Editorial

Companies with Access to Cash Can Withstand Economic Crisis

As we begin to see the first major casualties of the financial crisis on the retail side and the supply side, a common thread is visible. It appears that in the cases of Joe's and Iron Horse, both companies fell victim to a shortage of cash.

While Joe's was forced to file bankruptcy—following presumably weak holiday sales that were insufficient to cover outstanding invoices—Sport Chalet, another regional sporting goods chain, received a lifeline. Through an amended loan agreement with Bank of America, Sport Chalet gained access to essential working capital.

Indeed, the old adage cash is king rings true these days. Those companies that have it are much more likely to succeed in this challenging business environment.

Cash is tight throughout the industry supply chain. Retailers have access to fewer and lower lines of credit. Suppliers say many retail invoices with extended payment terms are just coming due. Whether their collections are successful will clearly indicate how solvent specialty retailers are.

While some suppliers may face cash flow issues this spring, those that have existing banking agreements will maintain plenty of breathing room. Debt-free businesses with strong investor relationships will have added security to manage their business. Suppliers with integrated or stable manufacturing partners will be able to lean more heavily on their overseas factories to bridge financial gaps.

In general, well-managed companies with liquid assets will be able to cover any shortfalls and sustain themselves through tough times.

Despite the fears recent bankruptcies may fan in the industry, well-run companies that are well financed will continue to thrive.

Guest Editorial

Consumer Credit Can Keep Business Rolling in Tough Economy

BY DENNIS MURPHY

Daniel Sterling, owner of Cycle To Fitness in Livonia, Michigan, has every reason to be nervous about his business. His store sells a wide selection of high-end, high-performance bikes that can cost $3,000 or more. Michigan has one of the highest unemployment rates in the country. Not a good formula for business success.

"The economy has been pretty rough, especially here in Michigan," Sterling, whose store has been in business for four years, recently told me. "It's getting tougher to sell high-end bikes, but there are things we can do to generate traffic and excitement."

It's not impossible to keep your business rolling during a recession. Sharp retailers prepare for hard times with a business plan that includes:

- Promotions
- Marketing
- A consumer-financing program

Sterling's plan is built on a cornerstone of consumer financing. It's the same approach that lots of successful retailers use in both good economies and bad. In Sterling's case, he works with his financing partner, GE Money, to provide a year-round, 90-days no interest credit offer.

Purchasing decisions are always more difficult for consumers when there is anxiety about jobs and income. But with financing, their anxiety is relieved and they feel more confident about buying a bike.

However, consumer financing won't help very much unless your store can create some buzz about it. That's where promotions and marketing come in.

Cycle To Fitness, for example, rolls out a 12-month "same as cash" offer twice a year. It's a powerful consumer incentive that creates interest and store traffic. Anyone who has considered a bike purchase will be interested in such an offer, but if they don't hear about it, the promotion will do little good.

Retailers: to make financing promotions more effective, you should mention them in your advertising and on your Web site. Put them on signage in the store, and talk them up when customers come in.

The power of consumer financing is especially evident when the consumer is in your store. Mention you have a great financing program early in the sales discussion. That way, the customer has the financing option in mind when they are considering their choices.

Mentioning financing early also removes the pressure that some consumers feel when they think the sales associate is trying to "close the deal."

Many retailers have reported that consumer credit is a factor in 10 to 20 percent of their sales. That's a significant piece of business and it can be the difference between success and failure during a sluggish economy. Financing, along with promotions and marketing, can keep your store in high gear while your competitors are pedaling uphill.

Dennis Murphy is vice president of sales for GE Money's Sporting Goods sector.