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RETAIL BUSINESS TREND REPORT

“BRINGING RESEARCH TO RETAIL”

APRIL 2004:

The economy continues to show solid gains in spending and production, as well as improvements in the labor market. Durable goods orders and shipments showed strong gains in March. The Index of Leading Economic Indicators rose 0.3% in March. On a year-to-year basis, the Index advanced 4.4% in March, the largest increase since April 1984. First quarter 2004 GDP came in at 4.2%, versus 4.1% for the fourth quarter of 2003. Both consumer spending and investment in equipment remain strong.

Retail sales, excluding autos, rose 1.7% in March. This represents an 8.5% gain versus March 2003. For the trailing 3 months, retail sales, excluding autos, rose 16.3% and 8.8% for the trailing 12 months. Gains were noticed across most categories, with the exception of department stores. The strongest performing categories continue to be related to upgrades to the home, including building and garden, electronics and appliance, and furniture retailers. Demand for apparel is also strong. Consumer spending remains robust, enhanced by tax refunds and raising payrolls.

Capital spending will continue to rise at double-digit rates, which will have a favorable impact on retail in-store development spending. Margin pressure remains intense in the industry, however, as excess world-wide capacity and the inability of producers to pass along increases in material costs, such as steel and wood, remains problematic.

In this issue, our research note examines some of the central issues affecting promotional spending.

STEVEN KEITH PLATT
DIRECTOR

I. ECONOMIC OVERVIEW

MACRO ECONOMIC INDICATORS-BUSINESS:

(% change)	2000	2001	2002	2003	2003-1 st Qtr.	2003-2nd Qtr.	2003-3rd Qtr.	2003-4th Qtr.
Real GDP	3.8%	0.5%	2.2%	3.1%	1.4%	3.3%	8.2%	4.1%
Capital Spending (equipment)	7.8%	-5.2%	-2.8%	5.5%	-4.4%	8.0%	17.6%	10.8%
Corporate Profits	----	-7.2%	17.4%	----	+\$20.4B	+\$95.7B +10.3%	+101.4B +9.9%	+81.4B +7.2%
Labor Productivity	3.0%	1.9%	4.9%	4.2%	2.1%	6.1%	9.5%	2.6%

(% change)	JN-04	FB-04	MR-04	AP-04	MY-04	JN-04	JL-04	AG-04	SP-04	OT-04	NV-04	DC-04
Durable Goods Orders	-2.6	3.8	3.4									
Durable Goods Shipments	-1.0	1.7	3.2									
Leading Index	0.4	0.0	0.3									
ISM Manuf. Survey (absolute)	63.6	61.4	62.5									
Industrial Capacity Utilization	76.2	76.7	76.5									
Industrial Production	0.7	0.8	-0.2									
Factory Orders	-0.9	0.3										
Business Inventories	0.2	0.7										

MACRO ECONOMIC INDICATORS-CONSUMER:

(% change)	JN-04	FB-04	MR-04	AP-04	MY-04	JN-04	JL-04	AG-04	SP-04	OT-04	NV-04	
Personal Consumption	0.5	0.2										
Change in Payroll Employ. (000)	159	46	308									
Unemploy. Rate	5.6	5.6	5.7									
Personal Income	0.3	0.4										
Wages and Salaries	0.7	0.5										
Consumer Price Index	0.5	0.3	0.5									

MACRO ECONOMIC INDICATORS- RETAIL:

	2000	2001	2002	2003-1 st Qtr.	2003-2nd Qtr.	2003-3 rd Qtr.	2003-4th Qtr.
Large Retailer After-Tax Profit Ratio	----	1.82%	2.6%	2.4%	2.3%	2.5%	----
Large Retailer After-Tax Profits	\$73.4B	\$79.1B	\$81.2B	\$8.57B	\$8.44B	\$9.45B	----
Large Retailer Return on Equity (net Income)	----	----	----	12.44%	12.17%	13.15%	----
Large Retailer Return on Assets (net Income)	----	----	----	4.80%	4.74%	5.06%	----

(% change)	2000	2001	2002	2003
Retail GDP	7.5%	4.6%	5.9%	----
Retail Sales	----	----	----	5.6%
Retail Construction	----	----	-8.0%	2.0% (e)

	JN-04	FB-04	MR-04	AP-04	MY-04	JN-04	JL-04	AG-04	SP-04	OT-04	NV-04	DC-04
Retail Sales (% change; x auto)	1.5	0.6	1.7									

II. MAJOR RETAIL SECTOR TRENDS:

BUILDING MATERIALS, GARDEN AND SUPPLY STORES

Sales rose 10.6% in March, following revised increases of 0.7% in February and 0.6% in January. On an annualized rate, revenue is up 57.2% for the trailing 3-months and is up 20.8% for the trailing 12 months.

Monthly % Change	JN-04	FB-04	MR-04	AP-04	MY-04	JN-04	JL-04	AG-04	SP-04	OT-04	NV-04	DC-04
Sales	0.6	0.7	10.6									

FOOD AND BEVERAGE STORES

Sales were rose 0.9% in March, following a -0.7% decline in February and a 1.7% increase in January. On an annualized rate, revenue is up 7.7% for the trailing 3-months and is up 3.3% for the trailing 12 months.

Monthly % Change	JN-04	FB-04	MR-04	AP-04	MY-04	JN-04	JL-04	AG-04	SP-04	OT-04	NV-04	DC-04
Sales	1.7	-0.7	0.9									

HEALTH AND PERSONAL CARE (DRUG) STORES

Sales increased 1.1% in March, following a decline of -0.3% in February and a gain of 0.6% in January. On an annualized rate, revenue is up 5.5% for the trailing 3-months and is ahead 6.6% for the trailing 12 months.

Monthly % Change	JN-04	FB-04	MR-04	AP-04	MY-04	JN-04	JL-04	AG-04	SP-04	OT-04	NV-04	DC-04
Sales	0.6	-0.3	1.1									

	MARCH 2004 COMP. STORE SALES
Walgreen	12.6%
CVS	7.8%

CLOTHING AND ACCESSORY (APPAREL) STORES

Sales rose 1.9% in March, following an increase of 0.3% in February, versus a 2.1% gain in January. On an annualized rate, revenue is up 18.6% for the trailing 3-months and 9.6% for the trailing 12 months.

Monthly % Change	JN-04	FB-04	MR-04	AP-04	MY-04	JN-04	JL-04	AG-04	SP-04	OT-04	NV-04	DC-04
Sales	2.1	0.3	1.9									

	MARCH 2004 COMP. STORE SALES	YEAR-TO-DATE 2004 COMP. STORE SALES
Chico's	18.9%	22.3%
Gap	8%	10%
Limited	15%	11%

GENERAL MERCHANDISE STORES

Sales were rose 0.3% in March, following an increase of 1.5% in February and a gain of 1.0% in January. On an annualized rate, revenue advanced 11.7% for the trailing 3-months and is ahead 7.4% for the trailing 12 months.

Monthly % Change	JN-04	FB-04	MR-04	AP-04	MY-04	JN-04	JL-04	AG-04	SP-04	OT-04	NV-04	DC-04
Sales	1.0	1.5	0.3									

	MARCH 2004 COMP. STORE SALES	YEAR-TO-DATE 2004 COMP. STORE SALES
Costco	11%	11%
Dollar Gen.	3.2%	3.5%
Target Stores	7.8%	7.9%
Wal-Mart	5.6%	5.8%

DEPARTMENT STORES

Sales declined -0.8% in March, following an increase of 1.5 in February, versus a 0.8% gain in January. On an annualized rate, revenue is up 6.3% for the trailing 3-months and 1.5% for the trailing 12 months.

Monthly % Change	JN- 04	FB- 04	MR- 04	AP- 04	MY- 04	JN- 04	JL- 04	AG- 04	SP- 04	OT- 04	NV- 04	DC- 04
Sales	0.8	1.5	-0.8									

	MARCH 2004 COMP. STORE SALES	YEAR-TO-DATE 2004 COMP. STORE SALES
Federated	6.8%	7.7%
Sears	0.1%	0.5%
JC Penny	11.4%	11.7 %
Dillard's	3.0%	2.0%

III. RESEARCH NOTE

“How Promotions Work”

Marketing Science, Volume 14, No. 3, 1995

By Robert C. Blattberg, Northwestern University, Richard Briesch, New York University and Edward J. Fox, Southern Methodist University

This paper identifies and discusses some of the central issues affecting promotional spending¹. This is significant because brand marketers spend more on promotions than advertising². The authors present, among other things, a straight-forward detail of

¹ According to an October 2003 Cannondale Associates study on trade promotion, trade promotion inefficiency tops the list of contentions among both retailers and manufactures. Thus, an understanding of what is and what is not working may be insightful.

² A.C. Nielsen estimates that trade promotion spending increased to 58% of total advertising and sales promotion expenditures in 1995.

promotional observations that are supported by academic research, and further present important issues affecting promotional spending where the existing body of research has yet to yield satisfactory conclusions.

The following is a summary of specific promotional generalizations that the authors find research support for:

1. Temporary retail price reductions substantially increase sales, in the short-term.
2. Higher market share brands are less deal elastic, even though these brands may capture a large proportion of switchers.
3. The frequencies of deals changes the consumer's reference price and may, in-turn, reduce brand equity.
4. The greater the frequency of deals, the lower the level of the deal spike.
5. Cross-promotional effects are asymmetric, and promoting higher quality brands impacts weaker brands (and private label products) disproportionately.
6. Retailers' pass-through less than 100% of trade deals to consumers.
7. Display and feature advertising have a strong impact on item sales.
8. Advertised promotions can result in increased store traffic, depending upon the products and categories.
9. Promotions affect sales in both complementary and competitive categories.

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