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By Stan Pohmer

Spring 2010: A Balancing Act

Unemployment is up (again), consumer confidence is down (still) and smart business practices are in order for both retailers AND their suppliers for the coming year. Are you prepared?

Retailers are becoming more risk averse and are either willing to fall short of their sales potential or rely on their suppliers to flow the inventory just in time, which minimizes their inventory liability.

As I was finishing up this column, the news came out that the unemployment rate had risen to 10.2 percent. Some of the so-called experts are trying to put a rosy spin on this by saying that the rate of job loss is slowing, but the fact remains that there's a higher percentage of people out of work than there have been since 1983. (The absolute number of unemployed far exceeds that of 1983.) Yeah, I know that the glass half-full folks will say that this means that 89.8 percent of the workforce is gainfully employed and have money to spend, but

the reality is that there are still too many people living hand to mouth and having problems paying their monthly bills and mortgages. And for those still employed, many are still unsure of their financial futures, resulting in low consumer confidence and a low propensity to start spending as they have in the past.

In response to hangover from the sales bloodbath during Christmas 2008 — where most retailers

ended up deeply discounting or dumping inventory purchased before the economic downturn, which resulted in pitiful bottom lines — and the recent track record of sluggish sales, most retailers anticipated that Christmas holiday sales would be weak in 2009 (the National Retail Federation is predicting a 4.5 percent decrease versus 2008, and that was a weak year) and brought in significantly less inventory. Their hope was that, if they kept inventory lean, they could avoid deep discounts as a sales driver and sell through clean with increased margins. However, with unabated rising unemployment, continued low consumer confidence and soft sales, the retailers' tea leaves are telling them that they should be nervous with this strategy, and it will take deep discounts to attract customers. And I've never seen so much jockeying to have the lowest prices as I have this year:

Sears has been running "Black Friday" promotions every Saturday since mid-October; Target and Wal-Mart are trading punches on who has the lowest-priced toys, books and DVDs. And the season is still young! One high-end supermarket retailer executive recently stated plans to match the food discounters because "I don't want to have to go find my customers when the recession's over and they start spending again on the value-added products we sell."

Learning From the Retailers

OK, so you're growers, and with the exception of poinsettias, you really don't rely on Christmas to drive a major portion of your sales. And many of you aren't retailers, so it's their problem, not yours, right?

Wrong!

There are lessons to be learned and things you need to consider as you look forward to your all-important spring season.

First, because of the high visibility and intense advertising that takes place during the holiday season, what the consumer sees and hears from retailers now carries over into our spring season. If it's a deep-discount Christmas, they'll tend to expect the same during the first half of next year; it's a conditioned psychological response to stimuli. We didn't cause the problem, but we'll have to live with it.

Next, though the advertising and promotion for the holidays start earlier and earlier each year, consumers are getting smarter: They make most of their purchases closer and closer to Dec. 25, knowing the retailers will start getting desperate and discount heavily to move their inventories. It's a classic game of "chicken," and consumers know that retailers are usually the first to blink.

All this game playing is having a major impact on how retailers look at inventory. The days of "I'll buy 10 percent over my plan, just to make sure I have it on hand if I beat my plan" are long over. Too many retailers had too much inventory left over post-Christmas and at the end of the spring season that cost their bottom lines dearly, and they've pledged never to be put in that situation again. More retailers are buying light, hoping they won't have to discount

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heavily to move through their inventory, and they're happy if they sell though early and leave some sales on the table.

And some will say that the days of "stack it high, and watch it fly" are also over; retailers are becoming more risk averse and are either willing to fall short of their sales potential or rely on their suppliers to flow the inventory just in time, which minimizes their inventory liability. They'd rather chase the sales based on what they're selling, rather than anticipating the sale and risking the markdown.

Considerations for 2010


If you don't have enough on your plate and need something else to ponder, here are a few things to consider.

1. Distribution and logistics will be key to your (and your retailers') success this year. Growers on pay by scan have learned that it's far more profitable to replace actual sales than it is to anticipate them, assuming you have seasonal builds to account for traditional sales patterns and weather. Even if you're not on PBS, you'll be better off acting like you are as far as inventory flow is concerned. This applies to both your independent garden center and big box customers alike.

2. Because some retailers might be a little gun shy about building inventories in anticipation of key weekends during the season, you might be able to entice them by guaranteeing them assistance in clearing any residual. I'm not suggesting you do this, but it's an option if you need to keep your inventory flowing. It may be more profitable for you to consider covering some markdowns to clear inventory than it would be to sell the product at an up-front discount.

3. This is the year to keep an eye on what's happening in your customers' stores. Be sensitive to how they're buying, their inventory levels and their seasonal promotional plans. The more you know about what they're doing, the better you'll be able to react and respond to their needs. You'll also be able to share your insights about what your other customers are successfully doing, hopefully to your benefit in maximizing sales.

This wasn't a great year, but we dodged a bullet and did better than we expected in this tough economy, primarily because we were blessed with better weather in 2009 than in spring of last year. Consumer spending won't be much stronger going into spring 2010, but I hope the weather will be on our side again. If we get a few good weekends under our belts early in the season, retailers might be less cautious about their inventory levels and start chasing sales.

I'm starting my prayers to the weather gods early this year... 

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