

# HOW TO SELL YOUR PRODUCTS TO THE HOME DEPOT!

**T**HERE is only one thing you will need to do to sell your products to **The Home Depot**. Don't worry! I won't pull a fast one and tell you the one thing you have to do to sell The Home Depot on your products is to buy something I am selling. I will actually tell you what the one thing is.

Here it is. The "One Thing." Go to <https://suppliercenter.homedepot.com/wps/portal> and do what the site tells you to do. The Home Depot has opened a "vendor Web site" specifically designed for potential new vendors to submit their products for review, and to help established vendors through the maze of vendor requirements. The Web site will walk you through the application process, as well as the documentation or registrations you will need to complete in order to be considered for vendor status. Once you submit the application to the central Web site it will be routed to the appropriate buyer. The Home Depot will confirm receipt of your application within three days and advise you within 60 days, whether or not your product is of interest to them.

Despite the fact that I shared with you the *one thing* you need to do to sell your products to The Home Depot, you are still left with three questions that will take the rest of this chapter to discuss. The first is, "Do you understand what The Home Depot expects from you if you are going to sell to them?" The second question is, "Are you really sure you *really* want to sell to The Home Depot?" And the third question asks, "Are you really *ready* to sell to The Home Depot?"

Just about everyone thinks they want to sell their products to The Home Depot, so there is a long line ahead of you. In fact The Home Depot has over 45,000 suppliers; however, 80% of the products they sell are nationally recognized brands. This may surprise you, but The Home Depot doesn't have a problem finding new and innovative products to review. They have tens of thousands of unsolicited samples sent to them each year. Many buyers will give a vendor a code number to put on the shipping label

of the samples they want to consider. If a sample comes in and it doesn't have the secret code number that product is automatically sent to a giant storage room. The unsolicited sample may or may not be eventually located and reviewed by the appropriate buyer.

**Question #1** *"Do you understand what The Home Depot expects from you?"*

Only when you have a clear understanding of The Home Depot process can you intelligently decide whether or not you want to sell to The Home Depot. The Home Depot now has well over 2,200 stores and sells \$90 billion of products a year, so it must do business *their* way in order to manage the complexities of a business of that magnitude. You have to significantly change the very way you do *your* business internally and externally, to satisfy the customer service demands and internal processing structure of The Home Depot, not to mention their merchandising and store service requirements.

The seductiveness of doing business with The Home Depot has trapped many lawn & garden manufacturers. The lure of possibly distributing your products through their 2,200 stores and with 200 new stores opening each year, they are a prospect that is difficult to ignore. The potential high sales volume, product and brand exposure to millions and millions of consumers, draws the average lawn & garden manufacturer to The Home Depot flame. Once caught in The Home Depot supplier net, it is business that is almost impossible to walk away from. This is why it is imperative to know what you are getting into when you start the process of trying to sell The Home Depot; and then spend a considerable amount of time preparing for your future relationship with them.

The Home Depot takes the relationship with their suppliers seriously and realizes it is a partnership. The problem is, they have a system in place that works for them and it is difficult for them to deviate from that system to accommodate your needs, or make allowances for the difficulty and large financial investment you must make to modify your products, programs, systems, and company, to fit their system. You may also have to re-price your products because of the changes or additional costs you may incur.

The Home Depot works with their vendors by holding a three or four day annual "Supplier Partnership Conference," usually taking place in November. During the conference The Home Depot walks their vendors through The Home Depot costing analysis and the process of how to more effectively do business with them. The most important thing they do for you as a vendor, is show you what is expected of you, how their procurement process works, and how the continuous improvement process will affect your future business with them.

# HOW TO BECOME A SUPPLIER TO WAL\*MART

**W**AL\*MART Stores, Inc. is the world's largest retailer, with nearly \$350 billion in sales in the fiscal year ending January 31, 2007. The company employs more than 1.3 million associates worldwide. As of June 30, 2007, the company had 1,039 Wal\*Mart discount stores, 2,337 Supercenters, 585 Sam's Clubs and 121 Neighborhood Markets in the United States, for a total of 4,082 units. Internationally, the company operates units in Argentina (15), Brazil (298), Canada (290), China (Wal\*Mart 83; Trust-Mart 101), Costa Rica (140), Guatemala (137), Honduras (44), Japan (392), Mexico (919), Nicaragua (40), Puerto Rico (54), El Salvador (63), and the United Kingdom (337).

More than 100 million customers per week visit Wal\*Mart stores worldwide.

However, as stated in the "What Wal\*Mart Wants" chapter of this book, "approximately 10,000 new suppliers apply to become Wal\*Mart vendors every year. Of those, only about 200, or 2%, are ultimately accepted."

Now, close your eyes and imagine having your lawn & garden product on the shelves at Wal\*Mart.

We receive phone calls just about every week from suppliers asking us if we can help get their products into at least one, if not all, the top three lawn & garden retailers. Wal\*Mart is one of them, so their name frequently comes up as a distribution target. We usually answer those inquiries the same way we answer the same question about Home Depot or Lowe's: by telling them they are asking the wrong question. They should ask, "What is it like to sell products to Wal\* Mart?" We advise them to get a glimpse of selling to Wal\*Mart by visiting the corporate Web site under "Supplier Information."

*Secret:* You can also try the direct approach by calling Wal\*Mart's corporate headquarters in Bentonville, Arkansas (479-273-4000), and ask for the lawn & garden products buyer. Prepare to be passed around to a few people before reaching the

appropriate buyer for your product category. We highly recommend you don't make the phone call until you are ready, as they just might invite you down to present your products to them "next week."

Wal\*Mart's "Supplier Information" site will spell out what they want from you, in order to do business with them. Listed at the beginning of this chapter is a summary of "What Wal\*Mart Wants" (from their suppliers) that will help steer you in the right direction and successfully guide you through their supplier maze.

No matter "What Wal\*Mart Wants," their specific requirements must be met prior to doing business with you. You cannot tell Wal\*Mart you will be happy to comply with any of these requirements if and when they give you an order, or on their promise of an order. You will need to be in compliance of these requirements before Wal\*Mart will even consider reviewing your products.

Some of Wal\*Mart's requirements include:

- Completing the Supplier Questionnaire available on their Web site
- Listing your most recent financial information with Dun & Bradstreet (D&B)
- Providing a copy of your most recent financial statements
- Providing Wal\*Mart with a copy of your product liability insurance
- Providing your Uniform Code Council (UPC) information including scannable samples
- Most new suppliers are also required to be RFID compliant
- EPA or other required regulatory registrations or licenses (federal & state)
- Proof your product meets FTC packaging guidelines
- Indicate you are in compliance with Wal\*Mart's EDI standards

You will also need to compile and validate market information on your product, and the consumer you have identified as the target market of your product. Wal\*Mart will need to match your consumer with their consumer to insure your products are salable in their stores. Just because Wal\*Mart has over 7,000 stores globally, doesn't mean your product will sell well in them. They also look at this information to determine if it fits with their corporate strategies, both short and long term.

Wal\*Mart requires you to answer the following key questions, which should have been considered prior to launching your product, in the first place:

- Who is the customer for your product with regard to age, average income, median family size, regional or global geographic location, population size and growth?
- Who is your direct competition in this market?
- Who is your indirect competition in this market?



- What added value does your product have over your competition that can be passed on to the customer?
- How will your product impact other related products in Wal\*Mart's stores?
- Where is the demand for your product going to come from in the future?
- How will this product help position Wal\*Mart, to take advantage of this future demand?
- How does your packaging enhance the image and appearance of your product as compared to the current Wal\*Mart assortment (is your packaging up to Wal\*Mart standards)?

Having a unique product is what Wal\*Mart buyers are looking for and a great plus to getting your foot in the door. Remember, in so many product categories there's so much duplication that there's absolutely no incentive for a Wal\*Mart buyer to commit to carrying another one. The ideal product is something different—that will still fit with the retailer's current product lines. If it is unique AND patented, you will see the buyer's eyes widen right in front of you.

**Truth:** You also must be listed with DUN & BRADSTREET

Once you answer the above questions you will also need to prove you can handle the Wal\*Mart volume by proving you have the financing needed to produce and ship your products when they need it. Wal\*Mart wants you to provide them with your D&B number as a way of checking on your financial stability.

**Myth:** Wal\*Mart likes to control their vendors' businesses.

Wal\*Mart doesn't like to account for more than 30% of a supplier's total business; if it did, and suddenly had to change an order or suppliers for any number of legitimate reasons, it could sink the supplier. Wal\*Mart would prefer not to generate that type of negative publicity. Having other retail accounts increases your chances of getting into Wal\*Mart.

**Truth:** You will also be required to prove you are in compliance with their shipping, invoicing and payment procedures, as well as logistically capable of managing their volume of business.

Once you believe you are truly prepared to present your product to Wal\*Mart the next step is to prepare the actual presentation. To do this you will need to take the information you gathered and generate a presentation that is compatible to Wal\*Mart's ability to accept this information. Prior to creating the presentation go to a Wal\*Mart, Sam's Club, or Wal\*Mart Super Center and determine which store you should be in, and where in the store or on the shelf, your product should be placed.

If you have a regional product, visit the store in that region and study their shelf set, so you will know what you are talking about. Take great notes when you visit the store(s). Those notes may also come in handy when you are face to face with the buyer.

In some cases, I have visited 10 to 12 stores across the country just to ensure I would know what I was talking about when the buyer asked a strategic question.

**Truth:** If a competitor will need to be replaced to make room for your product, please understand they will not allow you to take over the coveted Wal\*Mart shelf space without a hell of a fight.

You will need to use all that information you gathered to prove why you belong on the shelf rather than your competitor. Don't forget it is a matter of money. Wal\*Mart will not switch products just to break even. Why your product is better and is it a better value, are questions Wal\*Mart will want answered. Keep in mind that the competitor who is on the shelf and you will be replacing, has already gone through the process you are about to experience. They already made the cut and are in Wal\*Mart. They know how the Wal\*Mart system works and will try every method available to them to stay on the shelf.

Having a product line rather than a single product is another bonus. Even if you can get the buyer interested in your product, having only one product to offer can be a deal killer. Setting up a new supplier takes time and effort—so the potential supplier who can offer a complete line, rather than a single product, will always have the edge.

You will only have one shot at selling Wal\*Mart, so make it your best shot. If you are turned down, it will probably takes years before they will look at you again, unless a consumer uprising creates demand for your product.

## THE SCARY PART

As we say here in Arizona, “getting to Wal\*Mart is a two-canteen trip.” Bentonville, Arkansas, is a really long way from nowhere. You will need to haul all available material with you, for your 45 minute or one hour presentation, and you will not be allowed a “do-over.” Be prepared, be over prepared and then get to the point.

The most common mistake I see with potential new Wal\*Mart vendors is spending way too much time talking about the details of their products that are not important to Wal\*Mart. Wal\*Mart cares about how your product will meet their goals and objectives, not yours. For example, I was in one presentation where the owner of the company spent 25 valuable presentation minutes explaining how difficult it is to manufacture the molds to make his products and how many years it took them to perfect the final mold. The buyer's eyes glazed over after the first three minutes, and I don't know where his mind escaped to, but it wasn't in the room with us.

Here's the question all buyers at Wal\*Mart will ask, “Why should they replace an established Wal\*Mart product that is generating predictable sales and profits for

Wal\*Mart over a number of years, with your product?" If you can't answer that question then it is another reason you shouldn't take the two-canteen trip to Bentonville.

In your presentation you should include information pertaining to your products:

- Average turns per year Wal\*Mart can expect.
- Gross markup at Wal\*Mart's retail price. (This should be based on their landed cost.)
- Expected net yearly profit.
- Your consumers' guarantee or warrantee program.
- How you expect to handle markdowns or defective merchandise.
- How many dollars your product will generate per square foot. (Sometimes even dollars per square inch!)

Wal\*Mart will evaluate your forecast with their current sales per square inch of the same sales space, to determine if your product is even worth the effort. Your packaging will have to conform to the department's image, as well as your shelf pack, and any other consumer POP material.

All the information you provide will be reviewed and processed through Wal\* Mart's evaluation system. In 2006 I tracked the step by step process of how many Wal\*Mart people had to sign off on a new product before they could generate an order; the number I came up with was seventeen. This included people from purchasing, warehousing, distribution, transportation, billing, merchandising, environmental, advertising, and even their legal department. I got a headache before I finished.

**Secret:** One of the best kept secrets is Wal\*Mart's Local Supplier Program.

Each Wal\*Mart store has the ability to buy your product if they want to. Presenting to them is a great way to test your product and prove to the Wal\*Mart corporate office that your product is salable in their stores, at the retail price you are recommending. Wal\*Mart's Local Supplier Questionnaire may be obtained from your local Store Manager after he/she reviews your product, and if he/she wants to sell your item(s) in their store. Two signatures are required after you fill out the questionnaire completely (all blanks filled in): the store manager, and/or the Market Manager (general merchandise) should sign the questionnaire and list the Store numbers (by District), requesting the product. You will then submit the completed Local Supplier Questionnaire directly to Local Purchases at the Home Office.

Requirements for a Complete Packet (You must have your address on questionnaire):

1. Dun & Bradstreet number - Wal\*Mart Stores Inc. will run a "Supplier Evaluation Report" on all potential lawn & garden suppliers. Supplier should request a Supplier Evaluation Report be set up for their company by calling D&B at 866-815-2749. Rating guidelines must apply.

# THE RULES OF MARKETING “GREEN”

**T**RUTH: Marketing “Green” should be considered part of almost every lawn & garden company’s business plan. The problem is no one can clarify the exact definition of Green Marketing. If you are in the lawn & garden industry then you must take in consideration whether or not your product is classified as “Green.”

*Myth:* Green Marketing usually refers to the sale of Green Goods, such as live plant products.

In today’s definition, Green Marketing refers to products that consider its effect on environmental issues; and marketing green means you are promoting or advertising your product(s) that have environmental characteristics. Terms like organic, natural, recyclable, reusable, biodegradable, and environmentally friendly are some of the descriptions consumers most often associate with green products.

Marketing green incorporates a broad range of activities, including product modification, changes to the production process, packaging changes, and using recyclable displays. Add these to the list: super energy-efficient, power garden tools that bear the U.S. EPA’s “Energy Star” label, super energy- and resource-efficient “healthy” building products for LEED certified buildings, passive solar heating, and heat reflective windows, certified sustainable harvested lumber, natural fertilizers, and mold-resistant paint or drywall.

*Myth:* Green marketing refers solely to the promotion or advertising of products with environmental characteristics.

The average consumer, unfamiliar with organic terms and rules, however, is not likely to know whether a product is labeled correctly or not.

*Truth:* Though terms like organic, natural, recyclable, and environmentally friendly are some of the attributes lawn & garden companies most often associate with green marketing in general, it is actually a much broader concept, one that can be applied to finished lawn & garden products, packaging, displays, the energy consumption used in manufacturing a product, and even services.

For example, some lawn & garden companies such as EZ Shipper Racks in Westlake Village, California ([www.ezrack.com](http://www.ezrack.com)), provide the big boxes like Lowe's and Home Depot a service that repairs or rebuilds their old product displays, or removes them altogether, rather than let the retailer dispose of them in landfills. This would be considered Green Marketing.

However, unlike organic food, there is no federal standard for many environmental products, such as organic fertilizer, leaving each state to set its own standards. The Association of American Plant Food Control Officials, which represents state regulators, has proposed a model standard for states to adopt, but that standard has been strongly criticized by the Organic Trade Association as misleading to consumers.

The proposed standard would not prevent manufacturers from labeling fertilizer as "organic" even if it contains ingredients made from petroleum and other chemicals, which is often the case now.

Green marketing also incorporates a broad range of other activities, including product modification, changes to the production process, packaging changes, as well as modifying advertising. CEOs of leading lawn & garden corporations have embraced the concept of sustainable packaging—not just increasing recycled or renewable content in packages, but also redesigning the packaging to minimize the environmental impact of making the goods and transporting them. The designing of packaging with less material and more recyclable content, while reducing shipment and handling, has been simmering in the lawn & garden industry for years, but is suddenly a hot topic.

A recent study conducted for the Grocery Manufacturers Association concluded that environmental sustainability issues are not a passing fad, but this time are here to stay. Yet defining green marketing is not a simple task. Even the terminology used in this area has varied. It includes: Green Marketing, Environmental Marketing and Ecological Marketing.

While green marketing came into prominence in the late 1980s and early 1990s, it was first identified much earlier. The American Marketing Association (AMA) held the first workshop on "Ecological Marketing" in 1975, so it isn't like green marketing has been recently discovered. However, it has been recently embraced by most large retailers. As a result, lawn & garden companies who market products with environmental characteristics will usually have a competitive advantage over companies marketing non-environmentally responsible alternatives. This is not to imply that all firms who have undertaken environmental marketing activities actually improve their sales or margins.

**Truth:** In some cases, lawn & garden companies have misled their accounts regarding their "greenness" in an attempt to gain market share.

In other cases, companies have jumped on the green bandwagon without considering the accuracy of their behavior, their claims, or the effectiveness of their products. This lack of consideration of the true "greenness" of their activities may result in some

lawn & garden companies inadvertently making false or misleading green marketing claims.

Example: I worked with one company whose brochures and selling material stated the product was "safe for people and pets." It also stated the packaging was constructed of "recycled material." After six months of asking the company for proof or verification of the claims they were making, it became evident that they were just trying to market their product as "Green." Their product was not *poisonous* to people and pets, so they thought they should be able to make the claim that it was *safe* for people and pets, which is not the same designation. And the packaging wasn't really manufactured from recycled materials, but may have *contained* some recycled material.

When the truth was finally revealed it was learned that the company never paid to have the product tested or certified as an environmental product, but because they were under so much pressure from their competitors, they thought they could stretch the truth a little, or simply create their own truth. Their position and justification was they were positive their competitors were doing the same thing. This company is just one reason why there is an underlying credibility gap in the greening of lawn & garden manufacturers.

**Myth:** By converting over to a "Greener" product your sales will automatically show an increase in volume.

If your primary motive in turning "green" is profit – well, it's far from a proven strategy. If your lawn and garden company is perceived as "greenwashing" – talking the green talk to boost sales but not necessarily walking the green walk- your product brand and your profits will probably suffer.

One of the reasons I believe some lawn & garden manufacturers stretch their greenness is because consumers seem to continually say one thing and do another. A phenomenon known as the "4/40 Gap": roughly 40% of consumers say they're willing to buy greener products, but only 4% actually do, at least according to some surveys. In spite of the all-talk-no-action of most consumers, between 1999 and 2003, the number of American households buying organic fertilizer nearly tripled, to 11.7 million, according to the National Gardening Association. Big fertilizer companies have also responded to the growth in demand for organic products. Scotts for instance, recently introduced a complete line of organic fertilizers.

Recent consumer research by NPD Group indicates as consumers get older, their concern about environmentally friendly products increases. The information is somewhat contrary to the belief that it's the younger generation who is more concerned about going 'green. Additionally, the research shows that price still is a factor in whether consumers will go green. Only 38 percent of consumers say they are willing to pay more for environmentally friendly products. In all, 64 percent of consumers surveyed said they believe it is important to purchase environmentally friendly products for their homes

# HOW DO YOU DECIDE IF IT'S TIME TO DISCONTINUE A PRODUCT?

I advocate a constant churning of products being offered to the supply chain. I recommend at least a twice yearly hard core evaluation of each product you sell and whether or not you should continue to sell it. Additionally, it is my general recommendation that a lawn & garden company discontinue 10% to 20% of its slowest moving, most unprofitable products, each year.

To keep your company healthy and viable in our ever changing industry you must take stock to determine what's working and what is not. By doing this you are bound to find certain products or brands that are not profitable. If this is the case, it's time to make some difficult decisions about whether these products/brands should be discontinued and how to notify current customers of the changes.

You don't have to automatically discontinue every unprofitable product or brand. Sometimes it takes a long time to educate your accounts, prospects, and the consumer, about the effectiveness of a product or brand. During that time it is normal for a product/brand to be unprofitable.

*Secret:* My experience and research indicates it takes approximately three to four years for a lawn & garden product to become profitable. Many lawn & garden products and brands are profitable only at certain times of the year. You must first determine if the products and brands you are evaluating are merely in the midst of a slump, or are truly unprofitable day in and day out.

Next, you should consider whether the product or brand offers some other type of value to your business. For example, a marginally profitable brand offered during the fall or holiday season might garner a small, but much needed cash flow at a time when your primary products offer little or no contribution to your fixed costs. While you might not be making money on the product/brand itself, if you're breaking even during your draught months you're creating the income needed to cover some necessary costs.



I am not a believer of selling any product that is not profitable, but I do believe it is OK to retain marginally profitable products/brands that provide cash flow in your off season.

The final thing you should do before discontinuing a product or brand is consider whether there is anything you can do to change things around. Have you lost focus on this product/brand? If you re-focused on it, would it make a difference? Have you been marketing it effectively? Is the pricing still competitive? Make sure before you make the final decision. Confirm that discontinuing this product/ brand will not throw away an opportunity you've been missing, due to neglect.

In the course of business, every product or brand won't be profitable. With careful thought and planning, you can downsize inventory without downsizing your customer base.

Once you make a decision to look at your product mix with the intent of paring down the slow movers or obsolete products, the hard part will be making the choice and then implementing the discontinuance, to cause the least amount of disruption to your customers and sales people.

**Truth:** Before making a decision to keep a product or not, or even a group of products, it is necessary to define a measuring system that quantifies the decision and will help you take the emotion out of the decision process.

If you created the product or spent your hard earned cash to purchase it, you are probably not going to be able to make an unbiased decision regarding its future shelf life, without some help.

The first questions you should ask regarding each product are:

- Is the product making revenue?
- Are we making profits and how much?
- From where do the profits and the costs arise?
- Is the marketing growing or shrinking and at what rate?
- Are sales and profits growing in line with the market, or on a different level?

Answers to these questions provide the initial outline on which a more detailed analysis of the product's marketing performance may be made.

The most effective way of measuring performance is by analyzing output. In many businesses, the first measures of marketing are involved with sales, usually in terms of volume, value and customers. These areas are easy to measure because they are based on actual historic performance that takes the emotion out. Sure, you can try to justify the performance, but chances are you will be hard pressed to justify measurable, long term, poor performance.

Measuring sales and market penetration performance should be done on a regular and continuous basis. Ideally, this data should be collected automatically and processed



so comparisons and trends may be easily made and identified. I usually recommend this procedure be done every quarter, with a yearly total product or brand evaluation and analysis.

**Truth:** The primary objective of any lawn & garden product or brand is to generate profitable revenue.

The way you evaluate each product or brand should identify those that generate profitable revenue, as well as areas and activities that incur costs, rather than produce profits. As you're reading this chapter that may sound very obvious, but it may not be that apparent to you when you are an eyelash away from your product and it has been a huge investment to you.

I once took over a company that reported \$7 million in sales and lost about \$1 million each year ... *for three years in a row*. Now I ask you, why didn't the current management take severe and brutal measures to stop the annual one million dollar loss? They were simply too close to it. The management had been with the company for an average of 15 years and could not make the hard product elimination decisions required to save the company. We stopped the bleeding by eliminating their core but unprofitable products. We lost most of our sales people and a good number of our accounts, but we stopped the loss and became profitable again, which allowed us to survive.

**Secret:** Two significant measures of performance often confused with each other are "return on investment" (ROI) and "return on marketing investment" (ROMI), but they are not interchangeable:

- **ROMI** is generally used to measure the financial performance of specific marketing activities, such as a trade show or an advertisement campaign. Because it is difficult to identify and track which sales are attributable to which activity, ROMI is generally limited to measuring a specific marketing investment and is not applied to the entire marketing function, as a whole.
- **ROI** is generally considered to refer to the net income divided by the capital used. However, in 2005, the American Marketing Association and Aprimo Inc. identified six other interpretations of ROI currently in use: incremental sales revenue, the ratio of cost to revenue, the cost per sale generated, changes of financial value of sales generated, cost of new customer, and cost of old customer retention.

That means the definition of ROI is now cloudy and imprecise, because it means different things to different people.

**Truth:** If you use the following questions to measure and evaluate whether or not you should keep or discontinue your product or brand, you will be off to a good start in the decision process.

- How much in sales has the product/brand generated and at what cost?

- Is the cost too high or would more sales be gained, by more investment into the product/brand?
- Is the balance of cost and investment about right in relation to the eventual return of profitable revenue? (In other words, are the sales versus the cost to obtain the sales, about what you expected and forecasted?)

*Myth:* Once you decide to discontinue a product/brand the smartest move is to do it quickly and avoid any future losses.

You must first come up with a way to break it to your current customers to avoid a negative response. Unless it was a complete failure, some of your customers find that product/brand of value. And in a few cases—particularly when it comes to brands—it might make sense to continue offering the brand to some current customers, but phase it out to others. That way, those who are already loyal to you will still be happy.

Unfortunately, that's not always possible. If you have to break the news to customers that you'll be discontinuing a product or brand they use, here are ways to do it gently:

- Don't stop abruptly.

If you have regular customers who depend on the product or brand, or have internal processes in place to discontinue an item, give them time to prepare for the change. That way they can find an alternative.

- Point customers to similar products/brands or sizes.

If there is another product /brand or size you offer, similar to the one you're discontinuing, let the customer know. They might find that the new product or brand works just as well for them.

- Offer an explanation.

Most people don't like sudden change and customers who depend on you for a product or brand won't appreciate having to go elsewhere for it. By explaining that the product or brand is unprofitable for you, you'll be letting the customer know that you're not just discontinuing it on a whim, and you're as sorry as they are to see the product or brand go.

- Help them find the product or brand elsewhere.

Since you're no longer going to be offering the product or brand, you may want to let loyal customers know where they can get it. While you're technically steering them away from your business, they'll appreciate the brand and think highly of you. When they need other products or brands that you offer, they'll likely remember you, or even recommend you to others.

# “THE PRICE IS RIGHT” HOW TO SET PRICES AND IMPLEMENT A PRICE INCREASE

**T**RUTH: One of the hardest things you can do in our industry is adjust your prices. If you have been struggling to set prices so you can make a profit, while at the same time trying to be competitive, you are not alone. Many lawn & garden suppliers are finding it difficult to pass along rising costs to their distributors and retailers. Because our industry works at least one year in advance, you need to plan your prices 18 to 24 months ahead. I know, I know! Most of you are trying to figure out how you will be able to determine your cost of goods with any accuracy that far in advance, so let's start with the understanding that this is a common problem shared by many and managed effectively by only a few.

**Truth:** According to a study conducted recently by New York-based Merrill Lynch, nearly 21 percent of small companies indicated pricing pressures as a major issue for their businesses over the next 12 months; nearly double those who indicated the same a year ago. The study also discovered labor costs as the greatest threat to small business margins this year.

An unbelievable 40 percent of respondents stated pricing as their primary tool for addressing competition this year, up from 35 percent last year. This data, combined with the finding that around 36 percent of the sample describes competitive pressures as “fierce” indicates many small companies use pricing as a competitive tool.

More than 29 percent of respondents in the study stated labor as a major threat to margins over the next 12 months; a seven percent increase compared to last year. Fuel costs, transportation costs, rising wages, and increases in benefit and health insurance costs are driving the prices up for both the lawn & garden supplier and its retailers.

**Truth:** Lawn & garden companies are trying to focus on growth into existing markets to help them compensate for these higher costs. Based on our own survey conducted last year with small to medium sized lawn and garden companies, about 54 percent of lawn & garden companies are looking to realize a higher market share every year, and also stated this is their primary goal.

The focus on organic growth (increasing size through business growth and not through a merger or acquisition) is also a primary objective of many lawn & garden companies. To grow within your own category you will need to start with competitive prices, which will still allow you to make an adequate profit.

**Myth:** The actual final selling price is the key factor to establishing your prices.

To set your pricing there are basic required margins or expected margins that are in place through each step of the distribution channel. Setting prices too high will result in giving your competitors an advantage and appearing as though you are over-priced. Setting your pricing too low will result in too low of a gross margin needed to support your product in the supply chain.

**Secret:** Start pricing your product using the upside down method.

The smartest way to set your prices is to start with the understanding of your products' perceived values by the consumer.

Once you have a clear understanding of what the consumer will pay for your products you will have a starting point to setting your prices. It will make no difference what your cost of goods are or what your required margins are, or even the margin requirements of your accounts, if the consumer does not accept your retail price.

The best way to set the retail price is to use competitive comparisons as a starting point, then move on to actual testing of your products in different retail channels of distribution.

When you test in different types of retailers and various points along the distribution channel, and by offering a variety of price points, the results will provide objective data with which to work. You'll be able to see what people actually think is a good value for your product, as opposed to what *you* think they believe is a good value.

In other words, testing takes a lot of subjectivity out of the equation.

**Secret:** There is one fundamental guideline to testing prices: keep charging more and more until you reach the point at which people walk away.

That highest price may not be the best price for you to choose if the majority of your targeted consumers don't see the value at that price. However, you should at least know what may be your product's highest acceptable price. Here is an example of a sample price test conducted to determine how to price an organic soil amendment. These were the three price points tested:

1. \$7.95
2. \$14.00
3. \$24.95

The soil amendment product was tested in independent garden centers, hardware stores and farm stores.

This is the result of a three-day micro-test:

Price	\$7.95	\$9.95	\$19.95
Sales	19	25	11
Revenue	\$151.05	\$248.75	\$219.45

The highest price was the "torture" price, to see how high the figure could be pushed. As it turned out, it was the highest price that generated the second most revenue, and also generated a significantly higher margin than the lower two prices.

The first lesson learned here is if the highest price had not been tested, no one would know that so many people would still buy the product at \$19.95. However, we didn't recommend the company actually price the product at \$19.95 because the unit sales would not meet most retailers' or distributors' expectations. The soil amendment company would make a much higher margin, but eventually lose their distribution because the turns were not acceptable. We did learn that a \$19.95 price at a mail order/catalog company who traditionally needs higher margins to market a product, would work; and we had the test to prove it.

Following are additional formulas you can use when setting your prices, starting with the Secret Formula.

**Secret:** Example of Basic Pricing and Gross Margin Formula.

Suggested Consumer Retail Price

Less a minimum of 40% to 50% discount = Retailer Cost

Less 25% discount = Distributor Cost

Less 50% to 60% minimum in Manufacturer Cost of Goods (COG)

Example:

Margin	Low Margin	High
Suggested Retail Selling Price	\$14.95	\$14.95
Retailer price	\$7.48	\$8.98
Distributor Cost	\$5.60	\$ 6.72
MFG COG	\$ 2.80	\$ 3.36

The differences between manufacturers' programs that separate them from each other are factors such as pricing—PREPAID pricing rather than FOB pricing. If a