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## Sorry Santa, We're Out of Stock

You might want to snatch up that netbook for Dad and those UGG boots your daughter has been ogling over pretty quickly this holiday season.

The “it” gifts this year could swiftly vanish from store shelves, as retailers, with nightmares of Christmas 2008 markdowns dancing in their heads, have slashed inventories to some of the leanest levels in recent memory.

But chances are those hyped-up, “must-have” gifts will be less of a factor this season.

Merchants are playing it safe, skewing their product mix towards basic, tried-and-true presents, like sweaters and scarves — while touting value — in a bid to match the buying mood of recession-weary shoppers.

Retailers themselves are battle-scarred by last year’s fourth-quarter fiasco.

Following the financial meltdown of September 2008 and amid the most severe economic crisis since The Great Depression, consumers retrenched.

That’s when stores hit the markdown panic button, slashing prices upwards of 75 percent.

The result was the worst holiday selling season since 1970, according to The International Council of Shopping Centers.

But although leaner inventory levels should drive profit margin gains this holiday, “retailers might not have enough inventory to fully satisfy demand,” said Citigroup retail analyst Deborah Weinswig, in a research note.

It is a risk they are willing to take.

“They would rather lose a sale than take the markdowns they had last year,” said Goldman Sachs analyst Adrienne Shapira.

**Throughout the year, retailers have trimmed inventory levels by an estimated 4.5 percent from 2008, according to Telsey Advisory Group. That estimate covers the nation’s largest discounters, department stores, hardlines merchants, and specialty apparel retailers.**

(Wal-Mart Stores , the world’s biggest retailer and an industry bellwether, cut inventory 6.2 percent from 2008, Mike Duke, president and chief executive officer, said during its third quarter earnings call this month.)

Department and specialty apparel stores made the boldest cuts, slashing inventory by 6.1 percent, and 8.9 percent, respectively, from last year, according to TAG.

Kohl's was no exception.

"An average store's inventory has dropped 16 percent from the third quarter of 2007 to the third quarter of 2009," with the bulk of cuts made in 2008, said Kohl's President Kevin Mansell.

"Strong inventory management process improvements" should boost profit margins, he said.

But it's a delicate dance. Retailers are mindful of cutting too deep.

In the wake of last year's plunge in the stock market, Best Buy felt "the world changed," said Mike Vitelli, executive vice president, customer operating groups, for the consumer electronics chain. The electronics retailer whittled down inventory so much that when January came around, "we were too low" on stock, he said.

The retailer has since beefed up inventory levels to match its holiday sales expectations. Netbooks and smartphones are projected to be among Best Buy's hottest gifts.

Across the sector, others are making their bets as well. Retail industry analysts are looking for sales to heat up women's boots and men's plaid shirts. Electronic book readers such as Amazon's Kindle, Barnes & Noble's Nook and Sony's Reader are also expected to be hot.

Still, this season, novelty, cutting-edge gifts are poised to take a back seat to traditional fare, analysts predict.

"Consumers are looking to fill more needs than wants," said Arnold Aronson, managing director of retail strategies at Kurt Salmon Associates.

"In a world where people are losing their jobs, savings and homes, the consumer mindset is 'must save,' rather than 'must have,'" Shapira said.

According to The National Retail Federation/BigResearch holiday survey, 36 percent of consumers plan to buy more practical gifts this season.

Retailers have taken heed.

**"Whereas last year maybe 30 percent of a retailer's assortment was novelty items or new things, this year it's maybe 20 percent of the assortment," said Dana Telsey, chief executive officer of Telsey Advisory Group.**

Kohl's said it is focusing on the "replenishment of basics," Mansell said. That's why the retailer is highlighting items such as its Chaps men's sweaters and Apt. 9 scarves among its key 2009 gift items.

"They will want fashion that's kind of like comfort food — comfort fashion," said Craig Johnson, president of Customer Growth Partners.

Target also is promoting everyday basics such as guest towels and holiday-inspired fannel sheets, but the company, known for its cheap chic, also will plug merchandise from its ever-growing list of exclusive designer lines, such as limited-edition handbags by Carlos Falchi and jewelry by Anna Sheffield, said spokeswoman Jana O'Leary.

Also, remember, cell phones and computers are now considered basic necessities, integral to people's daily lives. That's one reason, Best Buy considers itself well positioned this holiday season, Vitelli said.

But while consumer spending has started to pick up, "it has not come back to the way it was," he said. "Personally, I don't think it will ever be where it was."