
CITY OF KELOWNA
MEMORANDUM

Date: January 31, 2001
File No.: 5380-03
To: City Manager
From: Drainage/Solid Waste Manager
Subject: **Ogogrow Marketing Strategy**

RECOMMENDATION

THAT Council approve the recommendations of the Marketing Strategy prepared by Ference Weicker and Company;

AND THAT staff be directed to implement the recommendations of the Marketing Strategy in general accordance to the transitional pricing scheme.

BACKGROUND

In 1983, biosolids recycling in Kelowna was initiated with the implementation of a composting process on leased farmland near the Glenmore Landfill. In 1994, the processing of biosolids was moved to its present location in Winfield. With this change in location there was also a refinement in the process to what is known as aerated static pile composting. The end product, Ogogrow™, initiated in 1995, is safe and environmentally beneficial. Ogogrow has been very successful and is in high demand by landscapers, nurseries, orchardists and home gardeners. The product consistently meets or exceeds the requirements for biosolids reuse.

Sales have continually been strong with all product sold in each year. Revenue in 2000 was \$160,000 on 19,000 cubic yards.

A marketing plan was developed five years ago in conjunction with the introduction of Ogogrow, with the objective of developing markets for this new product. Ference Weicker and Company were retained in 2000 to provide a marketing strategy which reflects an established product and the needs of the customers.

The Executive Summary of the Ference Weicker report (attachment 1) contains a recommendation to implement a graduated pricing structure, which will both increase revenue and provide an incentive for larger customers to develop markets for the product. The graduated prices will be phased in according to the transitional pricing structure shown on attachment 2. The pricing structure maintains the current wholesale price for large customers and the current retail price for small volume purchasers at the Glenmore Landfill.

Alan Newcombe, P.Eng.

John Vos, P.Eng.
Director of Works & Utilities

EXECUTIVE SUMMARY

PURPOSE OF STUDY

In 1995, the City of Kelowna began to process biosolids using an advanced technology called Extended Aerated Static Pile Composting. The biosolids are mixed with wood chips to produce a high quality compost product. A marketing strategy has been implemented that involves wholesaling the product, in bulk, to nurseries and landscape supply centers, as well as landscapers. Any surplus has been sold to the general public. In 1999, 20,543 yards of Ogogrow was sold at an average price of \$7.16, generating revenues of approximately \$147,200.

A number of factors may affect the future marketing of Ogogrow:

- Demand for the product has been increasing.
- Several large, or potentially large, buyers are asking for changes to the pricing schedule. Currently, the 4 leading buyers account for 55% of sales. Several buyers have indicated that they would like to increase the volume of Ogogrow that they purchase and have encouraged the City to introduce a graduated pricing schedule, with more than the two current price points, that would provide increasingly greater discounts to higher volume purchasers of Ogogrow. The increased margins would enable them to invest more in market development activities.
- The volume of soil conditioner sold by the City will increase in the coming years. If all available waste streams were utilized, the potential volume of compost that could be produced is equal to about 30,000 cubic yards.
- The Regional District expects to distribute their entire stockpile of compost by the end of 2001. The total inventory of Regional District biosolid product amounts to approximately 80,000 to 100,000 yards, including aerated compost, stockpiled unaerated compost, and material still in settling ponds. Depending upon how it is disposed, this could have a significant impact on the market.

Given these factors, and the fact that the existing marketing strategy has now been in place for five years, the City of Kelowna decided that this was an appropriate time to commission this objective review of the market for Ogogrow and obtain recommendations regarding the future marketing of the product. The purpose of this marketing study is to:

- Develop a profile of the existing and potential market for soil conditioner products in the Kelowna area;
- Assess the relative competitive position of Ogogrow in each of the market segments; and
- Develop recommendations regarding marketing strategies for Ogogrow to the year 2010.

METHOD OF STUDY

The major steps that we undertook to complete this market review are as follows:

- Conducted several meetings with Gordon Light and Alan Newcombe from the City of Kelowna. We also visited the production site for Ogogrow.
- Reviewed background information related to the market for the Ogogrow product.

- Conducted a literature review of available statistics and studies on the target markets and on the overall markets for soil conditioners. For the purpose of this study, we divided the market into the following segments: orchardists, landscapers, retail for the home market, golf courses, turf and sod farms, government, and distributors/trucking firms.
- Conducted in-depth interviews with a sample of 113 existing and potential customers for Ogogrow. We also conducted unstructured interviews with approximately 30 potential customers who did not participate in the formal survey.
- Developed a profile of key competitive products.
- Conducted follow-up personal and telephone interviews with representatives from the City of Kelowna, a sample of key buyers, selected experts and suppliers of competing products to further discuss key study issues.

We then analyzed the results and summarized our major findings, conclusions and recommendations in this report.

MAJOR CONCLUSIONS

The main conclusions arising from our review of the market for Ogogrow biosolid compost are as follows:

1. Ogogrow and other compost type products are sold or used in each of the market segments that we reviewed, with the sole exception of the turf and sod farms which use primarily chemical fertilizers.

The most common soil conditioners used in the Greater Kelowna area include Ogogrow, bark mulches, wood chips, peat moss, composted manure and other composts made from vegetable or plant wastes. The end use applications mentioned most frequently were as a top mulch for perennial garden beds or as part of a soil mix for top soils or as a growing medium. The primary reasons for using organic based soil conditioners is to retain moisture around the roots of plants, to rebuild the organic content of the soil, and to make the soil lighter and more manageable for planting.

2. The majority of existing purchasers indicated that Ogogrow has additional benefits that makes it superior to most other organic soil conditioners in the same price range.

The advantages of Ogogrow most commonly mentioned by existing customers include:

- It has a higher nutrient content than other mulches and composts;
- It is a sterile compost (no weed seeds);
- The black colour allows it to be used to provide an attractive contrast in landscape applications;
- It is competitively priced; and
- It is readily available.

Many orchardists indicated that the combination of the nutrients and moisture retention properties of the Ogogrow product has provided superior results over other mulches for root development and for enhancing growth among newly planted trees. Landscapers most often mentioned the characteristic black appearance and the importance of Ogogrow being a sterile product that is free of weed seeds. Amongst the existing purchasers, the only products mentioned as similar in quality to Ogogrow compost were thoroughly rotted steer or mushroom manure and black peat soil produced by Superior Peat in Penticton. Well-composted manure was said to be not readily available, was inconsistent from batch to batch, and often contained weed seeds. The black peat soil was considered as good a product as Ogogrow (even preferred by some), but is three to five times more expensive.

3. Existing purchasers are very satisfied with the results that they have had with Ogogrow compost.

Of the 67 people interviewed who identified themselves as having purchased Ogotrow within the last year, 56 (84%) rated the level of satisfaction of their own use or the customers that they resold the Ogotrow as a 4 or 5 on a scale of 1 to 5 where 1 is not at all satisfied and 5 is very satisfied. The average rating was 4.2.

4. The most common recommendation for improving Ogotrow compost is to ensure that it is fully composted.

Twenty-two percent of existing or past customers mentioned that sometimes the Ogotrow product that they purchased was still warm and had more odour than usual, which they felt was due to the material not being thoroughly composted. This occurs more frequently when they purchase in the late spring, when high demand for the product has depleted the most thoroughly composted material.

5. The City of Kelowna has done an effective job of creating awareness of the product and marketing it to various end use segments.

Word of mouth, including contact with City staff, is by far the most frequently given response as to how purchasers first become aware of the product. For the landscape and nursery market segments, word of mouth from others in their industry is very important for getting purchasers to try new products. In the tree fruit industry, the orchardists rely on word of mouth from other growers as well as advice from the co-op field representatives as to new products that have been found to be effective.

6. Ogotrow has achieved significant market penetration in most of the key market segments.

The largest segment, in terms of the volume of mulches and compost used, is the landscape segment which we estimate uses over 50,000 yards of these products in the Kelowna area annually. Forty percent of the current volume of Ogotrow sold goes to the landscape segment. Of the landscapers that we interviewed, virtually all of them were aware of Ogotrow and 19 out of the 28 surveyed use Ogotrow regularly and have been using the product for an average of 5 years. Due to the current satisfaction and high degree of awareness of Ogotrow compost it is unlikely that a significant increase in volume sold in this segment will occur.

Although the wholesale nursery segment uses a large volume of soil conditioners, the container production nurseries account for over 2/3 of the volume used and they prefer to use inert growing media for better control over growth conditions. The total volume of mulch and compost type products for in-ground production in the Kelowna area is approximately 5,000 yards, of which Ogotrow currently has obtained over 20% market share. The three largest nurseries in the Kelowna area have been using Ogotrow since it was first introduced (and other biosolid compost before that). Their satisfaction level with the product is very high and they indicated that they currently use all of the product that they need.

The retail market segment for both bulk and bagged sales has been aggressively pursued by Lake Country Compost Distributors and their Nature's Gold product line. There is potential to increase the retail sales of Ogotrow in the local market, particularly for residential use, and a significant increase in volume could occur through sales to customers based outside the local area. The other market segments that we looked at, with the notable exception of orchardists, indicate a lower level of interest in using Ogotrow or have little potential for volume locally.

7. The orchard segment represents the best opportunity to significantly increase the volume of sales in the future.

Orchards currently use just over 2,000 yards per year of Ogotrow, which represents only about 25% of the potential volume of 8,000 yards that could be used by this segment in the Kelowna area. The satisfaction level amongst existing users is high. Based on results from field trials at the Pacific Agri-food Research Centre in Summerland, B.C., field representatives strongly endorse Ogotrow for replanting and newly

planted fruit trees. Given the high costs and risks involved in a replanting program, the comparatively low cost of using Oogrow (as compared to the risk of not obtaining the benefits of the product) could result in rapid adoption by the rest of the industry. If the entire tree fruit industry in the Okanagan adopts the use of biosolid compost for replanting programs, the potential volume increases to almost 30,000 yards. Oogrow is the only local product produced in large enough volume to satisfy that growing demand.

RECOMMENDATIONS

We recommend that the City of Kelowna should:

- **Not Integrate forward.**

Although the value added markets have the added appeal of higher revenues, the potential financial returns are very uncertain (and quite possibly negative) and such a strategy would place the City in direct competition with the private sector.

- **Use a volume pricing strategy to increase the average price of Oogrow.**

To increase revenues and provide further incentive for larger intermediaries to further develop the market for Oogrow, a graduated pricing schedule based on volume should be introduced. The structure of a possible pricing schedule is illustrated below:

TABLE I

ILLUSTRATION OF A POTENTIAL GRADUATED PRICING SCHEDULE

Volume	Price
Glenmore Landfill	\$21.50
Less than 50 yards	\$15.00
50 to 249 yards	\$12.00
250 to 999 yards	\$10.00
1000 to 4999 yards	\$8.00
Over 5000 yards	\$6.60

To test price elasticity and limit the degree of negative reaction from customers, the new pricing schedule should be phased in by increasing the prices for certain categories over a period of time while maintaining the prices for others. Customers would, in effect, have the opportunity to keep their current pricing or actually get a reduced price if they were willing to purchase increased volumes.

Given that the City would do this by increasing the price to smaller volume purchasers, rather than decreasing the price to larger volume customers, it may not be feasible to implement such a program until after the product stockpiled by the Regional District is distributed. The City of Kelowna should recognize the potential impact of the Regional District's product on the market and monitor the situation.

- **Further develop individual markets through direct marketing.**

The report discusses specific actions that could be taken to increase awareness, build customer loyalty and induce trial amongst the landscape, nursery, orchardist and other markets. This includes actions such as making direct contact with buyers, developing and distributing marketing materials, obtaining product endorsements, and fostering press coverage.

- **Support/encourage the development of value-added companies.**

Outside of the potential for increased volume of sales to the orchard industry, the retail for the home value-added bagged soil conditioner market has the most potential for developing the Ogogrow market in the future. Through existing distribution outlets for agriculture and home garden supplies and their established relationships with existing retail chains, the market can be expanded well beyond the Kelowna area. We have already recommended that larger volume buyers, such as value-added companies, receive volume discounts. It is also recommended that companies that already compete in this market segment be targeted to try to encourage them to develop value-added products using Ogogrow compost. Product samples and information outlining the environmental benefits and product qualities of Ogogrow should be provided to distributors and agricultural supply wholesalers such as Greenleaf Products (Burnaby), Eddi's Wholesale Garden Supplies (Surrey), Bell's (Olds, Alta.), Briteland's Agricultural Supplies (Vernon) and Growers Supply that service the local and provincial retail chain and garden centre outlets.

