

**BDO Seidman, LLP**  
Accountants and Consultants

# Executive Summary: The BDO Seidman 2009 RiskFactor Report for Retail Businesses

## **BDO Seidman**

### **Retail & Consumer Product Practice**

BDO Seidman, LLP has been a valued business advisor to retail and consumer product companies for almost 100 years. The firm works with a wide variety of retail clients, ranging from multinational Fortune 500 corporations to more entrepreneurial businesses, on myriad accounting, tax and other financial issues.

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The BDO Seidman 2009 RiskFactor Report for Retail Businesses examined the risk factors listed in the most recent SEC filings of the largest 100 publicly traded U.S. retailers. The risk factors were analyzed and ranked by order of frequency cited.

The retail industry, like many industries in late 2008 and 2009, has been severely impacted not only by the recession, but also by the unprecedented credit tightening enforced by lenders. The confluence of both caused earnings to plummet, stores to close, layoffs to surge and, in some cases, led to high-profile bankruptcies such as Circuit City and Linens 'N Things. Hoping to see a glimmer of light at the end of the tunnel, analysts, investors and retailers collectively held their breath as first quarter earnings trickled out in early May. In the end, many retailers beat modest expectations – not because consumers started spending en masse, but because an intense focus on costs helped stabilize their bottom line.

An analysis of leading risk factors cited by the 100 largest public U.S. retailers, BDO Seidman's 2009 RiskFactor Report for Retail Businesses identifies general economic conditions (96 percent) and credit availability and company indebtedness (93 percent) as the most common risk factors.

While the economy was also cited as a risk factor in 2008, credit and financing jumped from number 11 on the list in 2008 to number two this year, indicating retailers' acute concerns over their access to financing. Seventy-four percent of retailers identified consumer confidence and spending as a leading risk, which was up from 58 percent in 2008, reinforcing retailers' dependence on consumer sentiment. Certain risk factors such as competition and consolidation (number 3) and impediments to U.S. expansion (number 11) dropped in importance from 2008 showing that retailers are less focused on growth in the difficult climate.

Some additional observations on the findings of the BDO Seidman 2009 RiskFactor Report for Retail Business:

### **General Economic Conditions**

Of the 96 percent of retailers that cited general economic conditions as a concern,

financial market turmoil was most frequently cited (97 percent) followed by energy and oil (69 percent), unemployment (62 percent), interest rates (50 percent), inflation/deflation (33 percent), and the housing market (31 percent). In 2008, of the 82 percent of retailers that cited general economic concern, energy and oil was highlighted most frequently (75 percent), followed by interest rates (55 percent), unemployment (53 percent), financial market turmoil (43 percent), inflation (37 percent) and the housing market (23 percent).

### **Consumer Confidence Comeback May Boost Spending**

The Conference Board reported an increase in consumer confidence from an adjusted 40.8 in April to 54.9 in May. While still low, any boost in consumer confidence may have a correlative impact on spending – which accounts for more than two-thirds of U.S. economic activity; this may provide some relief for the 74 percent of retailers that cite consumer confidence and spending as a concern.

### **Acute Sensitivity to Consumer Pain**

Forty-nine percent of retailers showed increasing concern over consumer credit

and/or debt levels, up from 26 percent in 2008. Since 63 percent are paying attention to general trends and demand, an increase from 45 percent who cited it as a concern last year, retailers are likely to adjust their merchandising plans to recognize changes in consumer sentiment.

### Retailers React to Fewer Shoppers

With fewer consumers hitting the stores, balancing inventory levels and having the right promotional strategy is crucial. Forty-one percent of retailers cite maintaining inventory levels as a risk for 2009, which is a significant jump over 22 percent last year. The number of retailers concerned over promotions and the dissemination of consumer information increased even more drastically – 42 percent of retailers cited it as a concern in 2009, compared to less than half that number last year.

### Regulatory Risk

More than half (66 percent) of retailers declared that changes in federal, state and local regulations may impact their bottom line. Some reports specifically cite changes in: tax, wages and hours, consumer credit, privacy and information security laws. Also, slightly more than one third (44 percent) of the retailers state that accounting standards presented risk, up from 36 percent last year. These concerns are likely driven by fear that increased government spending and regulation may result in higher taxes for retailers and consumers.

### Privacy Pressures

Despite some of the higher ranking risks, such as credit and the economy, it is crucial that retailers remain diligent in implementing their cyber security measures. In this kind of environment, one breach could cause a bankruptcy. Forty-six percent of retailers cite consumer data security breaches as a concern, up from 40 percent last year.

## Top 20 Risk Factors of the 100 Largest U.S. Retailers

		2008 Rank
1.	General Economic Conditions . . . . .	.96% 2
2.	Credit Markets/Availability of Financing & Company Indebtedness . . . . .	.93% 11
3.	Competition & Consolidation in Retail Sector . . . . .	.87% 1
4.	U.S. and Foreign Supplier/Vendor Concerns . . . . .	.86% 3
5.	Tie: Consumer Confidence and Spending . . . . .	.74% 6
	Labor (health coverage, union concerns, staffing) . . . . .	.74% 5
7.	Changes to Federal, State and/or Local Regulations . . . . .	.66% 8
8.	Terrorism, Natural Disasters & Geopolitical events . . . . .	.64% 9
9.	Dependency on Consumer Trends . . . . .	.63% 12
10.	Implementation of IT Systems . . . . .	.61% 7
11.	Impediments to further U.S. Expansion . . . . .	.50% 4
12.	Consumer Credit and/or Debt Levels . . . . .	.49% 20
13.	Loss of Key Management/New Management . . . . .	.48% 14
14.	Tie: International Operations . . . . .	.47% 19
	Legal Proceedings . . . . .	.47% 10
16.	Privacy Concerns Related to Security Breach . . . . .	.46% 16
17.	Tie: Seasonal Flux in Sales . . . . .	.44% 13
	Changes to Accounting Standards and Regulations . . . . .	.44% 18
19.	Promotions and Dissemination of Consumer Information . . . . .	.42% 22
20.	Tie: Mergers & Acquisitions . . . . .	.41% 15
	Inventory Levels . . . . .	.41% 15

\*This ranking has been amended to include breakout statistics for consumer confidence and debt levels

“When consumers stop spending and retail sales fall, banks become increasingly concerned about lending to retailers,” said Doug Hart, a Partner in the Retail and Consumer Product Practice at BDO Seidman, LLP. “In order for retailers to improve their credit standing, they either have to reduce costs, leading to layoffs; or increase sales, which is dependent on consumer spending. On a positive note, there are some bright spots on the horizon that may signal an end to the cycle. An increase in consumer confidence in April and May, along with incoming tax refunds, may bode well for consumer spending and the greater economy.”

### About BDO Seidman, LLP

BDO Seidman, LLP is a national professional services firm providing assurance, tax, financial advisory and consulting services to a wide range of publicly traded and privately held companies. Guided by core values including, competence, honesty and integrity, professionalism, dedication, responsibility and accountability for almost 100 years, we have provided quality service and leadership through the active involvement of our most experienced and committed professionals.

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