THE DEVIL IS IN THE DETAILS...

BY STAN POHMER

Pay-by-scan is no longer a pipe dream, something to argue the merits of or challenge; it's a reality. Rather than grumble about it, we all need to make it work for the benefit of the supplier, retailer and, most importantly, the consumer…that's where the payoff is for all of us.

The rumors over the past 18 months or so about a major retailer implementing pay-by-scan on a chain-wide basis have been running rampant. Having seen the agenda for a November meeting scheduled by Home Depot with the marketing and finance decision makers of its key live goods suppliers from all over the country, it's a safe bet that pay-by-scan will be rolled out in its stores for Spring 2005. And if it works out at Home Depot the way it's envisioned, I foresee other retailers, especially the major mass marketers, incorporating this into their business models in a relatively short period of time.

Many of you will say that the pay-by-scan process is just another way for the retailer to shirk more responsibility onto the backs of the suppliers, forcing the ownership for the financials (including markdowns, shrink or stock shortage, whichever term you choose to use), the labor expense and the merchandising downstream. And, yes, many of these functions and activities will become the realm of the supplier. But is that really a bad thing?

If you think about this program in terms of the benefit this process can have on improving the consumer experience with your product, it really does make a lot of sense, despite all of the change and chaos it may create. And improving the consumer experience with the purchase and post-purchase experience…increasing consumer satisfaction…is the only way we'll build consumption of our products. It changes our perspective of looking at things strictly on a transactional basis and focuses more on building the relationship with the consumer. Intuitively and from real world experience, we all know that the payroll devoted to merchandising and display, care of product, inventory selection and turn, and product knowledge by the retailer is less than what's truly needed to maximize sales and ensure that the consumer is satisfied. Another challenge is, as chains get larger, it becomes more difficult for program management to tailor the assortment in each store that caters to their demographic, housing, usage and timing needs. And the commitment level of most store management and garden center staffs isn't nearly as high as yours because they don't have the same vested interest that you do. (Think of a breakfast of ham and eggs as an example…the chicken is committed to the meal, but the pig, he's really committed! No offense meant, but you're the pig in this example.)

WHAT IT MEANS TO YOU

By moving the responsibility and ownership for the product and the in-store consumer experience down to the supplier level, it is placed closer to where the commitment level is higher, where the vested interest is; this fact alone can have a major impact on sales and the potential for increasing consumption, both short and long term.

Because the supplier is only paid for his product that's scanned through the register and he essentially owns it until that point, he needs to develop new skill sets, such as inventory management and flow, merchandising and display, retail care and maintenance, and signage in order to facilitate the product movement, generate presentations with impact…in other words, everything necessary to drive the product through the registers…to protect his investment. He needs to hire and train in-store merchandisers to perform these functions. He also needs someone at the nursery who can monitor the sales by store in order to keep adequate inventory in each store of the right items and colors at the right time to capture all of the sales potential without incurring unnecessary shrink. The supplier will need to learn to think like a retailer; more importantly, learn to think like a consumer.

In this kind of environment, you'll need to learn how to manage risk/benefit to a greater degree than ever before…and at different levels. Identifying and having control of your costs were important as a grower, but it's even more critical now. You now have to factor in store service, transportation costs (you'll probably find that to maintain a viable inventory flow and minimize your risk, you'll most likely be making more frequent deliveries of lower quantities) and inventory shrink.

The upside in this scenario is that you'll have more control over your own destiny. Working within the parameters the retailer sets for you (i.e. bench space, ability to design outpost displays, bring in new consumer-friendly signage and labeling, etc.), you should have the ability to better control the varieties and inventory levels that will maximize sales; the product should be better maintained, and sales and consumer satisfaction should increase, building loyalty and repeat purchases.

WORKING TOGETHER

Pay-by-scan can work to the benefit of both the supplier and retailer if:

- the retailer and supplier agree to focus on consumer satisfaction value, not just price value;
- the retailer and supplier come to terms on compensating you for the incremental costs you'll be incurring. It's essential that you understand the "transferred costs" — costs for activities that the store performed previously that you'll now be taking on — and build them into your cost of goods;
- the retailer maintains the data integrity of the scan. In other words, every pot must be scanned through in order to record the item-specific UPC in the system, so you get paid. Unless you have item exclusivity, being the only supplier providing 4-inch annuals for example, you run the risk of the cashier scanning one UPC and hitting the multiple key for the other 4-inch pots; if there is product from two different suppliers and different UPCs, the UPC of the first supplier's product scanned will get credit…and payment…for all of the product in that transaction, creating an overage for one supplier and shortage for the other;
- the retailer has system integrity, meaning that all items are set up properly in the system (and maintained over time) so every product scan is captured correctly and triggers payment in their accounting system.

Pay-by-scan is no longer a pipe dream, something to argue the merits of or challenge; it's a reality. Rather than grumble about it, we all need to make it work for the benefit of the supplier, retailer and, most importantly, the consumer…that's where the payoff is for all of us. Personally, I truly believe that suppliers can make this program work to their benefit; nurseries that have piloted the program have already proved it. Yes, it will require you to develop new skill sets and areas of expertise, but this can be invigorating and exciting with huge potential to better control your financial destiny than ever before.

And even if you're not one of the suppliers where pay-by-scan is being implemented by one of your retailer customers, there's a lot you can learn from this process that can help you improve the way you bring your product to market, focusing on sell through at the register, not just delivering the product to the receiving gates.

Yes, there's a lot to learn, and the success of this program is definitely in managing all of the details, but what an opportunity this process can provide.

Just remember one thing…if the consumer wins, you win. GPN

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