

# WHY NURSERYMEN SHOULD NOT PROPAGATE PLANTS

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Starting a nursery is a daunting task. You have an ideal that you want to achieve. In reality the ideal is postponed to a long-term ambition. Some preconceived advantage such as horticultural training, nursery skills, or the ownership of land may give birth to the idea of setting up in business, but the new nurseryman quickly finds that he labours under many handicaps: lack of capital or markets, growing facilities, labour, or even not enough hours in the day. Alone he has to build, propagate, grow and sell—tasks which are departmental responsibilities in larger nurseries.

Is it not surprising, therefore, to learn that 50 per cent of all new businesses fail within five years? Those that survive the first five struggle on for a few years more. The accepted business wisdom is that successful companies rarely show successful characteristics in the early stages. Most come about in the seventh or eighth year.

One attribute of those successful in new ventures is their ability to analyse their business environment and to put their limited assets to best use. Table 1 shows the profitability of 6 large nurseries scattered throughout the U.K., each with a minimum turnover of £1.8m. Only one has acceptable profits on sales and returns on capital employed, to offer encouragement to a fledgling nurseryman.

**Table 1.** Profitability of six nurseries in Great Britain, 1986.

	A	B	C	D	E	F
Sales	£2.9m	—	£1.8m	£6.2m	£3.5m	—
Profit	£32,000	£93,000	£39,000	£72,000	£52,000	£140,000
Capital employed	£1.2m	£800,000	£285,000	£1.3m	£560,000	£575,000
Percent return	(2.3)	11.63	13.68	5.54	(9.2)	24.3

Source: Annual Reports, 1986, Companies House.

A young entrepreneur may find it difficult to relate to a sales figure of £1m plus. The main lesson to absorb from an analysis of these figures is that the nursery trade is an asset-rich and a cash-poor business. In other words, any available cash is likely to be tied up in stock and the provisions of facilities to grow and maintain the stock. Therefore, capital must be allocated carefully to ensure it is used to the maximum benefit of the business.

Perhaps profit is not the motivation factor in setting up a new nursery, nor possibly the yard-stick to measure progress or development. The nursery trade is described as "A Way of Life" for many, rather than a business. The findings in a recent survey of 1200 new

businesses (Table 2) shows that the profit motive ranks lowly as a reason for setting up on your own.

**Table 2.** Motives for the Foundation of a New Business

Desired independence	25%
Redundancy	18
Job insecurity/risk of unemployment	12
Specialist knowledge	11
Disagreement with employer	11
Product development	8
Own previous firm's closure	5
Financial incentive	4
Other	6

Source: Binder Hamlyn Chartered Accountants Survey of 1200 New Businesses, Dublin 1986.

A common failure is for the owner to invest the limited capital, or devote excess time, to his prime area of interest, rather than to what the business requires—those jobs critical to the establishment of the business.

The title of our own Society, may provide a clue to where the true interests of nurserymen lay. Propagation is a fascinating and in many ways a glamorous topic and much more exciting to talk about than such mundane matters as how to trim, shape, and grow plants properly. Fewer still will discuss marketing. Nurserymen either shrug in incomprehension at such a topic or avoid it with disdain as a subject not worthy of their attention.

If a new nursery owner commits his capital in accordance with his interest in propagation rather than selling for example, then the investment may be quite inappropriate to his needs, and will cause the failure of his business.

In establishing a new business a nurseryman has four primary operations to carry out: building, propagation, growing, selling. It is virtually impossible for a small nursery to do all these operations successfully, with limited staff, skills, and capital. The realistic approach, therefore, is to shed and sub-contract some of the operations. A nurseryman must grow good crops in order to sell them and he must devote time to selling so that he understands what the market requires. The most time-consuming and demanding operation is propagation and this should be sub-contracted out.

The nursery industry is under developed, poorly structured and inefficient. It has never been subjected to the shock therapy that the oil crisis of 1973 applied to the houseplant trade. Oil prices forced up production costs, the growers found resistance to increases in sale price, and so in the squeeze only the fittest survived.

The survivors are profitable and efficient producers. The houseplant trade is much more aware of the need to specialise, of crop throughput, the utilisation of space, and grade-out. Consequently, the propagation, growing, and distribution of plants are

now separate but interdependent sectors of this trade.

This degree of specialisation does not exist in the hardy nursery stock trade. Therefore, the new nurseryman is more likely to take on more tasks than he can handle, rather than plugging into a structured market system and finding a particular niche in it that he can serve; something he could readily do in the houseplant trade.

It is particularly important in the early years that new nurseries devote as high a proportion of their available capital as possible to stock and minimize their investment in non-productive assets. Table 3 shows the ranking of ingredients needed for success from a survey of the same 1200 new businesses listed in Table 2.

**Table 3.** Ranking of Ingredients Needed For Success

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1. Market knowledge.
  2. Adequate capital.
  3. Management ability.
  4. Determination.
  5. Curtailing Your Standard of Living.
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Source: As Table 2.

Market knowledge is shown to be the first requirement for success. Therefore, growing the right quality for the market and learning what the market requires, and responding to it quickly must be the strategy for young nurseries, rather than tinkering around with propagation problems. It is financial lunacy to prejudge the market and invest blindly in mother stock. The capital tied up in the propagation facilities is more wisely spent in procuring young stock and turning these into cash, learning more about the market and building up the capital base.

Table 4 summarises the management and financial disadvantages of home propagation. As in the houseplant trade, nurserymen who place all their propagation requirements on contract enjoy the advantages of not having to invest in buildings or mother stock, being able to concentrate on growing and selling with no distractions, avoiding overproduction because of planned growing, and having a quicker response to market changes.

**Table 4.** Management Disadvantages of Home Propagation

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- Investment in motherstock.
  - Investment in facilities.
  - Slower response to market changes.
  - Less disciplined growing.
  - Poorer timing.
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The following are the disadvantages of home propagation observed as a consultant to other nurseries over a 10 year period: easy lines overproduced; difficult lines underproduced; small quantity lines ignored; discontinued lines continued; numbers

deficits made good with easy lines. Young nurseries rarely have the ability to control propagation tightly enough to avoid these pitfalls.

In the houseplant trade it is relatively easy to source the young material. However, there are few specialist propagation nurseries in the hardy nursery stock trade and those that exist do not provide the same level of service nor offer the same competitive prices where comparisons can be made with houseplant producers (Table 5).

**Table 5.** Sources of supply for young plants. (Price comparisons (in pence) 1987).

	House plants	Hardy stock
<i>Cordyline australis</i>	28p	35p
Hedera 'Gold Heart'	14	23
<i>Fatsia japonica</i>	28	44

The concept of delivering requirements or components 'just in time', is now an integral part of many major industries such as car assembly, electronics, and even the houseplant trade, but it does not exist in the nursery trade.

In advocating a policy that nurseries should not propagate, a weakness in the argument is that there are not sufficient specialist propagators who will provide the material required in the quantity required, at the time required. Although some can supply the material required, the quantity, price, and time of delivery all have to be improved.

It seems inevitable that we must follow the trend established in the pot plant trade of segmenting the production process and specialising in a particular segment. Table 1 showed the poor financial results of large general nurseries who involve themselves in all activities.

I am sure if similar financial figures were available for specialists nurseries these would show a more profitable trend. The fastest growth and the highest return on investment must come to those nurseries identifying niches in the market and pursuing and applying their capital to servicing that market. The day of the generalist nursery with low profitability may be coming to an end.