

Can You Afford Christmas?

Despite deep discounts, it's going to be a mean season for holiday shopping.

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NEWSWEEK

Published Nov 20, 2008 | Updated: 9:53 a.m. ET Nov 20, 2008

Retailers as diverse as Lowe's and Macy's are using magic-themed marketing campaigns to attract customers for this holiday season. That's good, because it's going to take some kind of sorcery to keep the current mix of store closings, skeletal inventories, hard-to-find sales staff and anxious consumers from turning the yuletide shopping season of 2008 into a seriously cranky Christmas. Even Santas have been getting pink-slipped.

"It is all so dismal, it's unbelievable," says Brian Hamilton, president of Sageworks Inc. a Raleigh, N.C., research firm. In October, retail sales declined by 2.8 percent; their biggest drop since economists started watching those numbers 16 years ago, and analysts are speculating that this could be the weakest holiday shopping season in decades. Hamilton doesn't actually think it will turn out quite that bleak; he's predicting flat sales through the end of the year. "The retail industry isn't in decline, but it is sick," he says.

How that malaise infects the shopping experience for consumers is still unclear. "Maybe it will be a great environment for sales," says Meghann Marco of Consumerist.comr maybe it will be a complete madhouse to get the cheap stuff at the beginning, and then it will just be dead."

The cheap stuff is definitely out there now. Discounts that would have been unheard of before Thanksgiving just a few years ago are now an advertising touchstone, and the deals have ratcheted up. Prices are falling on everything from socks at Target to Dolce & Gabbana silks at Saks Fifth Avenue, where same-store sales dropped by 16.6 percent in October from the year-ago period. Macy's says it is focused on a nostalgic "Believe" campaign with Santa Mail letterboxes and activity centers in its stores, but its ads proclaim "40 percent to 75 percent off ... plus take an extra 20 percent off." Low-end retailer Wal-Mart—one of the few to have seen solid sales through the third quarter—it started the season with \$10 toys and is promising price drops every week throughout the season.

"It takes something extra special to get consumers attention now," says Scott Krugman of the National Retail Federation. "The expectation might be for 20 percent off, so you have to achieve that and more. Retailers are aggressively exceeding those expectations."

All of which makes it seem like it would be a great time to go shopping, except for this: those retailers aren't fools. They knew this was coming, and they've cut back in advance of the season. September shipments of the goods that end up on store shelves were almost 10 percent lower than they were a year ago, according to the retailers' trade group. Stores have cut preholiday inventories to the bone and also laid in larger stocks of low-priced, practical items and limited their supplies of better goods. In other words, look for lots of deals on inexpensive gloves, scarves and nightgowns. Cashmere sweaters? Not so much.

So those confident consumers who still want to buy big and nice for the holidays will have trouble finding what they want, and certainly shouldn't expect it to be left on the shelves if they plan on returning to the stores with gift cards in hand in January.

Then there's the problem of finding someone on the sales floor to ring up your gift. Consumers should expect to encounter crowds and lines that are surprisingly long, given the weak sales predictions. That's because more shoppers will be spending more time weeding through the sales

to get what they want. And the stores are cutting back on employees at a time when they usually power up: some 57 percent of managers don't plan to hire any seasonal employees this year, and the remainder will reduce their typical seasonal hires by about a third, according to a survey by hourly employment Web site SnagAJob.com. So while stores like Best Buy say they're banking on customer service, don't count on it. Sales staffs will be especially thin during nonpeak shopping hours, says Krugman.

The lines will seem longer, too, because shoppers will be crowded into fewer stores than before. The list of store closings going into the holidays is unusually long, with almost 6,000 store closings predicted before the end of the year. Electronics stores Circuit City and Tweeter are in bankruptcy, with Circuit City closing more than 100 of its 668 stores and Tweeter closing all of its stores. Other chains closing several or all of their stores include Sharper Image, Eddie Bauer, Talbots, Ann Taylor, Linens 'n Things and many, many more. Some of these will try to hang on until Christmas, but others are likely to ship their already sparse inventories off to a sister store and call it a day. (Those remaining stores of troubled chains might be the best place for shoppers to find good deals on items in stock.) Shoppers who usually load up on gift cards for all of their friends and relatives should proceed with caution: those cards can turn worthless if they are issued by retailers that don't make it into 2009.

Finally, cranky customers won't have Santa to console them at every turn either. Anecdotal stories of cancelled holiday light shows, mall entertainment and Santa Claus bookings abound. For shoppers, the only silver lining besides the deep discounts might be the thought that the 2008 winter holidays will be more authentic to the real spirit—less about stuff under the tree and more about free pleasures like family, friends and keeping the faith. Like Macy's says, believe it.

URL: <http://www.newsweek.com/id/169877>

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