PITA: Your Daily Bread

Growing plants is relatively easy. Growing plant sales is not. At the 2013 Big Grower Executive Summit, attendees learned how to 'unlock some possibilities' for generating new sales.

BY KIP CREEL

The "green industry" is a mature industry. In short, this means that, over time, sales growth will track with the overall economy. Since the mid-1980s, the industry has had a demographic advantage and has grown faster than the overall economy – largely because the Baby Boomers became homeowners and bought plants. That advantage has dissipated and won't return for a decade – or longer.

There are a number of immutable laws for enterprises doing business in a mature industry:

- Slowing demand generates stiff competition.
- More sophisticated buyers demand bargains.
- There is a greater organizational emphasis on costs and level of service.
- Product innovation and new end-users are harder to come by.
- International competition increases.
- Industry profitability falls.
- Mergers and acquisitions reduce the number of industry rivals.
- Opportunities for a sustainable competitive advantage become more limited.

Within these parameters, the strategic options for competing in a mature industry boil down to the following:

- Prune your product line and become a specialist.
- Emphasize process innovation.
- Place a strong focus on cost reduction.
- Increase sales to present customers.
- Locate and engage attractive customer segments.
- Emphasize image differentiation or differentiation through complementary services.
- Purchase rivals at bargain prices.
- Expand internationally.
- Build new, more flexible competitive capabilities.

Turning Up the Volume

We are most intrigued by *increasing sales to present customers and locating attractive customer segments*. The framework discussed below suggests that leveraging these two options could yield greater sales volume.

Sales volume is a simple mathematical formula. Understanding the formula should help unlock some possibilities on how to generate new sales volume.

$$\mathbf{SoV} = (P)*(I)*(T)*(A)$$

SoV is shorthand for Sources of Volume and is derived by multiplying P, I, T, and A, where P is population, I is incidence, T is turns, and A is amount.

Let's break each variable down and examine the evidence.

Population (**P**)

New sources of sales volume can arise organically just based on growth in the number of households. The green industry benefited greatly as the vast number of Baby Boomers bought homes and started gardens. This natural household growth has subsided as the Baby Boomers aged and the replacement cohort, Generation X, was historically smaller (as a percent of the total population).

The financial crisis exacerbated the trend. Household formation slowed far below projections. Because of the weak job market for young people and their heavy debt loads, the predictable cycle of leaving the nest, getting married and starting a household was disrupted. With birth rates still declining, it could be several more years before the industry can rely on growth in households.

What if we looked at this "problem" a different way? Historically, the target customer for plant material has been owners of single-family dwellings with a yard. What if I told you this only addresses about 50 percent of all U.S. households? How would your innovation strategy change if we broadened the definition to "population" as all households or all people?

How could your product assortment change for apartment dwellers, kids and other under-represented target customers? If you are looking for growth opportunities, think about your target population more broadly.

Incidence (**I**)

Incidence is the proportion of the target population that has (or would) purchased what you are selling. The surprise to most is that fewer households purchase plant material than you might think, and the proportion of purchasing households has declined since 2002. According to the National Gardening Survey, only 42 percent of all households bought something with chlorophyll. Annuals are the most widely purchased plant (only purchased by 19 percent of all households in 2012).

What's up with the 58 percent that are not purchasing? Well, some may buy one year and not the other. Others are simply not in the category. I find it hard to believe that all 58 percent of non-purchasers are completely disengaged. Here's the rub: we really don't know why people don't buy plants and what proportion of that 58 percent can be influenced. We can make some educated guesses, but as far as I know there is no empirical evidence that tells us the reasons why people don't purchase.

In most consumer goods industries, non-consumers are constantly studied. In many cases, the barriers to purchase are fixable by tweaks to the marketing mix — new product assortment, price and place (distribution channel.) If the industry were to increase incidence of purchase by a mere 1 percent, this could translate into substantial dollars.

What are some things within your control that could potentially increase the proportion of households to buy? We have some thoughts:

New distribution channels: Not everyone goes to garden centers. The number of independent garden centers has declined and the number of new store openings for the "Big Three" (Home Depot, Lowe's and Wal-

Mart) is slowing. Those that do go to garden centers may only do so two or three times a year. Pop-up garden centers have been popular among some independent retailers for the past couple of years. A fast-growing franchise concept is the "Flower Tent." Where else do consumers shop where the occasion is conducive to plant purchases? The gum and mint industry is now experimenting with selling its products at Subway sandwich shops, which has nearly 26,000 outlets in the United States. What is the likelihood that someone leaving with a footlong BMT with double onions will pick up some gum or mints? I think pretty high.

Unconventional placement: Not everyone visiting Wal-Mart, Home Depot, and Lowe's step foot in the garden center. How many of these typical non-consumers could you convert into a sale if the right assortment were in a spot inside the store where they were more likely to encounter?

New claims and new benefits: Would some consumers be motivated to buy a plant beyond the fact that it is pretty? Research we've conducted certainly suggests this is the case. In fact, we conducted a two-hour brainstorming session with non-consumers to generate new claims and uses for plants. From this, we've created several new product concepts that showed strong purchase intent from those not in the category. We are also big fans of programs like O^2 for You and Plants of Steel developed by Costa Farms. Both of these programs do an incredible job of highlighting new claims and benefits in a very consumer-friendly manner.

Stimulate industry-wide demand: This is certainly an option for the industry. Significant money was spent on the Got Milk campaign. While per capita milk consumption was unchanged, significant consumption increases were seen in some target groups, particularly women interested in weight loss. Another client we work with that markets a commodity (energy) has evidence that its former marketing campaign stimulated incremental demand.

Turns (**T**)

Turns have been the lifeblood of the industry and are essential in a seasonal product category. But, turns are only one part of the total equation and must be weighed in the context of a smaller proportion of households in the category.

The industry has done a good job with branding, promotions and point-of-purchase materials that all serve an important role in raising product visibility, generating impulse sales and building consumer pull. Have we tapped out here? While much improved, I still believe that merchandising and retail presentation are the weakest links in the consumer journey.

The levers that impact the rate of turns are numerous and include price, merchandising support, location in the store, product assortment, product freshness, weather, retail staffing levels and more.

Are there new ways to display your products that increase shelf appeal and turns? Can we achieve high turns with specific items by displaying them in an unconventional manner? How can the product or packaging be enhanced to spur even greater impulse sales? What more can we do in bundling items?

Do new retail formats or channels of distribution help achieve faster turns than what is experienced in the independent garden centers and the "Big Three"?

Would there be a payoff if we staffed sellers in select stores? Costco and Sam's Club achieve incredible turns on products supported by in-store demonstrations.

And, do we know empirically the price points that simultaneously maximize turns and the overall profitability of the selling space?

All of the things mentioned here are within the industry's control and easily validated before a full-scale rollout.

Amount (**A**)

The final variable in the PITA formula is amount – or the price consumers (or merchants) are willing to pay. Raising prices is the obvious path to increased sales volume but is easier said than done. A defining characteristic of a mature industry is more sophisticated buyers demanding discounts and bargains. Sound familiar?

Study after study has shown that for many plants, consumer price sensitivity is low (within limits). From the consumer's point of view, what's the difference between $4.25 and $4.50? Not much. For growers selling millions of units, a 25-cent differential really adds up. On the flip side, that same 25-cent differential is a huge chasm for the merchant who has nightmares about a pricing response from a rival retailer.

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So, what are the options as they relates to pricing?

There is always some latitude in the unit cost of a product. As the industry consolidates and barriers to entry increase, the growers will gain more pricing power.

Oftentimes, value is added behind the scenes. That is, the supplier offers "off invoice" services that would justify higher unit costs on product: consignment selling, promotional support, logistical expertise, etc.

But, what are the ways consumer value can be added beyond the physical plant, pot or packaging? How might you charge more money for an item that gives Home Depot some distinctiveness over Lowe's, for example? Is there a way, perhaps something intangible that could be folded into the unit price of the product that increases brand loyalty or retailer loyalty?

Good examples are packaging and branding. Over the past 10 years there have been a number of successes in this area. In one of our brainstorming workshops, consumers were excited about a "water-me-now" sensor sold along with the plant. We're told the technology exists and our industrial designer projected the cost to manufacture and supply was lower than the value consumers assigned.

And, to what extent are people forgoing purchases in the category due to pricing? Is there a segment of the non-purchasing population, for example, that might be willing to spend less for a stripped down version of the product? There could be some product and price combinations we haven't even thought about.

Consumer Perception

Amid all of the changes in retail channels, consumer demographics and competition, the consumer has been amazingly consistent in what drives value for them.

In fact, we asked the same question in 1998 and again last year. Above all, the consumer values quality, garden performance, unique colors and shapes, help with reducing my fear of failure and new uses for plants.

The biggest change in that mix was new uses for plants. We've done some really cool brainstorming on this topic of new uses new claims and I think there is real potential for innovation. Even better: some of these ideas have appeal among those not in the category.

One last note: Notice that I didn't say consumers value unique varieties – they value unique colors and shapes. When the industry says "new variety" – in most cases this means the breeder has "tweaked a molecule" (my words) and created a new variant.

After hundreds of focus groups and in-store visits I've witnessed the following: you can show a group of consumers something that has been on the market for 10 years and half will consider it the most unique thing they've ever seen. Always remember that how you define "new" may not translate into "new" for the consumer. While I don't have any data (yet) to back this up, I'm convinced that some of "that 58 percent" don't buy because we overwhelm them. The true rock star plants that outperform the category are ones the consumer views as new and unique.

I now step off my soapbox. ■

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