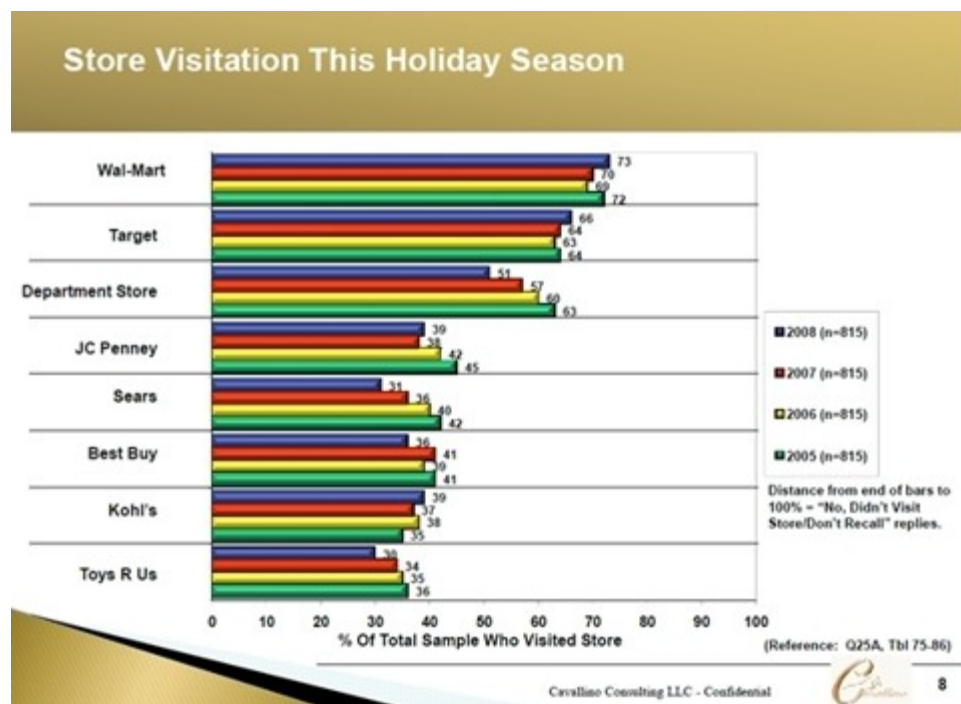


Cause of Department Stores' Decline: Changing Spending Habits (at Seeking Alpha) and Unemployment Hits 7.2% (Zacks.com)

City of Industry, CA --(www.FinancialNewsUSA.com)-- 01/12/2009 - Department Stores industry news provided by Financial News USA. Consumers last year continued a six-year trend of steering away from department stores during the holiday season, in part because these stores are not meeting their needs, according to a shopping study sponsored by Cavallino Capital, writes Retailer Daily.

Overall, only 51% of consumers visited a department store this holiday season, compared with 73% who visited Wal-Mart (WMT), the study found. The Ninth Annual National Shopping Behavior Study measures consumers' purchases rather than their intent to shop, and finds that department stores' share of consumer spending continues to deteriorate. For example, nearly 25% of consumers reported that they visited Macy's (M) less in 2008 than 2007, while only 7% visited Macy's more. Consumers last year continued a six-year trend of steering away from department stores during the holiday season, in part because these stores are not meeting their needs, according to a shopping study sponsored by Cavallino Capital, writes Retailer Daily.



When considering where they plan to spend more money, 23% of consumers surveyed say they are likely to spend more money at mass merchants, while only 1% say they plan to spend more money at department stores

While the conventional wisdom is that consumers had less to spend this holiday season, the actual story is that department stores' way of doing business also has less appeal to consumers, according to John Rittenhouse, chairman of [Cavallino Capital](#).

“It appears that it is not the department store business model that’s broken, it’s the current execution,” said Rittenhouse. “The issues are directly related to management[’s] not following customers’ ‘rules.’”

“Shopping at stores that carry overpriced branded merchandise, use hi-lo pricing, coupons, and loyalty programs have limited appeal according to consumers interviewed in the study.”

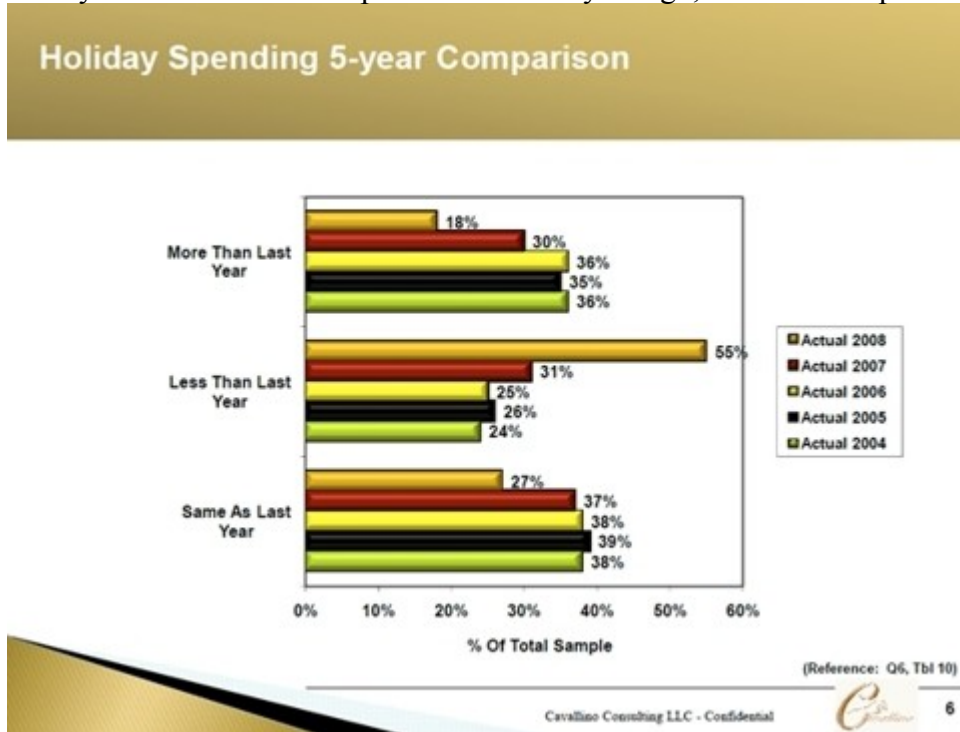
In contrast, consumers say that ensuring desired items are in stock, offering fair everyday pricing, having easy return policies and hiring helpful employees are the top ways retailers can generate customer loyalty:



Analyzing where consumers’ spent the most money during the past six holiday shopping seasons, the study found that department stores’ share declined from 11% to 6%. Moreover, department stores’ appeal to core affluent customers is on the decline, and they are moving their shopping to catalogs and the internet to find the selection they want.

Other findings from the study:

- Nearly 20% of consumers spent more than a year ago, while 54% reported spending less.



- For the first time in the nine-year history of the study, the primary driver was price over selection as the reason for why customers changed the store where they purchased.
- For the first time in many years, Wal-Mart was more effective in attracting new customers than Target.
- 54% of consumers gave more practical gifts.
- 30% of consumers relied more on cash as gifts.
- 54% shopped closer to home. Economic conditions and retailer advertising had little effect on when during the holiday season consumers shopped.

The findings of the National Shopping Behavior Study do not apply just to the holiday shopping season and the current economic conditions, according to Rittenhouse.

“Over the nine-year history of the study, consumers’ rules for shopping at one store over another have been constant,” he said. “These findings are consistent with data from the Back-to-School Study conducted in 2004 and The Goldman Group 2008 Retail Trend Tracker studies. Selection of merchandise the consumer wants is the main driver of purchasing.

“When the economy turns around, those retailers that offer products consumers want to buy at fair, everyday prices will have sustained, profitable growth. However, those retailers that rely on gimmicks such as contests, meaningless loyalty programs and hi-lo pricing will see their market share continue to erode.”

About the study: The survey was underwritten by Cavallino Capital, LLC a private equity and consulting firm; it was designed and managed by The Goldman Group. The study was conducted nationwide through random telephone interviews with 815 consumers between December 6 and December 15, 2008. Consumers answered questions that showed how the current economic

environment has affected what motivated them to shop, where they shopped, and what mattered to them most when making a purchase. All store data was collected by specific store name, catalog, or website.

The U.S lost 524,000 jobs in December, roughly inline with forecasts. November's nonfarm payrolls loss was revised up to 584,000 from 533,000. The unemployment rate jumped to 7.2% from 6.8% last month. The unemployment rate is at a 15-year high. What the numbers don't show is the number of people who are underemployed. Many job-seekers are settling for large cuts in pay because of a lack of suitable jobs. And none of this even factors in the likelihood of even more layoffs...Though stocks have been rallying over the past several weeks, all signs point to weakening consumer spending. Wal-Mart (NYSE: WMT) warned yesterday, Macy's (NYSE: M) is shutting down stores and Saks (NYSE: SKS) -- well, even the wealthy are keeping a tighter grip on their wallets. And if consumers can't earn enough to support their families, banks will have to significantly adjust mortgages to keep houses out of foreclosures.

WASHINGTON (AP) -- Businesses slashed wholesale inventories for a third straight month in November as sales continued to plummet by record amounts, further evidence of the severe recession gripping the country. The Commerce Department reported Friday that wholesale inventories dropped 0.6 percent in November while sales were down a record 7.1 percent. Businesses are expected to keep paring inventories in coming months as sales weaken further in the midst of a recession that is already the longest in a quarter century. Many economists do not expect a recovery to begin until the second half of this year. The 0.6 percent decline in inventories was slightly smaller than the 0.8 percent drop that economists had expected. However, the government revised the decline in October inventories to show a drop of 1.2 percent, even worse than the 1.1 percent fall reported earlier.

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