

Focus on: Retail

International Business Report 2010 – Sector focus series

The Grant Thornton International Business Report (IBR) 2010 reveals that privately held businesses (PHBs) in the retail sector were markedly more confident about their economic prospects for 2010 than 2009; a balance¹ of +31 per cent are optimistic this year compared to -20 per cent last year. Businesses, on average across all sectors, are more optimistic this year (+24 per cent) than they were in 2009 (-16 per cent).

Of the ten sectors considered in the 2010 series of focuses, financial services is the most buoyant at +42 per cent; ahead of technology (+40 per cent), cleantech (+34 per cent), hospitality (+32 per cent), retail (+31 per cent), manufacturing (+25 per cent), construction & real estate (+13 per cent), food & beverage (+7 per cent), transport (+5 per cent) and healthcare (-18 per cent).

The retail sector

The retail industry suffered during the global economic downturn as declining GDP growth and falling personal disposable income hit retail sales. Having slowed down in 2008, global non-food retail sales growth contracted by around five per cent in 2009 as fears over fiscal austerity measures and unemployment impacted on consumer confidence.

Expansion plans have largely had to be put on hold due to a lack of credit and economic uncertainty with retailers increasingly being forced to close down stores. The worst affected companies include car manufacturers and department stores. However, the increasing consumer preference for shopping around for bargains has boosted online retail businesses whilst large food retail stores continue to buck the trend.



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

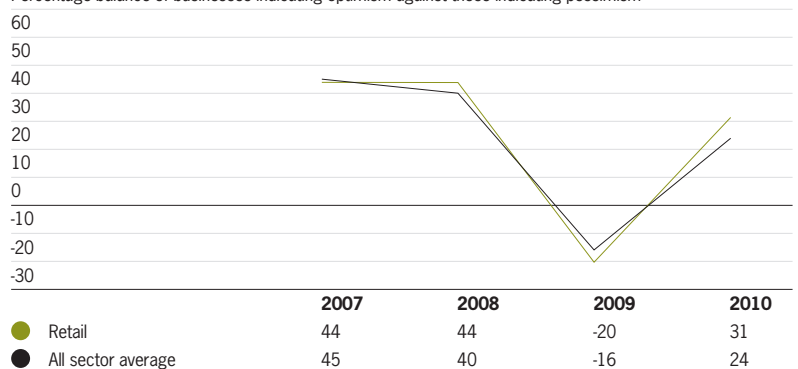
The state of the sector

Optimism/pessimism

- a balance of +31 per cent of businesses in the retail sector were optimistic about their respective countries' economic outlook this year, an increase of 51 percentage points from -20 per cent last year
- the balance on average across all sectors indicating optimism for 2010 has risen by 40 per cent this year, from -16 per cent in 2009 to +24 per cent.

Figure 1: Outlook for the economy: 2007-2010

Percentage balance of businesses indicating optimism against those indicating pessimism



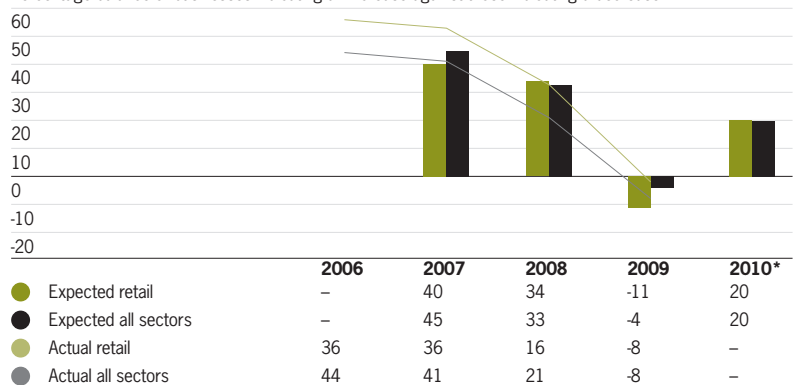
Source: Grant Thornton IBR 2010

Employment

- a balance of +20 per cent of businesses in the retail sector expected to expand the size of their workforce in 2010, identical to the all sectors average
- actual employment contraction reported by businesses in the sector in 2009 (-8 per cent) was slightly better than expected 12 months previously (-11 per cent)
- however, actual employment contraction reported on average across all sectors (-8 per cent) was worse than expected (-4 per cent).

Figure 2: Employment history: 2006-2010

Percentage balance of businesses indicating an increase against those indicating a decrease



*actual 2010 data will be documented in IBR 2011

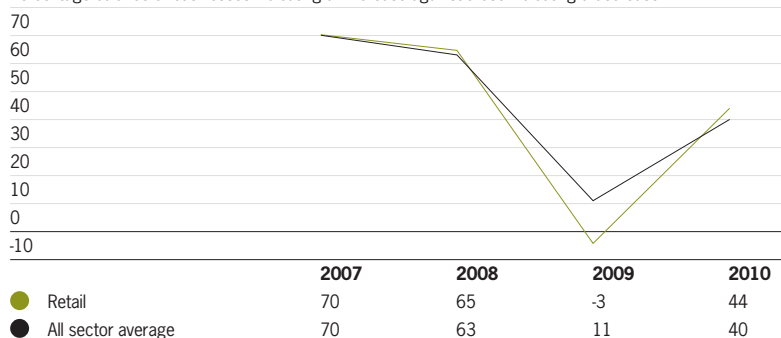
Source: Grant Thornton IBR 2010

Revenue expectations

- a balance of +44 per cent of businesses in the retail sector expected their revenue to increase across 2010, compared to -3 per cent last year
- this is still considerably lower than expectations in 2007 (70 per cent) and 2008 (65 per cent)
- across all sectors on average, revenue expectations have rebounded to +40 per cent this year, up from just +11 per cent in 2009.

Figure 3: Revenue expectations: 2007-2010

Percentage balance of businesses indicating an increase against those indicating a decrease



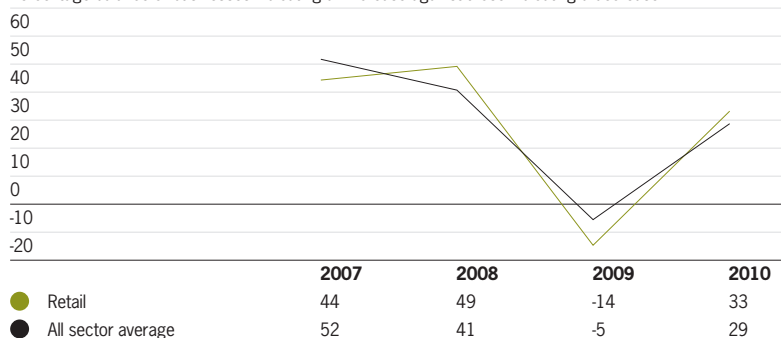
Source: Grant Thornton IBR 2010

Profitability expectations

- the balance of businesses in the retail sector expecting to increase profits in 2010 was +33 per cent, an increase of 47 percentage points from last year (-14 per cent)
- this is still lower than expectations in 2007 (+44 per cent) and 2008 (+49 per cent)
- the all sectors average has increased by 34 per cent, from -5 per cent in 2009 to +29 per cent this year.

Figure 4: Profitability expectations: 2007-2010

Percentage balance of businesses indicating an increase against those indicating a decrease



Source: Grant Thornton IBR 2010



Mark Wuller
Grant Thornton, United States

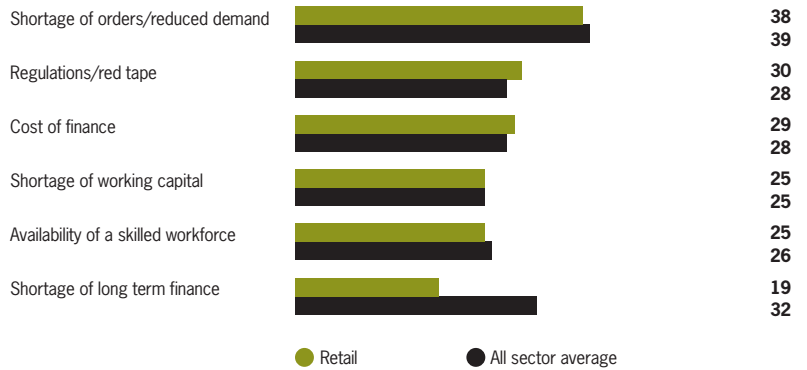
“Businesses will remain cautious; a lot of workers have had their contracts terminated in the US and it’s going to be a long time before a lot of these people are hired back. As a result, these high unemployment levels will naturally impact retail demand.”

Constraints

- in line with the all sector average (39 per cent), a shortage of orders/reduced demand is the most pressing concern for 38 per cent of businesses in the retail sector
- the cost of finance is of slightly greater concern in the retail sector (29 per cent) compared to the average across all sectors (28 per cent)
- financial constraints are of slightly lesser concern in the retail sector compared to the all sector average.

Figure 5: Constraints on expansion

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



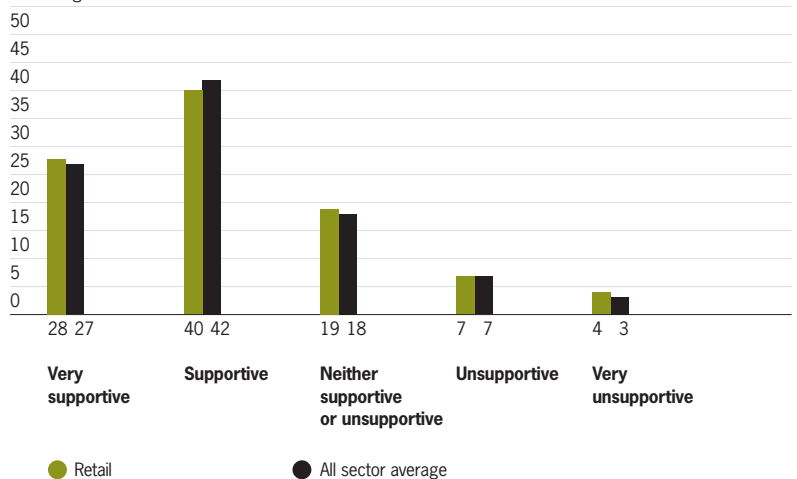
Source: Grant Thornton IBR 2010

Support of lender

- 68 per cent of businesses in the retail sector are happy with the level of support provided by lenders, compared with 69 per cent on average across all sectors
- 11 per cent of businesses in the sector believe that lenders are unsupportive or very unsupportive of their business, compared to ten per cent on average across all sectors.

Figure 6: Level of support provided by lenders

Percentage of businesses



Source: Grant Thornton IBR 2010



Tony O'Brien
Grant Thornton, Ireland

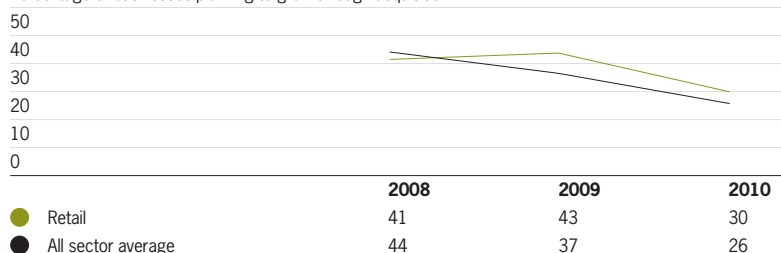
“Retail businesses in Ireland have looked at the current recession as an opportunity to actually put long term costs reductions plans into practice, largely through putting price pressures back onto their suppliers and focusing on property costs such as rents, energy and lobbying for local property tax changes.”

Mergers & acquisitions

- the proportion of businesses in the retail sector planning to grow through acquisition fell by 13 percentage points this year, to 30 per cent
- this followed a two per cent increase in the previous year, from 41 per cent in 2008 to 43 per cent in 2009
- the all sector average has also fallen steadily over the past three years from 44 per cent in 2008 to 26 per cent this year.

Figure 7: Plans to grow through acquisition in the next three years

Percentage of businesses planning to grow through acquisition



Source: Grant Thornton IBR 2010

Stock levels

- one-third of businesses in the retail sector report indicated that their inventory levels have decreased during 2009 (34 per cent)
- a similar proportion (32 per cent) report no change
- whilst one-fifth report an increase in stock levels (21 per cent).

Figure 8: Change in stock (inventory) levels

Percentage of businesses



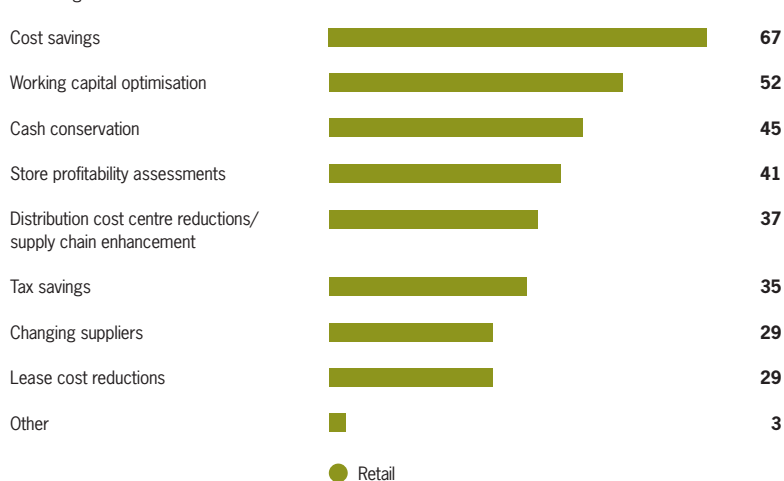
Source: Grant Thornton IBR 2010

The last 12 months

- two-thirds of businesses in the retail sector have looked into cost savings during 2009 (67 per cent)
- over two-fifths have looked into working capital optimisation, cash conservation and store profitability assessments
- and around one-third into distribution cost centre reductions/supply chain enhancement, tax savings, changing suppliers and lease cost reductions.

Figure 9: Which of the following have you looked into over the last 12 months?

Percentage of businesses



Source: Grant Thornton IBR 2010



Mark O'Hare
Grant Thornton, Australia

“Counter-cyclical businesses have learned that these times are very favourable to them; discounters and businesses which offer real value to the consumers have done well in these tough times.”

Outlook for the sector

The business environment for many retailers may have changed not just in the short term but also in the longer-term. In the developed world, highly-leveraged, soaring levels of consumer spending may not return to previous levels as the customer maintains the value-oriented approach which emerged during the downturn. Meanwhile, retailers in emerging markets will benefit from faster domestic consumer spending as export markets remain weak.

The year ahead will be difficult for 'brick and mortar' retailers in the developed world as they contend with high unemployment, tight credit, austerity measures and aggressive product and price competition. However, online retailers look set to consolidate gains made during the downturn on the back of sophisticated inventory management systems which have allowed them more flexibility at lower cost. Any recovery in consumer confidence is likely to be dampened by double-digit unemployment rates in many economies, whilst credit is likely to remain tight.



Barry Knight
Grant Thornton, UK

“The UK retail market in 2010 will remain favourable with the prospect of a good Christmas as purchases will take place before the VAT increase. However, 2011 will be a very difficult year, tougher than 2008. The sector faces multiple issues and the priority in 2011 will be to reduce fixed costs. Landlords will be crucial in what concerns rent reduction negotiations. As a result, property costs will fall and should provide a good opportunity for overseas retail chains to move into the UK as previously high barriers to entry are lowered.”

View from Grant Thornton

Lessons learned from the downturn

- **going back to basics:** businesses have been forced to re-engineer their supply chains and to ensure buying and merchandising devote even more time to providing the customer what they actually want, when they want it all at affordable prices
- **demonstrating value:** consumers have been increasingly shopping around for bargains and businesses have needed to demonstrate real value to maintain loyalty and repeat business
- **working capital management:** businesses have learnt to treat their working capital with great respect, for example through business improvement programmes to reduce stock holding levels
- **strong link with housing markets:** businesses selling products related to housing, such as furniture and lighting, have suffered badly as a result of the housing collapse.



Major risks for the year ahead

- **inflation:** if wage inflation continues to lag behind consumer price inflation then disposable incomes will be further squeezed, impacting on demand
- **rising interest rates:** withdrawal of stimulus packages, all exacerbated by austerity, will further squeeze disposable incomes
- **lack of demand for mid-market businesses:** discounters and supermarkets may continue to increase market share at the expense of mid-size businesses
- **input price increases:** pressure on suppliers kept prices low during the downturn but pressure may now return up the supply chain, particularly when cotton prices and developing country labour costs soar.



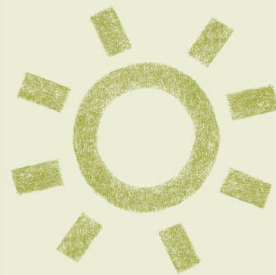
Planning for the future

- **focus on efficiency:** in the short term, the majority of businesses are simply focused on survival, costs and efficiency whilst maintaining a strong product offering to the consumer
- **deferring major investment:** many businesses are waiting for the upturn to fully take hold before executing huge investment plans; there is space on the high street but businesses are cautious
- **M&A opportunities:** some businesses are looking to pick off weaker competitors for well below what they would have paid in boom times
- **adaptability:** businesses are trying to become more flexible through adopting and maintaining continuous improvement practices, such as better inventory management.



Is the increased focus on cost saving observed during the downturn here to stay?

- **opportunity to change:** many businesses have used the downturn as an opportunity to lower costs through putting pressure on suppliers
- **global sourcing:** global sourcing of inputs and offshoring could increase as businesses go further and further looking for efficiencies
- **margin management:** businesses will be looking to maintain and add to their customer base without compromising margins
- **minor investment:** some businesses might seek to invest a bit more in their stores, stock portfolios and marketing tools, such as their websites.



Arnaldo Hasenclever
Grant Thornton, Argentina

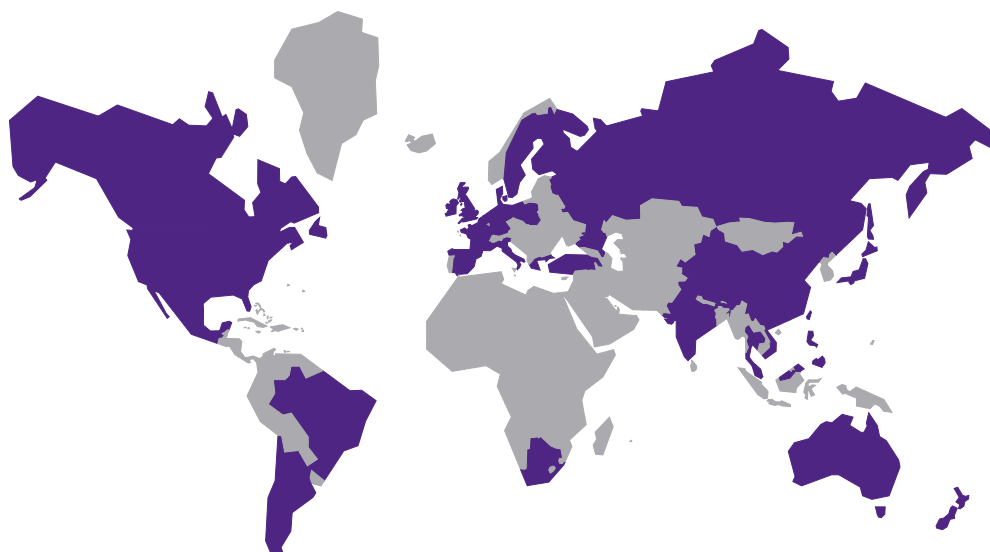
“Ahead of the elections, businesses in Argentina are waiting to execute major investment plans until the marketplace becomes a little less uncertain.”

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 7,400 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. In the retail sector, 1130 businesses were interviewed, 35 per cent from retail trade (except motor vehicles and motorcycles), 23 per cent from wholesale and retail trade and repair of motor vehicles and motorcycles, 42 per cent other.

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
Mainland China	Singapore
Denmark	South Africa
Finland	Spain
France	Sweden
Germany	Taiwan
Greece	Thailand
Hong Kong	Turkey
India	United Kingdom
Ireland	United States
Italy	Vietnam



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