

2013 BDO USA, LLP RETAIL COMPASS SURVEY OF CMOs



RETAILERS BRACE FOR SHORT, FIERCELY COMPETITIVE HOLIDAY SEASON

SANTA MAY BE TIGHTENING HIS BELT THIS HOLIDAY SEASON.

Amid ongoing Federal budgetary concerns, underwhelming fall sales and slow economic growth, consumer confidence is shaky at best, leaving retailers with questions about how they will fare during the crucial fourth quarter.

In this environment, our eighth annual *Retail Compass Survey of CMOs* polled 100 chief marketing officers at leading retailers to gauge their sentiments on holiday sales, promotions and strategies to tempt consumers in a crowded and fiercely competitive market. We found that retailers have tempered holiday sales projections following cheerier expectations in 2012, which proved overly optimistic. And with consumer spending levels a little more tenuous, retailers again planned a full promotional blitz, aiming to reach

shoppers across channels and capture sales throughout the season.

► REALISTIC SALES PROJECTIONS

Looking at holiday comparable store sales, CMOs forecast a modest 2.5 percent increase, down from a 3.7 percent projection in 2012. Retailers also have slightly lower expectations for total sales. Overall, CMOs forecast a 3.8 percent increase in total holiday store sales, down from an expected 4.7 percent increase in 2012. The 2013 projection is consistent with the National Retail Federation's forecast of a 3.9 percent increase in holiday sales. While expectations may be muted, it's still good news that a majority of CMOs (58 percent) expect sales to increase this year, while just six percent forecast a sales decrease.

► Read more

THE BDO RETAIL COMPASS SURVEY OF CMOs is a national telephone survey conducted by Market Measurement, Inc., an independent market research consulting firm, whose executive interviewers spoke directly with chief marketing officers. The survey was conducted within a scientifically-developed, pure random sample of the nation's leading retailers. The retailers in the study were among the largest in the country, including 11 of the top 100 based on annual sales revenue. The eighth annual survey was conducted in September and October of 2013.

For more information on BDO USA's service offerings to this industry, please contact one of the following regional practice leaders:

CONTACT:

DAVID BERLINER, New York
212-885-8347 / dberliner@bdo.com

PAUL BROCATO, Chicago
312-616-4639 / pbrocato@bdo.com

AL FERRARA, New York
212-885-8000 / aferrara@bdo.com

RANDY FRISCHER, New York
212-885-8445 / rfrischer@bdo.com

DOUGLAS HART, San Francisco
415-490-3314 / dhart@bdo.com

NATALIE KOTLYAR, New York
212-885-8035 / nkotlyar@bdo.com

ISSY KOTTON, Los Angeles
310-557-0300 / ikotton@bdo.com

ALAN SELLITTI, New York
212-885-8599 / asellitti@bdo.com

TED VAUGHAN, Dallas
214-665-0752 / tvaughan@bdo.com

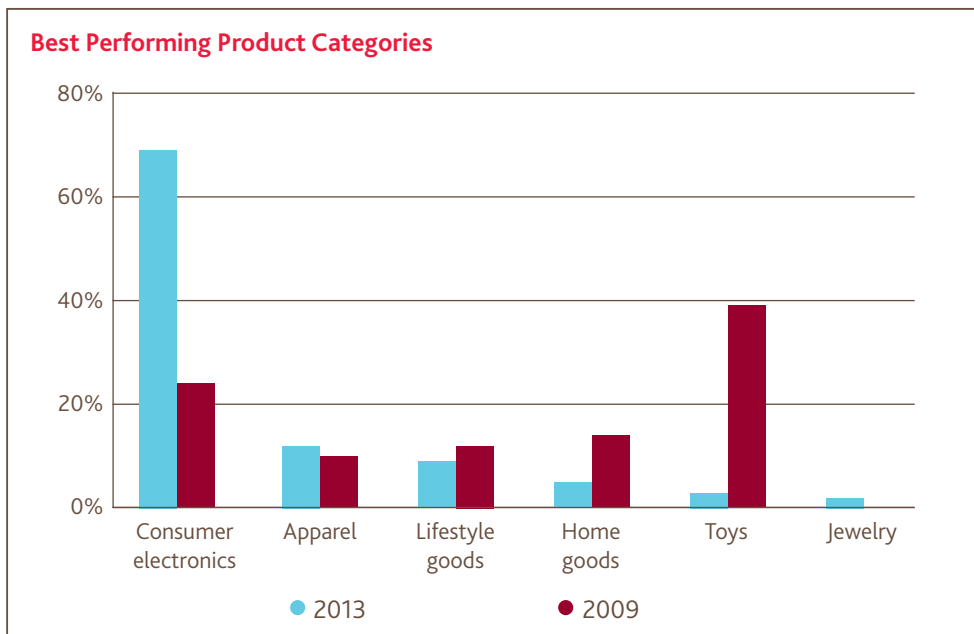
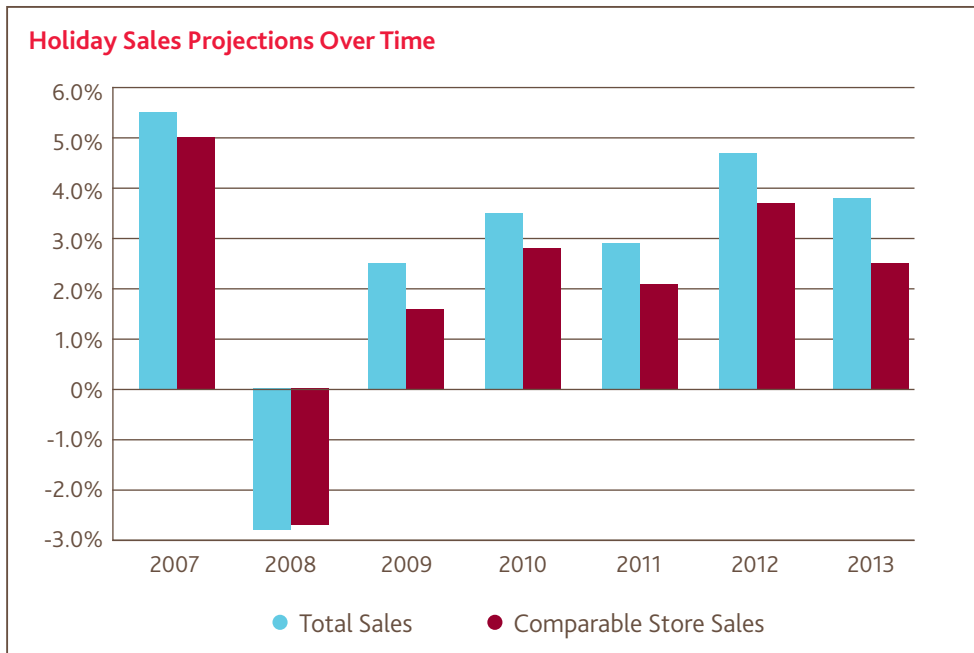
“We’re seeing retailers enter the holiday season with realistic, rather than optimistic, expectations,” Doug Hart, partner in the Retail and Consumer Product Practice at BDO, told the *Los Angeles Times*. “Consumer confidence took a hit this summer amid slow economic growth and Federal budget challenges, and it is still uncertain at best. However, we expect to see a heavy promotional environment, which should help consumers warm up to spending this holiday season.”

► UNEMPLOYMENT STILL TOP THREAT TO HOLIDAY SALES

When asked which issue presents the biggest risk to holiday sales, a plurality of retailers (47 percent) point to unemployment. It’s no surprise that the high rates of long-term unemployment and underemployment continue to challenge consumers and concern retailers, but a number of other issues could also stymie spending. While fewer retailers point to energy and fuel costs (13 percent vs. 25 percent in 2012), the amount of retailers citing the housing market as the top threat doubled (16 percent vs. eight percent in 2012). And given payroll tax increases and ongoing political budget debates, six percent of retailers cite tax changes as the greatest risk to holiday sales.

► CONSUMER ELECTRONICS & GIFT CARDS AMONG HOTTEST CATEGORIES

Following the release of new iPads, as well as other tablets and phones, it’s no surprise that most retail CMOs again expect consumer electronics will be both the top performing (69 percent) and most discounted (58 percent) category this holiday season. According to the Consumer Electronics Association, electronics sales are projected to increase four percent this holiday season, and Wal-Mart reported in October that tablets already accounted for four out of its top five items in layaway. This marks a continued shift in consumer preference from traditional toys to modern consumer electronics as holiday gifts. The number of retailers expecting consumer



electronics to be the hottest category has increased from 24 percent to 69 percent from 2009 to 2013, while those citing toys have decreased from 39 percent to three percent over the same period.

Gift cards also remain a very popular option for busy shoppers and those with discerning family and friends on their holiday shopping lists. The NRF reports that eight in 10 shoppers will purchase gift cards this year, with total spending on gift cards expected to reach \$29.8 billion. Among surveyed retailers who sell

gift cards, 61 percent expect gift card sales to increase this season, marking a significant rise since 2009, when just 32 percent of CMOs projected an increase. Overall, retailers forecast a 6.9 percent growth in gift card sales over 2012, which could provide a boost to sales in January and February as consumers begin redeeming. Retailers, including Target and Wal-Mart, have also incentivized early season and Thanksgiving weekend shoppers to return later by offering gift cards as a bonus offer for big ticket items like electronics.

► INVENTORY LEVELS REMAIN STEADY AMID CONTINUED CAUTION

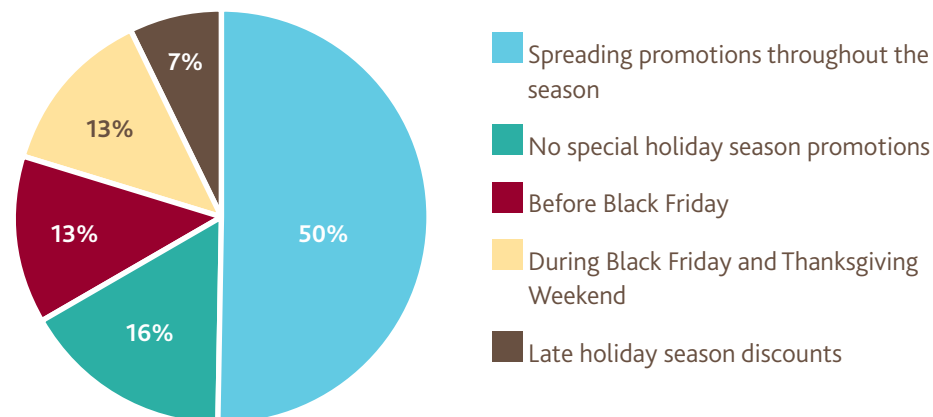
Despite high expectations for some categories, when it comes to products on the shelves, consumers can expect similar levels of availability. Most retailers (64 percent) report that they have kept their inventory levels consistent with last year, a sign that they expect similar demand levels this holiday season. Retail CMOs report a 0.9 percent increase in overall holiday inventory levels, which is consistent with their 2012 increase. With the economy and consumer confidence still fragile, retailers remain wary of oversupply, which could lead to unplanned slashed prices at the end of the season to move merchandise.

► RETAILERS LOOK BEYOND BLACK FRIDAY & CYBER MONDAY

With holiday promotions coming earlier and more frequently during the holiday season, retailers have shifted their expectations for Thanksgiving Weekend sales. This year, retailers forecasted a 3.1 percent increase in sales on Black Friday this year, mirroring their projections from last year. However, retailers moderated their expectations for growth in Cyber Monday sales, predicting that sales would grow by 3.7 percent this year, down slightly from last year's sunnier 4.3 percent growth projection. Tempered projections followed an in-store sales decline last Black Friday. But retailers still posted considerable gains in online sales that day, with IBM Digital Analytics Benchmark reporting a whopping 20.7 percent increase last year. This highlights the ongoing shift in consumer preferences from brick-and-mortar to the convenience of e-commerce, particularly on a day known for long lines and large crowds.

While CMOs still expected a lot of activity during the traditional kick off of the holiday season, brands are increasingly emphasizing deals throughout the season. Our survey found that just 13 percent of retailers planned to concentrate their promotions over the Thanksgiving weekend. Instead, the majority (50 percent) said they would spread their promotions evenly throughout the season. Many brands, including Wal-Mart and Amazon, began promoting online deals after Halloween and planned to continue

How Would You Best Describe the Timing for Most of Your Holiday Promotions?



them into December, giving consumers more opportunities to spend. 2012 results suggest that this shifted timeline is working: there were 12 days during the 2012 holiday season that saw over \$1 billion in e-commerce sales, according to comScore, proving that consumers are clicking beyond Cyber Monday.

Regardless of timing, consumers can expect to see a growing number of discounts this holiday season. Retailers know that consumers are still looking to spread their dollar as widely as possible, and majority of CMOs (63 percent) anticipate more deals this year.

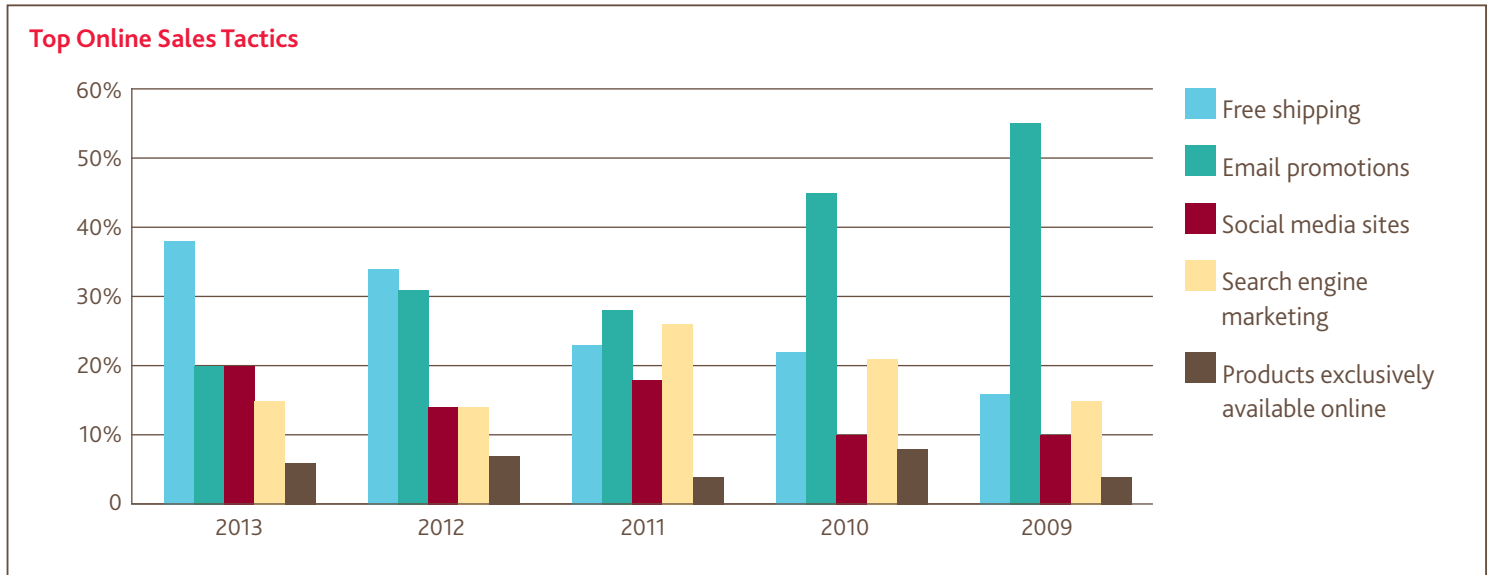
“Retailers understand that consumers are no longer limiting their shopping just to Black Friday and Cyber Monday,” Ted Vaughan, partner with the Retail & Consumer Products practice at BDO, told *Chain Store Age*. **“Though they remain important shopping days, retailers feel less pressure to post major sales gains on these two days alone, and instead are focusing on offering a compelling experience for shoppers throughout the season.”**

► HOLIDAY MARKETING BUDGETS REMAIN FLAT

Despite the promotional blitz, tepid sales projections have not encouraged CMOs to significantly adjust their spending compared to last year. In fact, 72 percent of CMOs planned to allocate roughly the same amount of funds toward marketing and advertising this year as they did in 2012. Although 20 percent planned to increase their expenditures, retailers anticipated a one percent decline in their advertising budgets overall. With flat budgets, retailers are looking to efficiently distribute their spending while updating promotional tactics and priority channels this year.

► RETAILERS STILL PRIORITIZE IN-STORE SALES

Though e-commerce has proven itself a powerful vehicle for sales during the busy holiday season, retailers still hope to attract shoppers to brick-and-mortar locations. A plurality (47 percent) of CMOs planned to focus the majority of their promotions in-store, a 15 percent increase over last year, outpacing those who hope to focus online (13 percent) or equally across channels (39 percent). However, consumers can expect to see a broader variety of promotions to get them in stores. Last year, 66 percent of CMOs pointed to exclusive in-store deals as their favored tactic; this year, that number declined to 38 percent. Meanwhile, the percentage of CMOs citing exclusive in-store brands and partnerships—such as H&M's much-



anticipated collaboration with designer Isabel Marant—doubled this year, and the proportion of retailers citing extended hours tripled.

►E-COMMERCE SALES TACTICS EVOLVE

When it comes to e-commerce, free shipping remains a top online sales trigger for retailers, with a plurality (38 percent) citing it as their preferred online promotional tactic. Many retailers that have previously shied away from free shipping, such as Neiman Marcus, are now making it a standard feature for online orders. Wal-Mart also recently matched Amazon's free shipping on orders over \$35 feature to attract more online shoppers. However, retailers are increasingly turning to social media to drive sales. This year, 20 percent of CMOs cite social media promotions as a top online sales tactic, a 43 percent increase since last year and a doubling since 2009. Email promotions, however, were cited by only 20 percent, down from 31 percent last year and 55 percent in 2009. Email is becoming an increasingly difficult way to get in front of consumers as providers, such as Gmail, begin to filter promotional emails out of users' primary inboxes.

►RETAILERS TINKER WITH SOCIAL & MOBILE STRATEGIES

Following a six-year trend, social media continues its rise as an essential element in the holiday marketing playbook. Eighty-eight percent of CMOs surveyed planned to leverage social media this season; these retailers indicate that the tactic will comprise 14 percent of their total marketing budgets on average, up from 10 percent in 2012.

Among the retailers who are incorporating social media into their marketing strategy this holiday season, Facebook (99 percent) and Twitter (52 percent) remain the two most popular platforms. Marketers are also increasingly using Pinterest (27 percent) and YouTube (24 percent) to engage customers and drive traffic to their e-commerce platforms. Target, for instance, debuted its "My Kind of Holiday" campaign this year, which uses holiday catalog Pinterest boards to attract consumers and provide ideas for how to use products in creative ways this holiday season. A solid 16 percent of retailers are leveraging Instagram this year, as well, ranging from apparel brands, such as Gap and Patagonia, to food retailers like Starbucks.

However, despite the growing prominence of social media and other forms of e-commerce, including mobile, retailers remain uncertain about the optimal mix of digital marketing strategies. While 38 percent of retailers are including mobile in their marketing strategy this year—down from 50 percent in 2012—

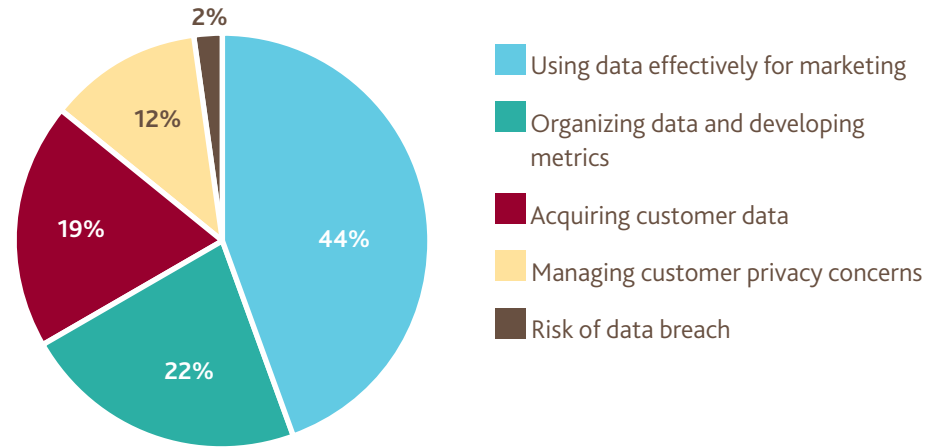
those who are embracing it are ramping up their efforts. Last year, mobile comprised an average of 5.9 percent of retailers' overall marketing budget; this year, that number has jumped to 15 percent. With eMarketer predicting a 15 percent rise in mobile shopping volume this year, the mixed survey results suggest that retailers remain divided as to the platform's growth potential and its ability to convert sales. Just four percent of CMOs say they will spend the most of their holiday marketing budgets on mobile, with more opting to focus instead on more experienced channels, including print (41 percent), broadcast (29 percent) and online advertising (19 percent).

“Retailers know they must embrace multiple channels to stay competitive this holiday season,” says Natalie Kotlyar, partner in the Retail and Consumer Products practice at BDO. “But the truth is, many brands are playing catch up with the digital movement. Consumers have come to expect social engagement; mobile is now the challenging frontier for many brands seeking to test the waters more before making a major investment during such a critical season.”

►BIG DATA PRESENTS AN ENTICING CHALLENGE FOR RETAILERS

In addition to new promotions, retailers are also experimenting with new advances in technology, such as customer face-scanning and in-store body heat mapping. As a result, brands are accumulating a growing trove of digital and in-store shopping behavior data. Nearly nine-in-ten CMOs surveyed say that they find it challenging to integrate and manage the massive amount of data available to them, down only slightly from 93 percent in 2012. Among the top big data obstacles facing retailers are the ability to use data effectively for marketing efforts (44 percent) and organizing data and developing metrics (22 percent). To meet these challenges and capitalize on opportunities, major retailers like Wal-Mart and Apple have adopted new, cutting-edge data mining systems, which help contextualize data over time and make it easier to forecast trends. With the wealth of customer data that is available now and will come in throughout the holiday season, retailers also note concerns over securing customer information and managing the privacy concerns of consumers who may not want to be tracked.

Top Data Management Challenges



►FLASH SALES LOSE APPEAL DURING HOLIDAYS

Daily deals appear to be losing steam, as only one quarter of retailers anticipated using the tactic during the holidays, down from 42 percent in 2012. Flash sales were the top mobile promotion strategy for a plurality (30 percent) of retailers last year. This year, only five percent of retailers cite flash sales as their primary mobile tactic. Overall, greater emphasis on text message campaigns (33 percent) and mobile coupons (28 percent) point to a shift in mobile strategy. Retailers like Starbucks, which is once again promoting weekly holiday offers via text, are moving to capitalize on the fact that 98 percent of text messages are opened and viewed, according to research from SinglePoint.

As our own Ted Vaughan told *Reuters*: “at certain points in history, you have a resetting of expectations. This one is proving to be very significant.” The days of double-digit percentage growth in overall holiday sales may be in the past, and retailers must put out their very best to differentiate, drive sales and avoid unplanned discounting. While we must wait for January to see how retailers will ultimately fare this holiday season, we can be certain that the holiday promotional drum will be beating steadily through the end of the year to attract as many shoppers and clicks as possible.

“In today’s online business environment, cyber security breaches pose a significant threat to retailers, particularly as they work to manage the influx of customer data that comes with the holiday rush,” said Michael Barba, managing director in the Forensics Technology Services practice at BDO Consulting. “To mitigate this risk, retailers need to evaluate their business infrastructure, policies and training programs to ensure they have the requisite systems in place to protect against potential cyber attacks and minimize the impact of a breach, should one occur.”



ABOUT THE RETAIL AND CONSUMER PRODUCTS PRACTICE AT BDO USA, LLP

BDO has been a valued business advisor to retail and consumer products companies for over 100 years. The firm works with a wide variety of retail clients, ranging from multinational Fortune 500 corporations to more entrepreneurial businesses, on myriad accounting, tax and other financial issues.

ABOUT BDO USA

BDO is the brand name for BDO USA, LLP, a U.S. professional services firm providing assurance, tax, financial advisory and consulting services to a wide range of publicly traded and privately held companies. For more than 100 years, BDO has provided quality service through the active involvement of experienced and committed professionals. The firm serves clients through 49 offices and more than 400 independent alliance firm locations nationwide. As an independent Member Firm of BDO International Limited, BDO serves multinational clients through a global network of 1,204 offices in 138 countries.

BDO USA, LLP, a Delaware limited liability partnership, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms. BDO is the brand name for the BDO network and for each of the BDO Member Firms. For more information, please visit www.bdo.com.

To ensure compliance with Treasury Department regulations, we wish to inform you that any tax advice that may be contained in this communication (including any attachments) is not intended or written to be used, and cannot be used, for the purpose of (i) avoiding tax-related penalties under the Internal Revenue Code or applicable state or local tax or (ii) promoting, marketing or recommending to another party any tax-related matters addressed herein.

Material discussed is meant to provide general information and should not be acted on without professional advice tailored to your firm's individual needs.

© 2013 BDO USA, LLP. All rights reserved.

