

COLUMNS

Consumer malaise or economic malaise, what came first?

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We have been monitoring consumer spending trends the past month, attempting to gauge the strength of holiday sales and gain insight into 2014. So far, it does not look so good.

Despite improved consumer balance sheets, consumers are shopping based on sharp value promotions provided most recently by Cyber Monday 40 percent to 50 percent-off deals (extended to Tuesday, and who knows about the rest of the week) and taking advantage of deals on practical and functional items, consumer electronics and some fashion purchases.

Hard to believe that the season's sales tally will grow the estimated 3.9 percent projected by the National Retail Federation given the 1.9 percent drop over Thanksgiving weekend. And if the season does produce a robust sales figure, we see it borrowing from future purchases, so watch out in early 2014 as consumers may well hibernate, pay down more debt and remain parsimonious in their purchasing patterns.

Moreover, durables spending momentum continues (Home Depot reported a third-quarter +8 percent comp, Lowe's +6 percent) depleting available discretionary funds.

Reading through third-quarter retail results consumers have been inundated by values, on

their mobile phones, in their inbox, their mailbox and in store. Enough already, many remain on the fence.

Dave Dyer, CEO of Chico's, spoke about the Chico's customer "being more sensitive to the economy, thinking about retirement or perhaps, holding back."

We were surprised to see the strength at grocers over Black Friday weekend, where according to the NRF and Prosper Insight, 23 percent of the 141 million shoppers, or 23 million, did some holiday shopping, perhaps reflecting a sensible shopping mindset.

Mobile and ecommerce

While the consumer may be reticent, the migration to mobile and ecommerce has been swift this season.

According to comScore, Black Friday PC/desktop-driven ecommerce sales rose 15 percent to \$1.2 billion, and increased 3 percent in November to \$20.6 billion.

IBM Analytics saw a 17 percent increase in online sales in the Thanksgiving – Cyber Monday period, with Cyber Monday seeing a 21 percent online sales gain despite a 1 percent drop in the average ticket, to \$128.77.

Mobile traffic accounted for 32 percent of all online traffic on Cyber Monday, (down from 40 percent on Black Friday), representing 17 percent of all online sales.

According to the NRF's & Prosper Insight consumer survey, 42 percent, or 59 million shoppers, went online to shop, second only to the department store channel (52 percent, or 72 million shoppers).

Omnichannel efforts gain traction as department stores saw strong online growth, according to IBM Analytics, with a 70 percent online sales gain on Cyber Monday (average ticket up 19 percent to \$161.83) and up 61 percent on Black Friday (\$146.84, +15 percent).

Thanksgiving and Black Friday shopping. The NRF hosted a press conference Dec. 1.

First, the good news

- More than 141 million unique shoppers will have shopped by the end of the weekend, up 1 percent, generating an estimated 248 million transactions (up 1 million) on Web sites and in stores, via mobile as well as PCs, tablets and in person.
- Thanksgiving shopping has evolved into a tradition for some families and a critical weekend for retailers.
- 42 percent of shoppers, or 59 million, shopped online with an average spend of \$178, up 3.1 percent from \$172. Online's proportion of the weekend's spend grew 300 basis points (or 3 percentage points) to 43.7 percent.
- Consumers are the winners and department stores, grocers and online retailers gaining wallet share.

And the bad

- Despite record numbers of shoppers and transactions, the average spend is down on average 1.9 percent from 2012 levels, at \$407 versus \$424. NRF CEO Michael Shay danced around the weak number versus the NRF 3.9 percent projected increase, stating the shoppers and retailers started early in November given the shortened shopping period and he mentioned population increases support higher holiday sales. I do not think so.
- Retail margins are the losers.
- Even if the promotions are good enough to drive incremental purchases this season and push the holiday spend number to the \$602 billion the NRF projects, we argue, retailers are pulling from future demand/purchases and that we should look for weak sales trends in 2014 as consumers get back on the savings wagon and deal with the impact of higher health insurance costs and further Washington/budget dysfunction.
- Sure looks like we are in a race to the bottom.

OMG, does it really depend on the weather?

Holiday 2013 outlook key points

- A 26-day season, six days and one weekend short of 2012's selling season spanning Thanksgiving to Christmas. Offsetting the truncated calendar is eager retailers opening Thanksgiving evening as well as the holiday promotions that began in October.
- Highly promotional. Except for very exclusive luxury brands such as Prada, Gucci and Tiffany, 30 percent off is the new normal, quickly moving south to 35 percent to 40 percent off to get a Washington weary over consumed shopper interested and compete with Amazon and online discounts.
- Online holiday sales projected to rise 13 percent to 15 percent, up to \$82 billion.
- NRF projects a 3.9 percent November and December sales gain to \$602 billion (this compares with the 10-year average 3.3 percent gain and 2012's 3.5 percent gain). ICSC is looking for a 2% Q4 comp sales gain; Morgan Stanley sees a 1.5 percent comp gain at apparel retailers and SP Capital IQ, a 2.5 percent sales gain.
- Weak macro environment of slow employment gains (a 7.3 percent unemployment rate and income growth along with weak consumer confidence, according to the Conference Board despite improved consumer balance sheets).
- Perhaps the best that can be said is projected colder weather should aid sales.

Consumer confidence as reported by The Conference Board declined modestly in November, while the University of Michigan Consumer Sentiment reading for November exhibited a slight uptick from the October reading, but at 75.1, remains 10 points below the highs of the summer and 7 points shy of year-ago levels.

Our read: today's consumer is no free-spending, devil-may-care shopper, rather a rational

shopper with a sharp eye to value and price.

The winners

Department stores Macy's, Nordstrom and J.C. Penney. We see Macy's gaining share with its omnichannel and My Macy's initiatives. Nordstrom's omnichannel strategy straddles flash sales, outlets, online and full price – another winner this season. It is good to see J.C. Penney is back in the game!

Specialty apparel retailers: L Brands with its Victoria's Secret and Bath & Body Works, knows how to make staples and personal care sexy. The perfect stocking stuffer.

Off-price retailers. Ross Stores and TJ Maxx benefitting from a value-seeking penny-pinching Fashionista as well as bifurcated demographic patterns.

Brands. Ralph Lauren. Aspirational assortments spanning multichannels, price points and product categories as well as its Club Monaco concept that is firing on all cylinders with millennials.

Baby, it's cold outside. Under Armour and VF Corp. are the go-to sources for cold weather gear and authenticated athletic products reduce fashion risk while protecting merchandise margins.

The losers

Specialty apparel retailers. Ann Taylor and Chico's FAS as shoppers flock to department stores for better deals and margins are under pressure in promotional environment of 50 percent off.

Teen retailers remain under pressure as youth have limited funds reflecting their lack of employment impacting Aeropostale, Bebe and The Buckle.

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