

Consumer Business Compass

Summer 2008

The Newsletter of the BDO Seidman
Retail and Consumer Product Practice

The Big Picture

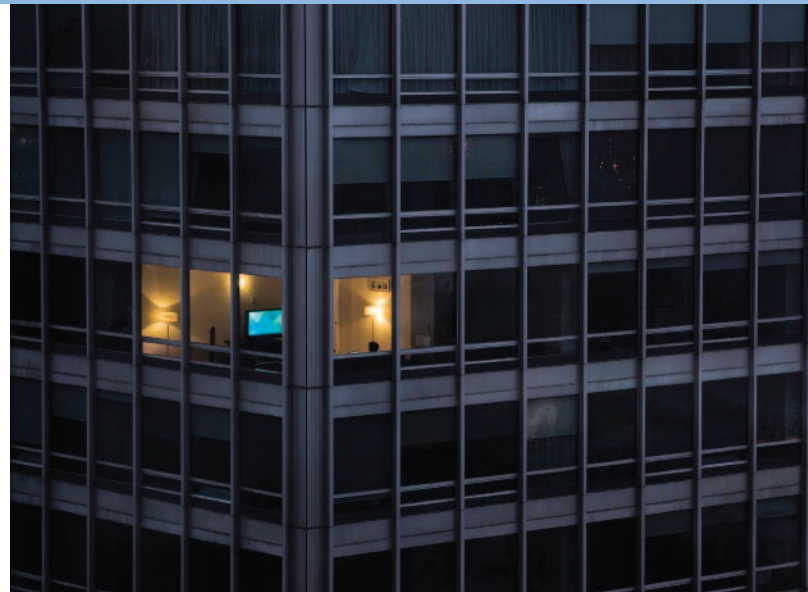
What Keeps Retail Executives Up at Night?

In the first half of 2008, the confluence of several major economic factors including fuel costs, inflation and unemployment, drained U.S. consumer spending power and, consequently, severely impacted earnings at many top retailers. With earnings plummeting, stores closing and the number of bankruptcies rising, economic conditions are proving to be chief risks for retailers as they head into the second half of 2008. *The BDO Seidman 2008 RiskFactor Report for Retail Businesses*, which analyzed the risk factors listed in the 2007 fiscal year 10-K SEC filings of the 100 largest public retail companies, found that risks associated with competition and foreign suppliers were also top of mind for most retail executives.

An analysis of leading risk factors at the 100 largest public U.S. retailers, *BDO Seidman's RiskFactor Report for Retail Businesses* identifies strong competition (90%) and general economic conditions (83%) as the most common risk factors.

An increasing concern, as compared to 2007, was the risk associated with international suppliers, reflecting unease over recent product safety issues with China (79% and the 3rd highest risk). Furthermore, while still ranked high on the list, only 70 percent (as compared 84% in 2007) of retailers cited concerns regarding impediments to further U.S. expansion, which may indicate that expansion plans have stalled with retailers focusing on reducing costs in a recessionary environment. Also ranking high is labor risk (62%)

continues on page 2



Did You Know...

According to **Retail Horizons' Benchmarks for 2007, Forecasts for 2008** report, one-fourth of retailers say their average sales per square foot exceed \$400.

Two-thirds of retailers have found their stolen property being sold elsewhere.
Source: NRF Organized Retail Crime Survey.

According to **STORES Global Powers of Retailing** report, five of the world's top 20 retailers are headquartered in Germany.

Retailers estimate that 40% of "new, in box" merchandise sold on online auction sites is either stolen or has been fraudulently obtained.

Source: NRF 2008 Organized Retail Crime survey.

Chinese consumers ages 18 to 34 save 14% of their annual income, while Americans the same ages save only 9%. **Source: BIGresearch.**



BDO Seidman, LLP
Accountants and Consultants

The Big Picture

What Keeps Retail Executives Up at Night? (continued from page 1)

Top 20 Risk Factors of the 100 Largest U.S. Retailers		2007 Rank
1. Competition and Consolidation in Retail Sector	90%	1
2. General Economic Conditions	83%	2
3. U.S. and Foreign Supplier/Vendor Concerns	79%	4
4. Impediments to Further U.S. Expansion	70%	3
5. Labor (health coverage, union concerns, staffing)	62%	5
6. Implementation of IT Systems	54%	7
7. Changes to Federal, State or Local Regulations	52%	6
8. Terrorism and Geopolitical Events	51%	10
9. Legal Proceedings (current/pending/future litigation)	46%	15
10. Indebtedness	45%	9
11. Dependency on Consumer Trends	45%	8
12. Seasonal Flux in Sales	44%	12
13. Loss of Key Management/New Management	44%	11
14. Pending Mergers & Acquisitions	42%	13
15. Privacy Concerns Related to Security Breach	40%	18
16. Insurance/Product Liability	37%	20
17. Changes to Accounting Standards/Regulations	36%	16
18. International Operations (political/economic/etc.)	32%	17
19. Balancing Inventory	22%	19
20. Foreign Exchange Rates	19%	Not Ranked

and the implementation of technology systems (54%), both of which had a higher frequency percentage this year over last year's results (56% and 50%, respectively).

"As advisors to consumer product and retail businesses, we created The BDO Seidman RiskFactor Report for Retail Businesses to serve as an annual benchmark of the changing concerns of the major public retailers, said Doug Hart, a Partner in BDO Seidman's Retail and Consumer Product practice. "Ultimately, the research shows increased worry over the state of the economy. Concern over the economic malaise is not only cited explicitly as a risk factor, but also in the diminished concern over expansion plans, marketing initiatives, loss of key management and dependency on consumer trends. This reinforces the fact that many retailers are hunkering down for a difficult environment rather than focusing on growth."

Some observations on the findings of The BDO Seidman RiskFactor Report for Retail Businesses:

Economic Factors Plague Retail

Of the 82 percent of retailers that cited general economic concerns as a risk in 2008, energy and oil was highlighted most frequently (75%), followed by interest rates (55%), employment trends (53%), credit availability (43%), inflation (37%) and the housing market (23%). In 2007, many of the retailers did not include specific economic factors, indicating that these issues were not nearly as pronounced as they are today. Last year, of the 86 percent of the retailers that cited general economic concerns as a risk, energy

continues on page 3

The Big Picture

What Keeps Retail Executives Up at Night? (continued from page 2)

and oil was the leader (57%), followed by interest rates (44%), employment trends (42%), inflation (38%), credit availability (24%) and the housing market (1%).

Geopolitical Fallout

Half (51%) of the top 100 retailers declared that terrorism and geopolitical events are viewed as risks, as compared to 44 percent in 2007. This increase is likely related to the confluence of the U.S. being more reliant on emerging economies for raw materials (commodities, oil and natural gas) and the U.S.'s increasingly strained relationship with many of these nations.

Protecting Privacy

As retailers continue to store consumer data to further focus their targeted marketing efforts, they are becoming increasingly wary to rising risk in the area of privacy. Some well publicized security breaches in 2007 (such as TJX) have driven this point home, as 40 percent of the retailers cited consumer data security breach as a risk factor, up from 26 percent last year. Further, within that factor, some companies listed employee and corporate information leaks as a growing issue.

Regulatory Reflux

Half (52%) of the top 100 retailers declared that changes in federal, state and local regulations may impact their bottom line. Some reports specifically cited the new FIN 48 accounting rules that require businesses to report any uncertain tax positions in their financial statements. Also, a third (36%) of the retailers stated that accounting standards presented risk, up from 32 percent last year. This is likely due to increased concerns over IFRS, GAAP and other compliance regulations.

Foreign Exchange Rates Debut

While only 18 percent of retailers ranked foreign exchange rates as a concern, last year currency risk was not included in the top 20 risk factors at all. Clearly, the lower value of the U.S. dollar has spurred an increased concern among retailers who purchase inventory from foreign suppliers. Most noted was the Euro-U.S. dollar exchange rate, which has squeezed margins for retailers with European suppliers. Further, as emerging nations experience inflation in production costs, they have difficulty not passing it along to their US retail customers. Finally, since most US retailers don't have many foreign retail stores, they do not experience the currency exchange benefits that some other US multinationals are seeing.

“Ultimately, the research shows increased worry over the state of the economy. Concern over the economic malaise is not only cited explicitly as a risk factor, but also in the diminished concern over expansion plans, marketing initiatives, loss of key management and dependency on consumer trends. This reinforces the fact that many retailers are hunkering down for a difficult environment rather than focusing on growth.”

Doug Hart – Partner, Retail and Consumer Product Practice, BDO Seidman, LLP

Mark Your Calendars...

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

July 2008

July 17 **Chain Store Age Webinar: Maximizing the Bottom Line**
2:00pm

August 2008

August 7 **ICSC Chicagoland Retail Connection**
Renaissance Chicago Hotel
Chicago, IL

August 10 – 12 **NRFtech: IT Leadership Summit**
Omni Interlocken Resort
Broomfield, CO

September 2008

September 1 – 3 **Sixth Annual Conference of Mall China Intl. Symposium**
Four Points by Sheridan
Shanghai China

September 7 – 10 **FMI Energy & Technical Services Conference**
Omni Orlando Resort at Champion's Gate
Orlando, FL

September 8 – 10 **ICSC Conference of the Americas**
Transamérica Expo Center
Sao Paulo, Brazil

September 14 – 16 **FMI Human Resources Training & Development Conference**
Marriot Monterey Hotel
Monterey, CA

September 15 – 17 **Shop.org Annual Summit**
Mandalay Bay Resort & Casino
Las Vegas, NV

September 22 – 24 **RILA Environmental Sustainability & Compliance Conference**
Embassy Suites Dallas-Frisco
Frisco, TX

September 24 **ARC Retail Conference**
Cavendish Conference Centre
London, UK

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:

Al Ferrara, New York
aferrara@bdo.com / 212-885-8000

Steve Ferrara, Chicago
sferrara@bdo.com / 312-856-9100

Ted Vaughan, Dallas
tvaughan@bdo.com / 214-969-7007

Douglas Hart, San Francisco
dhart@bdo.com / 415-397-7900

Material discussed is meant to provide general information and should not be acted upon without first obtaining professional advice appropriately tailored to your individual circumstances.

To ensure compliance with Treasury Department regulations, we wish to inform you that any tax advice that may be contained in this communication (including any attachments) is not intended or written to be used, and cannot be used, for the purpose of (i) avoiding tax-related penalties under the Internal Revenue Code or applicable state or local tax or (ii) promoting, marketing or recommending to another party any tax-related tax-related penalties under the Internal Revenue Code or applicable state or local tax law provisions or (ii) promoting, marketing or recommending to another party any tax-related matters addressed herein.