



cutting through complexity

Retail Industry Outlook Survey:

Modest Gains Keep
Cautious Optimism in Style

kpmg.com

KPMG's Industry Outlook Survey

KPMG LLP, the audit, tax and advisory firm, surveyed C-suite and other top-level executives in the retail industry during the second quarter of 2012.

Participants were asked about business conditions in their sector, the most significant revenue growth opportunities, and any barriers to growth that may exist. They were also asked a variety of questions about the economy, including factors they perceive might impede or support their sector's recovery, and to assess the impact advancing technologies may have on their business models.

These responses were compared to the findings of a similar survey conducted among retail executives in the second quarter of 2011.



Foreword	2
Key Findings from KPMG's Retail Industry Survey	4
Business Conditions	5
Revenue	6
Headcount	7
Hope for Recovery Remains on the Horizon	8
A Closer Look at Growth and Profits	8
Capital Spending and Investing	10
Realizing the Value of Data Analytics	11
Exploring Digital Marketing Channels	12
Risk and Regulatory Challenges	13
Conclusion	14
KPMG: A Leader in Serving the Retail Industry	15

Contents

Foreword





I am pleased to present KPMG LLP's 2012 Retail Industry Outlook Survey, which provides perspectives and insights of 100 CEOs and other C-level executives in the retail sector. Taking the past year into account, participants were asked to assess business conditions, identify areas of growth and investment, estimate a time line for a full economic recovery, and identify factors that may help or hinder the economy moving forward.

Based on the survey results, it's clear that executives believe the sector continues to move in the right direction. Survey respondents reported both revenue gains and headcount increases as evidence of the positive sector momentum of the last year. However, their outlook for the economy to fully recover remains guarded, and they have pushed back their expectations for a complete U.S. economic recovery until 2014–2015 or beyond.

Most of the executives surveyed report having significant cash on their balance sheets and are ready to increase spending in areas such as technology, citing data analytics as playing a greater role in their strategic decision making. They also note that digital marketing technologies such as online shopping, social media platforms, and e-mail campaigns continue to have a significant impact on their businesses. Additionally, they point out that the utilization of mobile technology for shopping, promotions, and payments is increasingly making its mark on the sector.

Moving forward with cautious optimism, the majority of survey respondents foresee continued sector growth over the next year, with revenue increases being driven largely by the ability to add and retain customers. Meanwhile, they acknowledge pricing pressures and lower consumer demand as potential growth barriers and point to discounting prices, volatile input costs, and decreased sales volumes as the most significant threat to profit margins.

On behalf of KPMG, I would like to thank those who participated in this survey. I hope the findings are useful to you in addressing market challenges and opportunities. I also welcome the chance to discuss this study and its implications for your business in the year ahead.

Mark Larson

Global Sector Leader, Retail
KPMG LLP



Key Findings from KPMG's Retail Industry Survey

Moving Forward in Measured Fashion

According to this year's survey, retail executives are cautiously optimistic about the future business outlook, expecting continued modest improvements in revenue and hiring over the next year. However, they remain quite guarded for the longer term, not anticipating a substantial U.S. economic recovery until 2014 or beyond. While positive momentum continues to slowly build in the sector, executives plan to increase spending in areas of priority such as information technology, including data analytics and digital marketing channels. Online shopping, social media platforms, e-mail campaigns, and mobile technologies are clearly on their radar due to the significant impact each is having on their businesses. Looking ahead, the vast majority of survey respondents foresee continued sector growth over the next year, with revenue increases being largely driven by the ability to add and retain customers.

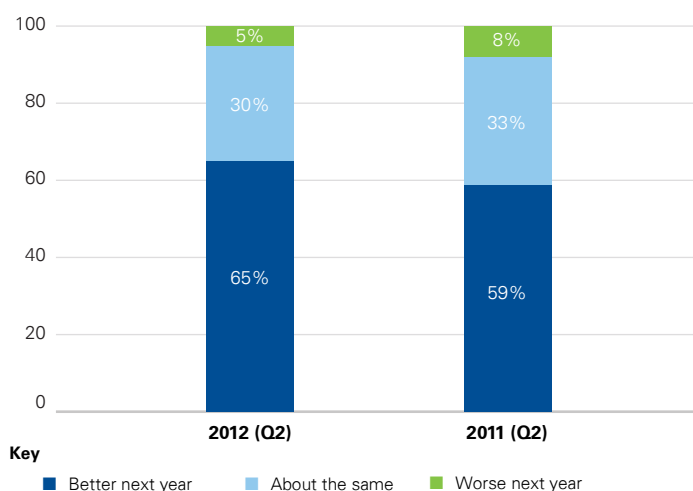
KPMG's survey reflects the responses of 100 retail sector executives from large (\$100 million+ annual revenue), U.S.-based companies. Thirty-five percent of respondents work for companies with annual revenue of more than \$10 billion, while 41 percent represent companies with annual revenue between \$1 billion and \$10 billion, and 24 percent with revenue in the \$100 million to \$1 billion range. Seventy-four percent of these companies are publicly held, and 26 percent are privately held.

Key findings from the retail sector included:

- Sixty-five percent of retail executives surveyed said their company's revenue has increased over the last year, while 77 percent predict continued revenue growth a year from now.
- Fifty-four percent of survey respondents reported adding U.S. employees in 2011 and expect to add more over the next year. Meanwhile, 22 percent noted that their company's U.S. headcount has returned to pre-recession levels.
- While over 50 percent of the executives plan to add headcount in the next year, the increases are planned to be modest, and consistent with last year's survey, one in five do not expect their company's headcount to ever return to pre-recession levels.
- When asked about their expectations for the U.S. economy a year from now, 65 percent of sector executives expect some improvement while 30 percent believe it will essentially remain the same. However, 61 percent believe a substantial economic recovery will not occur until 2014–2015 or later.
- Seventy-seven percent of survey respondents report having significant cash on their balance sheet, and 34 percent acknowledge investment is already significantly underway.
- Survey respondents believe adding customers (46 percent), market expansion (32 percent), and retaining customers (29 percent) will serve as the top drivers of revenue growth over the next three years.
- More than half (51 percent) of survey respondents cited information technology, including data analytics and digital marketing channels, as a top investment priority over the next year.
- Retail executives surveyed indicate that online shopping (59 percent), social media platforms (58 percent), and e-mail campaigns (49 percent) are having the most significant impact on their businesses.

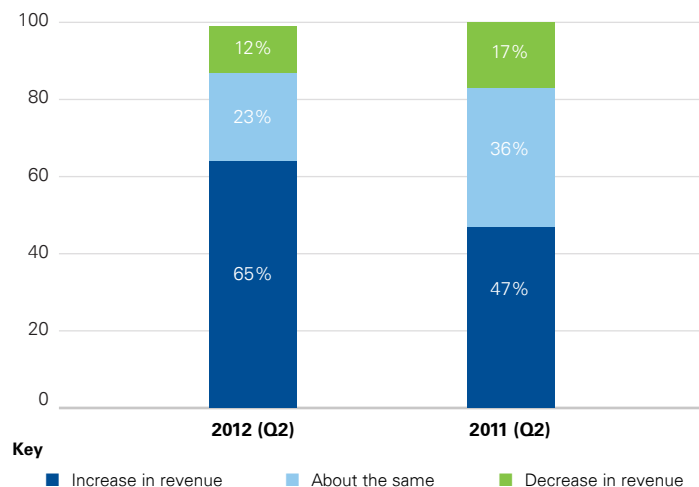
Business Conditions

Sixty-five percent of retail executives surveyed believe that the economy will improve over the next year, representing a slight increase in enthusiasm from the 2011 survey, when 59 percent anticipated the economy to improve in a year's time. Meanwhile, 30 percent of respondents expect the economy to remain flat over the next year, compared to 33 percent the previous year.

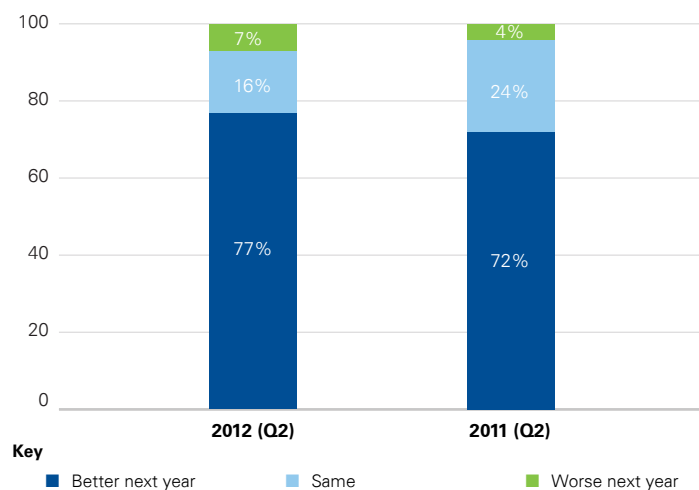


Revenue

Revenue continues on an upward climb, according to retail sector executives. Nearly two-thirds (65 percent) of respondents reported an increase in revenue over the last year, up from 47 percent the previous year.



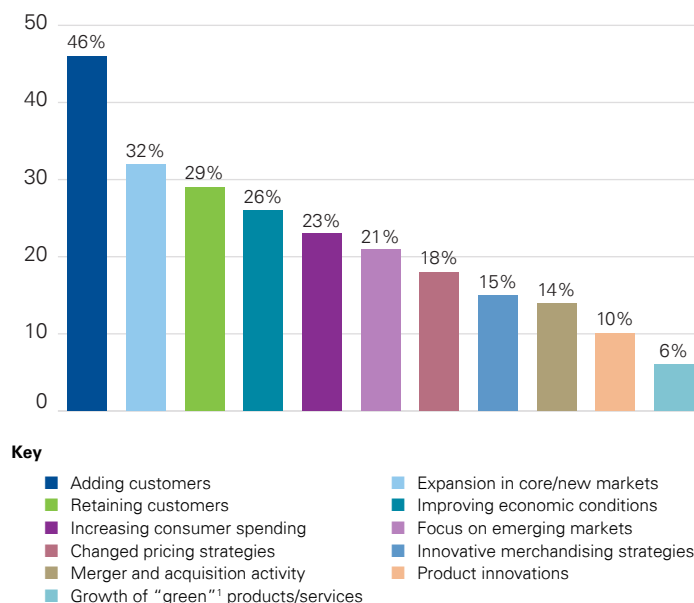
When asked to describe their revenue expectations a year from now, 77 percent of executives predict that revenue will increase, while 16 percent believe revenue will stay flat. This mirrors the expectations of the prior year, when 72 percent and 24 percent, respectively, answered the same question.



Revenue Growth Focused on Customers

Customers are at the heart of driving revenue growth in the retail sector. Survey respondents cited adding customers (46 percent) and retaining customers (29 percent) as top revenue growth drivers during the next three years, along with market expansion.

Biggest Drivers of Company's Revenue Growth: Next 1-3 years



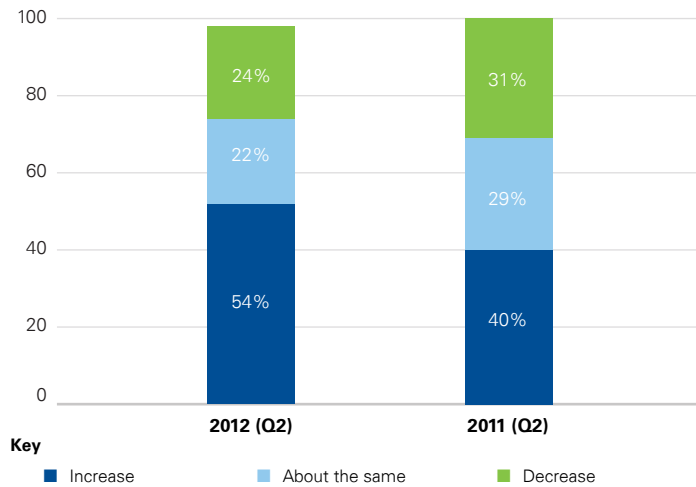
Multiple responses allowed.

¹ Environmentally friendly

Headcount

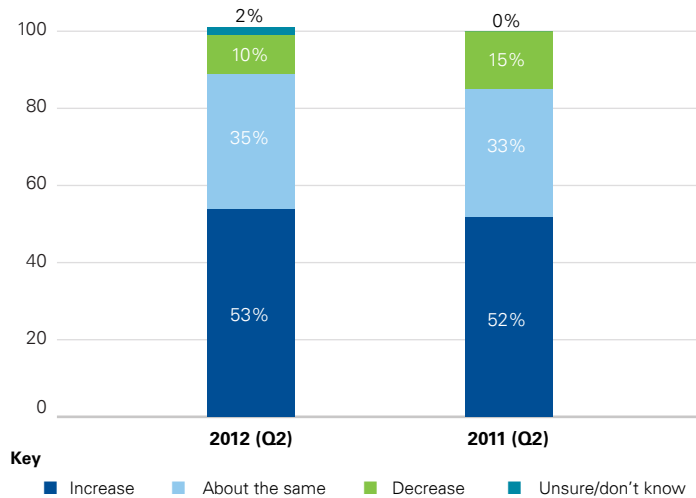
Retail executives added more U.S. employees over the last year, with 54 percent of respondents reporting an increase in headcount, up from 40 percent the previous year.

Current headcount

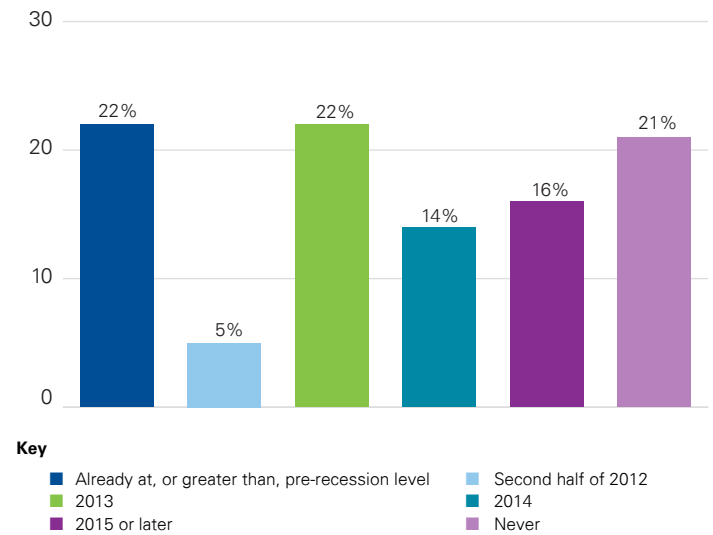


Retailers expect the hiring momentum to continue with 53 percent of sector executives expecting to add employees over the next year and only 10 percent anticipating a decline during this time. These results are in line with the previous year.

Future headcount expected



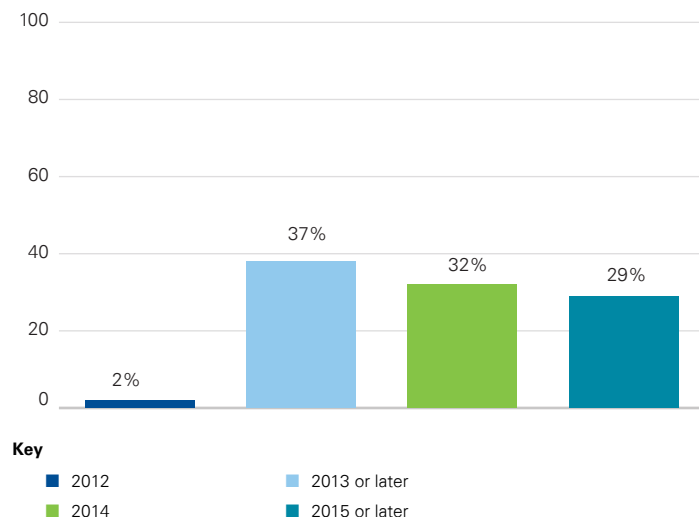
Headcount: Return to pre-recession levels



Interestingly, 22 percent of survey respondents said that their U.S. headcount has already reached or is greater than pre-recession levels, but 21 percent believe it will never return to those levels.

Hope for Recovery Remains on the Horizon

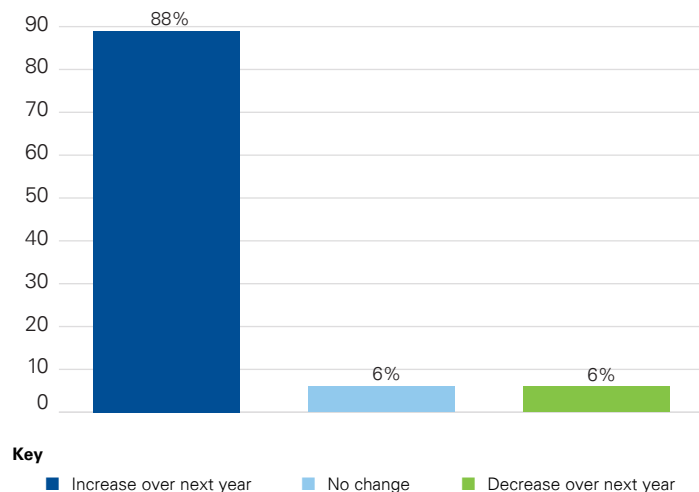
Hopes for a full U.S. economic recovery seem to have been pushed back a few years, according to the retail executives surveyed. The majority (61 percent) believe that it will not actually occur until 2014 or beyond. Notably, last year's results revealed that 36 percent of respondents expected a full recovery in 2012, while 62 percent anticipated it would happen in 2013 or later.



A Closer Look at Growth and Profits

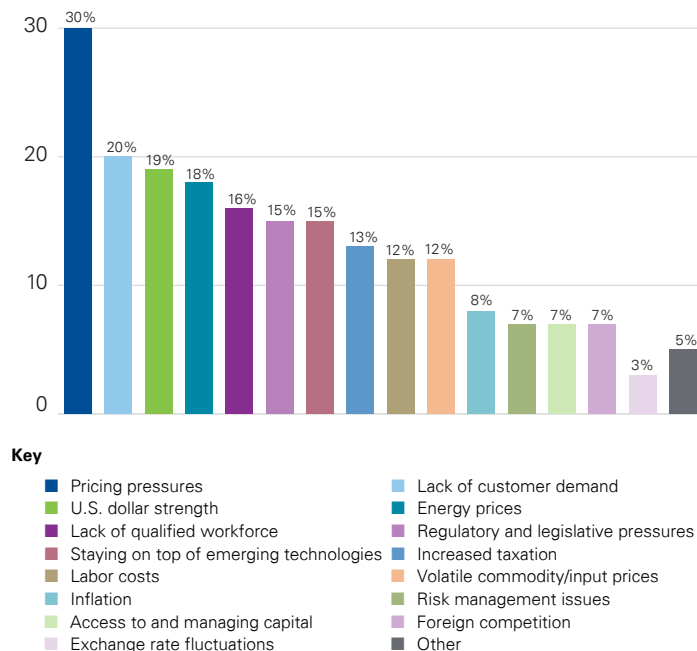
Eighty-eight percent of survey respondents expect the retail industry to continue to experience growth increases over the next year. Of that amount, 63 percent predict only modest gains of about 5 percent or less.

Retail industry growth rate



Retail executives cite pricing pressures and a lack of consumer demand as the most significant barriers to growth over the next year.

Barriers to growth

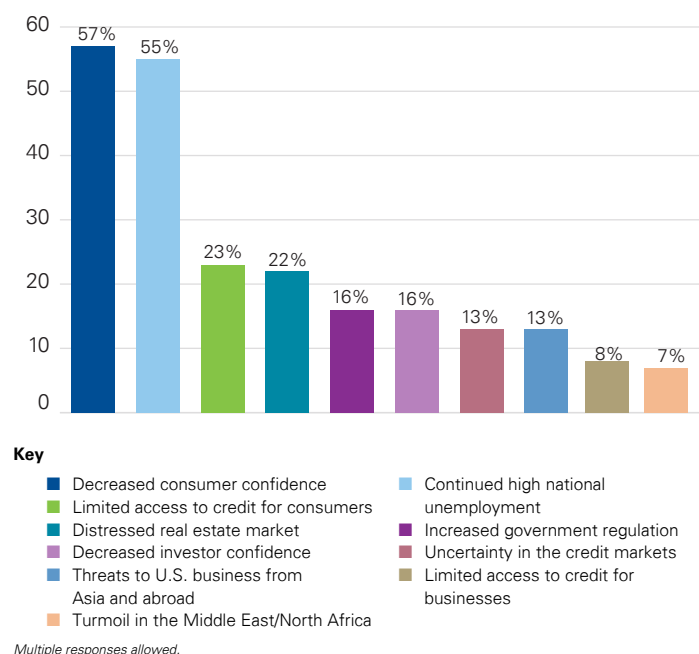


Multiple responses allowed.



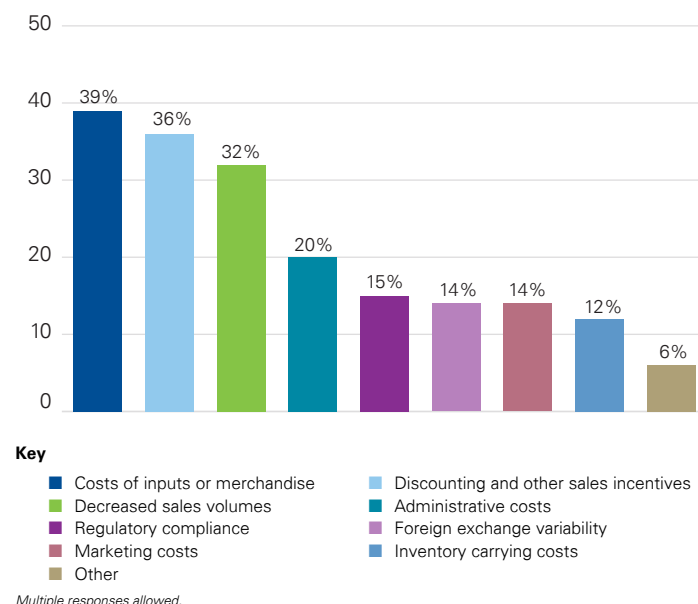
Retail factors hindering recovery

More than half of survey respondents view decreased consumer confidence (57 percent) and the continued high national unemployment rate (55 percent) as the two top factors hindering the retail sector's recovery. Other top factors cited include limited access to credit for consumers (23 percent) and the distressed real estate market (22 percent). Other factors cited include increased government regulation (16 percent), uncertainty in the credit markets (13 percent), threats to U.S. business from Asia and abroad (13 percent), limited access to credit for businesses (8 percent), and turmoil in the Middle East/North Africa (7 percent).



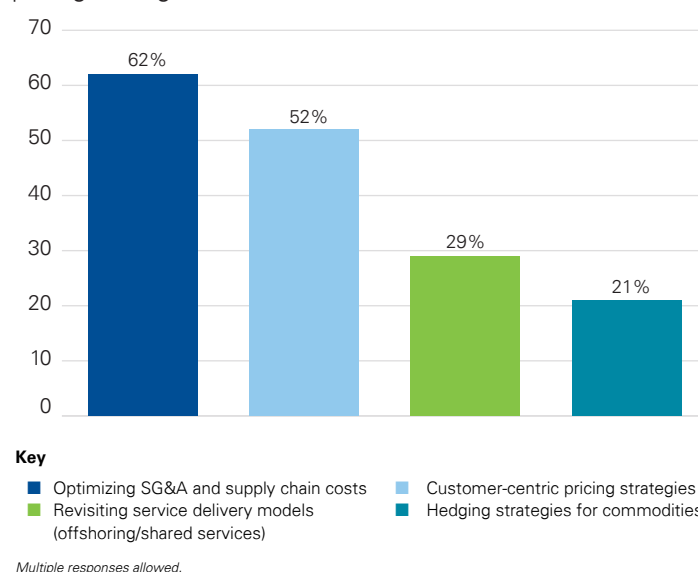
Greatest threats to profits

Merchandise costs (39 percent), discounting and other sales incentives (36 percent), and decreasing sales volumes (32 percent) were widely seen by sector executives as posing the greatest threats to profit margins over the next 12 months.



Strategies to combat costs

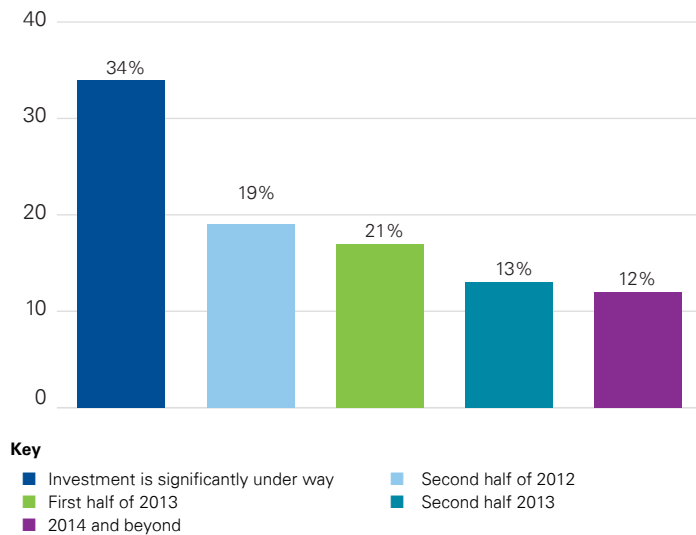
Volatile input costs continue to challenge retailers. To help combat these costs, 62 percent of executives report optimizing sales, general and administrative (SG&A), and supply chain costs, and 52 percent are implementing customer-centric pricing strategies.



Capital Spending and Investing

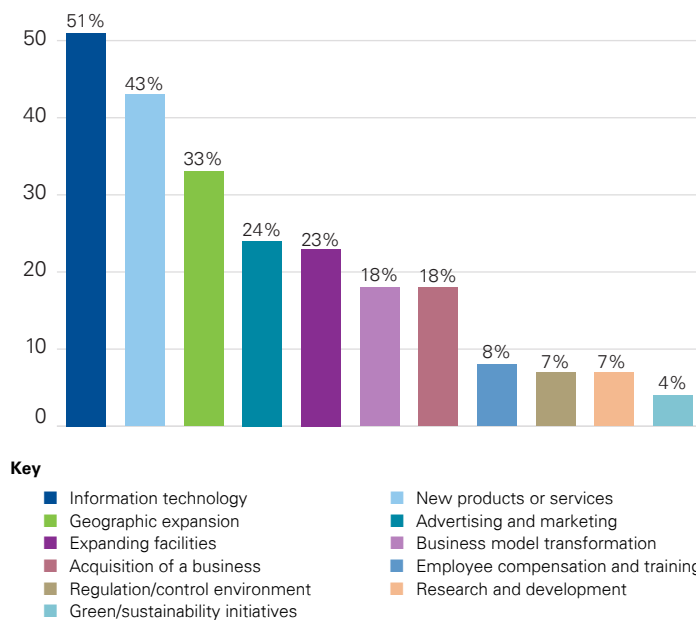
Retailers have significant cash on their balance sheets and are ready to invest. In fact, 77 percent of survey respondents report that their company has significant cash on its balance sheet, of which 34 percent acknowledge that investment is already significantly underway.

Investment timeframe



Ready to spend

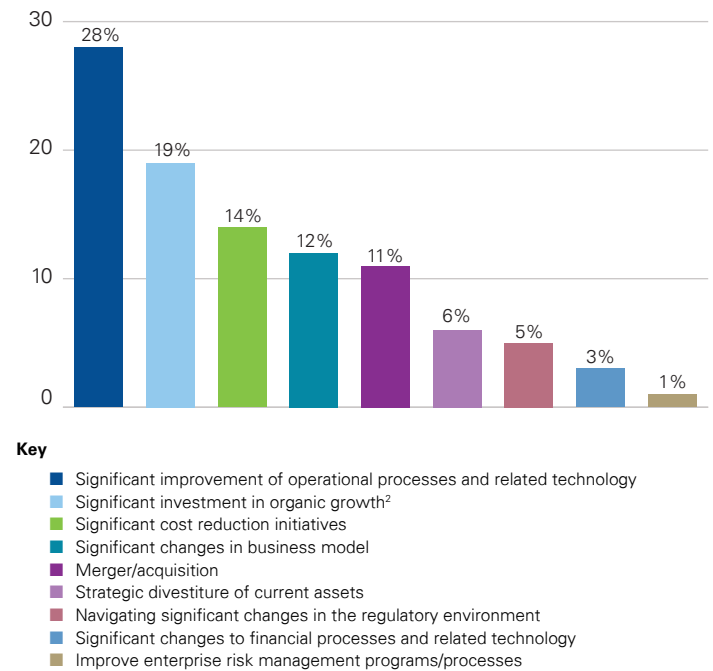
Moreover, 58 percent of survey respondents expect their company's capital spending will increase over the next year, while 34 percent anticipate that it will stay the same. Much of this spending will be in the areas of information technology, (51 percent) new products and services (43 percent), and geographic expansion (33 percent).



Multiple responses allowed.

When asked about the top initiatives on the mind of management, more than a quarter (28 percent) of survey respondents cited the need to improve operational processes and related technology.

Top initiatives on the mind of management

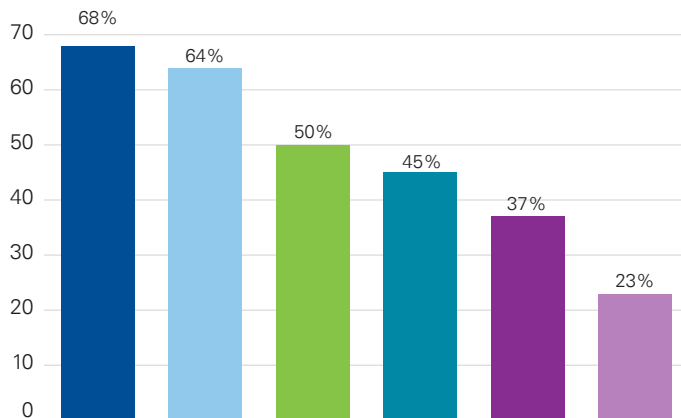


² i.e., new product development, pricing strategies, geographic expansion

Realizing the Value of Data Analytics

For retailers, data analytic capabilities are becoming increasingly important in helping support strategic decision making throughout the organization. In fact, more than two-thirds (68 percent) of survey respondents say that data analytics plays a key role in helping provide customer insight as well as in the areas of brand and product management (64 percent) and in pricing decisions (50 percent).

Key areas using data analytics to support strategic decisions



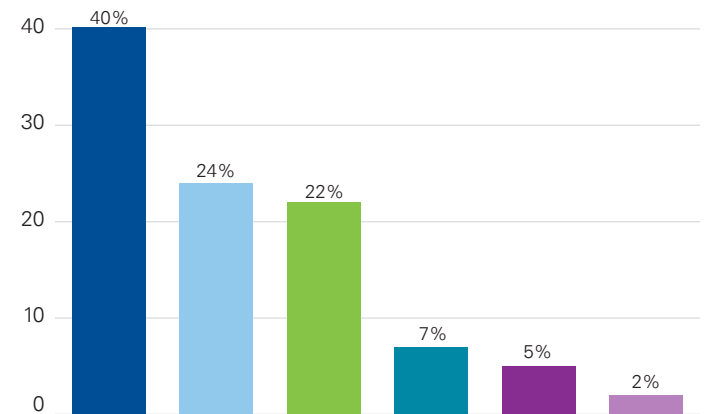
Key

- Customer insight
- Brand and product management
- Pricing decisions
- Market expansion
- Operating model optimization
- Portfolio rationalization

Multiple responses allowed.

When asked to describe the organizational maturity regarding usage of data analytics, forty percent of executives rate their company's data analytics literacy as average.

Data analytics maturity of company



Key

- Average when it comes to utilizing analytics³
- Rapidly moving toward high analytical literacy
- High data analytics literacy
- Average to low analytical literacy⁴
- No formal data analytics capabilities⁵
- Don't know

³ Our management team and workforce have an average analytical literacy.

⁴ At the moment we are behind our competitors when it comes to utilizing analytics, and our management team and workforce have average to low analytical literacy.

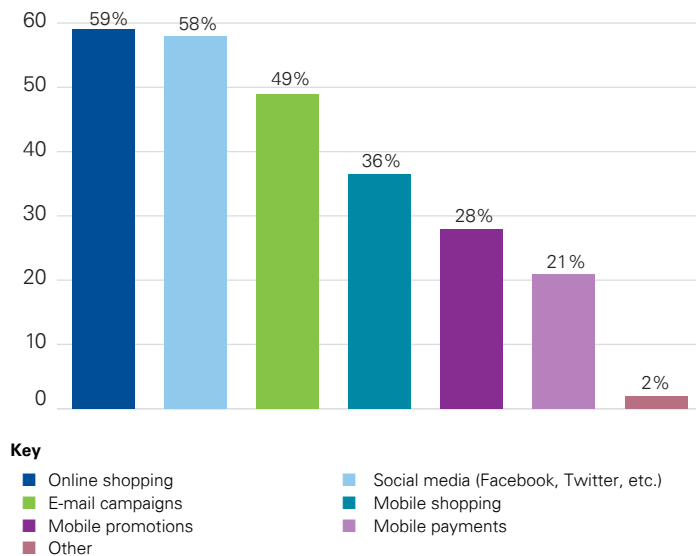
⁵ Our management team and workforce have low analytical literacy.



Exploring Digital Marketing Channels

Not surprisingly, retailers are increasing their use of digital marketing channels to explore new ways of doing business and reaching more customers. When asked which digital marketing channels are having the greatest impact on their businesses, online shopping (59 percent), social media (58 percent), and e-mail campaigns (49 percent) rounded out the top three responses.

Digital marketing channels having greatest impact



Multiple responses allowed.

Retail executives plan to use digital, social, and mobile technologies in a variety of ways over the next 12 months. In fact, 57 percent have plans to use social media for external brand promotion.

Digital marketing strategies planned for year ahead



Multiple responses allowed.

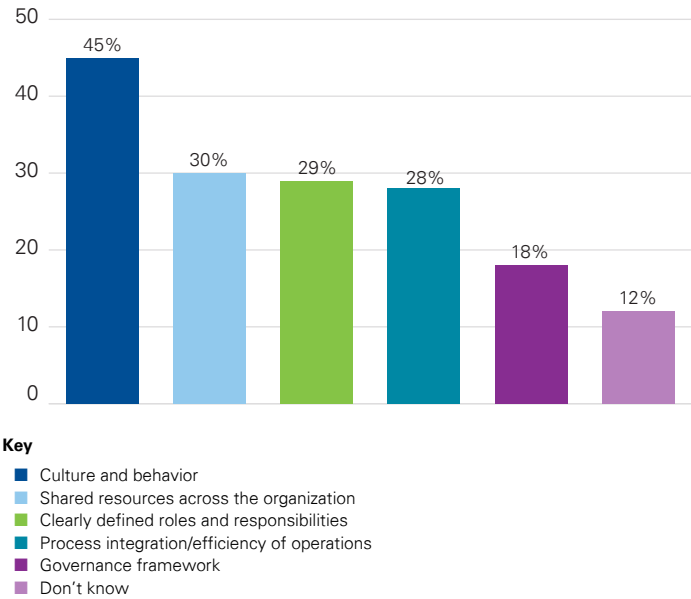
⁶ including company-specific external video channels



Risk and Regulatory Challenges

Evolving regulation and changing marketplace dynamics have added to the need for companies to implement a strong risk framework within their organization. When asked to identify any existing challenges preventing the adoption of a formal risk policy, nearly half (45 percent) of survey respondents believe culture and behavior pose significant obstacles.

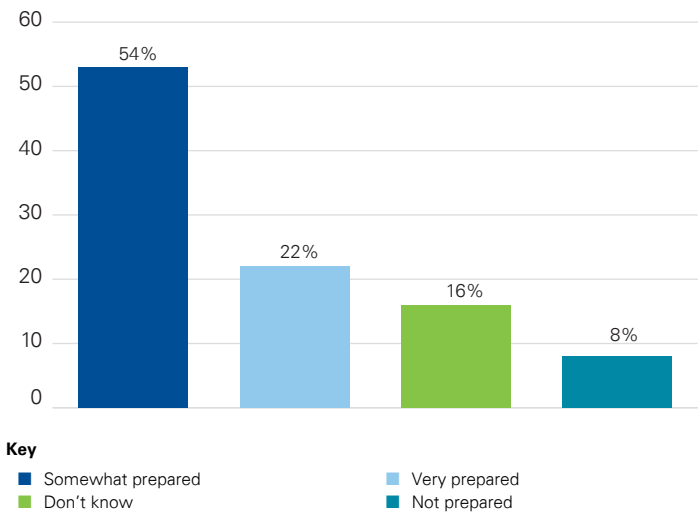
Challenges preventing the adoption of a formal risk policy



Multiple responses allowed.

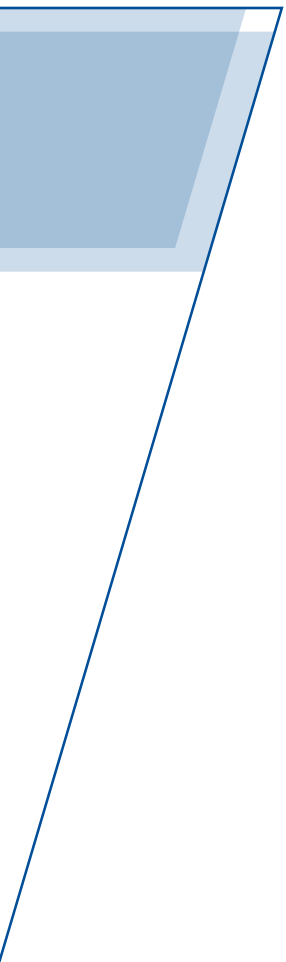
Despite obvious challenges, 76 percent of the retail executives surveyed believe their company is at least somewhat prepared to seize opportunities as a result of public policy and regulatory reform.

Ability to seize opportunities from regulatory change



Conclusion

Maintaining cautious optimism, retail executives expect the industry to proceed on a path of gradual growth over the next year, supported by continued modest gains in revenue and hiring. Concerns over the U.S. economy are evident, as many executives have pushed back their expectations for a substantial recovery until 2014–2015 or later. While waiting for the recovery to take hold, sector executives are focusing on spending the cash built up on their balance sheets by investing more over the next year in information technology, including data analytics and digital marketing channels. They acknowledge the increasing importance of data analytics in their strategic decision making and recognize the significant impact digital marketing channels such as online shopping, social media, and mobile technologies are having on their businesses.



The retail sector continues to face a demanding market environment that requires companies to adjust and actively manage change that may impact sales and performance.

Having the right professional services firm—one with the industry depth, knowledge, and insight to help clients address their most pressing issues and achieve their goals—is critical. KPMG’s Retail practice includes professionals with the knowledge, experience, and skills to help our clients address their most pressing challenges, sort through today’s complex business problems, and achieve their goals.

Working with our international network of member firms, we serve clients worldwide, developing insights into major business trends and helping to enhance future plans. Our long-term experience in retail enables us to offer the company-specific guidance needed to help our clients become or remain market leaders.

KPMG: A Leader in Serving the Retail Industry





Key Contacts

Mark Larson

Global Sector Leader, Retail

T: 502-562-5680

E: mlarson@kpmg.com

Patrick Dolan

National Line of Business Leader

Consumer Markets

T: 312-665-2311

E: patrickdolan@kpmg.com

John Atkinson

National Audit Leader, Retail

T: 612-305-5459

E: jwatkinson@kpmg.com

Brian Campbell

National Tax Leader, Retail

T: 614-249-1879

E: bcampbell@kpmg.com

Ray Kansal

National Line of Business Director

Consumer Markets

T: 312-665-3623

E: rkansal@kpmg.com

Anne Giometti

National Marketing Director

Consumer Markets

T: 312-665-2922

E: agiometti@kpmg.com

kpmg.com

KPMG LLP, the audit, tax and advisory firm, is the U.S. member of KPMG International Cooperative ("KPMG International"), a Swiss entity. KPMG International's member firms have 138,000 professionals, including more than 7,900 partners, in 150 countries.

© 2012 KPMG LLP, a Delaware limited liability partnership and the U.S. member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved. Printed in the U.S.A. The KPMG name, logo and "cutting through complexity" are registered trademarks or trademarks of KPMG International. 26285NSS