

# 2014 Retail Executive Survey Holiday Trends Report



## Top retail executives see 2014 holiday sales exceeding sales from the prior six years, but challenges like thinning margins remain.

As retailers around the globe prepare for their busiest time of year, 82 percent of top executives are expecting topline sales this holiday shopping season to be the best in years according to a survey conducted by the Hilco Global Retail Group.

A new survey of C-Suite executives at some of the world's leading retail companies with sales of \$250 million or more, indicate optimism for year-over-year sales gains this holiday season. However, executives also voiced concern about margin pressure as a result of e-commerce pure play retailers, continued entrance of global retail competitors, early pre-season discounts and the shift of in-store sales to online and other digital platforms.

Holiday sales have steadily increased each year since the Great Recession of 2008,

with the average annual sales gain at 2.9%. But, this year, the National Retail Federation (NRF) and the International Council of Shopping Centers (ICSC) are both looking for the first 4% holiday sales gain since 2011, a view that is also validated by this new 2014 Hilco Global Retail Executive Survey.

According to the Hilco Global survey which was completed in November of this year, retail executives indicated that the strongest growth in retailing this holiday season will come in four sectors:

- **Department Stores**
- **Apparel Stores**
- **Consumer Electronics and Mobile Devices**
- **Beauty and Personal Healthcare Stores**

### Hilco Retail Board of Advisors

The board is composed of retail leaders with significant experience in retail business, investment banking, financial planning, digital e-commerce and retail talent management. The Advisory Board, together with executive managers at Hilco Global Retail Group, supports retailers and the capital markets by identifying and providing transformational strategic and operational guidance.

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**Antony Karabus and Farla Efros**  
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**Tom Greco and Tim Anderson**  
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### Other key findings from the survey:

## 2014 Holiday Discounting: it's the “new normal”

Retailers don't like discounting, yet 65% feel they must continue to rely heavily on this tactic as a means to maintain market share, reduce the amount of excess inventory and increase in-store traffic. “Super-discounting” on unique, limited stock items will be used to drive traffic during key shopping timeframes, not just Black Friday, or Cyber Monday.

## 2014 Holiday Emphasis: improve the “in-store experience”

To improve in-store traffic and conversion, retailers will work to make the store environment more convenient, easier to navigate and discover products, easier to checkout, easier to obtain advice and sales support and ultimately, easier to buy. Improvements in employee staff training and customer service experiences will be evident this holiday season. Retailers will engage with their customers through more interactive displays, customer events, sampling and “one-of-a-kind experiences.” Bringing digital capabilities into stores to better serve customers is key to creating a more convenient and more relevant store experience. Broad uses of self-checkout systems and stations, virtual sizing and dressing rooms and tactics like purchase online and in-store pick-up will be employed this season.

## 2014 Holiday Investment: more extensive “data-based marketing” via online, digital and mobile tools

Investments in data gathering, mining capabilities and technology will be increased to capture new customers and further solidify relationships with current customers. Retailers are investing in technology that unlocks the value of mobile phones and tablets as a means of converting sales and developing both strong online and in-store experiences. Through mobile devices such as the new Apple iPhone 6 and other smartphones, retailers will expand loyalty programs, increase bounce back couponing and accept payments via new systems like ApplePay. The use of geo-tracking systems and social media to execute special limited time offers is expected to increase as well.

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The following summarizes the **2014 Retail Executive Survey - Holiday Trends Report** and outlines the opinions of executive management at the world's leading retailers. The report covers some of the top retail strategies and anticipated sales results for this holiday season. The report has been categorized into the following sections:

- **Section 1:** Retailer Challenges
- **Section 2:** Discounting and Promotions
- **Section 3:** In-Store Shopping Experiences
- **Section 4:** Digital and Mobile Technology

## Section 1: Retailer Challenges

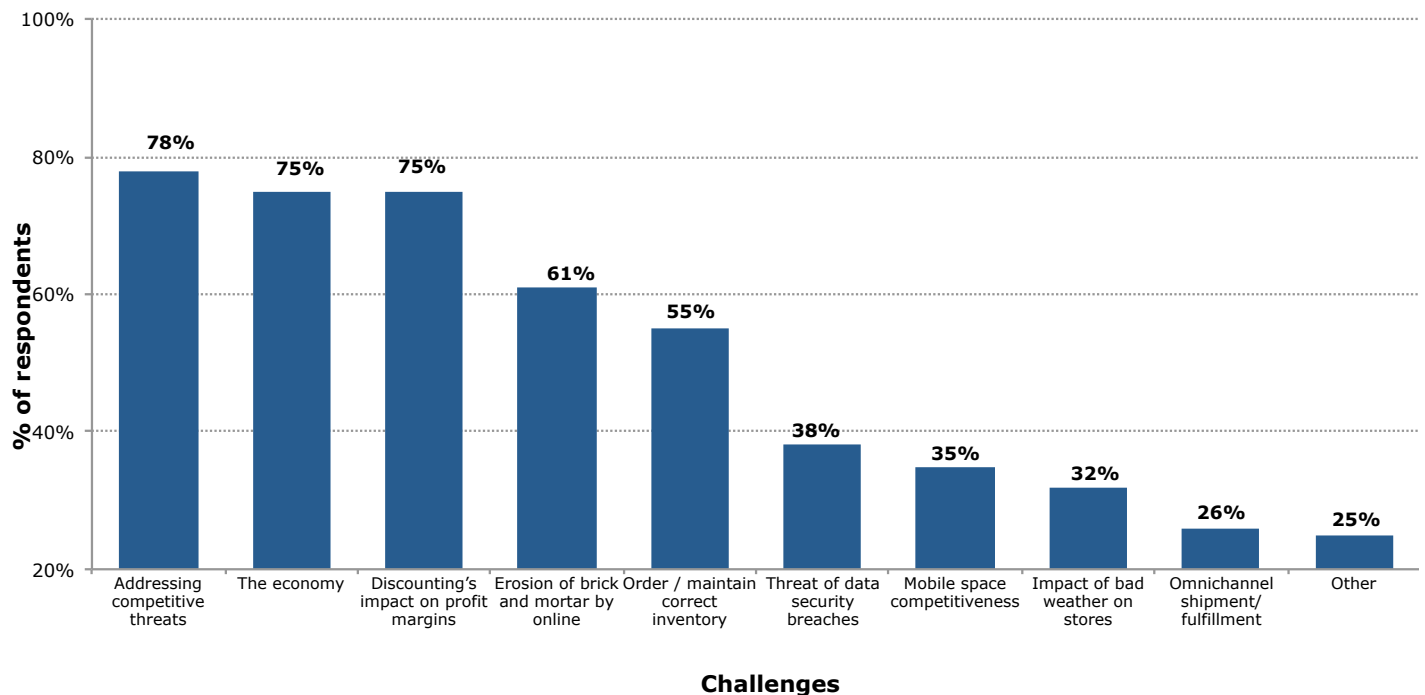
Despite some optimism around the 2014 holiday shopping season, retailers are not stress-free. Over two thirds of the senior executives that Hilco Global surveyed ranked their top five most significant challenges for this year's holiday season as:

1. Addressing fierce competitive threats (78%)
2. A weaker than anticipated economy (75%)
3. Discounting's impact on profit margins (75%)
4. Continued erosion of in-store sales by online channel (61%)
5. Ordering and maintaining correct inventory levels (55%)

When asked to select the single most important challenge facing the health of their business this holiday season other than the economy, over half the retail executives surveyed indicated that the erosion of in-store sales by online retailers or competitive price wars and the impact of discounting on margins, were the most significant concerns. Retail executives also expressed concern over balancing inventory to avoid having too much cash tied up in stock levels on-hand.

### Competitive threats, the economy, discounting's impact on profit and the erosion of store sales are the primary challenges most retailers are facing this holiday season.

% of respondents indicating challenge as a top five priority for the 2014 holiday season



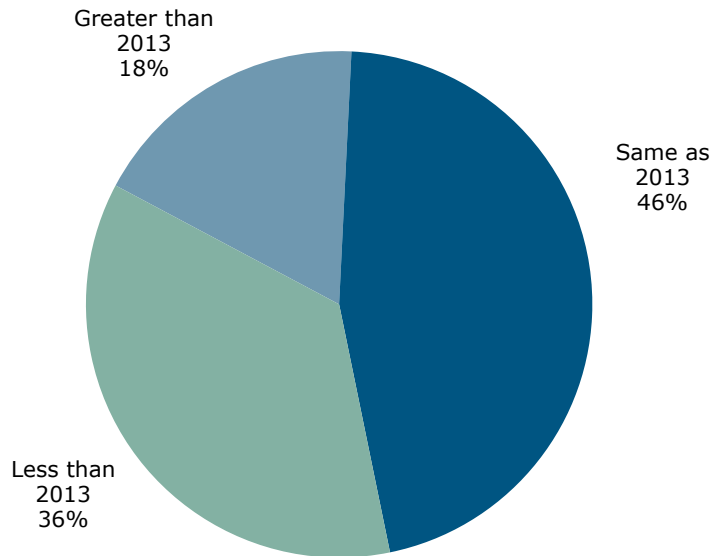
**“While the C-Suite respondents in the Hilco Global retail survey predict better overall sales results versus the last several years, they remain apprehensive about the overall stability of the retail industry, in particular the brick and mortar channel,” said Antony Karabus, CEO of HRC Advisory, the retail consulting unit of Hilco Global. “Although the US economy has shown improvement the last few years, retailers are leaving little to chance...inspiring many to put specific strategies and tactical plans in place to protect market share, which include discounting, improving the in-store experience and enhancing digital, social media and online activity,” added Karabus.**

## Section 2: Discounting

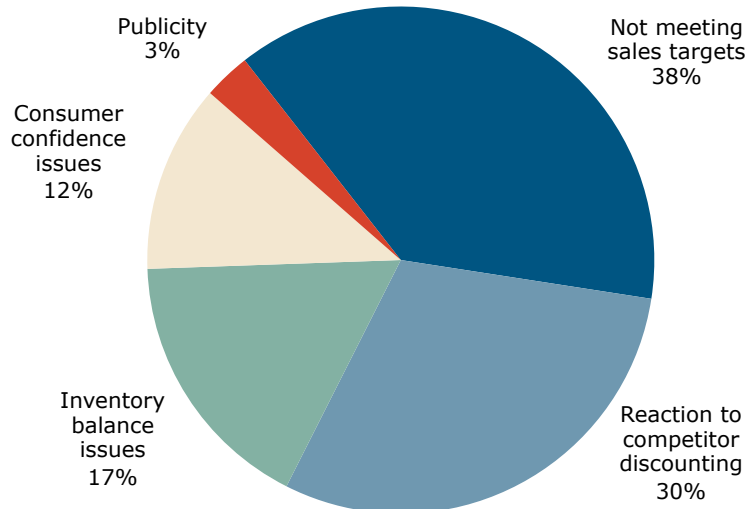
A majority of the C-suite retail executives surveyed expect discounting will play a major role in the 2014 holiday season. Fear of missing sales targets and a desire to remain competitive in the face of discounting by competitors were cited as the main reasons for implementing their own programs. 64% of respondents said they will discount at least the same as they did in the 2013 holiday season.

**“Discounting is the new normal,” said Greg Apter, President of Hilco Real Estate. “It will never go away and it will continue to be even stronger this holiday season due to lackluster sales in the most recent quarters. Retailers are doing it to protect market share and they are using it as a way to bring customers into their stores in hopes of upselling and educating them on other, unique pieces of merchandise. Retailers are also planning heavy discounting during periods other than Black Friday to get customers into stores earlier and keep foot traffic high throughout the remainder of the year.”**

Distribution of respondent expectations in the level of use of discounting in 2014 over 2013



Distribution of respondents indicating primary trigger of discounting for their organization



## Section 2 continued...

While the increased discounting is a major factor this holiday season, retailers clearly don't like it. To combat the impact of excessive discounting, the majority of retail executives are putting in place a better mix of proprietary store brands, more targeted marketing and supply chain improvements to protect their margin.

- **65%** will offer unique merchandise
- **51%** will initiate and execute more in-store events to drive excitement
- **49%** will use social media to connect and target customers
- **44%** will create new advertising campaigns
- **39%** will expand customer loyalty programs
- **38%** will provide free shipping

**“We see retailers improving the return on investment of one-to-one marketing and offering a better mix of private branded products with higher margins in this pervasive discounting environment,” said Michael Keefe, CEO of Hilco Merchant Resources. “Retailers are also enhancing the customer experience and introducing more efficient sourcing methods.”**



**“It is critical for retailers to be as efficient and effective as possible with their marketing dollars this holiday season in order to reduce the impact of so much discounting on their profit margin,” said Tom Greco, CEO of Hilco Valuation Services. “Ultimately, these retail companies will be valued based on their bottom line profitability.”**

## Holiday Discounts and Promotions...Say Goodbye to Black Friday?

- **Walmart** introduced “Rollback” prices on 20,000 items as of November 1st and included many popular holiday gifts (Disney “Frozen” toys, Samsung electronics, etc.). On Monday, November 3rd, the company hosted a “Cyber Savings Event” with discounts and free shipping on select items. They also offered door busters like a 40-inch LCD television for \$199 in November.
- **J.C. Penney** cut winter coat and furniture prices in half in early November.
- **Amazon** launched its Countdown to Black Friday with daily deals.
- **Office Depot** began “Early Black Friday” and “Every Day is Cyber Monday” deals on Nov. 1st.
- **QVC** promises “Better than Black Friday” sales throughout November and December.
- **Target** is offering free shipping on any online order through Dec. 20th.
- **Kohl's** is implementing changes to its loyalty program in time for the holiday season. Its new “Yes2You” rewards program allows customers to share points collected with family and friends who also use the program, as well as donate to Kohl's Care charity program.
- **Toys“R”Us** launched a new Rewards“R”Us program, which enables members to earn one point per dollar spent at Toys“R”Us or Babies“R”Us locations. Members receive \$5 in rewards for every \$125 spent. The company has pledged to match competitors advertised price on identical items.

## Section 3: Merchandising / In-Store Shopping Experience

During the 2014 holiday season and beyond, retailers intend to enhance their customers' in-store experience as a differentiation strategy. Committed to improving the use of their existing retail store footprint, 93% of surveyed retailers said they will increase merchandising-related activities and improve staff training.

### Seven principal actions were cited:

1. Better staff training for upselling and education (65%)
2. Payment via smartphone (55%)
3. Ordering online and picking-up at store (48%)
4. Branded experiences (43%)
5. Text-based and other mobile, in-store promotions (42%)
6. Personal shopper experiences (35%)
7. Automated restocking and ordering systems (32%)

Surprisingly, 62% of retailers said that they plan to increase the number of new store locations in the coming year.

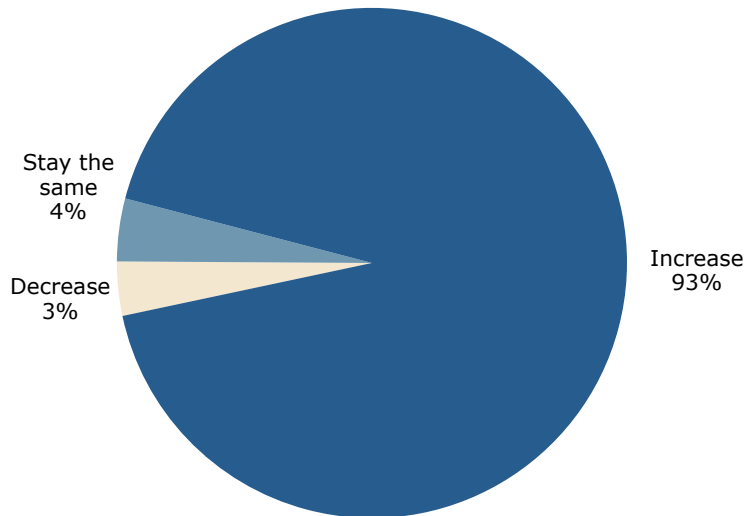


### Holiday In-Store Experiences Not To Miss

- **Starbucks** has completely re-imagined the holiday experience in its stores. While retaining many traditions such as its iconic red cups, Starbucks has added innovative and relevant products and events for holiday shoppers: The first new holiday handcrafted beverage in five years – the Chestnut Praline Latte, the 30th anniversary version of Starbucks Christmas Blend, the first-ever 100 uniquely designed Starbucks Holiday Cards in a full collection and a chance for customers to win “Starbucks for Life” by simply swiping their Starbucks card or paying with their mobile device in store.
- **Toys“R”Us** merchandising experts have chosen 16 “Top Gift” suggestions to showcase through in-aisle presentations. Identified by bright green signage, these items help focus shoppers on some of the hottest items within a large product category.
- **Walmart** is seeing success with mobile in-store promotions wherein customers use their mobile devices in the store to take advantage of special deals and new merchandise.

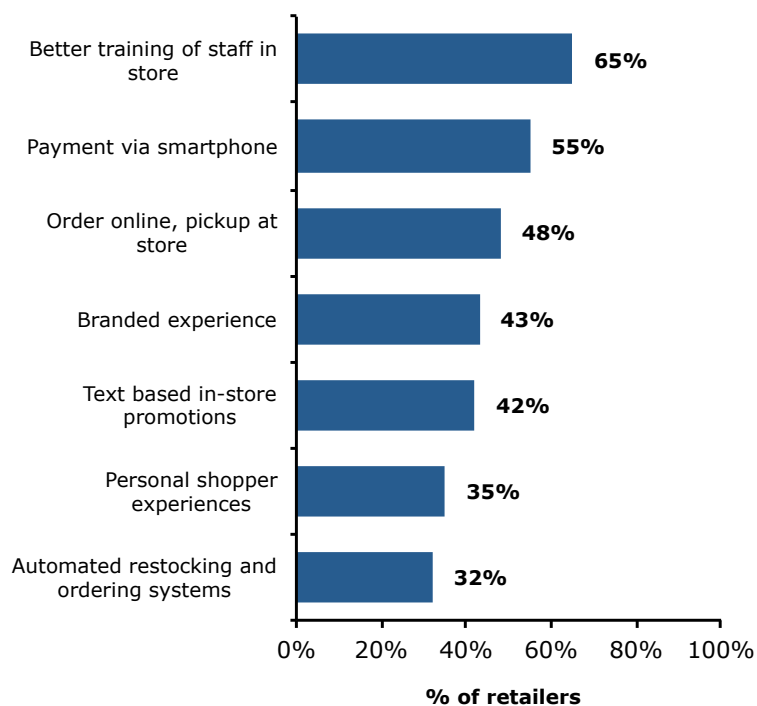
## Section 3 continued...

Forecast for resources dedicated to improving in-store retail experience over next few years



“The commitment to in-store activity this holiday season is very exciting and is really moving retailers into the next generation of selling,” said Farla Efros, COO of HRC Advisory, the retail consulting unit of Hilco Global. “Retailers are working hard to overcome ‘showrooming’ issues with new experiences, such as ‘Endless Aisle’ shopping. Large, interactive touch screens and mobile devices featuring access to endless product information are now occupying more in-store space. As holiday shoppers engage with virtual shelves, store aisles become digital shelves. ‘Endless Aisle’ and virtual merchandising technologies also allow retailers to drop-ship products not available in stores to customer homes or other locations.”

Top seven strategies retailers will employ to improve the in-store retail experience over the next few years

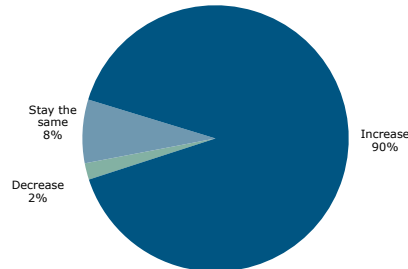


“Advanced content capabilities will make these virtual shelves very interactive and they will communicate holiday promotions, special deals, new merchandise and more,” continued Efros. A centralized content management system enables holiday promo ads, for example, to be assigned to specific stores.”

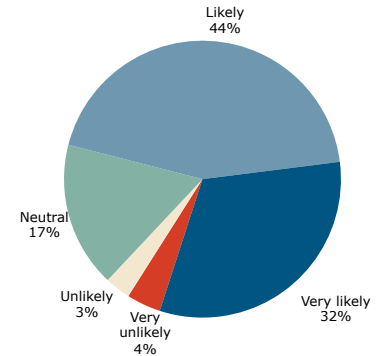
## Section 4: Digital and Mobile Technology

In addition to expanding in-store experiences, retailers will significantly expand mobile offerings this holiday season and over the next few years, in part by shifting marketing budgets away from traditional media channels. Nearly 100 percent of retailers said their mobile technology investments will increase or remain the same and 76 percent said their marketing budgets will likely or very likely shift from traditional media channels to mobile.

**Distribution of retailer investment in mobile technologies over next few years**



**Likelihood of marketing budgets shifting from traditional toward digital and mobile applications**

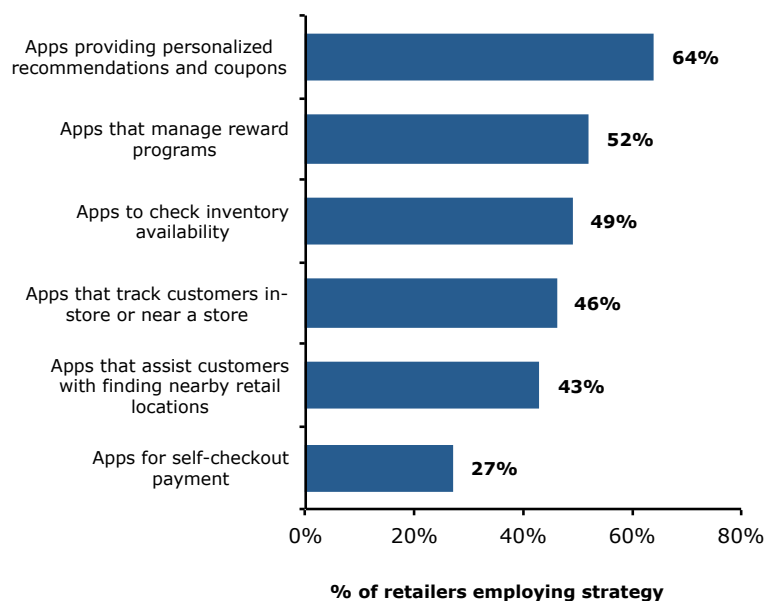


**Digital retail expert Elaine Rubin, President of Digital Prophets Network and a member of the the Hilco Retail Advisory Board said, “after several seasons of huge smartphone growth and usage, retailers are realizing that mobile, specifically smartphones, have fundamentally changed consumer shopping behavior in all stages of the purchase path; awareness, consideration and intent. While mobile sales will naturally continue to grow and become a larger percentage of e-commerce and overall retail sales, retailers are beginning to think more broadly about how to best integrate mobile into all parts of the business from advertising, targeted marketing, in-store experience, associate capabilities, operations, and direct commerce.”**

Retailers will focus the majority of their efforts on developing mobile apps to further personalize and enhance the in-store / cross channel shopping experience, thereby eliciting stronger customer loyalty. The most often cited mobile strategies to be employed over the next few years include:

1. Apps that provide personalized recommendations and coupons (64%)
2. Apps that manage rewards programs (52%)
3. Apps to check inventory availability (49%)
4. Apps that track customers in-store or near a store – geotracking (46%)
5. Apps that assist customers with finding nearby retail locations (43%)
6. Apps for self-checkout payment (27%)

**Top six mobile technologies to be employed in the next few years by retailers**



## Section 4 continued...

**“Retailers are looking toward mobile apps as an effective means of improving one-to-one marketing investments this season,” said Cory Lipoff, of Hilco Merchant Resources. “At the same time, they are also enhancing the in-store and cross channel shopping experience. Mobile apps can handle basic requests for product information, thereby freeing-up the time of in-store associates to focus on resolving more complex issues, educating customers on other merchandise or special promotions, and building relationships.”**

In addition, a majority of retailers (58 percent) plan on employing one-to-one marketing initiatives to help increase engagement with customers. According to the survey, 95 percent plan to use social media to execute this strategy, 58 percent plan on using mobile apps and 35 percent will use instant chat.



**“Personalization is being delivered in a number of different ways across the retail industry,” said Al Ferrara, a member of the Hilco Retail Advisory Board. “Retailers are using targeted email, website segmentation, tailored SMS messages and they are beginning to use geo-location or beacon technologies and social media to target and interact with their customers. And while this is in its infancy in terms of marketing and promotional tactics, it is quite likely to continue to expand.”**

Results from the 2014 retail survey indicate that top retailers recognize just how much the shopping landscape has changed. The emphasis that retail executives have placed on one-to-one marketing efforts and their shift toward an overall Omni Channel approach, demonstrates just how important it has become to treat every customer as an individual as they move from channel to channel. As consumers provide retailers with more personal data and information about what they want and how they shop, the consumer expects that in return they will be offered real value and unique products and services. As retailers employ new strategies such as geo targeted in-store promotions as well as online interactive social media campaigns, the lines between in-store and online shopping will continue to blur even further. As one CEO in the survey indicated, “as customers share who they are and what they want with us, we must dramatically improve the overall shopping experience in a channel neutral way. As we do this, it becomes a win-win situation for both the customer and the retailer.”

## Retailers Go Social Online

- **Sephora** is using social media contests to encourage customers to engage with their brands during the holiday season. Sephora’s ‘Sephora Claus’ is an example of how the retailer is using Twitter to create buzz and engagement, while also learning more about what their customers are excited about.
- **Target** launched a “My Kind of Holiday” campaign to help drive traffic from social networks to its web site. The campaign, which extends across various channels, includes TV, radio, in-store and catalogs, and inspires customers with stories about favorite holiday traditions. Customers can even share their own stories using the #MyKindOfHoliday hash tag on Twitter.
- **Kmart** is back with a sequel to its virally successful Joe Boxer underwear commercial featuring a handful of hunks — dressed in boxer shorts — shaking their hips to the song “Jingle Bells.” This year, a group of Average Joe’s are shaking their tummies to “Jingle Bellies.” These ads were a YouTube sensation last year with 18 million views. The company is hoping for viral success again, or at least online and social media conversation.

## About The Survey – Detailed Methodology

The **2014 Retail Executive Survey - Holiday Trends Report**, as conducted by the Hilco Global Retail Group and the Hilco Advisory Board of Directors, gleaned perspectives and opinions on key, current trends from 70 corporate executives at national retailers with more than \$250M in sales. Respondents came from sectors across the retail spectrum, with the heaviest concentration in apparel, department stores and health/personal care. Online polling methods were utilized.

### The key areas covered in the survey were:

- Expected year-to-year growth for the 2014 holiday shopping season over 2013
- Expected use of discounting in 2014 holiday season versus 2013
- Identification of greatest challenges retailers are facing entering the 2014 holiday shopping season
- Identification of the highest priority initiatives retailers will take over the next few years
- Evaluation of retailer intent to improve the in-store shopping experience over the next few years
- Evaluation of trends in the use of mobile technology, one-to-one marketing and enhanced order fulfilment

*The survey was conducted in November 2014 by Lumeric Consulting LLC, an independent market research firm, on behalf of Hilco Global.*

### About Hilco Global Retail Group

Headquartered in the Chicago area, the Hilco Global Retail Group specializes in providing financial and operational services to retailers and the companies that support them, including lenders, equity investors and investments bankers. Core competencies include asset valuation, monetization and advisory services, which are provided by specialized business units.

Through these specialized business units which serve retail clients, Hilco Global provides a range of integrated solutions including asset appraisal, inventory acquisition and disposition, real estate repositioning and renegotiation, strategic advisory and operational consulting and strategic capital equity investments.

### Hilco Global and its retail specialists have an impressive track record which include the following:

- Creation of significant shareholder value through improved earnings and working capital for retailers and their owners by delivering strategic and operational consulting solutions.
- Appraisal and/or monetization of billions of dollars of retail and consumer products inventory.
- Renegotiation and/or mitigation of financial obligations on thousands of retail leases annually.
- Acquisition of and/or revitalizing numerous retail chain operations and consumer brands.
- Facilitation of mergers, acquisitions, divestitures and strategic dispositions for retail companies.