Will There Be Gain After the Pain?

In this time of economic uncertainty, one thing is clear: Change is coming.

By Stan Pohmer

Well, the economic pundits are now saying that the recovery in consumer spending won't occur until the second half of 2009, at the earliest. New home construction has come to a grinding halt, existing home sales are still slow and foreclosures still abound. Many of the problems stem from lenders tightening up on their loan qualification requirements, some are in response to current financial pressures and others are a bit of "hangover" from the sub-prime debacle, where the pendulum has swung from easy money to no money to loan. At some point in time, the pendulum will reach an equilibrium, but rest assured that I don't think we'll ever again see lenders offering up easy cash based on asset appreciation projections!

And individuals' lending challenges are also affecting corporate capital markets: Banks are asking harder questions about your current and future performance, and delving deeper into the company books as they consider loan applications for working capital. And unless they have a viable business plan, a sound approach to weathering the slowed sales trends and can demonstrate that they can turn a profit on a lower sales base, companies may find themselves more leveraged than ever before, having to pledge more assets to secure loans — if they can even find lenders to talk to them. This dilemma is widespread but even more pronounced for small businesses and those who don't have a lot of hard assets to offer up as collateral, or those with assets that are primarily perishable, such as agricultural growers, garden centers and retail florists.

Some say that this credit crisis will cause a shakeout in our industry, where some growers and retailers who were hanging on financially by their fingernails before the economy headed south won't be able to weather the current sales and credit downturns. Some say that this shakeout is a normal and expected part of all industry business cycles and can even be good for the industry (i.e., those able to survive will pick up the pieces and become financially stronger). Some say that a shakeout will take some production out, bringing supply closer to demand and positioning our industry to raise prices and, hopefully, profits.

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Sometimes, taking a step backward to re-analyze, restrategize and reposition can be a positive step for the long haul, but it's painful both to watch and endure because of the impact it has on people we know and do business with, especially friends and family. But tough times force us to make changes: changes in the way we operate, in our approach and position in the marketplace, and in how we relate to our customers. In good times, we all have a tendency to resist change and take the easy path of maintaining the status quo, but tough times don't leave this as an option.

An Opportunity to Refocus

I've talked with many growers in the past months, and I'm continually amazed that even those who thought they were lean and mean before have found new, creative ways to become even more productive and cost efficient. Some have done this through new equipment and mechanization, and some have achieved this through new processes such as lean strategies. Some have taken advantage of competition and taken redundancies out of how they do business, such as focusing on contract growing. And now that they've made the changes, they'll be even better positioned to leverage them when business gets better!

The one common denominator that I've seen in all the growers that have taken the initiative and become more creative (a move that was forced upon them in many cases) — taking this tough financial cycle as a challenge and mandate to change — is that, despite the cuts they've made to control costs and increase efficiencies, they've all either maintained or increased their focus on their customers. And those who are doing comparatively better than their peers are those who have learned that their customer isn't the retailer but rather the end user — the consumer!

Continue to Invest

Some lines on your financial balance sheets are hard costs: heat, light, energy, payroll, production inputs, facilities, etc. And in these areas, you look to reduce the costs and increase efficiencies and effectiveness to leverage your bottom line. There are other costs, however, that I view as investments, which will help make your products more saleable and make your customers and consumers more satisfied with their purchases, not only increasing sales, but building loyalty and repeat sales. These investments might be in marketing, such as improved plant tags and in-store signage, or in improved customer service and in-store merchandising assistance. It might be investing in the time and systems to better understand the end consumer where you sell your product at retail, so you have a better understanding of what products customers want, in what forms and how they use them. It might be in new inventory-management systems that will help retailers turn your inventory faster, providing consumers with fresher product and increasing point of purchase saleability, while reducing in-store shrink and payroll to maintain the products on the shelf.

Your Choice: Bend or Break

It's tough to think about investing money when you're cutting costs everywhere you can and are still having problems making a decent return on your businesses. But both retailers and consumers have choices on where they're going to spend their shrinking discretionary dollars. And today's consumers, many retailers and your competition are all focused on price value, something you need to account for. At the same time, consumers are looking for retail and product differentiation, getting the most comparative value they can for their buck. Companies that can offer this new value equation at competitive prices will not only survive the current sales crisis but are positioning themselves to capitalize and leverage for the future.

It's a challenge to think about the future while you're agonizing about the present. But if you believe that tomorrow's consumer will think differently than they do today, I think you're sadly mistaken. The changes in consumer purchasing psychology and behavior will be more permanent than we'd like to think.

Change is being forced upon you, like it or not. Use it to help you survive the present challenges, and reap the benefits in the future. I truly believe that you'll experience the gains after you endure the pain... GPN

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