

The Online Holiday Outlook: 2009

What Consumers Have in Store for Retailers This Season

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Agenda

The State of the US Economy

The US Online Holiday Sales Outlook

Online's Impact on Offline Purchasing

Key Findings and Recommendations

Economic Conditions are stabilizing, but all is NOT good

– Tail Winds:

- Unprecedented synchronized global upturn
- Global economic activity stimulating U.S. growth
- Improving residential housing market
- Equity markets up over 50% since March lows

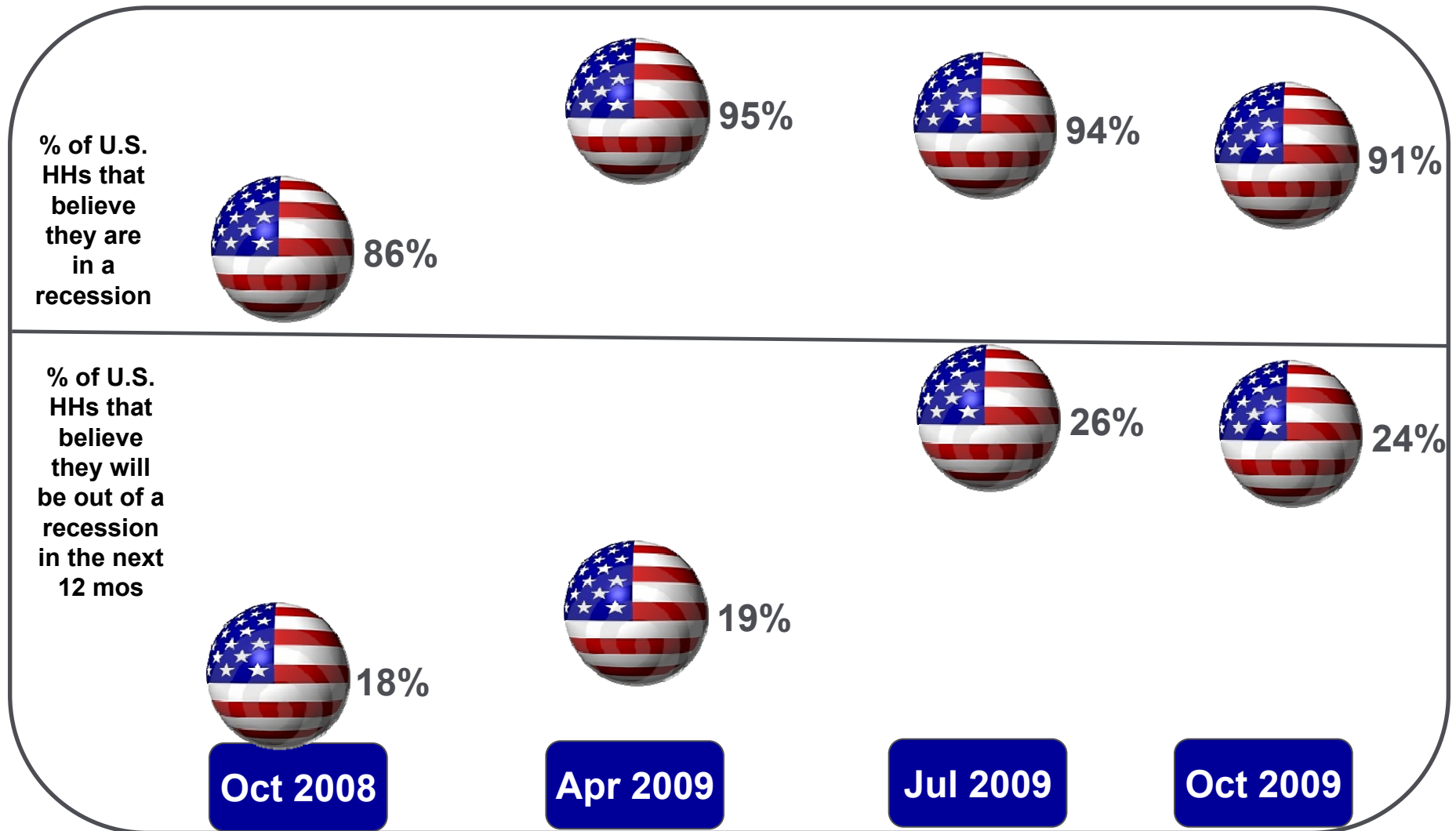


– Head Winds: (Strong but Moderating!)

- Jobless claims moving sideways near 520,000 levels but moderating
- Unemployment rate 10.2%, underemployed 17%
- Foreclosures in Aug 2009 running at +18% ahead of year ago
- Credit markets tight: Consumer rates rising, lines of credit diminishing

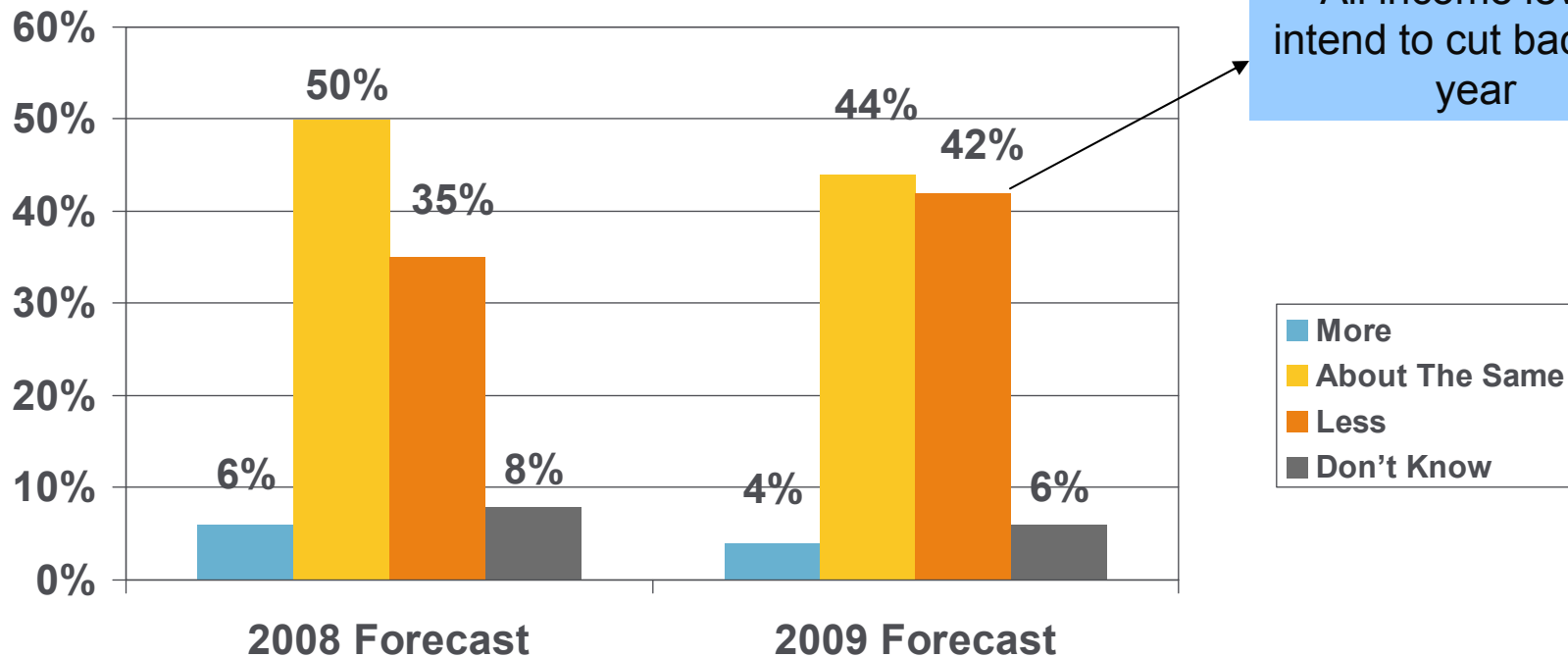


While improving, the majority of US consumers are hesitant to believe that we're out of the woods



More US consumers expect to spend less than more on holiday gifts in 2009

Question: Compared to a year ago, do you plan to spend more, about the same, or less money on holiday gifts?



Source: Nielsen HH Survey Sept 09

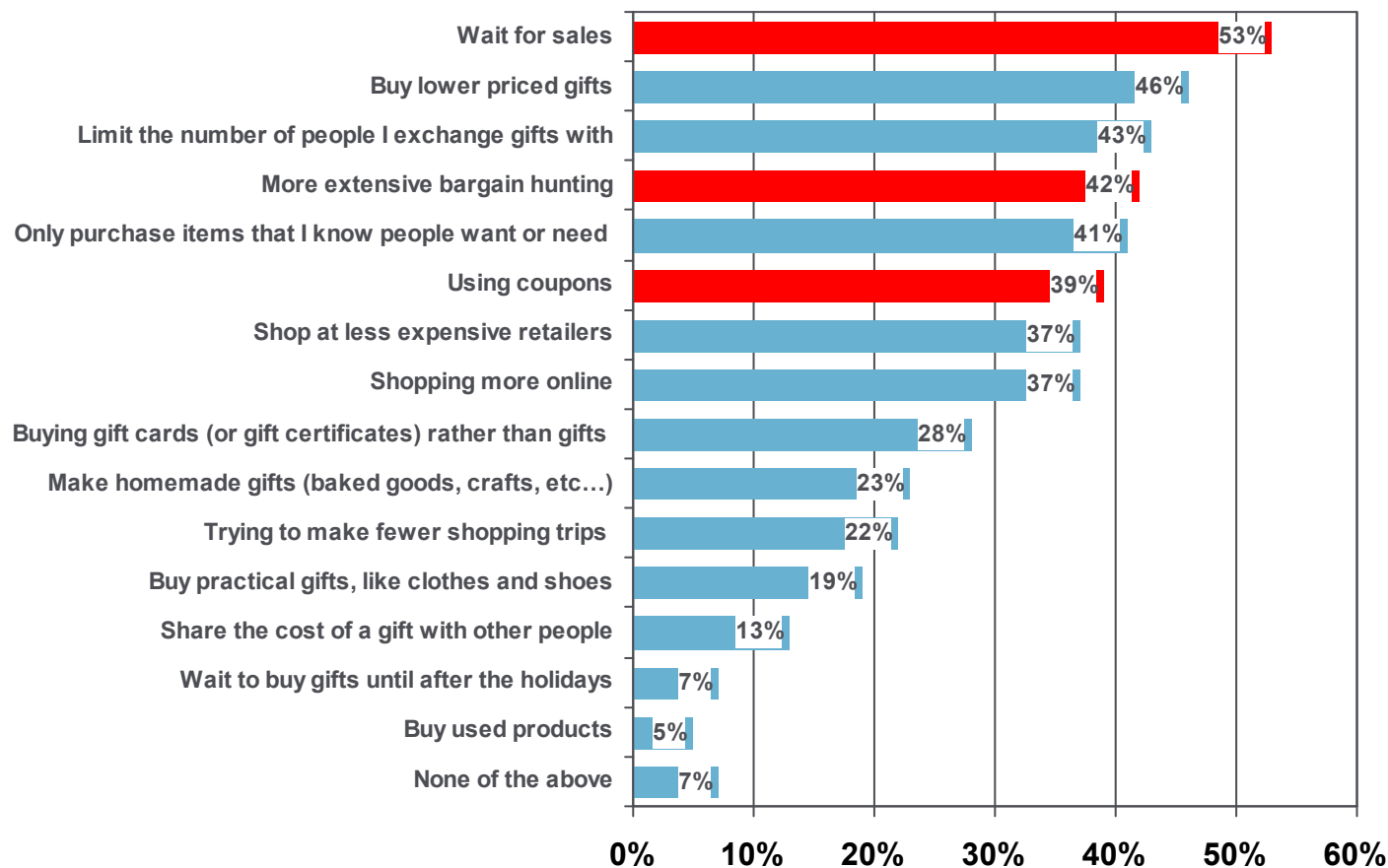
Nielsen expects that 2009 holiday sales will be flat in consumables categories

Nielsen projects dollar sales over \$90 billion, resulting in a 0.03% gain in dollar sales, with flat to declining unit sales (-0.11%)*

	2008 Forecast	2008 Actual	2009 Forecast
Nielsen Holiday Forecast	0.34%	-0.48%	0.03%
NRF Holiday Forecast		-3.50%	-1.00%

Nielsen forecasts dollar Sales, 125 categories for FMD including Wal-Mart

Consumers intend to employ a wide array of tactics to save money this holiday season, but deal seeking is predominant

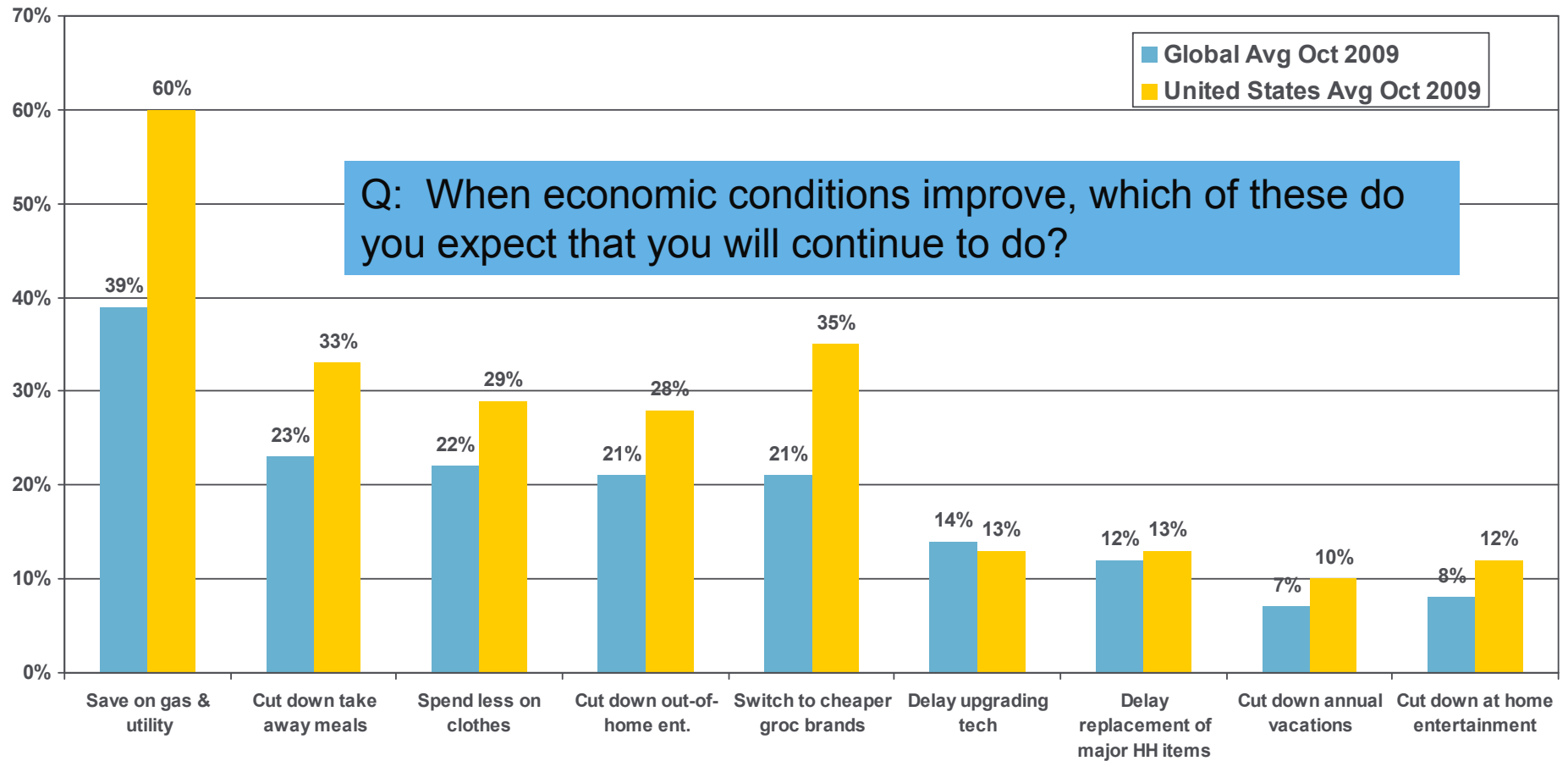


Q: Will you do any of the following to stretch you gift budget this holiday season?

Deal seeking behaviors

Source: Nielsen Panel survey 11/09. N=1013

Are frugality a recessionary behavior, or has American consumer behavior changed for good?



Nielsen Global Consumer Confidence Survey 10-09

Agenda

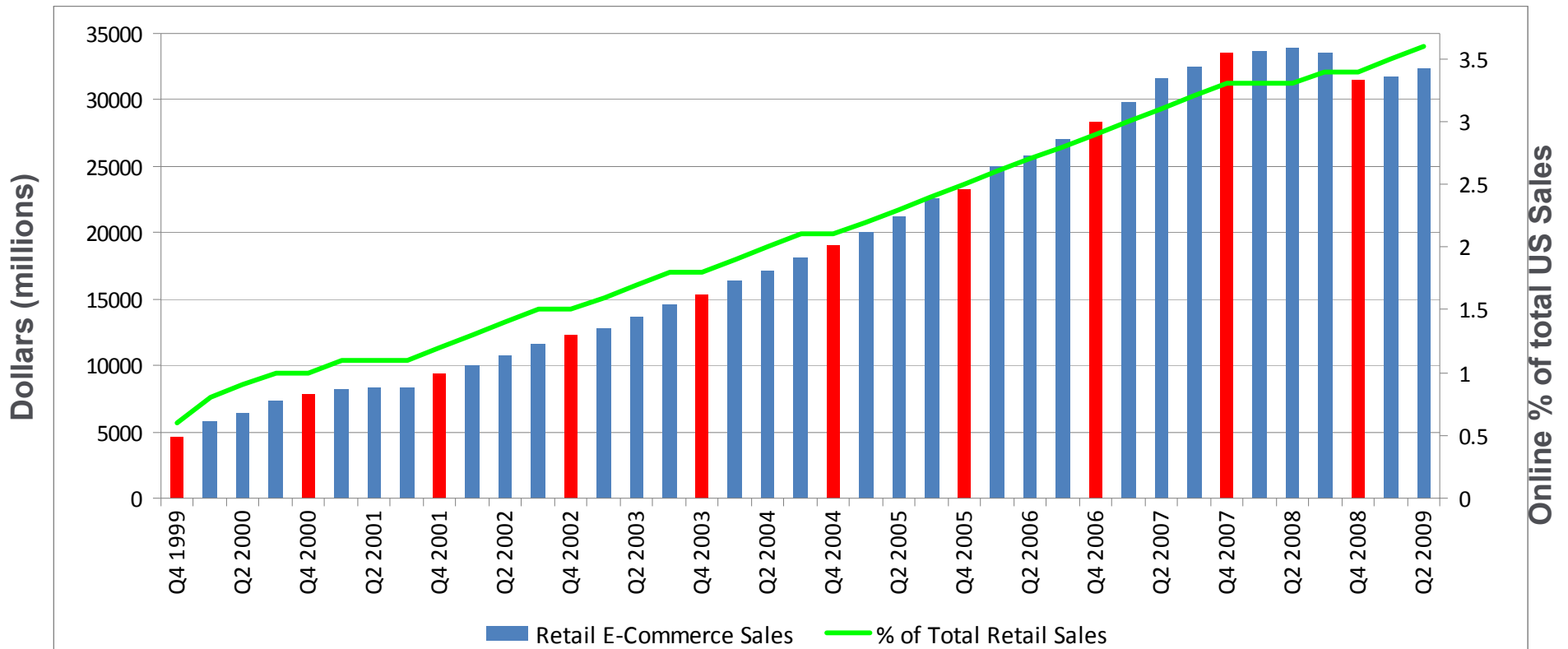
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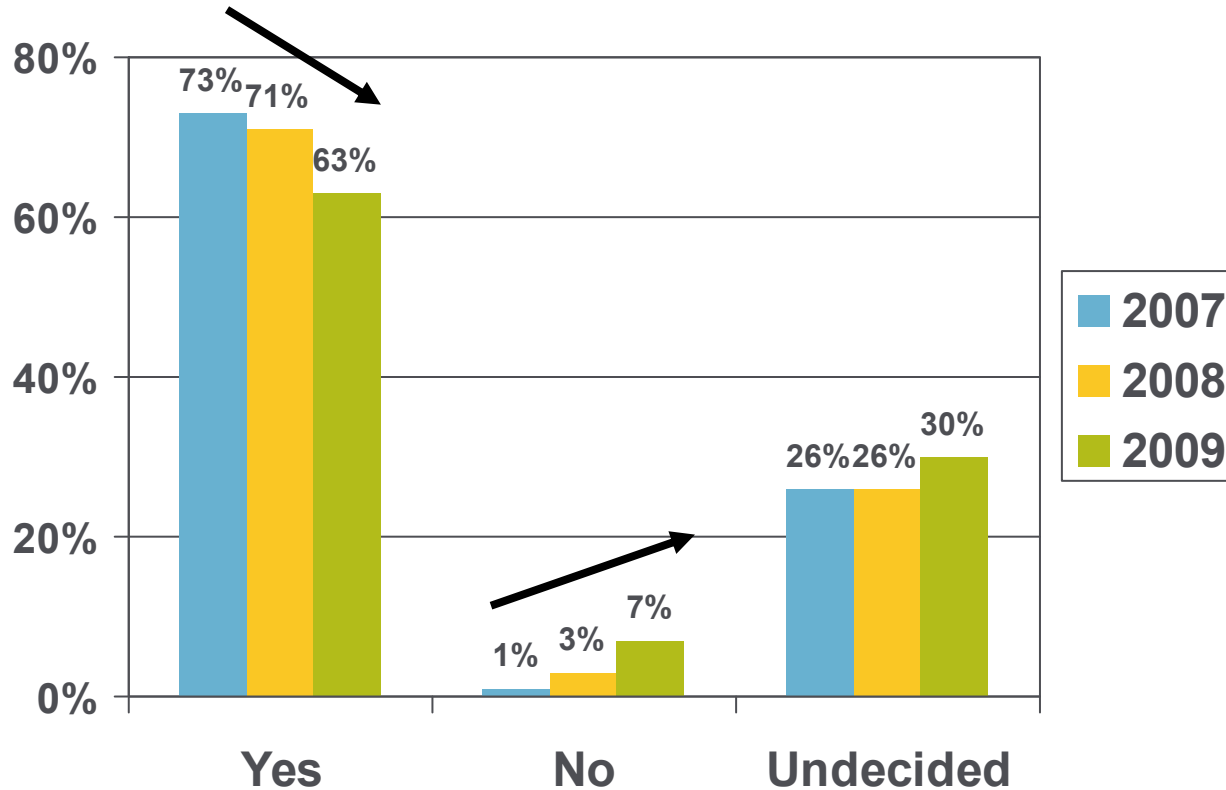
Key Findings and Recommendations

2008 and 2009 have seen the first Q-to-Q and Y-to-Y sales declines since the Commerce Department has been tracking



Source: U.S. Census Bureau

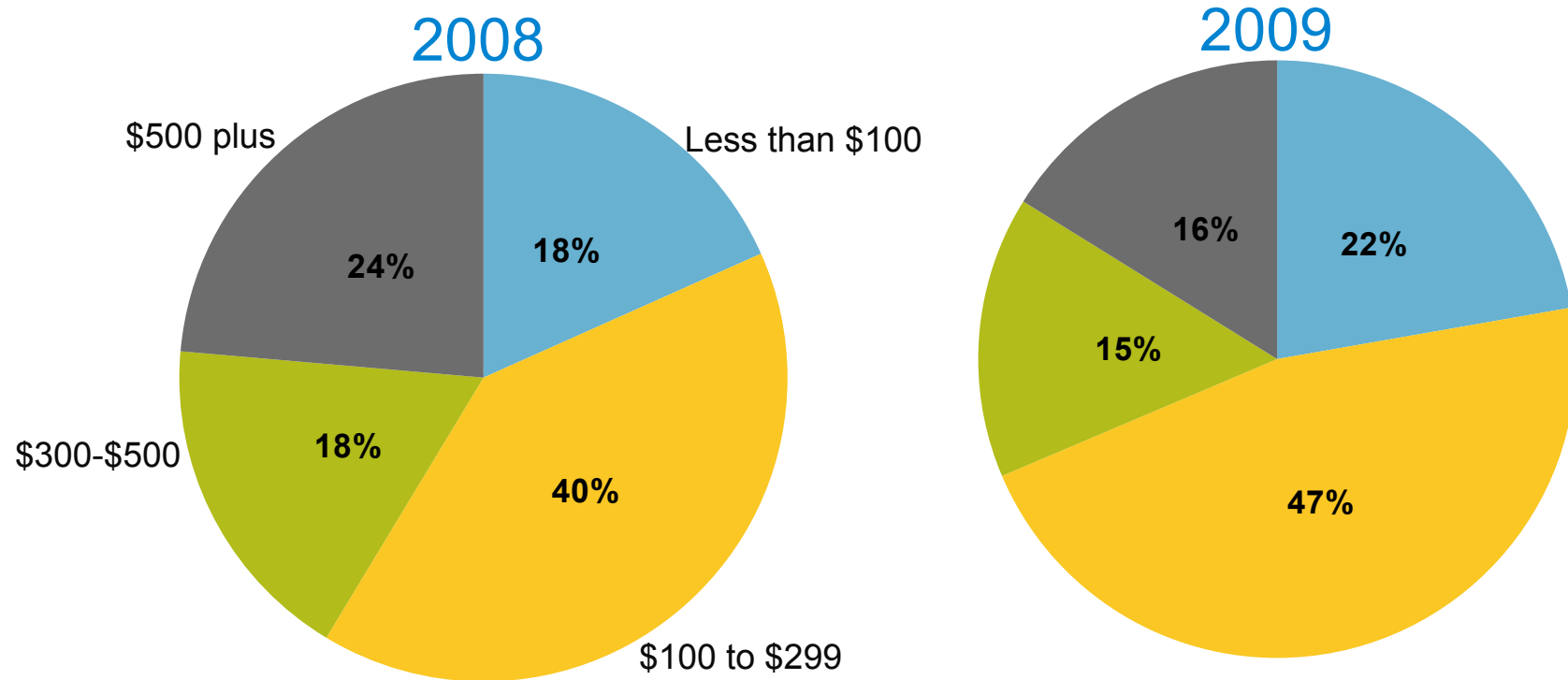
The online shopping population may shrink in 2009



Q: Do you plan to shop online this holiday season?

Source: Nielsen Panel survey 11/09. N=1013
Nielsen Panel survey 11/08. N = 1314
Nielsen Panel survey 11/07. N = 917

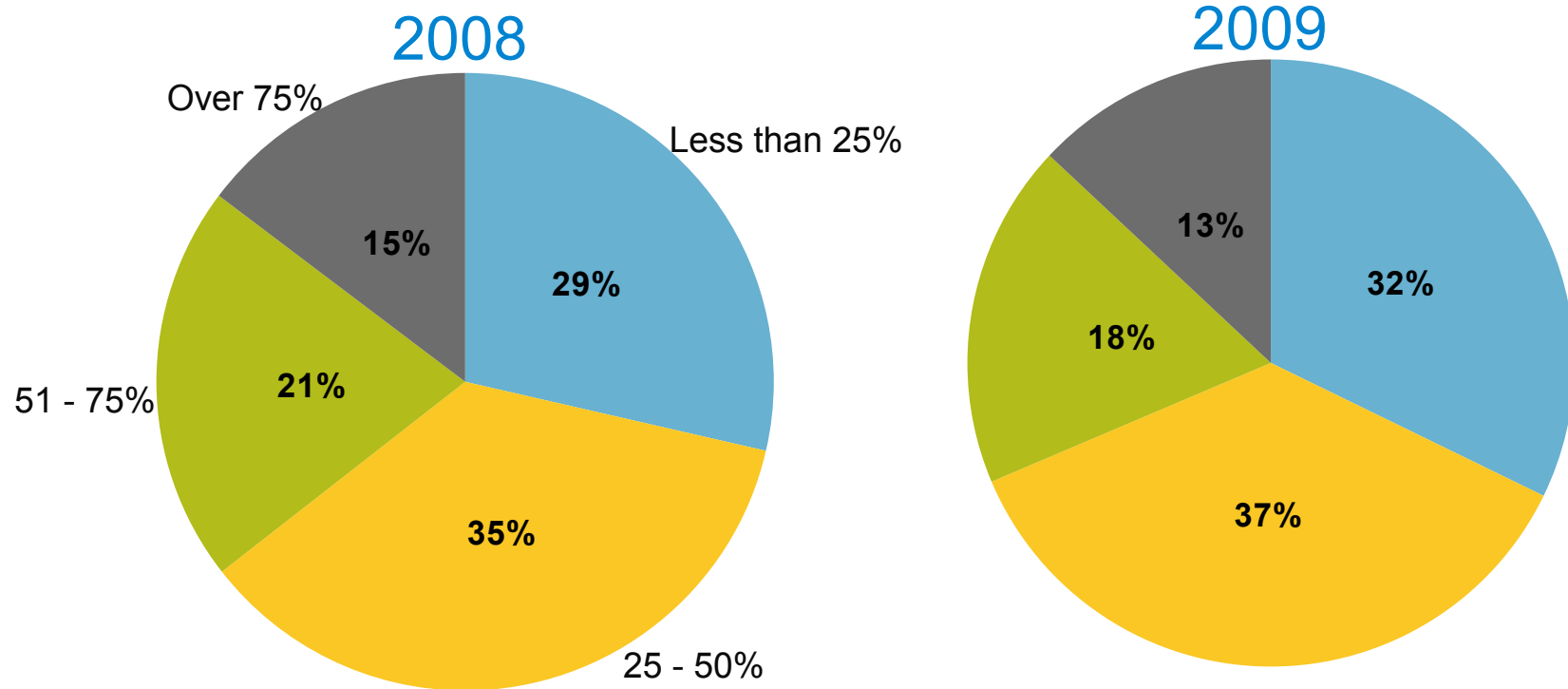
Those that do plan to shop online this holiday season expect to spend significantly less



Source: Nielsen Panel survey 11/09. N=1013
Nielsen Panel survey 11/08. N = 1314

Q: How much do you expect to spend online this holiday season?

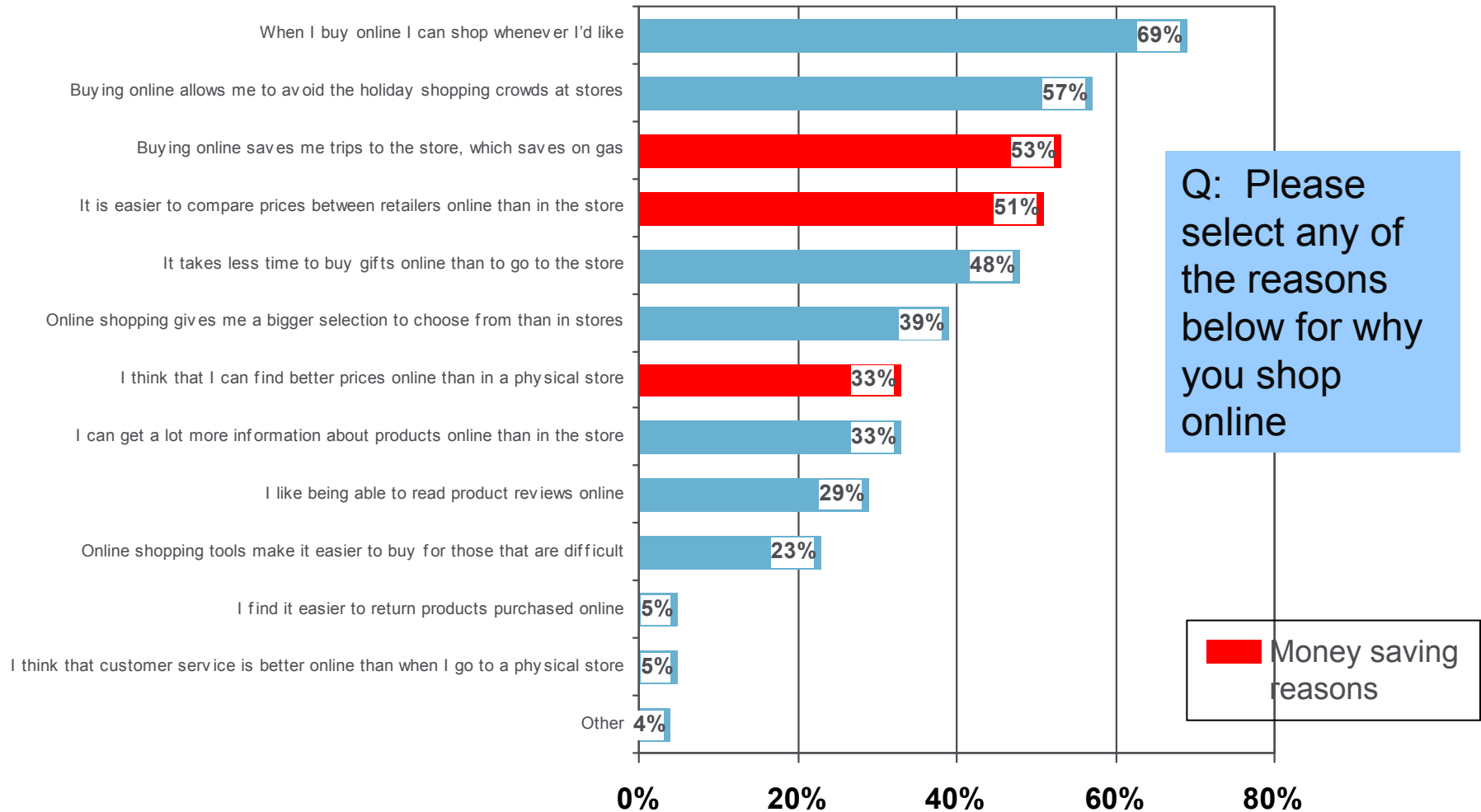
We should not expect that online will gain significant share at the expense of brick and mortar in 2009



Source: Nielsen Panel survey 11/09. N=1013
Nielsen Panel survey 11/08. N = 1314

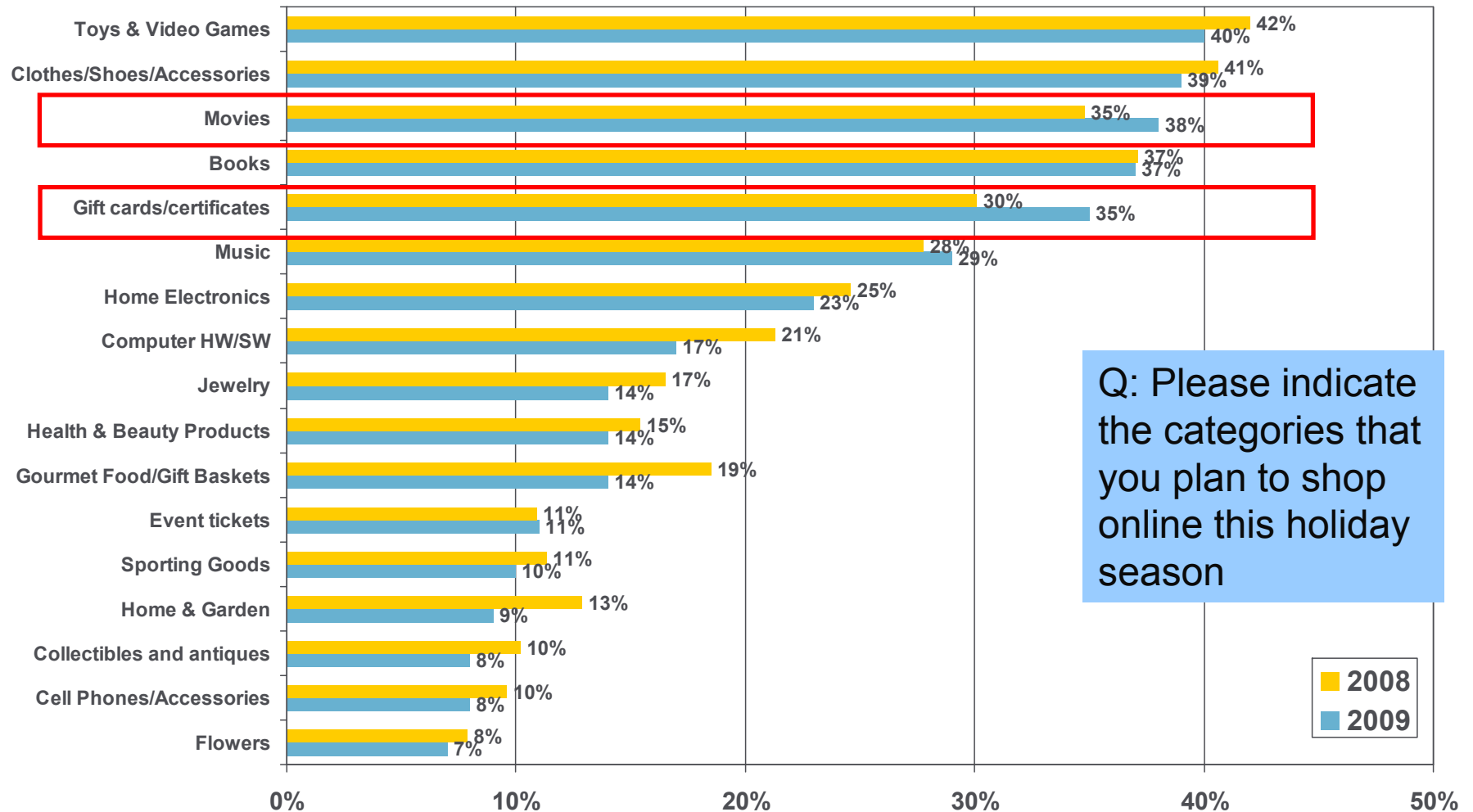
Q: What percent of your total holiday shopping do you expect to do online this year?

What is going on? The Internet has lost its cache as a value channel



Source: Nielsen Panel survey 11/09. N=1013

Only gift certificates and movies look to grow significantly in 2009



Source: Nielsen Panel survey 11/09. N=1013
 Nielsen Panel survey 11/08. N = 1314

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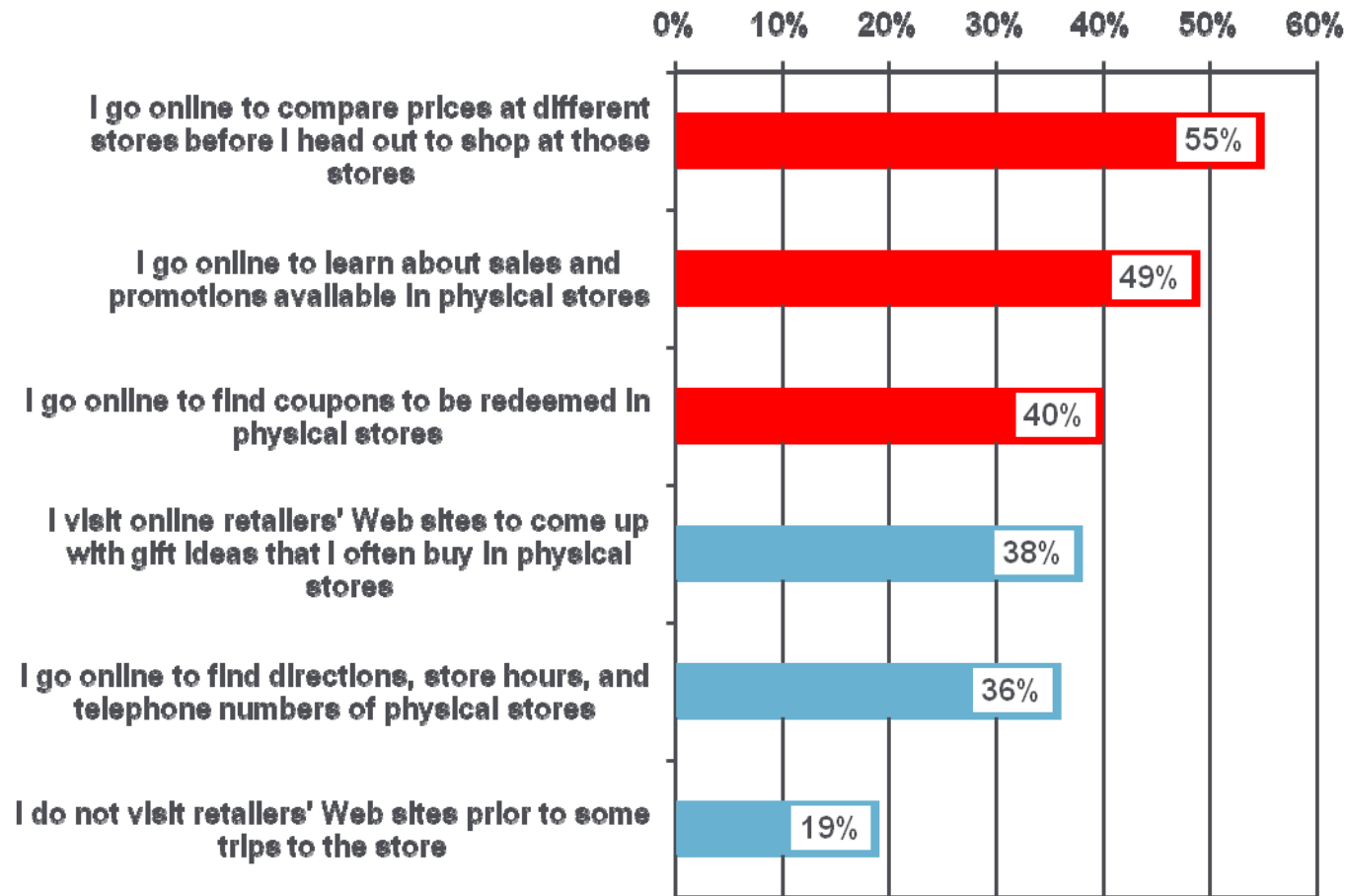
Key Findings and Recommendations

Shipping fees deemed main barrier to entry; offline habits also play key role



Source: Nielsen Panel survey 11/09. N=1013

Price comparisons and promos on retailer websites support in-store purchases



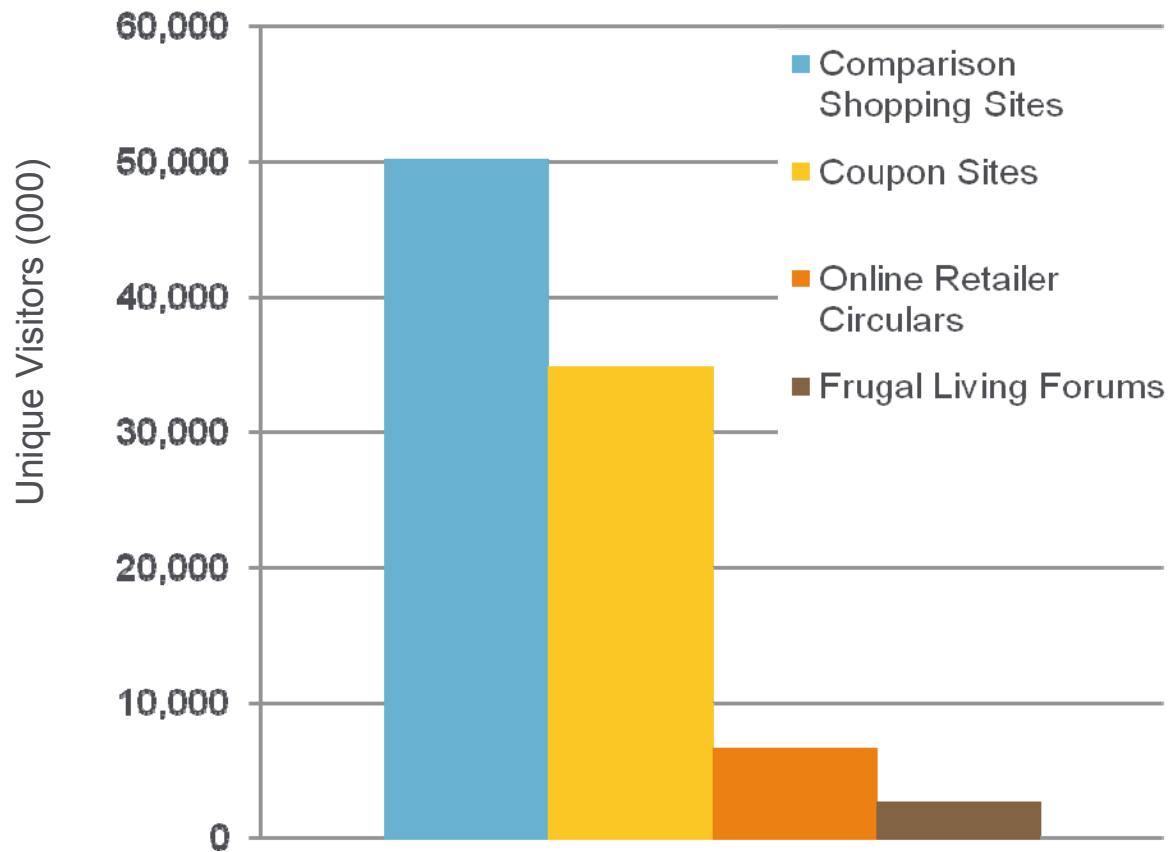
Q: Some people use the Internet to help them before they go shopping in physical stores. Please indicate which of the following statements, if any, are true for you:

■ Money saving reasons

Source: Nielsen Panel survey 11/09. N=1013

Deal Web sites attract sizable and varied audience—not just those with lower HH incomes

Visitation to Top 10 Sites Per Category during September 2009




- Visitors to deal-oriented Web sites tend to be...
 - Female
 - Between 25 and 50 years old
 - Visitors to coupon sites tend to skew a bit *older*; individuals in frugal living communities skew a bit *younger*
 - From a wide range of income levels—from the lower income (<\$25K) to the affluent (\$100k+)

Source: Nielsen NetView. September 2009. Home/Work combined. US only.

Deals shared online drive in-store purchases

Retailers aren't the only one sharing deals online—third party aggregators like CheapTweet are helping out by making deals easier for shoppers to find



CheapTweet

The 30% off discount at Gap, Banana Republic and Old Navy starts today (runs thru 11/15). Use this coupon - <http://chpt.me/2ka1n0c>
about 4 hours ago from web

Happy Veterans Day! Members of the US Military can save 40% off rooms at Disney resorts, discounted park passes, more
<http://chpt.me/2kys7wq>
about 20 hours ago from CoTweet

Need winter clothes? Get 20% off at Chico's - <http://chpt.me/2kv8jrr4>
and 20% off (or more) at Stein Mart - <http://chpt.me/2ky9o9p>
about 21 hours ago from web

Social media impacts holiday purchase decisions

Frugal shoppers actively rely on social media to learn about...

- The best deals, online and offline
- Product recommendations, gift ideas
- Where to find the hottest gifts in-stock
- Money saving tips – e.g. only purchasing gifts for the kids in the family, taking advantage of clearances throughout the year

Q: “I noticed in todays circulars that Toys r us, best buy and target have it for \$199. We were thinking that the price may go down a bit closer to christmas. I have a \$10 off \$100 dollar electronics code for target too. Is there a new one coming out?”

A: “I see the logic...however this is still a GREAT deal. Having the extra \$25 GC you can buy an additional remote or controller !!! PLUS the shipping is free, so it's no extra cost to you. BTW: the controllers are all on sale too!”

- MommySavers.com, 9-27-2009



Use social media to get shoppers excited about your holiday deals; don't wait until Friday morning!

- Social media has changed the way consumers search for and share online *and offline* holiday deals; TV and printed circulars should not be seen as retailers' only traffic driving tools
- Shift some Black Friday marketing efforts to social media; generate anticipation and excitement by giving shoppers a taste of what's to come
- Shoppers want to share and promote *your* deals—take advantage of it!

Thought-starters...there's still time!

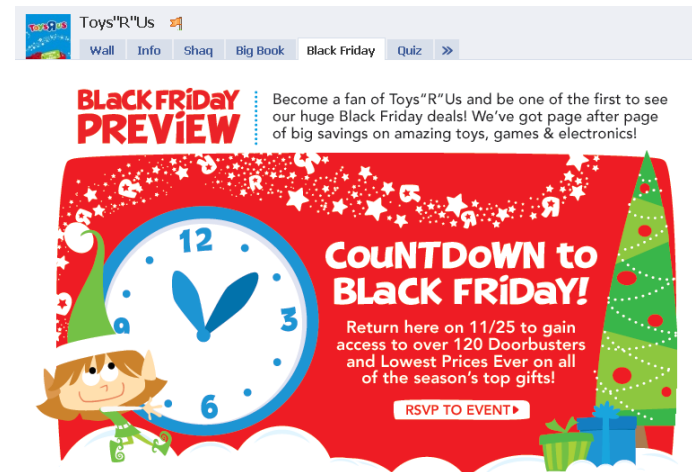
Staples has already started to release some of its Black Friday deals on Facebook. This effort...

- Gets shoppers engaged—Staples employees are answering questions and interacting with shoppers on Facebook
- Ensures Staples is a top of mind Black Friday destination



Toys "R" Us is asking shoppers to become Facebook Fans and RSVP for Black Friday to be the first to see the deals; it will be posting all deals on Facebook on 11/25. This effort...

- Engages shoppers by rewarding them with a sneak peak
- Ensures Toys "R" Us is a top of mind destination, beyond Black Friday—the event will pop up on Facebook calendars and shoppers will remain Fans on Facebook



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2009 is going to be a weak holiday season, even for online retailers

Implications and Recommendations

- The possibility of significant gift card sales suggests a potentially strong kickoff to 2010 as revenues accrue upon redemption
- To the extent possible, online retailers should limit their exposure this year (inventory, staffing)
- Online sales aren't going to be the salvation for most multi-channel retailers, but online dissemination of deals through their own Web sites and through social networks may allow individual retailers to gain share in their stores

The Internet is not perceived as a value channel

Implications and Recommendations

- A 'good' price is good enough for most online retailers. Other factors must lead to sustainable differentiation
 - Help shoppers find the right product effectively
 - Easy purchase completion
 - Easy fulfillment (in-store, quick, digital, etc...)
 - Differentiated returns policy
 - Mobile capabilities
 - Product presentation
 - Follow up support for complex goods
 - Etc...
- Multi-channel retailers need to take better advantage of their physical presence as a means of differentiation
- The retailer that tries to differentiate on price had better have a sustainable, systemic way of doing so. Few do
- While the Internet may not be seen as a value channel, it is seen as a value media

Consumers increasingly research products and deals online, but buy offline

Implications and Recommendations

- Multi-channel retailers have some work to do
 - The CMO should be the most prominent voice driving Web site strategy
 - Measurement on offline impact moves to center stage
 - Online advertising isn't just about the online sale
 - Online Dissemination of coupons, circulars
 - Evolving online ad effectiveness measurement tools
 - Connection of online research to offline sale is an opportunity
 - Inventory visibility, in-store pickup, product content portability
- Increasingly prominent role of social media in influencing offline sales
- Pure play extension of third party marketplaces to offline items
- An evolution of search to include local product availability?

Thank You

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