Stagnation on a high level

THE ECONOMIC RESEARCH DEPARTMENT OF CREDIT SUISSE HAS PUBLISHED A RETAIL OUTLOOK 2010 INCLUDING A DESCRIPTION ON THE SITUATION AND PROSPECTS OF THE SWISS RETAIL TRADE

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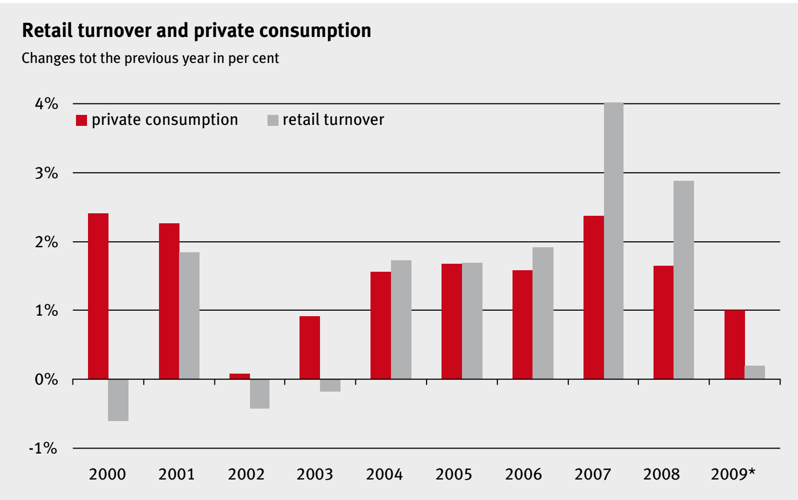
According to the analysts, the Swiss economy will recover from the deep fall and the expectations of the retailers in terms of sales volume and profit margins are optimistic. However, the positive effect generated by immigration is expected to weaken. Since 2002, there has been the freedom of movement and residence in Switzerland. The net immigration figures of 375,000 persons in 2009, mostly skilled and well funded newcomers from other EU states, have contributed to preventing an even greater fall in the industry, according to the report. For 2010, the authors are expecting the net inward migration to decrease.

Consumption will have a positive effect on the economic growth in 2010. The food sales are expected to stagnate due to high price sensitivity.

In 2009, the retail turnover in Switzerland stagnated for the first time after many prospering years. The nominal salaries increased in 2009 by about 2% while the average prices deflated.



Source: Staatssekretariat für Wirtschaft, Bundesamt für Statistik; *values 2009 estimated by Credit Suisse Economic Research

Retail turnover and private consumption in Switzerland

A breakdown of turnover by segments shows that the "high flyers" of the past years – health, wellness, and body care products – are not ailing in these times of recession. The same is true for the food segment, according to the analysts. Problems are identified in the segments of clothing, jewelry and furniture. Premium consumer goods have also been affected by the recession, in particular, due to the lower numbers of well-heeled tourists. In mid 2009, the famous Bahnhofstrasse shopping mile in Zurich reported a decrease in sales of up to 40%.

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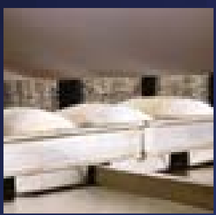

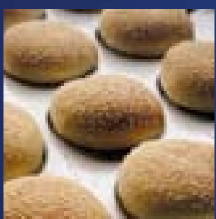

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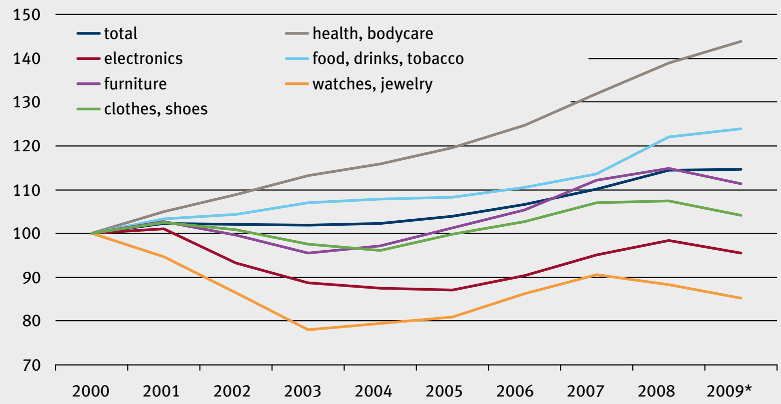
Retail turnover by segments

Nominal, day-of-sale adjusted, index values: 2000 = 100



Source: Bundesamt für Statistik; *values 2009 estimated by Credit Suisse Economic Research

The report also focuses on the discussion about the impact of the freedom of trade, commonly described as the "Cassis de Dijon" case, according to which a product that is lawfully put on the market in one member state cannot be stopped from being sold in another member state. As food prices in Switzerland are 23% higher than in Italy and 35% higher than in France and Germany, the elimination of this restriction may also influence the market. The discounters, for example, would benefit because they could bring their products with only a one language label onto the market, while the traditional food retailer could not afford to refrain from the commonly used three language declaration for quality reasons.

For 2010, the report expects more streamlined efforts in the retail trade. TThis is particularly true for the logistics environment; the use of information technology has saved money but has also reduced the number of workplaces in the past few years. Since the market for most consumer goods is considered to be saturated, decreasing prices will hardly push up consumption. The pressure on raw material prices in 2007/2008 has resulted in higher food prices but not to the same extent as purchasing prices in the retail trade. With the easing of prices on the sourcing market, the pressure has been eased slightly. In 2010, the price competition is expected to stiffen again which will not trigger a higher total demand but will rather intensify the risk of being driven out of the market by strong competition.

Discount chains such as Aldi and Lidl have entered the Swiss food market with the effect that wholesalers such as Migros and Coop have introduced cost-efficient as well as premium product lines and have also expanded due to acquisitions. Another consolidation has taken place in the field of traditional neighborhood stores. Distribution Suisse, for example, formerly known as La Valisanne, has completed several acquisitions and is now the established number two after leading Swiss village shop specialist Volg.

The German discount stores have adapted to the preferences of Swiss consumers. They offer more organic products, fresh bread and more attractive furnishing than the stores in Germany. Added to that, the discounters have been successful with finding their locations and have positioned themselves in the commercial zones with good traffic connections. At the same time, they are trying to establish themselves in the central locations of larger cities. It is expected that Aldi and Lidl will have about 250 sales outlets in Switzerland in 2011 and at the latest in 2012.

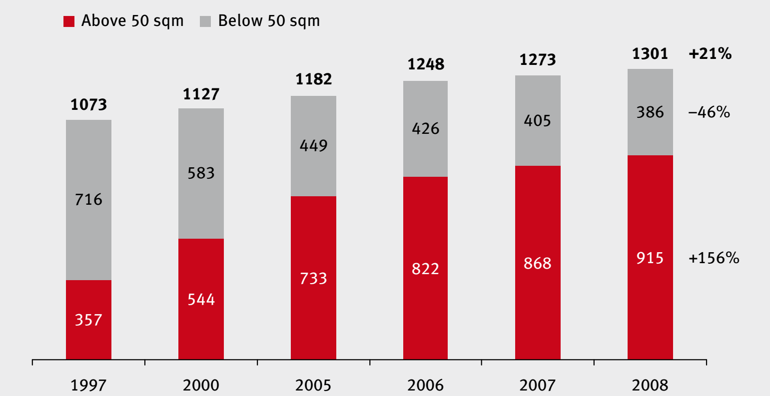
The Swiss market for convenience products

The total volume of convenience retailing in Switzerland was estimated at CHF4.5 billion in 2008. This includes shops with a sales area of up to 250 sqm that are easy to reach, have longer store hours than the traditional retailers and offer a broad, but rather horizontal product range. Convenience retailing accounts for about 10% of the entire food market with almost half of sales generated by gas station shops. Their number has increased in the past 20 years by 21% and their structure has shifted as well. Today, there are clearly more shops with sales areas of more than 50 sqm than smaller ones.

Swiss gas station shops generated a turnover of CHF2.17 billion in 2008 which corresponds to an increase of 7% compared to the previous year. Most important products are tobacco and fresh products/snacks with a value share of between 10 and 35% of sales, followed by beverages (12 – 19%) and packed consumer goods/frozen products (8 – 16%). Market leaders in gas station shops are Shell and Coop Pronto. Shell has entered into a cooperation agreement with Migros according to which the Migros gas stations will sell Shell

Number of gas station shops in Switzerland

column: number of shops; figures right: changes between 1997 and 2008 in per cent



Source: Erdölvereinigung Schweiz, zit. in GfK Switzerland (Hrsg.): Detailhandel Schweiz 2009 gasoline while the Shell gas stations will house Migrolino shops. Currently, Migros operates about 100 gas stations with Migrolino shops and Shell gasoline, with some also in Germany.

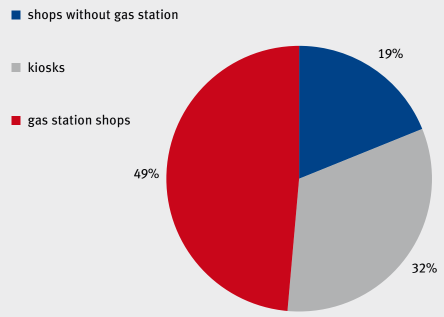
The second most important player on the convenience market are the 1,757 kiosks which in 2008 generated CHF1.45 billion in sales which was a slight increase for the first time.

According to the report, there is no such thing as the typical convenience customer but it does seem to be mainly young, male employed singles and older persons (older than 70 years) who buy at convenience stores. Their sensitivity to prices is less distinct for purchases in the convenience shops than in supermarkets, but nevertheless, not negligible.

The authors of the survey expect that in the future the convenience segment will grow even more because it encompasses the modern life style feeling of the society. The traditional weekly purchase is becoming less fashionable and is being replaced by the more often and much more flexible pleasure purchasing. Added to that an increasing number of women are working and there is a trend towards one and two person households which support the changing purchasing habits. Single households spend more money per capita for food than multi-person households. It is expected that hard discounters will also enter the convenience sector.

Market share – convenience sector in Switzerland

market share in per cent (turnover)



Source: GfK, Credit Suisse Economic Research

Source (all figures): Credit Suisse Economic Research "Swiss Issues Branchen Retail Outlook 2010 Fakten und Trends", January 2010

One risk for the convenience market is the fact that a high proportion of retired persons are amongst the singles. They spend less money on food than the average consumers and they also do not need longer opening hours. On top of that, the liberalization of the store opening hours is currently under discussion in Switzerland. +++