



## KAT NURSERIES

30050 W. 135<sup>th</sup> St  
Olathe, KS 66061  
Customer Service (913) 856-5288  
Fax (913) 856-5227  
Business Office (913) 856-8198  
Fax (913) 856-8647

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## THE RISE AND FALL OF THE PHOENIX

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For those of you that don't follow the tree market like the stock market, I've got some news for you. I want you to picture 1929 Black Monday. I'd say we're right in the middle of a similar event in the nursery industry, a complete collapse mainly of our own doing -- not by design mind you, but by accident. Now, of course if you're a tree grower or a large scale buyer of trees you are fully aware of what's going on. I'm going address what I would consider the answers to a few questions about this situation. 1. *Why are we here? In other words, what created this giant tree glut?* 2. *What can we do about avoiding the repetition of the shortage and oversupply cycle? Because who really wants to do business in this environment?* 3. *What do I think is going to happen? Not that I'm an expert, but it's my newsletter to write.*

### **Why are we here?**

This seems so obvious -- we all planted too many trees. Right. But why? We thought we could sell them. Right. But why? Or do you like the other obvious answer -- the housing market slowed down. The answer every time is right, but it goes deeper then that. I think the main reason tree gluts are created is based on gouging. Price gouging is the demon that spawns the glut. Gouging draws dollars from outside the industry. Landscapers, Doctors, Lawyers, Developers, Farmers, and so on and so forth start investing. They're going to grow trees and make a fortune or save a fortune. I can't blame them for trying.

Gouging also creates substantial profits, profits for those growers getting a premium (gouging), and of course most growers greedy enough to take advantage of a tight market don't want to pay taxes so they invest by expanding production. Outside investment dollars and rapid increases in production, there's your answer. And in addition to that, the communication between liner producers is no good. A select group of producers that consider themselves part of the group that "does things the right way" communicates amongst each other, then proclaims to the rest of the world that they only move production numbers up or down by 5%, which is not true. Then everyone else betting on the come runs rough shot diving into what ever is a hot, creating huge fluctuation in plant species propagated. The information provided by propagators to the industry is nil. Smoke and mirrors is all we get. Gouging and deceit creating bull and bear markets seems to be the life cycle of the nursery industry. This all brings me to the next set of questions. Are you, or is your company a part of the solution, or part of the problem? Is this a benefit or a hindrance to the end user? If you want to make a stand to change the cycle what can you do?

### **How can we change things?**

This is my favorite part. This is the soapbox that every nurseryman wants to be on. The first key is that it will take action from all levels of the industry and communication throughout the supply

chain. Specifiers (landscape architects, designers, city planners) and buyers (garden centers, brokers, re-wholesalers, and landscape contractors) play a critical role. Their appetite for specific products feeds the production machine, yet there is a significant level of disconnect between these groups and even the growers, let alone the propagators. Relationships must continue to be formed so growers can get a reasonable idea of what to grow. Growers and propagators for the most part are producing product based on speculation, hypothesizing as to what will be in demand 6 to 10 years from now (remember 2 to 4 years in a traditional liner cycle and 3 to 6 for field production). Relationship building, communication, and teamwork are the key to creating a balanced business cycle.

But what can be done today? Well today if you're a buyer you can do a lot. You can choose to reward those growers who in bull markets provided you with product at a fair price with an order, a similar order at a fair price, then communicate with that grower as to what product you will need in the future. By doing so you are investing in the next production cycle and assuring yourself that the product you will most likely desperately need in the future will be there. Hence relationship building. As growers, we all know what to do, however few of us can afford to do it. Destroying nursery stock is painful but most definitely serves the greater good. Sell at a fair price, tighten the belt and keep planting. Fight and claw to stay as consistent as possible; we don't want shortages. For the cycle to not repeat itself, it must be corrected on the upswing. Shortages create too large an opportunity for gougers to resist.

### **The Scoop on Fall 2008 and Beyond**

Now if I were a gouger I'd never spill the beans, but I'm not, so here we go.

I think we're coming to the end of a buyers market. Summer will be a slow booking season based on most buyers' perception that the market is oversupplied, but I'm confident that the fall harvest will be quite strong. Very few companies are speculating on product right now and though cheap trees have been hard to resist in the past, many companies are growing very tired of bulging inventory numbers and high levels of shrinkage. This all points towards depleted inventories of yarded nursery stock come fall, and a big dig. But then, I think once the dust settles about this time next year, folks will come to the realization that the market is not too oversupplied, especially when it comes to smaller sizes in fast growing varieties. I'm actually quite certain that we are moving into a peculiar cycle where the harder to grow items will be in larger supply than the traditionally fast or easy to grow items. Why? It's simple really. Growers have seen the oversupply coming for some time, and in defense of such a catastrophe most have been planting what they might consider glut proof items. Smart, right? Yes, but if everyone has the same idea, maybe not. Sugar maple is the prime example. I wish I had a nickel for every sugar maple honey hole I've seen. Conifers are also getting scary. Thousands and thousands of extra conifers are going into production every year, and my guess is that fancy cultivar blue spruce and many other evergreens will be a dime a dozen in the not too distant future.

Latch on to a customer, vender, or anyone in the industry who is willing to communicate with you, and work to build the best relationship you can. It's the only way to not get burnt in my very, very humble opinion.

**Tory Schwope, GM, KAT Nurseries**

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30050 W. 135<sup>th</sup> St  
Olathe, KS 66061  
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