

GfK

GfK Audits & Surveys



2009 GfK Audits & Surveys' National Retail Census

Legend has it that the former president of the U.S.S.R., Mikhail Gorbachev, was once asked how – in one word – he would sum up the Soviet economy. "Good," he said. Then he was asked how he would sum up his country's economy in two words. "Not good," he replied.

That anecdote is hitting too close to home for many Americans and retailers of all stripes are feeling the consequences.

The U.S. Department of Labor recently reported that the country's unemployment rate in June reached a 26-year high of 9.5%. Concern about our economic future is having a profound effect on consumer spending habits. Visa, the credit card company, announced that in the fourth quarter of 2008, for the first time ever, the dollar volume of purchases made with its debit cards, which deduct funds immediately from checking accounts, exceeded the dollar volume of its credit card transactions. Analysts project that debit card purchase volume will grow nearly 70% in the next four years, while traditional credit card purchases will increase only 10%.

Consumer spending has historically driven much of the economy and consumers are not in a spending mood. They've seen the value of their houses and 401(k) plans fall and many believe they will soon see double-digit unemployment rates. These are certainly not the best of times – but neither are they the worst that retailers and marketers have worked their way through.

Not surprisingly, some retail sectors have fared better than others in the downturn. Grocers and discount stores have proven to be more resilient in the recession, as shoppers spend less in restaurants and forsake big-ticket items for affordable necessities. Even the Dallas-based luxury goods department store, Neiman Marcus, is changing its strategy and "rebalancing" its merchandise to include more lower-priced items in its designer collections.

About GfK Audits & Surveys' National Retail Census

GfK Audits & Surveys' National Retail Census, now in its 56th year, is the largest, in-person distribution measurement program conducted in the U.S. It is the most established and comprehensive source of reliable information on the number and kinds of stores in the country selling various product categories and specific brands. The National Retail Census provides marketers with the most accurate measurement of their product penetration and that of their competitors in every type of retail outlet carrying their product category. It's based on data gathered through in-person store visits to a national probability sample of all types of retail and service establishments throughout the country.

Retailers and marketers have long been known for their creativity and resourcefulness. The Gap, Target and others are beginning to get more precise in fine-tuning their prices and stock levels on a store-by-store basis, in an attempt to maximize profit and reduce excess inventory.

Many supermarkets, drug stores and discount retailers are resisting product proliferation. Wal-Mart used to carry 24 different tape measures – now it stocks just four. Pharmacy giant Walgreen used to sell 25 types of superglue – now customers choose from 11 SKUs. Kroger is testing the elimination of 30% of its cereal varieties.

The shift to fewer items often benefits the largest, best-known brands at the expense of smaller branded competitors. Campbell Soup expects to gain 10% to 15% more shelf space in the fall as a result of retailers paring back their orders with the less dominant soup companies. Procter & Gamble has been preaching the gospel of shelf simplification and acknowledges it often ends up with share and sales growth, as a result. There is still a lot more room for consolidation. The typical Target store has 88 kinds of P&G Pantene hair products.

Retailers benefit from reducing inventory, too. As they've become more adept at mining data about their customers' preferences, retailers report lower labor costs, fewer out-of-stock items and more space for, and acceptance of, their own private label house brands.

Another benefit from analyzing sales data in difficult economic times is learning how to maximize sales by paying more attention to the "paycheck cycle." With more shoppers living from paycheck to paycheck, some retailers and suppliers are learning to time promotions around periods in which consumers are more likely to have cash on hand, such as early in the month, as opposed to month's end.

But no amount of retail and marketing creativity can substitute for a return of consumer confidence and spending. Retailers are anxiously looking forward to the back-to-school shopping season for some signs of recovery. Some chains have cut stock as much as 20% compared to 2008 levels because they don't want to get stuck with merchandise that recession-battered consumers won't – or can't – buy. Many would rather risk being out of merchandise than be forced to suffer sharply reduced profits as a result of deep mark downs.

More is at stake than the back-to-school shopping season. Many retailers place their Christmas holiday orders in the late summer and early fall. Back-to-school sales are seen by many retailers as an important barometer of consumer outlook.

One thing's for sure: bad times, like good times, don't last forever.



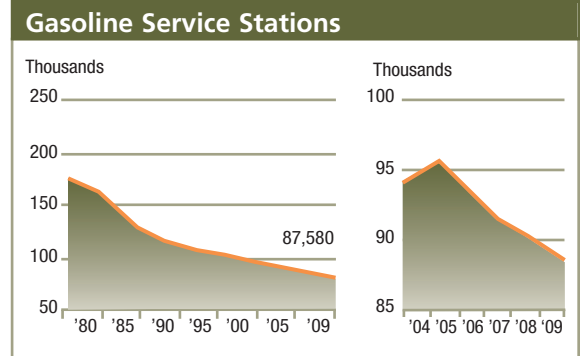
Automotive

The internal combustion engine was not invented in the U.S., but no country is more dependent upon automobiles for mobility. One consequence of this is that nearly 12% of the total of all retail establishments sell, supply and/or service vehicles.

Gasoline Service Stations

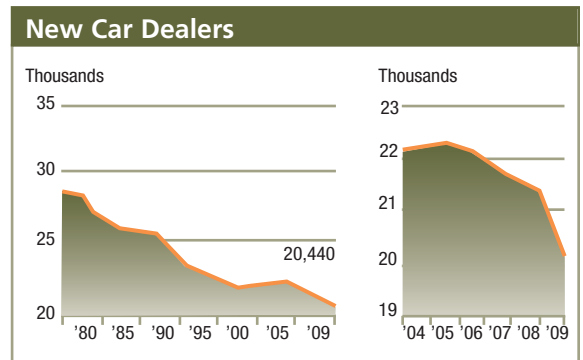
Despite an all-time high in auto ownership, gasoline service stations have lost 60% of their outlets since 1970 and 7% in the last five years alone. Some left the category by converting their service bays into convenience stores because the increased popularity of leasing, extended dealer warranties, and franchised repair shops have cut into the service side of the business.

But now there are also larger trends causing this decline. Hybrid and other vehicles that minimize trips to all types of gas stations are larger components of the nation's fleet. Inner cities and surrounding suburbs are growing denser, shortening trips to work and to the mall. On top of that, the recession is reducing gasoline consumption as the unemployed stop commuting and budget-conscious families take fewer extended road trips.

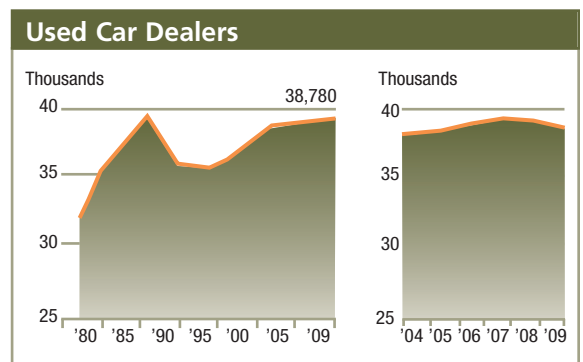


New & Used Car Dealers

The number of new car dealer outlets has shrunk 8% in the last five years and consolidation is expected to continue. The federal bailout and bankruptcy of General Motors and Chrysler has given the U.S. auto task force overseeing their reorganization efforts the standing to demand large-scale dealer closings. Chrysler announced that it has closed about one-quarter of its 3,150 dealerships. GM plans to slash around 40% of its 6,300 dealerships.

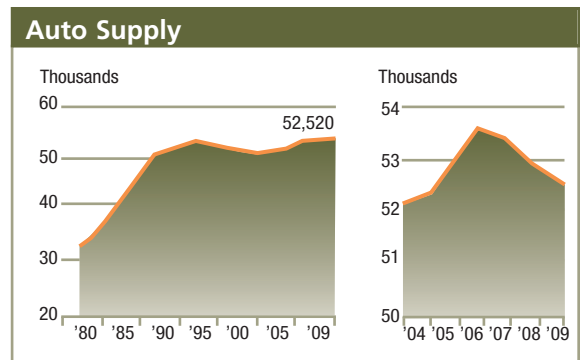


With thousands of new car dealers about to lose their franchises, many will necessarily gravitate toward selling used cars exclusively. For many, this may prove to be a blessing in disguise. While new car dealers lost 8% of their outlets in the last five years, used car dealers increased their numbers by 3% in the same period. Furthermore, the National Automobile Dealers Association (NADA) reports that the average franchised dealership actually loses money with its new vehicle sales. According to NADA, service and parts bring in more than 75% of most dealers' operating profits, with profits from used car sales making up the rest.



Auto Supply

Stores selling primarily batteries, auto parts and accessories declined 3% since 1990, but have stabilized their outlet count in the last five years. Still, there are few signs of continued growth because vehicles are becoming increasingly complex and require specialized diagnostic equipment, putting many do-it-yourself repairs beyond reach of even experienced tinkerers. As a result, the market is shrinking and car dealers and service stations are better positioned to repair late-model vehicles than auto supply stores.





Drug Stores

With an aging, health-conscious population, and increased insurance availability from federal and state governments, the outlook for continued growth in prescription drug sales is all-but certain. But independent drug stores, which once dominated the category, have lost 40% of their outlets since 1980 and 13% in the last five years alone. Approximately 43 million Americans can now receive their prescription drugs through Medicare Part D. Industry experts believe the introduction of Medicare Part D in 2006 contributed to the difficulties facing independent drug stores because slow payment by the government helped cause cash-flow problems that made the less-well-capitalized independent pharmacies even less competitive.

Eating & Drinking Establishments

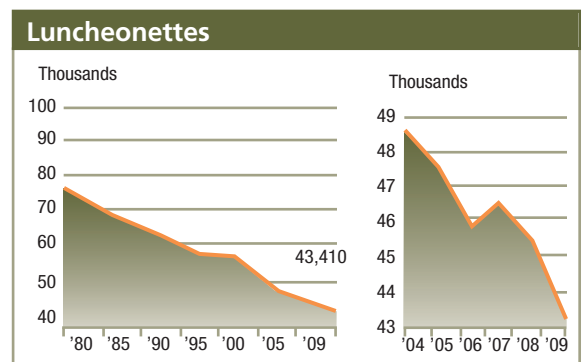
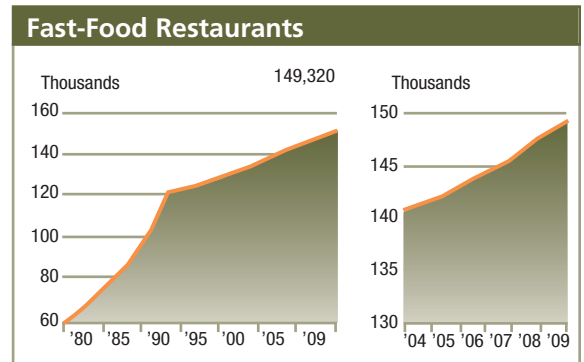
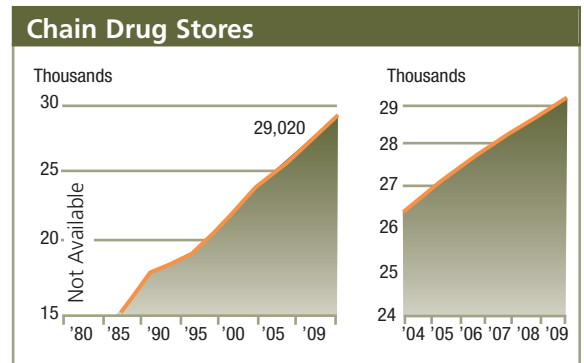
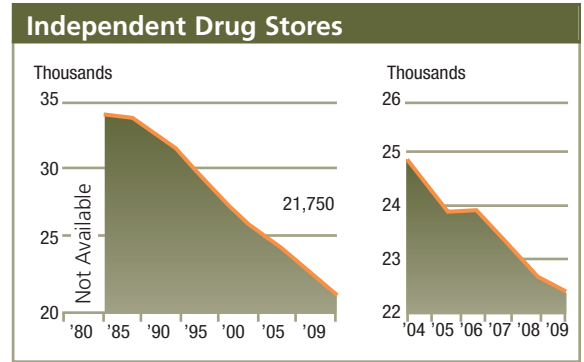
The U.S. restaurant industry is huge. It employs an estimated 13 million people, or 9% of the U.S. workforce – making this sector one of the nation’s largest nongovernmental employers. Despite the size of the sector, more than seven out of 10 are independent operations with fewer than 20 employees. Nearly half of all adults have worked in the restaurant industry at some point during their lives, and more than one out of four adults got their first job experience in a restaurant.

But, there are a number of disturbing trends that may trim future growth. The National Restaurant Association forecasts restaurant industry sales to reach \$566 billion in 2009. While this is a 2.5% increase over last year’s figures, that increase would constitute a 1% decline in inflation-adjusted dollars as consumers tighten their collective belts in response to a softer economy.

Fast-Food Restaurants & Luncheonettes

The number of fast-food restaurants increased 198% since 1970 and 6% in the last five years. On any given day, about one-quarter of the U.S. adult population visits one. Many industry observers note that “quick serve” restaurants are better positioned to respond to the economic downturn than full service eateries because of lower labor costs and increased marketing muscle. Virtually all chains now offer “value meals,” some for as little as a dollar. The formula is apparently working. McDonald’s, by far the largest fast-food chain, reports same-store sales growth, aided in part by the national roll-out of its new McCafe espresso-based coffee line.

Luncheonettes lost 43% of their outlets since 1975 and 19% since 2000. Their continued decline is a virtual certainty. They have none of the economies of scale that fast-food franchises excel at and are unable to market themselves effectively against national chains.

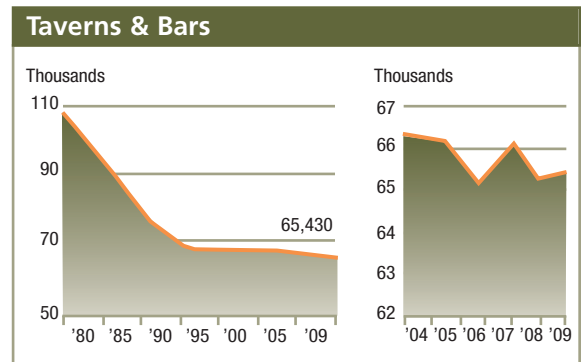
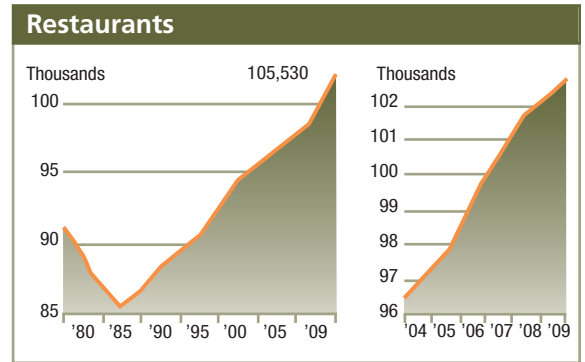




Restaurants, Taverns & Bars

The number of traditional restaurants has increased 21% since 1980 and 10% in the last five years alone. One-third of diners say price is the first factor they consider when choosing a restaurant and current economic conditions are making price-sensitivity more important for most other diners, as well. Sales at full-service restaurants are projected to reach nearly \$183 billion in 2009, a nominal increase of only 1% over 2008.

Taverns and bars lost 41% of their outlets since 1970, but the sector's numbers are little changed since 2000. Many of those that remain fear the continued spread of smoking bans will keep patrons away or shorten their stays. Even if it doesn't, high unemployment and economic anxiety are likely to cause some tippers switch to less costly drinks.

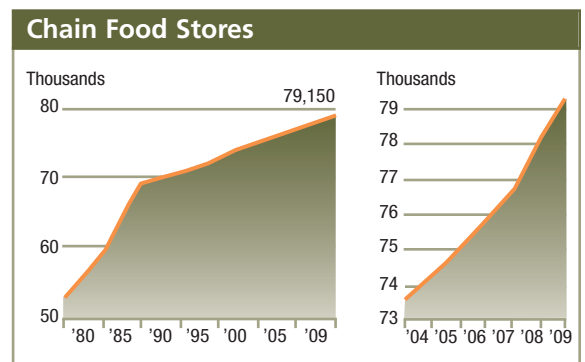
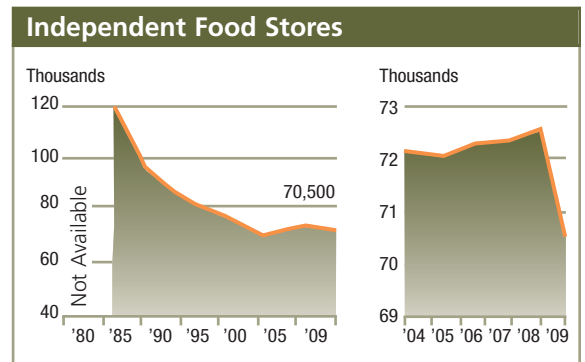


Food Stores

Groceries, Supermarkets & Convenience Stores

Groceries, supermarkets and convenience stores, lost 34% of their outlets since 1970. Much of the reduced outlet count is a result of increased supermarket size, which in 2008 averaged 46,755 sq. ft., according to the Food Marketing Institute (FMI). But this trend may not continue. The average-size supermarket shrunk 2.5% in 2007 and another 1.5% in 2008, according to FMI, the only years of reduced average size recorded by the trade association.

The success of warehouse clubs and the growth of chain drug stores, which are often effectively convenience stores with a pharmacy in the back, are also factors in the reduced outlet count. As in other sectors, chains are faring much better than independents. Independents account for less than 10% of sector sales. Independent food stores lost 40% of their outlets since 1980 while chain outlets have increased 52% during the same period.



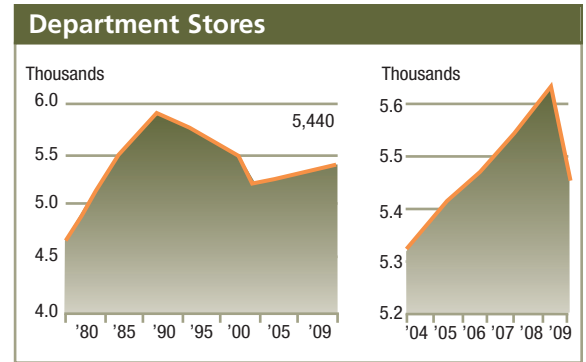
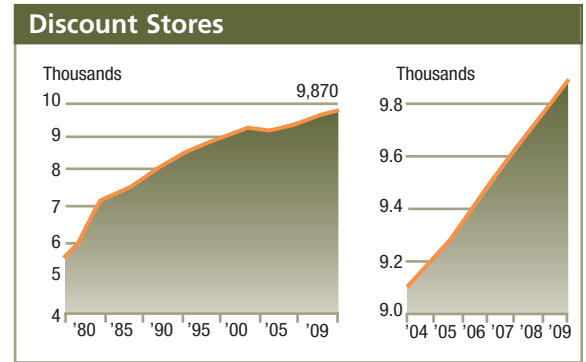


General Merchandise

Discount & Department Stores

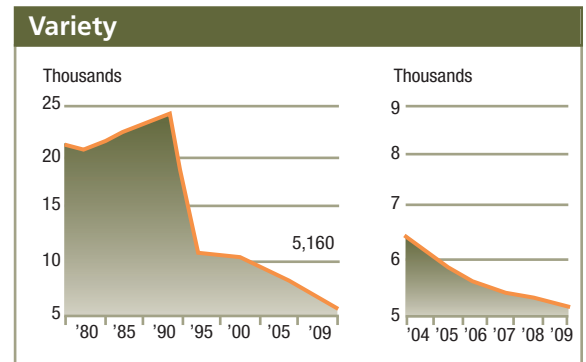
U.S. discount and department stores have combined annual revenue of about \$475 billion. Discount chains are among the most successful channels in retailing. The discount formula has proven its mettle in good times and bad. Discount chains have increased their outlets by 137% since 1970, while conventional department stores grew only 22% in the same period. In the last five years, discount stores increased outlets 7% while department stores added only 2%.

Department stores are losing a new generation of shoppers, who tend to favor big-box discounters and specialty boutiques because department store merchandise is widely available elsewhere and service levels in many department store locations have slipped.

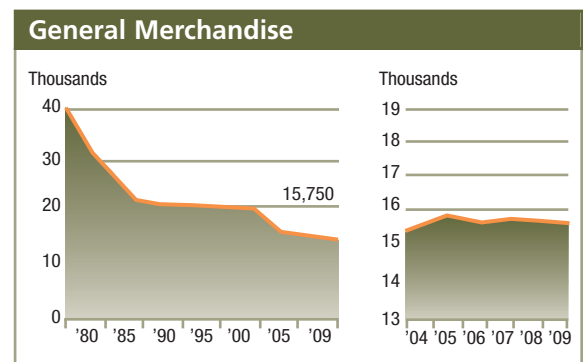


Variety & General Merchandise Stores

Variety stores, which sell a diverse inventory of products, and general merchandise stores, which sell linens, dry goods and other items, continue down the path of virtual extinction. Variety stores lost 77% of its outlets since 1970 and 34% since 2000 alone.



General merchandise outlets declined by 59% since 1970, but have made something of a comeback, increasing their outlet count by 4% since 2000. Much of the historic decline of both sectors may be traced to the success of discount stores.

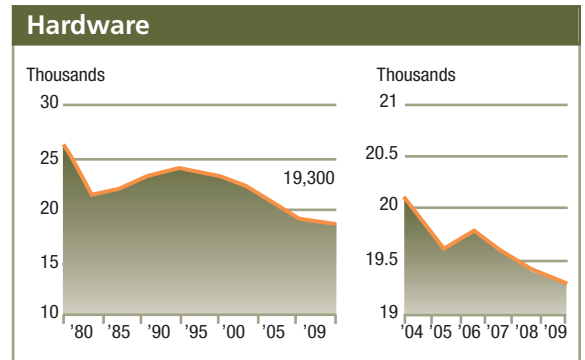




Hardware & Building Materials

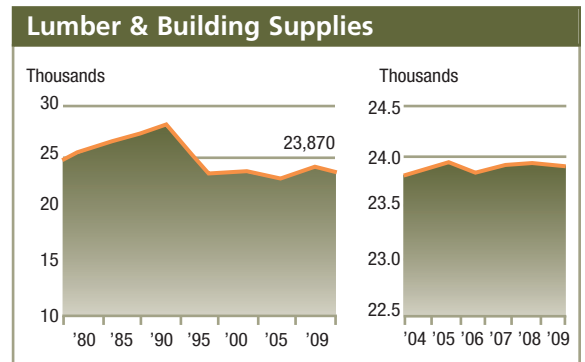
Hardware Stores

Traditional hardware stores continue to decline in number, losing 34% of their outlets since 1970 and 4% in the last five years alone. While some closings happen because of retirement or an inability to make new capital investments to stay competitive, many reflect the relative success of large home improvement chains, some of which have ventured beyond their big box roots to open smaller stores in town.

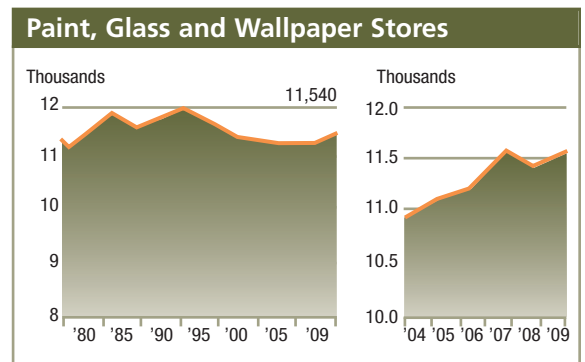


Lumber & Building Supplies and Paint, Glass & Wallpaper Stores

Lumber and building supplies stores have also suffered at the hands of home centers, but far less than have independent hardware stores. By concentrating on providing a high level of service to their largest and most important customers, professional contractors, lumber and building supply stores have managed to lose only 8% of their outlets since 1970 and gain 1% more outlets in the last five years.

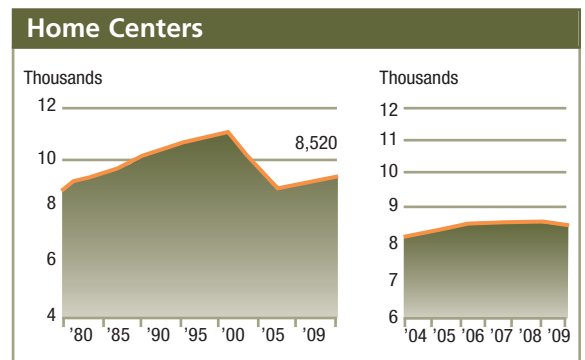


Paint, glass and wallpaper stores have also fared relatively well. They lost 2% of their outlets since 1970, but increased their outlets 5% in the last five years.



Home Centers

The years of double-digit home center consolidation in the 1980s and 1990s is over. The number of home centers has stabilized, increasing 2% in the last five years. But housing starts and sales, which track closely with home center revenue, remain depressed in many parts of the country. The U.S. Department of Housing and Urban Development reports the numbers of single-family building permits, starts, and completions all declined and sales of new and existing homes weakened in early 2009. The excessive inventories of new and existing homes will continue to put pressure on home center growth and profits. Sector leader, The Home Depot, has scaled down and closed its high-end Home Expo design stores.

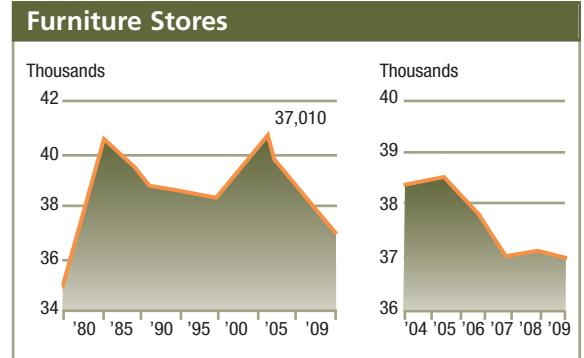




Household Furnishings

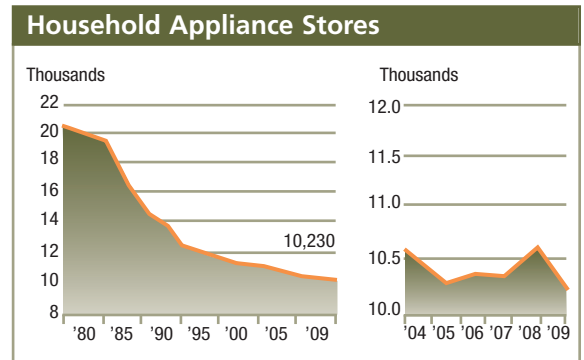
Furniture Stores

The number of furniture stores is down 7% since 2000, despite what had been a booming housing market for much of that time. The sector lost 3% of its outlets in the last five years. U.S. furniture retailing is highly fragmented – few retailers top \$100 million in yearly revenue. The vast majority are single-store enterprises. Competition from retailers in other classifications, including discount and department stores, office supply stores and warehouse clubs have diminished the prospects of traditional furniture stores. To make matters worse, furniture sales are often just the sort of discretionary purchases that can be deferred when tough economic times hit.



Household Appliance Stores

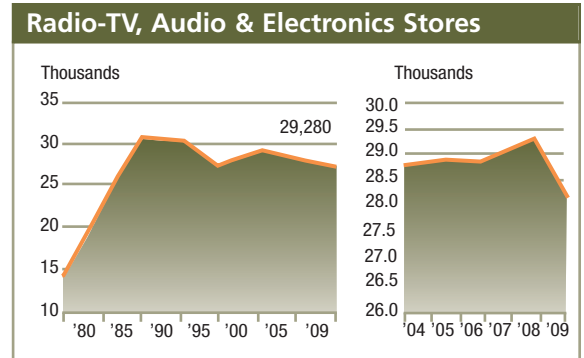
Household appliance stores, which specialize in selling kitchen, laundry, small household appliances and TVs, have lost 47% of their outlets since 1970 and 3% in the last five years. Major appliances are being sold in many types of stores, including discount and department stores, warehouse clubs, electronics stores and home centers. The slowing of the economy and fewer housing sales have also contributed to the softening of this sector.



Radio-TV, Audio & Electronics Stores

Radio, television, audio and electronics stores have increased their numbers 140% since 1970. One reason for their relative success is the products they sell are faster-changing and more complicated than those sold by other types of retailers. As a result, consumers seek, and had been willing to pay for, a more knowledgeable sales staff. But the 6% decline in outlets since 2000 suggests this historical rate of growth may no longer be sustainable.

Earlier this year, bankrupt Circuit City closed its remaining 567 U.S. stores. A year ago, Circuit City rang up about 8% of sector sales, according to Census Bureau estimates, but little of that business remained in the sector. An estimated half of electronics sales moved online and Wal-Mart is determined to help fill that vacuum with upgraded electronics departments in more than 3,500 U.S. stores, more interactive electronics displays and higher-end merchandise.

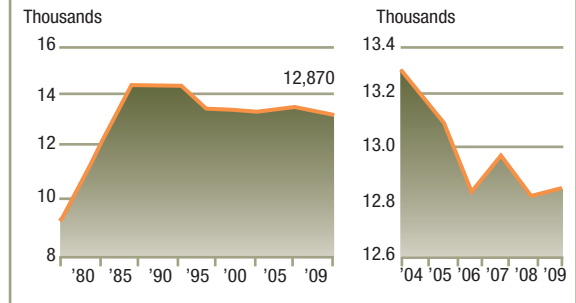




Record & Musical Instruments Stores

The fundamentals of traditional music stores are bleak. Sales of albums in the U.S. are down 45% from their 2000 peak and music sales have declined in seven of the past eight years. To make matters worse for traditional music stores, even legal purchases have gone digital. Last year, Apple's iTunes Store surpassed Wal-Mart as the world's largest music retailer. The trend is certain to continue as new online-music vendors, such as Amazon.com, have emerged to offer consumers lower prices and more flexibility to listen to the songs they've bought on different devices.

Record & Musical Instruments Stores

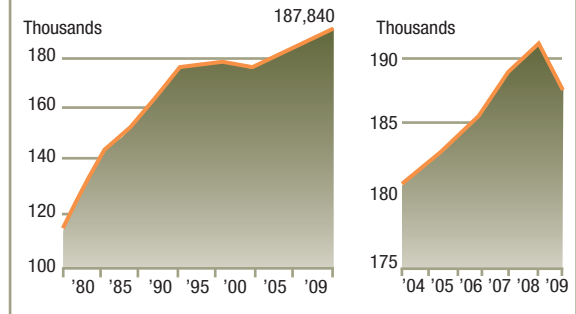


Miscellaneous Retail

Apparel Stores

Despite heightened competition from discount stores and online sales, specialty apparel retailers increased their outlet count by 64% since 1975 and 4% in the last five years alone. Their recipe for success includes convenient locations, a shopper-friendly sales staff and the ease with which busy consumers can buy what they want in less time. Some apparel merchants, like Gap's Banana Republic, are experimenting with fine-tuning prices store by store to reflect local demand and inventory. This method has helped to boost profits where possible and offset deeper discounts needed at other locations.

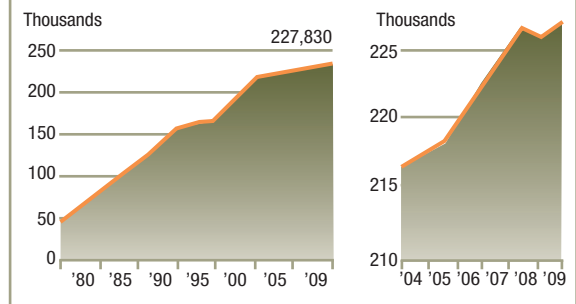
Apparel



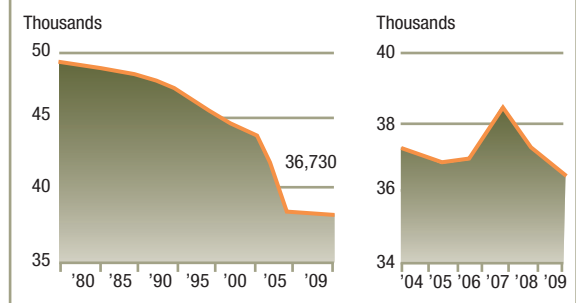
Beauty Shops & Barber Shops

Barber shops have lost 26% of their outlets since 1990 while beauty shops increased their numbers by 18% during the same period. Beauty shops, which are defined as establishments offering permanent waves and hair coloring, in addition to the usual cutting and styling, once catered exclusively to women. Not anymore. Men increasingly get their hair cut at unisex stylists still classified as "beauty shops" by the U.S. Census. Beauty shops added 5% more outlets in the last five years. Barber shops lost 2% of their outlets in the same period.

Beauty Shops



Barber Shops

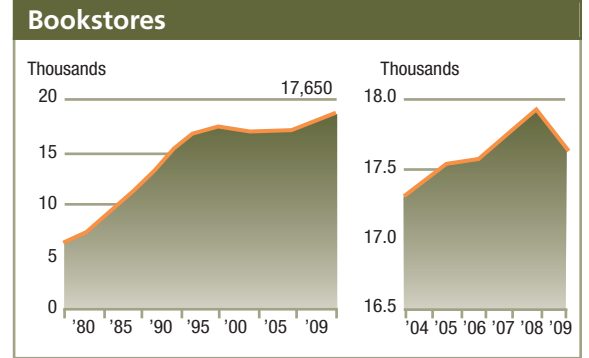




Book Stores

Book stores increased their outlets 76% since 1975, but the days of dramatic outlet expansion are over. The number of book stores is virtually unchanged since 2000. This sector may be in a position similar to that faced by music stores a few years ago. Sales, which began to gravitate toward e-tailers, are now beginning to further shift to digital media. Bricks and mortar bookstores, such as Barnes & Noble, which established online merchandising sites of their own, are now beginning to enter the digital domain as well.

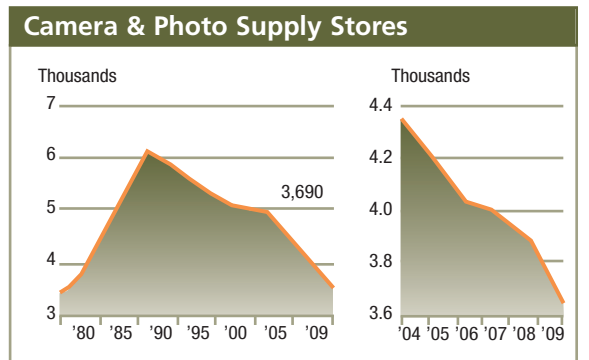
Not content with selling conventional books, Amazon.com has scored big with its Kindle e-book device as readers are lured by deep discounts on new releases and near-immediate downloads. Amazon.com says 10% of their total book sales are to Kindle devices and of those titles available for Kindle, downloads are tracking at 35% of print sales. This phenomenon will only grow and eat into traditional book store profits as Sony, Google, Barnes & Noble and others vie for their share of the digital download business.



Camera & Photo Supply Stores

It is ironic that photography is more popular than ever while camera and photo supply stores lost an alarming 41% of outlets since 1985 and 15% in the last five years alone. In early 2009, Ritz Camera filed for bankruptcy and announced the closing of more than 300 of its 700 bricks and mortar stores across the U.S..

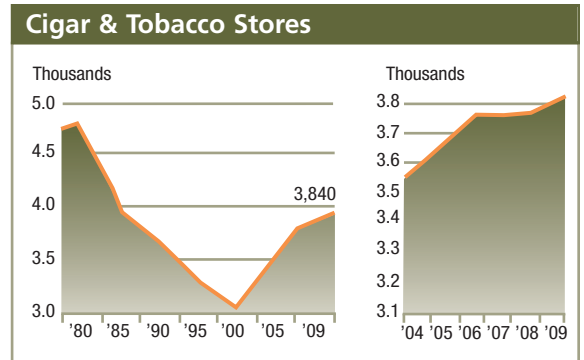
Digital cameras are projected to reach 78% of American households and expected to gross \$5.3 billion in 2009. Digital imaging is evolving rapidly, causing the product life of new cameras and prices of older units to fall precipitously. While this creates consumer demand for bricks and mortar retailers, it also puts them at graver risk of getting stuck with obsolete inventory than online competitors, who are better able to enter into drop shipping arrangements with manufacturers and distributors. Demographics aren't favorable to camera and photo supply stores. The heaviest concentration camera use is by families with young children, but the primary child-rearing age group (20 to 45) is growing more slowly than other segments of the population.





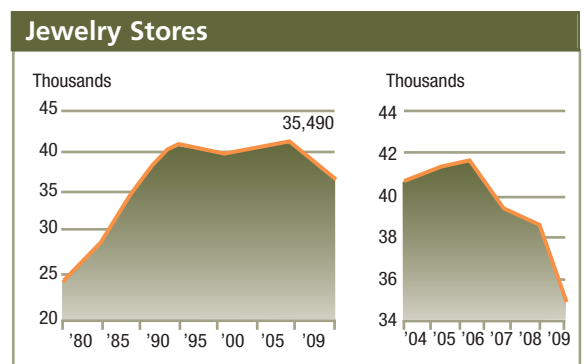
Cigar & Tobacco Stores

While small in number and one of the last domains of independent retailers, cigar and tobacco shops have done surprisingly well. As states and municipalities raise taxes on cigarettes, some smokers decide to quit, but those who do not, become even more price-sensitive. Since tobacconists devote nearly all their space to tobacco products, they carry a larger selection of products from discount manufacturers. Their outlets have grown 30% since 1995 and 9% in the last five years.



Jewelry Stores

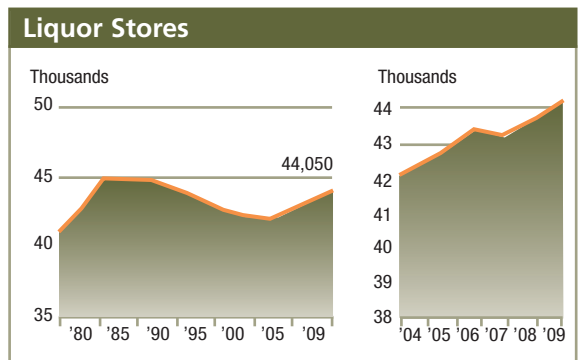
Jewelry stores lost 14% of their outlets in last five years and the softening of the economy has many survivors feeling vulnerable. The sector is highly fragmented, with the top 50 jewelry chains accounting for less than half of the U.S. market. Jewelry sales depend in large part on consumer income and the weakened economy has taken a greater toll on jewelry stores than on those specializing in such necessities as food and apparel. This has resulted in deep discounting at jewelry chains, spurred hundreds of store closings and has even forced diamond mines to curtail production. Jewelry chains that have filed for bankruptcy in the last year include Fortunoff, Whitehall Jewelers, Friedman's and Christian Bernard.



Liquor Stores

Liquor store numbers remain little changed since 1990, but grew 4% in the last five years. The relative stability of the outlet count masks a public policy debate that could rock the sector: In 2005, the U.S. Supreme Court gave wineries more freedom to ship directly to customers in other states. But the ruling did not apply to retailers, whether they are traditional wine and liquor stores or e-tailers.

To date, only about 7% of wine sales are transacted online, partly due to the expense of shipping wine, but mostly as a result of confusing and conflicting states rules prohibiting certain interstate wine shipments. Now, after much delay, Amazon.com plans an online wine business. If online wine sales take off, it could change the economics of traditional liquor stores. Even if online wine sales enlarge the market, it's not clear how much traditional liquor stores will benefit because of inroads from bricks and mortar competitors. The biggest wine seller in the country is Costco.

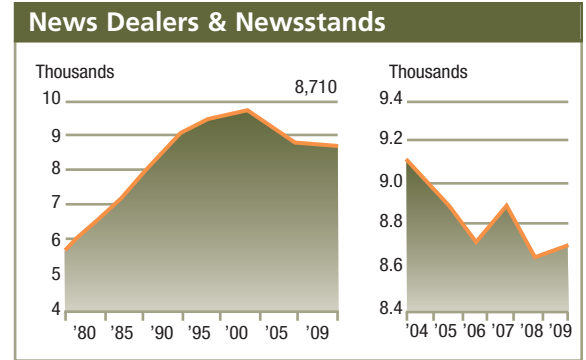




News Dealers & Newsstands

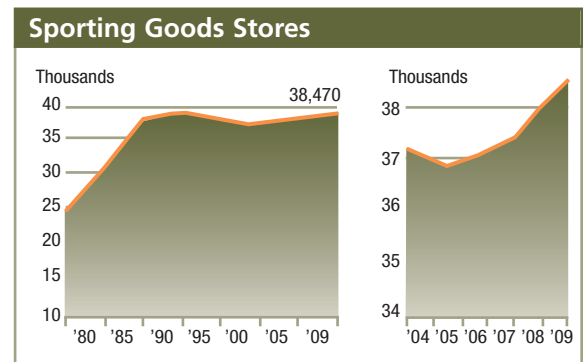
There are 63% more news dealers than there were in 1970, but 5% less than there were five years ago. Ironically, news dealers have done better than newspapers themselves. Newspaper circulation has been declining since 1984, and the pace of decline has quickened as cable news and the Internet compete for consumers' attention. The Pew Research Center for the People and the Press reports that the Internet has now surpassed all media except television as a news source. As a result, more than 20% of the newspaper industry (measured by daily circulation) is now in financial distress.

Magazines have suffered less than newspapers as a result of the Internet. Nevertheless, less than one in five magazines tracked by the Publishers Information Bureau posted gains in ad pages, an important measure of a magazine's health.



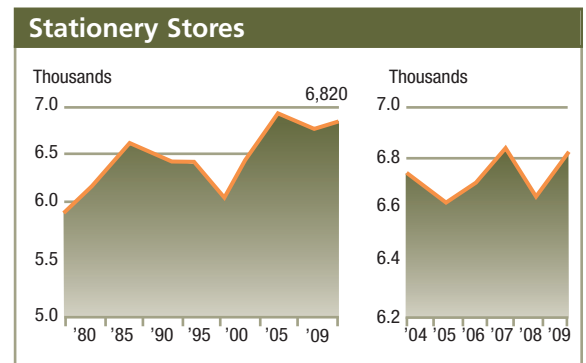
Sporting Goods Stores

There are 166% more sporting goods outlets than there were in 1970, but growth has tapered off to 3% in the last five years. Retail sales of sporting goods (footwear, clothing and equipment) fell 1% in 2008, according to the National Sporting Goods Association (NSGA). Sporting goods sales are forecast by NSGA to slip another 1% to \$52.3 billion in 2009.



Stationery Stores

In many respects, stationery stores, which sell paper and paper products, pens, and sometimes offer printing and engraving services, have been battling technology ever since the telegraph and telephone were invented. Personal letters or "household-to-household" correspondence, now account for less than 1% of the first-class mail that the U.S. Postal Service handles each year. Nevertheless, there are 18% more stationery stores than there were in 1970, and the number of traditional stationery stories is up 1% in the last five years.

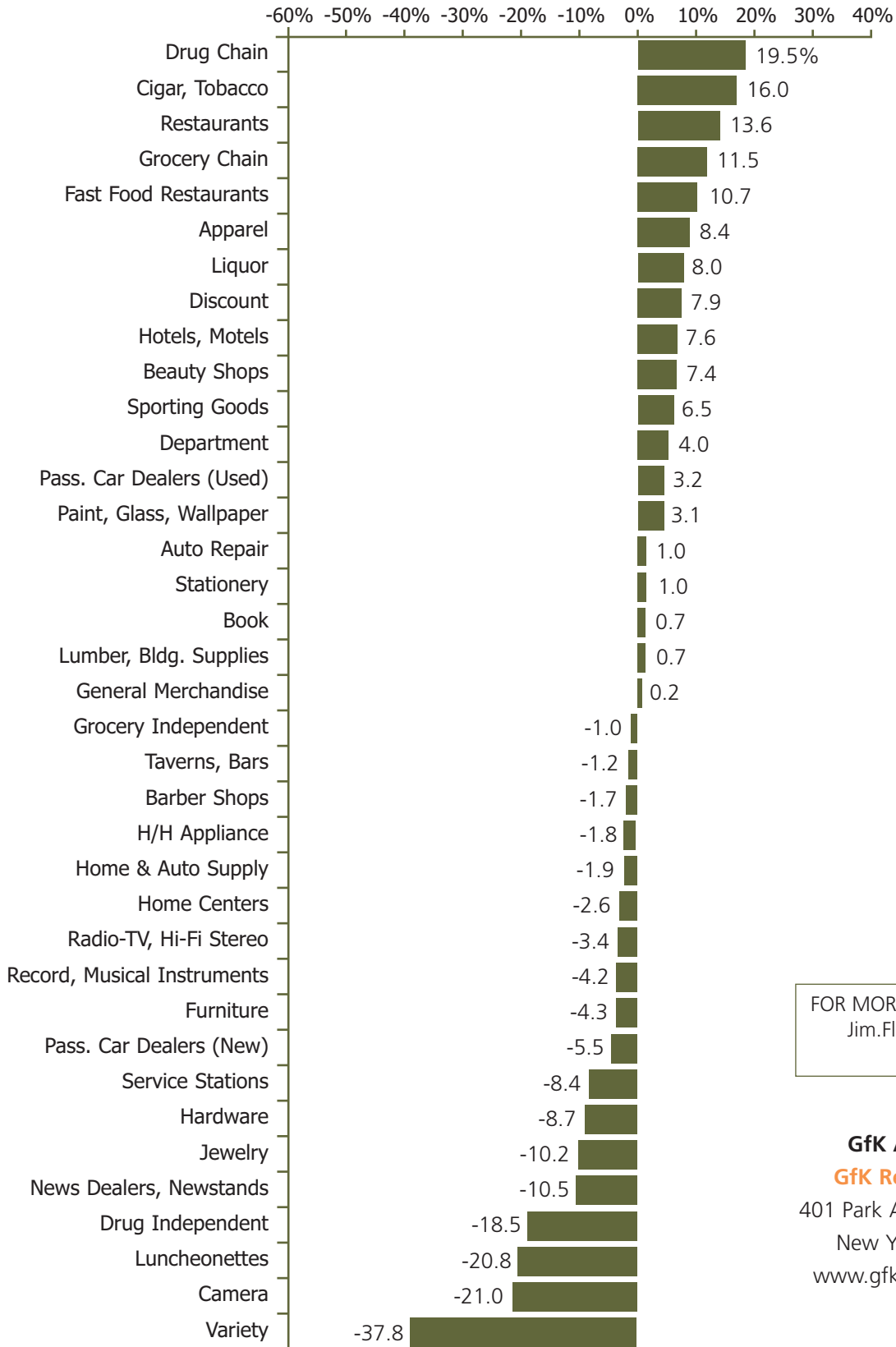




A Decade of Change

2009 vs 1999

Percentage Change in Number of Establishments



FOR MORE INFORMATION contact:
 Jim.Fleckenstein@gfk.com
 212-993-5311

GfK Audits & Surveys
GfK Retail & Technology
 401 Park Avenue South, 8th Floor
 New York, NY 10016, US
 www.gfkauditsandsurveys.com