By Stan Pohmer

What's Next?

"Consumers, entrepreneurs, Federal Reserve members…all are befuddled by this economy. Uncertainty leads to inaction. While the future remains cloudy, businesses still have to plan for it." — Brett Nelson, Forbes, October 25, 2010

Well, this statement pretty much sums up where things stand today. And "uncertainty leads to inaction" clearly expresses the mindset that most businesses are in right now; we've done all of the cost cutting, downsizing, right-sizing, and all the other operational things necessary to allow us to survive the economic downturn. But few companies are willing to or capable of making the hard strategic decisions to shape a new course of action at least until we have a clearer indication of what the new consumer behaviors will be, what retail will look like post-recession. Uncertainty has bred some timidity in our thinking and behavior.

Throwing caution to the wind and charging ahead without a plan in a period of uncertainty would be foolhardy, and something I wouldn't advocate. But taking new action, implementing new programs, and creating new opportunities while others are paralyzed by inaction could be a competitive advantage that could create incremental sales and position you as a leader as the economy improves.

Learn to reduce dependency on price value, and work on establishing partnerships with your key customers

Playing the Price Game

One of the major outcomes of the economic downturn was an almost mind-numbing focus on being the lowest cost provider, which had a disastrous impact on bottom line profitability. With slow sales, consumers looked for and chose products based on lowest price or largest discount. This naturally led the shopper to those retail venues that promoted a low price image, namely the discount stores, home improvement chains, warehouse clubs and dollar stores — all at the expense of the locally owned retailers. This in turn trickled down the supply chain, with retailers seeking out those producers who offered the lowest costs, so they could compete in this price-focused marketplace.

Everyone needed to generate cash flow, so we all got into the downward price spiral game and no one won, except maybe the consumer. It got to the point where, if you didn't play the price game, there was always someone standing in line that could offer a lower price, so we were forced to play this inane game. I often quote the saying, "If you sell your product based upon the merits of price alone, you put yourself at the mercy of your dumbest competitor," and it's apparent that you have a lot of competitors that are either dumb or are desperate for survival.

So what's next? How can you break out of the low price rut? How can you stand out in the crowd of low cost providers and carve out a niche that will help set you apart? How can you strengthen your relationship with your retail customers that will help ensure that you won't be replaced for the sake of a few cents in item cost?

Focus on Key Customers

Though it sounds contradictory in these economically challenging times, one of the answers is to invest in your existing customers; focus on boosting your top line by keeping your best customers happy. Retailers have become risk averse, cutting back on breadth of assortment, controlling (or over controlling) inventory stocking levels, in addition to cutting back staff and hours. I'm not challenging why the retailers are doing this; it's a natural reaction to slow sales and depressed customer demand. But what kind of message are they sending to their consumers? How can they compete against another retailer who has a lower cost structure and is better positioned to allow for lower prices? And how can they compare against someone else in the market who may have deeper pockets and hasn't been forced to cut back as dramatically as others have?

I've discussed this in past columns, but the concept of 'partnering' with key customers is even more important now than ever before. It denotes shared goals and risks, more than a traditional buy/sell relationship. Partnering is about mutual success, not one player winning at the expense of the other.

It's almost impossible to partner with every one of your customers; you don't have the resources to do so. You need to be highly selective in identifying both your most valuable customers and those who have the potential to become most valuable customers (your most growable customers) with some investment on your part. Further, not all of your most important or growable customers are partner candidates; there are some that you will never have shared goals with or or some you know you'll never be able to develop the trust factor required to establish and sustain a partnership relationship.

A critical component to a partnership relationship is an honest assessment of the capabilities, challenges and opportunities the grower and customer have; once identified, you match the strongest strength and ability of one of the partners to take the lead in that area. For example, if you identify that your customer is over-controlling inventory carrying levels, you might suggest your assistance in helping to better forecast and respond to sales trends, or to provide logistics support allowing for more frequent deliveries. This may entail some absorbed risk on the part of the grower in terms of shared markdowns or clearance, but the net win for both partners is increased sales and more satisfied consumers. If a retailer has cut back on staff and can't provide the one-on-one customer service/expertise they used to, perhaps the grower partner could put on customer knowledge clinics or 'loan' an employee to the retailer for key weekends to help answer consumer questions. Or maybe the retail partner will agree to share POS information weekly, periodically throughout the season, and at season end that could help the grower better forecast and plan the following season, reducing the growers risk on dump while improving production timing and flow.

The partnership opportunities are endless. There's no such animal as a one-size-fits-all or cookie-cutter partnership; each one must be established based on the needs, opportunities or strengths of each individual partner.

Are partnerships the panacea that will solve all of your sales and profit challenges? No, but they are an important tool that you can use to reduce your dependency on price value and establish strong relationships that can withstand competitive pressures from other growers that rely on the traditional buy/sell relationships. Through partnerships you leverage the strengths and capabilities of both partners, achieve mutual gain that you couldn't realize individually, and, at the end of the day, everyone wins, including the consumer.

Not a bad formula for 'what's next'... g

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