

Sergio DeSoto's Perspective on 2009

There is a massive amount of speculation on what is going to happen next year with this crazy economy.

Even the best experts can only guess as to the financial climate of the United States. My job as an advocate of the wrap industry is to do my best to help keep the industry aware of what is going on. While most of you are doing your best to make a living by keeping your shops running; I am watching the big picture, keeping an eye out trying to find the best information to arm you with as you march forward on a daily basis.

My job as this industry's expert is to know and understand the big picture. Everyday one of the first things I do is look for items to post on our site so you can be better equipped to fight the battle.

I am not a prophet but I do think based on history, the current economy as well as the movements within our industry, I can safely make some assumptions about what this next year may bring. Lets see what happens at the end of next year, only then will we see how this whole mess pans out.

I hate to be doom and gloom but the fact remains that most shops are not prepared for this economy. Sadly the 80/20 rule will apply. 20% of shops will be profitable while the other 80% will be comprised of shops that barely make it and some that will shut down.

The caveat to the future in this case is that it can be altered for the better. We hope to equip shops so they can beat this economy and come out of it stronger than before. Below is a generalized analysis that is extremely probable and will more than likely come to pass.

What is in-store for small-med independent shops.

These shops make up the majority of shops based on sheer numbers, however to most distributors they are the minority in sales.

This year is going to be especially hard for them on many fronts. Anyone who decides that being unemployed from any of the numerous layoffs that are occurring across the country may find that the sign industry may be an easy entry self employment option thus creating more competition.

Typically these shops do not have the wherewithal to compete on a large scale with their franchise and large independent counterparts on a long term basis. Many of them will disappear in 2009, more so than when we are in a good economy.

Small to med sized independents may have an advantage if they execute well and have a plan to manage their resources. This advantage of low overhead and minimal fixed expenses will lead to a flood of low priced bids and a rabid attack on the larger more desirable customer base typically held by large independents.

This is going to be a massive problem for the large independents and franchise groups.

What is in-store for large independent shops.

These shops make up the minority of shops based on sheer numbers, however to most distributors they are the majority in sales.

Large independent shops are at risk this next year for many reasons. More so than those who are in the small to medium size range. Typically large independents hold large a/r balances. This puts them in a

dangerous zone of relying on their customers who are typically large, more established business to pay their bills. I have already seen a few large shops shut down simply due to poor cash management and customers who will fail to make good on services received.

Many will make the mistake of selling against the small/med sized shops based on price alone. There will be a common fear that if they do not beat the price they will not get the work. Selling based on price alone coupled with poor cash flow management will be the death of several larger shops in 09.

I sadly foresee many more of these large shops shutting down, this is unfortunate because there are tools available to help keep these shops running. I will address some solutions in the next issue of wraps magazine.

When these shops close it has an adverse effect on the whole industry especially the distribution and manufacturing channels.

The promising side to being a large independent is this. Large independents if managed properly have the ability to compete based on their established business history, can offer terms to larger clients and can typically offer sounder warranties. Many of these fronts will set them apart from the smaller shops who will have to sell on price alone.

The large shops that have a good marketing plan and act on it will be more apt to survive and grow this next year.

What is in-store for the franchise shops.

Franchise shops are all over the board in size when ranked individually however as a group they are a force to be reckoned with. Let me clarify, could be a force to be reckoned with.

Franchise shops are still going to have to deal with the small/ med size shops selling on extreme price, they will have to deal with the holding power of the large independents. These are problems that are not going to go away. They actually never go away but in a down economy it becomes a prevalent problem.

Even among the franchises you have small and large. There are well ran shops and small startups. Franchises do share some commonalities that may make it tougher for them to fight in the coming year.

Most franchise models have the shop located in high rent retail areas this creates a monthly burden that small shops and most large independents do not have to deal with on a per square foot ratio. Franchise shops typically have the highest rents in the sign industry along with franchise royalties that make it darn near impossible to compete on price in a tough economy. Even though competing on price is not the smartest option.

Franchise shops tend to make the mistake of expanding their offering as opposed to focus on the strengths of their given franchise. The more they lose focus the less profitable they will become. I would expect to see many franchise shops delving into other other areas of retail able goods such as t-shirts, promotional items and so on. The best bet is to stick to the overall plan of the franchise group and take advantage of the marketing dollars that stem from their franchise fees.

Franchise groups under strong leadership next year will have a solid chance at making it through 09. I say strong leadership carefully because it is yet to be determined which group will shine next year.

Franchise groups should / need to come on strong with a well thought out business stimulating marketing plan that focuses on the power of their brands ability to provide properly designed, business generating signage to the business public at large next year.

Everyone needs to take notice as to what the franchise groups do to hedge this down time as they are typically the bell weather of the sign industry. A leader will emerge and have an opportunity to gain massive market share if they execute properly. This could be a great time for them as a whole, thus my sleeping giant comment.

We should in theory see an onslaught of franchise branded vehicle wraps with a business stimulus message, direct mail pieces and possibly even television and radio ads. Should see.. we'll see?

What is in-store for distribution??????

This will be interesting.

Who will stand, fall and grow in the coming year? This is going to be interesting to watch as several indicators of past events leading to this next year are very disheartening.

When times were good and the economy was strong we saw several distributors selling based on price.

Even with distributors excelling at service, inventory and locations there was still a price war being waged causing distributors who competed on price to be less profitable.

This next year probably will be more of the same, but even worse unfortunately for them. Even though as a sign shop owner we love to get the best price, something will always suffer when a good majority of profit is sacrificed. Inventory, new locations, customer service staff and so on, these are all things that a distributor sacrifices when they only compete on price. All very important to the sign shop owner.

There will be a shift in power this next year or two on the distribution front if the battle is fought smarter amongst the giants.

The leader in marketing will come out of this economy stronger than the rest and will emerge more profitable with a larger share of the market place..... This will be exciting to watch.

We will see a pull back in marketing dollars spent, which is a fundamental mistake.

We will see aggressive price wars, again a fundamental mistake. Distributors should sell on their strengths, not all customers are price driven. Many enjoy the ability to have their product delivered same day and so on.

We will see a hold back in new product offering and a pruning of existing product mixes. Not so bad if done correctly.

We will see a huge push to put more people in business thus creating an ease of entry, creating more competition for the small independents (remember they are the smallest group of income to most distributors) , aggressive packages, start up loans and so on.

Several distributors will become unfocused by adding to their offering, possibly getting out side of their realm of expertise. We have seen some of this already. There will also be a correction of that made very early on, probably in the first quarter.

Customer retention will be a big focus next year, rightly so, every dollar will count. The smarter distribution companies will analyze their service levels, customer opinions and internal churn rates.

This should be a better year for smart regional distribution companies who can fight the battle on a smaller scale. Once again, this will rely on good marketing.

The key to survival for any distributor in 09 will be not only customer retention but new customer cultivation. Like I said this ought to be interesting.

What is in-store for manufacturers:

All I have to say on this topic is this. Quality will be of major importance this year. Shops will not want to mess around with products that will not perform. A redo will have 5x the impact on a shop in a down economy.

Manufacturers should focus on quality control this year. New product launches may not be the best idea as shops will probably rely on what has worked for them in the past. The caveat to this would be low cost alternatives from a trusted manufacturer or product line.

Shops may tend to want to try cheaper brands early on but will revert to trusted brands very quickly.

Marketing from the manufacturing side should be heavily pull through based. Meaning manufacturers should spend their efforts trying to get business at the shop level. They should leverage their power to create national wrap programs, marketing campaigns reinforcing the marketing power of wraps, both building and vehicle related. Especially in light of recent pull backs on Madison Avenue. Traditional forms of media are suffering huge pull backs. This is the perfect time to promote wrapping on a large scale!!

This will not only generate or stimulate the ad money that is still available to be channeled in our direction but will help them sustain sales.

My prediction in this arena is that the leader will become stronger and we may see a shift in the number 2 and 3 positions by end of quarter 2.

In closing.

This document is just my opinion. I am diligently working daily to provide shops with ammunition to compete in the upcoming year.

Just like any other free advice or commentary take it for what its worth.

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Take Action Now!