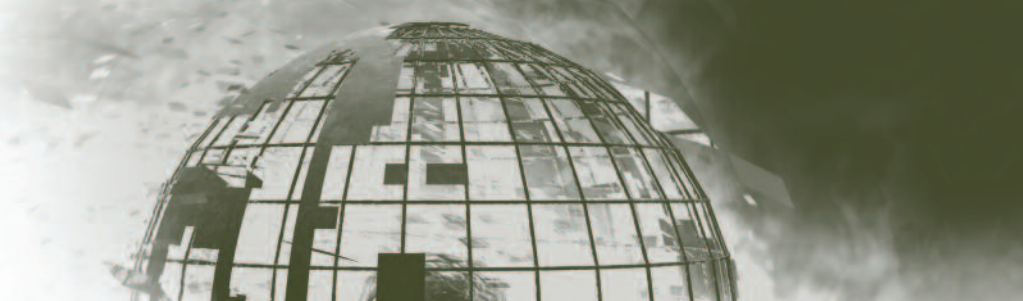


GfK

GfK Audits & Surveys



2008 GfK Audits & Surveys' National Retail Census

Paul Samuelson, the Nobel Prize-winning economist, once quipped, "Economists have correctly predicted nine of the last five recessions." As of this writing, the economists may be proved wrong again. But all is not well.

U.S. consumer spending traditionally drives two-thirds of the economy, but soaring gasoline prices and falling home prices have caused consumer confidence to plunge to its lowest level since 1992. Economists fear consumers might cut back on their spending and, in the process, bring about a recession.

So far, consumers have been true to form and showed themselves to be more stalwart than the economists. But even if the R-word never materializes, the economy is facing significant, sustained pressures that are forcing retailers to trim their sails – and, in many cases, their outlets.

Shell, BP and most recently Exxon Mobil announced plans to sell their owned and operated U.S. gasoline stations because retail profit margins have been squeezed by high crude oil prices. They intend to service their consumers through their networks of independent retailers.

Linens 'n Things, the bankrupt home furnishings chain, plans to dispose of 120 locations in 31 states. Circuit City recently reported same-store sales down 11% and is a target for acquisition. The Home Depot said it would shut 15 existing stores this year and reduce the number of new store openings by almost half to 55. The Sharper Image announced that it will close all of its remaining stores. The Gap plans to close some stores and downsize many of its remaining locations.

About GfK Audits & Surveys' National Retail Census

GfK Audits & Surveys' National Retail Census, now in its 55th 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.

Is everything spinning out of control? Not at all. It's what economists call "creative destruction" – the powerful, though often painful, process of reinvention at the heart of a vibrant capitalist economy.

Luxury retailers, thought by many to be particularly vulnerable to an economic downturn, are turning to their factory-outlet stores – and it's working. The nation's largest mall operator, Simon Property Group reported that comparable sales per square foot at its Chelsea Premium Outlets division rose 5.4% in the first quarter.

And nearly every location vacated by a retailer on the ropes is an opportunity for another retailer on the rise – an opportunity to expand, an opportunity to enter new markets or increase visibility by being at locations with more foot traffic or prestige. Perhaps even an opportunity for more affordable real estate costs.

As GfK Audits & Surveys' 2008 National Retail Census attests, despite the economic headwinds, many retail sectors are still growing.

Supermarkets, convenience and grocery chains added over 1,100 outlets this year. More than 4,400 restaurants and fast-food establishments have sprung up since our last annual retail census. The number of discount stores and chain pharmacies has grown. Even department stores, after years of consolidation, are on the rise again.

Retail sales jumped by the largest amount in six months this May, as 57 million economic stimulus checks reached consumers' mailboxes. Many economists were surprised by the \$385.4 billion in retail sales for the month. The increase was double what economists had been expecting and less than half the stimulus payments had been distributed. A wide variety of retailers benefited from the shot-in-the-arm, indicating the stimulus is having its intended effect.

These are difficult times, to be sure. But America's retailers have seen worse. The most time-honored among them have seen much worse. Savvy retailers are keeping a sharp eye on costs and another on their customers. Economists will continue to try to predict the future, but as Will Rogers once said, "An economist's guess is liable to be as good as anybody else's."



Automotive

The internal combustion engine was not invented in the US, but no country is more dependent upon automobiles for mobility. One consequence of this is that more than 12% of the total retail outlets 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 59% of their outlets since 1970 and 5% 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. With the price of crude oil at record highs and the average U.S. motorist driving substantially fewer miles for the first time in 26 years, some gasoline service stations are having their petroleum profits so squeezed that they've stopped selling gas. Recently, Exxon Mobil announced it is getting out of the retail gas business in the U.S. It owns about 2,220 of the roughly 12,000 Exxon Mobil branded stations across the country.

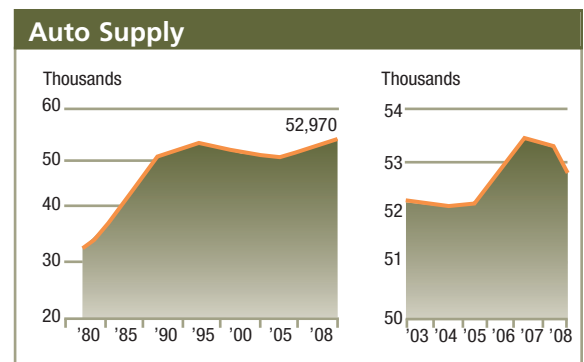
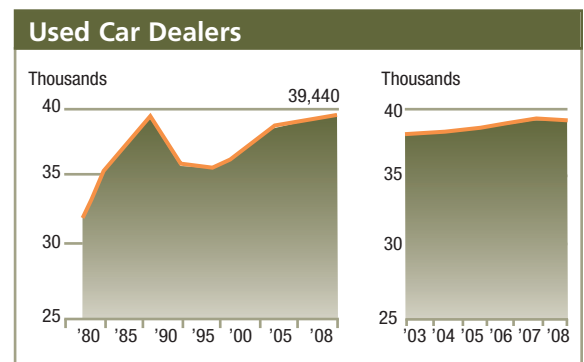
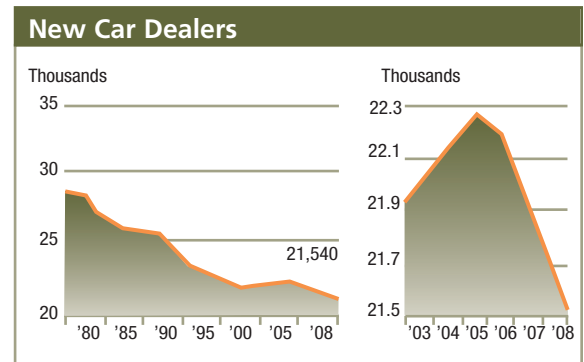
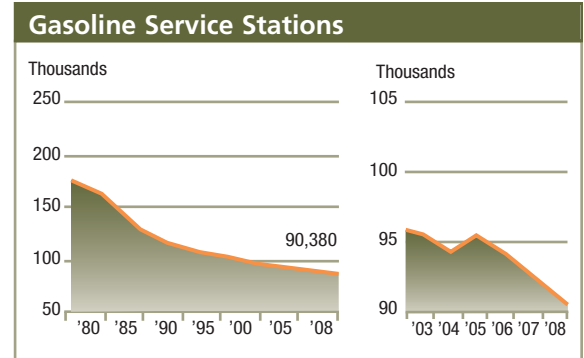
New & Used Car Dealers

The number of new car dealer outlets has shrunk 2% in the last five years and the National Automobile Dealers Association expects consolidation to continue. New car dealers sold 16.1 million vehicles in 2007, down slightly from the previous year's 16.5 million vehicles. NADA projects a continued volume decrease of about 3% as a result of a slowing economy, declines in the housing market and rising energy prices.

Internet sales continue to transform the used car business. Traditional used car dealers have increased their outlet by 38% since 1970 and 5% in the last five years. eBay Motors alone now links millions of potential purchasers and has created a national marketplace for new and used vehicles. CarMax, the nation's largest used car retailer, also has an extensive online presence.

Auto Supply

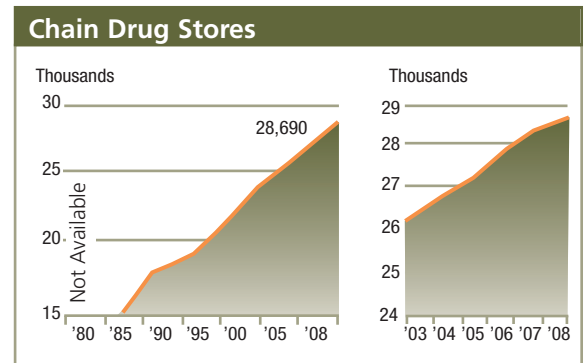
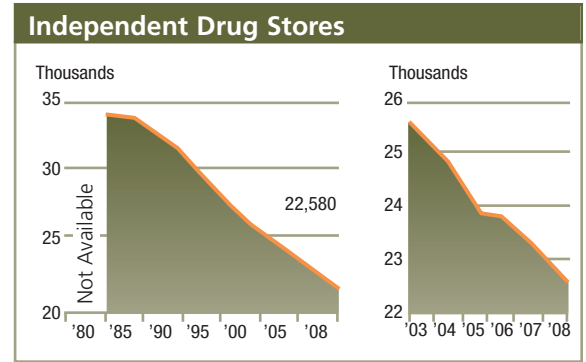
Stores selling primarily batteries, auto parts, tires and accessories declined 2% since 1990, but have stabilized their outlet count in the last five years. Still, there are few signs of continued growth because vehicles are becoming increasingly complex and require specialized diagnostic equipment, putting many do-it-yourself repairs beyond reach of even experienced tinkerers. As a result, the market is shrinking and retail dealers and service stations are better positioned to repair late-model vehicles than auto supply stores.





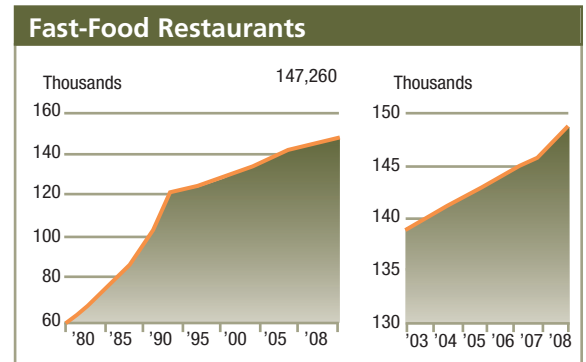
Drug Stores

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 38% of their outlets since 1980 and 12% in the last five years alone. Chain pharmacies more than doubled their outlets since 1980 and increased their numbers by 9% in the last five years. Yet, both types of drug stores have lost market share to grocers, discounters and online/mail-order retailers. Sales have increased at an average rate of \$10 billion annually since the turn of the 21st century. By the 2010, total annual sales are projected to exceed \$200 billion, with chain pharmacies benefiting from most of this growth.



Eating & Drinking Establishments

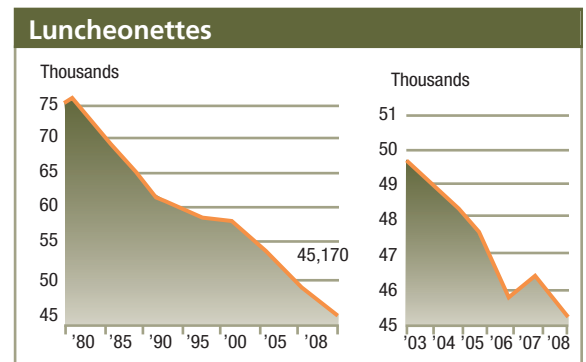
The U.S. restaurant business is huge. There are more than 414,000 eating and drinking establishments nationwide. Collectively, restaurants and taverns employ 9% of U.S. workers – more than 13 million people – making this sector the nation's largest nongovernmental employer. Despite the size of the sector, more than seven out of 10 are independent operations with fewer than 20 employees. Yet, there are a number of disturbing trends that may trim future growth. The number of restaurant visits has flattened for a variety of reasons. The cost of food is rising more rapidly than usual, threatening restaurant margins. Many supermarkets, such as Whole Foods, have expanded their lines of prepared, ready-to-eat dishes that compete with local restaurants in offering convenient meal options for those without the time or inclination to cook.



Fast-Food Restaurants & Luncheonettes

The number of fast-food restaurants increased 194% since 1970 and 8% since 2000. 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. McDonald's, by far the largest fast-food chain, has its eye on Starbucks customers. Nearly 14,000 U.S. locations are in the process of installing coffee bars, complete with "baristas." McDonald's is in its sixth year of a successful turnaround, but Starbucks is struggling after years of strong growth.

Luncheonettes lost 40% of their outlets since 1975 and 16% since 2000. Their continued decline at the hands of fast-food counterparts is all-but certain.

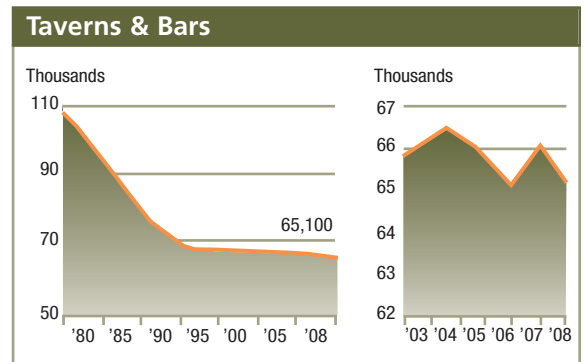
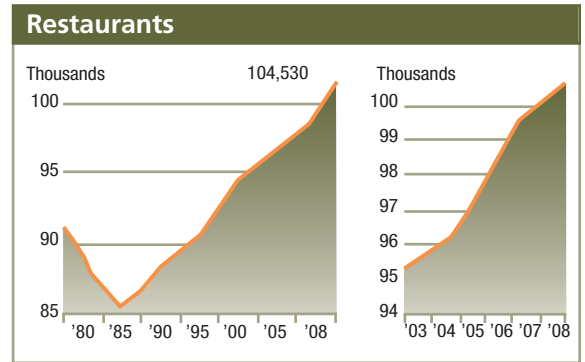




Restaurants, Taverns & Bars

The number of traditional restaurants has increased 20% since 1980 and 10% in the last five years alone. But higher food and gas prices are taking their toll on consumers' appetites for dining out. Though Americans still eat out as often as they have in recent years, they're now spending less. Some restaurants have responded by raising their prices, cutting portion sizes, or both. Since one-third of diners say price is the first factor they consider when choosing a restaurant, there is a limit to how much rising costs can be passed on to consumers.

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 will keep patrons away or shorten their stays.

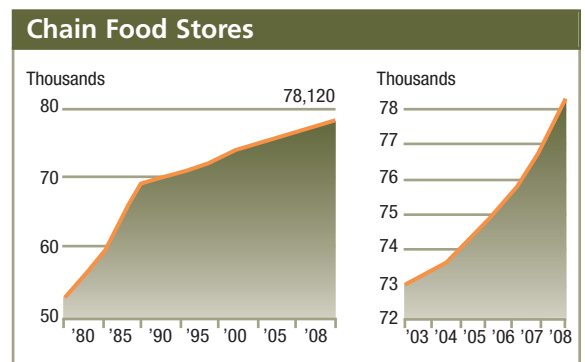
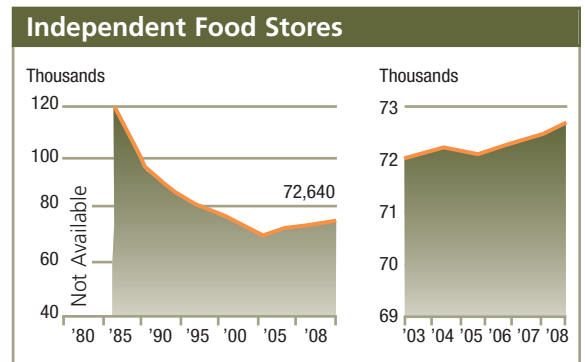


Food Stores

Retail food prices increased 4% in 2007 – the largest increase in 17 years – as sharply higher costs for such commodities as corn, wheat and milk combined with increased transportation costs to bring back food inflation for the first time in years. 2008 is projected to post similar increases in prices. As a result, there are indications that sales growth among large packaged food and beverage manufacturers is slowing and volume is starting to decline. Food companies have been trying to make up for their increased costs with reduced weight packaging while keeping prices the same.

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 average supermarket size, which is now 47,500 sq. ft., a 21% increase in the last 10 years, according to the Food Marketing Institute (FMI). Notwithstanding this longer term trend, it's worth noting that the average supermarket shrunk 2.5% in 2007, according to FMI, the first year of shrinkage 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 factors. As in other sectors, chains are faring much better than independents. Independents account for less than 10% of sector sales. Independent food and convenience stores lost 38% of their outlets since 1980, while chain outlets have increased 50% during the same period.



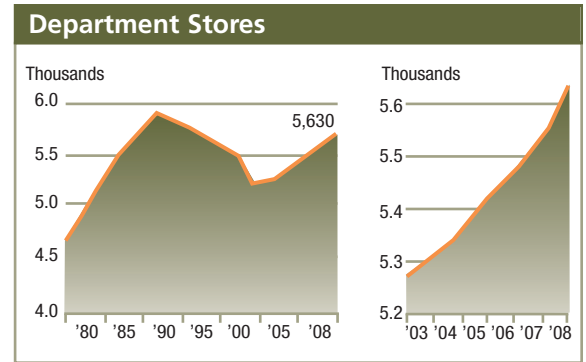
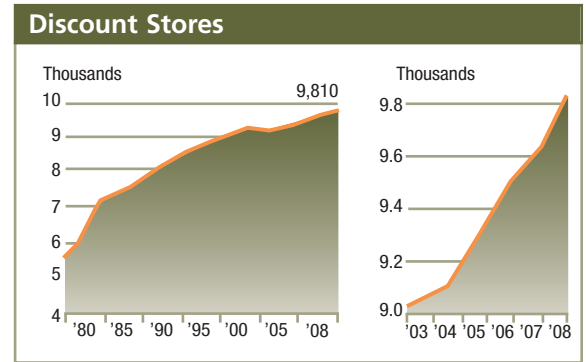


General Merchandise

Discount & Department Stores

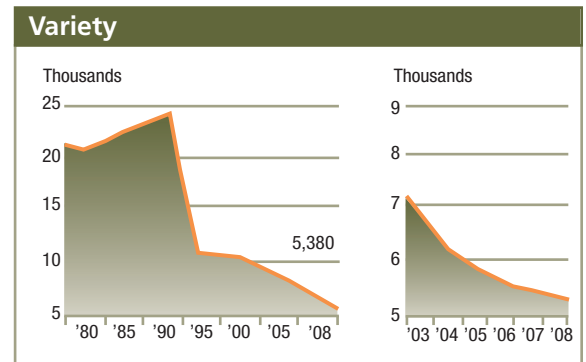
Discount chains are among the most successful channels in retailing. The discount formula has proven its mettle in good times and bad. Discount chains have increased their outlets by 136% since 1970, while conventional department stores grew only 26% in the same period. Department stores are losing a 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 have slipped.

One sign of department stores' fall from grace is the increased willingness of shopping centers to sign discounters and big-box stores to anchor spots once reserved for department stores. Sears is trying to reverse the trend with its "discount department stores" called Sears Essentials located in off-mall retail settings. Despite these signs, department stores added 7% more outlets in the last five years.

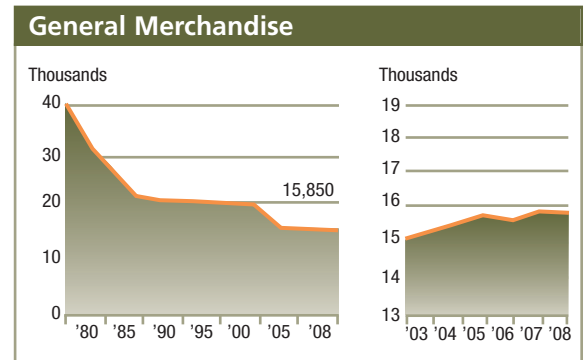


Variety & General Merchandise Stores

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 76% of their outlets since 1970 and 20% in the last five years alone.



General merchandise outlets declined by 59% since 1970, but have made something of a comeback, increasing their outlet count by 5% in the last five years. Much of the historic decline of both sectors may be traced to the success of discount stores.

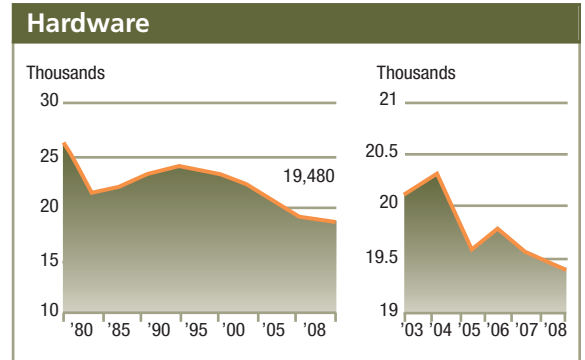




Hardware & Building Materials

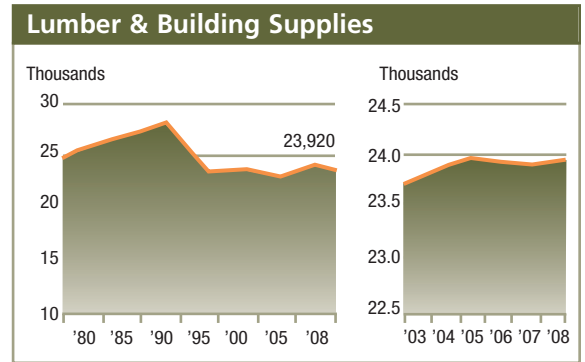
Hardware Stores

Traditional hardware stores continue to decline in number, losing 33% 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 success of large home improvement chains, some of which have ventured beyond their big box roots to open smaller stores in town.

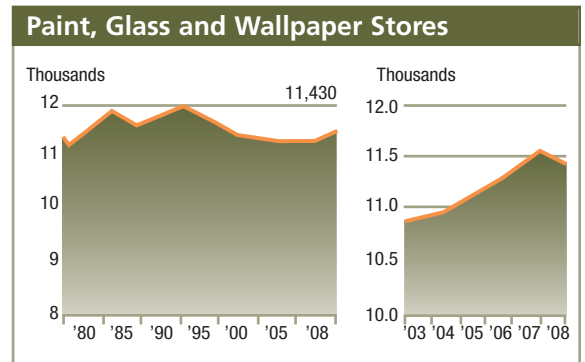


Lumber & Building Supplies and Paint, Glass & Wallpaper Stores

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 7% of their outlets since 1970 and gain 1% more outlets in the last five years.

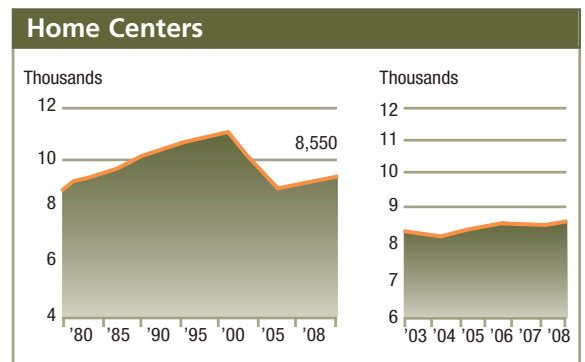


Paint, glass and wallpaper stores have also fared relatively well. They lost 3% of their outlets since 1970, but increased their outlets 5% in the last five years.



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 1% in the last five years. But housing starts and sales, which track closely with home center revenue, have slowed and reached a plateau in many markets. In 2007, Home Depot posted the first annual-sales drop in its 30-year history and said this year's results would be even worse. The sector giant has been reacting to the slowdown by closing stores and scaling back its expansion efforts. Rival Lowe's is delaying the opening of new stores and also lowered its outlook for the year.

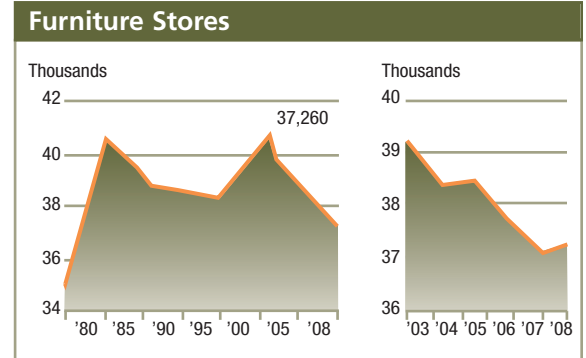




Household Furnishings

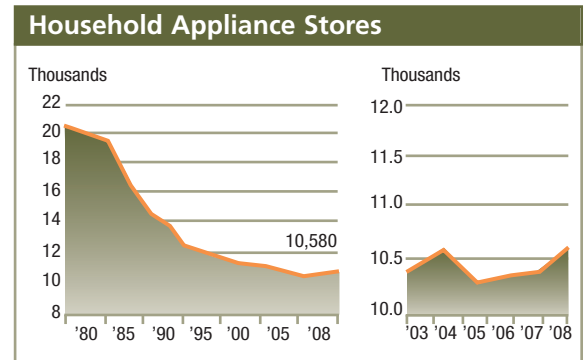
Furniture Stores

The number of furniture stores is down 5% in the last five years, despite the low mortgage rates that had, until about a year ago, help buoy the housing sector. 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, warehouse clubs and even online sales have diminished the prospects of traditional furniture stores. To make matters worse, furniture sales are often discretionary purchases that can be deferred when tough economic times hit.



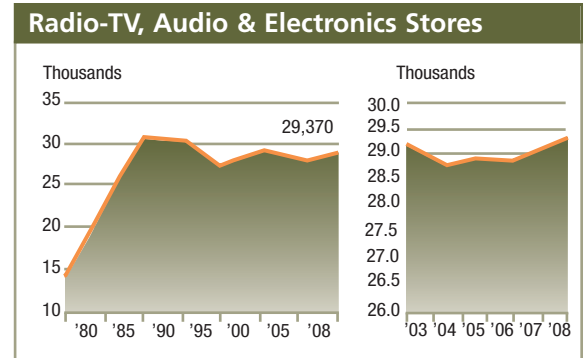
Household Appliance Stores

Household appliance stores have lost 45% of their outlets since 1970, but have stabilized 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. But the slowing of the economy and housing sales have also contributed to the softening of this sector. Even General Electric, a century-old leader in appliances and one of the best-known consumer brands is planning to sell off its appliance business.



Radio-TV, Audio & Electronics Stores

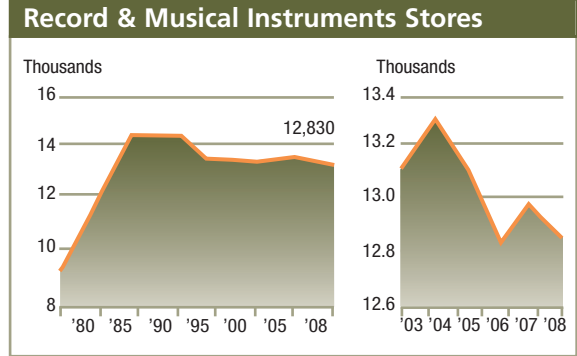
Radio, television, audio and electronics stores have increased in number 149% since 1970. One reason for their relative success is the products they sell are faster-changing and more complicated than those sold by other types of retailers. As a result, consumers seek, and are willing to pay for, a more knowledgeable sales staff. But the 2% decline in outlets since 2000 suggests this historical rate of growth may no longer be sustainable. Falling prices of flat-screen TVs continue to generate sales, but pinch profits. Slowing sales and diminishing margins have caused Circuit City's stock to plunge more than 70% in the last two years and the chain is still very much a target of acquisition even though Blockbuster has backed away from its interest.





Record & Musical Instruments Stores

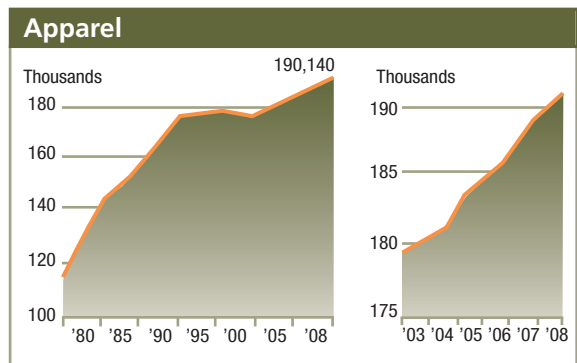
The fundamentals of traditional music stores are bleak. Because of shrinking recorded music revenues, record labels and artists are seeking to exploit every possible source of income. Often, they take the form of exclusive retail deals with companies like Wal-Mart and Starbucks, effectively squeezing record stores out of the picture. Apple's iTunes Store recently passed Wal-Mart to become the largest music seller in the U.S. So while more people are buying music than ever before, much of the commerce is shifting away from record stores and physical formats toward online downloads.



Miscellaneous Retail

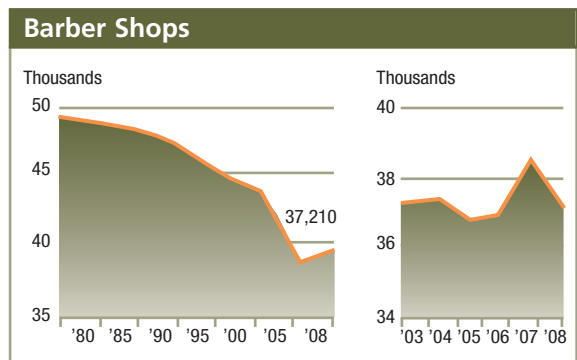
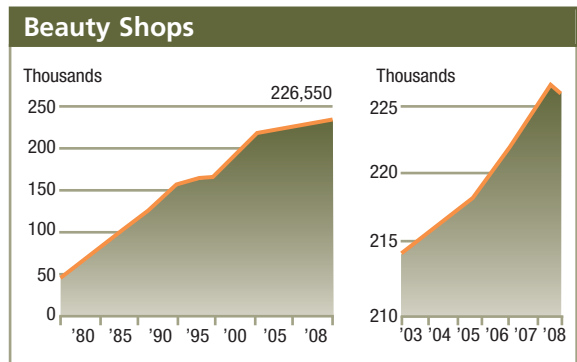
Apparel Stores

Despite heightened competition from discount stores and online sales, specialty apparel retailers increased their outlet count by 66% since 1975 and 6% 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. Another key is market differentiation. Lululemon Athletica has built a name for itself by offering yoga-inspired athletic wear. Urban Outfitters is another apparel chain to succeed by offering eclectic styles that are difficult to find elsewhere.



Beauty Shops & Barber Shops

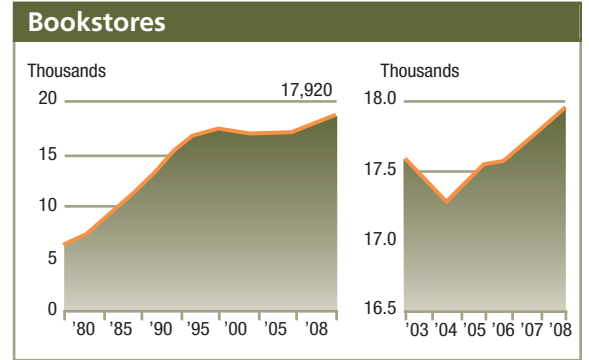
Barber shops have lost 25% of their outlets since 1990 while beauty shops increased their numbers by 17% during the same period. Beauty shops, which are defined as establishments offering permanent waves and hair coloring, in addition to the usual cutting and styling, once catered exclusively to women. Not anymore. Men increasingly get their hair cut at unisex stylists still classified as "beauty shops" by the U.S. Census. Beauty shops added 6% more outlets in the last five years. Barber shops lost 1% of their outlets in the same period.





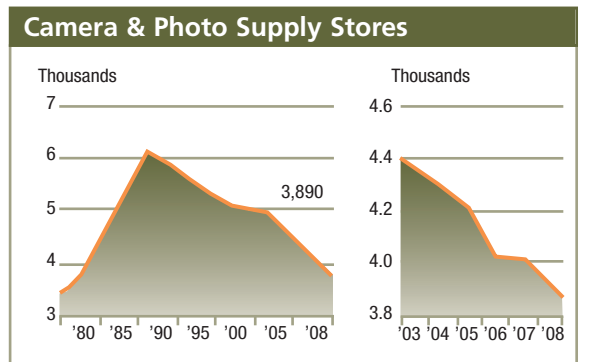
Book Stores

Book stores increased their outlets 79% since 1980, but the days of dramatic outlet expansion are over. The number of book stores is virtually unchanged since 2000. The Association of American Publishers estimates that U.S. publishers saw a net increase of sales of nearly 8% in 2007, but not all of that increase goes into the tills of traditional book stores. Amazon.com is thought to account for 15% of U.S. book sales and Amazon's ability to market books efficiently gives it the potential to revolutionize the book business through vertical integration. Publishers fear that Amazon wants to become a publisher itself and court authors directly by offering them more favorable deals than traditional publishers can afford to provide.



Camera & Photo Supply Stores

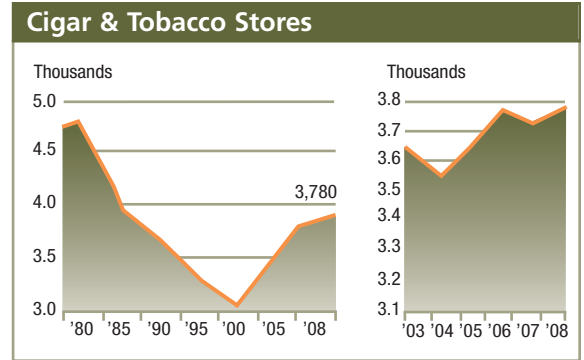
It is ironic that photography is more popular than ever while camera and photo supply stores lost an alarming 38% of outlets since 1985 and 12% in the last five years alone. The Photo Marketing Association estimates digital cameras will account for more than 90% of all cameras sold in the U.S. Since digital cameras are effectively computers with lenses attached, other types of retailers have as much relevant expertise as camera stores for most consumers. The lower cost and growing popularity of digital SLRs may help camera stores with ongoing revenue as shutterbugs buy additional lenses and accessories. But today more photos are taken with mobile phone cameras than conventional cameras of any type. That trend is expected to continue as cell phone makers improve their photographic expertise.





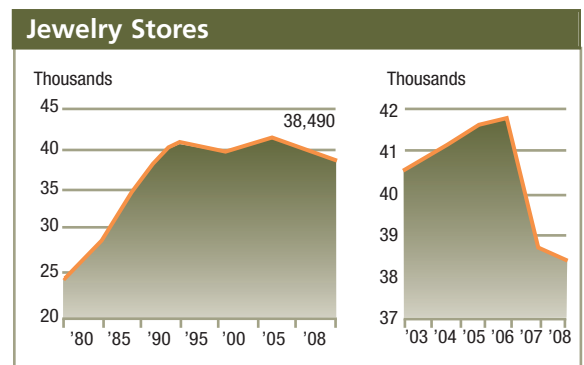
Cigar & Tobacco Stores

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 than discount manufacturers. Their outlets have grown 28% since 1995, but only 3% in last five years.



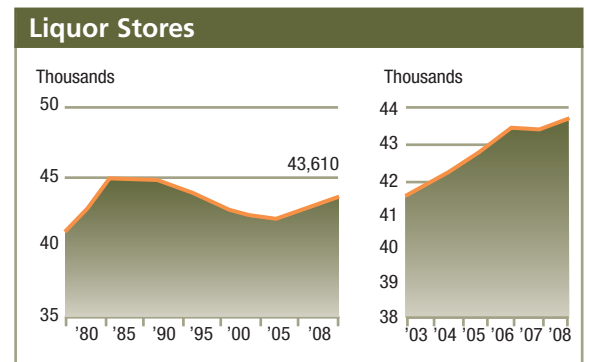
Jewelry Stores

Jewelry stores lost 6% of their outlets in the last five years and the softening of the economy has many survivors feeling vulnerable. Many retailers are sticking with staples, such as diamond stud earrings and bridal products. One promising trend is the growing popularity of men’s jewelry. Jewelry retailing remains a very fragmented sector. The top 10 jewelry chains account for less than one-quarter of the market.



Liquor Stores

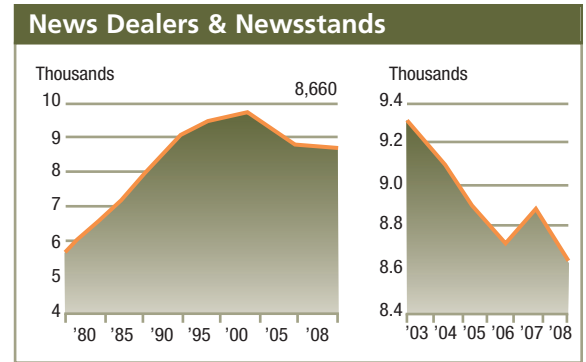
Liquor store numbers remain little changed since 1990, but grew 5% in the last five years. The relative stability of the outlet count masks a public policy debate that could rock the sector. The biggest wine seller in the country is Costco and it is pressing for reforms that would largely eliminate the industry’s powerful middlemen – wholesalers mandated in many states after Prohibition was repealed. Several states are lifting rules that prevent consumers from buying wine directly from out-of-state producers and retailers. One result is that while wine sales are booming, many of those sales are not made in traditional wine and liquor stores.





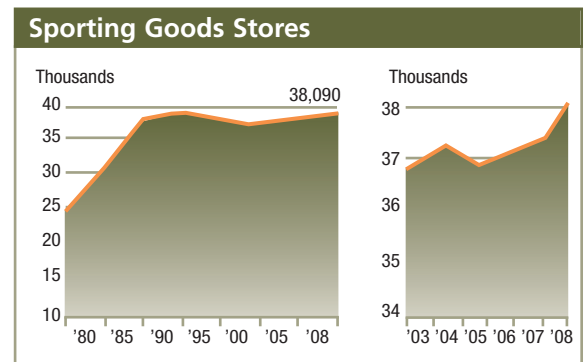
News Dealers & Newsstands

There are 62% 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. Paid weekday circulation fell sharply at most top U.S. newspapers in the latest reporting period. The sole exceptions were the two largest national dailies, USA Today and The Wall Street Journal, each of which gained less than 1%. Weekly news magazines are faring poorly, too. Reduced circulation at Time and Newsweek caused each to lose more than 6% of their advertising pages last year.



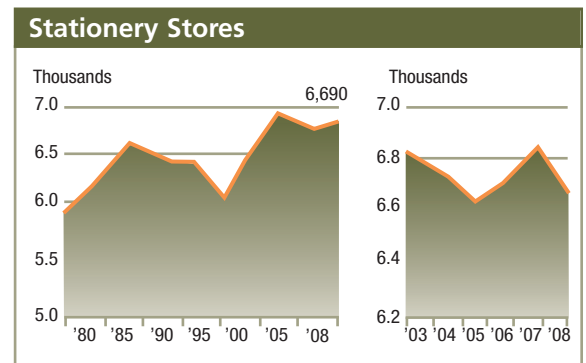
Sporting Goods Stores

There are 163% 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), which reached a record \$53.5 billion in 2007, are expected to be flat in 2008, according to the National Sporting Goods Association.



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. While there are 16% more stationery stores than there were in 1970, the number of traditional stationery stores is down 2% in the last five years, proving competition from technology and big box office supply stores, like Staples and Office Depot, can't be resisted forever.

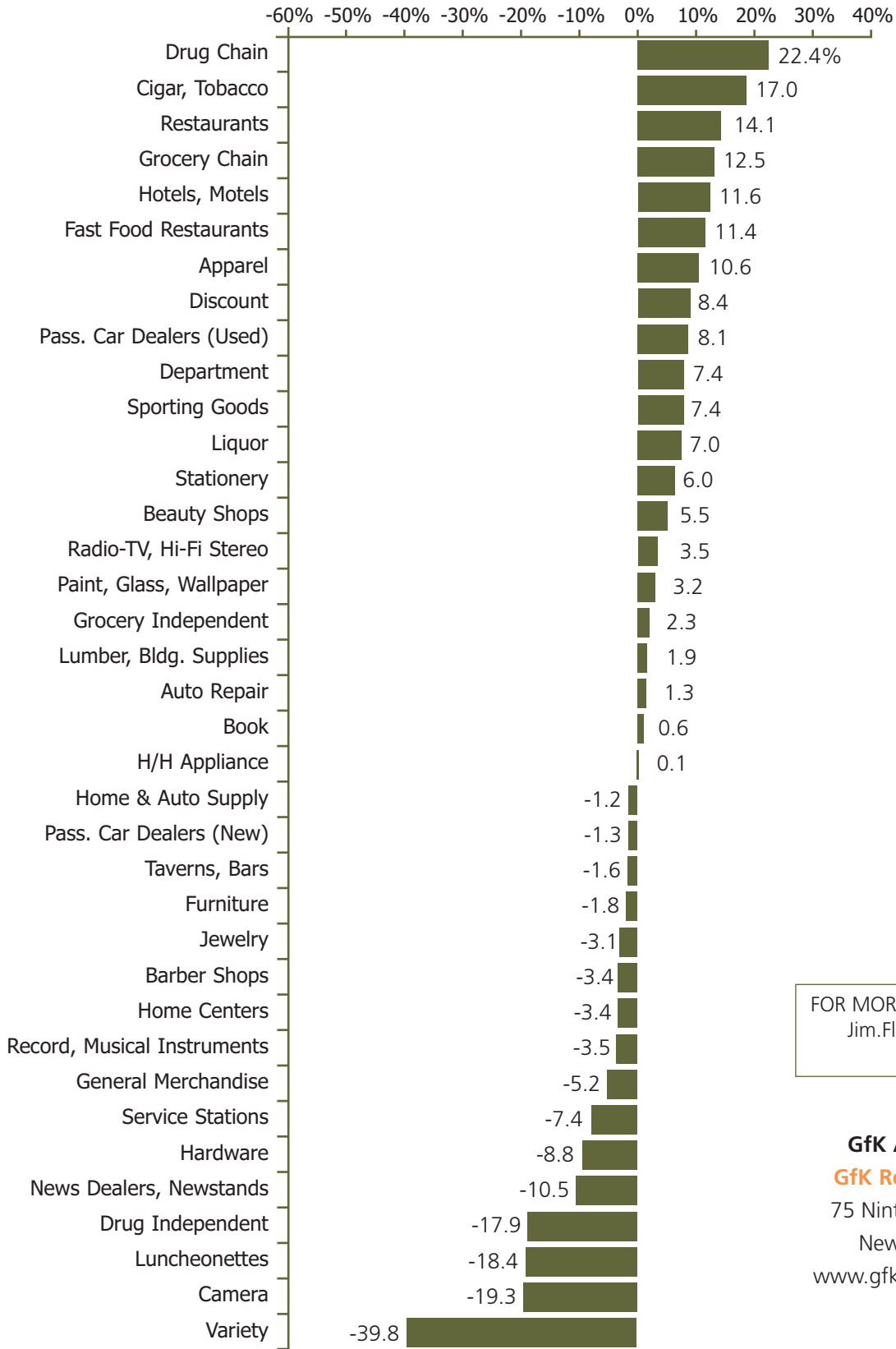




A Decade of Change

2008 vs 1998

Percentage Change in Number of Establishments



FOR MORE INFORMATION contact:
 Jim.Fleckenstein@gfk.com
 212-823-5006

GfK Audits & Surveys
GfK Retail & Technology
 75 Ninth Avenue, 5th Floor
 New York, NY 10011
 www.gfkauditsandsurveys.com