

A.R.E. - Association for Retail Environments
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Do the numbers lie?

As I write this article at the end of May our industry is confronted with a perplexing array of measurements. Our just-completed Industry Financial Performance Report for 2008 shows that

The 78 companies with sales of \$2.25 billion suffered an aggregate sales decline of 6.0% in 2008.

This is the worst sales performance recorded in the 15 years of the survey. We also know that sales deteriorated as the year went along. In March 2008 the A.R.E. Revenue Trends Survey predicted growth of 3% in 2008. By the first week of September, the predictions were lowered to 1%.

By March 2009, the survey respondents said sales had actually dropped 6% in 2008! And they predicted a further drop of 15% in 2009!

It is now pretty clear that starting in September or October of last year most retailers put the breaks on almost all spending that they could. As of now we see scant evidence to think that this prediction is off base.

Not surprisingly industry profits are suffering as sales have dropped. Pre-tax profits of 3.2% in 2008 were the lowest reported since 2003.

Unfortunately it seems likely that profits will decline further. In the last recession, profits in our industry tended to lag behind changes in sales. In fact, the lowest profit percentage we Recorded in the last downturn was well after official recession had ended. While the recovery by our data began in the retail environments industry sometime in 2003 this was approximately 18 months after the end of the official recession. From when the industry turned the corner in 2003 profits lagged with pre-tax margins of only 1.8% in that year. The decline in the latter part of 2008 appears to have not caused significant damage to the industry balance sheet by the year-end.

In fact, the current ratio the industry improved slightly to 2.5 compared to 2.3 in 2007 and the quick ratio was unchanged at 1.3. These ratios are both significantly stronger than industry averages at year-end 2000 as we entered the last recession.

We believe the strong industry balance sheets are the reason that we have seen little attrition in the number of companies in the industry in the past year.

By our records to date we have only lost 5 companies that have either closed shop or gone bankrupt in the last year.

We have sometimes lost this many companies in a year when sales were strong!

It seems all but certain that profits will slide in 2009 and additional companies will exit the industry.

There is a tremendous amount of excess capacity.

We have recently had several conversations with companies who were exploring whether or not partnering or combining with other companies makes sense. Financial buyers from outside the industry unlikely, strategic partnerships and combinations may make a lot of sense as our industry works through the challenges.
