



Community Success Stories

Pefferlaw Peat Products

www.pefferlaw.com

Pefferlaw, Ontario

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INTRODUCTION

This community success story case study is part of The Monieson Centre's Knowledge Impact in Society (KIS) Project, a three-year endeavour to connect academic knowledge with economic development needs in Eastern Ontario. This case study highlights best practices from a real business in Eastern Ontario. The KIS Project is funded by the Social Sciences and Humanities Research Council of Canada. For more information, visit www.easternontarioknowledge.ca

Pefferlaw Peat Products (PPP) opened its doors in 1954, when G.T. Strain and his sons began harvesting soil from their bog in Pefferlaw, Ontario, a small town approximately an hour north of Toronto. It was incorporated in 1977 and sold 20 years later to its current owner, Peter Prust. Mr. Prust saw an immediate opportunity to improve the operation by investing in new equipment which he purchased and put into use within three months of acquiring the company.

Today, the company harvests, manufactures, and packages soil products intended for home gardening. Raw materials are sourced from their own "backyard" bog as well as from external suppliers. PPP produces a wide product line using various ratios of different inputs such as peat humus, peat fibre, and various manures. PPP focuses on business-to-business sales, and although it sells to large retailers such as Canadian Tire, their main customers are independent garden centres within a three-hour drive from their site.

MARKET SEGMENTATION

At the product level, it is difficult to create a differentiated soil. Technically speaking, all soils serve the same purpose at almost equal effectiveness, and, as such, segmentation in this market is due to perceived differences more than anything else. In the soil market, products have been divided largely into Entry Level and Premium soils. Although this division exists, there is little difference between the two product segments; instead, most of the difference is in the minds of consumers, making packaging and marketing of even greater importance in order to establish strong brand recognition. At the current time, PPP's product range includes both premium and entry level soils.

INDUSTRY AND COMPETITORS

PPP faces strong competition from a number of local producers. As a result of a 2008 acquisition of Modugno-Hortibec, Sure-Gro has become the Canadian leader controlling 40% of the market (see Exhibit A). It is important to note that the figures exclude a large player within the industry: Scotts Miracle Gro, a \$3-billion, publicly-traded, global giant. Unlike the companies listed in Exhibit A, Scotts is in a position to invest in extensive research and development, and more importantly, marketing.

All of these firms operate in a business-to-business environment, selling their products to garden centres of various stores such as those mentioned previously (Exhibit B illustrates retail market share with respect to the production of companies listed in Exhibit A). It is clear that if a firm wants to drive high volume, it would ideally distribute through Canadian Tire and the various banners of Loblaw Companies. The nature of the product is such that it does not go through distribution intermediaries and it cannot be shipped too far from the production facility for a number of reasons; not only are bags large, heavy, and prone to breaking, but margins are relatively low and shipping is a major expense. PPP is comparable to their smaller competitors in that their production facilities are located just minutes away from the raw material source, their production lines are highly automated and efficient, and their brands are weak. An interesting point of differentiation, however, is that PPP's products are certified organic, although to this date it has not shown any direct correlation to a significant increase in sales.

Looking at the players in the industry and growth potential, it seems as though the industry is saturated and stagnating. Even Scotts, after spending nearly \$300 million in advertising across 2007 and 2008, only grew year-over-year sales by 2%. The only way to increase sales is by gaining market share, which, with an undifferentiated, similarly-priced product, is a difficult task.

KEY SUCCESS FACTORS

Product Quality

A recent series of in-store visits revealed soil customers primarily care about the results that a particular brand of soil yields. If the product they purchase provides satisfactory results on the first attempt, then they will be loyal to that particular brand regardless of many other factors that come into play. Their satisfaction and loyalty could potentially encourage others to begin purchasing the product and significantly boost demand via word-of-mouth advertising. Conversely, any poor results would discourage the customers immediately and create a negative bias toward the brand that could be difficult to overcome. At this point it is important to reiterate that there is little actual variation in product quality; PPP's products are on par with their competitors.

Packaging

Since the various brands of soil exhibit few differentiating factors at the product characteristics level, it can be difficult for consumers to make a purchasing decision. When this occurs, consumers sometimes rely on the suggestions of staff. If no one is around for immediate assistance, most consumers will purchase the product with the most attractive packaging. PPP has two types of packages: brightly-coloured bags with pictures of flowers for the premium products, and plain-coloured bags for entry-level products. The different kinds of fertilizers are colour-coded for easier repeat purchases and this feature has been a success in the marketplace.

Pricing

The price range for soil and fertilizer products is between \$2.99 and \$6.99 for a typical 30L bag. The price floor is based on consumers' perceptions; anything priced lower is considered to be of poor quality. The price ceiling has been established over time by the market; pricing above the ceiling results in poor sales because well-known, trusted brands are sold for less. PPP's product line covers the entire price range.

Lean Manufacturing

Pefferlaw Peat Products manages to maintain a very lean operation, allowing it to maintain low levels of overhead. It has very few employees, both in the administrative and operational functions, and no unnecessary office space. Cost-consciousness runs throughout the business, and every decision is evaluated on how it impacts the overall cost structure.

Long-term Vision

Mr. Prust has a clear view of the company's current position in the market and lists long-term success as its main goal. The viability of the company is never sacrificed for short-term gain, and decisions are not rushed.

FUTURE OPPORTUNITIES

Despite its successes, Pefferlaw is competing in an industry experiencing little growth. This requires innovative business approaches to avoid stagnating revenues. PPP is in the enviable position of having adequate capacity to support additional sales, but its current focus on selling within a limited geographical area has created problems related to capturing market share in excess of its current 8%. Additionally, a weak brand image has resulted from limited marketing and sales efforts, preventing PPP from significantly differentiating its products and establishing brand loyalty. From the marketing side, flat revenues make increases in marketing expenditures difficult for the company to absorb, yet it is these increased brand marketing efforts that are needed in order to help drive sales to higher levels. Looking at the sales efforts of the company, PPP currently does not employ an active sales team in order to push its products onto the shelves of retailers who carry such products. Consequently, the lack of a dedicated sales team makes it difficult for the company to expand its customer base and market reach, and subsequently to grow sales.

To overcome these limitations and capitalize on emerging market opportunities, PPP should investigate forming a bargaining unit with other producers in the Ontario market. Under a single brand name and promotional campaign, their products can gain wider brand recognition in a highly-undifferentiated market, helping to increase negotiation power with retail purchasers and brand loyalty with customers. These pooled resources will help spread out and streamline marketing and promotional costs. By establishing this bargaining unit, PPP will be able to expand its market reach and market share, and therefore enjoy steadily increasing sales and revenue growth for the foreseeable future.

EXHIBIT A¹

Percent Market Share of Ontario Supply

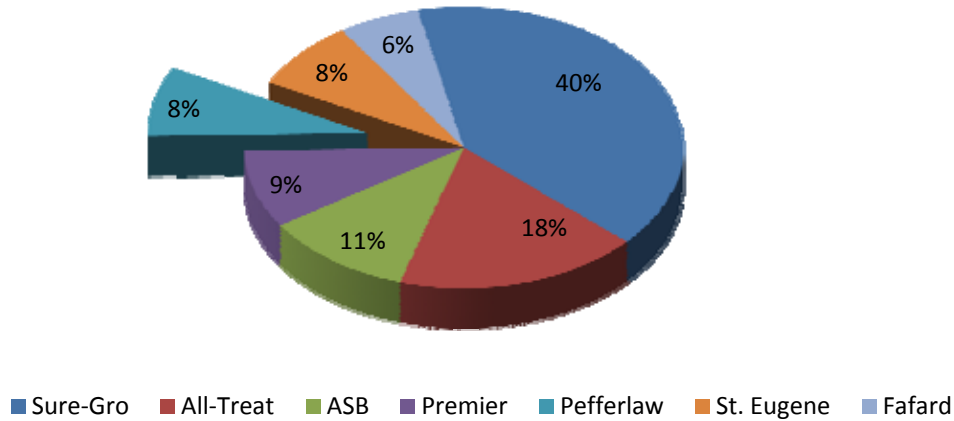
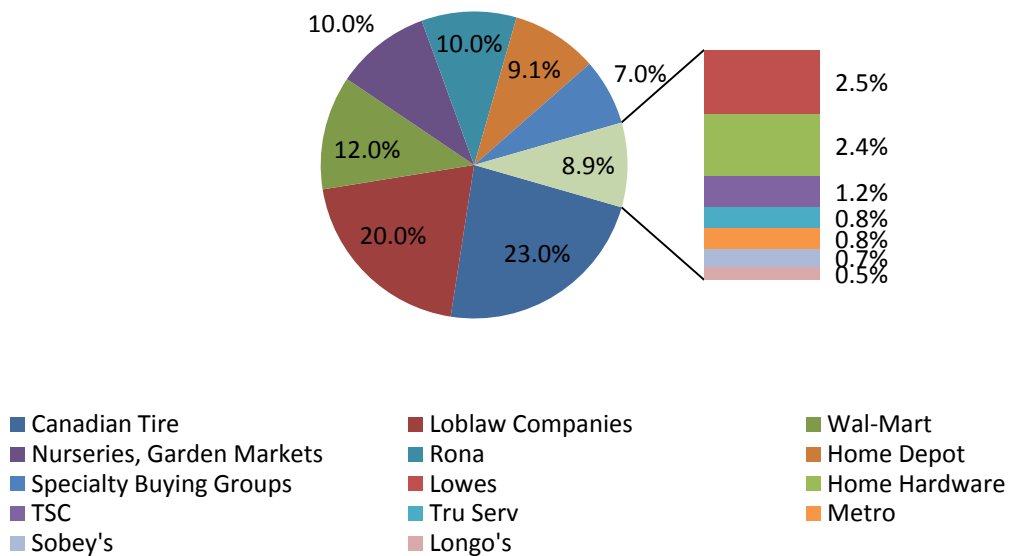


EXHIBIT B

Percent of Total Ontario Soil Production Bought by Retailer (by Store)



¹ Excludes Scotts, an international corporation and largest player in the market.