



A Seasonal Sales Shift: For Bargain Hunters, Retailers Make Every Day Feel like Christmas

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For most of us, "Christmas in July" is a phrase that conjures up images of cool times during summer heat waves or funny themes for a BBQ get-together. But retailers are thinking of something much different. With fears of a renewed recession in the U.S. still in the air, stores across the country continue to be worried about flagging consumer confidence. As a result, consumers spending their days at the beach or camping in the backyard during "staycations" can now find the type of deep discounts usually offered during the winter holidays.

Target, Toys R Us, Sears and Kmart are just a few of the big retailers that have launched mega-sales in recent weeks to tempt increasingly cost-conscious shoppers to their stores. This phenomenon -- known as the seasonal sales shift, or "Christmas creep" -- is not new. But in today's uncertain economic climate, it has bigger implications than ever -- both for the retail sector's growth strategies and for consumer spending habits, say Wharton and other business experts.



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According to Wharton marketing professor [Stephen J. Hoch](#), the current retail sales climate began with the onset of the downturn in 2008. "When things started [to deteriorate], people were really worried," says Hoch, faculty director of Wharton's [Jay H. Baker Retailing Initiative](#). "[People closed their checkbooks a little bit, and they \[no longer\] spent as much money on things they didn't need.](#)"

With retailers pushing sales earlier and earlier and consumers waiting later and later to buy, Baker Retailing Initiative managing director Erin Armendinger compares the situation to the children's game of chicken. Retailers, running on lean inventories, have wanted to hold off -- for as long as they could -- offering the kinds of deep discounts they promoted last year. But their customers have been "wary of buying something that wasn't on sale. If they paid full price or got only a minimal [discount], they looked silly if the price of the product was marked down dramatically in a sale later. It's this game of who was going to break down first. It's not healthy for either side."

Playing up the Value Equation

The game might not be over. Retail sales for July were down 0.2% from June, seasonally adjusted and excluding auto, gas and restaurant spending, according to the National Retail Federation (NRF). "Current data on the economy is mixed, which signals that retailers will continue planning with caution," Jack Kleinhenz, NRF's chief economist, said in a news release.

Chains, including Target, Home Depot and Lowe's, reported jumps in profit for the second quarter, but the gains came despite weaker-than-expected revenue. Wal-Mart Stores experienced a 3.6% increase in second quarter earnings, while raising its annual profit forecast. But sales at U.S. stores open for at least a year dropped 1.8% during that time, the fifth consecutive quarterly decline in a metric that is considered an important test of a retailer's performance.

Heading into a season considered crucial to their balance sheets, retailers' planning could include more markdowns. And, adds Hoch, the shift to earlier and earlier seasonal bargains is spread across the entire retail sector. "Virtually every retailer -- whether a luxury department store or a value retailer -- is trying to play up the value equation. Consumers expect that," he adds. "There has to be some sort of a value

proposition built into a product. [That proposition] may be more for the money [or] it may be better quality."

While most retailers think that delivering value is synonymous with providing good customer service, there is also an element of one-upmanship between rivals in the sector. "If you don't [make a big markdown] and someone else does, you're in trouble," Hoch notes. "You have to do it.... At a time like this, you will probably see more of it, just because consumers expect it."

But those habits can ensnare retailers in a trap, cautions Stevan Buxbaum, executive vice-president of California-based retail consultancy Buxbaum Group. "If [one chain] moves its [sale] three days ahead, then [a competitor will jump] a week ahead. Then they go 10 days ahead, and you go two weeks ahead ... and it just keeps going." Next year's Christmas season will start "in the middle of January clearance at the rate they are going." The danger is that the continuous sales and markdowns often do more harm than good, putting retailers in a position where they might "have sold more units than a year ago, but for less money."

The Other Big Season

The summer sales are not just providing early Christmas deals for bargain hunters. Consumers are also taking advantage of them for back-to-school shopping. "We are encouraged by the fact that parents are eager to start their back-to-school shopping [early] this year, but the industry still remains cautiously optimistic about recovery," Matt Shay, president and CEO of the NRF, said in a news release.

There's good reason for the reticence. Research by the NRF found that a family's spending on back-to-school items, such as shoes, clothing, supplies and electronics, will increase this year to \$606.40, from \$548.72 in 2009. But the organization also found that more families are buying generic or store-branded products -- 44.3% compared with last year's 41.7%. Some 70% of families will be going to a discount store for all or part of their shopping.

Armendinger cautions that retailers who are crafting their Christmas strategies shouldn't read too much into the back-to-school "creep." Traditionally taking place immediately before the holiday shopping season, back-to-school time should be looked at as a separate period, she says. "People tend to think that the back-to-school season is a harbinger of how people spend for the holiday season, but that turns out to not always be the case," she adds, because parents might spread out their back-to-school purchases -- buying notebooks, pens and other supplies before the new school year begins, and purchasing warmer clothes as the weather turns colder.

There is also a relatively new item on school shopping lists that retail trend watchers need to take into account -- electronics. "With the rise of the great giant Apple, you see people diverting part of their back-to-school budget into electronics," Armendinger notes. "The world is a different place than when I was a kid. Your parents are no longer just thinking about pens, pencils and rulers.... [They are also thinking] 'Are we going to buy our kid a new laptop?' That's another big expenditure that may be taking" up a big part of a family's budget.

The Risky Business of Inventory

Regardless of the season, many retailers have been adapting to the new consumer climate in other ways. For example, apparel retailers have been changing their supply chains and inventory as part of what's known as a "wear now" strategy. While in the past, suggests Armendinger, retailers rolled out merchandise for a new season on a particular day -- changing to displays of sweaters and corduroy pants in the height of summer's heat -- many are now offering a balance of clothing so people shopping in August can still find shorts and short-sleeved shirts. "Retailers started thinking ... maybe there are people who simply shop later or shop when they have the money," Armendinger points out. "It's definitely a balancing act, and it's a new one for them."

One of the long-term trends affecting retailers' inventory has been the sourcing of more products from further afield, in low-cost countries such as China, according to [Marshall Fisher](#), a Wharton professor of operations and information management. "That has made it harder to have the flexibility to match supply and demand," says Fisher, co-author of a book titled, *The New Science of Retailing: How Analytics Are Transforming Supply Chains and Improving Performance*. "The heavy prevalence of markdowns is a

result of the long-term trend" as retailers work to improve how they match supply with demand.

In the short term, Fisher notes, retailers have "hunkered down" and tightened procurement and other budgets. He suggests such action may have helped some retailers avoid a strategy of dramatically low markdowns. But it's risky, he warns. Cutting back too deeply -- not only on inventory, but also on staffing and hours -- can lose customers. "You buy too much inventory and you die of a heart attack. You're too cautious and you could bleed to death."

Given the various risks, it's not surprising that some companies haven't hopped on the markdown bandwagon. Apparel retailer Abercrombie & Fitch is a case in point, Buxbaum suggests. "[Abercrombie] still isn't running sales, but it has lowered prices coming out of the chute. It doesn't want to appear to be too expensive [so] it's having more [items] at the lower price range than the higher price range to maintain that image, and saying, 'When this [downturn] is over, we still want to be Abercrombie. We don't want to be [a lower-price retailer like] American Eagle.'"

But Abercrombie recently announced that it will close 60 of its 1,098 stores this year and 50 in 2011. The retailer, which mostly caters to teens, posted a 5% increase in quarterly same-store sales, but CEO Mike Jeffries told analysts in a conference call that the chain's average unit retail price was about 15% lower than in the second quarter of 2009.

Kicking the Habit

What happens when the economy does pick up? Hoch predicts that it will take a long time before consumers return to their old shopping ways, and that they will need a lot of reinforcement to change. Think of how long it has taken to wean consumers off buying gas-guzzling cars, he points out, which are often less expensive than fuel-efficient ones but cost much more to keep running. As for how long the current markdown frenzy continues, Hoch thinks it depends on two things: "How long [the downturn] goes on, [causing] people to form new habits, and how painful it is over that period."

Buxbaum agrees that a return to the old ways -- occasional sales with conservative markdowns -- won't happen overnight. "When you train consumers to expect a discount -- where they are not buying if it's not 50% [cheaper than the sticker price] -- that cycle takes some time to break." It's not only consumers who will be readjusting. Retailers will have to as well. "Pretty soon, every weekend will have a sale. What else are you going to do?" he asks. "If you stop doing it, people stop buying.... It's like a drug that you can't get off of."

The changing seasonal shift doesn't have to be all bad news for a retailer, notes Fisher. "A bold retailer could use this opportunity to gain [market] share, if it has the guts. You could do things that could gain traction on the competition, including making sure you don't miss any sales [and having] good products in stock."

But there's a twist. Many studies of consumer behavior have found that in times of uncertainty -- such as a recession -- consumers make more impulse purchases, says [Katherine L. Milkman](#), a Wharton professor of operations and information management. It's the retailing equivalent of comfort food. "We cut back on everything, but then we are just more susceptible when we are faced with a choice between something hedonic and something non-hedonic," she says. "With a choice between one and the other, uncertainty does enhance the likelihood that people are choosing the junk."

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