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2009: Year of the Recovery?

Economic improvements are predicted for the second half of the year, but growers have a few more challenging months to get through before then.

By Charlie Hall

The big question I've been asked in the past couple of months: "Will 2009 bring a U.S. economic recovery?" My answer: Yes, assuming no more unpleasant surprises are lurking. Most economists, myself included, think the recovery will start in the second half of the year. And the first half will be tough, with the economy contracting 4 percent in the first quarter, following a 5 percent decline in the fourth quarter of 2008.

Even assuming recovery is in store for late 2009, most growers are still heading into a spring loaded with uncertainty. How will retailers react to the less-than-stellar holiday sales season? What will be their mindset going into spring? Let's examine these questions by looking at some of the issues affecting some of the major customers of big growers: box stores.

The Present Predicament

The economy has forced consumers to adjust their spending habits and stay closer to home for leisure activities, but "nesting" was in play well before the current crisis took center stage, and box stores have cashed in on the trend: Traditionally, the neighborhood box store has been the place consumers go to pick up the things consumers need to complete home and landscape maintenance and repair projects. That's unlikely to change, even in these tough times.

The initial box store success formula was based on a "bigger is better" philosophy. Building big stores and promoting big-ticket items added up to big profits. This worked well for almost 30 years. However, in the past two years, these

chains have made some dramatic changes. They are experimenting again with smaller store formats, closing unprofitable operations, selling off unprofitable divisions (e.g., HD Supply) and lowering prices.

While home improvement centers and lumber/building material outlets that depend heavily on servicing small contractors have seen sales dip, many have forged ahead by expanding the consumer side of their business. Because of the unprecedented downturn in the economy, 2008 industry sales figures have been adjusted to reflect a 1.9 percent decline in sales for the home improvement market. In 2009, with anticipated improvements in the housing market, the industry is projected to grow at a modest rate of 3.5 percent.

The credit crunch has taken a toll on the private-label credit cards issued by box stores. Customers have cooled on the idea of using credit cards to finance high-end items for home and landscape remodeling projects. For example, about 30 percent of Home Depot's sales are charged by customers using its credit card. The company reports that new accounts are down, as well as the number of transactions. Because fewer homeowners can tap into home equity lines of credit, financial resources are even more limited for landscape improvement projects.

Although home center retailers were able to maintain customer counts, the average transaction declined from \$45 to \$35 last year. The slowdown in home building and remodeling forced home center retailers to go after more consumer business, which led to fewer big-ticket sales. Another key factor in bottom-line performance was the significant increase in payroll, occupancy and other operating expenses for the typical home center from the previous year. ▶

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Home center retailers actually increased their advertising expenditures slightly last year to 1.3 percent of sales, but inventory turns, sales to inventory, and sales per square foot all declined for the typical home center, but not by an alarming rate. Employee productivity ratios decreased as well, which reflects the fact that retailers were not responding to soft sales by reducing their head count.

Limiting Factors

The biggest forces holding shoppers back in 2009 will continue to be worries about home values and job security, as well as expensive fuel, despite recent price declines. With fewer large-ticket sales, smaller maintenance and repair projects have become attractive to the big boxes.

than normal, certainly less than justified given their actual incomes. Even if unemployment goes to 8 percent, we'll still have 92 percent of the workforce earning a wage. The money not being spent now will eventually burn holes in people's pockets, if historical behavior holds true. It will probably take a few more months of spending declines for this to take effect, so the economy will likely hit its low point this spring.

What does all of this mean for growers? The tougher selling environment at the retail level this spring translates into a need to develop more intensive and collaborative relationships with your customers in meeting the needs of the end consumer — particularly in terms of their value proposition. During the downturn in 2008, growers that worked proactively with retailers (usually pay by scan sales) more



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Consumer income and spending are both down, and it seems logical that the former would lead to the latter. But it's not that simple. The drop in consumer spending has been disproportionate to the drop in disposable income. Keep in mind that when people lose jobs, their spending typically falls by a smaller percentage than their income drops. They use savings or credit to smooth their earnings. From this fact, you might expect that the change in spending would be smaller than the change in disposable income. But recent data clearly show that not only is this not the case, but the exact opposite is true. So what's going on?

The reason is that the recent decline in spending is due to non-income factors, primarily weak consumer attitudes and expectations. The consumer confidence and sentiment surveys show plenty of doom and gloom caused by the fundamentals of rising unemployment, fear among people with jobs that they may lose their jobs, and the financial crisis headlines in the mainstream media.

How to Overcome

In spite of this, however, the long-term outlook for consumer spending is positive. This may seem surprising to you, but follow my logic: People are currently spending less

closely to provide landscape solutions for consumers were the most successful.

The recent industry webinar, "It's a Great Time to Be in Business," featured lots of great ideas. Not necessarily new ideas, just reminders of things you should have been doing all along, such as providing extraordinary service. It is going to take a lot more effort to fill orders, and the best service provider will take home the prize. One of the best take-home messages I got from the webinar was, "These are the times during which great companies are made." Companies that make changes to survive in this economy will grow stronger while others who do things the same way because that's how it's always been done will lose the battle — and most likely be shutting their doors. ■

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