AN OPPORTUNITY LOST

The demise of Franks: Why did it all happen?

BY STAN POHMER

> Franks never addressed its one fundamental issue...whether it was a chain of independent garden centers that offered a differentiated program from the mass marketers or whether it wanted to compete against the mass marketers and try to beat them at their own game.

On September 8, 2004 Franks Nursery filed Chapter 11 for the second time in a little over two years and announced that it will close all 169 stores by Christmas and liquidate all assets for the benefit of its secured creditors.

Ostensibly, Franks blamed this action on "a general weakness in economic conditions, a steady decline in customer traffic and unfavorable weather patterns causing a decline in all markets" resulting in sustained significant losses from operations. But was this really the reason for Franks' downfall? Not on a bet…these were just the proverbial straws that finally and inevitably broke the camel's back.

There are some lessons to be learned here that other retailers and suppliers can benefit from to prevent them from repeating and following Franks' ultimate demise — lessons that we all may intuitively know but refuse to acknowledge as realities until we see or experience the financial pain first hand.

GRAND PLANS

This 55-year-old company has had grandiose plans over the years, at one time desiring to be the first national chain of garden centers. But it never had the visionary management team to define the strategies and tactics to allow it to execute its lofty goals. Moreover, Franks was never able to truly define its position in an increasingly competitive marketplace where the big box retailers began to dictate the playing field that Franks was forced to operate in; it became reactionary, rather than choosing its own path.

As happened in other floriculture rollups (anyone remember USA Floral Products, Gerald Stevens or Sunbelt Nurseries?) where outside investors envisioned the opportunity to grow a broad base of operations that could benefit from consolidation and economy of scale, build up the financial multiples, take the company public and cash out — the reality is that our industry isn't conducive to this model. Differing regions, seasons and variables create an environment where a company must quickly react to market changes caused by inconsistent product supply and weather. And outside investors generally don't have the intestinal fortitude to accept the long-term view needed to sustain them through the ups and downs our industry experiences, so they implement knee-jerk reactions to the immediate challenges.

Franks reminded me of Sears, another company that has never decided what it wants to be when it grows up. The company seems to introduce the strategy de jour on a regular basis; when the latest one doesn't work, it just jettisons it and rolls out a new one. Consumers become totally confused and just end up going someplace else where, while the quality might not be the best, at least it's consistent. Franks went from being a garden center that carried some craft categories to a craft store that carried some garden products to adding a major pet strategy to a "home store" focused on home décor and decorative garden and back to a garden center…all in the span of 10 short years. And it wonders why the customer traffic declined?

DECLINING FINANCIALS

The investors reacted to the declining financials by changing senior management…Franks has had four CEOs plus an outside turnaround management firm in the last four years, each one of them with their own ideas on how to save the company. In the seasonal markets Franks operated in, primarily the Midwest and Northeast, it takes at least two years to implement a positioning program that projects a consistent image for the consumer to see and experience, but none of the past positionings were given the chance to achieve this. And due to the financial challenges the company was experiencing through all of this, the funds weren't available to fully make the changes necessary to completely implement any of these new strategies, upgrade the stores or re-focus its marketing message to the consumer. All Franks accomplished was "Band-Aid fixes" that never enabled the fundamental core changes needed for real change.

And through these transitions, Franks never addressed its one fundamental issue…whether it was a chain of independent garden centers that offered a differentiated program from the mass marketers or whether it wanted to compete against the mass marketers and try to beat them at their own game, a game Franks could never expect to win.

Franks had a golden opportunity to truly make a difference in the marketplace and build a consumer identity that wasn't based on price value. But now that opportunity is lost. Franks had some solid buyers and creative merchants that had the ability to help make this a reality, but senior management and the investors hamstrung their ability to make this happen.

LESSONS LEARNED

So what are some of the lessons to be learned from Franks' failure and the subsequent financial pain that its suppliers will suffer?

First and foremost, a company must know who it is, what position and image it wants to convey to the consumer, and then consistently deliver on this from an operations, marketing/advertising and program/product standpoint.

Senior management must have the vision, skills and support to truly lead the company, balancing the needs of the company with the financial demands of the investors and lenders so that strategies have a chance to succeed.

Franks reported sales in 2003 of $316 million or roughly $237 million at cost. Suppliers who had banked on these sales must now find new retailers to sell this volume to, and in many cases, the only way this will happen is by selling on price, further compounding the profit challenge they and their competing suppliers have been facing over the past few years.

Some suppliers got burned on receivables when Franks filed for bankruptcy protection in 2001. Yet some of these same suppliers still committed up to 60-70 percent of their production to Franks and will get burned again with this current filing! Difficult as it may be, suppliers need to find a way to broaden their customer base, reduce their dependence on any one customer, limit their financial liability and protect their profits, not being forced to sell on the merits of price alone to find a home for their products.

Franks' financial problems should not have been a total surprise to anyone, based on its financial reports. As a public company, Franks' sales and profit performance and tightened and more restrictive covenants in renegotiated loans were public knowledge in its SEC filings. Suppliers need to be proactive in studying the financial stability of their customers and make the hard decisions to limit their liability, even if it means selling less product to them. Sometimes the sale you don't make is the most profitable sale; having your back up against the wall and being forced to sell at distressed prices is a sure road to financial ruin — short term and long term…desperate situations breed desperate decisions.

Franks' demise isn't good for our industry; it puts more sales into the hands of fewer retailers, and suppliers will inevitably put more emphasis on selling their products based on price value — a practice that will further undervalue our categories and further challenge profitability. The liquidation isn't just a lost opportunity for Franks; it's a lost opportunity for our industry. GPN

Stan Pohmer is president of Pohmer Consulting Group, Minnetonka, Minn. He can be reached by phone at (952) 545-7943 or E-mail at spohmer@pohmer-consulting.com.