

Retailers Prepare to Increase Promotions

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Shoppers can expect even greater sales soon.

With last week providing little encouragement, the nation's retailers appear poised to ratchet up promotions and trigger contingencies aimed at stirring shoppers.

The promotional volume may not reach the cacophony of last year, but for consumers, the real bargains could be just around the corner.

Many retailers have been in a "lull" since after Thanksgiving weekend, that is in terms of sales and traffic, and not promoting. The quiet period traditionally lasts until a week to 10 days before Christmas. Black Friday weekend, which generally was OK, is already a distant memory, given the lackluster comparable-store sales results for November reported on Thursday and the bad weather on Saturday from New England to Washington, D.C., putting a crimp in business.

On the bright side, business improved on Sunday and temperatures are finally dropping, giving hope that cold-weather clothing and accessories sales could pick up. In addition, retailers have been working closely with vendors on markdown schedules, lower prices and inventory reductions and seem prepared for the worst.

"There will be a natural progression of promotion strategies like you see every year," Brendan Hoffman, president and chief executive officer of Lord & Taylor, said Monday. "Retailers will be pulling different levers and hope the customer responds. It's still a little early to get a read on Christmas." He characterized Saturday's business as challenging, while Sunday was "fabulous," making for a good weekend overall.

"We have had positive trending business as our recent momentum would indicate, but it's very difficult for us to know exactly what that means for month-end as we are not well aligned on our calendar to last year at this time," said Pete Nordstrom, president of merchandising at Nordstrom Inc., referring to last week.

"There are a couple of major things happening that impact sales," he said, citing designer markdowns occurring later this year than last year and the timing of "customer appreciation" nights giving extra points to top credit card customers. "We do it store by store, and it doesn't line up to the exact dates as last year. All and all, we are encouraged, but very cautiously so."

"I think the week was probably a little slow. People expected things to be better," said a New York retail executive who requested anonymity. "It was a continuation of November. Business is still very challenging. Inventories are way less than last year. Nobody is promoting as hard. We should be more profitable, but sales won't be as high. People are just pretty conservative. It's not nightmarish. It's just lower than people expected. I think retailers probably planned down 11 or

10 percent, so if they end up 5 or 6 [percent] down, that's probably OK."

"It's going to get down and dirty next week," said one executive of a specialty chain. "It won't reach the nadir of last year, but there is an enormous amount of promotions going on already, whether it's Ann Taylor, Banana Republic, Gap, Saks. You name it, there are promotions — quiet ones, noisy ones. Saturday was clearly a tough day in the East. There is no reason for anything to change from November. Customers know they can wait."

Promotions have been driving sales at Jos. A. Bank Clothiers. The men's chain has been "promoting aggressively since last fall," Neal Black, chairman and ceo, said in the third-quarter earnings call last week. "It still appears that the difficult economic conditions facing consumers have not moderated enough to return to normalized regular and sale pricing. And very strong aggressive pricing and eye-catching promotions are still required to drive sales increases. We do not currently feel any warming of consumer sentiment and we are therefore prepared to continue to promote with additional marketing and aggressive prices, as needed."

Lou Amendola, chief merchandising officer of Brooks Brothers, said the company's retail stores performed above plan, though he attributed this in part to the company's two-day Golden Fleece Foundation event, whereby customers got a 15 percent discount and a percentage of the sales were donated to St. Jude Children's Hospital. "That drove people into the store for two days," Amendola said, noting donations to the hospital were also up this year over 2008. Among the top sellers were men's sportswear and shirts, he noted. "But people are still very cautious about spending, like sweaters for under \$100. They definitely have a budget."

While Brooks Bros. advertised Scottish cashmere sweaters reduced to \$179 from \$348 on Monday only, Amendola stressed: "We haven't put the store on sale. We've put items here and there on sale for a short period of time, and that drives people in. But then they shop."

"The bottom line is we know people are budget conscious and very much looking for value right now," Gap Inc. spokeswoman Kris Marubio said last week. "We're making compelling offers, hosting events and doing a big marketing push to get people into the stores."

Bloomingdale's executives declined to be specific other than to say they were quite pleased with business, with the improved third-quarter trend continuing into the fourth quarter.

"Sales volumes, by our reckoning, were good but not great, [although they] were on par for this part of December, which is normally fairly slow after the big Black Friday weekend push," said Craig Johnson, president of Customer Growth Partners. "The real 'tell' will be next Saturday [Dec. 12], which will be the second-biggest shopping day for apparel after Dec. 19, the last Saturday before Christmas."

"While we are seeing browsing and buying levels better than we were expecting this early in the season, it looks as though shoppers continue to only buy the most discounted items and very little else," said Sapna Shah, a principal at Retail Eye Partners.

"From what I'm hearing and the numbers I'm seeing, last week remains a little bit soft," said

Alan Shor, president of the Retail Connection, a consulting and brokerage firm. “Traffic seems to be down and there are fewer and fewer bags....It’s cool to be cheap and conservative about spending.”

“Similar to shopping patterns all year, we expect shoppers will wait until the week or so before Christmas to finish shopping in anticipation of better bargains from retailers,” Amy Noblin, research analyst at Pali Capital, wrote in a report issued Monday. “Most retailers were less promotional relative to last week, but almost all of the stores we visited ran some sort of promotion. In many cases, promotions were proactively planned and leaner inventory levels this year mean less breadth of markdowns versus last year.”

Even the stock market seemed to be in a holding pattern, with the S&P Retail Index sliding just 0.09 points, less than 0.1 percent, to 407.43 Monday as the Dow Jones Industrial Average inched up 1.21 points to 10,390.11.

Despite the stagnation, shares of Zale Corp. swooned 24.4 percent to \$3.75 after the jeweler’s November comparable-store sales fell 18.6 percent, according to a Securities and Exchange Commission filing. Shares of The Bon-Ton Stores Inc. dipped 1 percent to \$12.42 after the company said it amended its revolving credit facility. A \$675 million, three-and-a-half-year facility replaced the \$800 million agreement expiring in March 2011.

Shares of Aéropostale Inc. Monday rose 4.3 percent to \$30.20. After the market closed, the teen retailer unveiled a \$250 million increase in its share repurchase program, lifting the total available for buybacks to \$290 million.

Noblin noted that Abercrombie & Fitch continued to run its bounce-back promotion, offering a \$25 gift card for every \$100 spent, and that store associates previously said the promotion would run through December. On Sunday, Hollister reinstated its Black Friday promotion, which was for every \$75 spent, a customer received \$25 in gift cards. Hollister also continued to promote denim and offered a promotion of buy one, get one 50 percent off all tops, Noblin noted.

Aéropostale, she predicted, “will light the promotional ammo when traffic picks back up later this month. While we believe Aéropostale will compete well during the holiday season, we think investors are skeptical of tough compares and peak-ish margins.”

Some better and luxury stores seemed to buck the national trend. At Forty Five Ten in Dallas, women shopped for themselves and for gifts, according to co-owner Brian Bolke. “The mood of the shoppers has been such a drastic change from what we’ve been experiencing,” he said. “Last year there was a lot of ‘I shouldn’t.’ This year it’s not in their vocabulary.”

At Ron Herman’s namesake store and his Fred Segal boutiques on Los Angeles’ Melrose Avenue, jean leggings, leather items, accessories and fine jewelry were top sellers post-Black Friday. Herman said he would continue to hold off on markdowns this season, with no sale planned until the new year. “People don’t want picked-over merchandise,” Herman said. “People have higher expectations when you pay full price. When people spend their money with more discretion in this economy, they are more picky and selective — that suits my business very

well.”

Online sales, while robust by some measures, seem to be simmering down. comScore, which tracks the digital world, reported Sunday that, for the holiday season to date, \$15.3 billion has been spent online, a 4 percent gain compared with the same period last year. “The most recent week saw three individual days eclipse \$800 million in spending, led by Cyber Monday, with \$887 million in spending, matching the heaviest online spending day on record. The following Tuesday nearly matched the Cyber Monday total with \$886 million in spending, while Thursday [Dec. 3] reached \$808 million in spending,” comScore said.