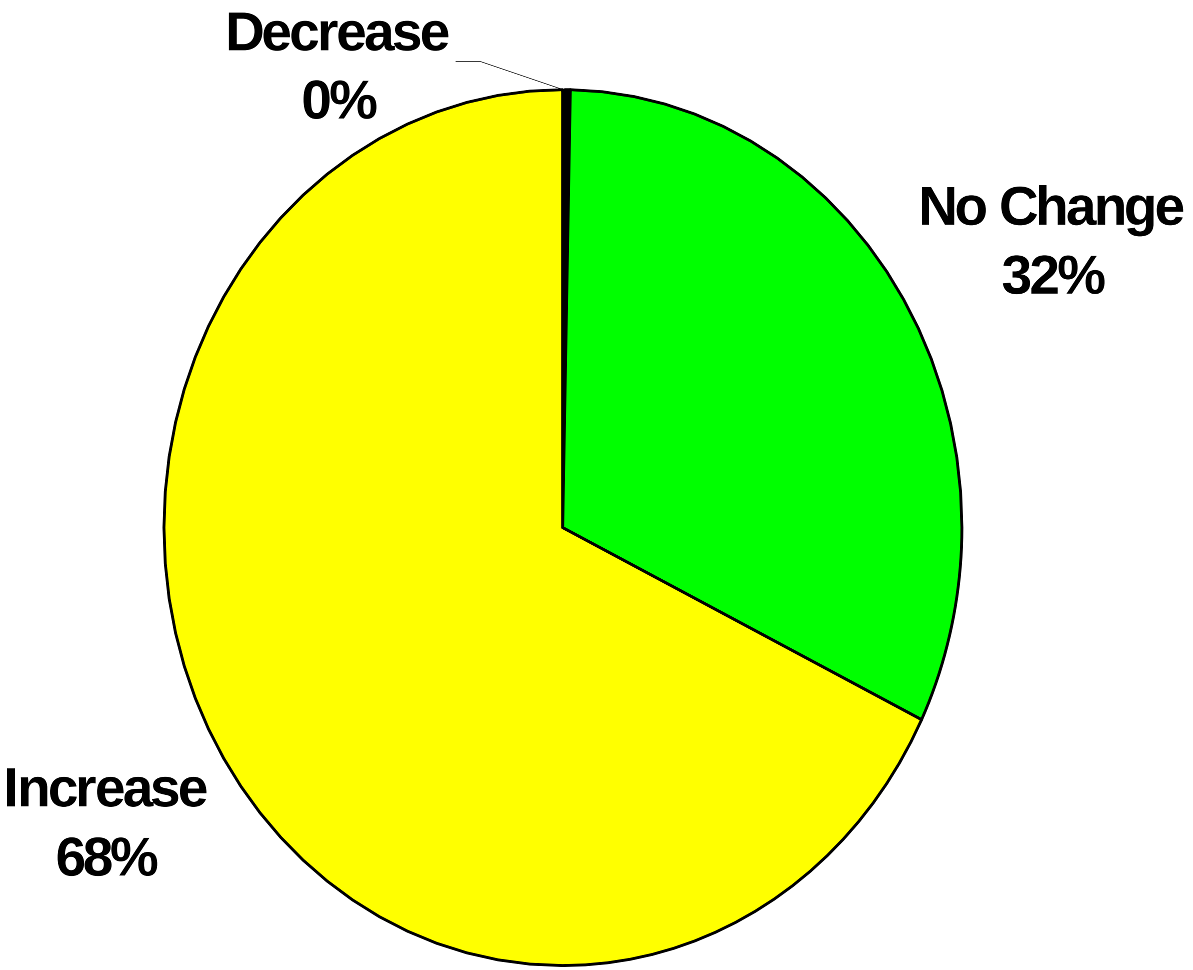
Shipping Outside of Local Delivery Area

Percent of Wholesalers



"Profiling U.S. Wholesale Florist Operational Practices & Financial Performance", by Prince & Prince.

Projection for Wholesaler Shipping Outside of Local Delivery Area *

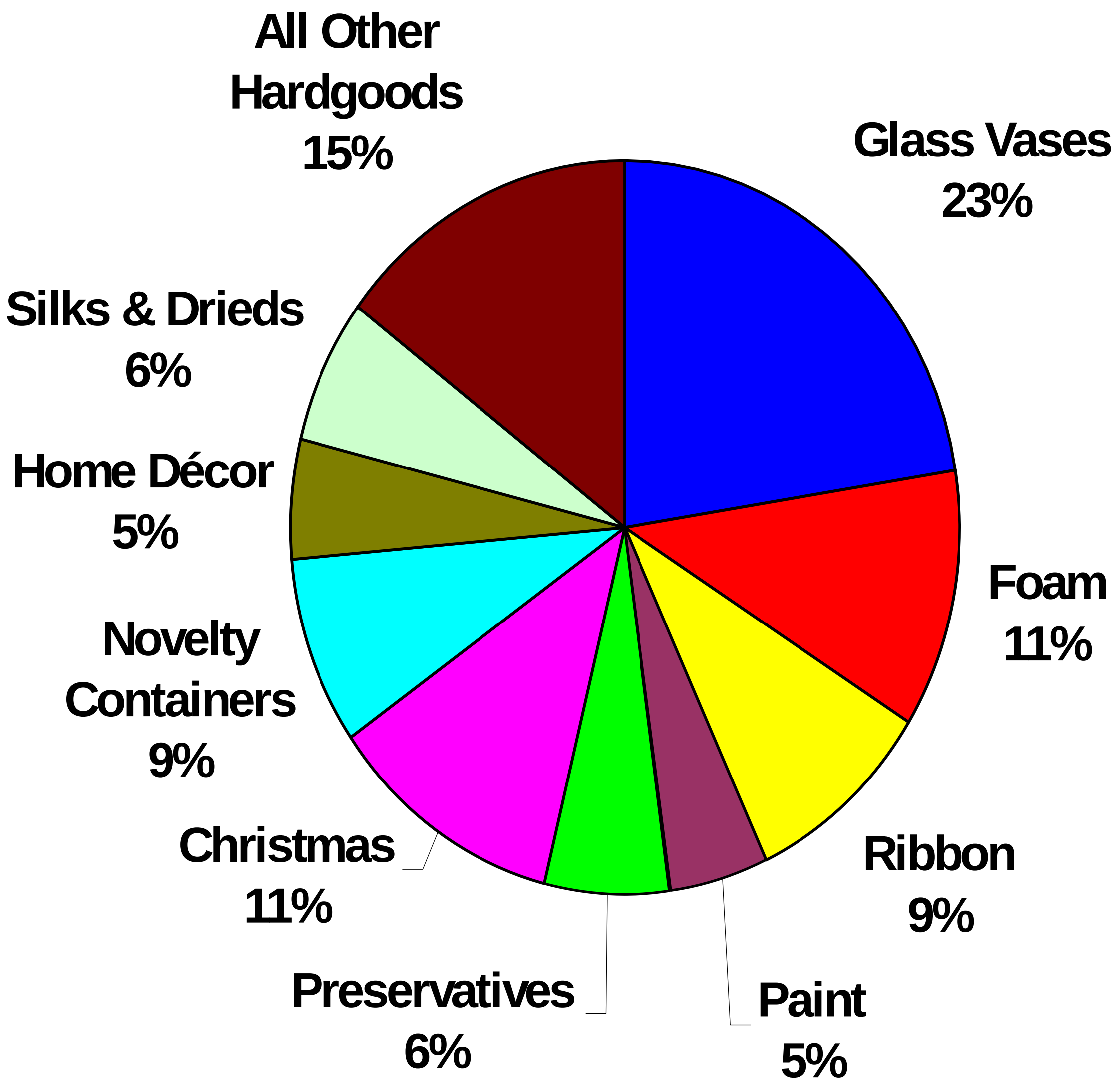


* Reported only by those wholesalers currently involved in the practice.

"Profiling U.S. Wholesale Florist Operational Practices & Financial Performance", by Prince & Prince.

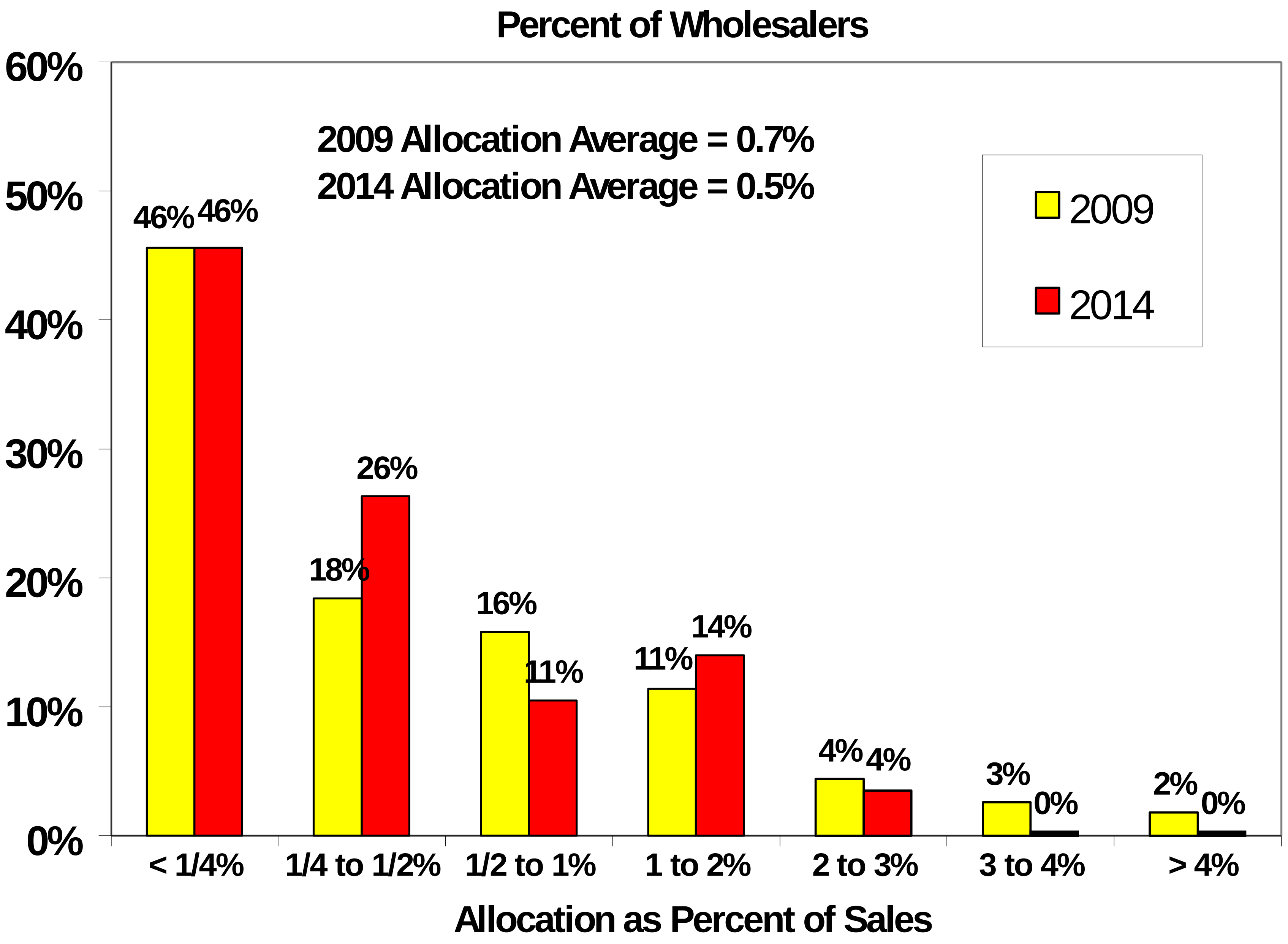
Wholesale Florist Hardgood/ Supplies Mix, 2014

Percent of Total Hardgood/ Supply Sales



"Profiling U.S. Wholesale Florist Operational Practices & Financial Performance", by Prince & Prince.

Trend in Allocation to Marketing, Advertising, and Promotion



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What about the future?

Three Big Retail Trends to Watch For

#1

Many big-box retailers are either closing or struggling (e.g., Borders, Circuit City)

. . . it seems we just don't need as many physical outlets

Source: CNNMoney April 2014

Currently, best guess in 2014 where there were just over 13,800 retail florists - down from 17,125 in 2009

Market share for the retail florist has shrunk. However, the individual business value has actually been increasing

Avg. Annual Turnover:

Year 2009 = $400,000

Year 2016 = $525,000

U.S. Dept. of Commerce / Sundale Research

#2 . . . no one is predicting the complete demise of the physical store. Local retailers - where you can touch, smell and feel the product - still offer value.

Source: CNNMoney April 2014

In-Store Shopping Experience

- It is social
- It is visual
- There are no shipping costs
- Offers instant gratification

#3 Retailers have been talking a lot about "omni channel," an industry term that means shoppers can transition seamlessly between both physical and digital stores

Source: CNNMoney April 2014

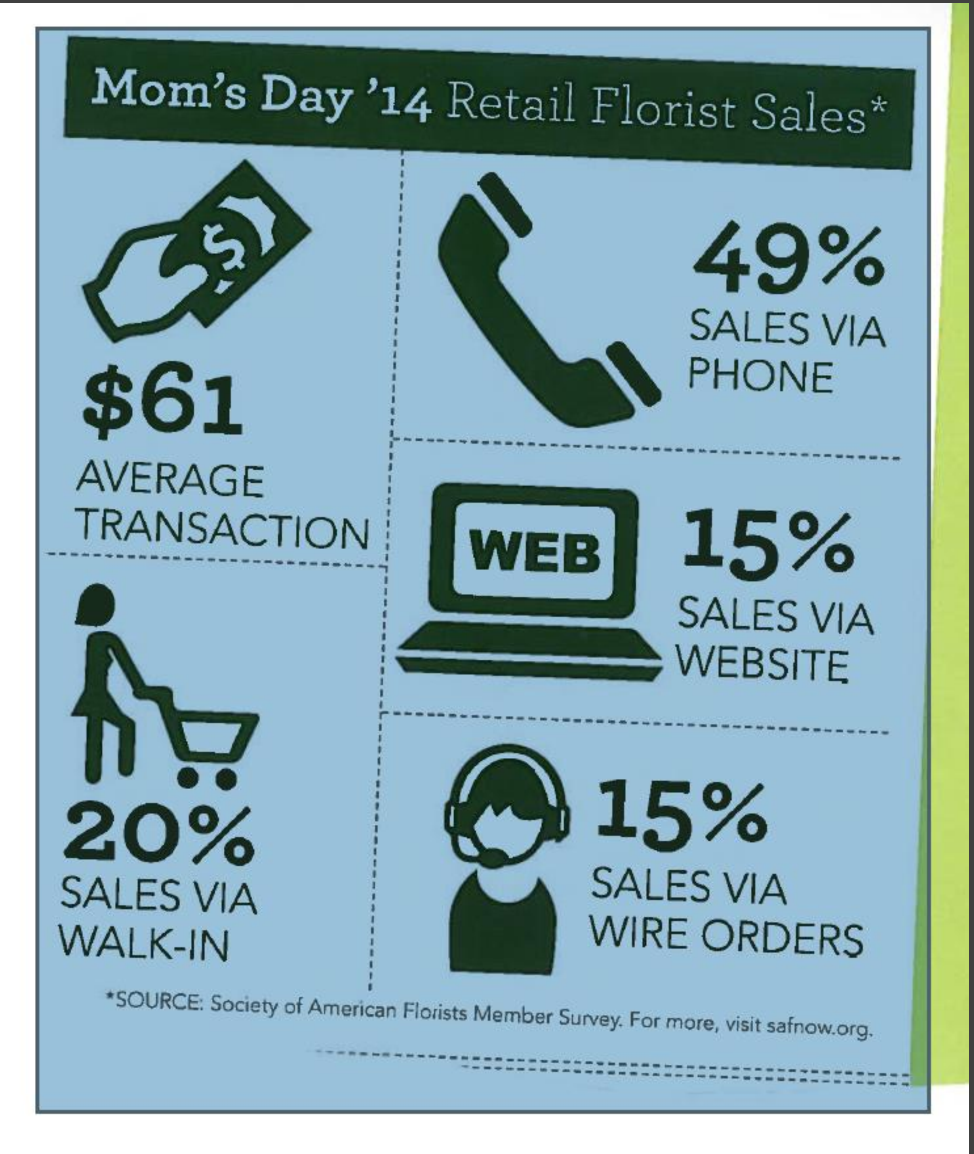
Online Shopping

Buying online with the ability to pick up, exchange or return at a brick and mortar location

=

A huge competitive advantage

Sales by type



Where do they buy?

The current Cut-Flower Market Share in dollars:

Supermarket	36.7%
Florists	35.6%
National E-Commerce	9.5%
Wholesale-retailers	8.4%
Other	8.0%

Value Proposition by Channel

Supermarkets	National E-Marketers	Retail Florists
Impulse Buyer (86% of sales)	Entry-level buyers	Quality / Value
Average Sale $10 - $20	Average Sale $20 - $50	Average Sale $50 - $70
Convenience	Not seeking “experience” with purchase	Full-range design – personalized to customer
Own enjoyment – home decor	Frequent on-line shoppers	Delivery service options
Last minute purchase	Time Starved Gen X	Customers more emotionally invested in their purchase
Convenience trumps emotional value	Out-of-town sending	Traditional events and occasions
Early stages/E-Commerce	Become multi channel with positive experience	Developing E-Commerce platforms

Kantar Retail Shopper Trends

Income

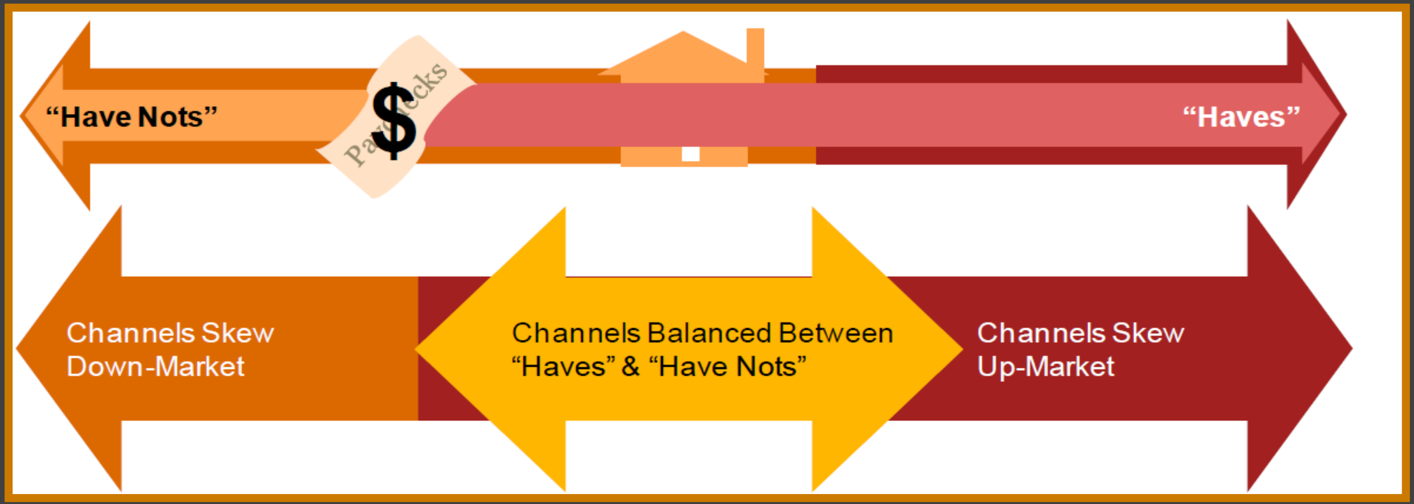
Age

Ethnicity

Technological Sophistication

Kantar 2016 Shopper Trends

A. Income (more polarized)



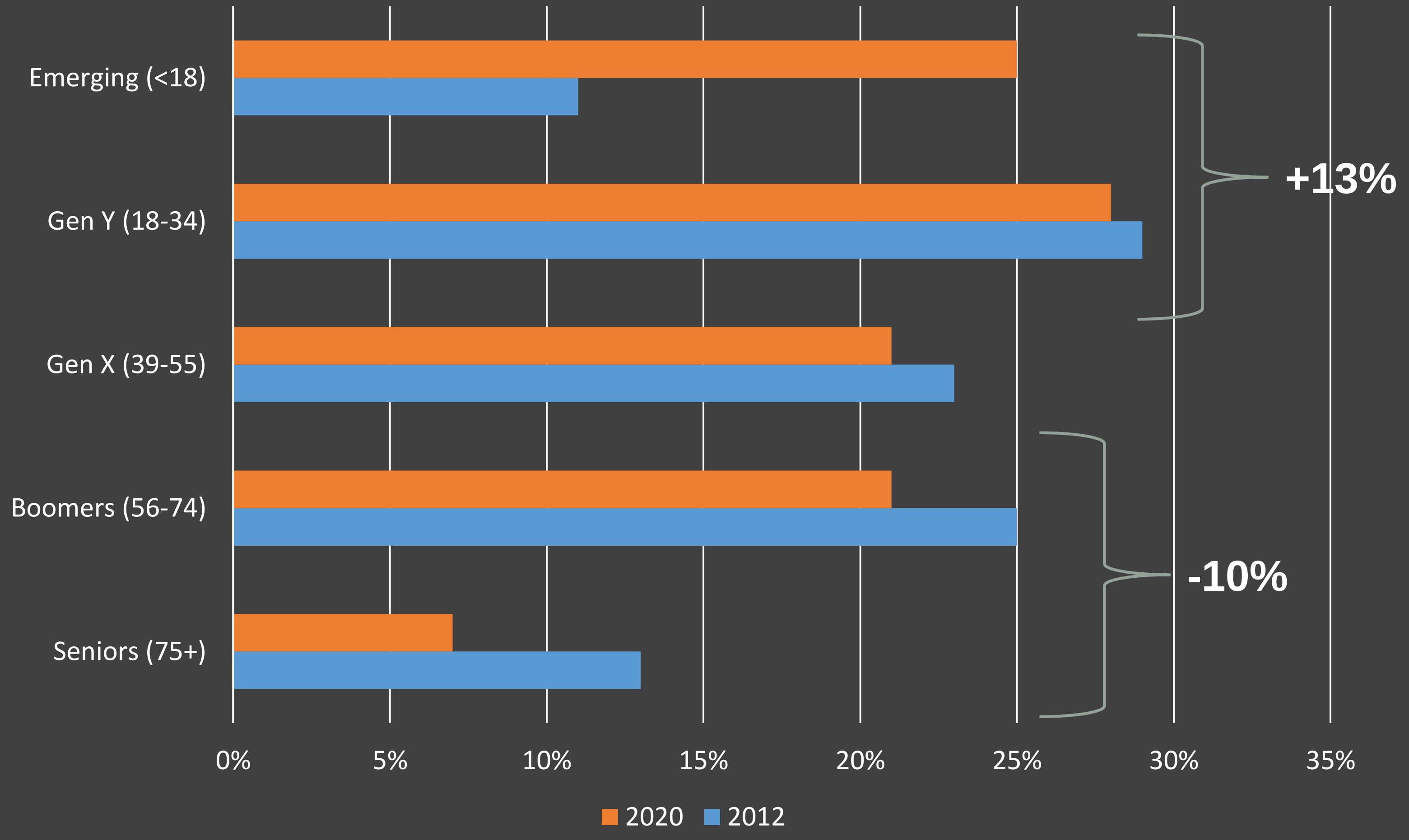
Income changes the way Americans shop. The US has a unique distribution of income among developed economies that leads to unique positions by retail channel.

Source: Kantar Retail Analysis, Kantar Retail ShopperScape®, and US Census Bureau

Kantar 2016 Shopper Trends

B. Age (no longer young)

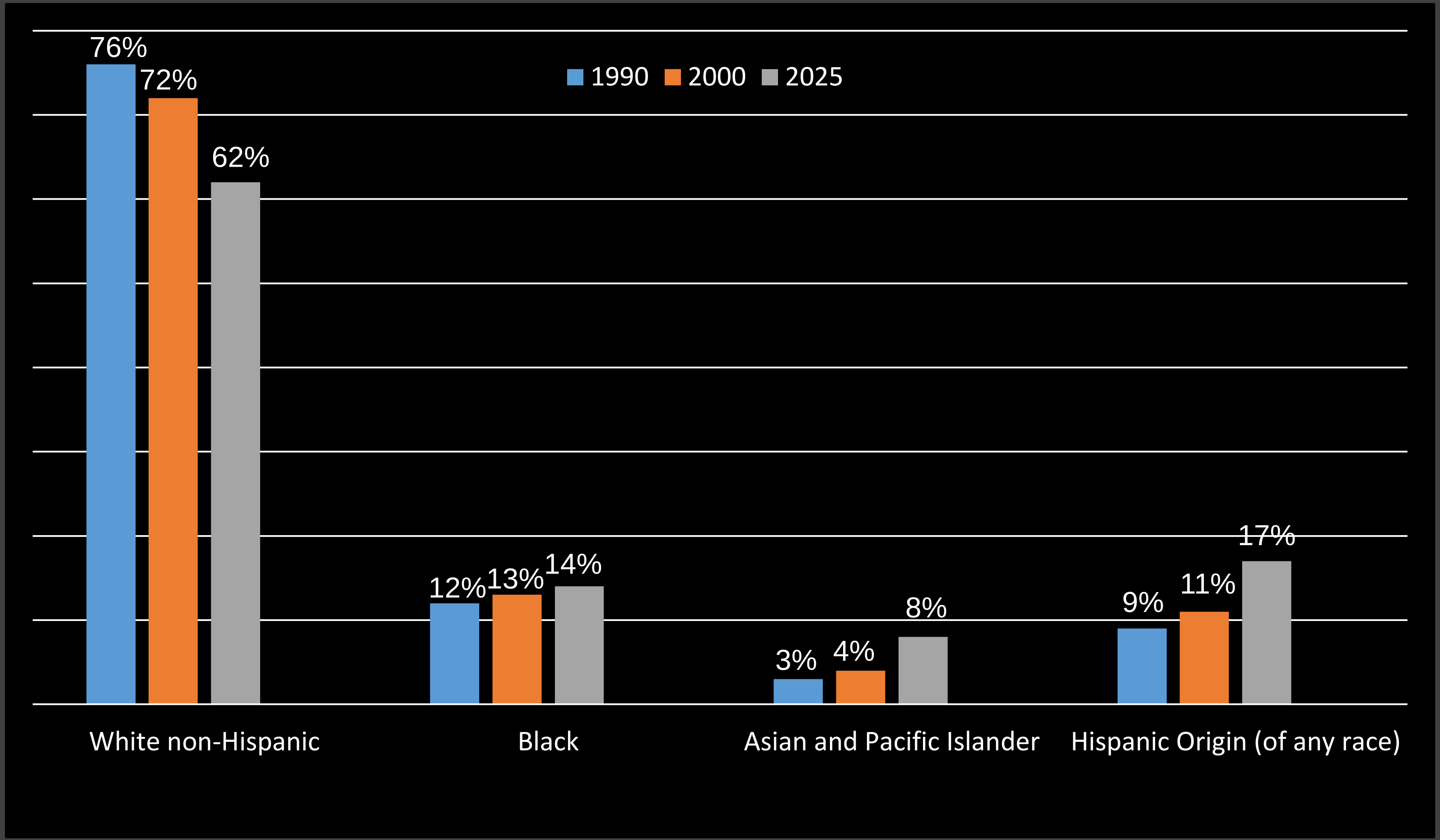
Older = health & wellness. Millennials moving into life stage maturity – purchasing more consistent with older generations



2012 Kantar Retail Analysis

Kantar 2016 Shopper Trends

C. Ethnicity



Source: US Census Bureau

Kantar 2016 Shopper Trends

D. Technological Sophistication

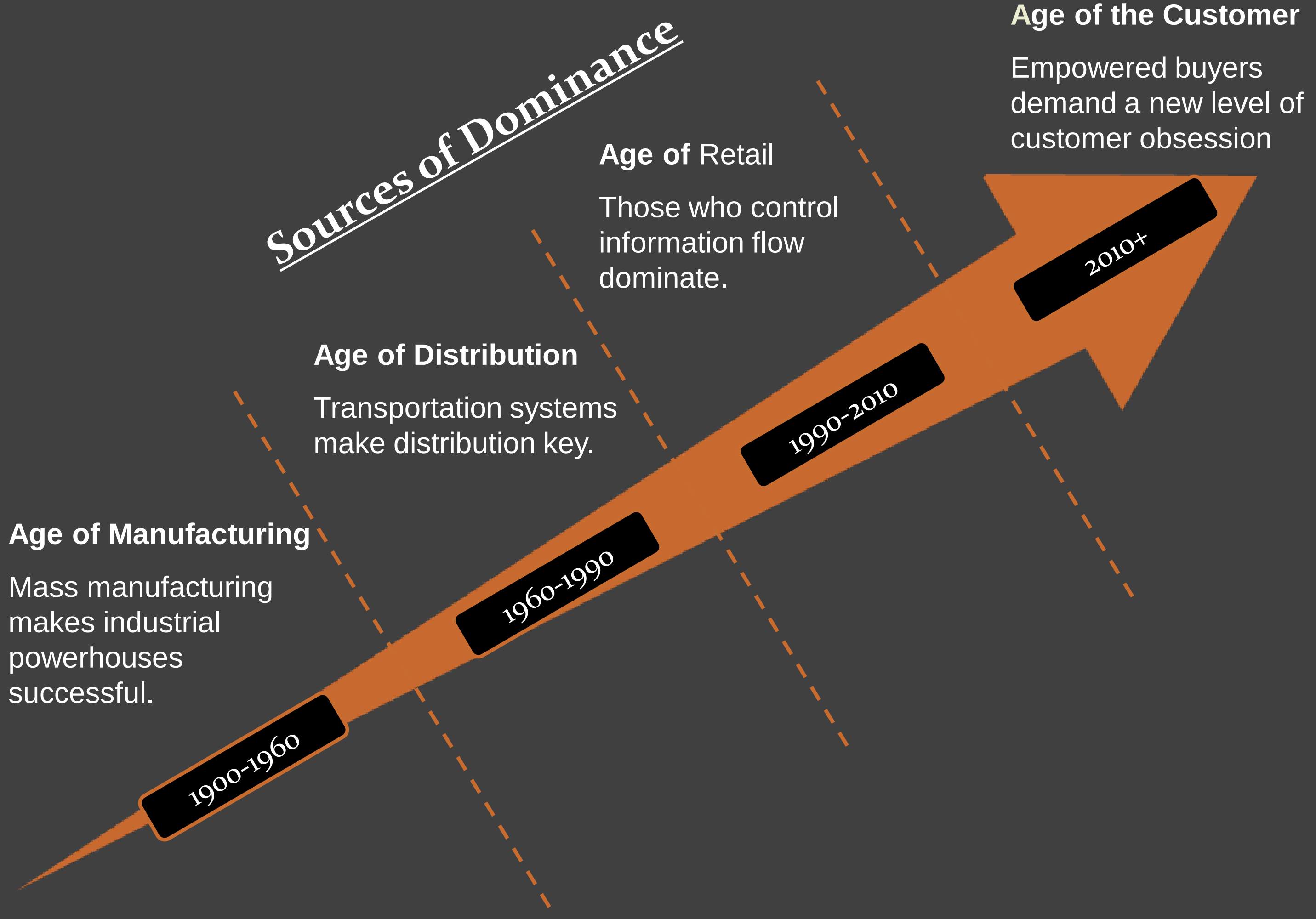
Impact on Retail distribution and operations:

- The medium itself
- The platform
- Demand chain transparency
- Demand chain productivity

Amazon has set the bar for the consumer:

- Same day/next day
  (the consumer will pay for service)
- $ .33 of every dollar spent online
- Amazon Prime = 54 million households

Welcome to the "Age of the Customer"



The Customer is in the driver's seat, today more than ever

Consumer Trends

- Attitude and behavioral improvement
- Shareable experience
- Expert recommendations
- Deliver on value
- Sensory experience
- Emotion
- Local
- Convenience

Kantar Retail Future Trends

- E-Commerce expansion (assorted optimally)
- Smaller, more friendly stores (convenience)
- Expanded services
- Delivery platform
- Consolidating buying/leveraging scale
- Analytic power
- Localization - insights into local trading area

FMRF/SAF/AFE Generation Study

Wave 1	2009
Generation Y	18-30
Generation X	31-44
Baby Boomers	45-60

Wave 2	2016
Generation Y	22-39
Generation X	40-51
Baby Boomers	52-70

FMRF/SAF/AFE Generation Study

	High Appreciation of Flowers	Occasion/ Holiday	Gifting/ Just Because	Home Decoration	Self
Wave 1 ('09)	**66%**	**53%**	**42%**	**41%**	**21%**
Generation Y	60%				
Generation X	64%				
Baby Boomers	72%				
Wave 2 ('12)	**73%**	**50%**	**48%**	**40%**	**22%**
Generation Y	76%				
Generation X	73%				
Baby Boomers	72%				

Key Barriers to Purchase

	2009	2016
Don't last very long	47%	47%
Too expensive	46%	34% ⬇
Don't always think about it	34%	28% ⬇
Difficult to maintain	12%	15% ⬆

Russell Research, Inc.
Generations of Flowers Study

Houseplant Purchase Intent

	2009	2016
Overall	37%	46% ↑
Generation Y	33%	51% ↑
Generation X	33%	46% ↑
Baby Boomers	45%	39%

Russell Research, Inc.
Generations of Flowers Study

Generational Snapshots

GENERATION Y (born 1977-1994)

This generation is the most likely to require convenience, such as delivery options

- 61% indicate florists are their favorite or one of their favorite ways to purchase flowers
- 75% typically purchase flowers for themselves
- 82% typically purchase flowers as gifts
- 51% plan on purchasing house plants in the next six months
- 55% buy flowers to make themselves feel better
- 50% buy flowers on impulse
- 61% find it very important for a local florist to have availability of unusual, exotic, or hard-to-find flowers
- 55% find it very important to have 24/7 availability

Russell Research, Inc.
Generations of Flowers Study

Generational Snapshots

GENERATION X (born 1965-1976)

Values accessibility (using multiple channels).
This segment most likely to buy on impulse. Purchases flowers for anniversaries.

- 67% indicate florists are their favorite or one of their favorite ways to purchase flowers
- 46% plan on purchasing house plants in the next six months
- 74% believe the color of flowers adds impact to a gift
- 54% purchase flowers as a “just because” occasion
- 71% find it very important for a local florist to offer interesting designs/styles that make an impact
- 69% find it very important for a local florist to provide delivery options
- 85% purchase flowers as gifts at local florists
- 35% purchase flowers as gifts at nurseries or garden centers

Russell Research, Inc.
Generations of Flowers Study

Generational Snapshots

BABY BOOMERS (born 1946-1964)

This generation most appreciates flowers and are more likely than other generations to purchase flowers for birthdays and funerals.

- 56% indicate florists are their favorite or one of their favorite ways to purchase flowers
- 82% typically purchase flowers as gifts at a florist
- 39% plan on purchasing house plants in the next six months
- 63% believe purchasing flowers as a gift is caring
- 52% believe purchasing flowers as a gift is tasteful
- 45% believe purchasing flowers as a gift is traditional
- 82% find it very important for a local florist to offer flower quality and freshness
- 77% purchase flowers for themselves at supermarkets

Russell Research, Inc.
Generations of Flowers Study

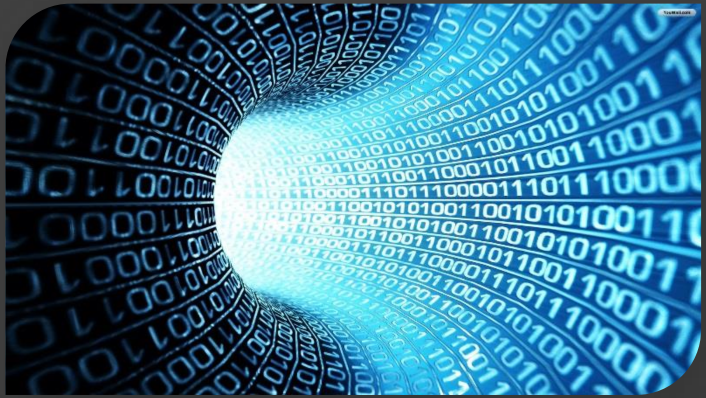
Survey Comments

Don't get caught doing what worked yesterday

(Where your customers are obsessed with what they want tomorrow)

Shift Your Thinking Continuously

Blame it on technology
Blame it on visionaries



(Digital photography)
(Uber / Lift)

Look at what others are doing

Speed – Agility - Flexibility

You are not being compared to other wholesalers –
you are being compared to ***<u>everything</u>***

Question for Industry Supply Chain

Are you ready for the rate of change required to be successful over the next few years?

Are you prepared to help your customers provide their consumers with a terrific floral experience?