STOP THE INSANITY

What are we thinking?
Are we sacrificing short-term gain for long term disaster?

BY STAN POHMER

In the upper Midwest over Memorial Day weekend, a major home improvement chain ran an ad for 10-inch annual hanging baskets for $4.99. And the quality wasn't bad or much less than what was available regularly for $8.99; in fact, a lot of what I saw was actually better than what was normally carried. And part of the reason it looked better was it was being sold right off the racks coming off of the trucks, so it didn't get a chance to get shop-worn or wilted for lack of water or being merchandised in the wrong locations of the store (shade varieties displayed in full sun in front of the store). Now I might have chalked that up to a one-time "blow it out the door" weekend promotion or a buyer's one-time temporary insanity, but they were still available 10 days later at the same ridiculous price!

Next item…last year one major national supermarket chain ran a dozen roses with filler at $6.99…an incredible (and too low) retail pricepoint. One of its major competitors perpetuated this insanity by going out at $5.99 a dozen shortly thereafter. Now the original supermarket chain wants to retaliate with a $4.99 a dozen promotion!

MAKING MONEY?

You do the math. I seriously challenge whether any supplier can be making money at the price they're receiving on these promotions, even without factoring in the operational costs such as freight (they had to have rented more trucks to get that much product out to all the stores simultaneously), manpower (yes, I saw the vendors' reps servicing the product in the store, setting up displays, watering the product, making and hanging signs, answering customer questions, etc…think of the overtime they had to pay) and availability rotations (it must have impacted production schedules to come up with the quantities needed to support this promotion).

And I seriously challenge whether the retailers really made enough margin to cover the ad expense and operational costs (in the stores I was in, the home improvement retailer had hired an off-duty police officer to route traffic and had people checking receipts to make sure that everything was paid for because they had most of the product displayed on the parking lot side of the registers).

Did these two promotions create a stir and lots of shopping activity? Absolutely! But was it really worth it? Let's take a look at some of the factors that need to be considered just on the retailer's side.

PROMOTIONAL FACTORS

Let's assume that the hanging baskets normally retailed at $8.99 and they made a 25 percent initial margin (purchase order margin before factoring in shrink and other markup reductions) or $2.25 initial margin on each basket. Knowing what some of the growers charged for the promotional baskets retailed at $4.99, the retailer realized an initial markup of maybe 5 percent or $.25 per basket. Selling the baskets at a 44-percent sale discount, did the retailer move at least double the units he normally would have sold at 8.99? No doubt in my mind, so the increased unit velocity more than offset the lesser retail pricepoint. But did they sell at least nine times the units? This is the minimum they'd have to have sold to generate the same initial margin dollars. Add the increased operating costs to manage the promotion, and I'd wager they maybe broke even on the profit side…not making anything, but not losing either.

And we can paint the same picture on the rose promotion scenarios. Okay, so they at least covered their sales at the lower retail and didn't lose any money on the promotion. Some might call this a short-term gain.

What's the downside? Two major concerns. First, we all know the retail environment is hostile right now, and retailers are fighting tooth and nail to generate the same or mature store increases and protect market share. And, yes, I remember the old adage that sales volume cures all ills. But this only works if the increased sales can generate operational, distribution and logistics savings that can be favorably leveraged against the reduced merchandise profits so that the net profit dollars positively contribute to the company's bottom line. With today's stockholder's performance measured and demanded environment , there has to be a balance between sales and profit.

The second concern is longer term…what's the impact on perceived price perception in the consumers' minds? What these promotions have done is plant the seed in their minds that the retailer must be making money at the very ➧

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low promotional price points or they wouldn't be doing it, so therefore the baskets are only really worth $4.99 and the roses are only worth $5.99; we've cheapened the value of our products. When the retailers go back to selling at their regular retails (which they'll have to do eventually or they won't be in business much longer), the consumer perceives that they are gouging. Consumers are victims of habit, and they are not stupid...they'll wait or buy less at the regular retail waiting for the retailer to respond to lowered sales volumes with more promotions at ridiculously low prices to drive the sales volume back up. Can our industry profitably grow over time with this kind of pricing strategy? The math simply doesn't work.

WILL IT WORK?

We've talked for years about the commoditization of our industry, and none of us like the long-term prognosis of operating in this kind of marketplace. Price becomes the absolute driver of sales, rather than all of the intrinsic reasons consumers should be purchasing plants and flowers. But we're doing it to ourselves with promotions like this.

What are the growers and producers thinking when the buyers ask for or demand the prices that drive these insane promotions? When are we going to stop just trading dollars and either say "no" or develop promotions that add value other than price? I know...if you say "no" there are 10 others that will jump at the opportunity. We've created a monster and have to live with it.

Maybe...when the economy gets better, when retail competition becomes more rational, when we start looking at things long term, when pigs fly...we can get off this runaway freight train. When you sell your products based on the merits of price alone, you put yourself at the mercy of your dumbest competitor.

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