

Focus on: retail

International Business Report 2009 – Sector focus series

The Grant Thornton International Business Report (IBR) 2009 reveals that privately held businesses (PHBs) in the retail sector are markedly less confident regarding economic prospects for the year ahead than they were in 2008, dramatically affecting the 'big decisions' these businesses have to make. In 2008 a net balance¹ of +44 per cent were optimistic compared to -20 per cent this year. Across all sectors, businesses are also less optimistic (-16 per cent) than they were in 2008 (+40 per cent).

IBR 2009 examined the optimism of privately held businesses across eight sectors which we are pleased to share through our sector focus series.

Of the eight sectors, hospitality is the most buoyant at just +2 per cent; ahead of technology (-7 per cent), financial services (-9 per cent), health and education (-19 per cent), manufacturing (-19 per cent), construction and real estate (-20 per cent), retail (-20 per cent) and transport (-39 per cent).

This series will provide key findings, insights into specific national market sectors and our perspective on the outlook for each sector. It will also suggest tactics businesses should consider in the current economic climate.

If you have 'big decisions' you need help with, please visit www.gti.org. For more information on IBR visit www.internationalbusinessreport.com.

The retail sector

After a sustained boom from 2002 to 2007, the economic background has turned sharply against the retail sector over the past year. High inflation in food and energy eroded spending power in the first half of the year and this was followed by severe

strains stemming from the global economic slowdown. Disposable incomes have been hit by short-time working and rising unemployment and consumer confidence has been damaged by the bleak economic outlook and weak or collapsing housing markets. Credit availability, which fuelled the boom of recent years, has dried up. Only internet shopping has seen good growth in many countries.

Among the major mature economies, the most abrupt slowdown in consumer spending over the past year was in the United States from around 3 per cent in 2007 to just 0.3 per cent. In many other countries growth was below 1 per cent. Meanwhile, household spending showed outright contraction in Germany and Italy, where expansion has been weak in recent years.

The hardest-hit sectors in retailing are those vulnerable to the housing market slump, such as furniture and electrical goods, and discretionary items – fashion and luxury goods. In some countries, such as the United Kingdom, retailers selling home-entertainment products are doing less badly than those whose sales are linked to people going out for enjoyment as consumers look to save money by creating entertainment indoors.

Retailers in emerging markets have not been immune to the adverse effects of the global slowdown, but so far have been less affected. Consumer spending, though slowing, remained healthy in 2008.



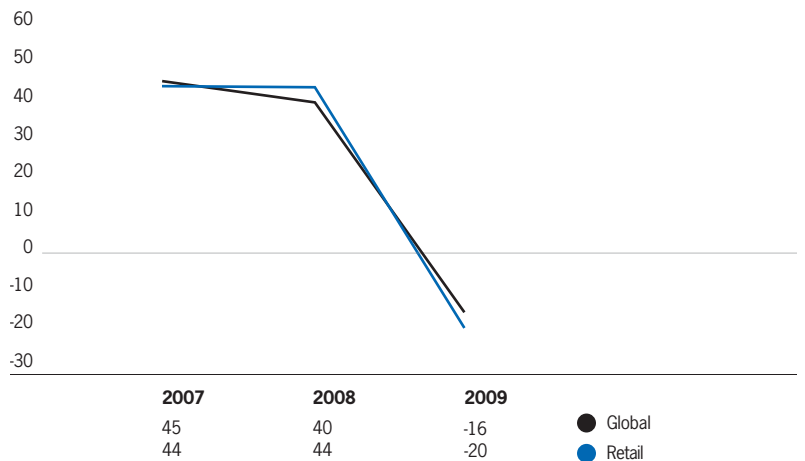
¹ the balance is the proportion of companies reporting they are optimistic less those reporting they are pessimistic.

Optimism/pessimism

- PHBs in the retail sector are considerably less optimistic about their country's economic outlook (-20 per cent) than they were in 2008 (+44 per cent)
- globally levels of optimism are down 56 percentage points compared with 2008.

Figure 1: Outlook for the economy over the next 12 months: 2007-2009

Average percentage balance of businesses indicating optimism against those indicating pessimism



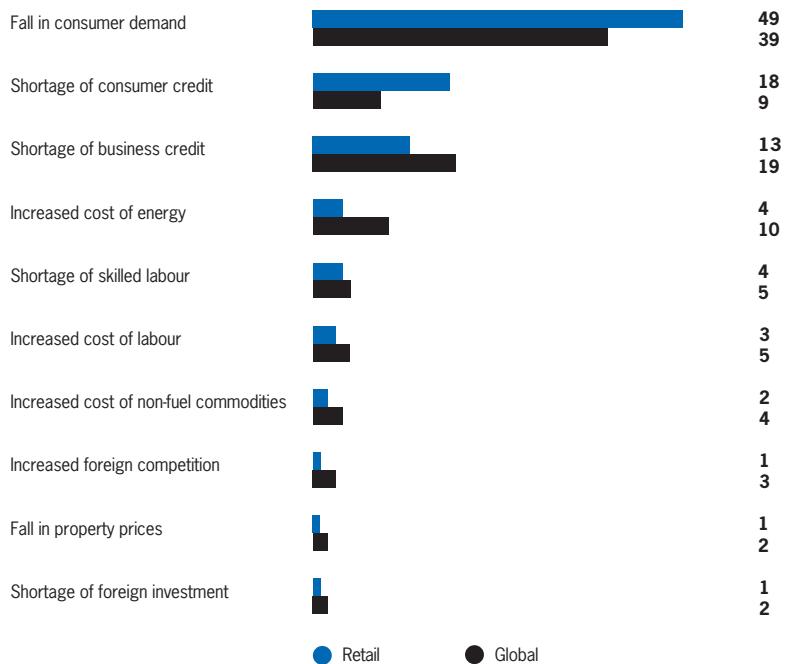
Source: Grant Thornton IBR 2009

Greatest concern

- a fall in consumer demand is viewed as the greatest concern restricting expansion for PHBs in the retail sector at 49 per cent, 10 percentage points above the global average
- a shortage of consumer credit is of greater concern to the retail sector (18 per cent) than to businesses globally (9 per cent)
- PHBs in the retail sector are less concerned by a shortage of business credit and the increased cost of energy than businesses globally.

Figure 2: Greatest concern in the next 12 months

Average percentage of businesses



Source: Grant Thornton IBR 2009



Tony O'Brien
Grant Thornton, Ireland

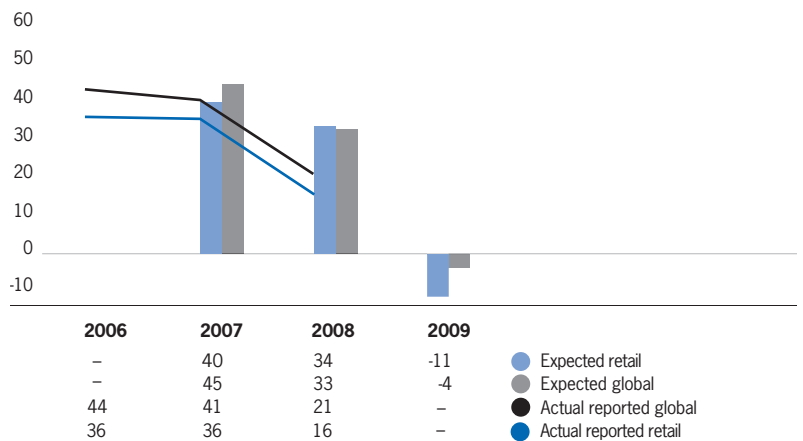
“The Irish housing market’s sharp slowdown is weighing heavily on sales of domestic items such as furniture and electrical goods, which are now some 25 per cent below last year’s sales volumes. In the food sector, there is a substantial shift to ‘hard discounters’, causing many retailers to cut prices, negotiate with suppliers and seriously look at their cost base. Looking ahead, the depth of downturn in the housing market and limited credit availability suggests that the tough times for retailers will last until at least 2010.”

Employment

- similarly to businesses globally, expected employment growth in the sector has fallen sharply; from +34 per cent in 2008 to -11 per cent in 2009
- businesses globally expect employment to contract from +33 per cent in 2008 to -4 per cent this year
- actual employment growth in the sector in 2008 (+16 per cent) was notably lower than expected (+34 per cent).

Figure 3: Employment history: 2007-2009

Percentage balance of businesses



*expected data for 2006 not available

**actual data for 2009 will be available in IBR 2010

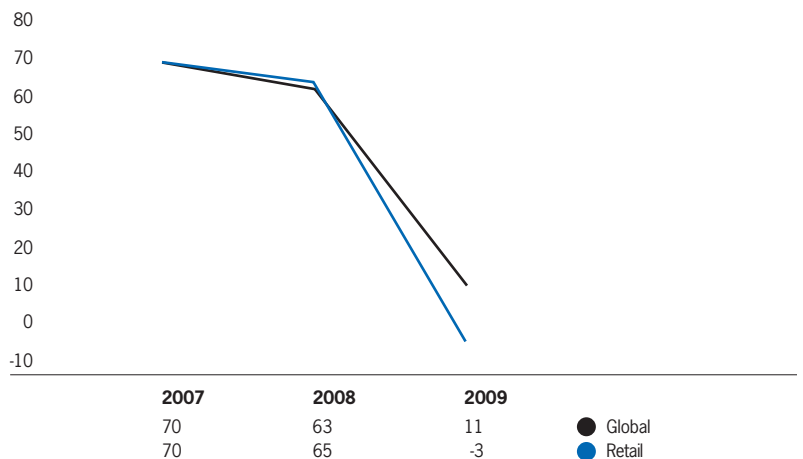
Source: Grant Thornton IBR 2009

Revenue expectations

- PHBs in the retail sector are much less optimistic about their revenue prospects (-3 per cent) compared to 2008 (+65 per cent)
- levels of optimism regarding revenue prospects globally are down 52 percentage points compared with 2008.

Figure 4: Revenue expectations: 2007-2009

Average percentage balance of businesses indicating optimism against those indicating pessimism



Arnaldo Hasenclever
Grant Thornton, Argentina

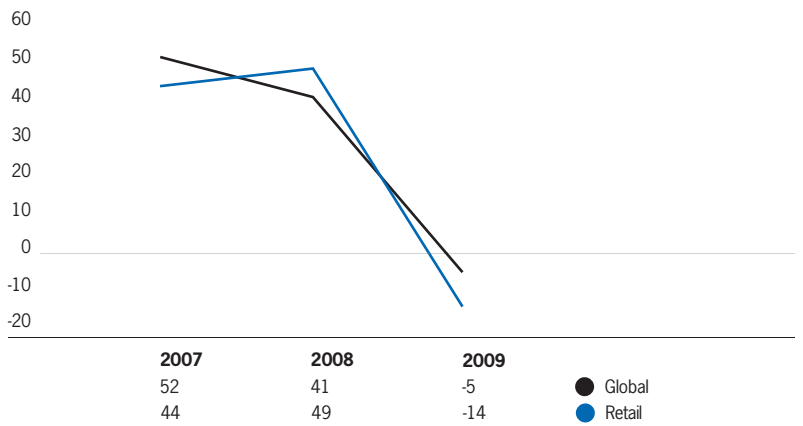
“Consumer credit growth in Argentina has not been nearly as strong as in North America and Europe, so the impact of the credit crunch is much less. However, large retail businesses are having to reduce costs, offer financing to boost sales and manage inflation which is a persistent problem. Lower commodity prices and uncertainty created by political instability will dictate the fortunes of the sector. With the first of a series of elections this year, any recovery is unlikely before 2010.”

Profitability expectations

- PHBs in the retail sector are less optimistic about their profitability prospects (-14 per cent) than they were in 2008 (+49 per cent)
- levels of optimism regarding profitability globally are down 46 percentage points compared to 2008; in the retail sector there has been a much sharper decline of 63 percentage points.

Figure 5: Profitability expectations: 2007-2009

Average percentage balance of businesses indicating optimism against those indicating pessimism

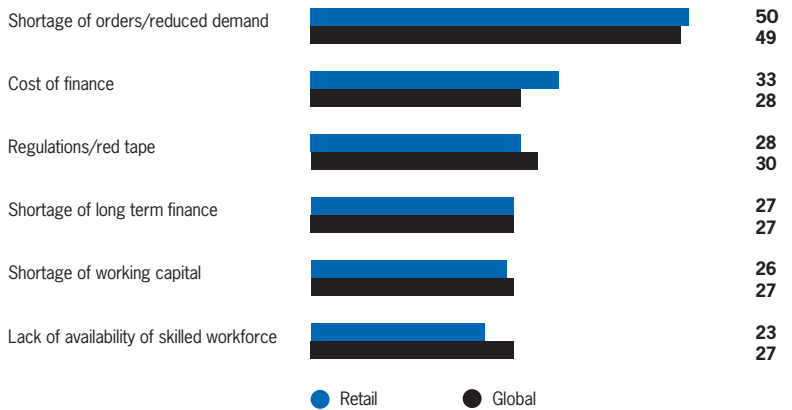


Constraints

- as with businesses globally in 2009, a shortage of orders/reduced demand is viewed as the major constraint restricting expansion for PHBs in the retail sector (50 per cent) and represents a significant increase from 2008 (27 per cent)
- the cost of finance is cited by 33 per cent of PHBs in the retail sector, compared to 28 per cent of businesses globally.

Figure 6: Constraints on expansion

Average percentage of businesses rating constraint 4 or 5 on a scale of 1 to 5 where 1 is not a constraint and 5 is a major constraint



Source: Grant Thornton IBR 2009



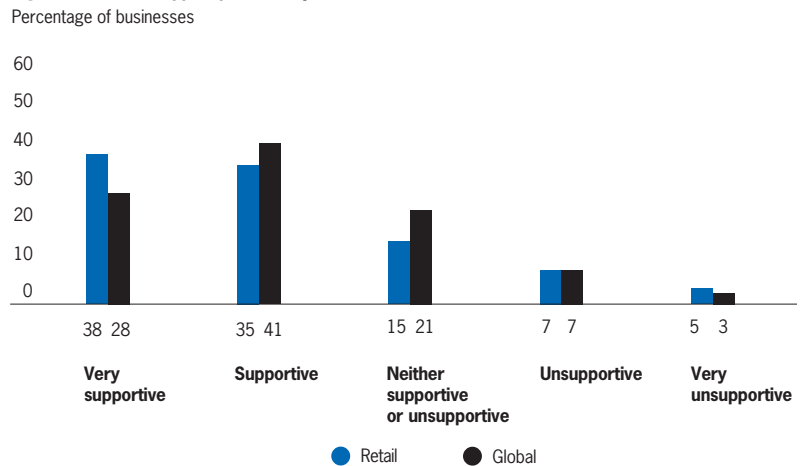
David Bush
Grant Thornton, United Kingdom

“With UK consumers saving money by staying in, retailers selling home-entertainment type products are out performing those linked with ‘out of house’ leisure activities. The fall in value of sterling is forcing retailers to re-negotiate with many overseas suppliers to manage their cost base. Those unable to effectively cut costs are not surviving, resulting in a surplus of retail space to put pressure on traditional upward only rent reviews which is causing difficulties for landlords. There is also mounting pressure for landlords to move to monthly rather than quarterly rental payments to ease the pressure on battered shopkeepers. Many retailers in the UK are moving to internet and mail order offers to hold or increase market share. Internet sales in some cases are increasing very rapidly and sometimes are now out-performing the best stores in a particular chain.”

Support of lender

- 73 per cent of PHBs classed lenders as supportive or very supportive towards their business in the retail sector; globally this was slightly lower at 69 per cent
- similarly to businesses globally, 12 per cent of PHBs in the retail sector classed lenders as unsupportive or very unsupportive towards their business.

Figure 7: Level of support provided by lenders

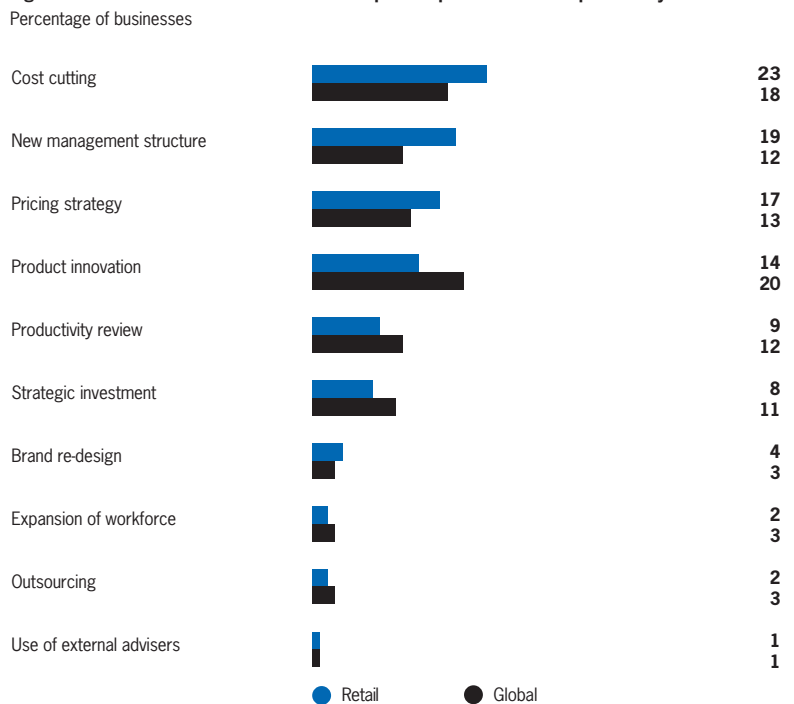


Source: Grant Thornton IBR 2009

Business planning

- cost cutting (23 per cent) is the most successful initiative put in place by PHBs in the retail sector to increase profitability; this is above the global average (18 per cent)
- both new management structure and pricing strategy have been more successful initiatives in the retail sector than for PHBs globally
- product innovation has been a more successful initiative globally (20 per cent), than in the retail sector (14 per cent).

Figure 8: Successful initiatives that have been put into place to increase profitability



Source: Grant Thornton IBR 2009



Mark O'Hare
Grant Thornton, Australia

“Retailers of consumer necessities are holding up well. However, they are in the minority as households curb spending. Consequently, retailers of discretionary items such as high-end fashion and luxury goods, are suffering. This impact is exacerbated by the current downturn in tourism. Challenging conditions are likely to continue as the present economic climate sees many businesses decline. The situation will worsen, however a turn-around is inevitable and will see a more consolidated market emerge on the other side.”

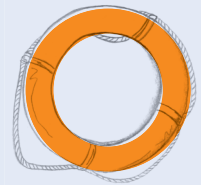
Outlook

The next 12 months are likely to be even more difficult for retailers in mature economies as the recession deepens. Few countries will avoid a severe slowdown. The inevitable rise in unemployment, subdued growth in disposable incomes and credit supply, weak housing markets and plummeting consumer confidence will act as a serious drag on retail spending in much of western Europe, North America and Japan. The impact of these factors will be reinforced by increases in savings as job fears mount, household spending in these countries is expected to shrink by between 1 and 2 per cent.

Worst affected sectors will be those linked to the depressed housing market, such as household goods, where sales will be hit by the slump in house moves as well as a decline in disposable incomes. The challenging trading conditions will take their toll on weaker retailers, many of whom will fail. Against this, a number of retailers are performing well as they take advantage of more price-conscious consumers – although the market is currently shrinking, they are gaining market share.

Tips for survival

- cut down on expenses – particularly central expenses
- attend to cash flow, especially where there is seasonality in revenues and payments due
- manage stock by clearing old stock quickly and eliminating obsolete items
- understand exactly which stores in a chain are making money and look to close the significant loss-making stores
- improve partnerships with suppliers to ensure that supply chain cost increases are more fairly shared (eg price increases in return for shipment schedules)
- hone in-store staff selling techniques to drive up average transaction values
- ensure store staffing levels closely resemble the customer traffic-flow patterns on a hourly/daily/weekly basis
- dispose of non-core assets to ease cash flow problems
- consider sale and leaseback deals on any freehold properties
- use the weakness in commercial real estate to renegotiate store leases
- stay close to lenders and keep them informed – they don't like surprises
- stay close to shareholders and raise fresh equity where possible.



Scott Davis
Grant Thornton, United States

“The main impact in the US is at the top end of the market with many luxury retailers struggling. With the government’s main focus on supporting the financial sector and manufacturing, especially automotive, there is little sign that the government, federal or state, is going to make things easier for retailers. A prolonged downturn is in prospect with more retail failures to come, particularly in 2009. Things won’t stabilise until 2010 with the turnaround to follow thereafter.”

In the rest of the world, the picture is less bleak, though the rapid expansion in retailing of recent years will slacken markedly. China's economy is under severe pressure as exports are subdued by the sharp drop in orders from developed markets; and India, though less affected, also sees warning signs of weakening demand. Retail sales growth in both cases is likely to be well below the rapid increases of recent years. In Russia, domestic demand has been hit by severe economic problems and household spending growth will deteriorate sharply from 13 per cent in both 2007 and 2008, though might just remain positive. Elsewhere in eastern Europe conditions are also deteriorating rapidly; several countries are expected to see a fall in household spending while others experience a marked slowdown.

The gloom for retailers is expected to lift somewhat in 2010, though to what extent remains extremely uncertain. Forecasts of a rebound in the United States when the tax boost announced in February takes effect could be frustrated if individuals choose to save or reduce debt.

Western Europe and Japan are likely to experience only modest upturns in spending and this will constrain recovery prospects in emerging markets dependent on export growth. The global retail sector might have to wait until 2011 before a meaningful upturn begins.

Looking further ahead, it is likely that the sector will emerge from the current recession in better shape as only the strong survive the downturn. The sector will also be more efficient as companies are forced to examine their cost base and take action to address the issues that arise from that appraisal.

Reasons to be cheerful

- recessions, even deep ones, come to an end
- a number of retailers are performing well as they take advantage of more price-conscious consumers, although the market is currently shrinking, they are gaining market share
- the strong will survive so the sector will be more robust in the medium term
- the sector will become more efficient as companies are forced to examine their cost base and take action to cut costs
- good possibilities exist to acquire competitors at attractive prices
- opportunities arise to recruit talented and experienced people
- renegotiation of major supply contracts on more favourable terms is possible as suppliers want to maintain continuity
- not all retailers have customers impacted significantly by the recession (eg high fashion; customers with more disposable cash, less commitments and less worries about unemployment)
- internet and mail order retailers (either pure plays or with strong add ons to a terrestrial presence) are benefiting from consumers' current interest in range/price/convenience
- as far as the consumer is concerned; selling prices will continue to be keen and retailers will have to go the extra mile with customer service to retain market share.



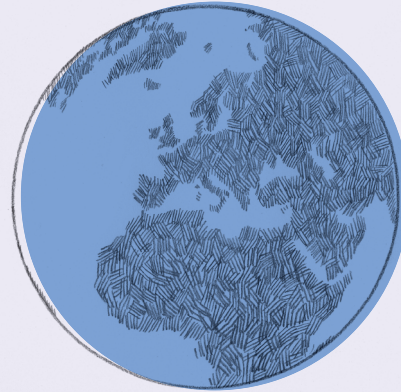
The Grant Thornton International Business Report (IBR) is an annual survey of the views of senior executives in privately held businesses (PHBs) all over the world. Launched in 1992 in nine European countries the report now surveys over 7,200 PHBs in 36 economies providing insights on the economic and commercial issues affecting a segment often described as the 'engine' of the world's economy.

To find out more about IBR and to obtain copies of reports and summaries visit: www.internationalbusinessreport.com

The site also allows users to complete the survey and benchmark their results against all other respondents by territory, industry type and size of business.

Participating economies

Argentina	Japan
Armenia	Malaysia
Australia	Mexico
Belgium	Netherlands
Botswana	New Zealand
Brazil	Philippines
Canada	Poland
Chile	Russia
China	Singapore
Denmark	South Africa
Finland	Spain
France	Sweden
Germany	Taiwan
Greece	Thailand
Hong Kong	Turkey
India	United Kingdom
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Italy	Vietnam



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