

Consumer Business Compass

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The Newsletter of the BDO Seidman
Retail and Consumer Product Practice

The Big Picture

Retail CFOs Cite Credit Concerns Amid Tough Economic Climate

September was a dark month for U.S. enterprise. Headlines of bankruptcies and government takeovers rocked the world and everyone wondered in disbelief how Wall Street could collapse so quickly. Almost immediately, the depth of the financial crisis was realized and a widespread freezing of credit markets ensued.

As if retailers did not have enough to worry about already, now they face further tightening of their credit lines, which will impact how they manage their business for the remainder of the year. Some, like Wal-Mart, will use cash to purchase inventory, while others will reduce their inventory purchases. Ultimately, however, all of them will wait to see the impact of the financial bailout, while of course hoping that consumers will prove their resilience as we approach the 2008 holiday shopping season.

A recent study by the Retail and Consumer Product Practice at BDO Seidman, LLP, of chief financial officers (CFOs) at leading U.S. retailers showed an increase in concern over a looming credit crunch and the economy.

Credit Crunch Moves from Wall Street to Main Street

According to the **BDO Seidman Retail Compass Survey of CFOs**, the credit squeeze that culminated in a major financial meltdown on Wall Street has been impacting U.S. consumers, as well as retail businesses, throughout 2008. Nearly half of (41%) of CFOs at U.S. retailers have experienced a tightening of credit by their lenders. Further, more

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Did You Know...

According to the **National Retail Federation**, holiday retail sales are expected to increase 2.2% this year, the slowest growth since 2002.

A national survey of 7,500 shoppers found that 47 percent of Macy's shoppers and 42 percent of Target shoppers are poised to vote for Obama. **Source: BIGresearch.**

According to **NRF and Global Insight's Port Tracker**, cargo volume at the nation's major retail container ports is expected to decline 6% in 2008 over 2007.

Most retailers cited customer checkout, alternative images

and online surveys as investment priorities for the next year. **Source: 2008 State of Retailing Online: Merchandising Report.**

Most retailers surveyed believe that the online channel is better suited to withstand an economic slowdown than offline channels. **Source: State of Retailing Online: Profitability, Economy and Multichannel report.**

According to the **National Retail Federation**, jewelry stores may have the most at stake during the holiday season, as 30% of their sales last year came in November and December.



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than a third (37%) of the CFOs report a reduction of planned inventory purchases for 2008, further illustrating a difficult lending and economic environment.

In 2008, a number of factors have weighed on retailers, but the compounding affect of reduced consumer spending and a restricted credit environment has been especially challenging. For some retailers, negative sales trends and credit concerns have led to a reduction of their inventory purchases, which does not bode well for the foreign economic growth, as sourcing from U.S. retailers comes largely from developing countries.

Consumer Confidence Hurts Spending and Lowers Sales Forecasts

Retail CFOs see several issues impacting consumer confidence throughout the year. More than half (57%) of the CFOs said that high fuel costs had the greatest impact on consumer spending in the first half of the year. Looking forward to the balance of 2008, however, only 47 percent cited fuel costs as having the greatest impact on consumer confidence, as CFOs reported concern over other issues including the housing market (28%), the election (13%) and inflation (11%).

Consumers started to pull back last year, when the economy weakened. But fuel costs skyrocketed in the first half of 2008, draining consumers' discretionary income and spurring a convergence of economic factors that have lead us to the current recessionary climate. Retailers remain wary about consumer resiliency for the rest of the

On perhaps a more positive note, 47 percent of the CFOs are predicting that the economy will experience a meaningful turnaround in the first half of 2009, with the highest concentration of CFOs (28%) citing the second quarter as the most promising.

year, as consumers stretch their dollars to cover inflation and, inevitably, heating bills.

Looking forward, only 36 percent of CFOs anticipate that comparable store sales revenue will be higher in the second half of 2008 than they were in the second half of 2007, while 37 percent say sales will be flat and 27 percent anticipate lower. Overall, CFOs estimate that the average comparable store sales growth will be virtually flat, averaging 0.72 percent growth. Total revenue growth is estimated to be a higher 3.5 percent, which is down from an estimated 5.6 percent growth last year.

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These findings are from the most recent edition of the **BDO Seidman Retail Compass Survey**, which examined the opinions of 100 chief financial officers at leading retailers located throughout the country. The retailers in the study were among the largest in the country, with revenues of more

than \$100 million, including 24 percent in the top 100 based on annual sales revenue.

Some of the major findings of the BDO Seidman Retail Compass Survey of CFOs:

Overall Sales Slide. When comparing sales revenue in the first half of 2008 to the first half of 2007, more than half (64%) of retail CFOs report flat or decreased sales. Last year, 18 percent cited a decrease and 26 percent reported flat sales. Only 36 percent of retail CFOs say sales increased when comparing the first halves of 2008 to 2007, which is down from 56 percent who cited an increase last year when comparing sales revenue to the first half of 2006.

Comparable Store Sales Sink. Comparable store sales fared slightly worse in the first half of 2008, as 44 percent of the CFOs cite a decrease in sales when looking back on the first half of 2007, compared to only 22 percent of CFOs who reported a decrease last year when looking back on the first half of 2006. Twenty-one percent say that comparable store sales were flat in the first half of 2008.

Layoffs Become a Reality. One-in-four (24%) of the retail CFOs cite that they

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have had, or plan to have, significant staff reductions in 2008. When looking at the top 100 retailers specifically, 32 percent of those CFOs are experiencing layoffs this year.

Store Closings. Unfortunately, 36 percent of the retail CFOs say that they have, or will, close stores in 2008, with 27 percent citing that they will close more stores this year than they did in 2007. Consistent with other survey finds, the top 100 retailers are experiencing a more difficult climate than the other respondents. They are twice as likely to close stores, with 57 percent reporting that they have already or will close stores in 2008 and 33 percent of those retailers saying that they will close more stores this year as compared to 2007.

Delayed Openings. On a more positive note, three quarters (77%) of CFOs have not or do not plan to delay store opening plans in 2008. One-third (33%) of the CFOs at the top 100 retailers report reduced or delayed store openings in 2008, which is 10 percent higher than the other respondents.

Top 100 Retailers. The largest retailers have had a more difficult time this year, with 48 percent of the CFOs at the top 100 retailers reporting decreased total sales, and 62 percent reporting decreased comparable store sales, in the first half of 2008 over the first half of 2007. Last year, the top 100 retailers were stronger than the average, with 83% reporting increased sales in the first half of 2007 over 2006. When asked about their total sales for 2008, half of the top 100 retailers predict that sales will be lower than they were in 2007. Thirty-nine percent of the CFOs antic-

ipate that sales will be higher and 11 percent anticipate flat sales.

Retailers Remain Positive about Takeover Provisions. The majority (91%) of retail CFOs reported that the weak U.S. dollar has not increased their concern of being acquired by an international entity.

Securing Cyberspace. Forty-four percent of CFOs at leading retailers stated that they have increased their

level of investment in cyber security to combat potential data breaches, down from 61 percent in 2007, indicating a growing comfort with the protective systems in place.

Careful with Customer Data. Nearly half (47%) of retailers report that they do not maintain customer credit card information. Of those who do keep credit card information, 61 percent conduct periodic reviews of inactive accounts in order to remove card

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U.S Retailers Show Concern over the U.S. Presidential Election

Retail CFOs currently concerned about shrinking margins and holiday sales are also worried about the possibility of higher tax payments and fewer incentives in the wake of the impending presidential election. According to the **BDO Seidman Retail Compass Survey of CFOs**, a whopping 69 percent of chief financial officers (CFOs) at leading U.S. retailers are worried about tax reform as a result of the 2008 Presidential Election.

“The feeling is that tax reform is immanent,” said Catherine Fox-Simpson, a Partner in the Retail and Consumer Product Practice at BDO Seidman, LLP. “If businesses are dealt a tax increase by the new administration, they may need to decide if they should cut costs or reduce staff.”

In fact, retailers recently benefited from the economic-stimulus package because there were provisions within the package that contained depreciation allowances that were helpful in purchasing durable goods. That led to an increase in durable good sales and, according to Fox-Simpson, that is the kind of reform businesses are looking for.

Of course, the election may also impact some green incentives, which retailers are likely also considering. The majority (76%) of the retailers surveyed are actively involved in green practices, which is a nine percent increase from 2007. When looking at the top 100 retailers, 83 percent report being actively involved in green practices, which is consistent with 2007 findings.

Any retail or consumer product businesses seeking assistance on tax matters related to the election or green practices can contact Catherine M. Fox-Simpson at cfox@bdo.com.

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holder data. Most of the retailers (96%) who do review inactive accounts do so annually.

Product Sourcing Not a Primary Focus for Retailers. One quarter (25%) of the CFOs say their company has increased the level of personnel and financial resources they devote to risk management for supplier and vendor activities, down from 32 percent in 2007. The remaining 75 percent cite that their resources have stayed the same. The majority (90%), however, have not made any changes to vendors or supply

chain relationships as a result of product and food safety concerns.

International Accounting Standards Grow More Popular. When asked about the increasing acceptance of international accounting standards, nearly a third (28%) of the retail CFOs stated that they are evaluating, or considering changing from U.S. Generally Accepted Accounting Principals (GAAP) to International Financial Reporting Standards (IFRS). More than half (54%) of the CFOs at the top 100 retailers are considering or already adopting IFRS. The SEC recently mandated a switch to IFRS, so the majority of retailers (72%) who cite

that they have not considered a switch to IFRS may now be feeling pressure to learn the new regulations.

The **BDO Seidman Retail Compass Survey** is a national telephone survey conducted by Market Measurement, Inc., an independent market research consulting firm, whose executive interviewers spoke directly with chief financial officers. The survey was conducted within a scientifically developed, pure random sample of the nation's leading retailers (with revenues ranging from more than \$100 million to billions of dollars).

Mark Your Calendars...

The following is a list of upcoming conferences and seminars of interest for retail and consumer product executives:

October 2008

- October 26 – 29** **FMI 2008 Risk, Insurance & Safety Management Conference**
Hilton Oceanfront Resort, Hilton Head Island, SC
- October 27 – 29** **NRF Global e-Commerce Summit**
Grand Hotel Krasnapolsky, Amsterdam, The Netherlands

November 2008

- November 11 – 12** **ICSC Mixed-Use Conference**
Fairmont Hotel, Chicago, IL
- November 12** **Retail Week Cutting Store Costs**
Millennium Cophorne Tara Hotel Kensington
London, Eng
- November 16 – 18** **PLMA's Private Label Trade Show**
Rosemont Convention Center, Hyatt Regency O'Hare
Chicago, IL
- November 18 – 20** **BAI Retail Delivery Conference & Expo**
Orange County Convention Center, Orlando, FL
- November 19** **MAPIC The International Market for Retail Real Estate 2008**
Palais des Festivals, Cannes, France

December 2008

- December 8 – 10** **ICSC 2008 New York National Conference and Deal Making**
Hilton Hotel & Sheraton New York Hotel & Towers
New York, NY

BDO Seidman Retail & Consumer Product Practice

BDO Seidman, LLP has been a valued business advisor to retail and consumer product companies for almost 100 years. The firm works with a wide variety of retail clients, ranging from multinational Fortune 500 corporations to more entrepreneurial businesses, on myriad accounting, tax and other financial issues.

For more information on BDO Seidman's service offerings to this industry vertical, please contact one of the regional service leaders below:

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