

Tepid July Comps Raise Concerns

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Ross Stores was able to eke out a 2 percent comp gain.

Photo By Courtesy Photo

- [July Comp Crux](#)

teenagers' perennial value destination, Aéropostale Inc., with "offensive" promotions, according to Weeden & Co. analyst Amy Noblin. Aéropostale's 1 percent gain missed estimates.

Abercrombie began offering 40 percent off all jeans and leggings in the final days of July. Its lower-price concept, Hollister Co., which posted a 4 percent comp rise, is discounting denim between 20 and 30 percent.

American Eagle also rolled out several promotions, including one that offered 20 percent off to any consumer who purchased two pairs of jeans.

With its modest 1 percent comp increase, "Aéropostale is going to have to get more aggressive for August," Noblin said. "But the question is: Is it going to matter?" Now that A&F and American Eagle have "more palatable" price points, the analyst wondered if the consumer, who traded down to Aéropostale during the recession, will go back.

Aéropostale surprised most analysts and experts when it narrowed second-quarter guidance to a range of 45 cents a share to 46 cents, from between 45 cents to 48 cents, "due primarily to the challenging retail environment, in addition to a change in consumer shopping behaviors," the company said early Thursday.

The company's stock fell 5.7 percent to \$25.88 by the end of the day as the S&P Retail Index managed a 0.6 percent gain to 416.80. The Dow Jones Industrial Average declined less than 0.1 percent to 10,674.98.

Soft comparable-store sales in June and July have many retailers priming their promotional pumps in a trend that could put margins and profits at risk during the back half of the retail year.

Despite their best efforts to drive sales with steep promotions, many retailers last month heard the sound of crickets chirping rather than sales being rung up, according to July sales results reported Thursday.

In advance of the back-to-school season, apparel retailers slashed prices and ran a variety of crafty promos to clear out inventory before new shipments arrived in stores. Retailers that abstained from the promomania saw their rivals lure in customers while they remained flat-footed.

While last month's results "continued a trend" of soft comp results, they suggested "retailers are getting nervous," according to Sherif Mityas, partner in the retail practice of A.T. Kearney, a global management consulting firm.

"There was a level of activity and depth of discounting that is more reactionary," he said, explaining that it's likely this trend will run through b-t-s into the back half of the year. "Clearly there will be some earnings pressure. A lot of retailers got overconfident and increased their buys."

The second half of the retail year began this month.

Mityas, who said it is prudent to wait for August results for clarity on b-t-s, advocated retailers "hold the line" instead of pulling the promotional trigger. But that's a hard thing to do.

Abercrombie & Fitch Co., which earned a 7 percent comp gain, and American Eagle Outfitters Inc., which posted a flat comp, "blind-sided"

The Buckle Inc., which turned in a 9.3 percent comp decline, also got stung by the competitive environment, according to Sterne Agee retail analyst Margaret Whitfield.

"While comparisons are somewhat easier in the second half, the company continues to struggle with weak denim and knit tops," she said. "Promotional activity at other retailers has been intense, with denim a focus."

The effect of aggressive pricing stretched beyond the teen sector.

Ross Stores Inc. vice chairman and chief executive officer Michael Balmuth noted that "increased promotions at other retailers may have negatively impacted" business early in the month. Still, the discounter was able to eke out a 2 percent gain.

Unseasonably hot weather might have contributed to softness in the off-price sector, as consumers who shopped likely opted to stay in malls rather than drive to several stand-alone stores, offered Noblin.

Either way, when they did shop, consumers still gave their dollars to mass merchants and higher-end retailers offering value, such as Macy's Inc., The Limited Brands Inc. and Nordstrom Inc.

This isn't merely a fleeting trend, said Erin Armendinger, managing director of the Jay H. Baker Retailing Initiative at University of Pennsylvania's Wharton School of Business. "The consumer has changed. The world has changed and the teen consumer is aware of this."

According to Armendinger, "change happens quickly" in the teen market not just because its core consumer is "fickle," but more so because teens are leading a "cultural shift in the industry."

There is an emphasis on technology and marketing in what Armendinger called this "wear now" environment.

Consumers are shopping closer to need and are looking for the biggest "value proposition," she said. When consumers do shell out the big bucks, it's for a "compelling product."

"Look at all the people buying iPads for \$500 a pop," she said. "We need to give that passion for apparel."

Weighing in on b-t-s trends, The NPD Group reported there had been a reduction in the percentage of consumers intending to spend less for the season, but the percentage who had already purchased for b-t-s had fallen to 3 percent from 6 percent a year ago. NPD's research was conducted in early July.

But with increasingly challenging comps and higher sourcing costs on the horizon, not to mention unrelenting macroeconomic challenges, there's not a whole lot retailers can do aside from managing inventory, planning promotions and delivering enticing products, said Kurt Salmon Associates retail strategist John Long.

"The onus on retailers is to get consumers off their beach towels and into stores," he said. "They are doing everything they can to motivate spending, but you can't squeeze blood from a turnip."

JULY SAME-STORE SALES

	2010	JULY 2009	JUNE	MAY
	% CHANGE	% CHANGE	% CHANGE	% CHANGE
DEPARTMENT STORES				
BON-TON	-0.3	-9.8	1.4	-1.1
DILLARD'S	-3.0	-12.0	2.0	0.0
J.C. PENNEY	-0.6	-12.3	4.5	-1.8
KOHL'S	4.1	0.4	5.9	3.5
MACY'S	7.3	-10.7	6.5	1.4
NEIMAN MARCUS	12.3	-25.5	1.9	7.8
NORDSTROM	7.6	-6.9	14.1	3.7
SAKS	6.4	-16.3	2.5	5.8
STAGE STORES	-0.6	-11.9	-1.2	-2.9
AVERAGE:	3.7	-11.7	4.2	1.8
SPECIALTY CHAINS				
ABERCROMBIE & FITCH	7.0	-28.0	9.0	-3.0
AEROPOSTALE	1.0	6.0	8.0	1.0
AMERICAN EAGLE	0.0	-11.0	-1.0	-3.0
BANANA REPUBLIC	2.0	-7.0	6.0	1.0
BATH & BODY WORKS	15.0	0.0	-8.0	2.0
BUCKLE	-9.3	2.8	-7.3	-5.4
CATO	2.0	-3.0	1.0	3.0
DESTINATION MATERNITY	1.4	-8.3	-2.2	-3.9
GAP (U.S. STORES)	-6.0	-9.0	-3.0	-2.0
HOT TOPIC	-9.0	-8.5	-2.1	-9.0
OLD NAVY	6.0	-8.0	0.0	1.0
PERFUMANIA	-6.7	-3.5	-1.1	7.0
RITE AID	-1.1	-0.6	-1.1	-1.7
VICTORIA'S SECRET	12.0	-9.0	17.0	7.0
WALGREEN	0.4	2.0	2.0	-0.2
WET SEAL	-4.3	-12.1	-3.6	-5.3
ZUMIEZ	9.4	-16.8	10.9	7.1
AVERAGE:	1.2	-6.7	1.4	-0.3

MASS MERCHANTS

BJ'S WHOLESALE CLUB *	1.9	1.8	3.2	3.5
COSTCO *	4.0	-1.0	3.0	5.0
ROSS STORES	2.0	4.0	5.0	5.0
STEIN MART	-2.6	-5.5	0.6	-4.5
TARGET	2.0	-6.5	1.7	1.3
TJX COS.	2.0	4.0	3.0	4.0
AVERAGE:	1.6	-0.5	2.8	2.4

TALLY:

UP	20	7	21	18
FLAT	1	1	1	1
DOWN	11	24	10	13
TOTAL	32	32	32	32

SOURCE: COMPANY REPORTS

*EXCLUDES FUEL SALES