

2006 GfK Audits & Surveys National Retail Census

Thanks to the buoyant spending habits of U.S. consumers, retailers have shaken off a number of shocks in the past few years. The U.S. economy is still expanding. The Commerce Department reports that total retail sales are up nearly 6% over 2005. Unemployment remains low by historical standards. And while the economy is slowing, few thought that the growth levels of the past few years would go on forever. Most forecasters predict a soft, relatively painless landing.

But there's a cloud on the horizon that troubles many economists and retailers. Oil prices are surging and shoppers are getting increasingly cautious.

Most U.S. shoppers use their cars every day. Average national gasoline pump prices are more than 30% higher than they were last year, raising the costs of owning and operating the more than 200 million personal vehicles consumers use to shop and get to and from work. These costs are rippling throughout the economy and the whole retail environment.

It's not surprising. Ninety-two percent of U.S. adults own cars and high gas prices are leaving consumers with less disposable income. Government data indicate that Americans spend an average of 3% to 4% of their disposable income on fuel. But, a two-car household earning \$40,000 a year may spend 8% of their disposable income on fuel.

Consumers are adjusting to the new realities at the pump to the extent that they can, by consolidating their trips. But it's

hard for consumers to cut gas expenses significantly without shortening their commute or buying dramatically more fuel-efficient vehicles – options often beyond the means of cash-strapped consumers.

Wal-Mart, the nation's (and the world's) largest retailer is particularly vulnerable to rising oil costs. Most of its outlets were built in rural or lower-income areas where land was inexpensive and there was little opposition. This strategy, which worked so well, means that Wal-Mart shoppers often drive greater distances to reach an outlet than they do to get to its more urban competitors. One consequence of having less disposable income is that Wal-Mart's customers are now more likely to buy food and other staples than splurge on higher-margin items that catch their eye.

Chains, like Target and Costco, whose customer bases are more urban and wealthier, have fared better in the past year. Shorter trips to their outlets have helped keep foot traffic high and cash registers ringing.

Another retail trend – and one that's likely to be far more lasting than high gas prices – is what has come to be known as channel blurring. While not a new phenomenon, it seems to have reached new heights. Department stores were the among the first channel blurrers, making it possible to purchase furniture, apparel and jewelry (among other things) under one roof.

Discount chains have taken channel blurring several steps further. In addition to the aforementioned categories of merchandise, they offer shoppers groceries, pharmacies and auto servicing (also among other things).

Camera and electronics stores compete with one another, when once they did not. So do drug stores and food stores, barber shops and beauty salons, gas stations and convenience stores, warehouse clubs and liquor stores, and the list goes on.

Although this phenomenon complicates the gathering of accurate market research data upon which suppliers and retailers depend, it has been a boon to consumers because increased competition lowers prices, makes shopping more convenient and therefore more likely. It has also been a boon to GfK A&S because of our unique experience, history and capabilities to track and analyze the retail marketplace in its ever-increasing complexity. Lastly, this phenomenon is also irrefutable evidence of the responsive dynamism of America's retailers.

About the GfK Audits & Surveys National Retail Census

The GfK Audits & Surveys National Retail Census, now in its 53rd 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 manufacturers 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 kinds of retail and service establishments throughout the country.

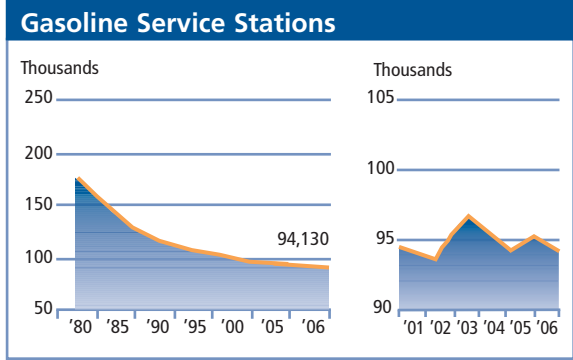


Automotive

More than 12% of the total retail outlets of all retail establishments sell, supply and/or service vehicles. Little wonder since 92% of U.S. adults have cars. In fact, the U.S has more than 200 million personal vehicles on the road – more registered cars than it has drivers.

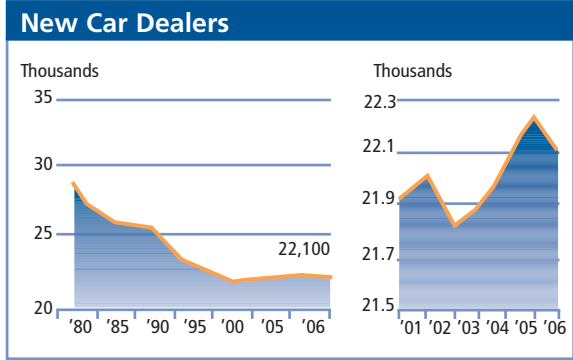
Gasoline Service Stations

Motorists appear to be doing what they can to cut back on their fuel use to offset the impact of higher pump prices. But not all the travails of gasoline service stations are recent. Despite an all-time high in auto ownership, gasoline service stations have lost 57% of their outlets since 1970. Some left the category by converting their service bays into convenience stores. The increased popularity of leasing, extended dealer warranties, and mass-marketed franchised repair shops have also weakened the appeal of traditional gas service stations for many drivers. The number of service stations has stabilized in the last five years, but volatile gasoline prices may ultimately resume the sector's downward trend.

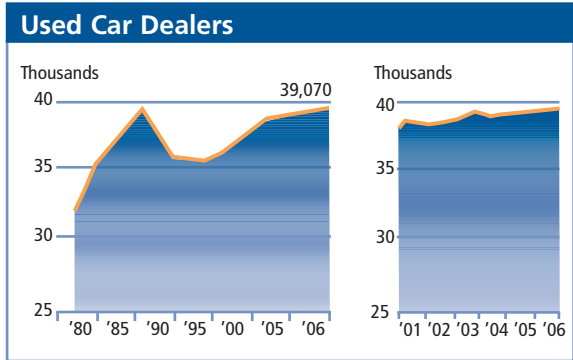


New & Used Car Dealers

New car dealers added 2% more outlets in the last five years. Rising gas prices had a mixed impact on U.S. auto sales. Some manufacturers reported plunging sales of trucks and sport utility vehicles, while others have been relatively unharmed by skyrocketing pump prices. Overall, U.S.-headquartered manufacturers have not fared as well as their Japanese and European counterparts. Industry experts see the problem as one of product and pricing, not systemic abandonment by consumers. Nevertheless, total vehicle sales are expected to slow, despite strong economic growth, because of interest rate increases.

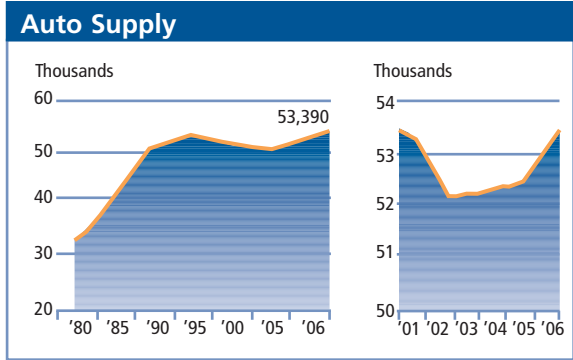


Internet sales continue to transform the used car business. Traditional used car dealers have increased their outlet by 37% since 1970 and 3% in the last five years alone. eBay Motors alone now links millions of potential purchasers and has created a national marketplace for new and used vehicles.



Auto Supply

Stores selling primarily batteries, auto parts and accessories declined 2% since 1990, but have increased 3% in the last five years. But there are few signs of continued growth. As vehicles become increasingly complex and more computer and electronics skills are needed for repairs, the do-it-yourself market is shrinking and retail dealers are better positioned to pick up that business than auto supply stores. To make matters worse, model proliferation means suppliers, some of which now manage as many as 400,000 SKUs will need to invest in even more robust inventory management systems in the future.

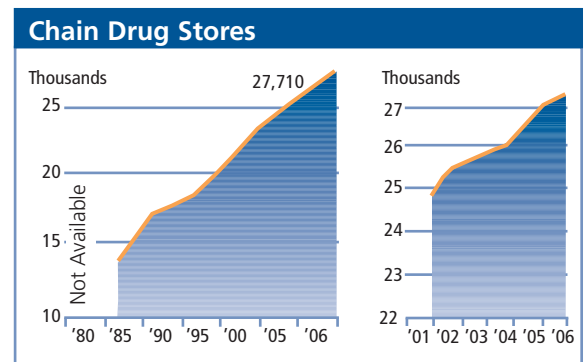
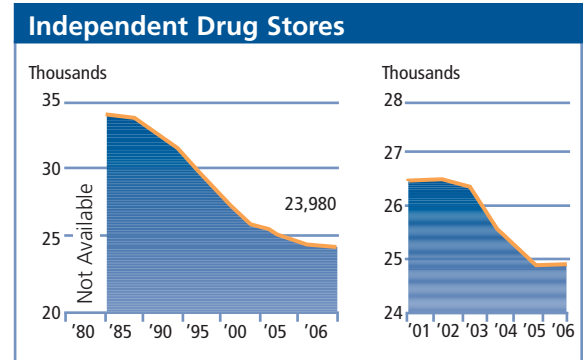




Drug Stores

Independent drug stores once dominated the category, but since 1980 the segment has lost 34% of its outlets, during which time chain pharmacies more than doubled theirs. Even these numbers understate the problems independent pharmacies face because chain stores, which rang up 60% of retail sales in 1986, accounted for 76% of sales in 2005, according to the Department of Commerce.

Chains and discounters negotiate the best prices with suppliers and make a higher percentage of their money on other nonprescription merchandise, allowing them to lower their prices on drugs. Some predict that Medicare Part D will put independents at a further disadvantage by intensifying price competition from large chains and because independents may be less able to weather delays in reimbursements.



Eating & Drinking Establishments

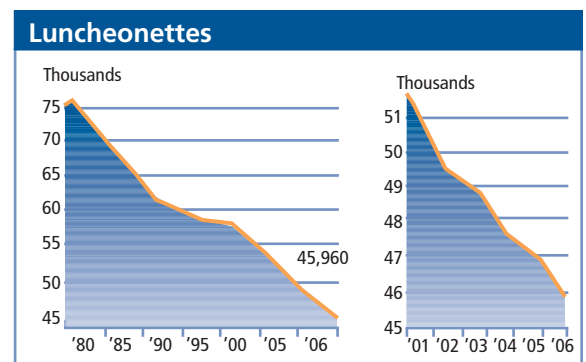
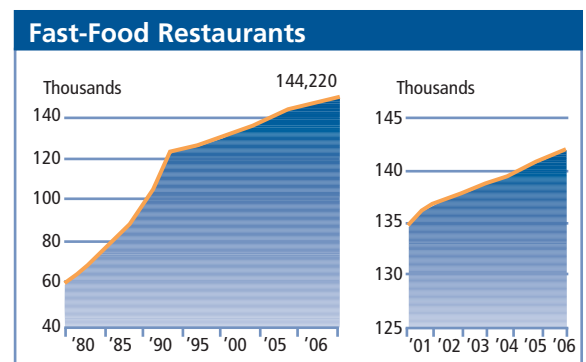
The U.S. restaurant business is huge. There are more than 406,000 eating and drinking establishments nationwide. The sector is projected to generate \$511 billion in annual sales accounts for almost 7% of all economic activity and has more than 12 million workers, according to the National Restaurant Association.

The restaurant industry's share of the food dollar is estimated at 46%, up from 25% in 1955. For 2007, GfK A&S' Food Away From Home Index will offer our clients an opportunity to get in-depth information on this major trade sector; contact us (see page 12) for details.

Fast-Food Restaurants & Luncheonettes

Fast-food is often thought of as an example of modernity and technology, but it's probably as old as cities themselves. But when quick eats moved indoors and coupled with the franchise system, a retail star was born. The number of fast-food restaurants increased 188% since 1970 and 20% since 1990. On any given day, about one-quarter of the U.S. adult population visits one. But over-building has taken its toll. "Quick serve" outlet growth has dropped to below 1% a year.

Luncheonettes lost 39% of their outlets since 1975 and 11% in the last five years alone. Their continued decline is all-but certain.

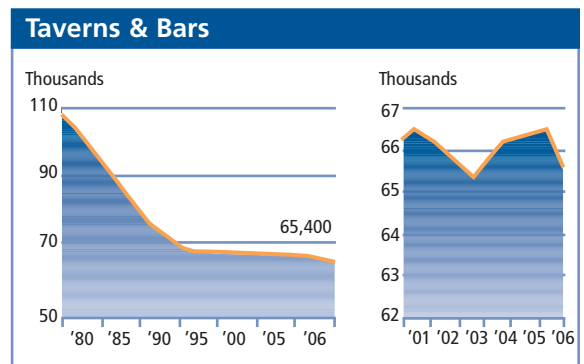
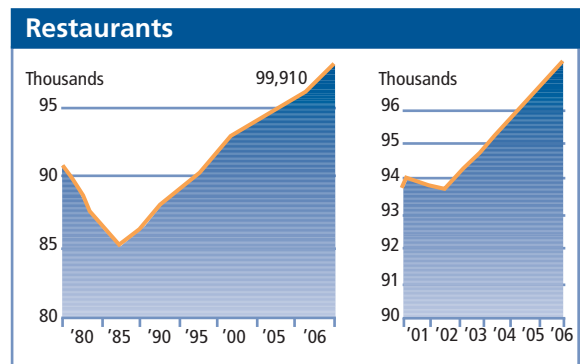




Restaurants, Taverns & Bars

The number of restaurants has increased 13% since 1980 and 7% in the last five years. But higher gas prices are taking their toll on consumers' appetite for dining out. Some restaurants, particularly family dining chains and those in the Midwest, report difficulties as a result of would-be diners reigning in their discretionary spending to pay for soaring gasoline bills.

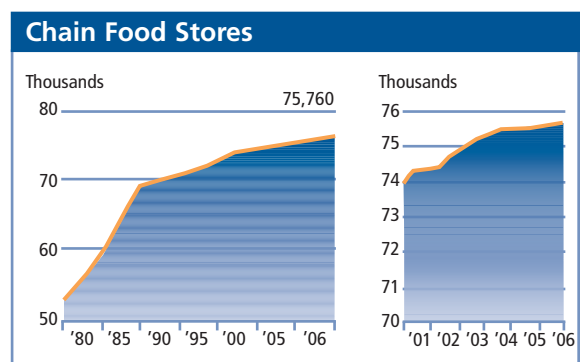
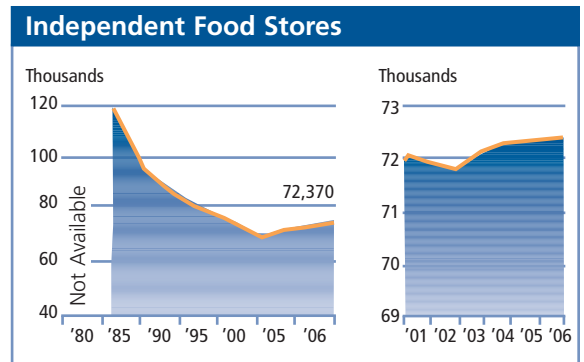
Taverns and bars lost 41% of their outlets since 1970, but the sector's numbers are virtually unchanged in the last five years. Many of those that remain fear the continued spread of smoking bans, which might help explain why Americans consume only 20% of beer in bars (in England that number is closer to 75%).



Food Stores

Groceries, Supermarkets & Convenience Stores

Groceries, supermarkets and convenience stores, lost 35% of their outlets since 1970. Much of the reduced outlet count is a result of increased average supermarket size, which now tops 48,000 sq. ft., a 29% increase in the last 10 years alone, according to the Food Marketing Institute (FMI). But 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 important factors. As in other sectors, chains are faring much better than independents. Independents now account for less than 10% of sector sales. Independent food stores lost 38% of their outlets since 1980 while chain outlets have increased 46% during the same period. Supermarkets continue to be among the most efficient retailers in the nation. They have to be. Their net profit after taxes is less than 1%, according to the FMI.

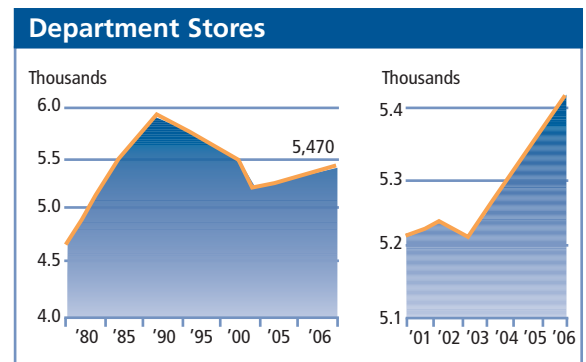
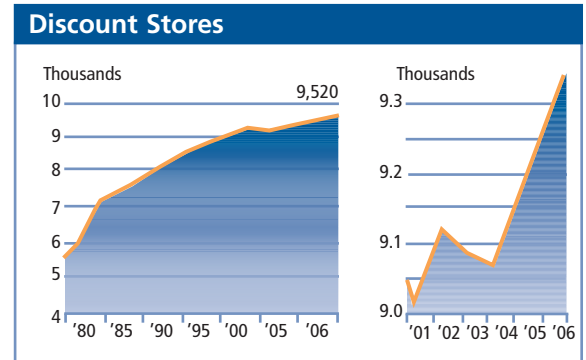




General Merchandise

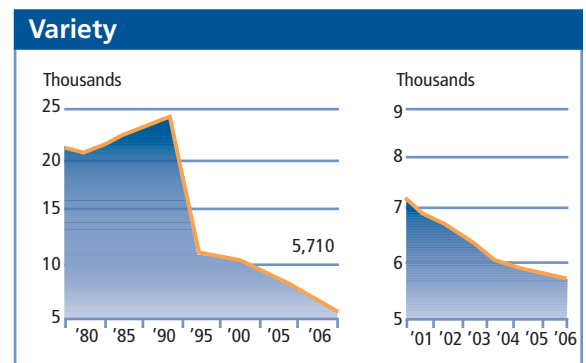
Discount & Department Stores

One of the paradoxes of retailing is the affection many shoppers have for a sector that has experienced a decline of mythic proportion. Although the number of department stores has stabilized in the 1990s and even grown 4% in the last five years, the sector has increased outlets only 22% since 1970, while discount stores have gained 129% more outlets in the same period. Discount stores far outnumber department stores and account for an ever-increasing share of general merchandise sales. Sales have fallen 14% from 1999 to 2005. The U.S. Census Bureau estimates revenue in warehouse chains and membership clubs have grown 128% and sales at apparel specialty stores have grown 31% over the same period. To stem that tide, Federated Department Stores acquired May in the biggest acquisition in department store history.

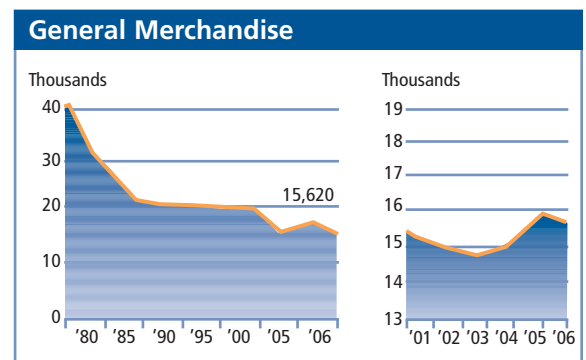


Variety & General Merchandise Stores

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. The sector lost 74% of its outlets since 1970 and 21% in the last five years alone.



General merchandise outlets declined by 59% since 1970 and 15% since 1995. Much of the decline of both sectors may be traced to the success of discount stores.

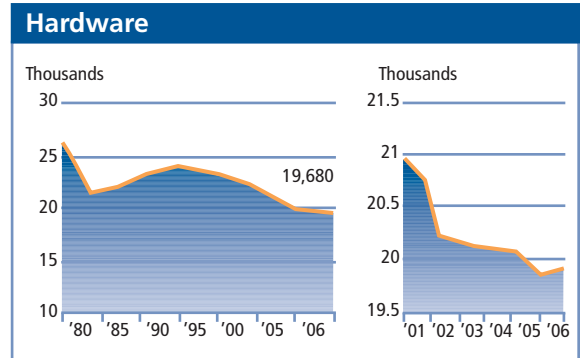




Hardware & Building Materials

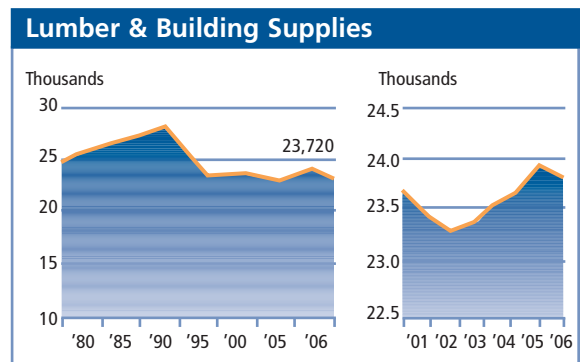
Hardware Stores

Traditional hardware stores continue to decline in number, losing 33% of their outlets since 1970 and 3% in the last five years. While some closings happen because of retirement or an inability to make new capital investments to stay competitive, many reflect the success of large home improvement chains, some of which have ventured beyond their big box facilities to open smaller stores in town.

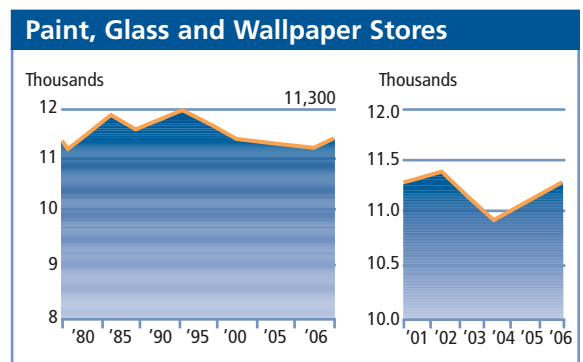


Lumber & Building Supplies and Paint, Glass & Wallpaper Stores

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 professional contractors, their largest and most important customers, lumber and building supply stores have managed to lose only 8% of their outlets since 1970 and gain 2% more outlets in the last five years.

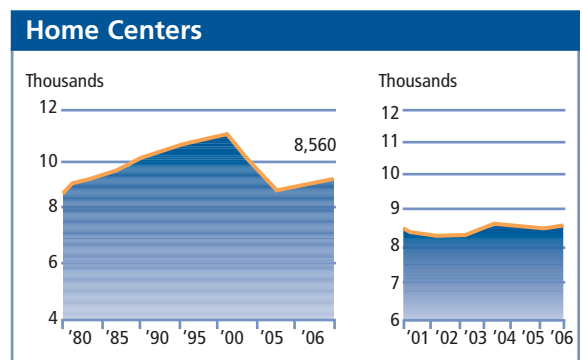


Paint, glass and wallpaper stores lost 4% of their outlets since 1970, but have been relatively stable since 1995. Numerous indexes have recently confirmed that housing market growth is slowing and coming to a "soft landing" rather than crashing, as had been feared by some observers.



Home Centers

The years of double-digit home center consolidation in the 1980s and 1990s is over. The number of home centers has increased 3% in the last five years reflecting the rising tide of home sales in the last few years. While the slowing housing market and rising interest rates present challenges, The Home Depot and Lowe's are increasing their market share of appliance sales. And some analysts believe The Home Depot's recent expansion into the contractor-supply business will help increase revenue despite the downturn.

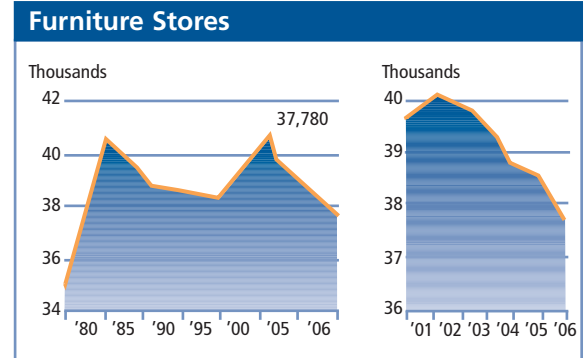




Household Furnishings

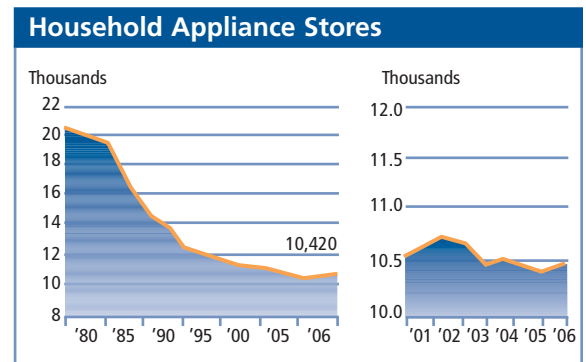
Furniture Stores

The number of furniture stores is down 6% in the last five years, despite the low mortgage rates that had kept a fire under the housing sector. Competition from retailers in other classifications, including discount and department stores, office supply stores, specialty household stores and even online sales have diminished the prospects of traditional furniture stores. While increased uncertainty has crept into the housing market and interest rates have risen, home values have risen sharply over the past few years, and home equity loans remain a major source of redecorating funds.



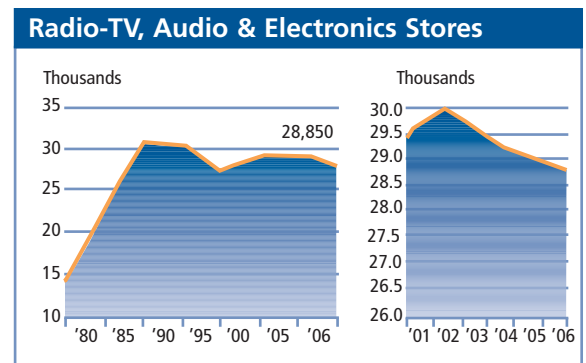
Household Appliance Stores

Household appliance stores have lost 46% of their outlets since 1970 and 3% in the last five years, despite the growth of new households; they too have diminished in number as a result of cross-sector competition. Major appliances are being sold in many types of stores, including discount and department stores, warehouse clubs and, increasingly, in home centers.



Radio-TV, Audio & Electronics Stores

Radio, television, audio and electronics stores have increased in number 144% since 1970. One reason for their relative success in the age of discounters is that the products they sell are more complicated and fast-changing than those commonly sold by other types of retailers. As a result, consumers seek and are willing to pay for a more knowledgeable sales staff. But the 3% decline in the last five years suggests this historical rate of growth may no longer be sustainable. The falling prices of large, flat-screen high-definition TVs should bring many buyers into electronics stores. Computer makers like Dell and Gateway, who know how to sell commoditized PC products directly to consumers, were unable to beat electronics stores at their own game and both have retreated from this space in last two years.

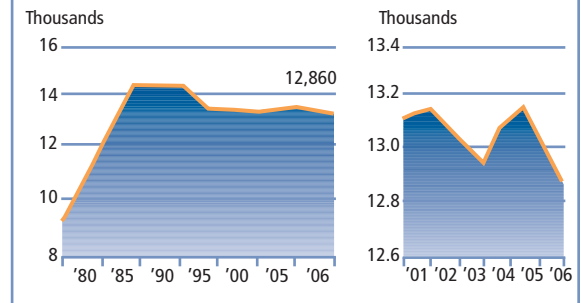




Record & Musical Instruments Stores

Digital downloads was once the bane of the music industry because virtually all of it was illegally pirated. But the successes of Apple's iTunes and other services that allow consumers to buy albums and single tracks online have traditional music retailers hearing footsteps. While there are 41% more record stores today than there were in 1970, there are 4% fewer outlets than there were five years ago – before online music sales took off. More ominously, CD sales were down 4 percent in the first half of the year, while sales of music downloaded online soared 77 percent, according to industry figures.

Record & Musical Instruments Stores

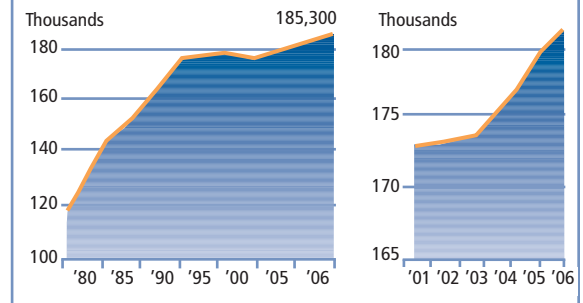


Miscellaneous Retail

Apparel Stores

Apparel is another channel that proves it pays to specialize. Despite heightened competition from discount stores, specialty apparel retailers increased their outlet count by 61% since 1975 and 7% in the last five years alone. Their recipe for success includes convenient locations, a shopper-friendly sales staff and the ease with which busy shoppers can buy what they want without waiting a long time. The continued growth of apparel retailers is all the more impressive in light of a fickle and demanding customer base that wants presentation and selection constantly refreshed.

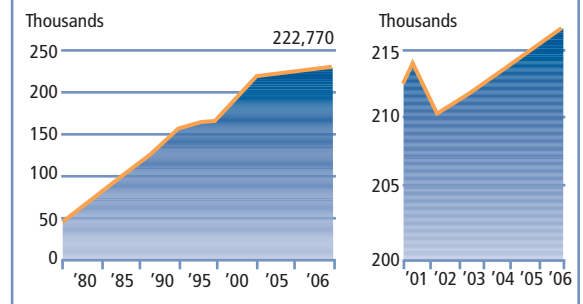
Apparel



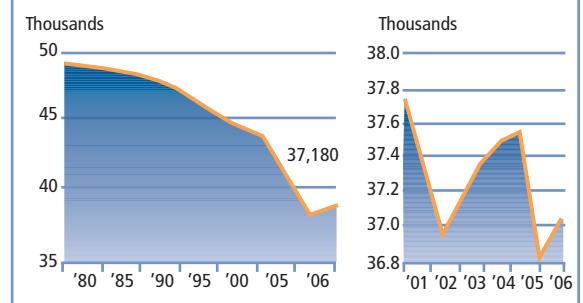
Beauty Shops & Barber Shops

Barber shops have lost 25% of their outlets since 1990 while beauty shops increased the numbers by 15% during the same period. Beauty shops are defined as establishments offering permanent waves and hair coloring, in addition to the usual cutting and styling. Not that long ago, that meant that they 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. As a result, barber poles, once a fixture of Main Streets across America, are a lot harder to find than they used to be, although barber shops retain their popularity in certain ethnic communities. The National Association of Barber Boards of America reports there are more than 220,000 licensed barbers in the country down from an estimated 350,000 in 1960.

Beauty Shops



Barber Shops



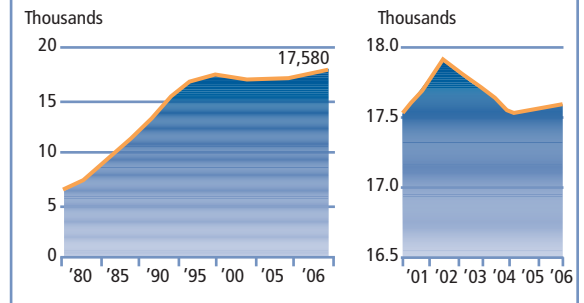


Bookstores

The number of bookstores more than tripled since 1975, but the days of dramatic outlet expansion are over. The number of bookstores has dropped 2% since 2000. Amazon and other online book sites are not only selling new books, but creating a nation of amateur used-booksellers at a time when consumer book unit sales are flat or declining.

The barely used book market is only about 3% of the new book market, but it is growing at 25% annually. This growth is not only troublesome for traditional retailers. Several literary agents want to find some way for authors to share in the revenue created by the used-book market.

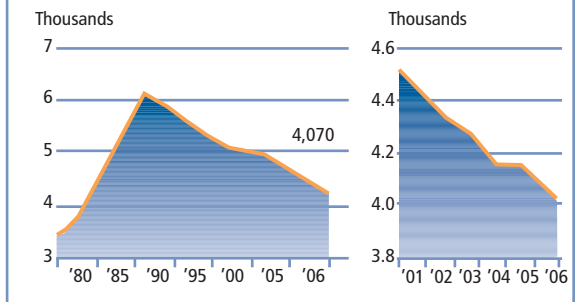
Bookstores



Camera & Photo Supply Stores

Camera and photo supply stores lost an alarming 35% of outlets since 1985 and 9% in the last 5 years alone. The reason: technology stimulated increased competition. First, one-hour film processing minilabs enabled many other retailers to go after traditional camera stores' foot traffic. Then came digital. The Photo Marketing Association projects that digital cameras will account for 90% of all cameras sold in 2006. Since digital cameras are effectively computers with lenses attached, other retailers may have as much expertise as camera stores. The growth of digital meant that even relatively expensive cameras were increasingly purchased at electronics chains rather than camera specialty shops. Even wireless phone carriers are becoming big players – most mobile phones now sold are camera phones.

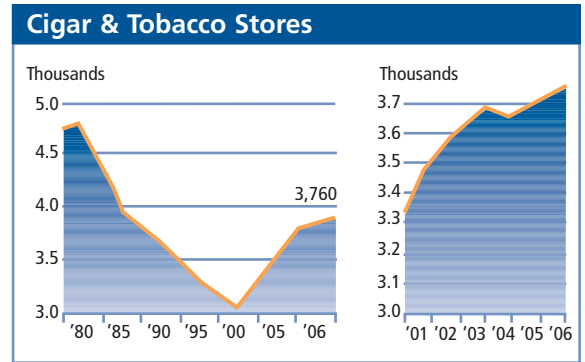
Camera & Photo Supply Stores





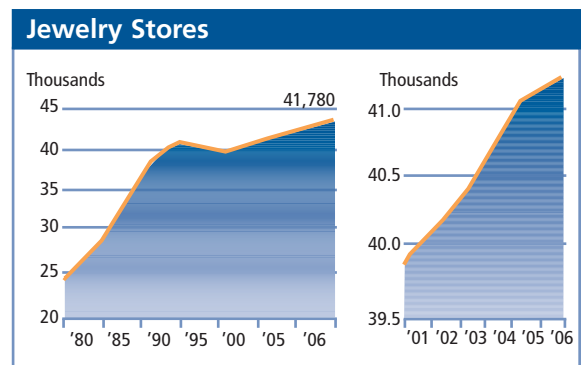
Cigar & Tobacco Stores

Small in number and one of the last domains of independent retailers, cigar and tobacco shops are affected by trends almost exclusively out of their control. Yet they 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 27% since 1995 and 5% in last five years alone – this despite domestic cigarette sales reaching a 55-year low in 2005, according to the National Association of Attorneys General.



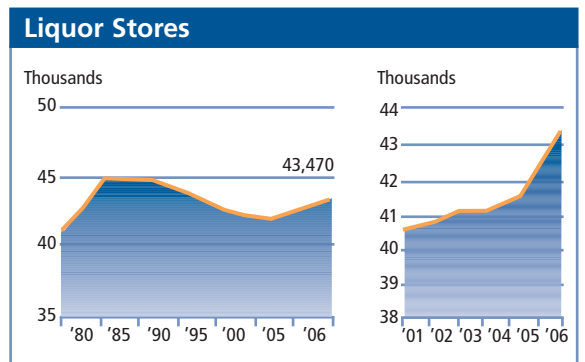
Jewelry Stores

Jewelry retailing remains a very fragmented sector. Even a large chain like Zales, with more than 2,000 outlets, has less than 5% of the retail outlets. The top 10 jewelry chains collectively claim less than one-quarter of the market. The biggest jeweler in the country is Wal-Mart. But despite the big-box competition, when shoppers want to buy things that come in little boxes, they often seek the personal attention they get from the many smaller chains and family-owned stores. The category increased its outlet count by 94% since 1970 and has remained relatively stable in recent years, gaining only 4% in the last five years. The growing popularity of e-commerce remains a potential threat.



Liquor Stores

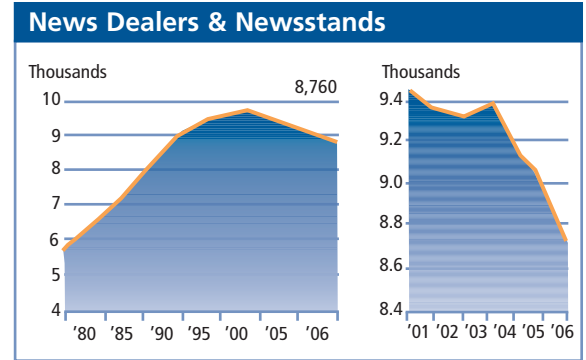
Liquor store numbers remain little changed since 1990, but grew 6% in the last five years. But the stability of the outlet count masks a raging public policy debate that could rock the sector. After Prohibition was repealed, most states built a complex and inefficient regulatory structure, ostensibly to discourage overconsumption of alcohol. But, last year the Supreme Court ruled that states have to treat all domestic winemakers the same. More recently, a federal court in Seattle struck down a ban on volume discounts and the purchase of beer and wine on credit. The ruling is being appealed and could have far-reaching implications because most states have laws similar to those struck down in Washington. Online sales and big-box retailers are also changing the way Americans buy wine. The largest wine merchant in America today is Costco.





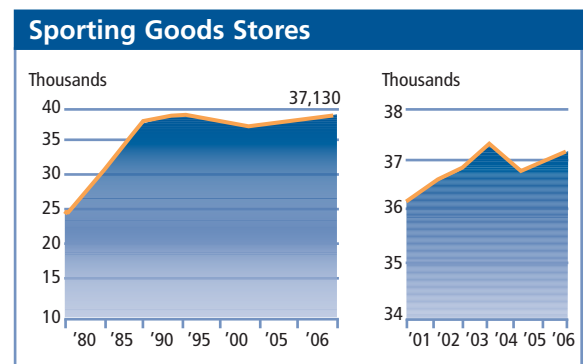
News Dealers & Newsstands

There are 63% more news dealers than there were in 1970, but 7% 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. Traditional newspaper ad revenue is also falling as department stores, which have been major advertisers, are consolidating and cutting their newspaper ad spending. Local car dealers are switching more of their ad budgets to the Web to reach car buyers online and even classified ads, a source of revenue once all-but monopolized by newspapers, are losing share to the Internet.



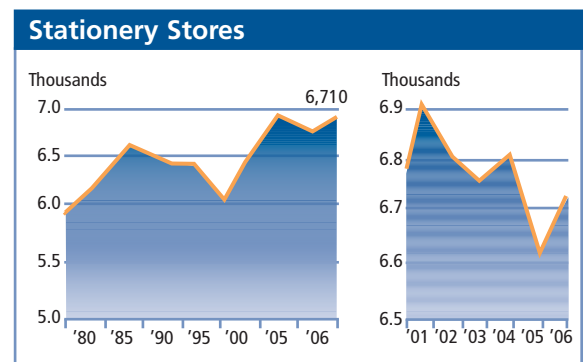
Sporting Goods Stores

There are 5% fewer sporting goods outlets than there were in 1990, but about the same as there were five years ago. Retail sales of sporting goods, which reached a record \$51 billion in 2005, are expected to grow 3% in 2006, according to the National Sporting Goods Association. In 2005, athletic and sport footwear grew 7%. Among equipment categories with sales of more than \$1 billion in 2005, golf increased 9%, despite participation that grew less than 1% last year.



Stationery Stores

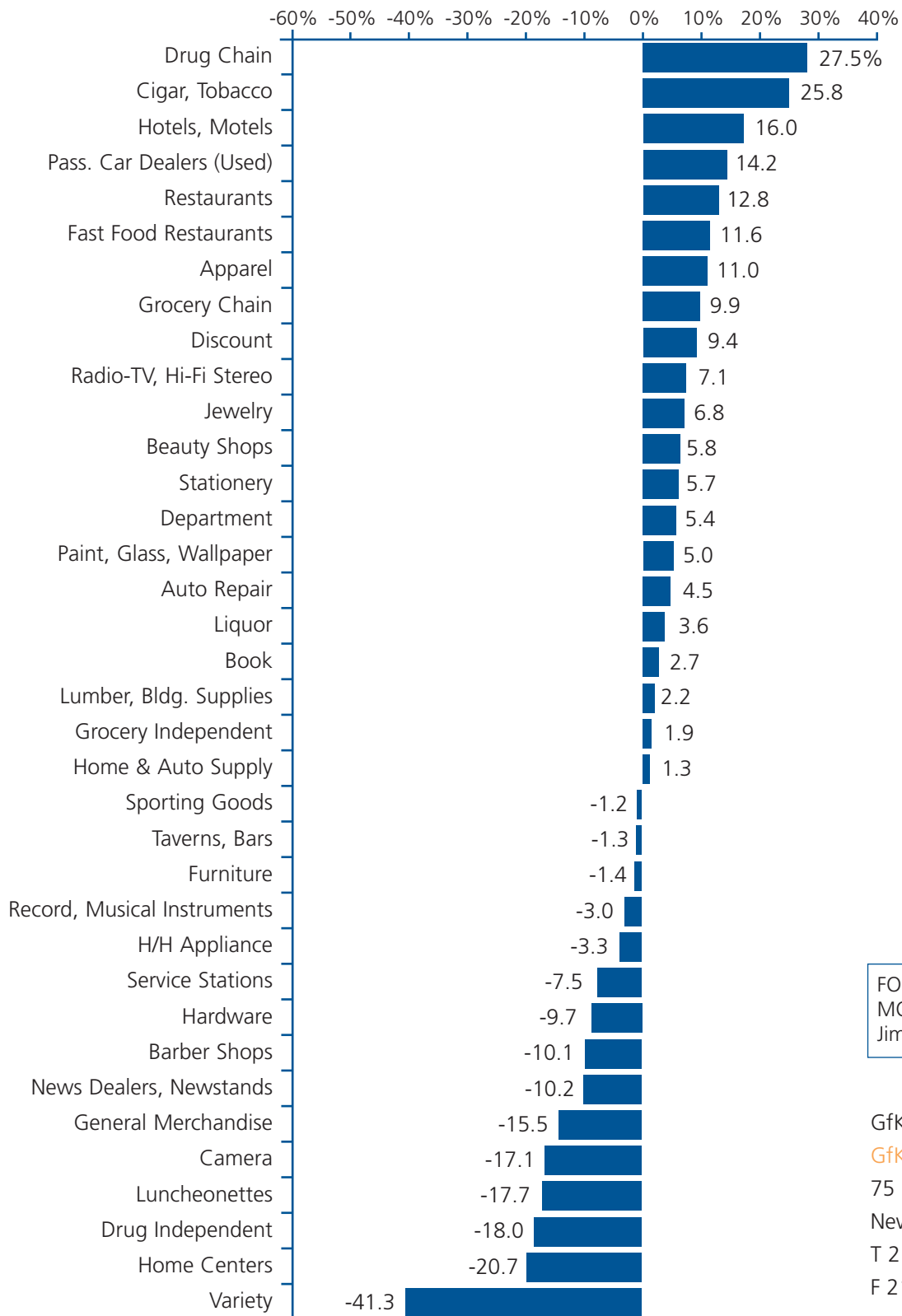
In many respects, stationery stores, which sell paper and paper products, pens, and sometimes offer printing and engraving services, have been battling technology ever since the telegraph and telephone were invented. Personal letters or "household-to-household" correspondence, now account for less than 1% of the first-class mail that the U.S. Postal Service handles each year. Yet, these stores and their "big box" counterparts, like Staples and Office Depot, have shown considerable resilience and are beginning to grow once more (by 2% in 2006 over 2005). In fact, GfK A&S has plans to provide ongoing sales measurements of this channel in the near future. For more information on subscribing to this new service, call or email us (see page 12 for contact information).



A Decade of Change

2006 vs 1996

Percentage Change in Number of Establishments



FOR THE COMPLETE REPORT OR MORE INFORMATION contact: Jim.Fleckenstein@gfk.com

GfK Audits & Surveys
GfK Retail & Technology
 75 Ninth Avenue, 5th. Floor
 New York NY 10011
 T 212 240 5300
 F 212 823 5100
www.gfkauditsandsurveys.com