

An Outside
Look at Scotts

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An Outside Look at Scotts

For quite some time now I have been looking forward to this opportunity to be with you gentlemen. I have heard a great deal about you in the last few years, ever since I first had the pleasure and privilege of meeting Mr. Williams and other of your associates in Scotts. And yet I am a little . . . shall we say disappointed?

Listening here yesterday, it struck me that it might be more profitable, at least for me, if you out there were here where I am and I out there listening to you. I certainly would learn important things. As it was, I became more aware than I had been of how central it is to your job, to your success, to your program that you succeed in making a merchant out of, lets say, a hardware dealer.

Some of us would consider that not only an exceedingly important, but also exceedingly difficult job, and certainly one about which we know far too little.

Therefore, I would profit by having an opportunity to listen to you; by learning what you do and how you do it . . . how you go about casing the joint and finding a proper candidate for a dealership . . . how you can look at this store or that and quickly see the major possibilities in this job of helping a dealer become a merchant. I mean someone who knows his business and operates it with reasoning intelligence.

And I might have been even more interested in hearing you tell me how to get across to this man who has been running his place, for better or for worse, maybe

20 to 25 years. You could help me understand how you get to him with the obvious things that he does not as yet consider: such as, that the unit of capital in his business is not money, but shelf space . . . or that profit is not the same thing as profit margin multiplied by turn-over, which of course makes it important to know what stock moves fast and still more important to keep it moving that way.

Certainly many retailers of my acquaintance fail to take into account, if they are not totally unaware of, the glaringly obvious; such as the fact that if you want the customer to come into the store, you have to give him a little room to turn around in. How do you get this across . . . what are the difficulties . . . what is your approach?

Such questions fall in a highly important area — one of the most crucial areas of our economy. It is at that level of the retail store that our economy tends to break down in efficiency.

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But my subject is a different one today.

As Paul Williams told you, it's an "outside" look at Scotts, but not necessarily an outsider's look. Really, I'm not completely an outsider, having been privileged over the years to sit down with some of your people and listen to them. Not a member of the family, I hope I'm not a complete stranger, but a friend or at least a neighbor. And, therefore, I think I can say something that an insider cannot say and a real outsider cannot possibly know.

If I look at this company from a friend's position, what I find most striking are the people.

Now I don't have to tell you that people make a business. People are the only resource a business has in which it can be different. The money Scotts has

An Outside Look at Scotts

doesn't buy any more than anyone else's does. It gives no competitive advantage. The products are good, but there are 500 companies in this country that could turn out just as good ones. It's the people who give a business its character, its growth potential, its strength, its competitive edge.

And though I know quite a few businesses, I would be hard put to name another group of people like the one you have here: a group with the enthusiasm and the vision, the courage and the dedication, and most importantly the commitment to integrity and service.

Each of you has every reason to be proud of your association with the Scotts people. I have only one complaint against them, but it's a big one. They are forever trying to make an agronomist out of me.

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Now when you move on, to the real outside, the most important outsider for you is the customer, the fellow who finally uses the stuff. Today I propose, therefore, to have a look first at the customer and then a look from the customer upon Scotts. I am going to ask who is your customer . . . what do we know about him . . . how does he behave . . . what does he want . . . what is he willing to pay for . . . and what we can anticipate about his numbers and about his behavior for a few years ahead and what can we expect?

The customer is an outsider who is not under your control, whom you cannot manipulate, whom you have to earn. At the same time he is your boss and the final authority. It does not matter, let me say bluntly, what your research scientists say about the product if the customer does not accept it. He decides whether the claims are valid, not the scientist.

In contrast to the experience of most other businesses, your customer is fairly easy to define, because to have

a lawn you must have a place to put it. In other words, you've got to be a home owner (home renters being very scarce in this country).

Next, we know just about how many there are: a little more than half of the family units, make it 25 million, of which about 20 million have some sort of grass plot.

Further, we know that increasingly these people are to be found in residential and suburban areas. That's where the growth has been and is going on.

We know quite a few more things about them, too. First, we do know — and it's important that you, too, realize it — that these are family-centered people. They may be a young family, just married and waiting for their own first, precious sprout to appear in the nursery. Or they may be older people whose offspring have long since fared forth from the parental pasture. But they are family-centered units. That means the home and family life center their interests and their concern over spending.

We know a good deal about their income. By and large, these people are the upper half of the American income group. But don't get any delusions about dealing with millionaires; there are amazingly few millionaires around. "Upper half" means those who likely have just above the average income, which today is \$5,000 per family. The great bulk of your market is somewhere between \$5,000 to \$8,000 of family income — which takes in almost 40 percent of our population.

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I wouldn't want you men, in particular, to be left thinking the important figure is the total number of income dollars. The important point is that we know a family has little of what the economist calls "disposable income" until it reaches the average. Disposable

An Outside Look at Scotts

income is that part not already taken care of by taxes and mortgages and food and clothing and the necessities — which in this country includes a piece or two of automotive equipment, good, bad, or even unfit.

Below the average there is little disposable income. But the moment income goes above the mid point, disposable income starts growing rapidly. In fact, we know that for every 10 percent family income rises above the mid point disposable income rises 20 percent. It grows twice as fast.

This is the income about which people have a decision. They can put it into an outboard motor or on a lawn or to I don't know how many other thousands of different uses. This is the income for which the great American market competes. Let me say that you do not compete primarily with "local seed." Once you have a man in to buy seed you have won the real battle. You compete with all the other non-lawn possibilities for that disposable income. And this is indeed tough going.

Any number of businesses are out after that same disposable income dollar. And while the total of these dollars looks huge, the figure is not terribly large for one family. When a man makes a decision one way, he usually doesn't have much left over for a second or a third choice.

There is another fact that you probably know about, and it's equally important: these same people also have today a fair amount of disposable time. Time left over after they have earned their living. This wasn't true when I was your age. The change is what largely put you into business.

A lawn is not a purchase. It is an activity. One has got to work for it. That means one has to have the time. I must add that the competition for the disposable time is probably a great deal tougher even than the competition for the disposable dollar. You will recall that the Devil has of late centuries been supposed to make work

for idle hands. Today all the infinite distractions of modern inventions put the old fellow to shame.

Anyway, while one can borrow money, one cannot borrow time. Time one's got to have before one can spend it. I have a suspicion that here is your most serious competition.

Are you doing well in it? In the competition for the disposable time and the disposable dollar the answer, gentlemen, is No, you do not.

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The last thing one can know about the potential customer is that he doesn't really spend much money or much time on his lawn.

When I sit down with you and the Scott management people, I always hear about customers who have spent \$800 on their lawns. You must know different people from those I know. The \$800 people cannot be plentiful. I'm not saying they don't exist; but they cannot be plentiful. Look at your own sales (and you know the figure) also on the number of families that you have reason to believe are Scott buyers. They don't spend more than \$15 a year per family. Maybe they spend comparatively a great deal more time, and could easily spend less time, or time to better purpose, by spending more money. But so far they don't do it.

It is reasonable to assume that your customers on the average spend more on lawn care than do your non-customers. It is reasonable to assume that the average expenditure for those 20 million families I mentioned is at most \$10. Scotts, being the leading brand, the only real brand, having all that background of standing and good reputation and scientific validity it has, likely attracts proportionally many more of the serious lawn people. So your \$15 figure probably includes a highly disproportionate share of the \$100,

An Outside Look at Scotts

\$200, \$300-a-year people, which would bring the average of the others down substantially.

And so we do know that this customer of yours has not yet given high priority for disposable income and disposable time to lawn care. The opportunity is still there; you are not talking saturation markets, you are talking markets that have been barely scratched.

Now let's find out what this potential-actual customer of yours buys when he buys from you.

You say: easy, he buys our products. He does not.

No customer ever buys a product, this is the first rule of marketing. A customer buys results and not products. You sell products: he doesn't buy them, he buys results.

Well, what are the kind of results that would make him buy your goods?

To begin with, I think we understand a little bit about how people behave and how they feel and how their minds work in the buying situation.

Your customer buys results, and we call them the front lawn. I quite intentionally say *front*, not only because I think that for every 100 square feet of front lawn there are only about 10 square feet of back yard, but also because the front lawn alone, among most of your customers, gets any attention. For the front lawn is a part of the house.

Actually, the front lawn is the first thing you see of the house. The front lawn is the family introduction to the neighbor, the caller, and the stranger. The front lawn should be in keeping with your own ideas of how you want to present yourself to the world, since it is the most visible part of your house.

Therefore, it is highly important to realize that within the last 15 years the American people have changed greatly in the living factors they emotionally stress.

I told you we have become a nation of home owners very rapidly.

Twenty-five years ago the ratio between home owners

and non-home owners was quite different from the 55 home owners, 45 renters we have today. It was 70 renters, 30 home owners. We have become a nation of home owners so much so that the total addition of families since World War II has been essentially homeowner addition.

The home has become much more *central* to people. There are more kids. People get kids earlier. The home is much more important.

Why? Leave that to the psychologists. Whether it is the atom bomb that scares us into the only secure place we know, I cannot say. Maybe it's a realization that the world is so changeful and so turbulent that one's got to have some sort of stability over which one perhaps may not really exercise individual control but can work at it nevertheless — I don't know. The Why is not important for us. But we can be sure that this change has come about. We also know that so far it has not really affected the front lawn much, though it is so clearly a part of the home and, indeed, the most visible, most prominent part of most homes.

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But we know, too, that your customer does not buy just a front lawn; he buys therewith an activity. In fact, unless he buys an activity he isn't going to have a front lawn and certainly is not going to be your customer. And we have a pretty good idea of what people want when they buy an activity.

They don't necessarily want it easy — in fact, there's danger in making it too easy. I must say that I do not believe that your customers, in the great majority of cases, are terribly surprised or terribly upset if something goes wrong. They know that they are struggling with nature. And if you were to eliminate the risk entirely, I think you would kill your market.

An Outside Look at Scotts

We have plenty of examples in other industries. If you take away the challenge, the feeling "I have mastered the brute," to my mind, you wouldn't have much of a market left. The sense of achievement is important in an activity — the sense of doing something difficult.

Let me tell you a marketing story to illustrate this.

A friend of mine makes model airplane kits, and he experimented. In one small area he marketed his usual kits but called them something different and did not put in an instruction sheet, only a picture of the plane. In another area, at the same time, he marketed somewhat different, experimental kits that were as easy to put together as a house of dominoes. The sales in both areas disappeared within a few weeks.

In one experiment he changed an activity into somewhat of an intellectual chore that made people ask "What do I do now?" Few people have that much dedication to model-airplane building. In the other experiment, he took out all sense of achievement. The results were much better for most people. But a person builds a model airplane not for the sake of the model airplane, but for the sake of the activity, and he completely destroyed the satisfaction in the activity. This is a typical story; there are thousands like it.

Your customer buys an activity; it doesn't follow therefrom that people like to do unskilled things that do not give a sense of achievement. When Paul Williams talks about making lawn mowing easier and faster, he is right. This is not an activity that would give you a sense of achievement necessarily. But an activity has to be rewarding.

Now what does that mean in terms of specifications that your customer looks for — whether he knows it or not, and he usually doesn't — what does he consider value?

In this connection, we know something about this customer of yours: who is not humanity in general . . .

who is not even American in general . . . but who is the residential and suburban family home-owner with a middle-class income and today, by and large, a very high level of schooling, at least high school (which 30 years ago was scarce). We know that in an activity he wants to have the feeling he understands what he is doing. He wants to feel that it is controllable, that it is rational; that it is programed, in other words. He does not insist on infallibility, he knows there ain't any such thing. But he insists on ability to understand what happens, including what goes wrong.

He wants a brand name he can trust, a brand name that somehow stands for experience and service and reliability and acceptance. He is willing to experiment a little bit with new products (the American consumer is conservative). But even the experimentation he would rather do with a known brand.

He knows he is no expert. He knows he is no agronomist or soil biologist or what-have-you, and he knows enough to know that somehow such expertness is important. He knows he is not putting two pieces of wood together but dealing with living matter that is ornery, persnickity, and difficult. So he wants a brand.

And, finally, he increasingly looks for the validation of science. He has acquired too much of a respect for what science can do and does know. He certainly feels that the scientific approach to an activity, to a problem, to a program is likely to be more rewarding . . . appeals more to the way he looks at the world . . . makes him feel better about what he is doing and is capable of, including struggle and fear.

I don't have to tell you that the specifications fit you and your company to a tee. You are right for the customer. You give him the value he wants and looks for. This explains why you are the one and only leader in the field. This explains why one of you account executives who sat next to me yesterday at dinner observed

An Outside Look at Scotts

appropriately: "You know, I don't do any selling anymore. All I have to do is tell this dealer that we want him as our Scotts dealer, and then I have to decide how much he should buy."

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Let me take at least a glance at the outlook for this market of yours, in view of what has already happened or will happen. There are four counts that I consider important.

First, we know that we face a 10-year period of very high family formation. The total number of families in this country (not the people in this country, the families) will grow in the next 10 years by something like 20 to 25 percent. This is simply another way of saying that your generation, and the one just behind yours, were unusually heavy birth years that by now are generating marriage years.

We know also that this means the same increase in the number of new home owners in residential and suburban areas — not because every family moves out there, but because 60 percent of them do, while the movement from the city and from the rural areas to the suburbs of older, already established families still keeps going strong. All considered, it figures that the number of potential customers will increase by 50 percent, from 20 to 30 million families within the next few years.

Further, barring war or a major depression, the income of these families will go up fairly fast. A fair, conservative guess is that the average family income, the mid point of family income, by the second half of the 60's will be up about two-fifths, that is \$7000 against \$5000 today. As I told you, we know that disposable income, once this point is reached, goes up twice as fast. So the growth of disposable income will be substantial,

almost amount to a doubling of the disposable income in American economy.

And, finally, there is no reason to expect that the home-centeredness of our people is going to diminish. On the contrary, from all interviews with teenagers or young women (who matter here more than you or I do) we know that they are much more home-centered than the generation that is now in its late 20's.

In other words, your potential market is growing in size, in purchasing power, and in receptivity.

One could ask the question just how big could the market be? This is a hard one. There are no industry figures — and, incidentally, even if you have industry figures, they usually are not that good. But one can at least speculate that while the figures are probably no good at all, the magnitudes might be.

You figure on serving two million home owners today, with a little less than \$15 average purchase per customer. As I said there are 20 million home owners and their average purchase is quite a bit smaller. So a market today of \$200 million is probably on the high side rather than on the low side.

But now look at tomorrow: 50 percent more families, 80 percent more disposable income. I am not going to speculate as to how large the total market could be, because I am not going to speculate on how fast people will correct what is imbalance between their feeling about the home and what they are spending on lawn. If this were to change rapidly, then your potential might explode. Five hundred million for the market would then be the absolute minimum.

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One can certainly say that if you Scotts people triple your sales within the next five or six years, you are standing still and have not gained in the market place.

An Outside Look at Scotts

You should be able to get the same percentage of customers among families, which is 10 percent roughly, and so have three million customers. And the \$15 average should increase by 80 percent if lawn care merely maintained its attraction for disposable income. It should go up to \$25. And we can all multiply 25 by 3.

This I would consider standing still, not in terms of production and profits (it's a tremendous strain on a business to grow that fast) but in terms of success in the market place. You should be able to triple your business without material impact on the consumer.

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Now let me ask my last question.

Is there any explanation for the discrepancy between the objective factors in the situation and the extremely low place lawn care occupies on the priority list of most American families?

I think you know one answer: there is a link missing.

Your product line consists of three kinds of products, quite different ones, but all equally important. There are the physical products for which you write orders, and they better be good and remain good, and competitive in other aspects. But then equally important is the lawn-care concept.

I have believed, from almost the first time I sat down and heard about your company, that *Lawn Care* magazine is as important a product of yours as anything you put into a bag. It establishes both the rational program concept and the acceptance of authority by your customers. It is a basic product in your line without which your other products would lack the basic appeal to people.

But there is a third product, meaning the availability of the stuff. And I do not refer to just having it sitting in readiness; I mean having it merchandised and sold.

And this, as you all know, is still just beginning. You in this room have just begun to do it. It is something that we know the retail merchant in this country has never done. And it's very important that he learn it.

What I have just said is not a contribution solely to your success and Scott's. It has far broader implications. If the retail merchant doesn't learn to be a merchant, doesn't learn to run a business and understand it, he is not going to survive, but is going to be squeezed out. And we as a society need the independent merchant as a source of strength.

Even more important is the fact that your merchant, your dealer, with exceptions, is so terribly costly a channel of distribution.

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The dealer doesn't make much money, as you know. He makes much less profit than he should; not profit margin, there I think he makes too much, but total dollar profit. But his costs are exceedingly high. They are costs of ignorance . . . costs of preconceived notions . . . costs of not running a business but having a stand at the corner for the passer-by, which is not a business. This is the area where our costs in this economy are highest, are uncontrolled, and are grossly inefficient.

For the sake of the economic performance of our country it is important that the dealer learn how to do the job much more cheaply and efficiently, and at the same time make a bigger and better profit for himself.

Helping him in your own interest to become a merchant, you therefore are contributing a very badly needed service.

I am reasonably sure that a sizeable proportion of your dealers will be able to project what you are showing them to do with one big item to other items of their merchandise. Once you convince the dealer that shelf

An Outside Look at Scotts

space is his capital, he can project the idea to nuts and bolts and screws. Once you have shown him that profit is turn-over multiplied by profit margin, he can look this way at other stuff that has been piled up in a corner for the last 11 years, has a profit margin of 90 percent — only he has never sold any of it.

Scotts can contribute directly to his education, development, and improvement. The country needs this badly — but you need it perhaps even worse. What you are doing, some of you quite successfully, is important not only to Scotts, but to all of us. You have something very important to learn yourselves and then to teach.

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I have not exhausted my topic, I could go on. But I've exhausted my time. Let me, therefore, say in conclusion that the situation in which your Company finds itself, and you with it, is one of tremendous opportunity.

You have acceptance in the market out of all proportion to your selling there; you have the acceptance accorded a company that sells 10 times your volume, the household-name acceptance. This is an opportunity, so that if you succeed in building the channel to this acceptance, you shouldn't have much of a problem pumping water — it will flow.

You also have a tremendous challenge ahead of you.

As I told you, tripling your business would not be a success on your part. Tripling would be standing still and letting the tide carry you. So anything below tripling is failure, over the five or six years. And only when you go above the triple point can you really say, "I have contributed." But tripling of this kind is a great strain on a business. And if you don't mind my putting this on a personal basis: if I were one of you, I would give some deep thought to the way I used my time. Time is one's sole personal commodity. I would spend a lot

of thought and planning on allocating it. You never have enough time; you'll have less of it these next few years.

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Your challenge is especially significant, partly because your company is so right for the kind of society and economy we have built. It is a two-way challenge, of a sort, because people do want their lawns, they aren't resisting lawns, but they don't know how to get them, and so they accept the challenge that you put forth to them. But the main significance of this challenge is that you have taken on the country's central circulation and distribution problem.

Bear with this restatement: Our country has worked wonders in industrialization, our production and most other phases of enterprise are extra-efficient, yet the retailer has not grown up. He still depends on proximity instead of on selling and on being a little universal showcase rather than a merchant who creates and satisfies demand. This is a central weakness we have. And it gives you an opportunity to make a major contribution.

One of these days I hope you will allow me to come back and hear how you have made it.

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