



November 2, 2009

US Online Holiday Retail Forecast, 2009

By Sucharita Mulpuru

with Patti Freeman Evans, Cristina Bugnaru, and Brendan McGowan

EXECUTIVE SUMMARY

Forrester expects online retail sales to reach \$44.7 billion during the months of November and December 2009, an 8% increase over 2008. Despite the lingering effects of the global financial crisis, the online space remains the retail industry's growth engine. While the majority of online retailers will fare well this holiday season, success will vary based on retailer type, size, and product mix. As consumers will continue to be responsive to discounts, online retailers plan to implement pricing, marketing, and merchandising strategies that will secure their bottom line.

ONLINE RETAIL SALES WILL BE UP 8% THIS HOLIDAY SEASON

Forrester projects an 8% growth rate for November and December 2009 US online retail sales (see Figure 1).¹ This growth is substantiated by the fact that 94% of those who have bought products and services online in the past three months also plan to buy products and services online this holiday season.² This number is up from 92% in 2008.³ Also, 72% of the retailers surveyed in "The State of Retailing Online 2009," a Shop.org study conducted by Forrester Research in Q3 2009, reported that they expected an increase in year-over-year online sales this holiday season.⁴ Given last year's slumping sales, retailers are up against less aggressive comps this year, which accounts for a positive 2009 holiday outlook.

Positive Online Sales Growth Will Not Be Easily Gained By All

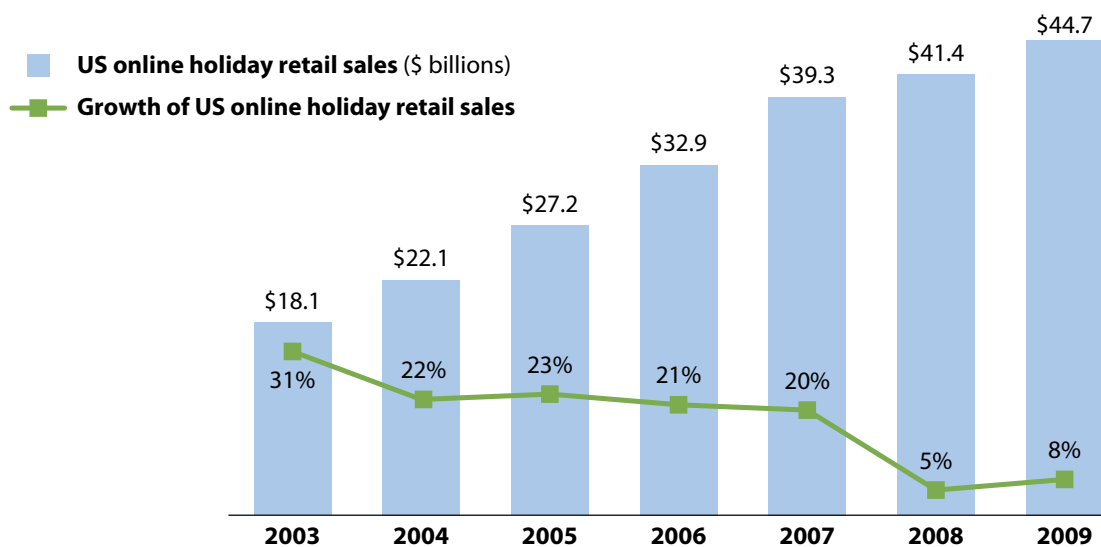
Despite the continued resilience of the online channel, the upcoming online holiday retail season is not without pitfalls:

- **Large- and medium-size retailers are less vulnerable than small retailers.** As evidenced by the same Forrester/Shop.org study, 39% of the retailers that reported a year-over-year online sales decrease in Q3 2009 were small retailers, compared with 17% of medium-size retailers and 21% of large retailers. Smaller retailers are in a more difficult position than their larger counterparts because they have less financial resources and marketing clout, which makes it harder for them to maintain a competitive advantage.⁵
- **Retailers having the right product mix will fare better.** Forrester interviews point to the fact that certain product categories such as apparel and accessories will do better than others such as home goods during this holiday season. Data from Consumer Technographics® bears this out, as the number of online buyers who plan to spend more on apparel and accessories this holiday season

has increased by four percentage points, compared with 2008. On the other hand, the number of online buyers who plan to spend more on books and the number of those who plan to spend more on computer hardware/software this holiday season have decreased by eight percentage points and five percentage points, respectively, relative to 2008.⁶

- **Mass merchandisers will do better than other retailers.** Throughout the year, we have seen consumers trade down to stores like Wal-Mart and other mass merchandisers. We expect this behavior to continue this holiday season because, given the current state of the US economy, 24% of online holiday buyers intend to try lower-cost alternatives to the brands they typically purchase and 33% of them plan to visit mass merchandisers.⁷
- **The offline catalog business is likely to underperform.** Many retailers have been struggling with their offline catalog businesses. For example, in January 2009, Williams-Sonoma announced overhead cost reductions from areas like catalog production.⁸ Also, a large top-200 Internet retailer is projecting continued decreases in its catalog business for the 2009 holiday season. This situation is substantiated by Forrester survey data, as 2% of online holiday buyers plan to use offline catalogs for their 2009 holiday purchases.⁹

Figure 1 Forecast: US Online Holiday Retail Sales, 2009



Source: Forrester Research Online Holiday Retail Forecast, 10/09 (US)

55548

Source: Forrester Research, Inc.

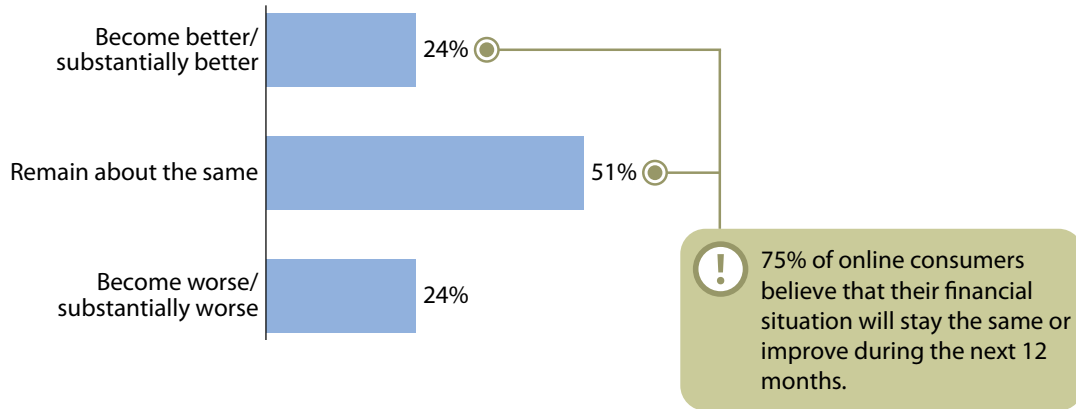
ONLINE CONSUMERS WILL BE SHOPPING, BUT THEY WILL BE A TOUGH CROWD

Economic hardship and increasing online tenure have contributed to making consumers smarter about the way they shop on the Web. This holiday season, online consumers will:

- **Show cautious optimism.** Online consumers are fairly optimistic about the future, as 75% of them believe that their financial situation will stay the same or improve during the next 12 months.¹⁰ However, after having fluctuated since the beginning of the year, the Index of Consumer Sentiment reached its highest 2009 level in September, only to fall again in early October.¹¹ Limited access to credit; a decrease in home values, pensions, and investment accounts; as well as the increase in unemployment rates keep overall consumer optimism at a toned-down level (see Figure 2).
- **Value the online shopping experience.** The majority of online consumers believe that the channel-specific characteristics that differentiate online from offline retail enable a superior shopping experience. For example, 61% of online consumers like shopping online because they can find products that are unavailable elsewhere. Moreover, more than half of online consumers prefer to shop online because they can compare product features and prices more easily and avoid standing in line. Also, 46% of online consumers still believe that they can find the best deals and values online (see Figure 3).¹²
- **Actively research online.** Thirty-three percent of online consumers say that they will do more research online before purchasing to make sure that they get the best price during the 2009 holiday season (see Figure 4).¹³
- **Continue their quest for deals and discounts.** Free shipping remains the most attractive offer, with 42% of online consumers saying that it will motivate them to buy more online than in the past. Thirty-two percent of online consumers also plan to search for and use online coupons, and 20% of them say that they will be more inclined to open emails offering discounts on products and services than last year due to the economy.¹⁴
- **Watch for and expect online retailer sales.** Today, buying products and services online can be done with a few clicks, which gives online consumers a time advantage. Indeed, given the current state of the economy, 39% of online consumers plan to wait before making a purchase and see if the items they want go on sale.¹⁵

Figure 2 Online Consumers Are Optimistic But Cautious About Their Financial Situation

“During the next 12 months, what do think is most likely to happen to your personal financial situation?”
 (On a scale of 1 [become substantially worse] to 5 [become substantially better])



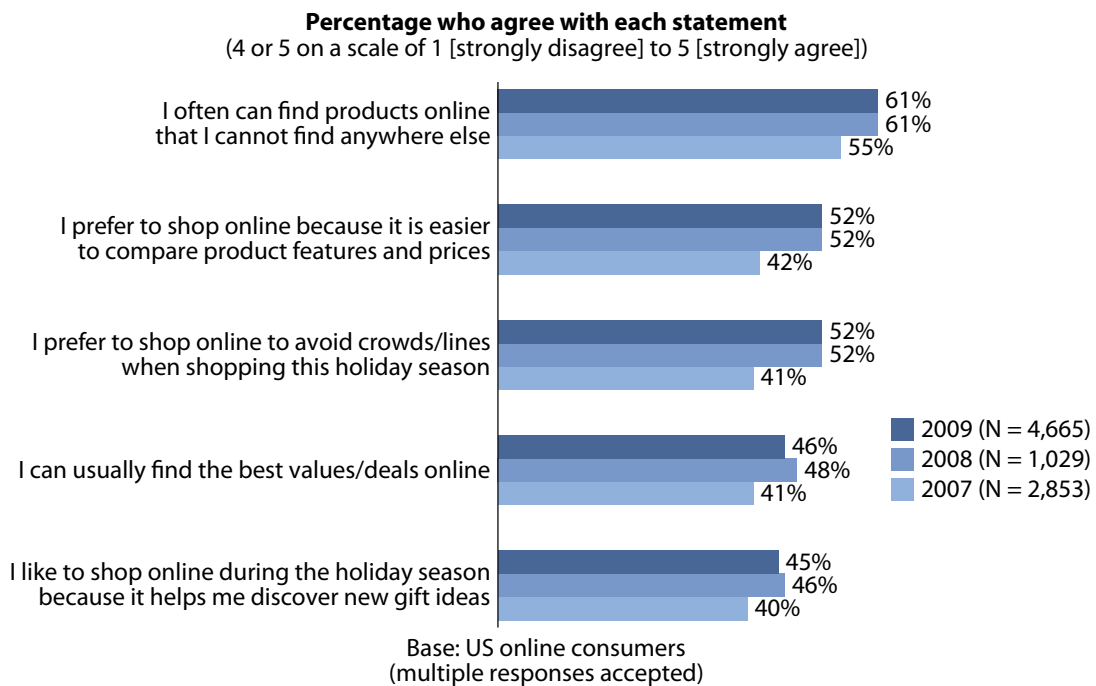
Base: 4,665 US online consumers
 (percentages may not total 100 because of rounding)

Source: North American Technographics® Marketing, CXP, And Pre-Holiday Retail Online Survey, Q3 2009 (US)

55548

Source: Forrester Research, Inc.

Figure 3 The Online Channel’s Appeal Persists In A Challenging Economy



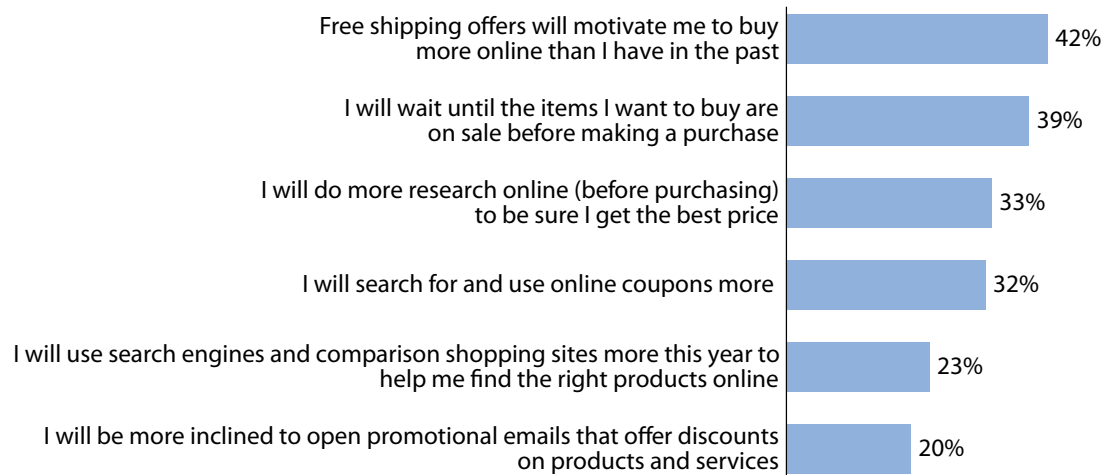
Source: North American Technographics® Marketing, CXP, And Pre-Holiday Retail Online Survey, Q3 2009 (US); North American Technographics Pre-Holiday Retail Online Survey, Q4 2008; North American Technographics Pre-Holiday Shopping Online Survey, Q3 2007

55548

Source: Forrester Research, Inc.

Figure 4 Before Making Any Purchases, Online Consumers Will Watch For Retailer Sales

“Given the current state of the US economy, how are you planning to change your shopping habits during the 2009 holiday season, if at all, compared with the 2008 holiday season?”



Base: 4,665 US online consumers
(multiple responses accepted)

Source: North American Technographics® Marketing, CXP, And Pre-Holiday Retail Online Survey, Q3 2009 (US)

55548

Source: Forrester Research, Inc.

ONLINE RETAILERS WILL STRIVE TO BALANCE CONSUMER DEMANDS WITH PROFITABILITY

Online retailers have internalized the lessons from last year’s holiday season and plan to manage to the bottom line (versus the top line) by focusing on margins as opposed to chasing sales. This new strategic approach translates into tactics that differ from last year’s holiday season, and they manifest themselves in the following ways:

- **Leaner inventories.** All Forrester interviews point to retailers looking to purchase closer to demand this holiday season, to prevent last years’ unbridled discounting.
- **Limited-time and limited-quantity sales.** Although aware of consumer expectations for sales and free shipping, numerous online retailers plan to limit the extent of their discounting this holiday season. For example, they will offer limited-time or limited-quantity sales instead of overall percent-off sales. Also, online retailers will rely more on threshold free shipping instead of site-wide free shipping. For example, JCPenney has implemented flat-rate shipping — or free shipping with a higher threshold.
- **Increased consumer engagement.** Online retailers also plan to dedicate a good deal of attention to maintaining their existing and newly-acquired customers. Some of the engagement strategies

that retailers plan to implement in this respect are trigger programs for items left in the shopping cart (based on last purchase or items that are already in the shopping cart); push notifications about new products or stock levels; and early access to goods or to a particular promotion.

- **Better customer service.** Another aspect of customer engagement is better customer service, achieved through online features like Amazon.com's Click to Call or Chico's Click to Chat.
- **Enhanced online merchandising tools.** Online retailers are using advanced online merchandising techniques such as American Eagle Outfitters' virtual closet or J.Crew's "shop this look" online display. Another example is JCPenney's improved quick-view functionality, which now offers more product detail to consumers.
- **Enhanced social shopping online tools.** Social shopping strategies are also one example of how online retailers are going the extra mile to fulfill online consumers' expectations. For example, The Wet Seal allows online shoppers to create their own outfits and share the look with friends via the Web. Also, Lucky Brand has recently developed interactive tools that allow online consumers to shop online with a friend, by sharing items via a built-in instant messenger function or on social networking sites like Facebook and Delicious.

RECOMMENDATIONS

HOW ONLINE RETAILERS CAN CAPITALIZE ON THIS HOLIDAY SEASON

Of course, online retailers will keep a close watch on the cadence and pace of their sales this holiday season. Luckily, online retailers often have greater flexibility to adjust their marketing tactics to align with emerging trends than their offline counterparts. Faced with savvy consumers and increased competition, online retailers need to:

- **Leverage multichannel strategies to make up for tight inventories.** Tight offline inventories might push consumers to purchase on the Web. Online retailers need to be well-positioned to capture sales from their own offline channel, as well as from their competitors' offline channels, when consumers come online in search of a product that they could not find in-store.
- **Spot areas of cost efficiencies.** Staples has transformed a fixed cost into a lower variable cost by reducing the number of daily store deliveries.¹⁶ This cost reduction has had a positive impact on its overall business. Similarly, retailers should determine where they could implement pertinent cost reductions to their online businesses, which would ultimately have a positive impact on their bottom line.

SUPPLEMENTAL MATERIAL

Survey Methodology

Forrester's North American Technographics® Marketing, CXP, And Pre-Holiday Retail Online Survey, Q3 2009 (US), was an online survey fielded in August 2009 of 4,723 US individuals ages 18 to 88. For results based on a randomly chosen sample of this size (N = 4,723), there is 95% confidence that the results have a statistical precision of plus or minus 1.4% of what they would be if the entire population of US online individuals ages 18 and older had been surveyed. Forrester weighted the data by age, gender, income, broadband adoption, and region to demographically represent the adult US online population. The survey sample size, when weighted, was 4,665. (Note: Weighted sample sizes can be different from the actual number of respondents to account for individuals generally underrepresented in online panels.) Please note that this was an online survey. Respondents who participate in online surveys have in general more experience with the Internet and feel more comfortable transacting online. The data is weighted to be representative for the total online population on the weighting targets mentioned, but this sample bias may produce results that differ from Forrester's offline benchmark survey. The sample was drawn from members of MarketTools' online panel, and respondents were motivated by receiving points that can be redeemed for a reward. The sample provided by MarketTools is not a random sample. While individuals have been randomly sampled from MarketTools' panel for this particular survey, they have previously chosen to take part in the MarketTools online panel.

Forecast Methodology

The Forrester Research Online Holiday Retail Forecast, 10/09 (US), is a market sizing forecast, which sizes the total online holiday spending in 2009. This forecast is updated annually, and it estimates the online holiday season performance.

The online holiday spending number is an estimate derived from multiple data points. On one hand, we use demand-side data to gauge consumer online spending. This data piece is derived from the North American Technographics® Marketing, CXP, And Pre-Holiday Retail Online Survey, Q3 2009 (US), where we asked consumers about their shopping intentions during the 2009 holiday season (e.g., whether they intend to shop online and what their estimated spend levels are). We have also tracked consumer-reported metrics for the past 10 years and analyzed the trend of these numbers.

On the other hand, in order to balance the demand-side data, we examined the supply-side data by reviewing "The State of Retailing Online 2009," a Shop.org study conducted by Forrester Research. Additionally, we researched publicly listed companies and their financials to see their latest online sales performance. Data from the US Census Bureau and the National Retail Federation supplemented these inputs with their estimates of the 2009 online holiday retail sales.

We triangulated all of these various resources to estimate the actual 2009 holiday online spending numbers at \$44.7 billion.

Companies Interviewed For This Document

Art Technology Group	JCP Media (JCPenney)
Columbia Sportswear	MarketLive
Demandware	Mercent
Fry	Shopatron

ENDNOTES

- ¹ Source: Forrester Research Online Holiday Retail Forecast, 10/09 (US).
- ² Source: North American Technographics® Marketing, CXP, And Pre-Holiday Retail Online Survey, Q3 2009 (US).
- ³ US online holiday buyers are US online buyers who have bought products and services online in the past three months and who also plan to buy products and services online during the 2009 holiday season (November and December 2009).
- ⁴ Source: “The State of Retailing Online 2009,” a Shop.org study conducted by Forrester Research.
- ⁵ Source: “The State of Retailing Online 2009,” a Shop.org study conducted by Forrester Research.
- ⁶ Source: North American Technographics Marketing, CXP, And Pre-Holiday Retail Online Survey, Q3 2009 (US).
- ⁷ Source: North American Technographics Marketing, CXP, And Pre-Holiday Retail Online Survey, Q3 2009 (US).
- ⁸ Source: “Williams-Sonoma, Inc. Announces \$75 Million Infrastructure Cost Reduction Plan for 2009,” Williams-Sonoma press release, January 21, 2009 (<http://www.reuters.com/article/pressRelease/idUS250150+21-Jan-2009+BW20090121>).
- ⁹ Source: North American Technographics Marketing, CXP, And Pre-Holiday Retail Online Survey, Q3 2009 (US).
- ¹⁰ Source: North American Technographics Marketing, CXP, And Pre-Holiday Retail Online Survey, Q3 2009 (US).
- ¹¹ According to the Reuters/University of Michigan Survey of Consumers, the Index of Consumer Sentiment was 73.5 in September 2009, up from 65.7 in August 2009 and rising to the highest level since the beginning of 2008. However, the early October Index of Consumer Sentiment reported through MarketWatch fell to 69.4. Source: “Recession Ends, but Recovery Will be Hampered By Weak Consumer Finances,” Reuters/University of Michigan Surveys of Consumers press release, September 2009 (<https://customers.reuters.com/community/university/default.aspx>); Greg Robb, “Consumer sentiment pulls back in early Oct, UMich,” MarketWatch, October 16, 2009 (<http://www.marketwatch.com/story/consumer-sentiment-pulls-back-in-early-oct-umich-2009-10-16>).

- ¹² Source: North American Technographics Marketing, CXP, And Pre-Holiday Retail Online Survey, Q3 2009 (US).
- ¹³ Source: North American Technographics Marketing, CXP, And Pre-Holiday Retail Online Survey, Q3 2009 (US).
- ¹⁴ Source: North American Technographics Marketing, CXP, And Pre-Holiday Retail Online Survey, Q3 2009 (US).
- ¹⁵ Source: North American Technographics Marketing, CXP, And Pre-Holiday Retail Online Survey, Q3 2009 (US).
- ¹⁶ John Mahoney, vice chairman and chief financial officer of Staples, mentioned this cost reduction during the Retail Outlook — Holiday 2009 and Beyond Bloomberg event on October 8, 2009. Other panelists for the event included Marc Cooper, managing director at Peter J. Solomon; Gilbert Harrison, chairman at Financo; and Brendan Hoffman, chief executive officer at Lord & Taylor. Source: Bloomberg Web site (http://www.bloomberg.com/apps/news?pid=videos_tab&sid=a03T3GwMMTH8).