

MARSH

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Industry research report
Executive highlights



**New risk management
insights into retail and
consumer brands**



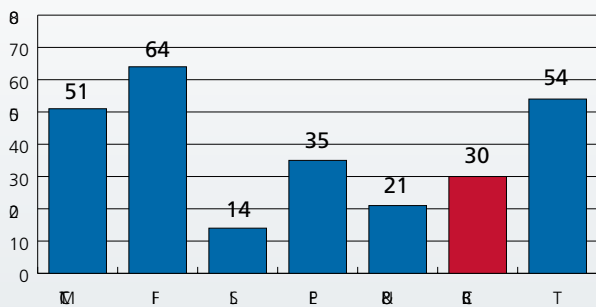
The current downturn in the global economy has been swift and severe. It raises important questions about how organisations conduct their business, and how they assess and manage risk. The retail and consumer brands industry is facing a highly challenging period – low consumer confidence, rising unemployment and a tightening personal credit market places significant pressure on this demand-driven sector. Moreover, higher borrowing costs, less favourable terms from financial institutions, and a constriction in available investment capital, means that many companies have little room to manoeuvre as the downturn continues to bite.

To examine how organisations are responding to the downturn, Marsh commissioned a survey by Ipsos to identify changing attitudes to risk management. Over 700 European organisations were interviewed, covering twelve countries and seven industries; of these, 119 were in the retail and consumer brands sector. This comprehensive study examines the industry’s immediate risk management concerns, its confidence in its ability to manage these, and reviews how companies are planning to address risk management going forward.

Impact of the economic downturn variable; it's not all bad...

Our findings indicate that the actual impact of the downturn on the industry varies greatly. Only 30% of our survey participants expect the sector to be harder hit than others (Figure 1), in contrast to other sectors such as life sciences (14%) and financial institutions (64%).

Figure 1: Impact of the downturn believed to be greater than other industries (percentage of respondents)



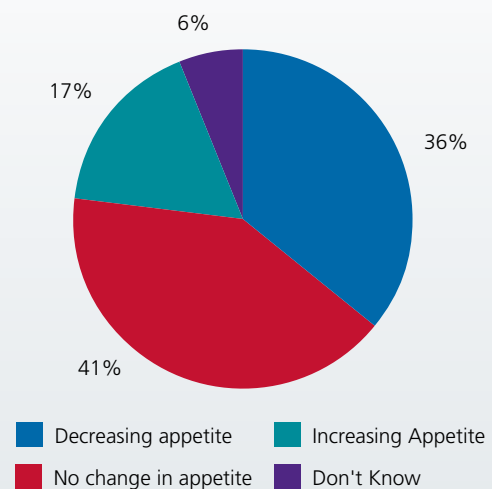
Key: CMT: Communications, Media and Technology, F: Financial Institutions, LS: Life Science, PE: Public Entities, P&U: Power and Utilities, RCB: Retail and Consumer Brands, T: Transport

This apparent confidence may at first be surprising yet it reflects the diversity of the sector. This is not a consumer recession in simple terms whereby cost of product is the primary driver – we are seeing great variances by geography, product type, product and brand positioning, and also by business, distribution and marketing models. Discount retailers such as Aldi, Lidl and Primark have done well in recent months and are now seeing renewed competition from the supermarket giants. Performance across premium brands on the other hand is more varied. Often thought to be ‘recession-proof’, the sector is having to work hard to counter the downturn at a time when many consumers are revising their definition of ‘luxury’ – down-trading is no longer just a simple economic choice. Many are experiencing a fall in sales and are delaying expansion plans, or reducing costs and overheads.

Heightened risk awareness at board level

Risk awareness appears to have increased across the sector and 66% of our respondents believe that risk is now more important at board level. Changes are being driven from the top-down; two-thirds of companies confirmed that they have reviewed, or are reviewing, their approach to risk. Financial and macroeconomic concerns are a key priority for 66%* of respondents over the next 18 months; credit risk, cash flow and trade credit are primary areas in which processes and procedures are being reviewed and tightened.

Figure 2: Impact of the downturn on boards’ risk appetites (percentage of respondents)

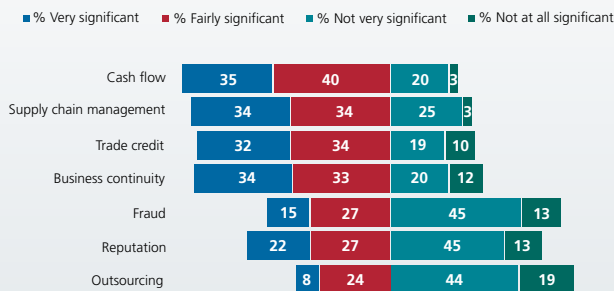


This increased risk awareness does not necessarily translate into a diminishing appetite for risk. As Figure 2 illustrates, our survey finds that while a third of respondents (36%) have indeed become more risk averse, risk appetite in 41% of companies remains unchanged while 17% say they are actively seeking opportunities arising out of the recession. Importantly, senior management is now demanding improved risk reporting and closer analysis of operational risk and investment opportunities, regardless of risk appetite.

Changing priorities; working capital pressures at the forefront

An overwhelming percentage, 75%, expressed significant concern for cash flow over the next 18 months when asked to rate seven key risks. Moreover, credit risk was continually highlighted as an issue with many indicating that this is their number one near-term macroeconomic or financial worry. Together this suggests a wider concern about working capital; positive working capital flows afford companies greater flexibility to react to unforeseen events and such level of concern is undoubtedly in response to actual downward pressure on working capital and to perceived working capital risks.

Figure 3: How significant will each of the risks mentioned below be for your organisation in the next 18 months? (percentage of participants)

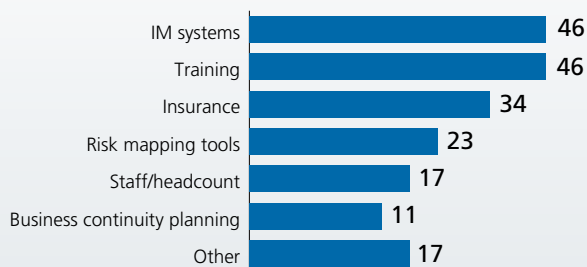


Concern about the current level of risk associated with their customers is high for 55% of participants. However, slowing or falling demand, coupled with the economic downturn, exacerbates another significant concern – the supply chain. Supply chains have become increasingly complex and often have limited in-built slack or tolerances. The downturn serves as a timely reminder of just how fragile these supply chains can be. Participants’ concerns for the level of risk associated with suppliers is also high at 45%. Looking ahead, and as illustrated in Figure 3, supply chain management and the related issue of business continuity will remain key areas of concern.

First line of defence – a review of risk management procedures

For many companies current risk practices remain unchanged and there is a pervading sense that the economic downturn may not have changed immediate risks, but has increased or accelerated pre-existing concerns. Although two thirds of survey participants expressed some degree of concern around current risk management practices, confidence in existing risk management processes is relatively high when compared to other sectors at 34%. With a similar proportion reviewing their risk management approach, the downturn has promoted risk and risk management to the top of the agenda.

Figure 4: In what areas do you expect the budget for risk management to increase in the next 18 months? (percentage of participants)



Consequently, three in ten companies are also anticipating an increase in risk management budgets over the next 18 months. At a time when many are reducing other costs and budgets investment in risk management information systems and training will be important as Figure 4 shows. Evidence again of a clear senior management commitment to robust risk management.

How to find out more

Risk management is an on-going process, evolving to counter ever-changing risks. From our survey we can conclude that the retail and consumer brands industry is, on the whole, working to identify its changing areas of vulnerability, and is introducing and developing robust risk management processes and procedures to deal with them.

Building upon these executive highlights, the Marsh industry research report entitled *New risk management insights for retailers and consumer brands* analyses in full the impact of the downturn, the changing risk attitudes of the sector and how the industry is responding. It also outlines Marsh’s recommendations on evaluating and understanding risk priorities, risk tolerances and financing, and best practice risk management.

For further information or to obtain a copy of the full report, please contact Adrian Donald, (Retailers and Consumer Brands Practice Leader for Europe, Middle East and Africa) or your local Marsh representative.

About Marsh’s Retailers and Consumer Brands Industry Practice

The Marsh Retailers and Consumer Brands (RCB) Practice is dedicated to providing services and solutions to clients via our global network of Marsh experts and risk specialists. Our risk management leadership in the industry is demonstrated by the quality and breadth of the clients we serve, including food and beverage manufacturers and distributors, consumer brand companies, grocery retailers, general retailers, and on-line and catalogue retailers.

Our unique understanding of industry issues and risks, coupled with our insurance expertise and consultative approach, ensures we provide custom solutions for the full spectrum of risks faced by companies in this fast evolving industry. Our resources span all relevant disciplines including client servicing, insurance broking, risk engineering and risk management, and offers clients dynamic risk assessment, deep market relationships and bespoke consulting services.

Through our market relationships, industry knowledge and programme design capabilities, Marsh and MMC has a unique and unrivalled ability to assist retail and consumer brand companies in minimising their total cost of risk by ensuring the optimum combination of risk retention, risk control and risk transfer, providing seamless and expert advice in support of any client’s strategic and operational plans.

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*Amended 22nd July 2009.