



The Buyer's View



High hopes for new European venture

The difficult economic situation in the United States in the second half of this year—which has so far claimed the scalps of the chief executives of UBS, Merrill Lynch and Citibank—is affecting everyone in the retail space there, and companies selling leather and leathersgoods are no exception.

A recent reminder of current economic volatility came at the start of November with the results for the third quarter of the year of Tandy Leather Factory (TLF). The Fort Worth-based company is an eclectic leather industry operator with retail and wholesale operations across the US as well as in five Canadian provinces, selling leather, leathersgoods, tools for leatherworking, buckles and other adornments for leather belts and dyes for colouring leather. Days before announcing the results, the company said it was also planning a return to the European market with a new store that it will open in Northampton in the early part of 2008.

However, when the results announcement came, chief executive, Ron Morgan, and his senior management team were clearly battling hard to remain optimistic. Net

income for the quarter was \$171,000, down 81% on the same quarter last year. This was in spite of an increase in sales in the 72 retail stores of 11% on the same period last year. A decline of 4% on the wholesale side of the business and a 30% drop in the performance of the company's national account team led to the disappointing overall result.

Mr Morgan commented at the time of the announcement: "It's really tough to tell what's happening out there, to know if we're entering a recession or a depression. I don't think the government knows. I don't think even the Federal Reserve knows."

TLF's business model is to publish its prices for the year in a catalogue it distributes in October. Mr Morgan says this has nearly always worked well in the past, but that this year there has been

TLF will open a new store in Northampton, England at the start of next year. The European market is already generating sales from customers' email enquiries. The company wants to see how much more business it can generate by actually trying to develop the market there.

CREDIT: TANDY LEATHER FACTORY.

"some craziness" in the market. This has mostly related to the metals TLF has to buy from suppliers, some of its petroleum-based products and some of its leather supply, specifically material from Brazil, Argentina and China.

The company buys a large proportion of its leather from these three countries, but it accepts that sourcing from elsewhere in the world would probably do little to alleviate the volatility.



Lost sales

Something else that is going to affect TLF's ability to recover is that it has received notice from Wal-Mart to say that the world's largest retailer will no longer stock the company's leathers—mainly small products such as wallets—from early next year.

Ron Morgan estimates that this will cost his company around \$1.1 million a year in lost sales. However, he said TLF was already working hard to replace these sales. "We're testing product in other large chains at the moment and if this works out, we may not even notice that Wal-Mart has gone away," he says.

In fact, the business of Wal-Mart Canada has not gone away. TLF supplies to Wal-Mart stores north of the border are on what the chief executive calls "real solid ground" and are growing, even though they only represent 10% of the value of the US deal.

The new store in the UK will help the company expand further internationally. The Tandy name is still familiar to consumers there because of the computer and electronics retail stores that the original Tandy Corporation ran there until the end of last century. Consumer electronics has been a prime focus of the parent group since it first became involved with the Radio Shack chain in 1963.

The chief financial officer of TLF, Shannon Greene, explains that market studies her side of the business has carried out show that the Tandy brand still carries some weight in the new target market. "We already get email enquiries several times a week from people in the UK asking if there is some place to buy our products locally," she says. "We're selling \$0.5 million to \$0.75 million annually into the UK and the rest of Europe because they're finding



Caption: With leather, leathergoods, dyes, buckles and other adornments, and even tools for leatherworking, TLF has an eclectic offering.

CREDIT: TANDY LEATHER FACTORY.

us. How much more can we make if we actually want to develop that business? I guess we're about to find out."

Time to look forward

It was Ms Greene who revealed the third-quarter results on November 1, saying, with a sigh, that it had been a disappointing period in Tandy Leather Factory's history and, for her, "a very long week". But she introduced a more bullish note when she added: "The situation is what it is; we offer no excuses. This management team is smarter than we look right now and we know what it takes to be successful."

She acknowledged that TLF had made some decisions at the start of the year about sales and outlook, including customer

spending patterns, that had failed to pay off in the short term, but she insisted that the management team was standing by them. "Should we have reacted faster? Absolutely," she said. "But it's time to look forward and, as evidenced by the announcement of our decision to expand into the UK early next year, we're prepared to do that."

Ms Greene was adamant that the company balance-sheet was "in decent shape", even though she acknowledged that results for the quarter had fallen woefully short of expectations. "We know why that happened," she explained. "If sales are flat, expenses cannot increase if margins are expected to grow. The mandate now is to do more with less and all department heads across the company are scrubbing their profit-and-loss figures. Our job now is to get expenses down because I don't think sales are going to get any better for a while."

Expanding on this thought, she says there are no expectations at company headquarters in Fort Worth that the US retail environment will "correct itself" any time soon, making the new venture in Europe all the more attractive. "The UK's economic statistics are certainly appealing," she admits.

The president of TLF Canada, John McNiven, will move to the UK at the turn of the year to set the new operation in motion. Shannon Greene describes him as the best qualified person to fulfil this role. He hopes to retire at the end of this mission. TFL is hoping he can go out with a bang. 🌟



Fluctuations in the price of leather supplies from Argentina, Brazil and, to a lesser extent, China, have contributed to the "craziness" in the market that TLF has suffered this year.

CREDIT: TANDY LEATHER FACTORY.