



Fearing a holiday letdown, retailers shifting strategies

By [Jayne O'Donnell](#), USA TODAY 10/13/2008

It's beginning to look a lot like Christmas at some of the nation's stores, as retailers struggle to find ways to make shoppers forget about their battered 401(k) plans.

Neiman Marcus' trees have been sparkling since mid-September, and Wal-Mart began opening its Christmas shops last week. But that hardly means many are in a holiday spirit: It's all part of an effort to extend a holiday shopping season that some analysts say could have the slowest sales growth since the 1991 recession.

Consumer confidence — a measure of people's attitudes about the current and future state of the economy and their own financial situations — had its biggest single-month drop in September since RBC Capital Markets began calculating its index in 2002. And this season, which brings stores most if not all of their annual profits, is likely to be a make-or-break one for many small retailers and those that were struggling before the economy's dramatic slide.

So stores are doing all the cost cutting they can to preserve profit margins. For shoppers, that will mean fewer choices of merchandise as retailers trim what they have in stock. It also will mean fewer salespeople available to help shoppers. Meanwhile, many retailers are likely to have more and earlier promotions to try to lure people into stores. Wal-Mart ([WMT](#)) beat its own early start last year when it started holiday price cutting on toys Oct. 1.

"Things will appear to be similar," says Richard Hastings, a consumer strategist at Global Hunter Securities. "Yet underlying those appearances will be a lot of caution regarding inventory, promotions, displays and advertising. Retailers know the consumer is not reliable right now."

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Jen Valliere, an Ashburn, Va., mother of three boys, is one of those cautious consumers.

"I do plan to spend less, because I have less to spend," says Valliere, whose husband is a real estate agent.

She's been selling things on consignment and just sold gold jewelry to pay for her sons' Christmas gifts. Along with her sister, Valliere plans to strip the wallpaper in their parents' kitchen and paint it as a Christmas gift.

The National Retail Federation said last month that retail sales for November and December are expected to increase just 2.2%, the least since 2002.

A week earlier, the market research and consulting firm TNS/Retail Forward predicted sales for the fourth quarter would be up just 1.5%, which would be the smallest increase since 1991.

September retail sales announced last week remained dismal, with luxury retailers including Neiman Marcus and Saks (SKS) posting double-digit declines in monthly sales. Discounters benefit in an economic downturn, but even Target saw a 3% decline in September sales compared with the same period in 2007.

The problems are hardly new this fall. Sales growth at publicly traded retailers this year is at a paltry 0.3%, down from 3.7% at this time last year, according to financial information company Sageworks.

Clothing stores such as American Eagle Outfitters (AEO) and Gap (GPS) saw decreases in sales last month, as apparel has proved to be more discretionary than retailers hoped. The net profit margin in the private retail clothing sector has decreased 31% since 2006, Sageworks says.

With its even faster jump-start to the season as well as price cutting, Wal-Mart isn't taking any chances — and says it is only meeting its customers' needs.

In a recent survey of 1,000 shoppers, 39% indicated they will shop "earlier and make other changes to help stretch their holiday cash," Wal-Mart says. They plan other economy-related adjustments as well: 39% said they plan to buy less-expensive items, and 35% said they planned to buy gifts for fewer people.

Heidi Arnest says she is going to be spending less on gifts, looking for bargains and avoiding department stores because she fears there won't be enough merchandise or staff.

"It is very popular in my circle of friends to be more frugal in such difficult times," says Arnest, an insurance saleswoman in Irvine, Calif. "People feel that spending time with their friends and family is more important than being extravagant this year."

Recognizing these trends, retailers say they'll try to cut costs without alienating customers.

"Retailers are in it to sell merchandise and be profitable. They don't want to self-fulfill lower sales because they didn't have enough people on hand or the right products on the shelf," says Kevin Sternecker, retail research director at AMR Research, which advises companies on technology.

Stores are coping with this economic downturn in a variety of ways that will have an impact on holiday shoppers. Among them:

Offering less merchandise

Retailers were especially cautious with overseas inventory orders earlier this year and will continue to be wary about overordering as the holidays approach, analysts say.

"A key focus will be to not overinvest in inventory," Hastings says.

The credit crunch also could reduce inventories even for retailers who pay their bills on time, says retail analyst Amy Noblin of Pali Capital, who says she's hearing reports of "delivery disruptions."

Some manufacturers and distributors may be so hard hit by the "credit freeze" that they don't have the money to ship merchandise, she says.

That could mean empty shelves if consumer spending picks up and certain items prove to be bigger sellers than they were in past years. But many retailers are using new technology to try to avoid such scenarios.

Software now used by many retailers is making inventory control so precise that most major retailers should have enough, say, size 8's in cities where a lot of women wear that size. And they know what sold well and where last year so stores should be able to predict buying patterns this year, Sternecker says.

Many retailers also can afford to keep less merchandise on hand because clerks increasingly are able to tap into warehouse inventories online so they don't have to turn customers away.

Steve Kramer, president of e-commerce company iCongo, recently rolled out this technology in Lord & Taylor stores.

Kramer says if a store with this technology is out of a particular style or size, the sales clerk can find the right merchandise online and ship it to a customer's home the next day. Previously, retailers typically reserved certain warehouse inventory for stores and other goods for their websites.

"Stores will be smart to use caution with inventory," says Jim Taylor, vice chairman of the Harrison Group, a marketing consulting and research company.

"Shopping is more and more an act of love," he says. "You may not be buying all you bought last year."

Having better promotions

For competitive reasons, most big retailers are keeping their holiday promotional plans quiet. But even though improved inventory controls will reduce the need for clearance sales, Noblin says, retailers will have more planned promotions to draw people into stores.

Retailers that don't increase promotions likely will have some ready as "contingency plans because the earth is so shaky," says Phil Rist of consumer insights firm BIGresearch.

Even the wealthy are waiting for sales.

A new study of affluent consumers by the Harrison Group and American Express Publishing found 83% said they usually wait to buy things when they are on sale, up from 67% 10 months ago.

As the Harrison Group notes, even though these families with \$100,000 or more in discretionary household income make up just 10% of the population, they account for 50% of retail spending.

To steel themselves for a likely slowing in gift-card sales — which have been increasing every year — stores are expected to give more of them away as part of promotions, Rist says.

Gift cards given away with other gift-card purchases — such as \$20 with a \$100 card purchase — are a way to bring consumers back into a store to spend more, which many restaurants did last year with their gift-card promotions.

But when holiday budgets are as stretched as they will likely be this year, gift cards might lose some appeal.

"Some consumers may be going back to merchandise," Rist says. "They may think, 'If I buy Uncle Ned a \$50 gift card, I've got to spend \$50, but if I buy him a \$50 sweater that's marked down to \$25, I save \$25.' "

Hiring fewer salespeople

Facing slow sales and squeezed profit margins, many retailers will be looking to cut payroll costs, Noblin says.

Hiring of seasonal workers is likely to be at about the level after the Sept. 11 terror attacks, says Dan Butler, the retail federation's vice president of retail operations.

Retailers likely will adjust part-time and seasonal workers' hours to meet the ebb and flow of holiday shopping, Butler says.

In a tight economy like this, chains may add staff in top-selling stores while lower-performing ones get fewer workers, he says.

"If they're adding staff, they need to be generating sales as a result of added staff," says Butler, a former store manager at Macy's (M) and Hecht's.

More lower-priced items

Many stores are expected to add more lower-priced items to their merchandise mix to try to appeal to increasingly budget-conscious consumers, says Casey Chroust of the Retail Industry Leaders Association.

Coach has said it will have more less-expensive handbags this holiday season, but most other retailers aren't announcing their plans.

Such moves could help reverse what's expected to be a decline in "self-purchasing" by holiday shoppers this year, Noblin says.

"Being careful is becoming a bigger virtue," says Taylor, co-author of the book *The New Elite: Inside the Minds of the Truly Wealthy*.

"I think this may be one of those moments where you do have a tipping point after 20 years of 'I wantism,' " Taylor says.

Even so, retailers need to be prepared with the right merchandise, whether it's Prada purses or low-priced trinkets that consumers are seeking.

Retailers, Sternecker says, will "make the very best of whatever the holiday season will be."