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Retail industry summary

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Recent events have clearly demonstrated the extent to which the world is interconnected. The crisis which began in the US banking system has spread through the global economy as a whole – and no region has emerged unscathed. This historic moment provides an unprecedented opportunity for companies, governments and individuals to think more deeply about the sophisticated eco-systems of which we are all a part.

The current crisis has highlighted the need for new institutions, new mechanisms, new strategies and – most critically, perhaps – a different mindset among those leading the world’s most important institutions and companies. Every CEO will have to make tough decisions about what actions are required to ensure his or her company’s short-term survival. Yet none can afford to ignore the need to build a business that is agile enough to respond to new situations as they emerge, durable enough to grow over the long term and responsive to the requirements of all its stakeholders.

Redefining success, the PricewaterhouseCoopers 12th Annual Global CEO Survey, explores how CEOs are reconsidering the fundamentals of business in response to extreme operating conditions and assuming responsibility for issues that were once considered outside the scope of industry. We interviewed 1,124 CEOs around the world between September 10 and December 2, 2008. Our findings show that they are collaborating more extensively to balance the interests of increasingly influential stakeholders. They are also seeking new kinds of information to help them anticipate changes in critical business drivers.

Here, we look specifically at what the 64 CEOs in the retail industry think, and how they are dealing with a combination of challenges such as mankind has never seen before.

The business environment

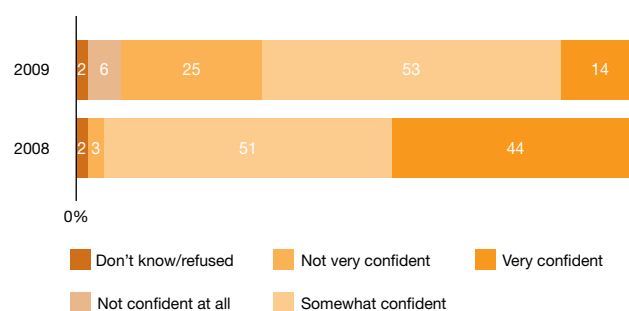
The current economic downturn has shaken people everywhere, precipitating a huge drop in consumer confidence. The resulting change in consumer spending patterns has had an immediate and dramatic impact on the retail sector. But many retailers expect consumers to tighten their belts even further, with spending on ‘big-ticket’ items (like cars, luxury items, major appliances and home improvements), discretionary purchases and property continuing to decline.

Given the harsh commercial environment, it is hardly surprising that retail CEOs are much less confident about the prospects for revenue growth over the next 12 months than they were at this time last year. Only 14% are very confident that they can increase their companies’ turnover, compared with 44% in our previous survey (see figure 1).

Retail CEOs are considerably more optimistic when they look out over the next three years; 92% expect to boost sales, and 36% are very confident about doing so. However, they are more

Figure 1

Retail CEOs are now much less confident about the prospects for business growth



Q: How would you assess your level of confidence in prospects for the revenue growth of your company over the next 12 months?

Base: 2009: 64; 2008: 72

Source: PricewaterhouseCoopers 12th Annual Global CEO Survey 2009

Note: Data for 2009 are based on interviews conducted in the last quarter of 2008

Data for 2008 are based on interviews conducted in the last quarter of 2007

positive about the prospects for their own companies than for the industry as a whole. When asked to assess the outlook for the entire sector, only 71% anticipated that revenues would grow, and only 16% were very confident that trade would improve.

The majority of CEOs in nearly every industry we covered believe that their best opportunities for generating growth lie in achieving better penetration of their existing markets. This trend is even more pronounced in the retail sector, where 63% of CEOs favour focusing on the markets in which they already operate, and only 17% plan to move into new territories. Emerging economies like China and India, which have recently enjoyed a huge boom, may continue to attract interest. But they, too, have been hit by the slowdown, so the level of growth is likely to be lower than in previous years.

The economic downturn is also having a considerable impact on deal-making. Only 6% of retail CEOs think that mergers and acquisitions (M&A) currently offer much potential for growth, and only 14% are planning to complete a cross-border transaction within the next 12 months. They are almost equally cautious about the longer term; indeed, 34% believe that joint ventures and strategic alliances will play a greater role than M&A over the next three years.

Conversely, focusing on customers remains a top priority. Ninety-three percent of retail CEOs rate high-quality customer service as important or critical to business growth. In the specialist consumer electronics sector, Robert Willett, CEO of Best Buy International & Enterprise CIO, sees focusing on customers as the top priority during tough times: 'First, start with the customer – particularly your best customers. Move, as it were, from worrying about market share, to worrying about share of wallet.'

Balancing short- and long-term concerns

Addressing global risks

Our survey findings show that CEOs in every industry are concerned about the impact of systemic and global risks on the long-term success of their businesses. Most retail CEOs, like their peers in other sectors, are apt to see dependence on

carbon-based energy sources as one major danger, and they are looking for ways in which to alleviate the threat. Eighty-six percent are focusing on operational improvements; 50% are turning to alternative energy sources; and 45% are investing in new technologies to reduce the amount of energy they use. Wal-Mart, the world's largest retailer, is one such pioneer. It aims to derive all its energy from renewable sources and is actively supporting various wind and solar generation projects.

More than half of all retail CEOs are likewise changing the nature of the products they offer, to meet growing consumer demand for goods that are manufactured in an ethical and environmentally sustainable manner. Seventy-two percent of these respondents report that they are already making a return on their investments or anticipate doing so within the next 12 months. Many retailers are also demanding that suppliers improve their environmental footprint and document what they are doing.

These individual efforts are good business and small steps towards stabilising the climate. However, they fall far short of the systemic changes that are required, as many retail CEOs acknowledge. Fifty-seven percent want a new global climate deal (e.g., a successor to the Kyoto Protocol), while 63% believe that clearer government communication about the scope of climate change is important or critical. Nearly one-third of retail CEOs also believe that information about the impact of climate change on their companies is essential. But 35% of these respondents say that the information they currently receive is inadequate, and 65% would like further details.

Managing supply chain risks

The ability to measure and manage supply chain risks is essential to the success of any retail operation, especially one that is highly globalised. So it makes sense that retail CEOs place more weight on efficient sourcing and supply chain management than their peers in other industries (96% versus 79% of the total survey sample). As Robert Barrett, advisory services director, PricewaterhouseCoopers China, explains: 'Retailers are increasingly becoming brand owners as well as supply chain managers, and the integrity of their trading partner relationships is thus becoming more critical to maintain customer loyalty.'

The severity of this downturn will expose their extended supply chains to much greater risk than ever before.

'If retailers are to manage this increased risk', he adds, 'they will need to use new tools to increase the visibility of their supply chains, which will be a major challenge in global supply chains with large footprints in emerging markets'. The scale of the task is clear from the fact that 76% of retail CEOs who rate it as important or critical are dissatisfied with the information they receive about their supply chains. Sixty-three percent would like to know more, while 13% frankly admit that the information they get is inadequate.

Cultivating key skills

Many of the CEOs we surveyed also concede that the human factor is taking a back seat this year, as they struggle to keep their companies afloat. Only 41% are currently somewhat or very concerned about the shortage of people with the expertise they need, compared with 61% in 2008. However, no business can afford to lose vital talent or weaken its skills base, even in a period of great economic turbulence. Although some retail CEOs may be forced to retrench, many still expect to continue hiring new staff. Indeed, 55% plan to increase the number of people they employ over the next 12 months, which is significantly higher than the overall average of 37%.

Looking forward

So what's next for the retail industry? 'In the near term, there will certainly be tough times for most companies, particularly those serving those consumers hardest hit by the downturn. A strong focus on working capital, cost-base issues and supply chain risks will be imperative,' says PricewaterhouseCoopers' Global Retail and Consumer Leader Carrie Yu. But retail CEOs cannot focus on the short term to the exclusion of the long term, she adds. 'Over the longer haul, they will need to ensure that they also address systemic risks such as climate change, shrinking natural resources and the impact of demographic changes on the talent pool.'

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Full findings of the PricewaterhouseCoopers 12th Annual Global CEO Survey are available at www.pwc.com/ceosurvey

For additional information regarding PricewaterhouseCoopers' retail sector practice, please visit www.pwc.com/retail