



Drawer



Previous



Next

50

Page



Back/Forward



Zoom In



Zoom Out



Tool Mode

Business & Marketing

Better business

Trend analyst Laura Heller talks turning economic challenges into business opportunities

This year has been brutal on businesses of all stripes, but retailers are really bearing the brunt of the slowing economy. Discretionary spending is at a low, and with no end in sight for the rising prices on commodities, many are wondering where the silver lining is. Yes, there is one.

At a business publication I used to write for, we sometimes referred to the few weeks after the New Year as the "January Follies," when retailers began declaring bankruptcy, announcing mergers, new ownership, or cash infusions by private capital or hedge funds.

It may be summer, but January has a long reach this year. While the news may be challenging, there are opportunities for retailers who have played their business cards right.

Retailers who have crumbled under the pressure were companies already in trouble. No one suddenly wakes up on New Year's Day and discovers all the cash is gone, debt is out of control, and the creditors have already begun claiming inventory. Rather, that kind of New Year dawns expectedly, as a bookend to a really bad year or two prior.

So the news of **Sharper Image** and **Linens 'n Things** filing for Chapter 11 bankruptcy protection came as no surprise. They had been struggling to stay relevant, update stores, and improve profits for quite a while. Both sold a wide variety of gadgets and home items, some directly relating to the photo industry. They were large national chains facing stiff competition from discount department stores and specialty retailers.

More important, both faced stronger direct competitors — **Brookstone** and **Bed Bath & Beyond**, respectively — that had consistently operated more profitable businesses, had superior locations, and better growth prospects. That the weaker operator should fall is a law of nature, or economics. The timing is also part of the regular scheme of things. Weak businesses do not survive difficult economic times. The better-run companies not only come through downturns intact, but stronger.

Take **J.C. Penney Co. Inc.**, for example. The mid-tier department store chain has executed a turnaround much lauded by the retail and financial community. As its direct competitors stumbled (**Seans**) or disappeared completely (**Montgomery Ward**), the Plano, Texas-based chain successfully reinvented itself and thrived. It took years and a multi-faceted plan that included introducing new product categories, brands, partnerships, and marketing. Management remained focused, and the chain stands tall today as

one of the few to accomplish such an overhaul.

Even so, the retailer isn't immune to the current economic climate.

Earlier this year, **JCPenney** posted a decline in same store sales and slashed growth plans, pledging to open fewer stores than originally stated. It's not a drastic roll back, but a measured response to an economy company management doesn't see improving before the end of this year.

"I don't think we're very optimistic about it ending any time soon," Chairman and Chief Executive Officer **Myron Ullman** told *The Associated Press* during the World Retail Congress in Barcelona, Spain, recently. "Current economic conditions are not a good opportunity for anybody."

But that's not entirely true. When it made an offer for **Circuit City Stores Inc.** in April, **Blockbuster Inc.** saw a \$1.3 billion opportunity to add nearly 700 U.S. storefronts to its portfolio, and to expand its reach into entertainment products. (Blockbuster has since withdrawn its proposal, citing market conditions as a factor.)

The trend toward mass consumer electronics retailers with less interest in the photo market offers more opportunities for the specialty photo retailers — particularly the ones who have not lost focus on their specialties.

Smart retailers take advantage of bad economies. While others are busy filing for Chapter 11 or trying to hang on until things improve, those coming from a stronger position invest, expand, and diversify.

Real estate is bad news for the national economy; but for a store wanting to expand or simply reduce rent, it's quite the opposite. Prime locations may be more readily available, leases easier to negotiate, and contractors available for lower fees.

Photo specialists in particular should take advantage of the chaos some competitors are facing. While **Circuit City** is battling an agitator on its own board of directors, make sure customers know you're not going anywhere.

Promote summer vacation photo books, enlargements, and print specials. Hold classes to show customers how to take the best photos with their cameras. Get in front of the back-to-school season earlier this year.

Also look to long-term opportunities. Re-evaluate real estate costs, negotiate better terms with suppliers, and figure out the next growth opportunities. Invest in your future now, while it's at a discount. ■

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