By Ian Baldwin

Seeding PROSPERITY

In a tough economy, smart retailers do more than survive.

They thrive.

Strip centers, restaurants and furniture stores going out of business proves that recent growth depended on maximum employment, maximum spending and minimal saving. As demographer Kip Creel said, "Americans have spent five years using their home equity like an ATM."

It seems most of the world's businesses expanded built on a marginal economy. One sneeze and we all catch a cold.

The country's current financial situation will present challenges to garden centers—no doubt about it. One thing is certain: Many of today's managers and owners are in new territory.

So what can managers and owners do when they are faced with shrinking sales, falling customer count and rising costs?

A short, if glib, answer might be, "Don't panic, play to your strengths, don't sweat the small stuff. Work smarter, not harder."

Retailers should see this challenging year as a kick in the pants that will help them emerge stronger than ever for 2010.

Drawing on my experience of the 1980's both here and in Great Britain, the following strategies should prove useful to garden centers wondering how to chart a path in 2009.

First things first—do not panic!

Do not have a knee-jerk reaction and eliminate perfectly good programs, sensible buys, good employees and worst of all, marketing.

Keep spending. Don't stop all buying, as I know some companies have done already. The basic but brilliant concept of "keep buying what is selling" must always be in a buyer's mind.

For instance, I know one company that stopped plant buying and only had eight 6-inch cyclamen in the greenhouse in November, although their POS told them they sold 126 in November 2007. If you are out of "never-outs" no amount of other stuff they don't want will placate the customer.

Another retailer mothballed a partly built greenhouse extension that would have given them covered shopping for the first time in their 35 year history. Their business plan (approved by the bank) showed that, as it linked the store with the greenhouse, no extra traffic would be needed to justify the investment. Yet this spring it will sit there half finished like a 40- by 60-foot sign saying "We have no confidence in the future."

It's time to invest. In times like this people do funny things, like stopping training and conferences, including attendance at management improvement programs. Knee-jerk, across-the-board cutbacks like these restrict business opportunities and give a bad signal to customers and employees.

A big lesson from the past is to increase training and improve systems that would be key to a quick take off when things turn around. So please don't nix the ANLA Management Clinic in Louisville, Ky., or the product knowledge classes offered by suppliers. If the public is nervous about spending, product knowledge is more important not less.

Keep spreading the news

Keep spending your full budget allotted for advertising and marketing. After all, it is only around 3-4 percent of sales volume compared to the 50 percent or more garden centers spend on inventory. Consumers need to know you are still alive. Stopping marketing is the worst thing to do in a business where customers might not visit from July to the following April.

If you still use newspapers, there are good deals to be had. It is estimated that between 7,000 and 14,000 U.S. retailers will go out of business, so all media salespeople are anxious to make their own sales goals.

Budget to secure your funds

Talk to the bank about your upcoming spring. Despite recent incompetency at the top of the pile, regional and local managers are good at their job and a great resource for their customers.

Update your business plan. If you haven't updated your business plan lately, this is a great time to do it. Banks like to support companies that look and feel like winners. Just reviewing that annual budget, the sales forecast, the spreadsheet of labor needs and the cash flow forecast will be a good tool for management as well as the bank.

Challenge assumptions made in October 2008. Question the labor and purchasing model you have used every year since 2002. Just how

NEVER SAY DIE MARKETING

"Don't cut back on advertising!"

That bit of advice is served up by just about every business consultant on the planet. It's a great idea, in theory. But how does it pan out in practice? We talked with four retailers about how they'll be handing marketing in 2009.

Same strategy, tighter focus

Kimberly Bird, vice president, retail marketing. Calloway's Nursery, Texas

"We practice a layered approach to advertising. We will not cut any of our layers. The strategy has served us well with increased transactions in the past. We work to diversify our marketing efforts and investments in ways that achieve the best possible frequency and value in terms of ROI [return on investment].

"We measure our advertising efforts and use guided distribution—advertising efforts that fall into the top 80 percent of the results in terms of ROI we continue. Those that dip in the bottom 20 percent get cut and allocated to new tactics that fit within our strategy.

"In past years, we may have continued a program for an extra year even if it fell in the bottom 20 percent of the rankings. This year we won't. We'll only invest in the projects that measurably show a return."

More bang for the buck

Tim Hamilton, marketing director. Homestead Gardens, Davidsonville, Md. Marketing department chair, ECGC

"I think [marketing] is the last thing we'd cut. There are two reasons for that. First, it's never been more important to get the word out about your product. The second reason is other [retailers] that are more panicky will drop out. You'll have a smaller pool of advertisers. Your message is less likely to get lost in the noise. You're getting more bang for your buck.

"We're spending the same amount, but we're expecting more ... I've gone to my advertising outlets and said 'I want more.' I want better placement, etc.

"Also, this is not the time for image advertising. You need to have some deals. You also need to appeal to feelings, nostalgia. These are stressful times. You need to start using very emotionally driven copy in your ads, like 'Build memories' or 'Go back to your childhood.'"

Bidding tradition adieu

Lora Keddie, director of marketing. Al's Garden Center, Metro Portland and Salem, Ore.

"I'm reducing my traditional paid advertising spending (TV, radio, newspaper, magazine) by 20 percent in 2009. We are still going to use traditional paid advertising to generate new customers.

"Our efforts are in direct marketing to our garden rewards members via our quarterly magazine (Al's Bloom) and our weekly special e-mails. We've put a lot of effort in converting customers into our Garden Rewards Program this year. This will help tremendously in keeping our cost down in 2009.

"New in 2009, we are trying online advertising with a local news Web site. It's a 30-second video ad imbedded in the right side of some of their main content pages."

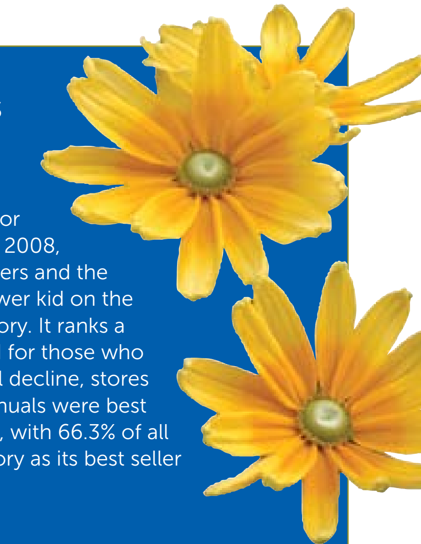
Riding the wave

Chad Harris, owner. The Garden Gates, Metairie, La.

"We have an extensive marketing program in place. We're running print, outdoor billboards, direct mail, TV and e-mail marketing. We're experiencing 20-25 percent growth and seeing historic sales.

"I think that it takes incredible business skills to manage this environment ... It's a simple recipe of good, old-fashioned hard work, creative thinking and using technology."

—*Sarah Martinez*



BEST SELLING PRODUCTS IN 2008

Plants sale were up for retailers all over the country, even for stores that underperformed in 2008, according to our Garden Centers and the Economy survey. The new power kid on the plant block is the edible category. It ranks a strong second to annuals. And for those who are predicting that annuals will decline, stores reported just the opposite. Annuals were best sellers for most of the country, with 66.3% of all retailers naming a plant category as its best seller in 2008.

1. Annuals
2. Edibles
3. Perennials
4. Trees
5. Shrubs

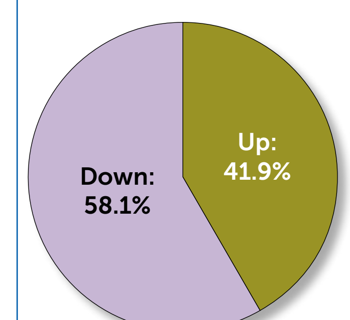
2008's under performers

Trees and shrubs led off the list of most surprising poor performers for 2008. A third plant category, perennials, also made the short list, coming in at No. 5. Items that did not make the top 5 but had a strong showing include high ticket items and garden furniture.

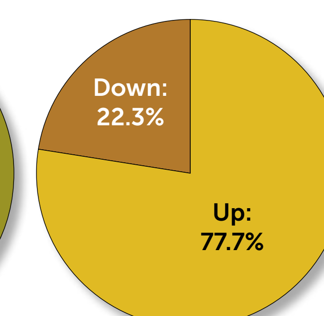
1. Trees.
2. Shrubs.
3. tie Statuary and fountains.
 Pottery.
5. Perennials.

* From Garden Centers and the Economy survey, Nov. 2008, 428 respondents

ARE 2008 SALES UP OR DOWN COMPARED TO 2007?



ARE 2008 SALES UP OR DOWN COMPARED TO 2000?



* From Garden Centers and the Economy survey, Nov. 2008, 428 respondents

many hours do you need to hire in March? How many days supply of potting soil should we have on hand when the suppliers' warehouse is 40 miles away? When should you really switch your open-to-buy from spring-fill mode to summer re-order mode? Which suppliers are extending payment terms and how will that affect July's cash flow?

Make 2009 the year of cash. If you shorten up the buying-selling cycle by buying what sells and reducing long term buys, you can shorten your borrowing cycle, reduce your interest expenses and keep cash available for those deals out there.

Because so much is spent on inventory and labor, savings here can enable a good operator to actually make money in 2009. Although margins may suffer overall, deals are to be had if you have the money. The same applies to labor. One veteran from the late 1980s told me that those years were his most profitable to date.

Sweat only the big stuff

Never forget that 65-75 percent of all sales income goes out on only two categories: inventory and labor. Think about that; a 10 percent saving on inventory equals the entire ad budget. A few percentage points saved on labor can buy that truck the desperate dealers are willing to all but give away.

Worry about the big stuff. And don't waste time on the small. Cheaper office supplies may be out there, but have no effect on the big picture and are not worth the effort chasing them.

Labor costs in most garden centers have climbed quicker than sales over the last few years and are now out of sync with profitability models. Unfortunately, something has to give. Sure it can be argued that "service" is the prime reason for being in the garden center business, but the recession facts of life revolve around supply and demand.

Make the tough decision. Labor is now plentiful and demand weak. It is a sad but important thing to say that employees will have to be prepared to reduce their own expectations, either in pay rates or hours worked. Be honest and open with your team. Worried, uninformed employees don't make the best retailers.

Ten percent less of a labor budget will buy the smart new bedding plant tables or that new sign program to help customers find their way around. Why would you delay installing that?

In the 2001 dot-com bust, only one search engine out of five survived. According to its leaders they did so by, "Cutting early, cutting deep," as everyone else told themselves it was a temporary blip and the next quarter would see an upturn.

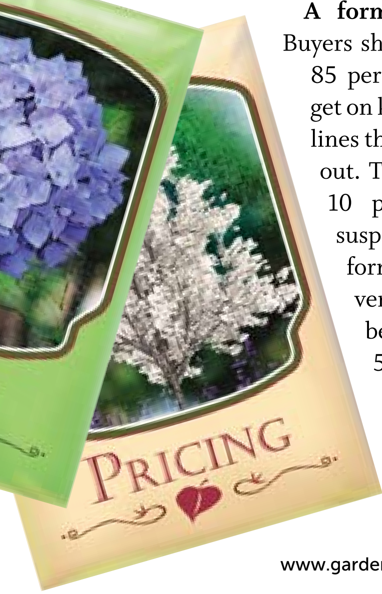
WHAT IS WORRYING GARDEN RETAILERS

How consumers will react to the economic climate is by far the greatest concern for garden retailers, with 43.3% of retailers citing this as their greatest worry attitudes by far (second runner up, how long lasting and how deep with the crisis be, is mentioned by only 8.7%).

This portion of the survey was an essay question, with no prompts other than asking about retailers greatest concerns.

1. Consumer attitudes.
2. Duration and depth of crisis.
3. Overhead costs.
4. Political impact (taxes and bailout, for example).
5. Access to credit.

* From Garden Centers and the Economy survey, Nov. 2008, 428 respondents



Buy smarter, keep inventory nimble

It's time for a major shakeup in how your store buys product. One hard learned lesson is that inventory reduction must be driven from the top down. Buyers are too close to their products to be objective and too close to their suppliers to be cruel.

This year will be all about turning inventory and cash—which means you need to forget that 55 percent gross margin target. Smart operators will invest that cash quickly into more known sellers, not hopeful or whimsical items.

Make POS work for you. Retailers have to use their POS data to maintain discipline. Apart from "never outs," buyers have to eliminate lines that clearly don't pay for their space. I believe that many garden centers could reduce SKUs by 20-25 percent without damage to sales or reputation.

Over the last few years inventory has become bloated on a vertical basis—more choice of lines, brands, sizes or styles—and a horizontal basis with the additional of new departments (such as jewelry or clothing).

Some of these departments made good money and helped growth, but those days are gone for a while. It is time for garden centers to return to core activities and do what they do best. There is even a case for increasing inventory selection in things like vegetables, fruit trees, herbs and so on. If you are looking for a new department these days, swap the handbags for a fresh farmer's market.

A formula that works. Buyers should aim to spend 85 percent of their budget on known, guaranteed lines that sell year in, year out. Then allow another 10 percent for those suspected good performers (e.g., a newer version of an existing best seller) and only 5 percent on what I call "whimsy." If you don't carry them you look out of touch, and may miss an opportunity. If it sells, that's frosting on the cake. If it bombs, mark it down and call it experience. Your margin on the 85 percent can cover this possibility.

Negotiate with suppliers

We all know there are lots of suppliers with lots of stuff. These suppliers also have payroll and loan payments to meet and should be prepared to work with you. Press them for better dating or finding those co-op dollars they quietly phased out when things were humming along.

Demand more frequent delivery and buy what will sell in a few days or weeks. You will see who wants your business.

A buyer's loyalty must be to the company that employs him or her, but don't burn big bridges. Vendors are people too, and when trade picks up you still need a relationship with your main suppliers.

Merchandising—show confidence

Projecting lots of self-confidence in advertising and store cleanliness (don't stop painting walls!) is a given, but inventory confidence is equally important. If you carry 20 percent fewer SKUs, reduce space accordingly. Make it feel full and fresh with wider aisles and more spacious displays. Screen off empty beds with walls of conifers, reduce store space with screens of big displays. Make the space fit the reduced inventory, but keep it looking sharp. When customers sense a struggling store they expect nothing but bargains.

Pricing—be realistic

The public is cautious, so you must have realistic pricing in a back-to-basics year. Don't greet your customers with your most expensive fountain or moss basket. If your cheapest shrub is a 2-gallon at $29.95, you will be seriously out of step with most of the public.

Promote "Credit-Crunch Prices" with a reduced selection of starter plants (e.g,. simple 1-gallon sizes), find deals and over-runs to pass on. Always have something on sale. It won't be hard to find plants this year to offer volume buys like "4for the price of 3," or as I saw in Home Depot recently, "1-gallon shrubs 5 for $10."

Image—be lean, not mean

Ask yourself, "Does cutting this cost, impact bottom line and/or core image?" To trim excess spending is smart, but don't appear to be mean and uncaring to customers. (For example, airlines removing blankets from planes equated to minimal savings but a big "mean" message.)

Attitude—be positive

Consumers don't want negativity; they want assurance and calm. Your nursery is their oasis. They don't need your stress. Employ only positive people; get rid of the Negative Normans, but remember that positive attitudes must start at the top!

CHECKLIST OF KEY POINTS

- ❑ Saving small percentages on large categories can pay for essential programs to continue.
- ❑ Train, train, train.
- ❑ Don't shoot the marketing dept!
- ❑ Keep close to your bank.
- ❑ Negotiate with everyone.
- ❑ Reduce SKUs by at least 20%.
- ❑ Always have something on sale.
- ❑ Keep up on maintenance.
- ❑ Reduce the footprint, turn things quicker.
- ❑ Stress local, community, serenity and healthy.

Be local

This year may be a bit of a turning point toward community, and who better to suggest fun, health and wellness in your own community than a garden center. If you have space, offer it to local organizations for meetings. Create or expand a school program with a focus on growing easy veggies, or attracting birds or butterflies (see www.NWF.org). Promote vegetables, fruit and herb with clinics, speakers and tastings. If you are up for the challenge, convert some of those back acres to a community garden.

Be calm—keep the faith!

The United States has 304 million people who have to look at their garden or patio every day. Your garden center can be the public's retreat, inspiration and community leader. When corporate America cuts jobs and closes plants, your team will still be there smiling for the public. Your hanging baskets will still be gorgeous and your tomatoes still deliciously healthy!

About Ian Baldwin

Ian Baldwin, a garden industry leader for more than 30 years, developed popular programs "T.L.C...Think Like a Customer," "Different Times" (new for 2009) and Garden Center University (GCU). GCU is an in-depth three year course focusing on business concepts and is co-sponsored by American Nursery & Landscape Association (ANLA). Baldwin is best known, perhaps, as a garden retail consulant and regular columnist for Garden Center Magazine.