



To: US Retail Partners
From: Darrell Rigby, Kris Miller and Josh Chernoff

Consumers finally emerged in November, taking advantage of frequent promotions and deep Black Friday discounts. They flocked to stores, websites, even their smartphones in response to deals that retailers made available across channels. Most retailers were well prepared for the surge in traffic, having put extra emphasis on core in-store execution. Still, despite a strong month and the best Thanksgiving weekend on record, the battle is not yet won. The big challenge for retailers is to maintain this impressive momentum in December and to keep consumers coming back for more.

The holiday season is off to a dazzling start

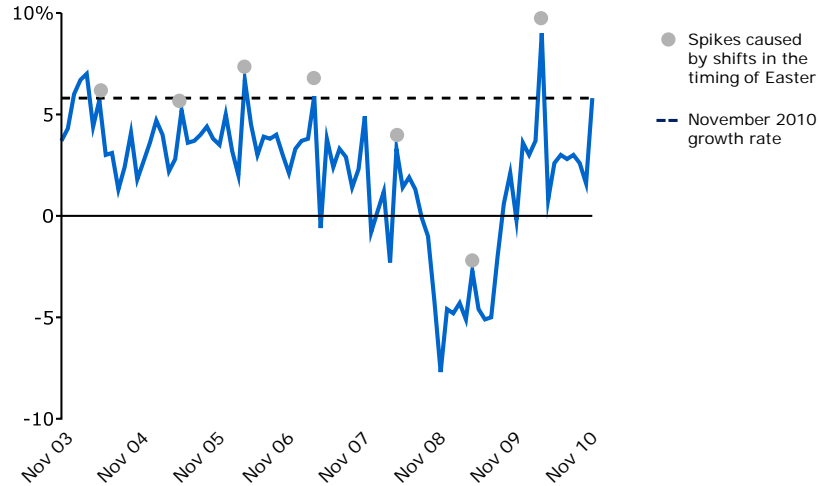
Retailers enjoyed a very strong performance last month. According to the International Council of Shopping Centers, same-store sales surged 5.8% over last year, the largest monthly increase since February 2004 (**Chart 1**).¹ Growth was strong in all categories, led by 6%-plus growth in sales at specialty apparel and department stores, a welcome boost after a much weaker October for both store types (**Chart 2**). Clearly, retailers did a lot of things right, including talking up discounts that enticed consumers to shop early and often. Other factors were also at work: Comparisons were “easy” after same-store sales fell 0.2% and 7.7% in November 2009 and 2008, respectively; consumer confidence hit a six-month high; and colder weather set the winter buying season in motion.

Growth was even more notable online, where sales jumped 13% in November (**Chart 3**). Very few retailers break out their online sales, but Macy’s noted that online sales this year were up 31.8% in November and 28.9% year to date. According to MasterCard’s SpendingPulse, the largest increases were in children’s clothing and shoes, which saw year-over-year growth of 33.3% and 32.7%, respectively. If historical trends hold, there is more e-commerce action to come. In 2009, December 15 was the biggest online shopping day of the year; and between 2004 and 2008, the biggest days all fell between December 9 and December 13. Although one big day doesn’t guarantee the month, it does give omnichannel retailers something to look forward to.

¹ This excludes frequent spikes in March or April caused by shifts in the timing of Easter.

Chart 1:

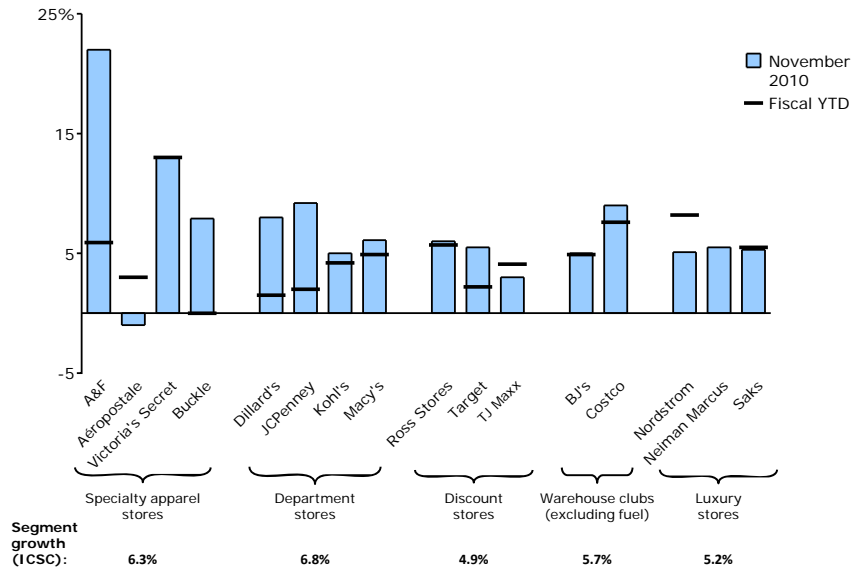
Year-over-year growth in monthly same-store sales, November 2003-November 2010



Note: Excludes Wal-Mart
 Source: International Council of Shopping Centers

Chart 2:

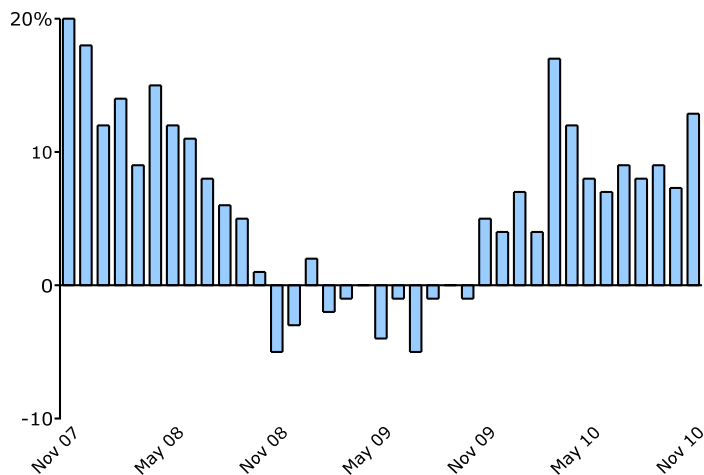
Year-over-year growth in monthly same-store sales, November 2010 and fiscal year to date



Note: Data are not available for women's apparel stores; Costco includes US stores only; fiscal YTD data are not available for Neiman Marcus; Nordstrom includes Nordstrom Rack, and Saks includes Saks Off 5th
 Source: ICSC; Financo; company press releases

Chart 3:

Year-over-year e-commerce growth, November 2007-November 2010



Note: November 2010 growth is based on data from November 1-29, 2010
Source: comScore

Black Friday and Cyber Monday broke records as consumers started to splurge a little

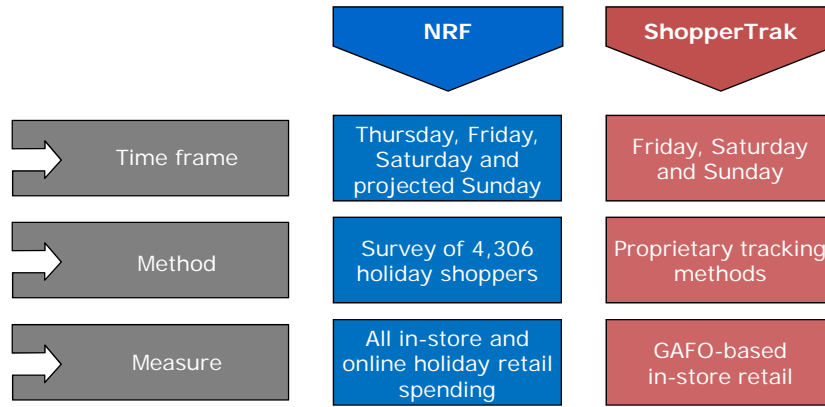
This year's Black Friday and Cyber Monday results have retailers smiling. Estimated sales for Thanksgiving weekend (Thursday through Sunday) outpaced nearly all prior-year tallies – both offline and online. The National Retail Federation reported increases in sales (up 9.2%), traffic (up 8.7%) and average spend (up 6%). ShopperTrak also reported increases in traffic (up 2.8%) but estimated that weekend sales were flat versus last year. The variations here stem from differences in time frames, methods and measures (*Chart 4*). Online sales were also strong for the weekend, increasing 13% from Thursday through Sunday, according to comScore.

The actual days of Black Friday and Cyber Monday were the stars of the shopping show, led by online growth. Black Friday sales were up 0.3% on top of last year's 1.6% increase, according to ShopperTrak; and comScore further reported a 9% increase in online sales on Friday. Cyber Monday also saw very strong online results: According to comScore, spend was up 16%; the average amount spent was up 12%; and traffic was up 4%.

Consumers purchased more gifts and even indulged themselves over the holiday weekend. According to the NPD Group, 33% of consumers bought items for themselves on Friday and Saturday, compared to only 26% last year. NRF vice president Ellen Davis confirmed that "people were out buying for themselves."

Chart 4:

Holiday sales-tracking approaches

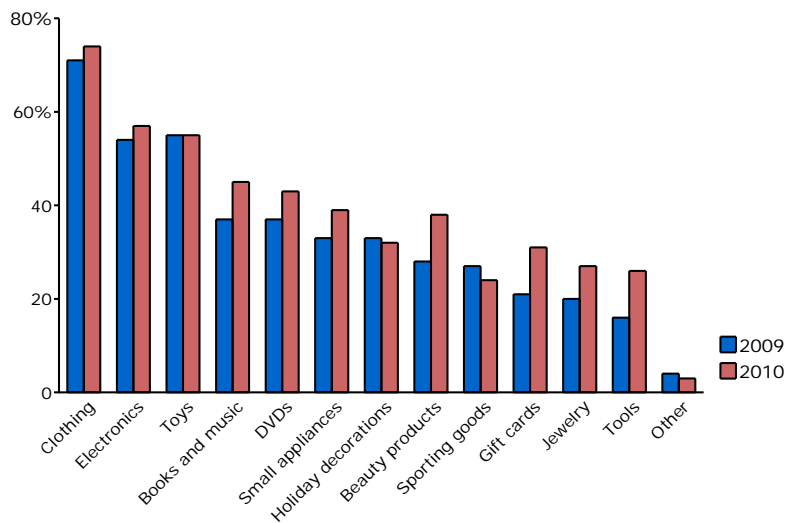


Source: National Retail Federation; ShopperTrak

Clothing was once again the most popular item purchased over the weekend, according to both the NRF and the Consumer Electronics Association. The CEA reported that 74% of shoppers bought clothing items on Black Friday, up 3 points from last year (*Chart 5*). Sales in the category likely received a boost as temperatures dropped following an unseasonably warm October. Lord & Taylor’s CEO Brendan Hoffman agreed, noting that “a lot of cold weather categories kicked in” and pointing to increased sales of boots and cashmere sweaters.

Chart 5:

Black Friday sales by category, 2009-2010



Note: Based on a telephone survey of 1,262 adults (629 men, 633 women) conducted between November 26 and 28, 2010
Source: Consumer Electronics Association and CARAVAN survey

Electronics overtook toys as the second most popular category. A full 57% of shoppers bought an electronic product last weekend, up 3 points from last year. The increase was especially notable online. According to the CEA, 25% of Black Friday electronic purchases were made online this year, up from 17% in 2009. Kathee Tesija, Target's executive vice president of merchandising, cited Apple's iPod and Nikon's COOLPIX camera as top-selling items driving growth in electronic sales.

Some of the largest increases were in more discretionary categories. "On Black Friday, we did see more consumers dip their toes back into the discretionary spending pool," said Ken Perkins, president of Retail Metrics. For example, 38% of shoppers purchased beauty products, up from 28% last year; and 27% bought jewelry, up 7 percentage points (*see Chart 5*). Diane Irvine, CEO of Blue Nile, described the weekend as "encouraging" and indicated there's "a good chance" the company will have a record season.

Shopping started early, ended late and happened everywhere

Remember when Black Friday meant a one-day sale to lure shoppers into stores? Those days are gone. Black Friday has turned into a marathon event that spans days—even weeks—and channels. This year, retailers capitalized on several "game changers" that had a significant impact on Black Friday shopping:

- Retailers spread the Black Friday word early, and consumers listened.
- Online deals were pervasive and available earlier and longer.
- Shopping has become a Thanksgiving Day tradition.
- Smartphones made "anywhere, anytime" a reality.

Retailers spread the Black Friday word early, and consumers listened

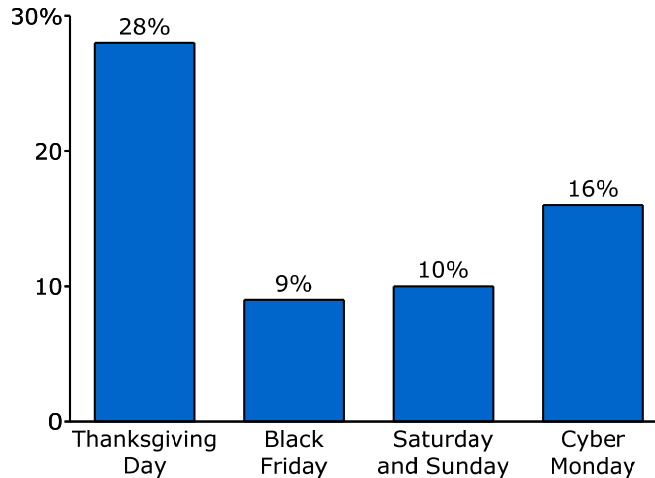
Eager shoppers once had to wait for Thanksgiving Day circulars to plan their Black Friday shopping. This year, consumers were reading about promotions days or even weeks before the big day at websites like blackfriday.net, where unique visits were up 42% over last year. In fact, the Consumer Electronics Association reported that the percentage of shoppers relying on online ads to plan their Black Friday shopping increased 14 points over 2009, to 52%.

Online deals were pervasive and available earlier and longer

Multiple retailers, including Best Buy and Macy's, made many of their Black Friday deals available online starting Thursday and continuing throughout the weekend. And the deals did not end there. According to Shop.org, 88% of retailers featured Cyber Monday promotions, up from 72% in 2007. As a result, e-commerce sales reached new highs, growing every day over the holiday weekend and on Cyber Monday (*Chart 6*). To keep the momentum going, retailers like Sears and Kmart continued their Cyber Monday promotions through Thursday of "Cyber Week," while Amazon and Wal-Mart made theirs available through Friday.

Chart 6:

Year-over-year e-commerce growth,
Thanksgiving weekend and Cyber Monday 2010



Source: comScore

Shopping has become a Thanksgiving Day tradition

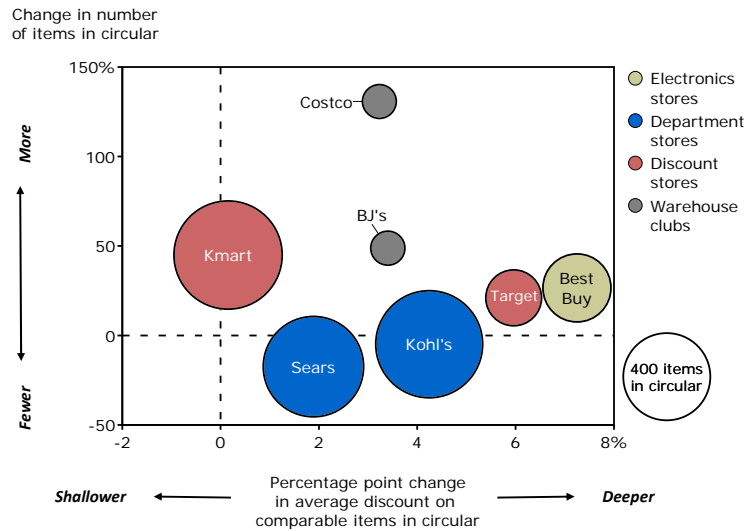
The number of people who were shopping on Thanksgiving Day, both online and in stores, has almost doubled since 2005, from 10.3 million to 22.3 million, this according to the NRF. Sears, Old Navy, Sports Authority and Toys “R” Us were among the retailers that chose to open their doors on the holiday. Others encouraged consumers to shop from home by making their Black Friday deals available online a day early. The result: Online spending on Thanksgiving increased 28% over last year, according to comScore (see *Chart 6*).

Smartphones made “anywhere, anytime” a reality

Smartphone penetration is expanding; shopping applications are improving; and more retailers are focusing on mobile devices as a sales channel. As a result, consumers increasingly are turning to their smartphones for on-the-go research, price comparisons and purchases. Mobile sales on eBay on Black Friday almost doubled over last year. PayPal saw mobile sales almost triple on Thanksgiving Day and Black Friday. And a full 19% of Rue La La’s sales on Thanksgiving Day – which were up 79% this year – were made via mobile devices, up from only 2% a year ago.

Chart 7:

Change in breadth and depth of Black Friday discounts, 2009-2010



Note: Change in number of items measures the percentage change in the number of items featured in Black Friday circulars from 2009 to 2010; change in average discount measures the percentage-point difference between 2009 and 2010 discounts on comparable items; number of comparable items by retailer ranged from 5 to 30; the diameter of each circle in the chart indicates the approximate number of items the retailer advertised; number of items counts all CDs and DVDs as a single item
Source: Company Black Friday circulars

Retailers spiced up their traditional Black Friday tactics

On the big day, retailers turned to their Black Friday playbooks for classic success strategies and then updated and enhanced them. Deals were better; crowd control was smoother; and shoppers generally reported positive in-store experiences.

Retailers enticed shoppers with deals they could not pass up

The typical Black Friday whirlwind of discounts turned into a tornado this year. Bain tracked the breadth and depth of Black Friday discounts offered by a sample of seven retailers over the last three years.² Last year, retailers expanded the breadth of their Black Friday offerings but were very protective of margins: Discounts were shallower than they had been in 2008. This year, we saw a reversal of this trend. Almost every retailer we examined delivered deeper discounts (*Chart 7*). As Best Buy CEO Brian Dunn noted, "It's a great holiday season to be a customer. [There is] great pricing . . . across the board."

Too-good-to-be-true promotions and early-bird specials were everywhere. Target was selling a 40-inch flat-screen TV for an unprecedented \$298. Supermarket chain ShopRite advertised a Garmin GPS – not your usual food store fare – in its circular for 20% less than other brick-and-mortar retailers . . . and 55% less than the original retail price. Toys "R" Us began its doorbuster deals at 10:00 p.m. on Thanksgiving night. Sports Authority

² Our sample is based on circular data from Best Buy, BJ's, Costco, Kmart, Kohl's, Sears and Target.

offered gift cards ranging in value from \$5 to \$500 to the first 80 people in line on Friday morning. And Borders had breakfast waiting for the first 1,000 shoppers to walk into its stores. The incentives succeeded in driving early traffic: The NRF reported that by 4:00 a.m., nearly one-fourth (24%) of Black Friday shoppers were already in stores.

Retailers also pushed the envelope with deals for their loyal customers. Gymboree and Macy's both sent customers extra coupons to use on Black Friday. Other retailers went even further. Saks and an Elie Tahari outlet, for example, sent e-mails to their best customers, inviting them to come into the store up to a week in advance and pick out items for a sales associate to ring up on Black Friday and then ship or hold for pickup.

Retailers delighted shoppers with a flawless in-store experience

Delivering a flawless in-store experience was a top priority for retailers, starting with safe and smooth operations. Chicago Premium Outlets, a mall with 120 shops, had police officers directing traffic and an army of private security personnel patrolling the sidewalks. And a number of Best Buy stores kept crowds under control with security barricades instead of just the yellow caution tape used in the past.

Inside stores the emphasis was on service. Said one shopper: "Best Buy learned from the past. Instead of having the cashiers at the front of the store, they placed credit card only registers all around, so our wait in line was less than 30 minutes." A Sears customer "actually had an awesome experience on Friday morning." She was able to complete her flat-screen TV purchase within a matter of minutes thanks to "tons of great staff available to assist you with any questions." And a Macy's in Hawaii had employees pushing shopping carts full of discounted merchandise, offering customers additional deals while they waited in line to pay.

Able and helpful salespeople played a pivotal role in keeping customers satisfied – even thrilled – with their shopping experience. One Apple customer was wowed by the sea of red-shirt-clad employees at a local store, where the ratio was "practically one-to-one" even during peak hours. When a shopper at Dick's Sporting Goods asked a floor person about a grill he was considering, the clerk informed him that if he waited 10 minutes, the grill's price would be reduced another 30%. Exactly 11 minutes later, Dick's had made a sale. An Australian shopper was hoping to get an additional 15% off her sizable purchase by applying for an Ann Taylor LOFT credit card, but was turned down because she didn't have her passport. What did the staff do? They gave her the discount anyway, eliciting an "amazing" review from her friend.

November was a win, but retailers need to keep their head in the game

Strong same-store sales last month and a successful Thanksgiving weekend made for a very encouraging start to the holiday season, but we are only partway home. November sales may have received a boost from consumers who delayed purchases in October or front-loaded December buying in response to deep discounts. And if shoppers bought only the best deals, margins could get squeezed. As Macy's CEO Terry Lundgren points out, "there's just no guarantee" that the season overall will be a success.

Whatever their results last month, retailers are going to have to continue drawing shoppers into their stores in December. Tactics will vary, though a number of retailers have already been using bounce-back offers – promised savings off future purchases – to encourage shoppers to come back. On Black Friday, for example, Kohl’s passed out \$10-off cards to shoppers who spent over \$50, valid between November 29 and December 6. Matt Shay, president and CEO of the NRF, reminds retailers that “it will be important to keep momentum going with savings and incentives that holiday shoppers simply can’t pass up.”

Newsletter schedule

Our next newsletter will be released in mid-December, and a final issue will be released in mid-January (Chart 8). Please let us know if you have any questions or need additional analysis.

Chart 8:

Indicator update and newsletter schedule

Data Source	December				January			
	5	12	19	26	2	9	16	23
US Census Bureau Advance Retail Sales (GAFS/GAFO)	▲ 14-Dec				▲ 14-Jan			
ICSC Monthly Same Store Sales					▲ 6-Jan			
Michigan Consumer Sentiment Index	▲ 11-Dec		▲ 23-Dec					
Consumer Confidence Index					▲ 28-Dec			
Bain Retail Holiday Newsletter	★				★			

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