

# Retail Sector



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## Industry Overview

The retail industry in the United States include around 1 million outlets with combined annual revenue of over \$4 trillion. Major companies include: Wal-Mart, Home Depot, Kroger, Costco, and Target. While large companies dominate some retail sectors (such as mass merchandisers and grocery), other sectors (such as auto dealers and convenience stores) are highly fragmented with a majority of single-store operations.

## Competitive Landscape

Profitability of individual companies depends on efficient supply chain management, effective merchandising and marketing and is highly dependent upon personal income, consumer confidence, and interest rates drive demand. Larger companies have greater power in purchasing, distribution and marketing while smaller companies compete by offering personalized customer service and merchandising and supplying the needs of local markets.

## Business Challenges

### ***Retail Demand Depends on the Economy***

Economic factors, including personal income, consumer confidence and interest rates, can greatly impact consumer spending in the retail

sector. Rising interest rates can also impact consumer credit and consumer ability to finance large retail purchases, such as cars.

### ***Industry Concentration***

Large companies dominate and hold the majority of the market in many retail segments. Even specialty retailers in smaller, fragmented markets must compete with mass merchandisers and warehouse clubs that offer comparable merchandise at potentially lower prices.

### ***Crime-Related Losses***

Despite security measures, theft, shoplifting, and fraud are ongoing issues for retailers. Based on a University of Florida survey, employee theft accounts for approximately 50% of losses, while shoplifting accounts for 30 percent.

### ***Protecting Customer Information***

Public concern over credit card fraud and identity theft has resulted in increased focus over the security of customer data in the retail sector. Retailers typically access and store confidential customer information through loyalty programs and credit card payment data. But adopting new, more rigorous security systems can be slow and costly, especially for retailers using older technology.





### ***High Worker Turnover***

low pay and perceived low career growth potential result in a high annual employee turnover rate, in some cases expected to exceed 50 percent of the workforce each year. Recruiting and training new personnel is an ongoing activity for most retailers and can be costly and disruptive.

### ***Evolution of Shopping Venues***

Consumers have less time to shop than in previous decades, this has resulted in an evolving consumer shopping behavior. Based on a report published by the International Council of Shopping Centers (ICSC), consumers are shopping at traditional malls less frequently and spending less time per trip.

## Trends

### ***Retail Sales Growth Slowing***

Between 2004 and 2007, retail sales growth (excluding restaurants and other food services) growth has declined from over 6 percent to under 4 due to weakening housing market and increasing economic instability. Rising gas prices and a constrained credit market have also impacted auto sales, which accounts for approximately 20 percent of the total retail sector (high value transactions versus high volume).

### ***Wholesale Prices Increasing***

Higher commodity and transportation costs have resulted many retailers to increase prices or reduce margins. The combination of slowing sales and rising costs have severely affected many retailers' profit margins.

## Industry Opportunities

### ***Loyalty Programs***

Loyalty programs can help retailers retain customers, increase purchase amounts and encourage ongoing store visits. Many retailers reward frequent purchases by offering discounts or other incentive or consumer a perceived feeling of having a VIP status.

### ***Internet Sales***

Between 1999 and 2007, internet sales increased from less than \$5 billion to more than \$130 billion. A growing number of consumers are shopping online for convenience and to save gas. Many traditional large brick-and-mortar retailers have expanded their Internet presence to capture online sales via the web, social networking & widgets.