Mass Market, Supermarkets and Locally Owned Garden Centers

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Realities...

Preparing for Rising Food/Gas Prices If Salary Stays the Same (9 of 10)

<table>
<thead>
<tr>
<th>Planned Change</th>
<th>% of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Only buying necessities</td>
<td>70.50%</td>
</tr>
<tr>
<td>Driving less</td>
<td>63.40%</td>
</tr>
<tr>
<td>Spending less on clothing</td>
<td>58.90%</td>
</tr>
<tr>
<td>Comparison shopping</td>
<td>53.10%</td>
</tr>
<tr>
<td>Sticking to a strict budget</td>
<td>50.00%</td>
</tr>
<tr>
<td>Buying more store brand/generic products</td>
<td>9.90%</td>
</tr>
<tr>
<td>Spending less on groceries</td>
<td>42.00%</td>
</tr>
<tr>
<td>Nothing</td>
<td>6.60%</td>
</tr>
</tbody>
</table>

Source: American Pulse Survey, June-2011
Realities...

Currently Cutting Back on Weekly Expenditures

<table>
<thead>
<tr>
<th>Annual Income</th>
<th>% of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; $6,000</td>
<td>75%</td>
</tr>
<tr>
<td>$6-&lt;12K</td>
<td>73%</td>
</tr>
<tr>
<td>12-&lt;24</td>
<td>76%</td>
</tr>
<tr>
<td>24-&lt;36</td>
<td>74%</td>
</tr>
<tr>
<td>36-&lt;48</td>
<td>68%</td>
</tr>
<tr>
<td>48-&lt;60</td>
<td>66%</td>
</tr>
<tr>
<td>60-&lt;90</td>
<td>62%</td>
</tr>
<tr>
<td>90-&lt;120</td>
<td>57%</td>
</tr>
<tr>
<td>120-&lt;240</td>
<td>54%</td>
</tr>
<tr>
<td>240+</td>
<td>48%</td>
</tr>
</tbody>
</table>

Source: Gallup Daily Tracking, 9/2010-May/2011

Realities...

Consumer Confidence = propensity to buy/not buy
Realities...

- 3 out of 4 Americans (75.7%) have little or no confidence that the government’s economic policies will get the economy back on track while 24.3% say they are confident or very confident.

- Confidence was at its lowest in March (21.5%), and has been steadily declining since June 2010 (31.2%).

Source: American Pulse Survey, June-2011

Realities...

- 43% of consumers say that the Recession has had a positive effect on their personal lives
  - ‘forced’ them to re-think what’s important in their lives

- 78% state that they are ‘happy’ with the way things are going in their lives
  - Seems contradictory, but validates the new consumer mind-set.
New Behaviors Driven By...

- Destruction of wealth
- Rationalization of assets
- Reduced credit/lending
- Reduced real income
  - Health care costs
  - Retirement/pensions
  - Inflation/costs rising faster than wages

Changing consumer attitudes and behaviors...the new normal?

- Learning to live within their financial means
- The ‘age of frugality’
  - It’s chic to be cheap
  - intensified value focus...price driven
- New value system is driving consumer thinking and spending
- Challenging the what/why/where’s
Behaviors...

- Value conscious
- Seeking low prices/deals
- Reduced discretionary spending
- Trading down
- Limiting trips

Consumer attitudes...

- More traditional
- Wants life to be simpler
- Back to basics
- Spirituality
- Desire to become more rooted
  - Sustainability, earth-friendly
- Less conspicuous consumption and more WIIFM, satisfying inner self
  - Things that provide personal meaning, are more consequential in their lives
Changing consumer behaviors...the new normal?

- **Trading down**
  - **Product**
    - 'good' is good enough
    - Compromising
  - **Venue**
    - Value conscious retailers
    - Shared values
  - **Scope of purchasing/project**
    - Increased frequency, lower transactions
    - Fewer trips, one stop shop

### Demographic Stats (2010)....

<table>
<thead>
<tr>
<th>Age</th>
<th>0 thru 9</th>
<th>10 thru 28</th>
<th>29 thru 45</th>
<th>45 thru 65</th>
<th>65+</th>
</tr>
</thead>
<tbody>
<tr>
<td>Label</td>
<td>Y</td>
<td>X</td>
<td>Boomer</td>
<td>Senior</td>
<td></td>
</tr>
<tr>
<td>% of Population</td>
<td>19</td>
<td>27</td>
<td>20</td>
<td>26</td>
<td>13</td>
</tr>
<tr>
<td>% of Households</td>
<td>6</td>
<td>36</td>
<td>38</td>
<td>20</td>
<td></td>
</tr>
<tr>
<td>% of Spending</td>
<td>4</td>
<td>37</td>
<td>42</td>
<td>15</td>
<td></td>
</tr>
</tbody>
</table>
Demographics...

- Younger markets, stressed resources
- Diversity

Communicating, Connecting and Socializing...

- **Social revolution**
  - Communicating with one another
  - Interacting
  - Socializing
- **Instant knowledge**
  - Access to information
  - Instant gratification
  - Access to...company info, products, pricing, availability, user feedback
  - Expectation that the salesperson knows more than the consumer does
Trust and Loyalty...

- **Trust:**
  - Old: personal experience built over time
  - New: peer feedback reliance

- **Loyalty:**
  - Old: permanency, forgiving
  - New: transitory; only as good as your last experience

Financial Reality...

- **Consolidation of suppliers and retail venues**
  - Weather
  - Sales
  - Profits

  - Operating at break even or loss can’t be sustained forever...
### Financial Reality...

- **Smaller footprints at retail**
  - Walmart
  - Best Buy
- **Adding services to offerings**
  - Lowes (DIY vs. home improvement company)
  - Locally owned garden centers

### Financial Reality...

- **Squeezing the middle from the top and the bottom**
  - Higher end/luxury and dollar store/limited assortment price retailers
    - Walmart dilemma
Home Improvement Channel...

- DIY vs. DIFM or DSOIFM
- Project based solutions provider
- Reliance on vendors to be information providers
- Adding new services

Supermarkets...

- Price focus
  - Runs counter to some chains’ philosophy in other service departments
- Payroll challenge
- They have the traffic!
  - Challenge is how to convert the traffic to floral sales
Locally Owned Garden Centers

- Forced to operate as businesses
- Value proposition and establishing/communicating points of differentiation
- Adding value-added services
- Weather has more impact on sales than the economy, especially for annuals
  - Forced consolidation of retailers and supply partners
  - Woodies and trees more impacted by new and existing home sales (or lack thereof)

Return on Involvement...
QR (Quick Response) and Microsoft Tag Codes

QR Codes...

- Major opportunity to instantly communicate with consumers at point of sale who need more information than current labels/signage can provide
  - consumer publications
- SMART phone app readable
- Links to websites, YouTube video, text, photos, social media sites
- By 2012, 50% of US consumers will have SMART phones
  - Especially important in communicating with Generation Y/Millennial demographic segment!
- Tell the story!
QR Codes...use your imagination!!!

• http://qrcode.kaywa.com/
• http://www.beqrious.com/generator
• And many more...

QR Code Generators- ....How is it accessed?
Needs...

- Improved brand management
  - Expectations
- Delivering outstanding customer experiences
- Differentiation aimed at avoiding price competition

The Two out of Five Theory of Resource Allocation...

2006 AlixPartners Consumer Sentiment Index:

- **Price**: key finding-*honest* is more important than *lowest*
- **Product**: key finding-*good is good enough*
- **Service**: key finding-*back to basics*
- **Access**: key finding-*make it easy for me.*
- **Experience**: key finding-*skip the entertainment, just respect me*
The Two out of Five Theory of Resource Allocation...

- **Know your customer**
  - And what is important to them
  - And what their values are
- **Know who you are, and what you are not**
  - What are your core values?
- **Do these align with each other?**
  - If not, go back to square 1 until they do!
- **Where can you dominate your market?**
  - Everything you do must support this focus (marketing, operations, etc.)

Dealing with the Convergence...

- Align values with values
- Drive sustainable consumption
- Be convenient
- Go everywhere your consumer goes
- Take care of your people
### Key Questions....

- **What’s our relevancy?**
  - Category
  - Venue
    - Value proposition
  - Demographic segment

### The Good News...

- We have a product the consumer genuinely likes
- We have a product that aligns very well with the ‘new normal’ consumers’ values, attitudes and behaviors

- Our opportunity lies in communicating this to the consumer!!!
  - We must adapt to the consumer, not them to us
  - No assumptions
  - We are not an industry that likes change or reacts to it quickly
    - If we don’t adapt, other categories will take advantage at our expense
Thanks!