Managing your market response

How smart nurseries can prepare themselves to meet consumer needs in 2010

As this display at Bauman Farms in Woodburn Ore. demonstrates, retail displays that incorporate larger items to complement smaller items are effective at moving product at a time when customers have scaled back spending. Even if the larger material isn't selling as well, it can still stimulate the customer's imagination and provide a boost to more affordable material in smaller containers.

By Robin Cross

The 2009 selling season posed some of the greatest industry challenges in decades in terms of eroding demand, excess material, and falling prices.

The 2010 season could offer improvements for some, but will not treat all growing and marketing channels in the same way.

This article breaks down a few of the 2009 sales drivers and explores what they can tell us about 2010 and how we can prepare for the changes.

Our industry is unaccustomed to, and more than little a dubious of, traditional "economic forecasts," and rightfully so. We collectively represent a mind-boggling diversity of varieties, production practices, and marketing channels. A lack of high quality histori-

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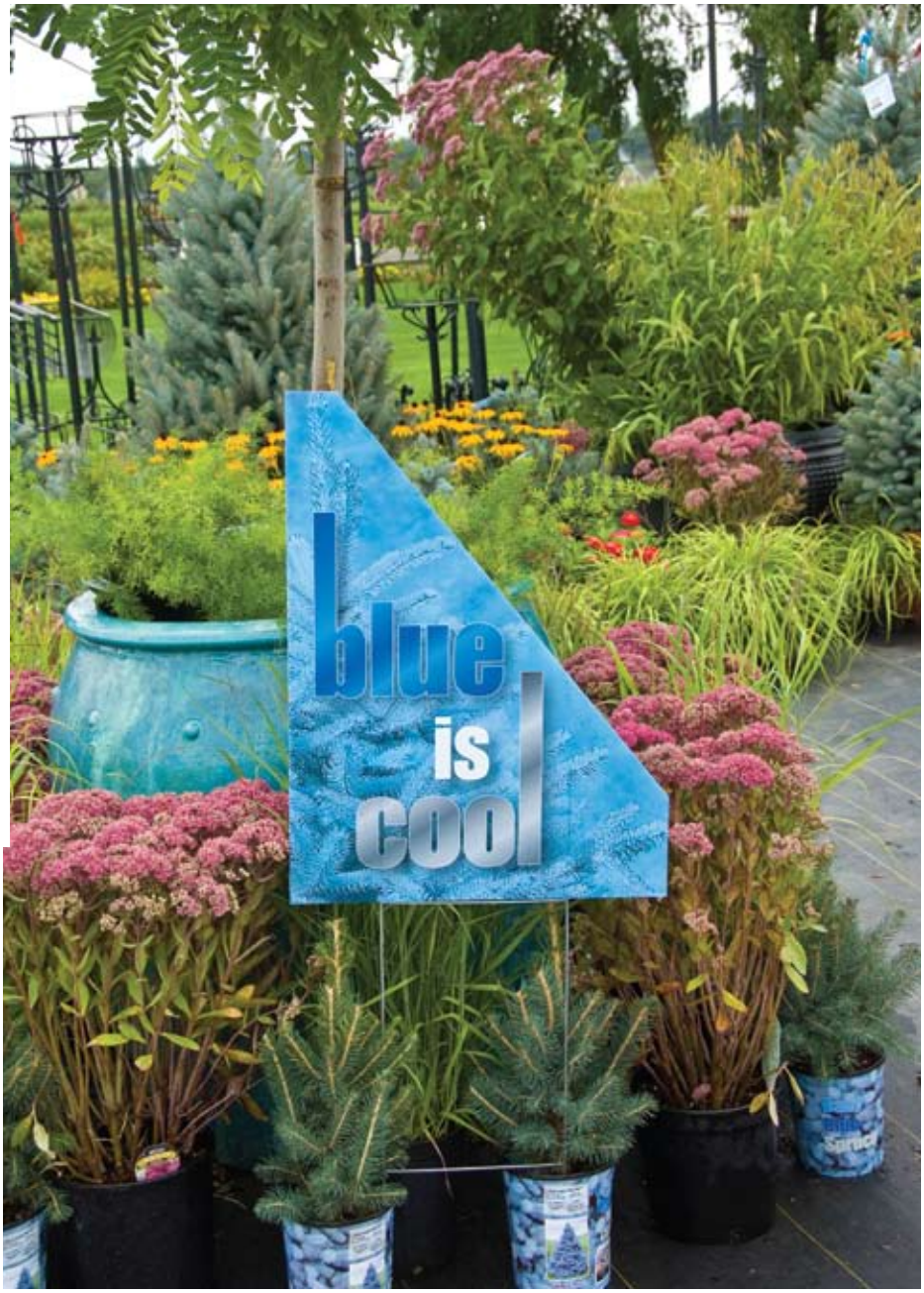

Another sound strategy for dealing with an uncertain economy is to strengthen the partnerships between wholesale growers and retail nurseries. One example would be the "Blue is Cool" campaign by A & R Spada Farms Inc. of St. Paul, Ore. to promote its Baby Blue™ Colorado blue spruce (*Picea pungens*) cultivars. Ferguson's Fragrant Nursery, also of St. Paul, used the branding in this retail display.

cal data has rendered detailed analysis nearly impossible.

Adding to this challenge is the complex interaction between weather, shifting consumer preferences, and the introduction of exciting new varieties through which the industry reinvents itself each spring.

To overcome some of these challenges, Oregon State University has undertaken new efforts to track nursery sales and pricing through new data and analysis. This offers a fresh look into what drives sales and how we can respond to the upcoming changes.

What happened in 2009

The past year demonstrated how a recession can impact rewholesale marketing channels differently than retail channels. Driven by the free-fall in home prices, employment, and the stock market, declines in bare-root and rewholesale business pushed overall

nursery sales down 14 percent in 2009 (Oregon State University Extension Service, *2009 Oregon County and State Agricultural Estimates*). While this was less severe than the 17 percent decline in 2008, it marked the first two-year consecutive losing streak in decades.

The breathtaking destruction of household wealth convinced consumers to cut back on landscaper and contractor services, both players in the "do it for me" economy of the late 1990s and early 2000s. As consumers returned to gardening, a steadfast "do it yourself" activity, some of those lost dollars returned to the industry through local garden center sales, according to preliminary OSU marketing research.

In contrast to rewholesale weakness, retail plant sales in the Western U.S. saw increases from 10-16 percent over the prior spring in many areas. The unusual breakout temperatures and drier skies seen over much of the Western US in 2009 accounted for almost half of last year's gains.

Those gains will be a hard act to follow. Flagging consumer confidence kept would-be gardeners closer to home. Sales gains moderated somewhat over the fall, however, as above average temperatures and the higher priced fall offerings dampened consumer enthusiasm for the fall planting season in a number of areas.

The forecast for 2010

It would be foolish to try to predict the many economic and climactic conditions that will drive sales throughout the coming year. Who can tell us how many first time homebuyers will be approved in Reno this year? Will it rain in Seattle on Mother's Day? For that matter, what will the stock market do tomorrow?

It would be equally foolish, however, to ignore the dramatic economic changes that have occurred since the dark days of last spring. Many areas of our economy, such as home sales

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and the stock market, have moderated. Other areas, such as business credit and employment, are still deteriorating or have stabilized at historically low levels.

Ultimately, the only sure forecast is the three-way split: up, down, or stay the same. The winning business will be ready to respond quickly and concretely to each of these directions:

Stay the same – Household sentiment has improved materially since last spring. These levels should be welcome news for landscapers and contractors, adding 6-12 percent, but a little disappointing for retail channels, taking away 3-5 percent.

Especially good for landscapers is the rebound in consumer confidence and retail sales, driven in part by an improved stock market and home sales environment. These positive developments, however, could dampen some of the recent enthusiasm for edibles and the lower price point "value" items at retail garden centers.

Factors that erode consumer purchasing power, hurt both retail and wholesale, but less so retail. These factors include credit card interest rates, fuel for heating and transportation, and local unemployment.

Up – More good economic news generally translates to greater improvements in the rewholesale channels, but stronger headwinds for the recent home gardening resurgence.

A recovery in new home sales, like the ongoing recovery in existing homes, would lead to a more noticeable shift toward the contractor and landscape markets. In contrast, a rising jobs tide could certainly lift both retail and rewholesale.

Down – The greatly feared double-dip recession, while devastating for households, local governments, and contractors, could further boost home gardening. Take blueberries. Some worry that last year's strong sales satisfied demand. Others insist that the peer-to-peer marketing cycle ("You grew these yourself!") has just begun. Some recessional risks, particularly inflation's

impact on fuel costs and interest rates, have the potential to hurt both marketing channels.

Quick response strategies

We cannot control the economy or spring temperatures. Prepared businesses, however, will respond more quickly and effectively through utilization of high-frequency point-of-sale data, now common in the industry. OSU has been engaging growers and retailers to test new programs and computer modeling systems that improve inventory efficiency and help minimize stock-outs.

In terms of management, here are some possible steps you can take:

First, optimize price points to increase revenue from the existing sales mix. Thanks in part to the "value pricing" adopted by many growers in response to swelling production inventories, some offerings have fallen into "inelastic" pricing territory.

From here, a modest price hike would not dampen demand significantly and can increase overall revenue, wherever competitive pricing allows. In other cases, higher priced items now feel out of reach to worried consumers. Lowering price points slightly can boost demand enough to raise overall revenue and actually improve gross margin turnover (the rate at which a plant's sales generate gross profit for the retailer or grower).

Second, reexamine the changing roles of complementary (assisting) items and substitute (competing) offerings. Identifying complementary items and keeping them in stock can provide affordable "systemic promotion." For instance, a higher-priced flowering 5-gallon item may no longer sell well, but may showcase the less expensive the #1's, #2's, and even smaller sizes in the same variety.

At the other end of the spectrum, consistent pricing among substitute offerings can avoid cannibalization within the product mix. For instance, that outddated blue-green *Thuja* priced $3 below the hot new green-blue *Thuja* may discourage sales of the higher priced offering. Equalizing prices can sometimes allow both items to sell well.

Third, strengthen partnerships between growers and retailers to monitor and replenish inventory. Who else but the grower knows what looks fabulous in their greenhouse? And, only the retailer can know what their customers are clamoring for and buying today, and what will or should be on special tomorrow.

In the past, these two information sets have often been separate, at great cost to both. Without visibility into the nursery, busy retailers may focus on keeping core offerings in stock, leaving many attractive items unordered.

Similarly, without visibility into the retail performance information, growers may suggest top available items, resulting in too much or not enough of what is selling. New approaches to information, however, have begun to change that relationship.

Greater visibility within operations, with the help of computers, allows both parties to see the same trends and arrive at similar suggestions. Simply not running out of a few blooming items on those beautiful Thursday afternoons in April can add a percent or two on the season. And, holding back a week on a few loads can help keep inventories fresh and affordable.

A recovering economy and favorable weather conditions could help embattled rewholesale markets and begin to clear the downstream plant pipeline.

No matter which way we go from here, big economic changes will require growers and retailers to respond faster and better than ever to our customers. The rapid evolution of information technology can be challenging and intimidating, but if we use it to work together towards meeting consumer needs, we will all benefit.

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