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Battered Economy Not the Only Reason for Department Stores' Decline During the 2008 Holiday Season

SAN FRANCISCO -- Dec. 23, 2008 -- Consumers continued a six-year trend of steering away from department stores during the holiday season, but the uncertain economic times were not the only reason. Those surveyed in the **Ninth Annual National Shopping Behavior Study** indicated that department stores are not meeting consumer needs, including having desired items in stock, fair everyday pricing, easy return policies and helpful employees.

The annual **National Shopping Behavior Study** measures consumers' actual purchases, not intent to shop. This year's study was conducted nationwide through random telephone interviews with 815 consumers between December 6 and December 15. Consumers answered carefully crafted 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.

One key finding is that department stores' share of consumer spending continues to deteriorate. For example, nearly 25 percent of consumers reported that they visited Macy's less in 2008 than 2007, while only 7 percent visited the store more. And 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.

"It appears that it is not the department store business model that's broken, it's the current execution," said John Rittenhouse, chairman of Cavallino Capital, sponsor of the study. "The issues are directly related to management 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."

When analyzing where consumers' spent the most money during the past six holiday shopping seasons, department stores' share declined from 11% to 6%. And even more distressing for department stores, their appeal to core affluent customers is on the decline. These customers are moving their shopping to catalogs and the Internet to find the selection they want.

Other key findings from the study include:

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- Nearly 20 percent of consumers spent more than a year ago, while 54 percent 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, Walmart was more effective in attracting new customers than Target
- 54 percent gave more practical gifts
- 30 percent relied more on cash as gifts
- 54 percent 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** apply not just to the Holiday shopping season and the current economic conditions.

“Over the nine-year history of the study, consumers’ rules for shopping at one store over another have been constant,” said Rittenhouse. “These findings are consistent with data from the Back-to-School Study conducted in 2004 and The Gordman 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.”

The survey was underwritten by [Cavallino Capital, LLC](#), a private equity and consulting firm, founded in 2007, specializing in cooperative business transactions to create tangible value through improved asset performance, for all parties involved. The survey was designed and managed by The Gordman Group (<http://www.gordmangroup.com>), a consulting practice that helps mid- to large-size companies create actionable, real-world profit development strategies. Research was conducted by Weise Research Associates, Omaha, Nebraska.

To speak with John Rittenhouse or to set up a broadcast interview, please contact Duane Coda at 973-402-5969 / 646-228-1661 / dcoda@cavallinollc.com.

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