

RETAIL FORECAST 2009

Grappling With a Tougher Business Environment

By Phillip M. Perry

Home foreclosures. Frozen credit. Crippled banks. Sinking stocks. The scary headlines are everywhere. Your

retail business is entering the most challenging economic environment in decades, but what does that mean to store operations? What steps can you take to survive and thrive? Here's what

the experts say.

Entering a Recession

The implosion of the financial system has strained businesses already suffering from a battered housing market. "We are now looking at an economy that is going into a downturn," says Sophia Koropecyk, managing director of industry economics at Moody's Economy.com, a research firm based in West Chester, Pennsylvania. "We anticipate very weak growth through 2009 before the economy gets back on track in 2010."

The numbers tell the tale. The most important figure is Gross Domestic Product (GDP), the yearly total of all goods and services produced in the United States. GDP growth for 2009 is expected to be only 1 percent, according to Economy.com. That's a considerable softening from the 1.6 percent increase anticipated for 2008 when final numbers are tallied. To put these numbers in context, the GDP for an economy in average growth mode is 2.5 percent.

No wonder retailers are bracing for the worst. "We will be lucky to see flat retail sales for the first half of 2009," concedes Jim Dion, president of Dionco Inc., a Chicago-based retail consulting firm. "As for the second half, we may see a 2 percent increase and end up with a year that is either flat or up 1 percent over 2008."

Corporate profits are expected to decline some 5.7 percent in 2009, according to Economy.com. That comes on the heels of a 6.3 percent drop anticipated when 2008 numbers are finally tallied, with no rebound until 2010. (Numbers which include the results of the troubled financial sector were not available as we went to press.)

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ful ride through these troubled waters, start by understanding the three big trends that you will need to grapple with over the next 12 months. They are:

- a decline in consumer spending
- a freeze in business credit

- a rise in the cost of goods sold

Consumers Pull Back

Shed a tear for shoppers' former monetary excesses that have driven the economy in recent times. "Five years ago consumer spending represented

65 percent of our economy," reports Walter Simson, principal of Vantor LLC, a New York City-based management consultancy. "Today that figure is 70 percent. The reason for the increase has been the availability of excess credit. Now we are seeing that be-

WHAT YOU SHOULD DO NOW

Here are some ideas from our experts:

Improve systems. "Keep looking for upgrades in technology and systems to get a tighter grip on store inventory and get more work done with fewer labor hours," advises Jim Dion, president of Dionco Inc., a Chicago-based retail consulting firm.

Exploit opportunities. "Smaller businesses often have a leg up over bigger ones that may not be able to offer the customer a truly personalized experience," suggests Shep Hyken, a St. Louis-based customer service consultant.

Review the numbers. Start analyzing your own business more closely. "Know where you are making money and where you are not," explains Walter Simson, principal of Vantor LLC, based in New York City. "Identify your core products and customers." Then take steps to sell more high-margin items to your best accounts.

Single out and cultivate your top customers. "Identify the 10 percent of your clients who account for 90 percent of your profits," recommends Marilyn J. Holt, a Seattle-based management consultant. "Who are the people coming in once a week to purchase maybe \$50-\$200 worth of items? Know their names, what they want, and why they shop at your business. Then start finding items those people want to buy."

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ing reduced. As a result, [there is] a pullback of consumer spending on discretionary purchases."

Rising unemployment is only adding to the angst. "We are looking at continuing job losses into the summer of 2009," warns Scott Hoyt, senior director of consumer economics at Economy.com. The unemployment rate is expected to grow to 7.07 percent by the end of 2009 from the current level of 6.5 percent.

Job losses, of course, are clearly a negative when it comes to household income. Total wages in the country are expected to rise by 2.86 percent in 2009, according to Economy.com. That moderation from the 3.59 percent increase of 2008 should put further downward pressure on retail sales. "Consumers who don't have jobs, or who are concerned about losing them, will be cautious shoppers," Hoyt asserts. At the same time, the rise in

unemployment is not expected to be great enough to cause a decline in labor costs for employers.

When incomes are under pressure, people find alternative sources for pocket cash. Unfortunately, those are also drying up. "Obviously there are no capital gains around anymore," Hoyt observes. "And there is no more appreciation in home equity which people have borrowed against in the past." Securing loans of any kind is more difficult now, even for those who have always paid their bills on time. Credit card companies are also tightening up.

All of these factors are coming together to depress the public mood. "We had been hoping for some improvement because of lower energy prices, but with the recent events in the financial markets we are no longer convinced that confidence will improve until well into 2009," Hoyt states.

Shoppers are expected to cut back

in particular on high ticket goods. "There is going to be a slowdown in luxury items as well as in expensive things that people will opt to repair rather than to replace," says Marilyn J. Holt, a Seattle-based management consultant.

Businesses Must Scale Down

Your own retail operation will probably be confronted with a credit squeeze similar to what your customers are experiencing. "There is currently a shutting off of access to credit for businesses," Koropecykj emphasizes. "That will affect the ability to borrow short term to meet payroll and cover inventory costs." Capital investment is expected to decline by some 0.13 percent in 2009, a dramatic pullback from the 3.78 percent expected increase of 2008.

If you become a target of your bank's belt tightening, your ongoing

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operations may feel the pinch. "I would expect more institutions will be calling retailers and saying, 'We want to make some changes to our relationship,'" Simson acknowledges.

What could you expect? "A banker might say, 'I want a higher interest rate,'" Simson suggests. "Or, 'I want more structured terms.' If three out of five banks start saying that, you have a credit crunch and you can't borrow money at any cost. Such conversations are probably happening in many places right now."

Are you in the practice of using one or more credit cards to fund your inventory and other needs? Be prepared: Your providers may either lower your credit limit or start beefing up their bills. "Many of the financial companies suffering huge losses are big backers of credit cards," Holt says. "They will be looking closely at making more

profit by upping the prices of their cards to both merchants and users." Keep an eye on your rates and start to look around for better deals.

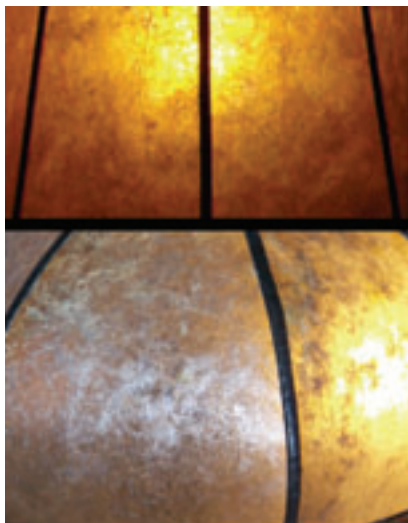
Retailers will also be hit by price increases driven by currency exchange rates and fuel fees. "The decline in the value of the dollar results in higher costs for imported goods," Hoyt points out. "Some importers have benefited from locked-in contracts, but many of those will need to be renewed on less favorable terms in 2009." Despite some recent strengthening, the dollar is expected to remain weak against foreign currencies through 2009. By the end of that year it will take \$1.39 to buy what a single euro can, according to Economy.com. That represents only a minor strengthening over the \$1.52 clocked in 2008.

Costlier fuel translates into higher rates for production and for transporta-

tion of goods, putting upward pressure on prices. On the buy side, consumers are shelling out cash for energy that they would otherwise spend on products and services. "Home heating bills will be significantly higher this winter than they were last year," Hoyt says. "Even if fees go down further they are not expected to get to where they were earlier in the decade," Koropecyj projects. "There is more demand in general and less ability to drill easily at a low cost," she notes. Experts say by the end of 2009 oil could be \$93 a barrel.

Weathering the Storm

So what should you do entering the new year? You have to create fresh initiatives that boost sales by offering customers real value. Making the right moves now can mean the difference between profit and loss. "At the end



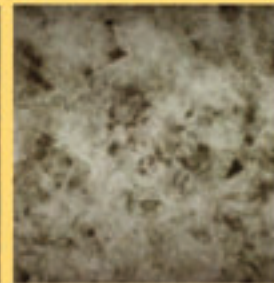
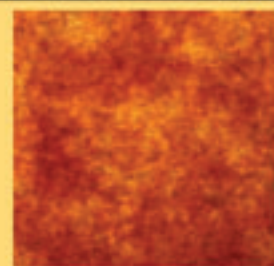
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of it all, some 10 percent of retailers will enjoy double-digit sales increases

in 2009," Dion injects. "Being part of that group isn't a matter of hoping and

wishing: It's having a workable strategy and executing it." ❖

HOW TO KEEP WATCH

It's always smart to keep track of the economy to assess its expected impact on your operations. As we enter 2009, there are a few numbers that will be more important than others, given our current economic crisis.

"Early in 2009 people will be looking at housing prices, at the unemployment rate, retail sales, and consumer confidence," notes Sophia Koropecyk, managing director of industry economics at Moody's Economy.com, a research firm based in West Chester, Pennsylvania. Here are some of her suggestions for current data to keep informed:

Housing prices. Monthly reports are available from the National Association of Home Builders (NAHB®); nabh.org

Unemployment rate. Get the latest labor figures at the Bureau of Labor Statistics; bls.gov

Retail sales. These are tracked by the U.S. Census Bureau; census.gov

Consumer confidence. See The Conference Board's continually updated figures; conference-board.org

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