Smithers-Oasis North America

Floral Business - Current Environment

Seeley Conference

June 27, 2011

No Substitute For Victory:
Lessons in Strategy and Leadership from
General Douglas MacArthur

By Theodore Kinni and Donna Kinni
MacArthur’s Principles of Strategy:

- Define and pursue victory
- Manage the environment
- Utilize surprise
- **Multiply** your rate movement
- Ensure supply and support

What is knowledge?

Knowledge – *n*: the fact or condition of knowing something with familiarity gained through experience or association.

*In a time of turbulence and change, more than ever, “knowledge is power.”*

*John F. Kennedy 1961*

**Knowledge = opportunity waiting to happen!**
A Question.....

- Compared to a few years ago, is the world really different today?

- Who was the first to report the U.S. attack on Osama Bin Laden?

---CYLEND---
---CY2008---
---CY2009---
---CY2010---
(U.S. Commerce Dept., Bureau of Economic Analysis)

Gross Domestic Product % Change By Quarter
CY2007-2011
Consumer spending makes up 70% of U.S. economic activity...so consumer confidence is critical to future growth.

(Health care is half of the other 30%.)
Consumer Confidence by Month
May 2010 – May 2011

Outlook for Retail Sales Growth – Leaders and Laggards

• Growth slowdown will be most evident in home-goods and soft-goods channels:
  – Apparel Stores
  – Consumer Electronics
  – Department Stores
  – Furniture and Home Furnishings
  – Home Improvement

• Growth will continue to be highest among online retailing, but even this will be moderate.
Fuel Price Spike Likely to Persist

- Likelihood of a stalemate in Libya means fuel prices will probably remain at or above recent levels deep into 2011

- A stalemate in Libya is likely due to:
  - Measured international intervention
  - Fractured opposition to Gaddafi

- Spike likely to persist longer than in 2008, when U.S. fuel prices breeched $4 a gallon for about three months.

Rising Gasoline Prices Have Triggered Shopper Changes

- 71% anticipate spending less on other things

Effect of Rising Gasoline Prices on Overall Spending on Other Things

- 29% spend will not change
- 37% spend somewhat less
- 41% spend much less

- 40% spend will not change
- 42% spend somewhat less
- 30% spend much less

- HH Income <$75K:
  - 25% spend will not change
  - 34% spend somewhat less
  - 34% spend much less

- HH Income >$75:
  - 21% spend will not change
  - 42% spend somewhat less
  - 21% spend much less
After Why and When...

• **Who**
  – will be buying during the long-term recovery?

• **What**
  – will they be buying? Why?

• **How**
  – will they approach the shopping process? What behaviors will "stick"? How will they be different?

• **Where**
  – will they be shopping? Which centers, formats and retailers will be positioned for success?

Who Will Be Shopping?
Baby Boomers = Retail Growth Engine

- Drove three decades of retail growth
- Led way out of past two downturns
  - Early 90s – still accumulating wealth
  - Post-dot com bust-still in prime earning years
- Still a big share of population and even bigger share of spend

The Engine Has Run Out of Gas

- Positives
  - Working longer
  - Higher-income life stage
- Negatives
  - More wealth losses to recoup
  - More competing interests

Note: Median household wealth represents wealth of a household with a person between 45-54 and 55-64. 2008 figures are projections. Source: Center for Economic and Policy Research
Many Non-Discretionary Gen X Spending Needs

**Positives**
- Entering peak earning years
- Big spending life stage
  - 71% have kids younger than 18
  - Buying homes and feathering nest

**Negatives**
- Boomers sticking around = harder to advance
- Paying down debt: education, credit cards
  - 45% say have too much debt
  - 35% think will be in debt for rest of life
- More serious about saving
  - 24% don’t expect to receive any Social Security

Gen Y Opportunity Exists, But Harder to Reach

**Positives**
- Younger = more discretionary income
- Tech lifestyle is a need, not a want
- Less falloff = less rebound
- Entering household-formation years
  - Over 26% of U.S. adults

**Negatives**
- Spending shaped more by tighter credit than dampened demand
- More fragmented
  - But can reach via lower cost methods (text, tweets, Facebook, co-creation, etc.)
- Does not yet possess the “Economic” horsepower to make a big difference!
Gen X Will Be Much More Important

Population by Generation, 2010F (000)

<table>
<thead>
<tr>
<th>Generation</th>
<th>Gen Y 10-24</th>
<th>Gen X 25-44</th>
<th>Baby Boomers 45-64</th>
<th>Seniors 65+</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of Households</td>
<td>85</td>
<td>62</td>
<td>81</td>
<td>40</td>
</tr>
</tbody>
</table>
% of Spend

Sources: U.S. Department of Commerce and Retail Forward

Gen Y Limited by Debt / Career Decisions

- Gen Y
  - *New York Times* columnist suggests Gen Y may be the first generation to do less well economically than their parents
  - A “broke” generation?
  - Postponing responsibility / prime earning years

<table>
<thead>
<tr>
<th>Average undergraduate credit card debt $2,200</th>
</tr>
</thead>
<tbody>
<tr>
<td>PLUS the average student graduates with $19,000 in student loans</td>
</tr>
<tr>
<td>In 1989, 18- to 24-year-olds devoted 13% of their income to debt payments</td>
</tr>
<tr>
<td>In 2008, 22% is devoted to debt</td>
</tr>
</tbody>
</table>
Gen Y Impacted Recession Less, But “Relatively” More Important In Recovery

Population by Generation, 2010F (000)

<table>
<thead>
<tr>
<th>Generation</th>
<th>Households</th>
<th>% of Households</th>
</tr>
</thead>
<tbody>
<tr>
<td>Emerging</td>
<td>42</td>
<td>6.0%</td>
</tr>
<tr>
<td>Gen Y</td>
<td>85</td>
<td>4.0%</td>
</tr>
<tr>
<td>Gen X</td>
<td>81</td>
<td></td>
</tr>
<tr>
<td>Boomers</td>
<td>62</td>
<td></td>
</tr>
<tr>
<td>Seniors</td>
<td>40</td>
<td></td>
</tr>
</tbody>
</table>

% of Household Spend by Generation, 2010F

<table>
<thead>
<tr>
<th>Generation</th>
<th>% of Spend</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gen Y</td>
<td>4.0%</td>
</tr>
</tbody>
</table>

Sources: U.S. Department of Commerce and Retail Forward

Fragmented Polarity: Diversity

- About half of emerging generation will be white; half non-white (1/4th Hispanic)

Distribution of Age Ranges in the U.S. by Race/Ethnicity, 2015F

<table>
<thead>
<tr>
<th>Age Range</th>
<th>White*</th>
<th>Hispanic</th>
<th>African-American**</th>
<th>Asian-American**</th>
</tr>
</thead>
<tbody>
<tr>
<td>Emerging (1982-2002)</td>
<td>54%</td>
<td>58%</td>
<td>19%</td>
<td>4%</td>
</tr>
<tr>
<td>Gen Y (1965-1981)</td>
<td>61%</td>
<td>61%</td>
<td>19%</td>
<td>4%</td>
</tr>
<tr>
<td>Gen X (1946-1964)</td>
<td>73%</td>
<td>73%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Boomers (before 1946)</td>
<td>80%</td>
<td>80%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Non-Hispanic population
**Non-Hispanic population; includes Asian, Pacific Islander, American Indian, Eskimo, Aleut
Note: Excludes individuals identifying themselves as two or more races
Source: U.S. Census Bureau 2008 National Population Projections
Fragmented Polarity: Income

Share of Total Income Earned

<table>
<thead>
<tr>
<th>Year</th>
<th>Bottom 60%</th>
<th>Middle 35%</th>
<th>Top 5%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1969</td>
<td>32.5%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1979</td>
<td>31.3%</td>
<td>28.1%</td>
<td></td>
</tr>
<tr>
<td>1989</td>
<td>27.4%</td>
<td>26.6%</td>
<td></td>
</tr>
<tr>
<td>1999</td>
<td>21.7%</td>
<td>20.4%</td>
<td>16.6%</td>
</tr>
<tr>
<td>2009</td>
<td>16.9%</td>
<td>18.9%</td>
<td>21.5%</td>
</tr>
</tbody>
</table>

Source: US Census Bureau.

Welcome to the “Age of the Customer”

Age of Manufacturing
Mass manufacturing makes industrial powerhouses successful.

Age of Distribution
Transportation systems make distribution key.

Age of Retail
Those who control information flow dominate.

Age of the Customer
Empowered buyers demand a new level of customer obsession.

Sources of Dominance

2010+

2000-2010

1980-1990

1960-1980

1960-1980

2010+

2000-2010

1980-1990

1960-1980

Source: Forrester Research, Inc.
Where Are You on the Roller Coaster Ride?

- Outside the park?
- Standing in line?
- Climbing the first hill?
- At the top of the hill...peering down?
- Going down the hill...and terrified?
- Enjoying the ride...as this really can be fun?
- Ready to ride again?

What Will They Be Buying?
Sticky Recovery Behaviors

- Deal Seeking
- Limited Trips
- Trading Down

Online to Own More Share of Many Categories

<table>
<thead>
<tr>
<th>Category</th>
<th>2000</th>
<th>2010</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Computer Hardware</td>
<td>20.0%</td>
<td>26.5%</td>
<td>28.5%</td>
</tr>
<tr>
<td>Office Equipment &amp; Supplies</td>
<td>6.2%</td>
<td>10.5%</td>
<td>8.0%</td>
</tr>
<tr>
<td>Computer Software</td>
<td>10.5%</td>
<td>3.5%</td>
<td>2.7%</td>
</tr>
<tr>
<td>Music &amp; Videos</td>
<td>2.5%</td>
<td>13.6%</td>
<td>14.6%</td>
</tr>
<tr>
<td>Electronics &amp; Appliances</td>
<td>28.5%</td>
<td>9.0%</td>
<td>8.0%</td>
</tr>
<tr>
<td>Toy, hobby goods &amp; games</td>
<td>1.4%</td>
<td>2.2%</td>
<td>0.9%</td>
</tr>
<tr>
<td>Books &amp; Magazines</td>
<td>26.4%</td>
<td>6.9%</td>
<td>9.5%</td>
</tr>
<tr>
<td>Clothing &amp; clothing accessories</td>
<td>0.9%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: U.S. Department of Commerce and Kantar Retail
Working to Gain Distance From Walmart

**Things you would never see in a Walmart**

- Toys R Us: Focused on frequency drivers
- “Best Buy: Bolstering service offer
- Bed Bath & Beyond: Testing new concept shops

---

Working to Gain Distance From Competitive Channels

<table>
<thead>
<tr>
<th>Supermarkets</th>
<th>E-Marketers</th>
<th>Retail Florists</th>
</tr>
</thead>
<tbody>
<tr>
<td>Flowers as a commodity</td>
<td>Entry-level buyers</td>
<td>Quality / Value</td>
</tr>
<tr>
<td>Average Sale $10 - $20</td>
<td>Average Sale $20 - $50</td>
<td>Average Sale $50 - $70</td>
</tr>
<tr>
<td>Convenience</td>
<td>Not seeking &quot;experience&quot; with purchase</td>
<td>Full-range design – personalized to customer</td>
</tr>
<tr>
<td>Own enjoyment – home decor</td>
<td>Frequent on-line shoppers</td>
<td>Front-door service ; 250 - 3,000 deliveries per day</td>
</tr>
<tr>
<td>Last minute purchase – small gathering</td>
<td></td>
<td>Customers more emotionally invested in their purchase</td>
</tr>
<tr>
<td>Convenience trumps emotional value</td>
<td></td>
<td>Traditional events and occasions</td>
</tr>
</tbody>
</table>

Toomie Ferris, AIFD, AAF; McNamara Florists
Flowers Still Have “That Special Something”

Consumers relate most to the sensory and emotional aspect of flowers, saying:

- The color adds to the impact of a gift (64%)
- The sight and smell can improve my mood (60%)
- Flowers are an emotional gift (56%)
- Make me feel special (56%)

*I love flowers ... nothing can boost my mood and bring a smile to my face like flowers can. That's why I buy them for myself all the time!*

Flowers Still Have “That Special Something”

Flowers have a high interpersonal resonance

- **Consumers believe the gift of flowers signifies:**
  - Being caring (61%)
  - Personal (58%)
  - Sentimental (58%)

- **People who give flowers as gifts are seen as**
  - Thoughtful (77%)
  - Sincere (57%)

*I do love how flowers look and can brighten up a person's day when you give them as a gift.*
Generational Differences in Floral Purchase Attitudes

**Baby Boomers (Ages 45 – 64)**

Baby Boomers are significantly more likely than other generations to have a high appreciation of flowers and are most likely to agree with the other emotional aspects associated with the gift of flowers.

This group is less likely to purchase specific type of flowers.

One-half of Baby Boomers use the Internet to send flowers outside of their area, significantly higher than other generations.

This generation finds flowers appropriate for a broad range of gifting situations.

Baby Boomers consistently had the highest expectations.

---

**Generation X (Ages 25 – 44)**

Gen X tend to be more emotionally connected to flowers than Gen Y.

Gen X most likely purchases flowers as a traditional holiday / occasion gift for someone else, as a "just because" pick-me-up gift, and for home decoration.

They are also the generation most likely to prefer purchasing flowers over the Internet. *This fits with their time-starved and tech-savvy lifestyles.*
Generational Differences in Floral Purchase Attitudes

Generation Y (Under 25)

**Less Likely:**
To have a high appreciation of flowers or agree with other emotional aspect associated with the gift of flowers.

To differentiate florists from other retailers in terms of key attributes, such as quality and freshness.

**Most Likely:**
To purchase flowers in person and deliver flowers themselves.

This echoes a “personalization” trend in gifting characteristic of this generation.

What is important to them?
Influencing Customer Behavior

By Percent Surveyed

- Quality
- Value
- Sales Assistance / Courtesy
- Delivery of custom orders
- Plant Quality and Selection
- Desirable Colors
- Fashionable Colors
- Ease of buying
- Unusual Flowers
- Useful Website / Catalog
- Do-it Yourself Flowers

What are their preferences?
Presentation Preference by Age Group

When do they buy?
## Consumer Purchases by Major Holiday

<table>
<thead>
<tr>
<th>Holiday</th>
<th>2010</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mother's Day</td>
<td>63%</td>
<td>63%</td>
</tr>
<tr>
<td>Birthday Gift*</td>
<td>60%</td>
<td>63%</td>
</tr>
<tr>
<td>Valentine’s Day</td>
<td>52%</td>
<td>51%</td>
</tr>
<tr>
<td>Anniversary</td>
<td>43%</td>
<td>41%</td>
</tr>
<tr>
<td>Get-Well Gift</td>
<td>39%</td>
<td>39%</td>
</tr>
<tr>
<td>Home Decoration*</td>
<td>36%</td>
<td>39%</td>
</tr>
<tr>
<td>For Myself</td>
<td>32%</td>
<td>32%</td>
</tr>
<tr>
<td>Christmas</td>
<td>30%</td>
<td>36%</td>
</tr>
<tr>
<td>Romantic Gift*</td>
<td>24%</td>
<td>27%</td>
</tr>
<tr>
<td>Party Decoration</td>
<td>23%</td>
<td>23%</td>
</tr>
<tr>
<td>Easter*</td>
<td>23%</td>
<td>21%</td>
</tr>
</tbody>
</table>

Indicates percentage of households buying product for usage in previous year. 1265 and 1194 respondents for 2010 and 2007.

* Indicates statistically significant change from 2007 to 2010.
Where do they buy flowers?

**Fresh Cut Flower Spending by Outlet**

<table>
<thead>
<tr>
<th>Outlet</th>
<th>Spending %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Flower Shops</td>
<td>37.8%</td>
</tr>
<tr>
<td>Super Markets</td>
<td>35.4%</td>
</tr>
<tr>
<td>E-Commerce</td>
<td>8.3%</td>
</tr>
<tr>
<td>Wholesale Stores</td>
<td>5.8%</td>
</tr>
<tr>
<td>Super Discounters</td>
<td>4.5%</td>
</tr>
<tr>
<td>Garden Centers</td>
<td>12.4%</td>
</tr>
</tbody>
</table>
Indoor Potted Plant Spending by Outlet

- Flower Shops: 26.6%
- Home/Hardware Centers: 13.6%
- Super Markets: 25.5%
- Garden Centers: 12.4%
- Super Discounters: 7.8%
- Wholesale Stores: 5.0%
- E-Commerce: 4.8%

Retail Florists by Year (000)

<table>
<thead>
<tr>
<th>Year</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>24.2</td>
<td>23.9</td>
<td>22.8</td>
<td>22.0</td>
<td>21.7</td>
<td>21.1</td>
<td>20.2</td>
<td>19.8</td>
<td>18.5</td>
<td>17.7</td>
<td>17.4</td>
<td>17.3</td>
</tr>
</tbody>
</table>
Retail Florist Sales in the U.S. by Year ($millions)

Average Retail Florist Sales by Shop ($000)

* Sundale Research
Retail Runway Runs Out

- The United States is a mature retail market
- Many existing concepts approaching saturation
- Slower growth for most retail formats
- Need to turn elsewhere for growth

Online Sales Will Ramp Back Up

E-commerce Sales History & Forecast

Sales in Billions

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales in Billions</td>
<td>$0</td>
<td>$50</td>
<td>$100</td>
<td>$150</td>
<td>$200</td>
<td>$250</td>
<td>$300</td>
<td>$350</td>
<td>$400</td>
<td>$450</td>
<td>$500</td>
</tr>
</tbody>
</table>

E-commerce
2011 Strategy for Floral Retail Channels

We need to go where the **target audience already is** online (not force them to come to you) and provide them with **content they will engage with and share**.

---

**Target Audience’s Time Spent Online is Growing**

Women spent 17% of their time online – one out of every six minutes – on social networking sites in December 2010, up 4.5 percentage points from 2009.
What Are They Doing?

Top 5 things target audience does online:

1. Watch a video clip
2. Manage their social network profile
3. Upload photos
4. Read a blog
5. Read email

Current Business Environment

Floral Industry Trends

Internet Influence
- The Internet has created another means to reach the consumer, broaden the customer base, and develop new business.
- With the Internet and new or evolving technologies, comes a whole set of new challenges.
- Today bright and entrepreneurial people figure out this new field of play, and are not governed by the business models of yesterday.
- Social networks become a marketing tool.
- Prince & Prince Study indicates successful florists are creating strategies to differentiate themselves from other channels and competitive operations.
People are buying flowers everyday all over the globe.

The floral industry has size.

People like flowers and plants.

Most negative references have little merit.

Industry research supports flowers and plants are good for people and our well being.

There is market potential.

---

Current Business Environment

Floral Industry Trends

- Back to “normal” to some degree – Traditional events and occasions.
- But not a rapid return to previous transaction values!
- Recession has changed some retail fundamentals
  - Who you should target?
  - How you can grow?
  - Where you should grow?
- Altered landscape
  - Will define the next 1-2 years
  - Will evolve the following 3-5 years

---

The Recovery: The Floral Retail World
Lessons Learned

- Create a sense of urgency
- Provide uncommon access
- Harness the power of community
- Emphasize convenient fulfillment.
- Front-door delivery
- Develop the model to a target audience

Engagement Dimension - Knowledge

- Information
- Expertise
- Credibility / Trust
- Assurance

*Word-of-mouth has become a more powerful influencer of purchase decisions than traditional marketing!*
Required to Reach Today’s Consumer

- The ability to act quickly. Consumer need and expectations evolve at a faster rate every year. Competition is hungrier than ever.

- Deeper customer knowledge in order to acquire a more intimate and satisfying relationship with consumers. Today’s more powerful customers want to be seen and understood.

- Empathy, and a better understanding of the role that emotion plays in decision making.

- Greater sophistication in analyzing consumer data and research.

Competitive Edge

- Ability to provide the highest quality

- Ability to serve better than any other

- Ability to personalize like no other in a “me” generation