



70% retailers say *slowdown has adversely affected footfalls:* KPMG study

Mumbai, 31st March, 2009: After a splendid growth for last 5 years, India's retail sector has started to lose its steam. Retailers are trying their best to combat this slowdown through constant promotional offers and deep discounts. Falling footfalls and poor conversion ratio has led to a decline in sales growth to 11 percent in December 2008 compared to 35 percent in December 2007. In a survey conducted by KPMG, 70 percent of the respondents stated that the slowdown has adversely affected their footfalls. All these were captured in a study released by KPMG titled- '**Indian Retail: Time to change lanes**'.

The report looks at the changing contours of the retail industry and examines the drivers which are likely to have an impact across categories. Factors like renegotiating rentals, store rationalization, working capital management, regionalization, cost optimization and manpower resizing are some of the key Top of Mind (TOM) issues for retailers in the current context. KPMG has focused on how these drivers are affecting various players across the retail value chain and suggested strategies that could help them cope with the situation.

The report expects current slowdown to last 12 – 18 months conditional on government incentives in increasing spends on infrastructure, development initiatives and other activities to stimulate the economy.

"We believe that players which take immediate strategic measures will be the dark horses. Be it store rationalization, change of supply chain, consolidation of operations, improvement in IT infrastructure, retailers need to think quick to protect their margins and become tougher for more challenging times," said **Neil Austin, KPMG's Global Head of Markets.**

Short-term outlook:

- Current slowdown is expected to last 12 – 18 months
- Increased focus on value retail in the coming months and a shift away from lifestyle goods
- Focus to shift towards food retailing and FMCG products
- Retailers to start focusing on cost reduction by closing the unprofitable stores and rationalization of capital expenditure.
- With falling rentals, churn in malls likely to increase
- Movement to tier II, tier III cities where profits are higher
- Increased investments in shortening of supply chain
- Frequent discount offers to liquidate slow moving goods and reduce inventory

Long-term outlook:

- Attractiveness of India's demographic and economic environment will continue to add momentum
- Prospects for retail expansion are still very attractive
- This period of uncertainty is seen as an important consolidation imperative for the industry

It is expected that there will be an increased focus on value retail in the coming months and a shift away from lifestyle goods. For example, food retailing and FMCG products continue to grow as this segment is largely insulated from the slowdown. Closing unprofitable stores, rationalization of capital expenditure and opting for low rent premises will be the short-term focus of retailers. The frequency with which retailers liquidate slow moving goods by offering discounts to reduce inventory is also likely to increase.

“Slowing sales resulting in lower inventory turnover and increasing working capital requirements to fuel growth have resulted in liquidity pressures for many domestic retailers. Companies have been trying to reduce the inventory and shorten working capital cycles,” said **Ramesh Srinivas, National Industry Director – Consumer Markets, KPMG in India.**

Additionally, KPMG survey also revealed that while attracting the customers was one of the top concerns of the retailers, investment in consumer research was not amongst one of their top priorities. KPMG believes that companies that invest in CRM and consumer research analytics would stand to gain against those who take customers for granted.

About KPMG

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KPMG in India has offices in Mumbai, Delhi, Bangalore, Chennai, Hyderabad, Kolkata and Pune and services over 5,000 international and national clients. The firms in India have access to more than 3500 Indian and expatriate professionals.

For more information, log on to www.in.kpmg.com

For further information contact:

Subir Moitra Senior Manager – Marketing & Communications KPMG - Delhi Mobile: +91 98111 99613 e-Mail: smoitra@kpmg.com	Archana Dabral Senior Manager - Marketing & Communications KPMG - Mumbai Mobile : +91 98200 04441 e-Mail :archanadabral@kpmg.com
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