

WWD

August 26, 2009

Retailers Anticipate Tough Holiday Season

by David Moin

As they trudge through the back-to-school season, retailers don't see much of a break for holiday.

The latest predictions call for holiday same-store sales to be flat to down in the low single digits compared with a year ago. On the upside, profit margins are expected to be better, due to conservative buying, possible pent-up demand and lower prices to project an aura of greater value and dodge the markdown mania of a year ago. Stores will benefit from easy comparisons with last year's depressed season, and an extra day for shopping between Thanksgiving and Christmas — 28 this year, versus 27 in 2008.

"It's going to be a tough season," said Lisa Schultz, executive vice president of apparel design at Sears Holdings Corp.

"If we could even get to a flat season, that would be a victory," said Dana Telsey, founder and chief research officer of Telsey Advisory Group. "It could easily be another decline in sales for 2009," she said, citing what she sees as continued low demand, lower price points and Americans inclined to save rather than spend. "Consumers are still uncertain about their future. The savings rate continues to move up," said Telsey.

Last year, she noted, Christmas sales dropped 2.8 percent compared with 2007's increase of 3 percent.

Apparel, apart from denim, cashmere and festive styles, is expected to be less of a factor than ever as demand increasingly skews toward small electronics, such as the Kindle, and giftables.

Previews of the upcoming holiday merchandise indicate a wider array of items at stores' lowest or "opening" price points and more exclusives either through private label products or working with suppliers.

Also high on the merchandising agenda are:

- Giftables, such as candles, picture frames, soaps, chocolates and tree ornaments, which will usurp some space traditionally devoted to more expensive products like apparel and outerwear.
- Glitter, from disco dresses paired with sparkly clutches to tops and bottoms imbued with metallics and embellishments, because merchants believe consumers are ripe for partying after months of financial angst.
- Cashmere, which seems to grow each year as a percentage of the offering, as well as skinny jeans, embellished jeans and pet apparel and accessories.

While retailers are better prepared than last year, executives recognize there is still immense economic uncertainty that could keep consumers out of stores and throw even their ultraconservative projections out the window. If that were to happen, stores might be forced to return to the price slashing of last season.

Telsey's take on the holiday outcome by sector: "Discounters still seem to be the winners. They're gaining their fair share and broadening their customer base. Department stores are doing a good job of putting more exclusives and private label products in their stores, and every single retailer is trying to come with creative events to drive traffic. Women's apparel continues to struggle and teen retailers are working to reinvent themselves. Luxury goods overall are coming up with more exclusives and more accessories. Consumer electronics is always a good gift category."

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Others are more optimistic. "I think we are getting through an ugly period. B-t-s is running below last year," said veteran retail analyst Walter Loeb. "But Christmas could equal or be better than last year. The comparisons to last year are easy. With the very tight controls they have on both expenses and inventory, retailers will be able to realize better-than-anticipated gross margins, and I think earnings will be much better. The Christmas business will be satisfactory relative to what has happened all this year. Most companies are planning 4 or 6 percent minus. If you have a plan that is a minus figure and come in with better, it will all drop to the bottom line."

Retailers best situated, Sears Holding's Schultz said, are those "really paying attention to value — not just marking down and being cheap, but really giving value and compelling choices."

That's something on which her company has focused, she stressed, adding that prices at Sears and Kmart in some categories and on certain items are coming down for holiday. Among the mass merchant's key trends are extending colors to cashmere and cold-weather items from last year's darkish palette, and, in denim, "some really sharp prices," Schultz said.

Sears and Kmart are helping customers save for gifts by offering Christmas Club cards, giving a 3 percent reward on purchases through Nov. 14, up to \$100.

According to a recent survey commissioned by Sears and Kmart, 58 percent of Americans are more concerned about how they are going to pay for their holiday shopping this year than they were last year.

Fifty-seven percent said they will be spending less on gifts, 53 percent will be shopping at more affordable stores, 49 percent will be setting a shopping budget ahead of time and 70 percent said they'd like to give gifts to more people, but think they can't afford it. The survey was conducted online with 1,000 Americans ages 18 and older by Kelton Research from Aug. 3 to 7.

"Offering good value is something we tend to say every year. But this year, it rings very true," said Brendan Hoffman, chief executive officer of Lord & Taylor. Besides the value element, "it's got to be something unusual, something the consumer just can't find everywhere else." Lord & Taylor is strengthening its "shop smart" campaign, making it easier for customers to select fashion items in the \$100, \$75 and \$50 price ranges and stick to a budget.

Gap, too, plans to bolster its price appeal as the year progresses. As Gap Inc. chairman and ceo Glenn Murphy said last week in a conference call: "We have to make sure [Old Navy and the Gap outlets] are sharp

on price and delivering the pricing message to consumers.” While Murphy said the average unit retail price probably won’t be significantly lowered, a big part of the effort will center on communicating the pricing more effectively to consumers so they are better aware of the values. “We are not very good at that,” Murphy acknowledged.

At Saks Fifth Avenue, “there is a diversity in terms of the offering as well as price points in our holiday assortment,” said Terron Schaefer, group senior vice president of marketing, during a holiday preview, where he highlighted the scope of products, from a new silver box program of chocolate mints at \$20 to \$25 a box and silk sweaters at less than \$200 to the elaborate Zac Posen exclusive floral mink coat with a jeweled neckline, for \$18,000, which was displayed with a \$950 knit dress underneath.

Similarly at Bloomingdale’s: “We are more focused and aware of the price range,” said Stephanie Solomon, vice president and fashion director for women’s ready-to-wear and accessories. “That’s our legacy. We can offer a range of prices from opening to designer. It’s not trading down.”

Citing the store’s array of disco dresses, from private label styles priced at less than \$100 to designer versions at \$1,700 to \$2,000, Solomon said the biggest difference in Bloomingdale’s assortment for holiday is the concentrated effort “to provide an angle of value in terms of what we believe are the fashion trends....For day, it’s more important to look serious at work. But for evening, let loose.”

Bloomingdale’s, “in a modern, fun way, channels the Eighties,” Solomon said, with, among other items, a spirited and broad array of party dresses, cashmeres that are tie-dyed and adorned with peace signs, upscale ski jackets from top brands and fingerless gloves that allow usage of BlackBerrys and cell phones on cold days.

One store that is planning a significant minus figure is Macy’s Inc., which doesn’t specifically project for Christmas. But it did make a forecast for the second half, when it sees a comparable-store sales decline of 5 to 6 percent. “I don’t think any of us can predict at the moment the economic environment,” said Karen Hoguet, Macy’s chief financial officer.

Henri Bendel’s strategy for the holiday season is to beef up its assortment of giftables for holiday, including food, candle bases, wine stoppers and a hand soap collection with matching candles. Swarovski Crystallized Elements are on heritage ornaments, and there are many exclusives, including Dot motorcycle helmets in the Henri Bendel stripe. The store also will be selling a new dog collection with cashmere sweaters, bowls and a doggie travel bag.

The Talbots Inc. will spotlight its Talbots Always Under \$100 program with cotton T-shirts, cotton cable sweaters and twin sets. The company also has partnered with Swarovski on pendants, brooches and earrings, and with Crane & Co. on stationery, and has a new lounge line with a cozy wintry feeling that includes cashmere sweats, satin pajamas, long cashmere cardigans with no closures and yoga pants.

“We really haven’t changed what we are doing — offering differentiated product and design,” said Tracy Gardner, J. Crew Group’s president of retail and direct. “But in terms of the key trends, the main one is focusing on gifts and being sensitive to price, but never at the expense of quality, design and service.”

Among J. Crew’s key items are hand-cut glass crystal necklaces shown layering up; Italian cashmere sweaters, scarves, gloves and hats, and hand-beaded and hand-painted cotton T-shirts.

“The trick is figuring out what is the fair and right price to sell it at,” Gardner said. “That’s what we spend a lot of time on — whether it’s a \$14 tank or a double-faced cashmere coat. We are really trying to just design beautiful things that have great value and are collectible.”

Bestsellers this Christmas, as Telsey sees them, will revolve around low-price electronics and, in apparel, plaids and the boyfriend look.

In apparel, for any item to emerge as a bestseller, “it must have a compelling value proposition. It has to be something that is different, something that will last and is more timeless rather than a fad — substantive as well as stylistic,” said Arnold Aronson, managing director of retail strategies at Kurt Salmon Associates. “People are measuring clothes by how often they are going to wear it — its usage, its versatility. People are going to have to be a little more bowled over than in the past.”

He believes the fourth quarter could be around flat, give or take a point or two. “I don’t think it is going to be as bad as some of the projections have suggested,” he said, citing recent signs of stability in the stock market, improved housing sales last month and reduced store inventories across the industry. “Gift giving will be restrained, in terms of the number and the lavishness,” Aronson said. “But I don’t think gifts are dead.”