STAX TRACKS:

HOLIDAY 2010

Stax Inc.

BOSTON | CHICAGO | NEW YORK | COLOMBO

Welcome to Stax Tracks: Holiday 2010*—insights into consumer spending that will have implications for how retailers go to market this holiday season. Leveraging our proprietary in-house consumer insights capabilities, we reached out to 1,087 holiday shoppers to build a true market view of consumers' choices and decision drivers—identifying 3 key trends to help companies make better operating decisions both in the short- and medium-term:*

Trend #1: *Traditional retailers are at risk of permanently losing customers without a more compelling value proposition—value and luxury are drawing in those trading up or down, leaving few new customers for traditional channels.*

Trend #2: *The confluence of technology, retailer's emphasis on driving sales at all costs, and the economy has instigated a promotions arms race that makes it harder for retailers to effectively reach consumers.*

Trend #3: *While social media and mobility will be important platforms for retailers going forward, value is currently being driven through other means—consumers enrolled in loyalty programs outspend social media users by a factor of 10 or more.*

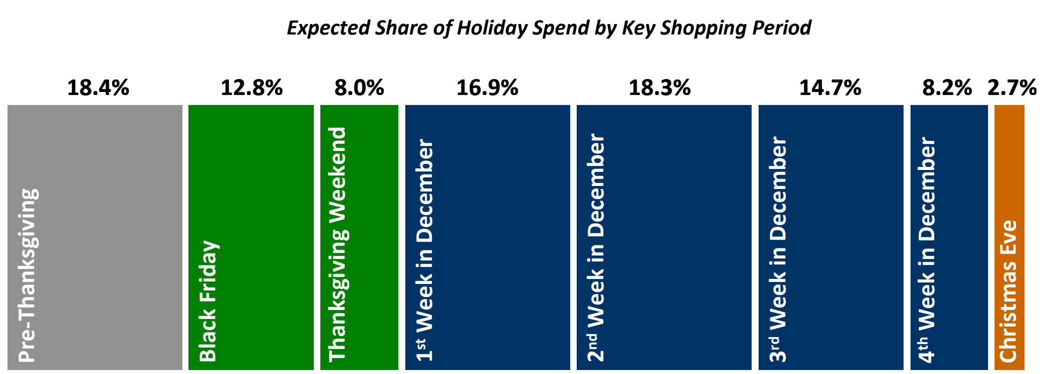
Shoppers remain cautiously optimistic, with holiday spending expected to increase just 0.9%. This holiday season is shaping up to be comparable to last year, with 90% of adults surveyed expected to do some holiday shopping this season (Black Friday–Christmas Eve). 75% of holiday shoppers are expected to be women and 25% men, with men expecting to spend 12% more than women, $520 versus $466. While spending is expected to be up slightly, almost 50% of shoppers feel poorer this holiday season, with less than 15% feeling richer.

Almost as many consumers expect their holiday spending to be up as down this year. 26% of consumers expect to be spending more this year, while 30% expect to be spending less, and 45% expect to be spending about the same. Among those spending more, the majority (77%) expect to buy more gifts, with a third expecting to buy more expensive gifts. Among those expecting to spend less, over 50% expect to reduce spending in more than one way—either through fewer gifts, less expensive gifts, and/or reduced non-gift holiday spending. For these cash-strapped consumers, they'll seek ways to make their limited dollars count this holiday season.

213 million adults are expected to spend $480 each on gifts and decorations between Black Friday and Christmas Eve, totaling $103B.

As consumers expect to spread their shopping over the entire holiday selling season, retailers should pace themselves (Exhibit 1). Only 15% of shoppers expect to get all their shopping done in a single period (e.g., Black Friday). 56% of shoppers expect to be shopping over at least half of the holiday season, while 14% expect to be spending regularly throughout the entire holiday season. While variations exist by category (e.g., apparel vs. electronics), retailers should be mindful that consumers will be in the shopping spirit from Thanksgiving right through to Christmas Eve.

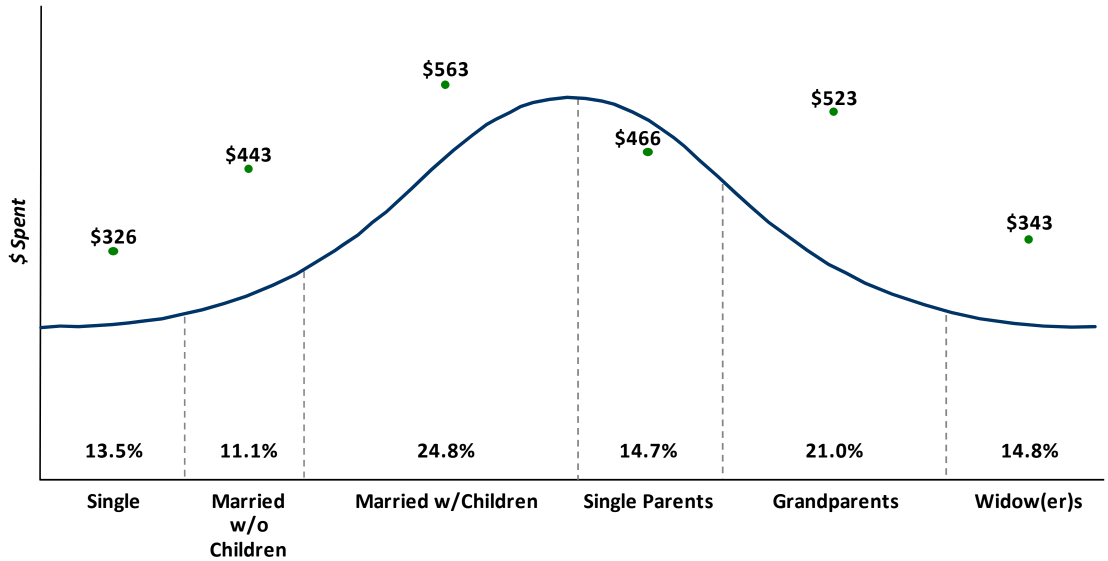
Exhibit 1: Shoppers expect to spread their shopping throughout the season, with 58% of the shopping being done in December leading up to Christmas Eve.



Retailers should target their messaging and product mix to consumers' life stages as spend levels and types of gifts bought will vary. Adults buying for children make up 60% of shoppers, but will drive 70% of spending.

Shopper's spending varies by their life stage, with the presence of children (either in-home or outside of home) driving the most spending. Among consumer segments, parents with children expect to spend the most, representing almost 25% of the expected holiday shoppers (Exhibit 2). Those living alone—both young and old—tend to spend the least during the holidays.

Exhibit 2: Consumers' life stages correspond to the amount of spending.



Toys and games are popular gifts, even among those without children. For those living alone, apparel and electronics remain top choices (Exhibit 3). For young singles, the highest share of spending is expected to go to electronics and apparel. For older singles, it's apparel. Men expect to outspend women in jewelry and personalized gifts, and to a lesser extent, electronics and apparel & footwear. Women expect to outspend men in beauty and games & toys, and to a lesser extent, accessories and books & music.

Gift cards remain a popular choice—67% of shoppers expect to buy at least 1 gift card this holiday season. On average, shoppers expect to buy 3.5 gift cards this season, about the same number as last year. The average value of each gift card is expected to be about $40. Among the most popular categories for gift cards are: books & music, apparel & footwear, and food & beverage (including restaurants) (Exhibit 4).

Exhibit 3: Games & toys, followed by apparel and electronics appear to be the most popular categories for gifts this year…

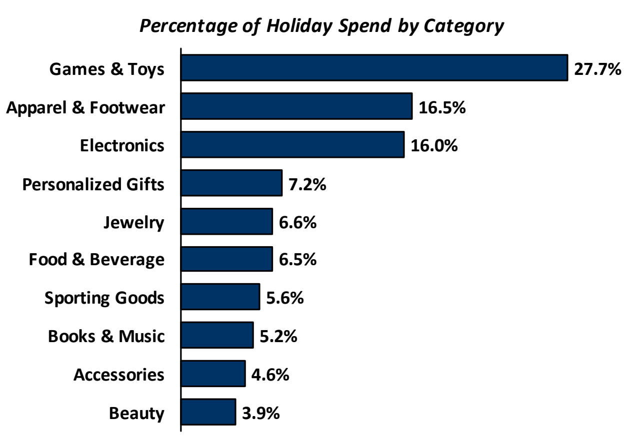
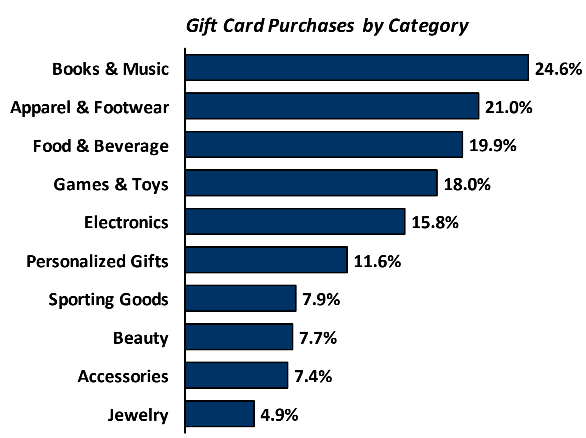


Exhibit 4: … While books & music, followed by apparel and food & beverage are the most popular categories for gift cards.

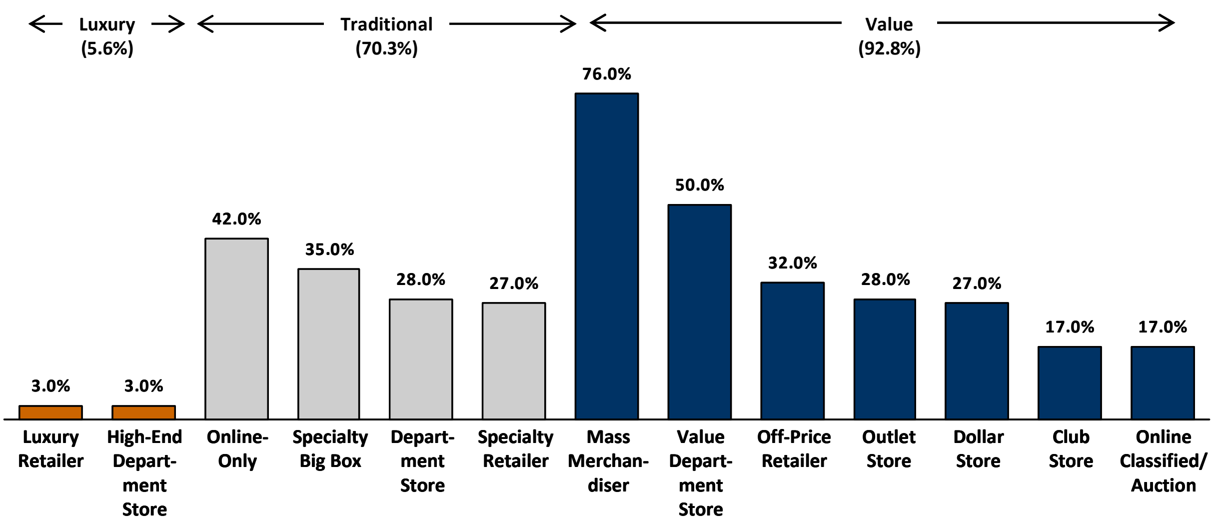


Trend Watch #1: Traditional retailers are at risk of permanently losing customers without a more compelling value proposition—luxury and value channels are drawing in those trading up or down, leaving few new customers for traditional channels.

Retailers shouldn't worry about consumers trading down to value channels in this down economy—consumers are already there, have been there, and will remain there. Over 90% of consumers expect to shop value channels this holiday season, with 30% of them shopping value channels exclusively (Exhibit 5). Only 7% of luxury channel shoppers are exclusive—in fact, close to 80% of luxury channel shoppers expect to shop across all three types of channels. Among those shopping traditional channels, only 8% expect to shop these channels exclusively, with the majority (85%) cross shopping in value channels. As such, retailers and manufacturers should note that consumers' consideration set extends beyond comparable channels in category.

Exhibit 5: Value channels remain the most popular for holiday shopping.

Percentage of Shoppers Who Shop Luxury, Traditional, and Value by Specific Channels



Traditional channels appear most at risk. Not surprisingly, luxury appears highly sensitive to economic conditions—added to the consideration set among those few consumers who are feeling wealthy this holiday season. Alternatively, value channels such as mass continue to dominate the landscape—not only in terms of locations and accessibility but also breadth of product. Further, these channels are drawing in new customers seeking more value and better prices. As such, traditional channels appear most vulnerable—drawing in few new customers and having difficulty in keeping them without the brand draw of luxury and the prices of value (Exhibits 6 & 7).

Exhibit 6: More shoppers started shopping in luxury channels this year, than mass…

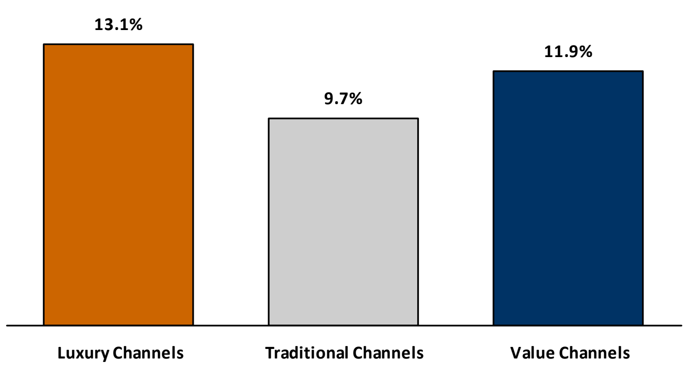
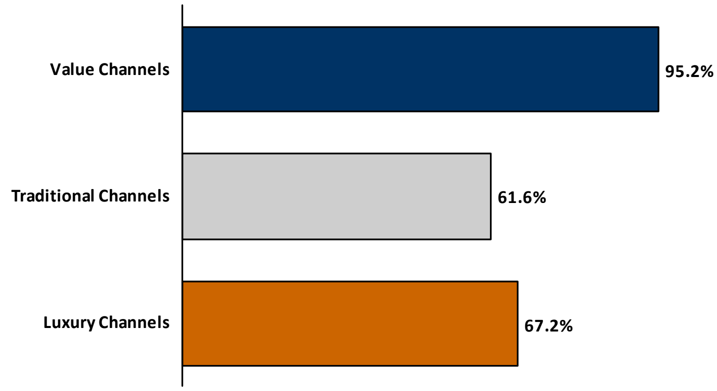


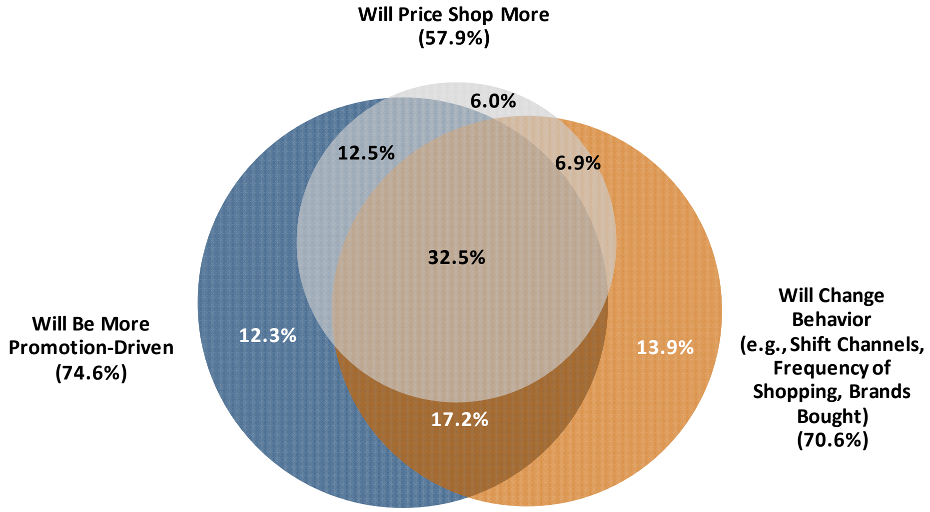
Exhibit 7: … Though, these changes may not be permanent, with only 2/3 of current luxury channel shoppers expecting to be shopping in luxury channels a year from now.



Trend Watch #2: The confluence of technology, retailer's emphasis on driving sales at all costs, and the economy has instigated a promotions arms race that will make it harder for retailers to effectively reach consumers.

The economy has clearly had an impact on consumers' shopping behavior with 75% expecting to change the way they shop this year. Most expect to be more promotionally driven (e.g., will wait for and/or proactively seek deals), while others expect to change how and where they shop; the majority expect to change behavior in multiple ways (Exhibit 8).

Exhibit 8: Consumers expect to change their shopping behavior this year as a result of the economy.



Consumers do not expect this behavior to change when the economy recovers, setting the stage for more promotion watching and price checking. The majority of consumers who expect to shift their shopping behaviors this holiday season, as a direct result of the economy, expect such changes to be permanent (Exhibit 9). The long-term impact of the economy may be a permanent shift in consumer price sensitivity, driven in part by retailers who have "trained" consumers to expect deals (as retailers fight for reduced consumer dollars), and the increased use of the internet for shopping and buying—facilitating consumers' ability to price shop and find specials, deals, and promotions. As such, retailers will have to continuously up the ante—or change the rules of engagement—just to maintain the status quo.

Exhibit 9: Shoppers who expect shifts in shopping behavior to be permanent will be more price savvy shoppers when the economy recovers.

Trend Watch #3: While social media and mobility will be important platforms for retailers going forward…

Consumers are well connected with 90% having either a cell phone and/or a smart phone, but interest in receiving discounts, promotions and communications from retailers via their phones is still limited (Exhibit 10). Women are much more engaged than men in mobility—with two-thirds of women engaged in activities such as texting, apps, and media, versus 50% of men. However, consumers' use of, and interest in, phones for commercial activities—such as receiving special discounts, coupons, or promotions still remains limited (Exhibit 11). Of course, a lack of compelling offers may be driving the current limited interest in such promotions.

Exhibit 10: 90% of holiday shoppers own a mobile phone.

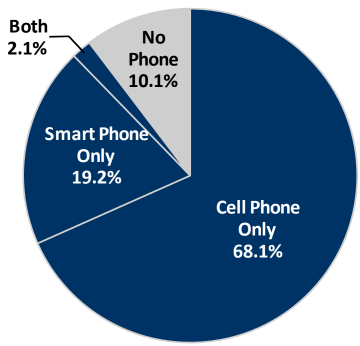
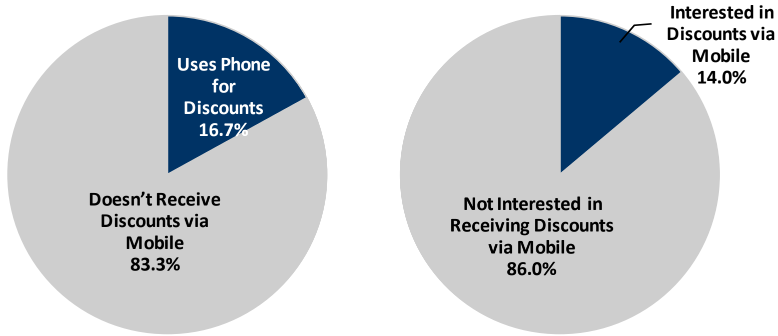
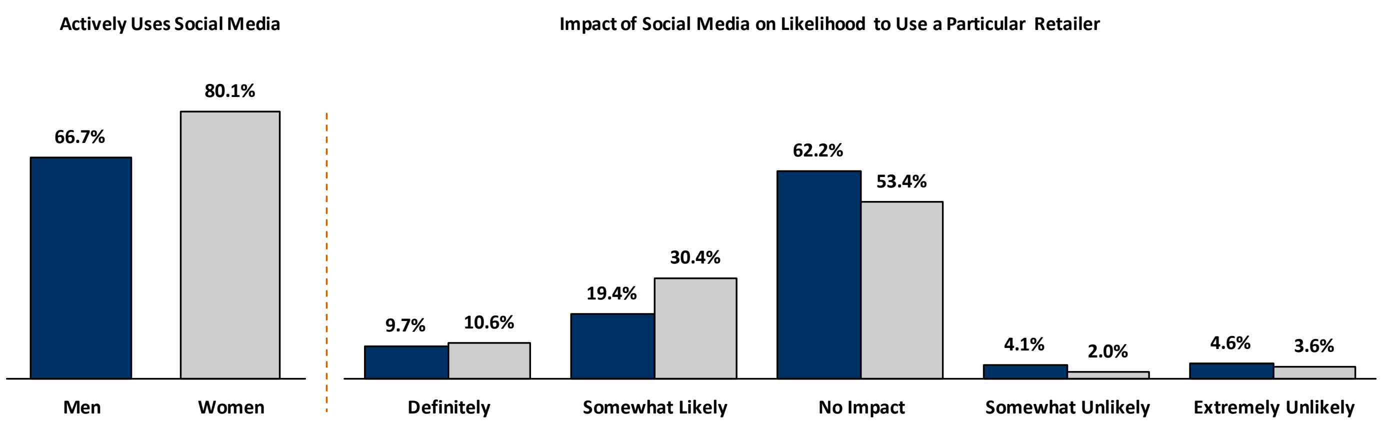


Exhibit 11: About 15% of shoppers have or want to receive discounts via their phones.



Given their use of social media, retailers should consider how best to harness consumers' connectivity. Among social media users, Facebook is by far the most popular social media site with 86% of women and 71% of men actively using Facebook (e.g., at least several times a week). The next most used social media site is Twitter at 10% usage across both men and women. Almost 60% will use social media to: find out about promotions, research retailers, learn about new retailers, or advocate on behalf of their favorite retailers. It will be important for retailers to understand this engagement in order to focus consumers' social media use into a compelling call to action. A retailer's use of social media to engage customers has a net positive impact on consumers' shopping behavior—almost 40% of consumers believe that a retailer who engages with them via social media would have a positive impact on their likelihood to shop at that particular retailer (Exhibit 12).

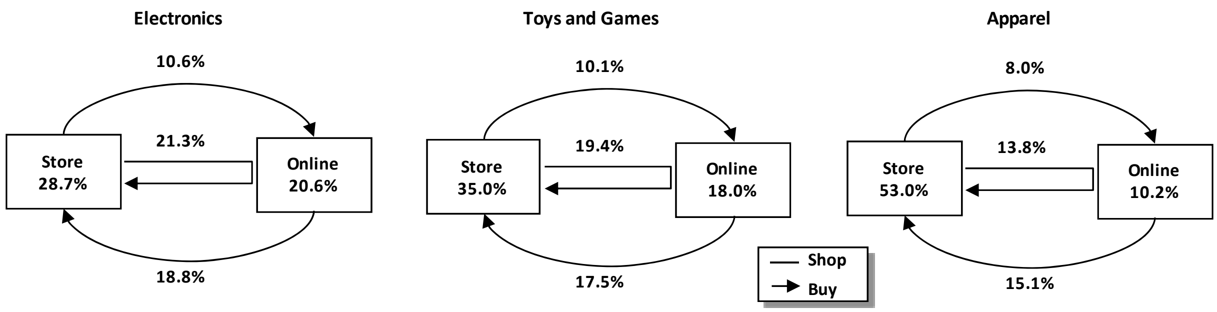
Exhibit 12: Women are much more engaged in social media than men, with social media having a perceived—albeit slight—positive impact on consumers' likelihood to shop a particular retailer.



Trend Watch #3 (continued): … Value is currently being driven through other means—consumers enrolled in loyalty programs outspend social media users by a factor of 10 or more.

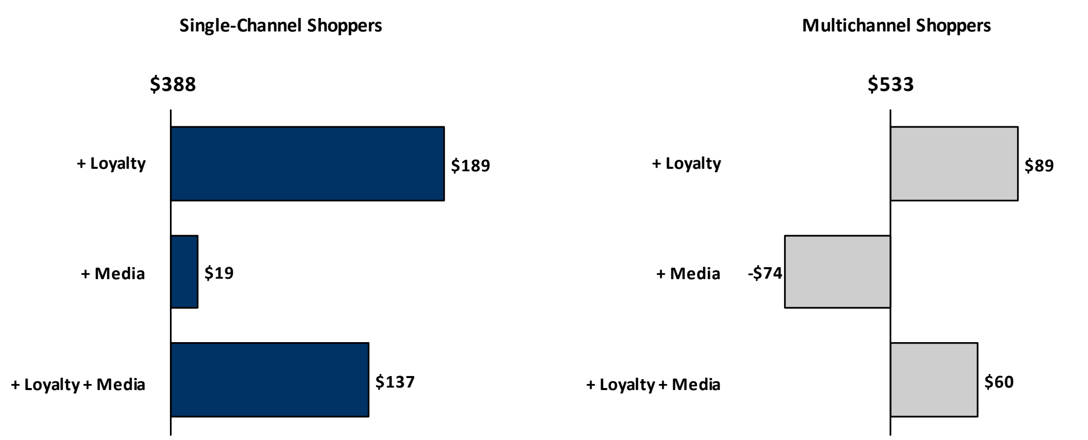
The internet is now an integral part of how consumers shop and buy, further supporting the need for retailers to have a strong multichannel presence. For the gift categories that matter most this holiday season, the majority of consumers are likely to use the internet in some way in their selection and purchasing (Exhibit 13). 40%–60% will shop online, and 18%–30% will buy online. While some may prefer to shop and buy in-store exclusively (e.g., 53% of apparel buyers), others prefer to check out an item in-store before buying online (e.g., 10% of toy buyers), and still others will go back and forth—shopping first in-store, then price checking online, before purchasing in-store (e.g., 21% of electronics buyers). This is not to discount the importance of the in-store experience—70%–80% of holiday shoppers still expect to make their purchases in stores. Smart companies will engage potential customers across all channels and facilitate their transition from store to web and back.

Exhibit 13: For the most popular gift categories, consumers like to engage retailers in both online and traditional channels.



Shoppers who engage with retailers in multiple ways—especially in channel choice and loyalty programs—are the most valuable. Consumers who only engage retailers via a single channel (either in-store, online, or catalog only) expect to spend $388 this holiday season. Compare this to consumers who shop multiple channels, who expect to spend $533 (Exhibit 14). Those who partake in loyalty programs—including loyalty cards, store credit cards, and signing up to receive emails from retailers—spend even more dollars. Social media avenues—including company websites (not for e-commerce), Facebook, and Twitter—contribute marginally little. This suggests that social media does not necessarily increase engagement nor directly correlates to increased spending among consumers (without a compelling call to action). Specialty big box shoppers are most likely to be part of a loyalty program, while department store shoppers (including high-end and value) are most likely to have an in-store credit card. Engagement with a retailer via social media is general low across all channels, with 8% of high-end department store shoppers following them via Facebook and 8% of luxury retail shoppers following them via Twitter. Social media currently requires a lower level of commitment versus a loyalty program or store credit card. If retailers can find a way to engage customers in a comparable way via social media, it is likely the value of these customers would increase comparably.

Exhibit 14: After multichannel, loyalty initiatives drive the most incremental value among shoppers.



Concluding Remarks

Author's Note

There's little by way of surprises this holiday season—consumers remain cautiously optimistic, splurging as they can for loved ones and friends, but being mindful not to spend more than they deem necessary. Of greater interest are the underlying shifts in consumer behavior that this holiday season—given the current economic conditions—serves to accentuate. Firstly, the concept of "trading up" and "trading down" mistakenly defines consumer shopping behavior in static terms when in fact, it is just the opposite. The rise of the internet, aggressive promotions by retailers, and arguably, the gray/black market for designer goods have blurred the lines between luxury, traditional, and value channels. Even so, consumers are savvy enough to cross those boundaries whenever and however it suits them—they will not be content to be boxed in and stereotyped by any one definition. Secondly, the idea that consumers are "temporarily" price sensitive or promotionally driven. Again, facilitated by technology's ability to rapid disseminate volumes of information, consumers have come to expect deals and are often disappointed when they don't find them—in fact, sometimes they're downright belligerent towards the retailer who refuses to give into convention. Finally, the role of social media and mobility—while the impact of these media are minimal at best today, it is likely due more so to the fact that retailers haven't yet untapped the potential that these platforms offer. Similar to Web 1.0 that clumsily moved traditional brick and mortar commerce into a digital environment, retailers are approaching social media from the constraints of what they know about other digital strategies. As James Cameron used *Avatar* to move 3D beyond merely converting 2D images, the next evolution will come in using social media as the launching point for new ways of engagement instead of the end point.

What does all of this mean for retailers? It is more critical than ever to understand your customers. They're unique and evolving quickly. It's not a matter of merely adopting the latest tools and technologies. Retailers need to put themselves in their customers' shoes and understand how their customers want to engage them. They need to ask themselves: Who are my customers? Which segments should I care about? How do they want to shop? What do they want to buy? How do they want to stay informed and connected? How do they use and process information?

From this customer-centric perspective, the ability to think strategically about channels, merchandising, marketing, pricing, social media, and mobility—decisions on what actions to take to drive growth—will naturally fall out. We're looking forward to tracking this continued evolution and sharing our thoughts with you. We wish you the best this holiday season.

Methodology

Results are based on a web survey of 1,087 adults aged 18+ polled randomly from across the U.S., November 5, 2010. To maintain data analysis and integrity, Stax utilized its own in-house web programming capabilities in designing, programming, and conducting the consumer research.

About Stax Inc.

Stax Inc. is a global strategy consulting firm with offices in Boston, Chicago, New York, and Colombo, Sri Lanka. Stax provides clients with actionable answers based on deep research and analysis. Founded in 1994, Stax works with clients ranging from the Fortune 500 and ten of the top global LBO firms, to middle market private equity firms and their portfolio companies. Stax applies a nimble, collaborative approach to drive well-informed decisions and tangible results. Projects include business and market strategy, customer analyses, marketing analytics and commercial due diligence, with targeted engagements around revenue generation, ROI maximization, and M&A. For more information, visit www.stax.com.

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