

EXCERPTS OF RECENT MEDIA COVERAGE

# RETAIL AND CONSUMER PRODUCTS PRACTICE

## A SAMPLING OF BDO THOUGHT LEADERSHIP IN THE MEDIA FOR Q3 2012

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### ► WALL STREET JOURNAL

#### KOHL'S, TARGET DIVERGE ON HOLIDAY HIRING

By Karen Talley

Word on Tuesday morning that Kohl's Corp. planned to increase holiday hiring raised some hopes for seasonal employment. But within hours, Target Corp. GT tempered the optimism by saying its own hiring would be down slightly....

Overall, retail executives are projecting a holiday sales season similar to last year and therefore appear generally poised to hire at comparable levels to help with sales.



Holiday hiring "is generally an indicator of the level of confidence a retailer has in its seasonal business," said **Doug Hart, partner in the retail practice at the accounting and consulting firm BDO USA....**

Within the retail industry, chief financial officers are forecasting a 3.6% increase in same-store sales for the second half of 2012, consistent with their year-ago projection of 3.5%, based on a survey by BDO USA....

"Retailers aren't counting their dollars just yet," Mr. Hart said. "Forecasts are cautious as retailers closely watch unemployment,

election results and inventory levels – any of which could throw a wrench in holiday results." The bulk of most retailers' sales in the second half are done over November and December....

Amid pressures to avoid heavy discounting and preserve margins, 58% of retailers in the BDO survey said too much inventory is the greatest risk in the second half of the year, a change from 2011, when 53% cited insufficient inventory as the bigger risk. The reversal came after retailers were left with merchandise in 2011 as cotton-price spikes led to less buying, and consumer confidence was relatively low.

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### ► MARKETWATCH

#### HOLIDAY SALES LOOK JOLLY FOR RETAILERS

By Andria Cheng

It looks like retailers are feeling pretty upbeat heading into this year's holiday season...

Behind the increased optimism, retail finance chiefs are feeling more confident in the overall economy, with the percentage of CFOs projecting an ongoing economic turnaround nearly tripled this year to 32% from 11% last year, the BDO survey showed. Still, overall, most of the finance chiefs expect economic conditions to continue to stagnate.



BDO has been a valued business advisor to retail and consumer product companies for more than 100 years. The Retail & Consumer Products Practice of BDO works with a wide variety of retail and consumer oriented clients, ranging from multinational Fortune 500 corporations to more entrepreneurial businesses, providing a myriad of accounting, tax and other financial services.

"Compared to where we were last year, retailers are more optimistic," said **Doug Hart, a partner at BDO**, in an interview. "There's more stability out there in the July-through September period, and back-to-school sales ended up being relatively strong."

The rosy outlook, however, doesn't mean retailers are worry free, the survey showed.

More than two-fifths of retailers said unemployment will have the biggest impact on consumer confidence during the remainder of 2012, while another 29% point to the U.S. presidential election and its outcome. Other concerns on the minds of retailers include financial market volatility, personal credit availability, debt levels and a weak housing market. Fuel prices are less of a concern, with only 2% of CFOs citing that as a top threat, down from 9% last year.

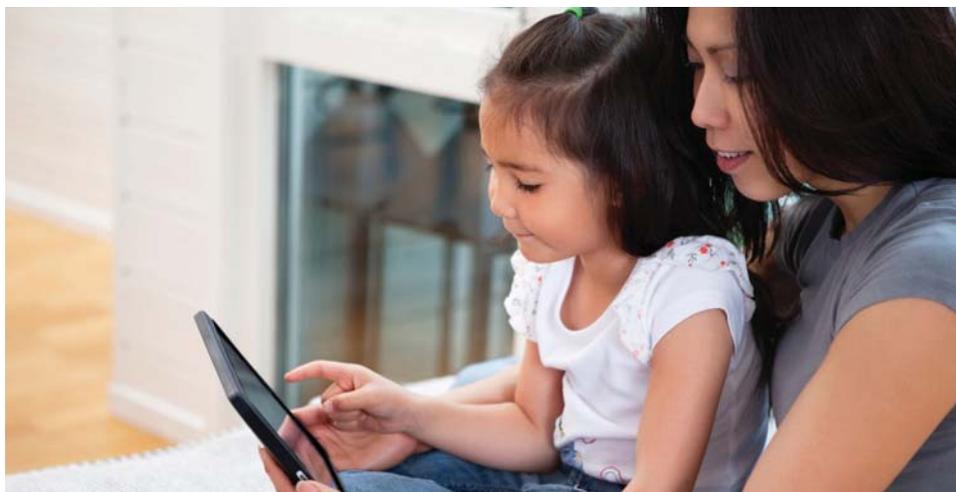
"Retailers are cautiously optimistic," Hart said. But "there's some uncertainty in the future."...

"Retailers still remember the lessons from 2008," when a glut of inventory led to deep discounts, Hart said. "They are still cautious on inventory."...

In terms of the biggest risk to their profit margins, cost of products topped the list of concerns with 40% of CFOs citing that as the primary threat. Almost 20% of them each respectively cited logistics and transportation; store operating costs; and inventory levels and discounts as the top threat.



"Commodity costs may have stabilized, but price-conscious consumers are keeping retailers on their toes," said **Al Ferrara, partner at BDO**.



► **USA TODAY**

**LEAPFROG, IPAD TABLETS TOP HOLIDAY TOY LISTS**

By Jayne O'Donnell and Oliver St. John

Tablets for tots will likely top wish lists this holiday season, though availability could be the problem it is every year for hot toys.

Toys R Us released its hot toy list Wednesday, and Kmart's is out Thursday. The lists offer parents a chance to get a jump on the search for the latest trendy toy.

That may be necessary: A new survey shows inventory levels won't be much better than last year, which could mean bare store shelves and disappointed kids.

A survey of retail CFOs found 55% said inventory levels this holiday season will be the same as last year, while only 25% said they increased the amount of merchandise purchased for the holidays, according to **accounting and consulting firm BDO USA's report** out this week. It also showed retailers are divided about whether too much or too little inventory is the bigger risk to their holiday sales. With too much inventory, stores are forced to make big post-holiday price cuts, which cut into profits....

► **REUTERS**

**RETAILERS CAUTIOUS AFTER DISCOUNTS BOOST JULY SALES**

By Dhanya Skariachan, contributions from Phil Wahba & Jessica Wohl

Retailers reported stronger-than-expected sales for July, but the gains were largely due to discounting and do not necessarily signal vigorous consumer spending for the rest of the year...

Most retailers offered discounts in July to clear out leftover summer merchandise and make room for back-to-school items and other fall goods.

While July is typically one of the lowest-volume months, it kicks off the back-to-school season, the second-biggest sales period of the year after the winter holidays...

Many industry observers said August would be a better gauge of demand in the U.S. economy than July.



"Most states run their tax-free holidays in August, so people are waiting for that," said **Ted Vaughan, a partner in the retail and consumer products practice at consulting firm BDO USA**.

firm BDO USA.

► **WOMEN'S WEAR DAILY**

**GETTING PERSONAL: RETAILERS MINE DATA TO OFFER CONSUMERS TAILORED EXPERIENCES**

By Cotton Incorporated Lifestyle Monitor

In an effort to hone in on what makes consumers buy rather than browse, retail science has gotten a little...sci-fi.



For brick and mortar stores, there are "technologies like heat cameras that track customer traffic," says **Stephen Wyss, partner in the Retail & Consumer Products**

**Practice at BDO.**

"There's WiFi to track people's cell phone movement. And RFID device tags that track how often a piece of merchandise is picked up and put back on a shelf," says Stephen Wyss, partner in the Retail & Consumer Products practice at BDO....

It sounds pretty high tech. But analysts agree: this is the future of apparel retailing....

Even though 64% of shoppers get their apparel ideas from what they already own and like, 43% turn to store and window displays for direction, according to the *Monitor* survey. And 33% get ideas from people they see regularly, while 29% use the Internet for inspiration....

Shoppers are influenced by the recommendation of friends (53%), relatives (21%) and magazines (20%), the *Monitor* finds. Slightly more than one-fifth of consumers (22%) say apparel worn by celebrities is "very or somewhat influential" to their own clothing choices.

"Celebrities have been used to attract people to brands for decades," Wyss says. "But these days they're much more involved in the products they're promoting. People like Jay Z and Madonna are celebrities

and also entrepreneurs – with creative control. So these celebrities, influencers and curators – bloggers and fashionistas – are communicating with huge audiences via the web. Any feedback that flows between the consumer and the personality allows retailers to get more personal information about what consumers like."

► **QUICK SERVE LEADER**

**INTERNATIONALLY, BURGER KING MAY HAVE TO HURDLE BEFORE IT GROWS**

By Rick Zambrano

Burger King's Q2 conference call reaffirmed that the burger chain continues to have big plans internationally. It was at the beginning of this year, prior to Burger King's parent's (3G Capital) merger with Justice Holdings, that co-founding partner of Justice, Bill Ackman, said that the world's second-largest burger franchise, by number of stores, had the potential to develop another 18,000 restaurants abroad using the master franchising model that it had used in Brazil. Of course, 3G Capital's ties to Brazil facilitated the first master franchise agreement there with Vinci Partners last June, replacing its company-managed presence there dating back to 2004....



Is Burger King "late to the party?" **Sylvia Mak, Senior Manager, Retail and Consumer Products, at BDO**, says that in China, Burger King will now be facing commodity inflation

and rising labor costs. She notes also that economic growth is tapering off and rents are increasing...

Mak notes that Burger King will also struggle with retaining key labor talent in the country as more and more western chains and retail job opportunities continue to grow there.

► **WALL STREET JOURNAL**

**AS THEIR OUTLET STORES PROLIFERATE, U.S. LUXURY RETAILERS RISK TARNISHED IMAGE**

By Karen Talley

Luxury retailers in the U.S. are finding their outlet stores are starting to outnumber their traditional stores, a development that could up-end the way upper-end shopping is perceived.

For decades, names such as Saks Inc. (SKS) and Nordstrom Inc. (JWN) stood for the very best a consumer could afford. In recent years, though, luxury retailers have opened scores of much-smaller outlet stores. While the locations, in many cases, were at first used to house full-line stores' cast-offs, they now are shopping destinations in their own right. The outlets still generally carry the full-line stores' products but also have lower-costing designer wares, as well as a variety of other products.

"When you open full-line stores, they are bigger projects," said Nordstrom spokesman Colin Johnson. Outlets "get up and running quickly and generate very strong returns," Mr. Johnson said.

Nordstrom by the end of this year will see the number of its Nordstrom Rack outlets outdistance its full-line stores, 119 to 117, and the retailer expects to have more than 230 outlets by 2016....

Luxury retailers have worked hard to maintain their images as they expand their outlets.

"Outlets try to keep to the experience of a full-line store, and there are core items they sell in their stores they will never sell in an outlet," said **Stephen Wyss, partner in the retail practice at BDO USA.**

## ► E-COMMERCE TIMES

### STAPLES PUNCHES UP ONLINE STRATEGY

By Erika Morphy

Staples is stepping up its e-commerce operations – and ambitions – with a \$250 million cost-cutting plan designed to help it compete against online titan Amazon...

Staples is joining the ranks of big box retailers that want to push deeper into an activity that historically has been of secondary importance to them – e-commerce...

"Staples' brick-and-mortar strategy has involved the use of large square footage locations, which typically have high carrying costs for rent and occupancy," said **Stephen Wyss, assurance partner with BDO USA's retail and consumer products practice.**

"Since a large portion of Staples' customers are small business accounts that don't

need to browse the aisles at the brick-and-mortar locations, the shift in strategy to online makes a lot of sense," he told the E-Commerce Times....

Finally, it is becoming clear that the issue of online sales tax is not the deal-breaker that it was originally perceived to be, BDO USA's Wyss said.

"Amazon had long enjoyed the advantage of no sales tax in the majority of states because they did not have nexus in those states," he noted. "Retailers such as Staples were perceived to be at a disadvantage because their vast brick-and-mortar presence gave them nexus in most states, which required them to collect sales tax on online sales in those states."

However, Amazon recently decided to enter brick and mortar, as well as increase its number of distribution centers across the country, Wyss observed, indicating it is no longer fearful of the impact of collecting sales tax on sales in more states.

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