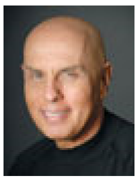
PT Mobile Log In | Re

HOME MAGAZINE NEWSLETTERS INDUSTRY TOPICS BLOGS EDIT INVITES CALENDAR RESE

POWERED BY SEARCH Playthings ToyBox SUBS

OUT OF THE TOY BOX

« Banks, Money and the Toy Indus... | Main | Tribes of Toy Nation: The Cred... »
Link This | Email this | Blog This | Comments (0)



Richard Gottlieb

Tribes of Toy Nation: The Credit Reporting Services - Part 1

July 30, 2009

[This is the first part an important two-part interview with Ron Solomon of the Credit Collective that everyone should read. It is filled with information that you will find vital in protecting your business and understanding your industry.]

Getting paid is, by any standard, the keystone to success for any business. Yet, how do we ultimately protect ourselves from providing credit to those who, by failing to pay, can put us out of business?

In order to find out I contacted Ron Solomon, President of Swingset Press and a founder of The Credit Collective, an organization that shares information on the credit worthiness of toy, gift and other specialty retailers through peer to peer intelligence.

This is the first part of the interview.

Richard: How badly has the specialty retail industry been hit?

Ron: Not only has it been hit, the specialty industry has been getting pummeled for nearly a decade. But, luckily, specialty is an incredibly nimble and highly resilient segment of our economy. Despite the fact that over the last nine years we've been faced with 9/11, 2 wars, 2 recessions, a huge contraction of the specialty distribution outlets (i.e., retailers), a huge rise in bankruptcies, 9 ½% unemployment, a decimated housing market, terrible consumer confidence, the worst credit crunch since the great depression and, let us not forget the dreaded CPSIA, the specialty children's industry has fared incredibly well. And by incredibly well, I mean that it still exists. It primarily still exists because people crave creativity and innovation, which is what the specialty industry is. So long as that desire remains, the specialty industry will survive.

I think the most impactful thing on the specialty market (even more hurtful than rising costs of production, supplies, freight and the dreaded CPSIA), is the contraction of specialty retail distribution outlets. The continuing pain this has caused starts with the specialty vendor, who can no longer make decent sized-production runs to allow for decent pricing. Time was when you could get big orders from Zany Brainy, Natural Wonders, Imaginarium, Learningsmith, etc., and that would let you order enough quantity to make a decent go of it.

RECENT POSTS

Honoring Spongebob Squarepants
Tribes of Toy Nation: Th Credit Reporting Service Part 2
Tribes of Toy Nation: Th Credit Reporting Service Part 1
Banks, Money and the T Industry
Adults Who Want to Play
Tribes for Toy Nation: Th Inventor Agents
Something is wrong at Wal-Mart
The high cost of low pric
Are we ready for the "Ag Compression" parents?
A funny look at Scrabble

ARCHIVES

August 2009
July 2009
June 2009
May 2009
April 2009
March 2009
February 2009

Because of the large hole created by the demise of mid-tier specialty retail chains, specialty manufacturers still can't sell enough volume to justify production runs that yield solid profit margins. Competition for the big-box accounts has gotten intense, but even if you get in there, then the specialty stores deem you "mass" and turn their backs on you. You may say the volume would make you not care, but now you've got all your eggs in one basket, which increases the risk by a huge factor. It's not an easy market for a specialty manufacturer right now.

But, as I said, Specialty is an industry run on innovation with relatively low financial and technological barriers of entry, and that will be its saving grace. The economy will turn around. It always does… nothing lasts forever, right? The question will be who's going to be here when it does? The answer to that is "the one with the deepest pockets." Cash flow wins. To that end, The Credit Collective has been a boon to both manufacturers and retailers, alike.

The more obvious benefit is to the specialty vendors, who, through The Credit Collective's website, exchange references and alerts about the retailers they all share. Rather than just asking the companies who the retailer actually pays, our system allows vendors to get a true picture of which retailers are paying their vendors. The alerts allow small guys to see which big guys are getting hurt, which makes them pull back completely. And they allow the big guys to see what's coming their way, which makes them proceed with more caution.

I say it's a benefit to retailers, as well, but I should qualify that. It is a benefit to retailers who pay their bills on time and/or communicate with vendors if they cannot. These retailers enjoy a great reputation which allows them to get better and faster terms, as well as increased credit limits.

Richard: Did your organization see this recession coming?

Ron: I wish I could say we saw the recession coming; that clearly would have helped avoid a lot of pain. However, based on the fact that the alerts in our system have increased (and continue to increase) at a rate that far outpaces any increase in membership, we certainly saw that hard times were approaching and we're telling as many vendors as we can.

Over the past three years there has been a significant and consistent increase in the number of member-generated alerts in our system. Here's how they've played out over the first two quarters of 2009 versus 2008:

- Overall alerts have increased 73%
- Bankruptcy alerts have increased 55%
- Collection alerts have increased 75%
- In dispute alerts have increased 122%

Although those numbers are clearly alarming, and should be taken very seriously, there is a silver lining. The number of overall alerts submitted in that period is actually down from the previous year's increase of 116%. The bad thing, however, is that the number of collection alerts has increased. That tells us that vendors aren't waiting as long as they used to before submitting accounts to collection agencies. As a matter of fact, the number of collection claims submitted to our collection agency partner rose by 64% this year versus the same period in 2008.

The other concerning statistic in these numbers is the increase in bankruptcy alerts. Based on the American Bankruptcy Institute, the average increase in commercial bankruptcies from 2007 to 2008 was 54%. That means not only is the toy industry a shade higher than that, it means the trend has continued (and even increased) into this year.

*[Continued in **Part 2**]*

Posted by **Richard Gottlieb** on July 30, 2009 | **Comments (0)**

BLOG