BI Analyst Briefing Holiday Retail 2014

Company Participants

- Frank Badillo, Vice President and Chief Economist
- Paul Salay, President
- Poonam Goyal, Senior Analyst
- Traci Gregorski, Vice President, Marketing

Presentation

Poonam Goyal {BIO 16489913 <GO>}

Hi, good morning everyone. Welcome to the Bloomberg Intelligence Webinar to preview the largest selling season of the year, Christmas. My name is Poonam Goyal and I cover the North American retail sector for Bloomberg Intelligence.

We also have three guest speakers today, including Frank Badillo, Vice President and Chief Economist from Kantar Retail; and Paul Salay, President of Market Track; along with Traci Gregorski, Vice President at Market Track.

Bloomberg Intelligence with a group of 100 plus analysts to provide in-depth analysis commentary and data sets on industries, companies and government factories such as credit legislation that impact decision making, our coverage spans 100 plus industries and over 800 companies across the US, Europe, Asia, Middle East and Africa.

Bloomberg Intelligence is an exclusive service provider to clients to subscribe to the Bloomberg Professional. Service can be accessed by typing BI on any Bloomberg terminal, feel free to reach out to me if you have any questions on BI.

Before we get started, I have a few housekeeping items. The deck presented today will be recorded and available for download. However, if you may watch the presentation on-demand using the same link, if you would like to reference contents. At the bottom of the slide window you will notice that you have to adjust the volume and maximize your screen. We recommend you maximize your screen for the best quality.

Lastly, feel free to ask your questions in using the Q&A panel to the right of the PowerPoint slides. We will address questions at the conclusion of the presentation. A copy of the slides and transcript will be available upon request following the presentation.

I will start the presentation with a brief overview of what's expected this holiday. After that, Frank Badillo will lead a discussion on Kantar Retail's outlook for holiday; and Paul and Traci from Market Track will follow Frank's discussion.

With that, let's take a look at the forecast for holiday. Looks like this holiday will be Ho Ho Ho and not Ho Ho Hum. Industry experts expect holiday sales to increase 4% to 5% with eMarketer forecasting the highest growth. That's the highest growth we've seen in a very long time.

So what's driving this optimism? We think it's a combination of five things to start. First, the next slide, please. The retail calendar between Thanksgiving to Christmas is promising with two unique opportunities. This year there is an extra selling day between Thanksgiving and Christmas. This provides retailers an additional day to drive traffic either online or through their stores. And then we have Hanukkah which arrives later this year, providing for another catalyst to its first spending between Thanksgiving and Christmas. If you remember last year Hanukkah fell at the same time as last week, so there was a low between the Black Week and Christmas week sales.

Moving to the next slide; the second reason for optimism may stem from weather. If you recall last year, weather was a big deal. There was snow, there was extreme cold temperatures that caused stores to close. Well, we know whether should be no excuse for missed sales, last year's extreme weather conditions did result into late store openings and post store closings.

In fact, from what I remember, almost every retailer had sighted abnormal weather conditions for softer 4Q sales. So this year, according to NOAA, retailers may have easier year-ago comparisons because the winter may be more miled. So that's good news.

The third reason, next slide, please, is that retailers are hiring more seasonal help. While some of the hiring could be attributed to store openings, a 4% to 26% increase would suggest that they expect higher sales beyond square footage growth. Some of the staffing is likely going to help support omnichannel initiatives, but you see that Amazon and Kohl's are two of the leading retailers that will be hiring substantially more help this holiday versus last year.

The fourth reason, in the next slide, would tell us a little bit more about the low income shopper. So if you remember last year, the low income shopper was challenged with pressures hampering its ability to spend, including the food stamp comp, which occurred in November. And then they were also hearing news about higher healthcare costs that would constrain their spend. There are no new pressures this year; and in fact, gas prices are trending down.

The last reason that we have for a Ho Ho Ho season is online. We've heard that online has been strong and will likely continue to be strong, leading the season. As you can see here that eCommerce estimates range from 8% to 16.6%, that's very well ahead of the 4% to 5% overall retail sales growth forecast.

And mobile shopping is growing, so retailers that are invested in mobile with better mobile platforms are positioned to gain share. The graph you see here is using Custora data, if you flip to the next slide, and you can see here that Amberline that mobile share has increased from 6% last year to 9%. So, more consumers are shopping on their mobile and that's a plus for any retailer that's advanced its mobile apps or mobile shopping experience.

So we've heard a lot about why the season could be Ho Ho Ho and not Ho Ho Hum.

So what would make it Ho Ho Hum? Well, for the retailer that can only think of two reasons. First, the next slide, is rising shipping cost. We heard last year the FedEx and UPS both increased their shipping cost by roughly 5% on ground shipping. That's obviously going to make a dent in retailer's margins. As online shipping rises and as more people shop online, more goods will need to be shipped. And with everyone now offering free shipping, we heard Target announced free shipping on all orders. It has to have an impact on their margins. So that's hopefully something that retailers can partially offset with higher sales, but it is a negative heading into the holiday season. And FedEx and UPS just both announced another rate increase for 2015. So there are some headwinds heading into the holiday season from shipping rates.

And then second, on the next slide, Apple's new iPhone launch, how many people want an Apple iPhone or an iPad versus apparel? There is new, there is a lot of newness in electronics, but there is not much newness in apparel. So we do think that some apparel spend could be directed towards electronics and that can obviously impair spending at apparel retailers.

On the contrary for mass merchants like Costco, Walmart, Target, or anyone that sells Apple products, they can see an increase in traffic from carrying these products, which can not only help sales of the electronics segments within their stores, but if they cross-shop their departments properly, they can drive spending in other areas of the store and online.

As a reminder, the BI's full holiday preview can be found on BI on any Bloomberg Terminal. Now, I'd like to hand it over to Frank Badillo to share his view on holiday. Frank? Thanks you.

Frank Badillo

Thank you, Poonam. And let me add to her introduction there to let you know that I've worked with retailers and suppliers, helping them to understand the macroeconomic environment for some 20 years now. The last five or so with Kantar Retail; and before that with Retail Forward and PricewaterhouseCoopers.

And next slide, please. And at Kantar Retail what -- I would describe our perspective on the holiday, I think it's somewhere -- maybe we can call it Ho Ho Ho within an asterisk. What we see in the overall sales trends is that they are being kept relatively healthy through the holiday by macro conditions, particularly in terms of what we're seeing in job, gains, job and income gains that are being driven and sustained by business investments, as well as in terms of the spending intentions of shoppers which we track here at Kantar Retail and that we see have bounced back from some of that weakness at the end of last year and to start the year, that Poonam was referring to.

And so, we've seen shoppers overall bounce back in these spending intentions. So overall, the macro conditions are doing their part to create happy holidays, but the asterisk in there is that there are other factors that are causing some unevenness that are creating winners and losers among categories and channels.

And next slide, please. And one of those factors that we see out there are the diverging prospects between upper and lower income households in these spending intentions. Now, here we describe these lower and upper-income households as haves and have nots and we draw the dividing line at about -- household income of about sixty some thousand dollars a year. And I'm not going to get into details of why we make the split there, but what I'll tell you is that the haves represent about 40% of households, basically the top two income quintiles; and the have nots represent about 60% of households or the bottom three income quintiles.

And the second factor we see that's working out there is that households are choosing to spend more in some categories and hold back in others. And then thirdly, which I work here are competitive forces that are creating some unevenness that are creating winners and losers in this retail performance as we see it developing into the holidays.

Next slide, please. Now the clearest evidence of some of the unevenness that we see out there is being caused by the choices that households are making. And we see this very simply when we split up retail sales among auto dealers, restaurants versus all other retail; with that all other retail being the core of what I think most of us regard as the core of the retail industry. And to set the context here, I want to look first at the quarterly trend in these retail sales in terms of year-to-year growth, not the month-to-month changes that often make the headlines, but year-to-year growth.

And so, I'll focus on this quarterly trend in a bit, I will look more deeply at holiday, specifically this year versus last year. But as we look at this quarterly trend, I'll -- just for -- by way of background, which we're looking at here is the first quarter, combined second and third quarter in that middle bar, and then our forecast for the holiday in the blue final bar. And what we see is that autos and restaurants have been sustaining a pretty strong pace into the holidays, with auto dealers managing to sustain a strong pace pretty much throughout the year. Restaurants have done fairly well, more recently they showed some weakness in that end of year or Q1 period; but since then they've been growing quite strongly. And in contrast, we see that the core retail sectors that's really where the brunt of the Q1 weakness was at.

But since then they've been able to bounce back to a relatively decent pace of growth, which is just shy of long-term average retail growth, which tends to be closer to 4.5%. So we're getting back to average growth overall. And our forecast is that this growth that we've seen bounce back in the second and third quarters will be sustained and strengthened to some extent going into this Q4 holiday.

But I think just from these simple breakouts, you can already get the sense that the level of Merriman out there this holiday is pretty much going to depend on where you do business by category. And as we turn to the next slide here, it also depends quite a bit on the retail channel or store type that you do business in.

And if we can switch to the next slide, please. And among these each different channels, what we see are a number of competitive factors at work. And no surprise, the biggest of these competitive factors is the success of online retailers, most notably Amazon.com. They are sustaining strong growth at the expense of brick and mortar retailers.

And part of what's happening here is that online over the last couple of years is finally reached a scale or it's having a more visible impact on retail sales. These online retailers now represent about 10% or more of those core retail sales. And so, just there's -- by that scale, we're just simply having that more visible impact.

And that's especially the case when you look at the discretionary category specialists, the apparel and home goods specialists in particular; and even there you can distinguish between the off-mall versus the mall with the malls showing some of the greatest weaknesses. Now, this impact among those specialists despite most severe among those consumer electronics retailers, the book stores, but it's increasingly evident in the apparel specialists and some of the other category specialists.

Then, when you look at the consumables channels, the impact from online is less severe, but there are exceptions and the exceptions, the key exceptions are those big box mass retailers that are most obviously represented by Walmart and Target. They're the ones among those mass retailers that are getting those consumables retailers that are getting most squeezed by online competitors in their discretionary categories. At the same time that they are finding that their big boxes, particularly the supercenter in the case of Walmart is having a tougher time being that destination for consumable categories, as it was in the past. And that's a big reason why we see Walmart increasingly shifting the focus from its supercenters toward the small neighborhood supermarkets. All right, so this kind of sketches out the quarterly trend over the past year and where we're moving as we head into the holiday.

As we go to the next slide, please. What I want to do now is to focus on the holiday period itself compared with a year ago. And I expect that the holidays into a little better than last year. We expect that it's going to be at least half a percentage point, better than what we saw a year ago eclipsing a 4% pace compared to 3.5% last year.

And if I didn't mention, this is all based on the government data we track from the US Department of Commerce. As we look at these numbers again, we see that the growth will be skewed online and where it picks up on the store side and the brick and mortar side is going to be focused in certain places for certain reasons. And that's especially true when we drill down on those apparel and home goods specialists. Even though here, it looks like (inaudible) overall. There is a lot of variation between beneath the surface there. And it's most true when we drill down on those consumables channels, which we're going to do on the next slide here, please.

Among these consumables channels on the next slide, what we see are pockets of growth that have been focused at the drug stores in particular. And driven primarily by healthcare reform since the start of the year. And these gains are driven mostly by prescription drug sales. Prescription drug category overall is growing at nearly a double-digit rate since the beginning of the year, which presents a interesting mix for drug stores, because at the back end, at the pharmacy they're doing very well. So far, those prescription drug sales are not generating a whole lot in terms of front of the store sales. So bit of a mixed picture for drug stores even as they're benefiting from healthcare reform and stronger prescription drug sales.

As we look at supermarkets, we see they'll be doing better than last year. But again there is a big asterisk there. Most of that improved growth is entirely because of higher food inflation, higher food prices. And that means that unit volumes at supermarkets are generally flat or down in most cases and down in the categories most affected by inflation. So that means there you've got shoppers particularly at the lower end of the market, who are being more stressed by higher food prices. And really increasing the amount of price value competition in food that is being amped up by this food inflation environment. And which is scanning some of the competition that we're seeing in those mass value channels, those big box and small box mass value stores that include Walmart and Target.

Now because of the way the government reports the data, we lump those channels together, but they include everything from warehouse clubs to supercenters, discount department stores and Dollar Stores and what we continue to see here is that there are big disparities in performance among these different types of channels and retailers.

Walmart among them is setting the tone with very price and promotion focused approach that really isn't yielding the kind of volume bound that they are used to getting in the past. And instead what it's doing is, it's generally depressing their overall sales growth and profits.

And then on the other side, well, actually on all sides of Walmart, you've got pressure coming from different quarters, you have Costco and Clubs doing much better, growing well with those upper-income have household. You have Dollar Stores that are continuing to grow and do well among the have-nots. And then you got the online competition that's also pressing on Walmart and those big boxes, the mass retailers. So very mixed picture in that mass value channel with some clear winners and losers and retailers, such as Walmart and Target very much pinched in the middle.

Next slide please. Now for the specialists overall, they're depressed by this online competition to varying degrees. With the home goods specialists, they're having some mixed -- also having some mixed effects from what's going on in the housing market. We've seen some early year weakness in the housing market that's still creating some lag, weakness in terms of soft demand for furniture and home furnishings.

But conversely within home goods, we see the home improvement retailers namely Lowe's and Home Depot actually benefiting more immediately from the renewed growth -- the renewed home buying and building that we've seen pick up again in recent months. That should be should be sustained to the holidays and help some of those home improvement retailers continue to do a better than average there among those home goods channels.

Now, with the apparel and accessory stores that online competition is probably weighing much heavier on the apparel specialty stores. And conversely, what you see on the accessories side, particularly in terms of shoe stores and jewelry stores, seeing less clear evidence of that online pressure in the sales in those shoe and jewelry sectors have actually held up much better than the apparel specialty side.

So overall, you know, what I try to do here is, give you this very much a layered story about what's happening in retail and the shopper landscape heading into the holidays. And what we see is that those macro conditions actually do set the stage for some growth opportunity out there.

But who is benefiting from that growth, really does depend on the category choices that shoppers are making and who among retailers and channels is able to win with those choices, whether it's online or in the store.

Next slide, I just wanted to closeout with noting a couple of things if you're interested in more perspectives on who's winning and losing in this landscape. I mentioned that you can hear more from Kantar Retail at our Year-End Forum conference that we have every year this year, December 9th and 11th. And next slide and one of the sessions we're actually offering is one of our breakouts we'll focus on this holiday environment from the shopper as well as the competitive and economic perspective with my colleague Doug Hermance in tackling the economic perspective.

And with that, I thank you for your attention and I'll turn it back to Poonam to continue the conversation. Thank you.

Poonam Goyal {BIO 16489913 <GO>}

Thank you, Frank, very much. So before we move on with Market Track and have Traci and Paul present, I'd like to remind everyone that you could ask your questions in the Q&A section at the top right of the webcast. And we'd be fielding those questions at the end of this webinar.

With that, Traci and Paul if you'd like to present your outlook for the holiday season that would be great. Thank you.

Traci Gregorski

Absolutely, thanks Poonam. And what we're going to do today is, take a look at some of the ways, given all the great information that's been shared so far and how retailers and manufacturers are actually looking to differentiate themselves in a very crowded and noisy marketplace.

How do they actually impact results given what is happening in the retail environment on the whole. So if you go to the next slide, we just wanted to kind of ground everyone in how we actually support and work with our 850 retail manufacturers and agency clients through the monitoring and analyzing of all the messaging that's impacting the shopper. We work to help them understand how the landscape continues to shift and change. And I think everybody can agree that what was formerly a linear process has become much more of a flight plan looking sort of engagement with the shopper. And so, there is opportunity to message them throughout their entire buying cycle, not just at the point where they're making considerations for purchases, but also throughout the entire process on the whole. So we take a look at all of those different media types and influences that impact them as they are considering where they're going to shop and what they're going to buy.

The next slide, if you want to go, take a look at some of the things that shoppers are actually saying. This is actually a very good way to realize that in essence they are completely in the driver's seat. They are controlling a lot of the ways that they're interacting with messages. They are absolutely driving the way that they are participating in conversation.

So we wanted to start with some findings from shoppers' survey that we did where we conducted a survey of over a thousand primary household shoppers across an even distribution of demographic groups just to get a sense of what some of the habits and trends are as people are making their purchase decisions.

So often you hear about people talking about how the holiday continues to start earlier every year and the reality of the situation is shoppers are really driving those efforts to pull the holiday forward. And what we found in our survey over half of shoppers are actually looking for Black Friday deals and promotions three weeks prior to Thanksgiving or earlier so that they can plan their trips and actually strategize about where they're going to find the best deal and those offers early in the season.

They're also driving the omnichannel experience with over 60% having expectation of Black Friday deals will actually be available both online and in store. So they have become very adept at finding and locating deals and offers that makes it so that there is opportunity and challenges as people are putting out those Black Friday circulars and offers online. They also are looking for convenience and shifting some of their behaviors there, especially during key events like the holiday shopping period. And this is one of the more interesting findings of the survey.

During normal times people are looking to shop in store primarily, but with 77% saying that they would actually prefer to go in store to make their purchases, from a retail perspective obviously that's desirable because there is a potential for additional items to be picked up during that interaction. But during holiday, one of the challenges that the industry is facing is that 54% are actually going online. So definitely that changes the way that they're being communicated with and it also changes the way that they're receiving those messages. Now there's also been a lot of discussion in the past couple years over the impact of showrooming, so seeing something in store and then going and buying it online if better price is found.

However, what we found in our survey, the webrooming concept is actually to my earlier point, a much larger trend where they are researching online and then they want that immediate sort of gratification where they're going in store and making the purchase. So essentially what that translates into is, they are definitely using the online channel to research purchases in store as well as the ones that they're making transactions on, on their online properties.

While price is still a big driver for decision making and certainly as you think about the holiday season, one of the big things and tactics is to sometimes discount at a level on those key traffic drivers in the hope that you can make up some of the profitability on other items that are picked up. That's not the only thing that shoppers are using to consider what they're going to actually make a purchase. What we found is, they are also using reviews and ratings very heavily as well with 81% saying that that's a very important thing to them and even more so during holiday with 50% saying that they're using those in an increasing fashion during that time period.

But the other really interesting thing is that they're paying more for things that have those positive reviews. The 65% of people said that they would actually spend more money if something was positively reviewed making prices secondary driver. Obviously Amazon is something that's top of mind for everyone and from a competitive standpoint and that's with good reason with over 45% of shoppers saying that they begin their search for any product they're looking to buy on Amazon and over 65% saying that they make over half of their purchases from Amazon. So that's fairly significant as well.

There is no question that competition is heating up online and shoppers are becoming more adept at price comparisons. With them in large numbers, 72% saying that they're checking over three websites before they actually make a purchase. So the need for visibility into that on a consistent basis is absolutely critical and we'll talk a little bit about that as we get into some of the trends to watch for holiday. And I'll pass it over to Paul to get into that area.

Paul Salay {BIO 17729993 <GO>}

Thanks Traci. Poonam, if you could go to the next slide for me.

So going back to the whole idea of the holiday shopping season, being a Ho Ho Ho or Ho Ho Hum. What we try to do in the next few slides is really focus on what are those leading indicators and best practices that we believe retailers should do, given some of the things that Traci and Frank have talked about this morning.

So first one, omnichannel at retail, so as Traci said, I think we all can agree the landscape has changed, our shoppers are in control, how and when they want to be messaged. And now this creates some additional opportunities for retailers and manufacturers and suppliers to impact where that shopper is actually making decisions in that purchase cycle. So as an example, one of the shifts we continue to see is an increased use of digital promotions.

As an example, email is up already 7% on a year-over-year basis compared to the previous year. Now what's important about that is that email is a very reactive mechanism, in fact as shoppers and consumers as all of us are we could probably argue that we're already getting too many emails. But it's the right use of digital promotion at that point of the purchase cycle that has the big impact we believe on whether or not they're going to be successful in that Black Week as Poonam called it.

Second trend is, they want it now. So we believe that instant gratification convenience should be watched extremely closely, especially with the millennials, we've talked about webrooming and showrooming a little bit about the e-commerce through the mobile platform. That technology is the shift that allows shoppers to have that instant gratification. So how retailers are going to be using those tactics such as same-day delivery online or online in-store pick up is a critical trend to watch, because that will allow them to not only ensure that they have the best price on their mobile, but they actually pick up that product that day.

And lastly, pricing is as important as it is, as it always been. We continue to see pricing be important, but as Traci pointed out, there were other factors that are important part of that decision life cycle. But let me draw your eyes to the two charts on the right hand side. So let's first look at the top one. We chose the basket of products taken from key pages of the retailers' Black Friday circulars.

So that is again circulars which we're receiving at home, it's in our mind the top traffic drivers of the products to that store. And we pulled the ones from the front to back some of the interior pages. But during the two and this is important, it's up to the two weeks leading up to Black Friday. So again the retailers are saying, these are the products that are going to make or break my particular event. Top figure shows then what percentage of those products that we chose change price in online, so in their e-commerce channel during that two-week period. So for example, let me give you -- if you look at the J. C. Penney 95.7 is on online price chains. Either that can be an increase or decrease during the two weeks leading up to Black Friday. So they had a pick per items going into Black Friday to ensure that they drove traffic to the store. They hope that they lead with their best price, but yet at the same time for those retailers, all of them over 90% were changing those items.

Now if you look at the bottom chart, this shows that same basket of goods that we highlighted, the daily percent price changes that those items moved. So you can see on a daily basis, how often those percentages products have changed. And that's a pretty significant number.

And what that tells us, is that not only do, did I have to make sure that I won on those items, but now I also have to make sure that I am price competitive. In another way to look at, at it is, their competitors were probably also changing the pricing to ensure that, if I did not have the right assortment on the front page of my circular or did not follow it up in an email that I had the ability to change that price. So if somebody was doing a search for that particular promoted item, I was the lowest price in that area.

So some interesting trends. If you go to the next slide, Traci will take us through the next three.

Traci Gregorski

Sure. So obviously we've already started to see promotional messaging for Black Friday and Holiday. There's been some peaks and deals in exclusive events planned for as early as the first week in November in addition to the earlier openings times that Poonam mentioned earlier on the call.

Removing that demand from the market early is always a focus, but it becomes critical on those key traffic drivers. So you're going to while look for also the higher use of the layered offers in the form of gift card overlays, price matching and trend cash offers,

so getting the demand out of the market early for those key traffic drivers is critical, but then also spreading out spend throughout the season is also an important endeavor for the retail community.

So those timed offers ensures and mitigates the risk of that lumpiness happening at the very beginning and the very end of the season and keeps consistent traffic going throughout the entire time period.

And next thing is the new normal. So if you think about traditional trade classes and how those lines have been forever blurred, through the increased use of cross-channel competition that's going to continue to increase. And retailers are also exploring inclusion of items that are known key traffic drivers in areas that are not where they traditionally play. So if you think about some of those things that happened last holiday for example Coles promoting 81% more computers, electronics and entertainment products in their Black Friday circular compared to the previous holiday season. And that wasn't buried on the inside of their circular, it was very front and center on those front pages that were absolute key areas to drive that holiday traffic.

The other things is, the consistent focus on the shopper and that's of primary importance. Retailers are going to continue to focus on things that make the shopping experience as seamlessly as possible across all of their properties. So whether it be online and in-store, whatever the shopper decides is the right way for them to buy, retailers are starting to recognize it's very important to make that as simple as possible for them. And the focus on ease [ph] will continue to be prevalent with value-adds likes free shipping, order online, pickup in-store, price matching and expert in-store consultation for some of those items where people feel more comfortable when they're getting that hands-on sort of advice.

If you go to the next slide, we'll take you through the last couple of points.

Paul Salay {BIO 17729993 <GO>}

Great. Thanks, Traci. So what's interesting about door busters. I mean, this was a phenomenon that has obviously received quite a bit of press over the past few years with the Walmart instances and other retailer's instances of people who are running each other down. But we're seeing it being used more and more. So if it's a really good thing, if I use it 300 times more, it should be 300 times better.

We're not sure how to use the doorbusters is actually going to impact this holiday season. We think with the amount of promotions using doorbusters, it may be diluting its impact, but it also may be on the other side (inaudible) the other side it actually maybe benefiting where your retailer strategy may not be to just win on one particular item, but to really draw the demand over a period of time.

So it used to be Black Friday, I heard Black Week, we've been calling it Black November. And that does make sense for a lot of retailers, just try to draw that demand and it really extend the holiday shopping season. Back to Poonam's slide, there's 26 days versus 27 or 25, if retailers can add or tack on additional two weeks to three weeks, which also need a few more pay period by the shoppers, there may be a way from a retailer strategy to get some higher sales during those two key months.

Another trend, which we think is important to consider when you're looking at retailers for this holiday shopping season and see if it's going to be positive or potentially a more flat holiday shopping season, is the increased use of social media. We've been tracking social media for over five years and we're finally starting to see retailers using the channel to support their marketing mix messaging. Retailers are employing tactics today that are involving crowd source, video submission, contests. But it's creating that engagement where the user, in this case the shopper is opting in to that. But now they're using that channel to actually drive specific promotions.

Not just engagement in advertising and brand loyalty, but they're actually driving promotions in that area, which we think it should be a trend that we -- at least during this holiday shopping season that we see an increase of. And we believe the retailers who execute in that should do better.

Third one, layaways, now layaways goes back to my first point where with the use of layaways is to take demand out of the market earlier. We think it's a highly effective strategy. We always give the example, if you're going to buy a TV at Black Friday or Cyber Monday for Christmas or for Hanukkah taking it out two weeks to three weeks earlier because of a great deal with the use of layaway in May, it's possible the shopper returns that for a better item down the line, but they're more likely to really hold on to that item, which in case the retailer was successful of taking that demand out of the market.

So we think that's an excellent tactic, and while we were interested to see how that plays out with other retailers joining into that. And then lastly the influence of mobile. Mobile was a very hot topic, not only within Market Track, but within our clients in the industry. We believe mobile is absolutely critical to retailers long-term success. We believe that for this holiday shopping season, we're going to be looking at things like SMS, in-app offers, e-mail promotions. We know mobile will increase, but we think the potential for mobile to have a bigger impact is not quite realized yet.

We'd like to see retailers start to think, when I'm actually in-store there is a geo-fencing, we're trying to capture that point of influence where an emotional purchase, can we use geo-fencing and other technology that exists today to send a promotion to the shopper to drive purchases. So we're going to pay some close attention to that. Again, we're not sure that, that is going to have a gigantic impact in the way we described it for this holiday shopping season, but we believe it's one of the important trends to look for to gauge retailer success in the future.

So with that Poonam, we -- that wraps up the Market Track presentation.

Questions And Answers

A - Poonam Goyal {BIO 16489913 <GO>}

Thank you Paul and Traci, so we'll begin our Q&A session now. And I'll start with the first question, which we received, which is, Frank, Paul or Traci any of you would like to take. One of our clients is interested in finding out more about the shift to online. Who is that helping, who is that hurting, what retailers, if you can say any are probably doing a better job online than their competition?

A - Paul Salay {BIO 17729993 <GO>}

This is Paul. I'll jump in. And then, Frank, I'll defer to you for any closing comments. We track this space incredibly well, if you go back to the slide that Traci showed of all the influences that are impacting shopper behavior we're tracking all those. And what we see is that we are retailers are actually using the omnichannel structured messaging are the ones that are typically doing a little bit better.

So as an example, if I'm going to market with key products and key traffic drivers and the circular, then I'm also supporting that in my online and digital mediums. I'm sending emails and doing social tweets and post, I'm making sure that my e-commerce channel are supporting that. So, where if you have a consistent approach we see retailers who are doing that, are doing better. There are some key ones out there that are doing exceptionally well. Most of those retailers are our clients I can highlight few, but let's say that a lot of those are the ones that you also see doing quite well and with their evaluation to stock prices.

A - Frank Badillo

I'm sorry, to add to that, I mean what we see in the data we track, we track breakouts by category online in the trends over the long-term. Clearly you see the how the online penetration was driven first by consumer electronics and books, the categories are clearly drove the Amazon that are account to its leadership role online that it's sustaining to this day. And it's sustaining that into the future by expanding into more and more categories be apparel on down to eventually grocery works which test marketing in certain markets Amazon Fresh.

And what we see as Amazon expands across categories is that more of the category specialists are affected and responding differently. So when you look for example at apparel you see the overall trends in the category really been dampened by the online shift. But you see some retailers responding better than others. You see, may see, for example, building an online presence in driving growth online as well as in-store. You see course doing better than others in its online shift and increasingly seeing more and more of these apparel specialists becoming the multi-channel retailers where they're not just relying on the store and those are few of the examples of who you're doing better than others.

You know at the same time you see others in other categories have not responded well clearly and consumer electronics Best Buy has struggled to sustain growth in-office products, the reserves stock retailers that have really struggled and to keep up in terms of the online shifts. So it really very much varies by category, how the categories have been affected by the shift online and how the response among the retailers in those categories have responded. Thank you.

A - Traci Gregorski

I would add one more thing to that, just to kind of layer on. Some of the things that we found, there are obviously categories that run themselves more readily to online purchases. So what we, so after another metric in our online survey that we did were obviously gravitation towards some of those categories from the shopper's perspective that they are comfortable buying online.

So I think from a retail perspective, if those categories to your point are not the ones that shoppers are just comfortable buying yet, I think that they have to work a little harder in order to make the benefit outweigh the risk in some of those areas.

So obviously toys and games, entertainment or electronics those are ones that are easy for people to compare online. But some of the other ones where they have a little bit lower adoption just based on the touch and feel factor are ones where they definitely have to incent the shopper a little bit more heavily to get them to make that leap.

A - Poonam Goyal {BIO 16489913 <GO>}

Great, thank you Traci. And to follow on to that, just on the category part, you've mentioned consumer electronics, toys easier. Someone's got a question on musical instruments. Do you think that's the next category that could see more promotions or aggressiveness in cross shopping or price checking like electronics and then for apparel is there still more time before apparel becomes commoditized?

A - Frank Badillo

I think in terms of apparel, we're quickly seeing the online penetration advance as we speak, as we've updated the numbers we track, we see some acceleration online. And I think that's happening now. What we also see in other categories be it musical Instruments, I think sporting goods is a good example.

Categories that are more difficult to become commoditized, there is a level of service and expertise that the store offers that make them more immune to commoditization and a shift online. And so, when you look at sporting goods you see some sporting goods specialists continuing to do fairly well even as some of the more general categories maybe the commodity like categories move online. But there is still a place for those specialists. And I think that's the case in sporting goods. That's the case in some other categories perhaps such as musical instruments. And it does represent the challenge that these retailers face as they look to find the store, the future. How can they make the store more than just above products but above the level of service and in other store features, pleasant shopping experience that perhaps you can find online that they are able to offer and key people coming to the stores and in some of these categories and some retailers they are finding that formulated table that helps them continue to survive even if some other products go online.

A - Poonam Goyal {BIO 16489913 <GO>}

Great, thank you.

A - Paul Salay {BIO 17729993 <GO>}

Frank, I think you brought up -- just to add on to Frank's point here. I thought he brought up a really good point about being immune to commoditization. In certain areas if the specialty retailers, the value that they bring is what Frank said, it's service, but it's also assortment having more products and sizes and colors that allow a consumer to or a shopper to choose. But what's important now is where we see the risk of commoditization is in products that I can check, I can match, I can look it and say, you know, it's x, y, z, sure, it's the same one here versus there.

And if I have which we -- mobile technology and the Internet allows us to go and do those checks. If I can have confirmation that it's the same product shipping in service excluded, I'm still more likely to choose a product with a lower price. So there is some risk to commoditization as that match rate the consumer has ability to get access to the information.

A - Poonam Goyal {BIO 16489913 <GO>}

Absolutely. And then just shifting gears, we've seen some weakness in 3Q at select retailers. What does that mean for 4Q and heading into 4Q, how is the macro environment looking, we've seen very good consumer confidence numbers recently, we've seen gas prices come down, the food inflation is higher. So, Frank, if you could speak to that, I think it would help our audience better understand what's happening in the macro environment for a holiday?

A - Frank Badillo

Alright. One thing to keep in mind is that Q3, particularly, when think about it in terms of back-to-school. It is not necessarily an automatic precursor for the holiday. A lot of the back-to-school spending tends to be in a somewhat programmed somewhat of a need more than they want. So there is that factor.

But one of the things favoring the holiday a bit stronger sales as we expect, you know is one of the things that you mentioned, Poonam at the start, that we do face a comparison to a year ago that is soft and that is going to make it easier for retailers to show improvement. And then when you look in terms of the shopper, the shoppers state of mind their spending intentions right now are much stronger now going into the fourth quarter than they were last fourth quarter, when they were exceptionally weak because of weather, but also because of the impending impact of healthcare reform, which we actually believe that affected upper-income households as much if not more in that fourth quarter holiday period (inaudible) many of those upper-income households were facing changes to their health plans, existing health plans, were showing a lot of uncertainty about, they weren't sure what this healthcare reform business meant for them with existing service. So that we saw some pull back into that fourth quarter last year because of that uncertainty.

Most of that uncertainty is gone, we're seeing that in our spending intentions. We're seeing that in the consumer confidence numbers out this week. And between those soft comparisons, the improved macro conditions, the stronger sentiment it all bodes for a much stronger, well, at least say, reasonably stronger fourth quarter regardless of the Q3 performance.

A - Poonam Goyal {BIO 16489913 <GO>}

Great, thank you. And then Paul, Traci, if you could speak to, you talked a little bit about heading into Black Friday, retailers changed their prices and quite frequently it seems. What does that mean for consumers shopping behavior, does the consumer just know that I might as well wait till Black Friday to make my purchase, why would a consumer be incentivized to buy prior to Black Friday?

A - Paul Salay {BIO 17729993 <GO>}

It's a really good question. And in fact it's a client -- a question what our clients ask us all the time. Some of the tactics we actually shared are retailer strategies of trying to pull the shopper demand out of the holiday season before it gets down to it. I think, Jeff Bezos, a few years ago, he was interviewed and I asked him, so, you know, what is your pricing strategy? And he said, I don't know, I'm going to wait until I see everything and then we'll create our pricing strategy.

So we know that online retailers have a lot of adaptability and flexibility in their pricing strategies. We think though that there is a mix, right. There is a mix between if I'm constantly going out with better, cheaper prices and changing my prices, am I really supporting my strategy as a retailer? And what messaging does that send to the consumer. Does the consumer, say, to your point, Poonam, I'll just wait till I see the best price. But also pricing doesn't necessarily mean it's going down. We also see price increases based up on supply and demand, I am starting to run low on my supply chain. I may actually increase the price because it's the hot product.

So it's a -- there is no straight answer for you. But we do know that depending on the strategy of what you're trying to accomplish in that holiday event, you may want to try to take demand out, but you also may want to make sure that you change your prices on a pretty frequent basis to remain competitive.

A - Traci Gregorski

And there is one other aspect to that, I'll add which is, it's becoming a lot more difficult for people to do price comparison based on the fact that the offers themselves becoming a bit more complex. So if you think about the layering of offers and the additional incentive, there the perception of best prices in the shoppers mind can vary based on those other aspects.

So if you think about some of the hot items that you traditionally don't see on sale things like Apple products and some others. The way that they draw that additional audiences through those layered offers which then also, as we spoke about earlier, guarantees if it's a gift card or some sort of cash during -- with the limited time spending during the rest of season, it definitely allows them to -- in the shoppers mind bring down a price on something that's traditionally pretty static.

A - Poonam Goyal {BIO 16489913 <GO>}

Great. And then just following on to that. FedEx and UPS, we saw there was a hiccup last year where delivery weren't met on time, they both increased hiring to supports that delivery. Do you think it's enough, and do you think that prices will have to rise for shipping, even for companies like Amazon and Walmart that typically would have contracts with them? But would you think that there would be a price increase there, and is there enough supply on there and in your eyes to meet the growing online demand?

A - Frank Badillo

Well, this is Frank I will tackle that just from a macro perspective, or maybe the general competitive environment where we're seeing such price sensitivity and reluctance on the part of retailers to raise prices and to find every way to keep prices down that it makes difficult. You know, particularly for the first mover to raise prices for shipping let alone for products, so it really does continue environment where it's going to be limited. But I do believe that there are reasons why in the longer term, we will see some of those shipping costs increasingly rise and largely because the cost pressures are there have been there.

It does help now that fuel prices are low and that will help absorb some of that, but in the longer-term, we will likely see some of those shipping cost pass along.

A - Poonam Goyal {BIO 16489913 <GO>}

Great. And then we had a follow-up question on a different topic on food stamp. So the client is wondering what sub-sectors would be hardest from food stamps. And I just like to point out that we will be cycling the food stamps in November. So there is an ease in terms of year-over-year comparisons for retailers, would any of you like to comment perhaps Frank you again, on what sectors, whether it's mass merchants or grocers of it benefit, or be more (inaudible).

A - Frank Badillo

No, that is an area we actually have looked at for our clients, many of whom were in those consumable areas and most affected by the shifts a year ago, the changes came in November. And what we've seen is that, those changes have affected the supermarkets and the mass retailers namely Walmart in particular most of all, as well as Dollar Stores to a lesser extent. (inaudible) through the first quarter that it appeared that Walmart was most affected negatively by some of the changes. And it's hard to tease out, how much of that was weather related versus the food stamp effects.

But we actually saw the supermarkets hold up much better and it appeared that some of these recipients consolidated some of their spending at supermarkets, so that retailers, such as Kroger, for example reported anecdotally that they actually held up better even though they were seeing fewer food stamp recipients those that they retained were spending more with them. Whereas the weather seemed to combine with the food stamp effect to hit harder at Walmart through the first part of the year.

So they're all figuring out how to do better to keep those shoppers. One of the things that has helped soften the impact of these food stamp cuts is that, as the economy has improved, we are seeing the normal cycling out of the food stamp program that happens as an economy improves. And so, generally the food stamp roll [ph] started to decline at the start of the year. There is a little bit of a blip there, but the trend should remain towards fewer food stamp recipient.

Generally as they move toward jobs, as the job and prior [ph] environment increasingly improves for those lower-income households. So a number of mix affects that makes it tough to say exactly what the effect was. But overall, like I said, supermarkets helped up better mass retailers particularly, Walmart, to get bit more in the chin in terms of those effects.

A - Poonam Goyal {BIO 16489913 <GO>}

Great, thank you. We're at the close of our hour. So I unfortunately will not be able to field any more questions. But I'd like to thank Frank, Traci, and Paul for joining us today and all of you. We hope you found the webinar insightful. And if you have follow-ups, please feel free to reach out to me and I'd be happy to take any of your questions. Thank you once again for joining. A replay will be available after the close of this webinar and you can request slides as well. Thank you.