LILY FARMS NURSERIES: A COMPANY CULTURE CHANGE TO SURVIVE

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Lily Farms Nurseries and Landscape had been struggling in their retail division since the economic downturn in 2007. Sales had been flat, a few lower volume locations had been closed, and transaction counts had been dropping. In 2015, a significant price increase helped profits, but transactions continued to fall and it was determined that further price increases could not maintain the growth Lily Farms needed in sales and profit to remain one of the top ten independent nurseries in the country. Company president, Corey Fields, decided a major change would be needed get the retail division the growth it needed to return to sustainable profits. Corey was determined to change the culture at Lily Farms with the goal of creating better engagement with the customers and enhance the customer experience when shopping at Lily Farms in order to accomplish the organization's financial growth.

"There is nothing wrong with change…if it is in the right direction."

- *Winston Churchill*

INTRODUCTION

Late winter 2017, Corey Fields, president of Lily Farms Nurseries and Landscape, was growing increasingly frustrated with the company's lackluster performance. Sales had been basically flat since the economic downturn in 2007. Both major divisions, retail, and landscaping, had been hit hard by the recession, but the retail division was hurt the worst due to higher fixed costs. The landscape division had been supporting the company since 2008, but it, too, had experienced a significant drop in sales after the economic slowdown of 2007. If Lily Farms was going to bloom again, the company would need a new direction and change is never easy.

Retail had seen a significant increase in sales in 2015, but this was due to a price increase across the board. Prior to 2015, Lily Farms had maintained a philosophy of "having quality plants at reasonable prices", but this was less realistic with competition from Home Depot and other big box stores. These stores tended to carry a light selection of the bestselling plants, which they priced low and used to get people into their stores. While still featuring lower prices than most of the independent garden centers, Lily Farms found themselves in the middle of the plant selling business - less expensive than other independent garden centers, but above the prices offered at the box stores.

Fields determined a new approach was necessary: Lily Farms needed to create a customer experience. They would keep their prices up but offer more value when it came to customer service, and work to create a shopping experience that would enhance customer loyalty and appreciation, as opposed to its long-standing business model to try and compete on price. He was convinced this was the right strategy. But the hard part would be making it happen.

Lily Farms was a long-standing, family owned and operated business. They had always taken great care in hiring and keeping loyal staff. Many of Lily Farms middle managers had been with the company twenty plus years, and its top managers in the corporate office averaged thirty years or more. But that also meant that these valued people were deeply ingrained in the "Lily Farms way". And Fields knew major changes in the company's culture would be necessary to fit the new business model.

THE BUILDING OF A NURSERY EMPIRE

Lily Farms Nurseries and Landscape was started by Jack Fields and his wife Jane in 1960. Jack Fields started selling tomatoes door to door with little red wagons, using his high school students as salespeople to supplement the senior Fields' teaching and coaching salary. A few temporary roadside markets were set up, and eventually a more permanent location was established on the east coast.

The entry into the plant business was accidental. A grower had an extra-large load of plants one year, and asked Jack to sell them on consignment to get him out of a jam. Jack put a low price on the plants and sold them quickly. Jack noticed there were no "low price" options for plants at that time, so he started getting more and more plants in and sold them at low prices, too. By the early seventies, Jack was making significantly more with his markets then by teaching and went into business full time. Produce was phased out, and Jack became a full-time entrepreneur.

Jack was met with resistance from other nurseries with his low-price strategy. Lily Farms was the first "discount" type nursery in the area and grew quickly with this low-cost approach. Rather than relying on making a large gross profit, Jack relied on continued growth in volume to make a profit. Additional locations were added, and a landscape division was started by the mid-seventies.

With additional locations, Jack's philosophy was to have the Lily Farms culture instilled in the managers of these locations. Everything would be decided by the corporate office and this would be passed on to the managers. There would be consistency in all pricing and the operation of each facility. All buying, marketing, and decision making would be done by the corporate offices and communicated to the field offices to follow. Detailed policy and procedure manuals were established and regular visits by corporate managers assured all locations were managed the same.

When regional managers visited locations, one thing they checked were signs that described each block of plants. It gave a brief description of the plant, its growing habits, care instructions and the price. These signs were produced at corporate and given out to the managers ahead of shipments. The signs were stapled onto a sign block that was made and distributed by corporate. The sign was to be placed in front of the plants on the border of the bed holding the plant in the center of the block. It was noted on the regional managers site visit report if any signs were missing and if they were not in the center of the plant group. If you took a picture of a block of plants at any of their locations, it should be identical from location to location.

Lily Farms staff could always be identified in their "Plant a Little Happiness" tee shirts as they worked around all locations. It can be a dirty job, but all were asked to start the day clean and ready to go. Proper shoes that protected feet were a must and employees had to work in all kinds of weather, mainly outside so extra protective clothing was sometimes needed. Meadows Farms help offset the cost for raingear and protective clothing to their employees to help ensure the uniformity of service.

Jack's philosophy was you can offer two out of three of the main business drivers of service, price, and quality. He felt that service was the least important and people would come for quality plants at reasonable prices. Information on the product would be given out through signs and handouts, not from educated nursery workers. This philosophy paid off as Lily Farms rapidly grew up to over 20 locations. Additionally, annual sales made them the top independent nursery the country.

As the retail division was developing, Jack became very interested in landscape design. He opened the landscape division where plants were not just purchased, but designs were created by Lily Farms staff and the plants were installed into the customers' yards by Lily Farms employees. Although opposite of the "self-service" approach for the retail division, Jack was able to still use a low-price philosophy in the landscape division. "Free landscape design" was incorporated into the marketing and Lily Farms limited itself to residential jobs averaging two to three thousand dollars each. While adding very little profit to the organization, this division grew and added to the nursery's revenue stream, and visibility in the area.

The new division also increased Lily Farms buying power. The growth in their customer base made them a player to the growers of the plant material, and they were able to get more favorable terms and pricing from their suppliers. By 2007, the landscape division was contributing over $20 million in sales to Lily Farms' $50 million in total sales.

THE BUBBLE BURST

The first half of 2007 was a typical Lily Farms year with strong sales in both major divisions. The second half of the year change was first noticed in the landscape division due to its less seasonal fluctuations than in the retail division. What was typically a strong time of year for both revenue streams instead dropped sharply.

By 2008, the country was in the worst recession since the Great Depression (Amadeo, 2011). The housing market had declined. People lost the value in their homes and interest rates skyrocketed. Housing trends are a significant driving force in the greens industry (Hall, 2014), so in turn Lily Farms sales were influenced greatly. People lost the ability to borrow off the value of their home, jobs were lost (Kolb, 2011), and the overall economic downturn took its toll on both major divisions of Lily Farms. Landscape sales were hurt the worse, dropping from over $20 million to about $12 million. Retail sales also dropped from around $30 million to about $22 million. Expansion and sales growth were a big part of the profit model in the retail division, and despite continuing to work hard to maintain a profit based on a large volume of sales, with a lower than normal gross profit, growth stopped as of the second half of 2007, further lowering retail profits.

While adding revenue growth over the years, the landscape division still had never produced much profit. Interestingly, despite the drop in sales in the landscape department in 2008, the division showed its best profit in years. It was readily apparent, then, that landscape profit could adjust positively to the decreases in sales due to the accompanying drastic reduction in the expense heavy labor budget - crews were simply cut to adjust for sales. For example, instead of sending 70 crews out each day, landscape was now sending out closer to 40 crews.

There were other cost savings realized due to the drop in the sales volume. The reduced number of crews were run by the "best" foreman, and the landscape department slowly but steadily regained sales from 2008 to 2020. This slower, more responsible growth was an effective lesson learned, and led to steady profits that began carrying the company.

Retail did not fare as well. It had long term, fixed costs and precedents, like rent, utilities, and hours of operation, and difficult to estimate and budget variable costs like store staffing and inventory. So, when retail sales dropped, even though it was less than a drop then the landscape division, profits were hurt much more drastically. This drop continued for several years as sales remained flat from 2008 to 2015. While in past years, sales would be up or down two or three percent annually, the company was ill-prepared for the drastic change in the economy, the slow recovery, and the increasingly growing competition from national retailers. The results were several years of unprofitability for Lily Farms.

In 2015, it was decided price increases across the board in the retail division would be necessary to survive. This was against Lily Farms long time philosophy of "Quality plants at reasonable prices" but was deemed necessary to get the organization back to a profitable bottom line. The price increases did reduce the retail departments losses to a point where the landscape division's profits outweighed them, the retail division itself still did not see a profitable year. As would be expected with a price increase, the retail department also saw a significant decrease in the number of transactions. The sum of the changes equaled the average sale going up, gross sales profit increasing, but the number of customers coming to the stores dropping.

This drop in customers did not bode well for either division of Lily Farms. The retail department could not continue to raise prices with hopes of profitability given the intense pressure from the box stores. This strategy would price them out of the market. Additionally, the drop in retail customers significantly impacted the sales of the landscape department. Approximately 60% of the sales in the landscape division was attributed directly to retail customers. The precipitous drop in retail customers would decimate landscape sales, thereby jeopardizing what had been the company's profit lifeline.

CHANGING A CULTURE

After the retirement of his parents, Jack and Jane Fields, in 2010, Corey Fields had taken over as president of Lily Farms. After several years at the helm, and analyzing the past 11 years of the organization's data and trends compared to industry performance during the same time, Corey decided in 2018 that Lily Farms needed a big change. A simple advertising program or new store displays would not be enough. The environment was now characterized by economic instability, changing market demand, and technological advances (Ingersoll, et al., 2000), and Lily Farms was behind the curve on all three. The company had many "seasoned" veterans on their management staff that were used to the very regimented policies and procedures laid out from the corporate office, but the old way was not working. Corey realized that the company needed a change across all of its levels, but the research and practice of organizational change is well known for being a rough one.

Corey did have an idea of what direction to turn, though. Corey had read "Riding the Blue Train: A Leadership Plan for Explosive Growth" (Sayle & Kumar, 2006) and felt strongly it was the right direction for the company to follow to begin implementing the change. The book encourages growth by innovation while respecting the history of the company (Sayle & Kumar, 2006). The premise of the book was that an organization relies on every member of its team to achieve the company's goals. Managers can either dictate how each of those team members should contribute to the organization or they can allow those members the freedom to find their own way to support the company's goals. If Corey could unlock this creative potential and convince the team of his vision for the company, together they could find a successful direction for Lily Farms. If the entire company could re-center around the customer experience, Corey knew it could return to positive growth in sales without continuing to raise prices. But the devil was always in the details.

Corey realized that as the leader he was ultimately responsible for successfully implementing the major organizational change, but how could he change the company's long-standing culture? With his years of experience embedded in the Lily Farms culture and watching the industry change over the years, Corey knew change would not come easily. Fortunately, the annual regional nursery summit in Denver was coming up. He and all of his executives and branch managers would be attending. It would offer him the perfect opportunity to plant the seed for the company's new direction. Corey had just one question for his team: how would they go about changing Lily Farms' culture?

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