

Retailers go beyond discounts to win customers

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By Sarah Coffey - Analysis

NEW YORK (Reuters) - U.S. retailers are dreaming up innovative promotions and targeting local markets as massive discounts fail to entice shoppers in the most downtrodden of markets.

Yet the simplest ideas have proven the most effective.

As U.S. retailers brace for possibly the worst holiday shopping season in as many as 17 years, moderate price cuts, offering more value for money and preserving store layouts so customers know where to find items quickly have shown better results, analysts say.

"What we have seen is that fire sales are not working," said Art Hammer, principal at QualPro Inc, a consulting firm that advises retailers on how to improve performance.

"The people who still have money seem to be spending the same total, but are getting a little bit better merchandise or a little bit better service," he said. "The idea you're going to weather the recession just by lowering prices, we're not seeing that."

Mid-priced retailers are among the hardest hit this year, as high gas and food prices and a severe housing slump force customers to frequent discount chains like Wal-Mart Stores Inc (WMT.N: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)) for basic necessities and cut back on nonessentials.

Fear over an expanding financial industry crisis will likely further weigh on consumers after Lehman Brothers filed for bankruptcy this week and the U.S. government agreed to rescue insurance giant American International Group (AIG.N: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)).

PRICE CUTS AREN'T THE ANSWER

Instead of huge unplanned sales, department stores like Nordstrom's (JWN.N: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)) and J.C. Penney's (JCP.N: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)) are bumping up reward programs, which use coupons and merchandise credits to

encourage their best shoppers to spend more and return frequently.

Nordstrom, which typically holds sale events only twice a year, is offering its credit card holders triple points in a limited September promotion, and Penney's is offering double points to anyone who signs up for its new reward program.

Department stores are also working with slim inventory levels, paring back clearance racks to stock the shelves with higher-priced items and protect profit margins.

Macy's (M.N: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)) posted a lower quarterly profit last month but said its gross margin rose one percentage point as it cut inventory. Kohl's (KSS.N: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)) also posted slightly better margins as they reduced inventory significantly.

But while Penney trimmed inventory from a year earlier, its margins fell more than 4 percent due to higher expenses.

Finding new ways to reach customers is also key. The email shopping service Shop It To Me compiles sale items from hundreds of different brands and stores, including Macy's, Nordstrom and American Eagle (AEO.N: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)). It sends the information to its over 400,000 users who have signed up for the service.

The free service concentrates on the online shopping market, said founder Charlie Graham. Over the last four months, as high gas prices keep shoppers away from the mall, Shop It To Me attracted 50,000 new sign-ups.

KEEP IT FAMILIAR

As consumers are already stressed by a bad economy, they tend to want to get in and out of stores as quickly as possible and avoid the temptation of purchasing more, Hammer said.

Knowing what local markets need can be more important in some cases than pricing, said Paco Underhill of Envirosell, a New York-based market research firm that helps companies understand how shoppers navigate stores.

Macy's is taking this approach with its MyMacy's program, where district managers have more control over local merchandise. It recently hired retail consultants dunnhumbyUSA to help it tweak its sales plan.

"How do we let our store managers, our district managers, have the elbow room to better respond to the markets they're serving?" Underhill said. "Sensitivity to what the local market wants is very

important."

It's not just in poorer neighborhoods where merchants are having difficulty moving merchandise, Underhill said. In states which have borne the brunt of falling housing prices, even stores in more affluent neighborhoods are feeling the pinch of lower consumer spending.

In those areas, customers are going "back to the fundamental basics," Underhill said, purchasing only items needed for survival.

The challenge is getting customers to spend just a bit more on something they don't absolutely need, he said.

"One of the key issues is giving people a reason to purchase, whether that's stressing something is energy efficient, or saying the suit travels well," Underhill said. "Recognize you just can't sell the item, you have to sell the idea."

But as retailers from every price point cut expenses like advertising, getting customers into stores might be even more difficult, said Craig Johnson, president of retail consulting firm Customer Growth Partners.

"As Yogi Bera said, if people aren't going to go to the ballpark, there's no way you can keep them there," he said.

(Editing by Richard Chang)

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