Cleaning up in a Tough Economy...

By Doug Story

We’ve read about... we’ve seen and yes some of us are even living it... The current U.S. and world economies are in down turns and it has business and government leaders floundering to understand why it happened and who to blame. In many cases, each of these leaders are trying various techniques to turn the economy around or even change the previous economic models to meet what they believe are the needs of the 21st century. Although it would be fun to discuss the “Macro” aspects of this downturn, the primary purpose of this article is to look to the now and the future and determine how we can minimize or even take advantage of this situation for our efforts in the laundry industry; we’ll leave the Macro-Economic debate to the “academics”.

Define who we are and it defines our objectives

To keep things simple and the article at a readable length we must have a simple definition as to what “niches” in the laundry industry we want to talk about. We will keep it simple by defining the key players in our business as follows:

1) For Profit: These laundry operations are providing services to customers for a price that will yield a return to owners, shareholders and investors. These operations can be classified as Linen Supply, Industrial Supply, Commercial (i.e. Shirt Laundries) and Healthcare focused organizations.

2) Not For Profit: These operations are providing “housekeeping” to For Profit or Not-for-Profit organizations as part of support services the organization provides the customers it serves. These operations can be classified as OPL (on premise laundry) that process fabrics for the Hospitality, Food and Beverage and Healthcare industries as a “cost of doing business”.

Consumer Confidence

Take every economic indicator known to man and multiply it by ‘Consumer Confidence’ and that is the prime indicator or motivator of how strong that economy is going to be. If all the economic indicators are good but Consumer Confidence is bad… the economy will not be a great economy and will quickly fall into a bad economy. If all economic indicators are bad but Consumer Confidence is good then the down turn will most likely be very shallow and a good economy will rapidly start to develop. Where does this FEAR come from? Consumer Confidence (remember business is a consumer as well) is having its nose rubbed in some very stiff challenges.

For the most part everyone understands the difference between each of these business types, however, in today’s economy each of these organizations must “be or become” a “For Profit” operation. The traditional “For Profit” laundry must make money in order to return value to the share holders of the organization and the “Not for Profit” will be looked at for the value it contributes to the organization it supports… does the operation contribute to the organization’s ability to make a profit or will it aid in keeping expenses low?

http://www.investopedia.com/university/releases/consumerconfidence.asp
On top of this, from January 2008 to January 2009 no matter how experienced, professional or diversified an individual was/is as an investor the average drop in their 401K investments was between 45 to 50% (Bloomberg, Wall Street Journal). On a positive note, some of the investment firms are saying that some 401Ks have gotten back to their January 2008 level as of November 2009...if the investor had the intestinal fortitude to have stayed in the market and continued to buy stocks. Many investors dumped their stocks and bought bonds that yielded zero % and were happy to have found a vehicle to at least save what was left of their investments. Will there be any openings for 65 year olds as Wal-Mart greeters and golf course starters (if there are any golf courses left) has gone from a joke in many people’s minds to a reality, especially in the minds of the baby boomers and tweeners.

In addition, if you are a home owner in 60 to 70% of the US markets you saw many of your neighbors go underwater as they were laid off and then forced to sell their homes in markets where a home that was bought for $270,000 seven years ago was projected to sell for $350,000 but now has dropped so low they are just hoping to sell the home for any price they can get...just to get out from under what they thought was going to be their investment for the future. For those not selling a home, they can’t even take advantage of the new lower interest rates because the banks will not refinance the homes for the lower rates because the current value of the home is lower than what the homeowner originally paid.

And if this is not enough, governments have decided to step in with multiple fully supported government programs (i.e. healthcare, cap and trade energy regulation, bank, industrial and union bailouts) that by all indications will add more pressure on incomes and expenses for the average business and private sector consumer by raising taxes and fees.

Previous to the aforementioned items, the business and consumer communities were and are being rocked by fluctuations in raw material pricing and sourcing issues that created uncertainty in the sourcing of materials needed for the manufacturing of the goods and services they provide their customers or use in their day to day lives. Because of these issues many laundry operations were hit with continually increasing prices and many vendors were consolidated or just went out of business. This consolidation has created an environment where companies have fewer and fewer suppliers offering products to support the services their companies supply. This loss of suppliers opens the door for those companies that remain to start pushing higher and higher costs to the customers they supply, in efforts to recover losses, enhance margins and build market share during this down turn.

For Profit operations

In the past, there were many that thought the laundry business was a recession proof business because things always get dirty. However, I believe many laundry operations are at the mercy of the “rate at which things get dirty”. In other words, if fewer people are going out to eat or individuals are no longer taking clothes to the commercial or industrial laundry at the same rate as in the past, then revenue is going to drop due to the reduction of the “rate at which things get dirty”.

Many accept the rate of return on the stock market as a prime indicator of the profitability of an industry or the health of a market. If we look at the returns over the last 3 years of “major players” in our industry listed on the Capital Markets (NYSE, etc) they are showing an overall decline of 15% on average. This decline is a recovery from lows that have been down as much as 45 - 50%. Even the organizations that are servicing the healthcare industry are showing declines with negative volatility and recommendations of short selling and hedging.

Is this decline in our publicly traded laundries due to the vacuum effect of the market or is this really due to “real market” results because of reduced sales and revenues? The answer is yes in both cases, many of these operations are losing sales in correlation with the job losses that are currently being seen within the manufacturing aspects of the US economy and others are seeing reductions in revenue due to the reduced vacation, convention and business travel activities that have been eliminated from the budgets of families and businesses. At the same time, the market drop of over 40% over the last 18 to 20 months with even some of the strongest companies suffering from the vacuum effect as individuals dumped their stock in favor of cash, bonds or gold in attempts to save their retirement and investment accounts. Our laundry industry was not immune to these trends as well.

However, in the last 6 months all of our publicly traded laundry organizations are showing recovery in their shares on the capital markets. There are a few laundry operations where volume and sales have been holding steady but intense competition and the steady growth of new entrants into this market has cut into the profitability of laundries that process healthcare linens. Hospitals and other healthcare organizations have been holding steady in the demand for linen services supplied by “For Profit” operations but profits are being squeezed by many economic variables including the price pressure created by new entrants into the market by other laundry operations that have expanded into the healthcare business to make up for losses they have experienced in their other markets.
For Non-Profit operations
This niche within the laundry industry has been showing reduced operations but many don’t feel the “economic” pressure until the organization they supply services to decides to reduce expenses. Is their intent to enhance the bottom line or because of budgetary issues caused by reduced contributions to their organization. The hospitality and linen supply business has had a tough time over the past 18 plus months due in large part to the challenging issues discussed earlier in this article while many of the OPL type laundries are holding up well but many OPLs are starting to feel the pressure as the For Profit organizations start offering programs that could shut down the OPL in favor of outsourcing to a For Profit supplier’s program. Success or failure in these efforts will depend on how well the OPL is being managed and operated.

All of this shakes Consumer Confidence and impacts how individuals and businesses spend and because of this Profit and Non-Profit organizations in our industry (all industries) are being negatively affected. Just thinking and writing about all of this economic misery has put a damper on my mood for the weekend but as the old saying goes, “Opportunity knocks in the middle of adversity!” We touched a little on the challenges that we have to deal with… now how can we use this situation to create our opportunities?

Yes the economy has put a damper on our revenue stream but at the same time vendors of chemicals, textiles and equipment are in need of customers to grow their business and they are willing to deal. Profit or Non-Profit organizations alike are currently in a buyer’s position to work with suppliers on various issues ranging from credit to purchasing equipment to building that extension to your plant that you have always wanted. Government is offering extra tax incentives for building, hiring and generally doing anything that can aid in creating jobs in this market. This current economy has opened many doors for our industry to benefit from today and long into the future.

Processing Equipment upgrades
Great deals on the financing and purchasing of equipment will give operations the opportunity to upgrade their facilities with “state of the art” equipment that can improve productivity and operational costs (i.e. utilities, etc). These purchases will improve the operations of the facility and thereby improve profit potential at For Profits and reduce cost for the Not-for-Profits. All of this at prices that can be some of the lowest ever offered to the market.

Real Estate
Although most of the press has been about the impact of the poor financial decisions made by our Wall Street Ivy League gurus and Washington elected officials on the residential market, the commercial market has been impacted as well. Purchasing or building a new facility or extension to your business will be supported by a great bargaining position with the seller or the contractor. Each of these organizations need to sell or build and in many cases there will be government entities offering state, local and even federal money to support the effort.

Chemicals
New technologies in dispensing systems and the availability of formulated as well as raw materials allows for each organization to have more choices in what chemicals they use as well as the type of chemicals. From specialty formulated to raw materials there are wider choices than any operation has ever had before, all because technology has expanded the usability of these products where in the past, it was considered impractical. One interesting by-product of the poor economy has been the reduction of work force and the exit from the business of several of the major suppliers. Some of the best laundry chemical technicians have been released by these companies and many have taken two paths in their efforts to find new careers. As follows:

- Many of these technicians have decided to go to work in laundry operations. This kind of expertise in a laundry operation can be a great service to the operational efficiency.
- Many of these technicians have started their own regional chemical businesses, so more choice is being created just as many of the suppliers have gone out of business or are cutting back on the services they offer.
Chemical distributors are building their own line of highly versatile and innovative products to fill the void that has been created by the pull back of long term suppliers to the industry from the business as a whole or from the distribution model they had used. Chemical distributors have now created new ways to supply very effective “hometown” chemical programs built on their chemical, delivery and technical expertise.

At this time, laundry management must be open about the processes and procedures they use in dealing with their vendors. The “old time” business models have fallen by the wayside and have been replaced by new and innovative programs that can improve operations and reduce costs. Just a reminder, for a short period of time during the height of the increase in fuel prices, it was less expensive to buy products from US suppliers than it was from foreign suppliers. Your purchasing and supply processes must be flexible enough to adapt to the opportunities that are and will become available. In this case, the data does seem to indicate that fuel prices will rise again (via shortages, wars or government cap and trade).

**Hiring**

As we all know, there is a 10% plus unemployment rate in our country. Some believe it is actually more but no matter what the unemployment rate, this challenge can be a powerful tool for the future growth of the laundry business. As chemical companies, marketing companies, sales forces and administrative personnel are let go from their current employers it creates a larger pool of “willing” talent for us to bring into the industry! Many of us “more experienced” laundry industry participants have noticed the ranks of those involved in the laundry business seem to be thinning. It does not serve our industry well to look downstream and see that we have not been filling in behind us with a “bench” of dynamic and skilled people that will become the next generation of “more experienced” laundry “folks”. Very few of us started our careers wanting to be in the “laundry business” but after we joined the business all of us became infected and now we can’t get the business out of our blood. We now have the opportunity to “infect” a new crop of high powered workers with our business. The unemployment numbers are sad and unfortunate but hopefully our industry/your organizations will benefit from this!

**Expectations…Government Healthcare…**

**The Future?**

Over the past few months, I’ve been asked to comment on the political and economic “trends” that could impact the laundry industry. I would like to say, “There are answers” but unfortunately the answers are in the hands of our elected officials in Washington and it appears they don’t really know what they are going to do either. It will depend on how many deals they can cut or how many Senators they can buy before the final “rules” are written. The sad thing about this, from an “economic” point of view, is that every time they cut one of these deals it skews the final outcome of the legislation. It does not matter whether the law is healthcare, cap and trade or immigration reform, our leaders can’t give us answers today nor do they know what the final outcomes of their efforts will be after the bills are passed. The one thing that is known is that each of these efforts will have impact on the pocket books of every business and working citizen in the United States.

What is going to be the impact of the healthcare act when the government passes the bill? I don’t think anyone can derive specifics but I will attempt to explain to you what has been demonstrated to happen when price and consumption (supply and demand) are being manipulated in an economic model. The interplay of these two factors will have a major impact on those of us involved in or doing business with the healthcare and travel business.

I’ve included a graph below that is indicative of the supply and demand curves that are created with any pricing or supply scenario. Will anyone disagree with me that when prices are reduced the demand for that item increases? As it has been proven many times in real world models, if the government’s healthcare bill reduces the price of healthcare to consumers then consumption of healthcare will increase.

![Graph](image)

*If this is holds true then this is good news for laundry operations that deal in the healthcare market. Increased demand will increase the amount of goods and items being used by the hospital facilities that need to be laundered.*

So this is good news for those of us in the healthcare business, in the short term. However, there is one thing that has to be looked at in the long term. The point where the red line and the blue line cross is the equilibrium point. This is the price point where the supplier (in this case the government) is willing to supply product at a volume and price equal to consumer’s demand. Prices above this point; consumers are not willing to buy or use the product, while prices offered below the equilibrium point the producer is not willing to supply the product. In other words, who wants to sell product at a loss and/or who wants to buy product that is too expensive.

Government will have to deal with this issue as greater numbers of individuals enter the system while the infrastructure
and expertise to handle this influx remain stagnant or slow growth. I would also like to introduce another concept that will drive the use of the healthcare system; I call it the “buffet effect”. Have you ever wondered why most people over eat at a buffet? Most people want their money’s worth and the more expensive the buffet the more they eat. If any of you have ever eaten at the Brazilian Buffet restaurant you know what I’m talking about. The price is high, the food is great and no one is going to use portion control while eating there...we are going to get our money’s worth! When the government gives us healthcare how many people will use the system because they are “paying for it” and should get their money’s worth from the program? The “buffet effect” will drive usage of the system up as well.

All of this is good to great news for the healthcare laundry business.

For the hospitality business the same concepts can be applied. However, the concept in travel is directly linked to the price of fuel, travel and income. If it is too expensive to travel or the economy is in a down cycle, fewer people travel and fewer rooms are rented to customers. So it does not matter how many rooms are available or in some cases the price of those rooms, if the price to travel is too high or the other “FEAR” items are on the minds of the consumers… then the hospitality industry is going to have a tough time.

However, the concept of “staycations” is a growing trend and many operations can look at supplying services to those locations that are near “staycation” facilities. Water slides, local ski resorts, beaches and resorts that are relatively close to large population centers will benefit from this new pattern of leisure by the American consumer.

As for the “long distance vacation traveler” the strongest motivator for the hospitality industry may end up being the foreign exchange rate. The American dollar is at an all time low against many foreign currencies. This exchange rate could reduce the price of an international traveler’s visit to the U.S. by as much as 30 to 40% depending on which country the individual is from. This exchange rate should bring more vacationers to the U.S. and minimize the downturn in many resorts around the U.S. Unfortunately, the economy in many other countries is very similar to ours and thus we go back to the first concept I introduced in this paper… FEAR (consumer confidence). No matter where an individual may live the whole economy of their country is tied to this concept. consumer confidence drives all economies and no matter how governments or businesses respond, nothing they do will be capable of turning the economics of the world around until consumer confidence in their government and economy is restored.

In Conclusion:

Today’s economy is tough but each of us can overcome the challenges that have been given to us. Profits and Non-profits alike can use this economy to up-grade the capabilities of their operations and grow their business by building strategies that take full advantage of the areas of the economy that are still strong and growing or by reducing costs to the facilities they serve. Remember 80% or more of our economy is still working, let’s focus on that 80% and customize our services to meet their needs.

Hopefully, some of the issues and concepts we talked about in this article will be of some assistance in your efforts to prepare your organization to respond to the current economy and for the economy to come. Predicting business and economies is not a “sure thing” but I’m safe in saying, “The economy and business environments of the future will not be anything like what we have had in the past. We must be prepared to supply the best product at the most efficient cost.”

About the author:

Doug Story is a Director of Speciality Chemicals with Ideal Chemical. He has worked in a career that has crossed many boundaries within today’s business organizational structure. From Research Chemist to Global Marketing and Portfolio management, this diversity of experience has allowed Doug to develop a unique 4-D view of how organizations and their employees must work to accomplish the strategies and objectives of the business. He has written many articles for various laundry trade journals and recently published a book about Technical Sales and service, called “The Blood of Soldiers makes the Generals Great! Preparing for the Business Wars to Come”.

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