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U.S. Small and Middle Market Outlook 2009: Retailers and Suppliers Take Stock of Economic Downturn

with Jonathan Lucas, Executive Vice President, CIT Trade Finance and Stuart Feil, Editorial Director of Forbes Insights
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Elliott Forrest: Welcome to [5 Minute Capital](#), CIT's executive insight series, which takes on financial issues in about five minutes.

Today we're discussing the report "[U.S. Small and Middle Market Outlook 2009: Retailers and Suppliers Take Stock of Economic Downturn.](#)"

Our guests are [Jon Lucas](#) of [CIT Trade Finance](#) and Stuart Feil, editorial director of Forbes Insights. Thank you both for being here.

Lucas: Thank you.

Feil: Thank you.

Forrest: Could you remind me first, just to start, Jon, actually how large the small and middle market sector is to the economy?

Lucas: Well, there are reports that would show that the middle market employs somewhere between 30 and 40 million people in the United States and a substantial portion of those middle market companies are engaged in bringing product to the retail channels of distribution.

Forrest: So this is huge to our economy?

Lucas: Very big. Yes, sir.

Forrest: We are going to talk about this report that CIT and Forbes did together. We are looking mostly on the supplier side today. Just generally speaking, what were your impressions of the report?

Lucas: Well, the report kind of solidified our thinking that the suppliers, the vendors, that sell into retail channels of distribution are experiencing a difficult time given the fact that retailers have reduced their inventories, thus impacting the vendor that sells that product to the retail.

Forrest: Stuart, talk to me about your impressions of the report. This is the third time CIT and Forbes have gotten together on this. What did you learn differently on the supply side from the last reports to this one?

Feil: This is really the first study and maybe the first of its kind that has examined the middle market retail sector from two sides - from the retailers themselves, and, just as importantly, from the suppliers, from the vendors of apparel, of home furnishings, of housewares that sell to these retailers. The biggest impact I think that we saw on this was in the area of customer bankruptcy. Sixty-six percent, two-thirds of the suppliers, said in past twelve months they have been affected by a customer bankruptcy and 59% said they expect additional customer bankruptcies in the next twelve months. Cash flow is what it is all about.

- Lucas:** And you need to remember that many of these vendors are small businesses. They don't have the number of alternatives, today, to the capital markets that they once did. And, as a result of that, they are finding it difficult to find financing. If they are profitable, if they are at the upper end of the middle market, their financing needs are typically being met, but the smaller vendor is the one that is really experiencing a downturn. That vendor has lost sales, has lost profitability, and probably has a very leveraged balance sheet, and with tight credit markets being the way they are today they are finding it very difficult to find financing.
- Forrest:** Where does quality fit into this? Do the retailers get in touch with the suppliers and go, 'Just make it as cheaply as possible,' or do they go, 'No, no. Our clients want good stuff'?
- Lucas:** No, I think we are rewriting the price/value equation in this country today. And you need to manufacture a quality product at price points that are salable in the market today. There are very few \$10,000 suits being sold today.
- Forrest:** What is deleveraging and how do you see it affecting the industry?
- Lucas:** Well, I think the whole world is going through a deleveraging. I like to call it a recalibration in the standard of living in this country as well as others. The standard of living around the world is coming down. There is less money available for the consumer to spend, so as a result, we have seen consumer spending drop significantly over the last several quarters, and it is likely to be flat going forward. You are just not going to see the consumer going out spending money the way he and she did back in the early part of this decade, and perhaps you will never see spending the way it was once before.
- Feil:** But for the suppliers it is all about cash flow to get through this particularly difficult time in the retail sector. If their customers aren't buying then they need to keep a close eye on that. And again, manufacturing is a cash flow - intensive area. Are they getting paid by their customers? Are these suppliers being paid by their customers on time? Do they have enough cash? They may have strong revenues, but if they don't have the cash to turn it around, that's a real death knell for a company, certainly for the smaller ones, for those that are in the, you know, two million to twenty five million in annual revenues, it's really all about cash flow.
- Forrest:** Any final thoughts on the supplier side of this study between CIT and Forbes, Stuart?
- Feil:** Well, I think again the suppliers are operating as close to the vest as their retail customers. They're looking forward to 2009 ending, looking forward to getting through. They really want a return to normalcy.
- Lucas:** I think we are in a period of time where we are redefining what normal business behavior - we're in a 'Re'-world where we're reinventing and remodeling and I think both on the vendor side and the retail side you need to reinvent yourself everyday. And I think over the next several quarters what you're going to see is the vendors trying to reinvent themselves to bring different product with solid price value relationships to market, and I think the retailer is going to need to reinvent and remodel itself to attract consumers into those spaces to buy the product. So, its going to be an interesting several quarters. Again conservative, cautious projections are in order.
- Forrest:** Jon Lucas of CIT Trade Finance and Stuart Feil, editorial director of Forbes Insights. Thank you both for being here.
- Lucas:** Thanks for having me.
- Feil:** Thank you.
- Forrest:** And thank you for listening to 5 Minute Capital. Please log on to 5minutecapital.com for a link to the full report and more. I'm Elliott Forrest. This has been a production of CIT - Capital Redefined.