

A black and white photograph showing the lower legs and feet of several people walking on a sidewalk. They are carrying various shopping bags, including a large white plastic bag and a black bag. The scene is slightly blurred, suggesting movement.

Executive Summary 2009 BDO Seidman Retail Compass Survey of Chief Marketing Officers

Flat is the new up. Coming off the 2008 holiday season, which was the worst in memory, retailers still have modest holiday sales expectations for 2009, while setting their sights on a 2010 turnaround. Still, retailers must entice consumers to shop. After a year of rising unemployment, tightened credit and home foreclosures, the public is weary – and in need of some holiday cheer. Retailers are pulling out all the stops for the holidays this year including in-store parties, creative displays, strategic discounts and sentimental marketing campaigns.

In October 2009, BDO Seidman's Retail and Consumer Product Practice conducted its fourth annual survey of Chief Marketing Officers (CMOs) at leading retailers to find out their predictions for the 2009 holiday season. This also included learning about the strategies that they are using to maximizing sales during this critical time.

According to the *2009 BDO Seidman Retail Compass Survey of CMOs*, U.S. retailers are more optimistic this year than they were last year – in fact, they expect both overall sales and comparable store sales to increase by 2.6 percent and 1.4 percent, respectively, for the 2009 holiday season. Last year, the retailers included in the *2008 BDO Seidman Retail Compass Survey of CMOs* predicted that overall sales for the 2008 holiday season would decrease by 2.8 percent – and they were right. According to the National Retail Federation, 2008 holiday retail sales were down 2.8 percent from the 2007 holiday season.

Despite flat predictions, retailers surveyed have a positive outlook for the coming year. Sixty percent of CMOs from the top 100 retailers surveyed say they expect to see a meaningful turnaround in the economy by the second quarter of 2010. The vast majority of the retailers (77%) and nearly all of the retailers in the top 100 (85%) predict a turnaround before the third quarter of 2010.

The BDO Seidman Retail Compass Survey 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 (with revenues ranging from more than \$100 million to billions of dollars).

BDO Seidman Retail and Consumer Product Practice

BDO Seidman, LLP has been a valued business advisor to retail and consumer product companies for almost 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.

For more information on BDO Seidman's service offerings to this industry vertical, please contact one of the regional leaders below:

Al Ferrara, New York
aferrara@bdo.com / 212-885-8000

Steve Ferrara, Chicago
sferrara@bdo.com / 312-856-9100

Ted Vaughan, Dallas
tvaughan@bdo.com / 214-969-7007

Catherine Fox-Simpson, Dallas
cfox@bdo.com / 214-969-7007

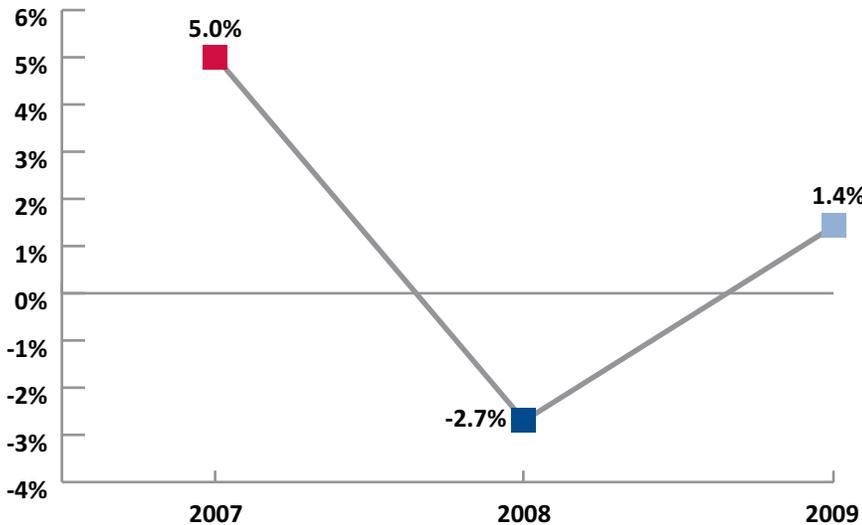
Douglas Hart, San Francisco
dhart@bdo.com / 415-397-7900

Alan Sellitti, New York
asellitti@bdo.com / 212-885-8000

David Berliner, New York
dberliner@bdo.com / 212-885-8000

Issy Kotton, Los Angeles
ikotton@bdo.com / 310-557-0300

By what percentage will your comparable store holiday sales increase over last year?



“Even though a slight increase in holiday sales results will not be enough to bring the economy out its prolonged slump, it would be a welcome sign that the economy is stabilizing and possibly entering recovery. The fact that retailers are hopeful is a refreshing change – especially after the numerous retail bankruptcies throughout 2009.”

– DAVID BERLINER

“Retailers remain cautious about the 2009 holiday season. While some have expressed optimism, unemployment is still a major concern and a majority of retailers are planning more discounts and promotions than last year. However, retailers’ inventories are leaner going into the 2009 holidays. As a result, we can expect less panic this year - discounting will likely be moderate and more strategic than the deals we saw last year.”

– DOUG HART

CMOs Less Pessimistic on Overall Sales

This year, 47 percent of CMOs expect overall sales to increase this holiday season when compared to last year, while 41 percent predict sales to be flat and only 12 percent say sales will decrease. Optimism is especially strong among the top 100 retailers – 65 percent of the top 100 retailers surveyed expect sales to increase this holiday season. Last year, only 15 percent of the CMOs expected sales to increase, while 45 percent said sales would be flat and 40 percent predicted sales to be down.

Expectations for Some Recovery in Comp Store Sales

When it comes to comparable store sales, 43 percent of the CMOs say sales will increase, while 47 percent expect sales to be flat and only 10 percent predict a decrease. Perhaps a sign of light at the end of the tunnel, these figures are close to the 2007 predictions where 41 percent predicted an increase in sales, 54 percent said sales would be flat only five percent cited a decrease in sales. This year’s

numbers are much more optimistic than last year, when only 20 percent of the CMOs thought sales would increase.

Retailers Consider Jobless Americans

2009 brought many changes for companies and consumers, which will impact the holiday shopping season. Not surprisingly, more than half (67%) of the CMOs, including 80 percent of the top 100 retailers, cite unemployment as the most critical issue affecting sales. Other key issues are personal credit availability (17%), weak housing market (9%), energy and fuel costs (5%) and turmoil in the financial markets (2%). Last year, in the aftermath of the banking crisis, more than half (54%) of the CMOs cited uncertainty in the financial markets as their chief concern. Other issues cited in 2008 were high energy and fuel costs (25%), unemployment (10%), the weak housing market (8%) and the presidential election (3%). In 2007, opinions were mixed, but a majority (27%) of the CMOs viewed credit issues as the number one concern.

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“Retailers use these days to showcase door-buster deals that draw consumers to stores and sites. Historically, this would bring retailers out of the red and into the black for the season – that’s how the term ‘Black Friday’ was coined. In recent years, however, consumers have opted to wait until right before the holidays to shop. As a result, Black Friday has become more of a tradition for many consumers, as opposed to a major sales driver for retailers.” – AL FERRARA

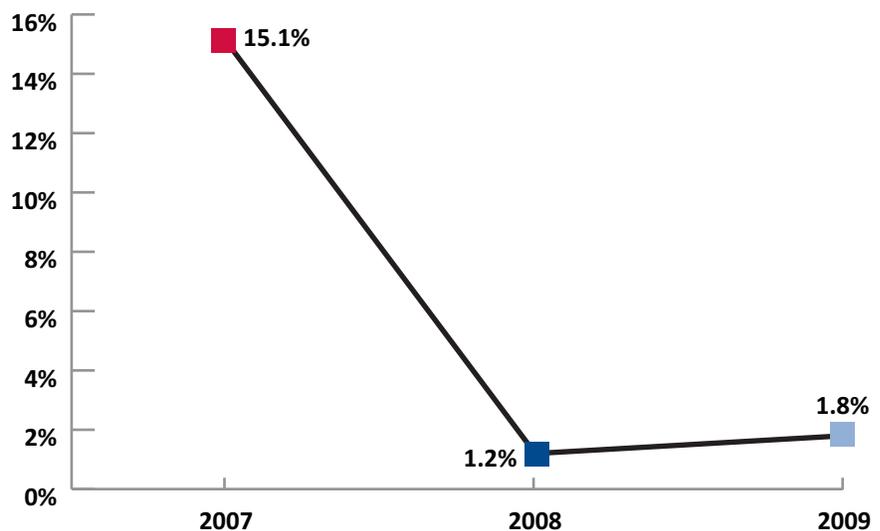
Improvement in Employment Rates Critical to Turnaround

Retailers are working tirelessly to mitigate difficult issues such as unemployment and credit availability. Despite their optimism, retailers believe that these problems need to be resolved before there is any kind of meaningful turnaround in the economy. Nearly half (47%) of retailers say that an economic turnaround will be most dependent on lower unemployment, which is up from six percent of retailers who cited lower unemployment in 2008. Other responses included a lift in consumer confidence (25%), a rebound in the housing market (14%), increased personal credit availability (9%), lower energy and fuel costs (3%) and a turnaround in the financial markets (2%). Last year, in the midst of the financial market meltdown, more than a third (35%) of retailers said that an economic turnaround would be most dependent on increased stability in the financial markets.

Top 100 Retailers Bullish on Turnaround

Hopeful that some of the leading factors impacting the economy will ease, 60 percent of the CMOs from the top 100 retailers surveyed say they expect to see a meaningful turnaround in the economy by the end of the first quarter of 2010, with 40 percent expecting it in the fourth quarter of 2009 and 20 percent in the first quarter of 2010. One quarter (25%) of the top 100 retailers predict the turnaround will happen in the second quarter of 2010.

By what percentage will your Black Friday sales increase over last year?



Retailers Setting Sights on 2010 Turnaround

When it comes to all of the retailers surveyed, 24 percent of the CMOs expect a turnaround to occur in the fourth quarter of 2009, 21 percent say the first quarter of 2010, 32 percent cite the second quarter of 2010 and 23 percent expect a turnaround to occur in the third quarter of 2010 or later.

Black Friday, Cyber Monday to See Less Traction this Year

The Friday and Monday of Thanksgiving, known as Black Friday and Cyber Monday, respectively, marks the official beginning of the holiday season.

This year, with holiday promotions and discounts starting as early as October, Black Friday is even less critical. The CMOs surveyed expect both “Black Friday” (November 27th this year) and “Cyber Monday” (the first Monday after Thanksgiving) sales to grow 1.8 percent this holiday season.

The majority (61%) of CMOs anticipate that Black Friday sales will be flat this year, while 33 percent predict an increase in sales and six percent predict a decrease. Of the retailers who predict that their comp store sales will increase this year, more than half (54%) expect their Black Friday sales to increase.

Cyber Monday Remains Flat

More than half (65%) of CMOs expect flat Cyber Monday sales, while 32 percent predict an increase and only three percent anticipate a decrease. Forty-three percent of retailers who expect their overall sales to increase for the season also expect to see a lift in Cyber Monday sales, proving again that retailers rely heavily on the internet to boost sales.

Retail CMOs Up the Ante on Promotions and Discounts

Even though retailers are eyeing a better 2010, the pressure to have a successful holiday season remains fierce. Virtually all CMOs (96%) expect to offer more discounts and promotions this holiday season, which is up from 88 percent last

year and 73 percent in 2007. Half of the CMOs (50%) cite that those discounts will take the form of in-store promotions, followed by markdowns (41%) and online promotions (9%). Further, more than half (54%) of the retailers say they have reduced their inventory purchases for the holiday season. Those that reduced inventory did so by an average of 10 percent, reflecting a sizeable decrease in merchandise on store shelves.

Festive Retailers Plan Parties to Attract Customers

Beginning on Black Friday and throughout the season, retailers are bringing out the cheer with parties. When it comes to brick and mortar promotions, almost half (43%) of retailers plan to focus most heavily on in-store events. Nearly one-third (32%)

cite loyalty programs as their priority, while 11 percent will focus “buy one, get one free” campaigns, 10 percent will extend store hours and four percent will ramp up pre-Thanksgiving discounting. Of the retailers who expect comparable store sales to increase, 20 percent will focus on extending hours, which is 10 percent higher than the average.

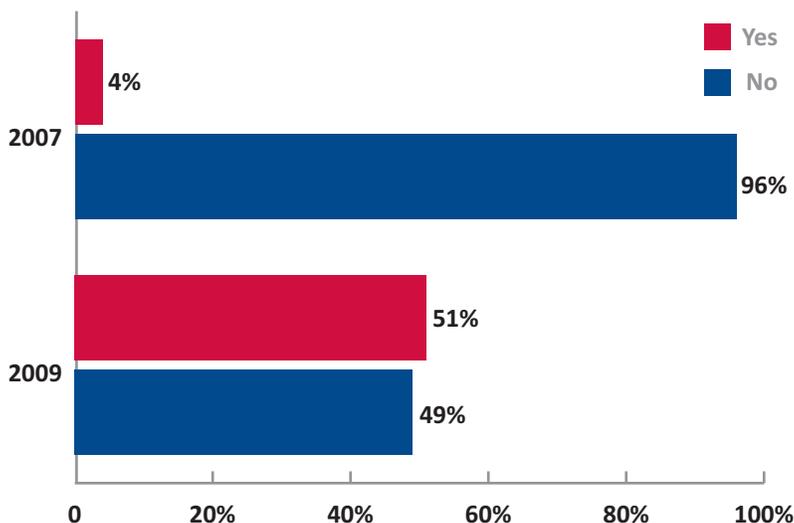
Email Promotions King of Online Strategies

When it comes to online campaigns, 55 percent of the CMOs, and 69 percent of the top 100 retailers, plan to focus most heavily on email promotions. The remaining retailers will focus on free shipping (16%), search engine optimization (15%), social networking (10%) and special products available online only (4%). Interestingly, of the retailers who say that their comp store sales will increase this holiday season, 29 percent will focus on free shipping, which is 13 percent higher than the average.

Toys Projected as Strongest Category

When asked which product category will perform the strongest this holiday season, most (39%) of the CMOs cite toys. Only 24 percent say consumer electronics, which is down from 41 percent in 2008. Other categories include home goods (14%), lifestyle goods (12%), apparel (10%), and jewelry (0%). However, with recent news regarding a recall scare for the Zhu Zhu pet, the hottest toy gift of the season, the industry may see less of a bump than expected.

Have you included social networking sites, such as Facebook and Twitter, in your marketing strategy?



“Retailers plan to focus on promotions for the entire holiday season so there will be less emphasis on Black Friday and Cyber Monday than in years past. Further, the heavy discounting necessary to get consumers out shopping on Black Friday and Cyber Monday will preclude retailers from reaping major sales gains. However, the fact that most retailers do not expect to see a decrease in sales on these days is a sign that the economy is stabilizing.” – TED VAUGHAN

“Holiday advertising budgets are flat, but retailers are getting more bang for their buck due to significant price reductions for ad space across all media. With the recession still top-of-mind, we can expect advertisements that emphasize tradition and cheer, while also promoting discounts and value. Further, social media will play a bigger role this season as more retailers embrace online venues as a marketing platform. Considering the big jump in social media marketing from just two years ago, we can expect this trend to continue indefinitely.”

– STEVE FERRARA

Consumer Electronics to See Most Discounts

A majority (37%) of retailers predict that consumer electronics will see the most discounts this holiday season. Retailers expect discounts across the board, including product categories such as: apparel (21%), home goods (14%), toys (13%), jewelry (9%) and lifestyle goods (6%).

Gift Cards Sales Stagnant

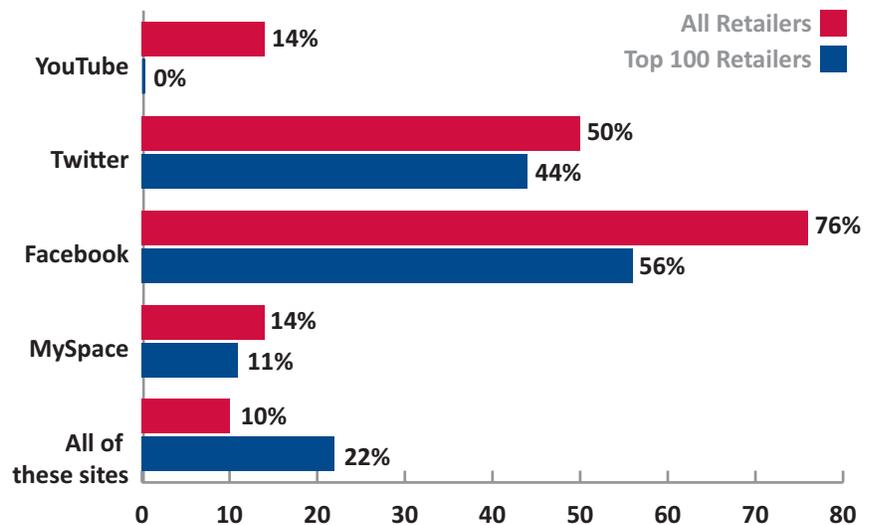
In an abrupt turnaround from last year, gift card sales are only expected to account for five percent of holiday sales, down from nearly 12 percent in 2008. More than half (57%) of retailers expect gift card sales to be flat this year, while only 32 percent expect gift card sales will increase and 12 percent project a decrease. Overall, retailers project a .76 percent drop in gift card sales this season.

In addition to creative promotions and smart discounting, advertising and marketing initiatives also have a big role to play this season.

Marketing and Advertising Plans for 2009 Holiday Season

More than half (55%) of retailers say that their 2009 advertising budget is flat this holiday season, up from 43 percent in 2008. Only 19 percent of retailers have increased their advertising budgets this year, while one-quarter (26%) of retailers cite budget reductions. Of the retailers

Which social networking sites are you focusing your marketing efforts on?



who do not expect a turnaround until the third quarter of 2010 or later, 50 percent say their holiday marketing and advertising budget in 2009 is lower. Of the retailers who expect the turnaround to happen sooner, (second quarter of 2010 or earlier) 62 percent plan to keep those budgets about the same.

When it comes to advertising expenditures, a strong majority (64%) of the retailers will spend most of their holiday advertising and marketing budgets on print advertising, which is up from 57 percent in 2008. Interestingly, more than half (51%) of retailers are including social media in their marketing strategy this year – a severe increase from only four percent in 2007.

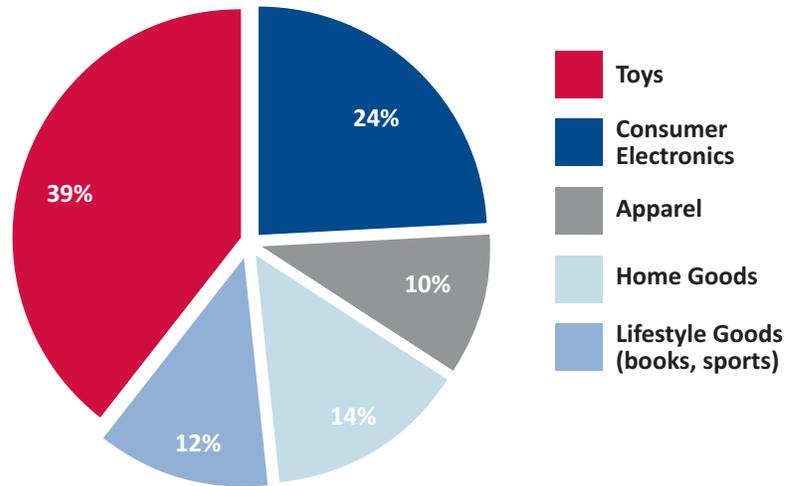
Retailers Friend Facebook

When it comes to social media, retailers are split. Fifty-one percent of retailers are including social networking in their market strategy. Of those who are taking their marketing online, a vast majority (76%) of retailers will focus on Facebook. Other social media outlets that retailers are focusing on include Twitter (50%), MySpace (14%) and YouTube (14%). Ten percent of the retailers will market on all of these social networking sites.

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"One of the shifts in consumer mentality we've seen is that more and more, people are focusing on what's most important to them. They may cut back in other areas, but they won't cut back on toys for their kids." – ALAN SELLITTI

Which one of the following product categories do you think will have the strongest performance this holiday season?



Green Marketing Slows for the Season

When it comes to eco-friendly initiatives, only 35 percent of retailers will increase their marketing push on green products this season, which is down from 43 percent last year and on par with 37 percent from 2007. More than half (65%) of the retailers will not be increasing their marketing investment on green products this holiday season.

Holiday sales are currently underway. So far, retailers are reporting earnings that indicate a flat season, with online sales trending upwards slightly. With two weeks remaining until the end of the season, retailers will continue deals and promotions throughout December and possibly into 2010. Will it pay off? We can expect to find out in mid-January when first wave of holiday sales results are released.

"Clearly, "greentailing" is in. Everyone's doing it and consumers seem to still be very interested in green initiatives. However, with the current economic landscape, a bargain mentality has become a bit stronger than a sustainability mentality. Retailers are playing to the bargain mentality more than anything else right now, but they are still maintaining green initiatives as part of their overall corporate image." – CATHERINE FOX-SIMPSON

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