HOLIDAY 2014

U.S. HOLIDAY 2014 PREVIEW

SEPTEMBER 2014

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GLOBAL RETAIL RESEARCH & INTELLIGENCE
Fung Business Intelligence Centre

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EXECUTIVE SUMMARY

While Back to School (BTS) and Fashion Week are still top of mind amongst most shoppers and retailers, we thought an early look at 2014 holiday merchandise and trends would be worthwhile. As we approach Holiday, please use this preview as guide to help you navigate what we view as the top drivers of spending YoY. Technology spending and technology gadgets continue to rule our conversations with retailers.

<u>What are the Drivers of Holiday 2014 Spending?</u>

In Figure 1 we highlight the Top 10 Holiday Sales Drivers. We expect a 3%-5% increase for Holiday 2014 based on an extra day of shopping, a favorable calendar in general, better weather trends, and seamless omni-channel strategies. Over the past 14 years, Holiday sales grew at an average (simple) pace of 3.84%. In 2012 and 2013 they grew 3.5% and 3.8% respectively, according to NRF data for the November/December period.

<u>Alibaba—a game changer</u>

Alibaba isn't content with the Chinese market—it's currently well into its global expansion with an international investor road show leading up to its IPO on the NYSE on September 19. With the company's earlier plan to sell shares between $60-$66 its valuation could range from $155-$163bn—about the same size as Amazon. And due to strong investor demand, they've indicated they are likely to raise the deal's price range into what could be the world's largest IPO. Alibaba's founder and Executive Chairman Jack Ma voiced his intent to expand aggressively in the U.S. and European markets after its listing.

However, we believe that retailers are not appropriately considering the risk of this company, especially for this upcoming Holiday season. The end result could be both online and physical stores (an online to offline, or O2O, strategy). As a result of all of the fanfare around the IPO, the U.S. consumer is already aware of a company probably not on their radar just a few months ago. To put a few numbers around everything, transactions on Alibaba sites accounted for almost 2% of China's GDP in 2012 versus Walmart sales which accounted for just 0.03% of U.S. GDP in 2013. We believe this illustrates the opportunity for Walmart and the impact that Alibaba has had and could have on the U.S.

Figure 1

Top 10 Holiday Sales Drivers	
Holiday Calendar	+
The Holiday Creep	+/-
Macro Outlook	+/-
The Weather Factor	+
Holiday Promos	+/-
Layaway Programs	+
Price Matching	–
Inventory	–
Holiday Online	+/-
Holiday Tech Trends	+
Traffic Trends	+

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Historic Holiday Trends – How looking back helps us look ahead

We use the NRF's definition of Holiday Sales for this report, which is retail industry sales in the months of November and December including most traditional retail categories such as direct sales (e-commerce and catalog), auto parts and accessories stores, discounters, department stores, grocery stores, and specialty stores. This includes sales data captured from retailers as diverse as Amazon, Best Buy, Blue Nile, Macy's, Tiffany's and Walmart, to name a few.

During the 21st century, holiday sales have grown at an average pace of 3.84%, with only one year of negative growth—2008 when sales declined (-4.41%). We would have actually expected a greater decrease due to the financial meltdown that occurred that fall. In 2009 sales grew at a sub-par rate of 0.50%. Excluding the 2008 period, the average increase in holiday spending was +4.16%.

We are looking for an average rate of growth in 2014 in the 3%-5% range. We have had the unique opportunity to view many retailers Holiday sets and are optimistic regarding much of what we saw combined with investments in tech which will drive improved efficiency and customer engagement. Our view could be derailed by adverse geopolitical developments.

Figure 2

Year	Holiday Retail Sales ($B)	% Change	CPI Dec/Dec % Change
2014 e	**$620-$630**	**3%-5%**	
2013	$602	3.80%	1.5%
2012	$579	3.50%	1.7%
2011	$560	5.08%	3.0%
2010	$533	5.30%	1.5%
2009	$506	0.50%	2.7%
2008	$504	-4.41%	0.1%
2007	$527	2.76%	4.1%
2006	$513	3.33%	2.5%
2005	$496	6.20%	3.4%
2004	$467	6.77%	3.3%
2003	$438	5.11%	1.9%
2002	$416	2.12%	2.4%
2001	$408	2.07%	1.6%
2000	$400	3.40%	3.4%

Sources: NRF, Department of Commerce, U.S. Department of Labor Bureau of Labor Statistics and FBIC Estimates

1. The 2014 Holiday Calendar (+)

Overall, the 2014 calendar is a positive since there is an extra day on the shopping calendar between Thanksgiving and Christmas, for a total of 27 days (including four weekends), compared to 26 days last year. That's good news compared to 2013, but still five days shorter than in 2012. The longest possible calendar span is 32 days (2012), and the shortest is 26 days (2013).

This year Black Thursday (Thanksgiving) and Black Friday are in November and Cyber Monday falls on December 1 Last year Cyber Monday was also in December. This year Christmas falls on a Thursday and we anticipate strong after-Christmas sales on Friday (we believe most people will take this day off) and all weekend long. On Christmas Day, smart retailers will be changing floor sets to new merchandise at full price, to entice shoppers who are coming in to redeem gift cards and to hopefully capture some dollars from those customers who have returns.

This year Chanukah is later in the season, spanning the eight days and nights from Tuesday December 16 through Wednesday December 24, versus November 27 – December 5 last year. On the margin, we think this will be a positive as it could help with the typical lull in the holiday which typically starts out strong with Black Friday and Cyber Monday and then settles into a quiet hum for the next two weeks until the 10-day countdown to Christmas. Retailers get anxious and will dive into early markdowns. The later Chanukah could be a minor positive.

According to Chitra Balasubramanian, head of business analytics at RetailNext, "As far as timing is concerned, the biggest opportunity at retail – for merchants and shoppers alike – will be the weekend before Christmas, which in the past has yielded 8% of the *total* sales for November and December."

HOLIDAY 2013

November

Wk	Mo	Tu	We	Th	Fr	Sa	Su
44					1	**2**	**3**
45	4	5	6	7	8	**9**	**10**
46	11	12	13	14	15	**16**	**17**
47	18	19	20	21	22	**23**	**24**
48	25	26	27	28	29	**30**	

December

Wk	Mo	Tu	We	Th	Fr	Sa	Su
48							**1**
49	2	3	4	5	6	**7**	**8**
50	9	10	11	12	13	**14**	**15**
51	16	17	18	19	20	**21**	**22**
52	23	24	25	26	27	**28**	**29**
1	30	31					

HOLIDAY 2014

November

Wk	Mo	Tu	We	Th	Fr	Sa	Su
44						**1**	**2**
45	3	4	5	6	7	**8**	**9**
46	10	11	12	13	14	**15**	**16**
47	17	18	19	20	21	**22**	**23**
48	24	25	26	27	28	**29**	**30**

December

Wk	Mo	Tu	We	Th	Fr	Sa	Su
49	1	2	3	4	5	**6**	**7**
50	8	9	10	11	12	**13**	**14**
51	15	16	17	18	19	**20**	**21**
52	22	23	24	25	26	**27**	**28**
1	29	30	31				

Thanksgiving · Black Thursday & Friday · Cyber Monday · Christmas · Chanukah *sundown to sundown

2. The Holiday Creep (+/-)

The advent of Cyber Monday (the term was first used in a Shop.org press release dated November 28, 2005) and rise of Thanksgiving in recent years as a more meaningful shopping day has contributed to "Holiday Creep" where more and more sales are being shifted earlier in the season. While the Macy's Day Parade began in 1924, it wasn't until 2013 that Macy's opened its flagship store for Thanksgiving Day shopping, caving to competition and the prospect of attracting a portion of the 3 million annual attendees. Other major retailers such as Best Buy, Gap, J.C. Penney, Sears, Target and Walmart followed suit in 2013, opening at some point during the day on for Thanksgiving sales and many retailers carrying right over into a 24 hour Thanksgiving/Black Friday extravaganza. I liken it to a frat party atmosphere and where all of the cool kids go to shop after their Thanksgiving meal. Macroeconomic drivers are also a factor in Holiday Creep, and companies like Walmart have started Layaway Programs earlier than usual, as early as the beginning of September when BTS has historically been the focus. Many retailers hold Black Black Friday sales before the actual day itself and we believe that this year will be even more aggressive as technology increasingly enables pricing transparency with apps such as CartCrunch, Honey, Wiser, Versus, and Zoovy (electronics in particular). Also, while Thanksgiving doesn't have the significance of Black Friday and Cyber Monday, it has become a viable shopping day, a trend that will likely grow this holiday season.

3. Macro Outlook (+/-)

The U.S. economy is expected to rebound from a current annualized growth rate of 0.9%, which was impacted by weather in the first half of the year. The Bloomberg Consensus estimate for full year 2014 GDP growth is 2%, given the strong performance in Q2 (+4.2%) and improving consumer sentiment. Consumer confidence continues to rise. The most recent August consumer confidence reading of 92.4 from The Conference Board represents the eighth consecutive increase since 79.4 in January 2014, and the highest reading since October 2007. With rising sentiment, we expect U.S. consumer spending to accelerate from the 2.5% pace of Q2 2014.

Figure 3

	Driver	Outlook
+	The Leading Macro Indicators	The most recent ECRI (Economic Cycle Research Institute) leading weekly index increased to 134.9 (for the week ending August 29), up from previous week's 134.8, or up 2.2% over the last 12 months. The U.S. economy is beginning to show signs of recovery.
+/-	Unemployment	In August the unemployment rate declined to 6.1%, down from 6.2% in July and versus 7.2% in August 2013. Although 142k jobs were created, the number fell short of expectations.
++	Consumer Sentiment	The August Conference Board consumer confidence reading of 92.4 represents the eighth consecutive increase since the 79.4 reading in January 2014, and the highest reading since October 2007.
+	Equity Effect	Major stock exchanges are performing better than six months ago. The S&P 500 hit 2000 on August 27 and it closed at 1996 as of September 10. Upper-income consumers are more willing to spend, in tandem with the wealth effect.
+	Home Prices	The CoreLogic Home Price Index had a 7.4% (YoY) increase in July. The June S&P Case-Shiller U.S. Home Price Index exhibited a consistent increase of 6.2% from last year.
flat	Consumer Balance Sheet	Personal savings as a percentage of disposable income was 5.7% in July, the highest this year, up from 5.1% July last year. Consumers are saving rather than spending. Maybe consumers are saving in order to spend for the Holidays!
+	Median Family Income	The most recent survey on consumer finances from the Federal Reserve Board shows that median family income fell 5% between 2010-2013 from $49,000 to $46,700, failing to recover from the income loss during the 2007-2010 period. Low-income families had a substantial decline in the 2010-2013 period, worsening income inequality.
++-	Gas Price	The average price of a gallon of regular gasoline has dropped $.02 in the first week of September, to $3.46, bringing the decline to $.25 over the past 11 weeks. We expect to see the money saved at the gas pump lift discretionary spending.
	Food Price	The most recent reading of the Consumer Price Index for All Urban Consumers was 243, or up 0.4% in July from June. This was the fifth increase in the last 6 months of at least this percentage.
+	Same Store Sales	The Johnson Redbook Index SSS had a reading of 4.28% in August, 2014 compared with 3.62% in August 2013.
-	Global Economy	The Eurozone is on the verge of recession reflecting recent forecasts from Germany and France. China's consumer market is halted by government austerity programs. Geopolitical uncertainties continue in the Middle East, Russia and Ukraine.

4. The Weather Factor (+)

Historically, the drier and milder the holiday weather, the better the holiday sales. And fortunately much of the U.S. will see warmer and drier weather this year compared to last. The warmer trend will be felt more in Eastern markets, and cooler and wetter trends felt in the West. Snowfall is expected to be lower as well and this could be a big boost to driving foot traffic in malls and lifestyle centers.

What's good for foot traffic could have a mixed impact on many seasonal apparel categories such as sweaters, fleece, outerwear and the like. Opportunities in these categories are best in Western markets, and riskiest in the Northeast and Great Lakes. Keep in mind the purchase of many core outerwear items in 2013 could soften the sale of similar items this year.

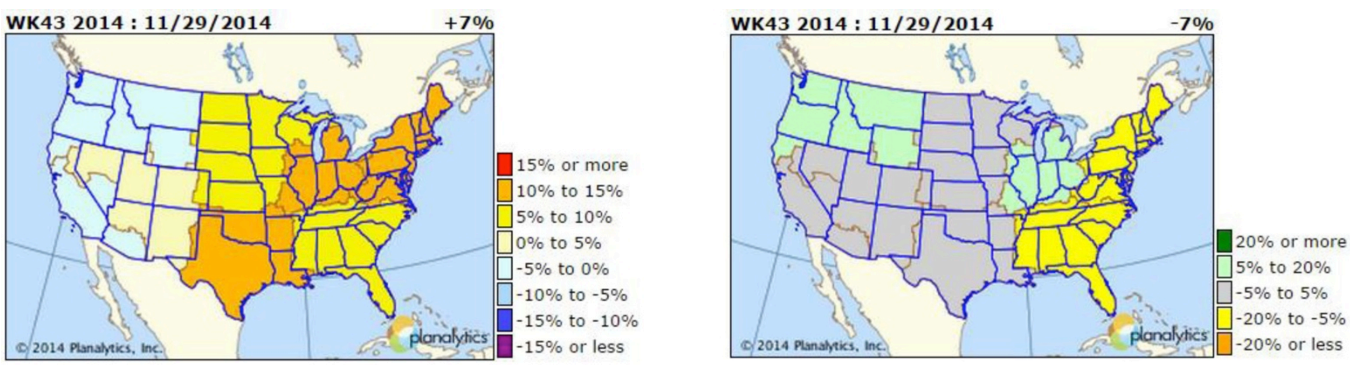
Given the exponential progress e-commerce and m-commerce have made this year, even adverse weather may not dampen the holiday spirit. While store and mall traffic will still be affected by any inclement weather, retailers who have multiple purchasing platforms in place have a much better chance of retaining their core customer.

November

Last year Thanksgiving Day was the coldest since 1993 and the driest since 2002. Black Friday weekend was the coldest in 4 years. According to Planalytics, this year Black Friday will be warmer and drier than last year. These more favorable conditions should drive bigger shopping crowds on Black Thursday and Black Friday, and lead us into a stronger December.

Figure 4 **BLACK FRIDAY WILL BE WARMER AND DRIER THAN LAST YEAR**

Temperature vs. LY — Precipitation vs. LY



December 2014

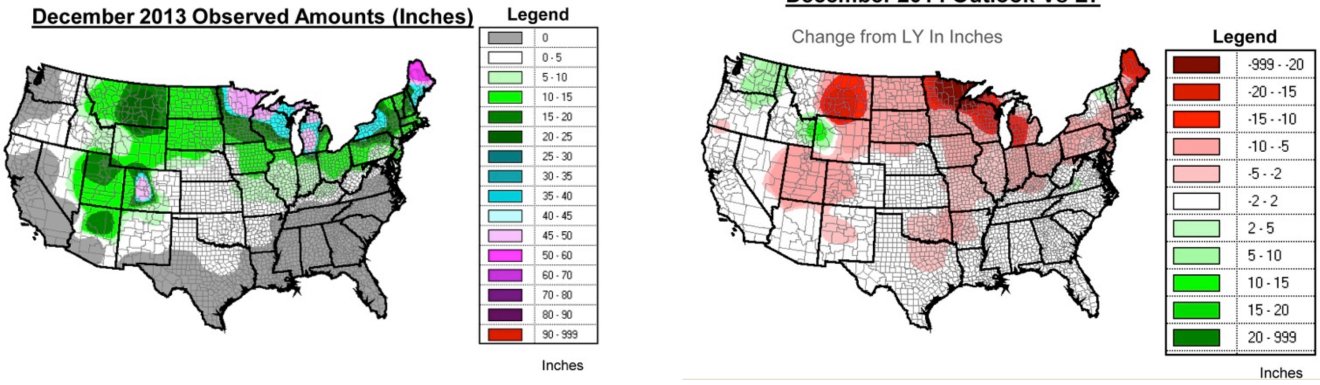
Core markets in the Northeast and Great Lakes will be warmer and drier this year than they were in 2013. December 2013 had the 12th highest snowfall over the past 50 years, 21% above normal. Strong artic winds and storms across the Great Lakes affected much of the Northeast. Traditionally cold Minneapolis was almost 7º F colder than normal.

According to Planalytics, they are expecting less snow across the U.S., with the exception of the Pacific Northwest.

This isn't to say that much of the U.S. will be *warm*. It will simply be warmer than 2013. And while this might not be saying a whole lot, it will be a great relief to consumers especially in the Central and Northeast states. This should be a boost to mall foot traffic in major markets which is a positive for Holiday 2014.

Figure 5 **DECEMBER 2014 WILL HAVE LESS SNOWFALL THAN LY**

December 2013 Observed Amounts (Inches) — December 2014 Outlook Vs LY



5. Holiday Promos (+/-)

Retailers in general are concerned that excessive inventory could lead to discounting as we approach the holidays, regardless of their individual inventory levels. (See the Inventory vs. Sales Spread section which addresses the disparity of inventory levels and expected Q3 sales growth.) Most concede the remainder of 2014 will be promotional--and likely increasingly promotional. Only the most proprietary must-have products will be immune to the season's expected promotional cadence.

We've started the holiday season with frequent sales from department stores. Bloomingdales and Macy's offered an extra 20% off clearance items for the past week, J.C. Penney had a fall preview sale, and Saks Fifth Avenue had 60% off selected dresses.

Most back-to-school sales did not start until two weeks ago, so we are late in terms of average back-to-school timing. For instance, in the last week Walmart had two BTS promotions—one for food and the other for school supplies.

With the start of football season, supermarkets and drugstores are amping up their game-themed ads Target had "Savings Playing Book" promotion featuring gaming equipment, and a tailgating-themed promotion. Walmart also had a sports-themed "Game time at Walmart" promotion.

6. Layaway Programs (+)

K-Mart may be "Layaway, Every Day", but this year that message means something special—because you can start your holiday shopping while you're still having pool-side bar-be-ques.

According to the NRF, nearly 40% of Americans start shopping for the holidays before Halloween. And K-Mart is once again taking this to heart by trying to beat retailers to the holiday punch. In fact, K-Mart was one of the first retailers to take the lead in Holiday layaway promotions in 2013.

K-Mart has already launched its first "definitely not-Christmas" Christmas ad on YouTube, using the only lightly veiled slogan "Merry Birthday." Last year this gimmick annoyed shoppers, but K-Mart responded by offering both an 8- and 12-week layaway program for "smart planners."

K-Mart hopes this jump on the holiday spirit will beat out their competitors, especially in non-apparel items, and with their "No Money Down" layaway campaign and special offers to members, there seems to be no real reason why shoppers won't start looking for holiday gifts in September. Unless, of course, the holiday merchandise they want isn't yet available.

Last year and this year, Walmart matched K-Mart's spirit with an extra month of holiday layaway from September 13-December 13 (exceptions for Black Friday and possibly Black Thursday). With extra offerings of layaway items such as trampolines and small appliances, "This time it's free" campaign means no-more-fees and no more reason to hold off buying.

Other traditional layaway players include, Babies R Us, Best Buy, Burlington Coat Factory, Cabela's, GameStop, Marshalls, Sears, TJ Maxx, and Toys R Us. Let's see who else jumps on the holiday layaway bandwagon!

Figure 6

	2013	2014
Burlington Coat Factory	• Available year round • Applies to Black Friday shopping	• $5 promotional card when layaway completed by Oct. 31
K-Mart	• Released Holiday Layaway promo more than 100 days before Christmas • No fee Spt. 8-Nov. 23 • 8 or 12 week contract options	• Spt. 3 Christmas holiday layaway promo on YouTube • Sept. 5 holiday TV ads • "No Money Down" layaway campaign and special offers to members.
Sears	• 8 or 12 week contract options • 7% cash back	• Holiday promos not yet announced
Toys R Us / Babies R Us	• Free, no fee from September 12 to December 15 • Pay online till Dec. 15	• Not yet announced
Walmart	• Promo Spt. 13-Dec. 13, announced Aug. 21 • Walmart Facebook Fans offered a two-day head start Spt. 11 and 12 • Free & no fee till Dec. 15 • Added toys, car stereos & popular electronics • 1% cash back	• Extra month of holiday layaway, Spt. 1-Dec. 13 • "This time it's free" no-fees campaign • Added items such as trampolines and small appliances

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7. Price Matching (–)

Given the price transparency the Internet provides and the opportunity for showrooming and price seeking, brands are better positioned to protect profit margins by going directly to the consumer either online or in their own retail stores. Retailers need to differentiate their merchandise offerings and provide unique product unavailable elsewhere (along with superior customer service) to mitigate the impact of those consumers who are only shopping based on price. Increasingly, we see price-matching from retailers across multiple segments and target markets, from Neiman Marcus to Best Buy. Interestingly, the father of the trend, Amazon, doesn't price match!

8. Inventory (–)

As Figure 7 displays, among the nine selected Broadlines retailers inventory rose an average of 6.3% YoY in the most recent quarter, 190 bps points faster than the average expected sales gain for the current quarter based on Bloomberg consensus sales estimates. It's worth noting that J.C. Penney entered the back half with inventories down 9.7% YoY, and with the consensus sales gain of 3.9% for Q3, JC Penney risks leaving some sales on the table this year, though gross margins should improve. Nordstrom grew inventories 23.3% YoY but much of that is targeted for store expansion and execution of its Nordstrom Rack strategy, including increased levels of pack and hold inventory.

The inventory vs. sales spread among the 11 specialty retailers is 300 bps (See Figure 8), with Coach, Michael Kors, and Williams Sonoma exhibiting the greatest discrepancy between YoY inventory growth and projected sales growth this quarter. This could easily translate into increased promotional activity to move product prior to entering the holiday shopping season. We believe L Brands exit of the apparel category in the second half is driving the reduced inventory level relative to projected sales growth.

Figure 7

Broadlines -- Inventory vs. Sales Spread			
	2Q14 YoY	**3Q Forecasted**	**BPs**
Company	**Total Inventory Growth**	**Total Sales Growth**	**Change**
J.C. Penney	-9.7%	3.9%	-1360
Macy's	1.1%	1.8%	-70
Kohl's	1.1%	1.4%	-30
Dollar General	10.1%	8.5%	160
Costco*	11.1%	8.8%	230
Walmart	6.2%	2.4%	380
Target	5.7%	1.8%	390
Family Dollar*	7.9%	2.8%	510
Nordstrom	23.3%	8.0%	1530
Broadline Average	**6.3%**	**4.4%**	**190**

*Q3 Ended May 31 **Q4 Ended June 28 ***Q1 Ended June 28

Figure 8

Specialty Retailers -- Inventory vs. Sales Spread			
	2Q14 YoY	**3Q Forecasted**	**BPS**
Company	**Total Inventory Growth**	**Total Sales Growth**	**BPs Change**
American Eagle	-14.7%	-1.1%	(1,360)
Abercrombie & Fitch	-13.1%	-3.9%	(920)
L Brands	-4.6%	4.1%	(870)
Urban Outfitters	4.3%	8.6%	(430)
Home Depot	5.2%	5.0%	20
Ann Inc.	3.2%	1.7%	150
Gap Inc.	6.0%	3.6%	240
Bed Bath & Beyond	6.3%	2.5%	380
Coach**	0.3%	-12.5%	1,270
Williams Sonoma	21.4%	6.4%	1,500
Michael Kors***	65.0%	31.7%	3,330
Specialty Average	**7.2%**	**4.2%**	**300**

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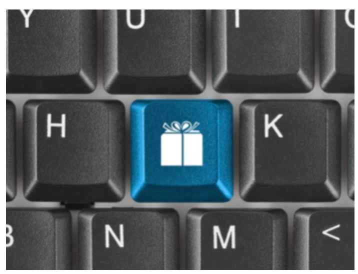
9. Holiday Online (+/-)

While e-commerce is likely to capture an increasing proportion of shoppers' dollars in any season, it is a particularly attractive alternative during the Holiday rush. Amazon has been testing same day delivery in selected markets, a proposition they've been gearing up toward with their AmazonFresh offering in a few selected markets. As the first mover, Amazon has made free delivery "de rigueur" and it is now expected` at some arbitrary transaction amount ($50-$100) is now expected and demanded by most consumers as too many abandoned carts resulted from steep shipping fees discovered upon checkout. Amazon continues to move the needle in terms of shortened delivery times at minimal costs.

As retailers adjust to these practices, many encouraging customers to buy online and ship to a store to minimize the cost while creating store traffic and a potentially additional sales. This initiative referred to as "Click and Collect" accounted for as much as 40% of 2012 online sales and is growing. At a recent industry conference, Macy's CEO, Terry Lundren highlighted Macy's efforts with Click and Collect. They've tested service execution and will do a full speed rollout this fall for all locations. The good news is, at the pickup end, customers are spending 125% on average of the intended value of their order. Think of it, no delivery cost, guaranteed sale and 125% of intended order value, very profitable indeed! Last Christmas, retailers overpromised on Christmas arrivals for December 23 purchases and they, along with UPS and FedEx, upended many gift giving intentions due to late arrivals. According to Internet Retailer, 32% of the 25 top NA online retailers delivered some portion of Christmas orders late. This year we see retailers taking initiatives to encourage earlier shopping with a mixture of fewer service guarantees, raising shipping costs as the holiday deadline approaches, and provided Click and Collect as an alternative.



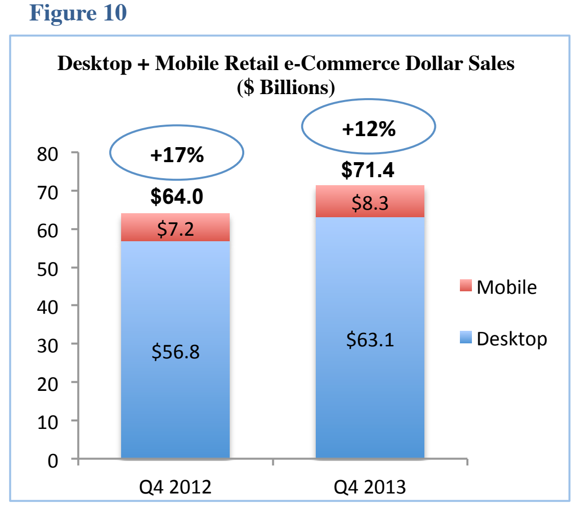
This demand for immediate delivery and the very competitive delivery services market—UPS, Amazon, FedEx, Uber delivery, USPS—is drastically affecting the way e-commerce business is executed. In 1998, 85% of e-commerce purchases were shipped between businesses, but Christmas season 2013 saw nearly 60% of UPS deliveries were lighter e-commerce packages directly to the customer. New services such as Kanga which allows a user to place a bid for a car or truck to "move anything, anywhere, anytime."

Generally online sales have been growing 3-4 times as fast as retail sales, and even faster at selected individual retailers. U.S. online sales in the aggregate grew at a 15.7% pace in Q214 versus the 4.4% pace for total retail sales in the U.S. E-commerce trends have benefited from the rise of m-commerce with the ease of mobile apps and purchasing on tablets or phones versus the traditional PC based e-commerce transaction. 2013 was a pivotal year, when 51% of retail traffic stemmed from smartphones and tablets, according to Branding Brand, a leading m-commerce technology provider. At Target, 43% of online shoppers were mobile only (comScore). eMarketer projects $57.8 billion in m-commerce sales in 2014, exhibiting a 37.2% YoY growth and accounting for 19.0% of 2014 ecommerce sales.

Figure 9

Source: NRF, 2014

Figure 10



Source: © comScore, Inc.

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10. Holiday Tech Trends (+)

Tech is rapidly affecting and transforming the consumer's purchasing experience. According to the NRF, e-commerce holiday sales in 2013 saw a sharp growth rate of 9.3%, with sales totaling $95.7 billion. Holiday e-commerce conversion rates jumped from 3.3% in 2012 to 3.8% in 2013, according to Custora. To note, although it was an increase. This was the first time these numbers came in below estimates. To start the holiday season, we re-visited our Top 10 Retail Tech Trends published in August, and here are the three that will have the biggest impact this Holiday season:

Social Media stratosphere is now ruled by pictures and videos

This has never been more true than now. For instance, Nordstrom pioneered the path to connect m-commerce devices with real-time hashtag favorites and translate them into purchases. Companies like Zappos have taken it a step further into hashtag shopping. Pinterest has long been used as a tool to connect like-minded interests, and several mobile apps and e-commerce companies are all trying new ways to monetize social trends and translate into buying power. While retailers have begun translating this into sales, the ultimate success of this type of cross-platforming will depend on how well it catches on with a younger demographic, and this will be largely affected by the attractiveness of the apps and ease of payment.

Location-based services are key to omni-channel retailing

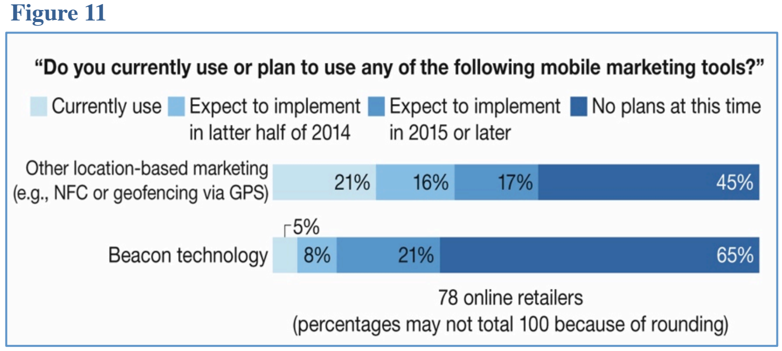
While geofencing and iBeacons are buzz-worthy words of 2014, it seems there is a ways to go before they're mainstream. We believe the majority of retailers aren't jumping on the iBeacon bandwagon, nor are they getting involved with geofencing. They are instead spending those dollars optimizing their mobile marketing efforts. Until they find a more effective way of creating value, it is still in the experimental phrase. We have found that many retailers still don't have WiFi in their stores.

That being said, half the top 100 retailers in the U.S. are testing new beacons this year. Apple uses iBeacon in its retail stores and has also tested in American Eagle, Safeway and Giant Eagle grocery stores. Although iBeacon is used in less than 1% of the 3.6 million retail stores in the U.S. so far, Major League Baseball has beacons in 28 out of 30 ballparks and Lord and Taylor and Macy's are beginning testing of the service. Apps are also becoming increasingly savvy to this, and utilize location sensitive data and insta-pay options such as Google Wallet.

Mobile devices are creating a society of networked individuals

You never get a second chance to make a first impression. Word of mouth has never been so important—or so instant. From Instagram to Pinterest to social sites such as Snapchat and Tinder, a consistent takeaway is instant reaction to people or product. And the creation of social cliques. Even if you're not a social butterfly, apps such as the Black VClub are connecting strangers who identify as "tech guys" and turning them from geek to chic by way of buying a simple v-neck black tee shirt. It is in this way that the consumer is connecting to strangers and forming bonds, which in turn become the new word-of-mouth. This viral connectivity can create an instant must-have handbag or coat, and savvy retailers see the benefit of social media's shared Information. The ability to monetize such social opportunities remains open for exploration.

Figure 11



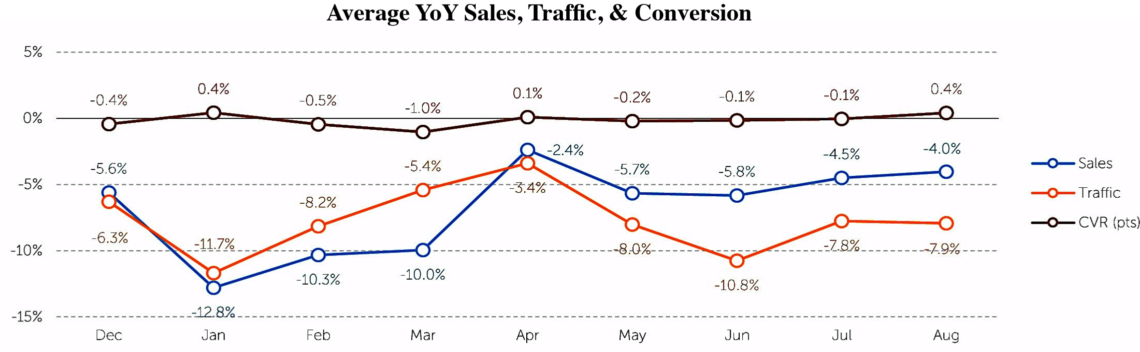
Source: Forrester Research, Inc.

11. Traffic Trends (+)

Foot traffic in the U.S. has been in the negative territory in 2014 due to cold winter weather and consumers' continued migration from brick & mortar to online shopping. With the prevalence of omni-channel shopping, foot traffic is less indicative of both in-store and online retail sales. In August, physical retailers experienced a 7.9% year-over-year decline while reduction in sales was only 4%. Improved consumer sentiment is reflected in the 0.4% conversion rate in August or the highest number since last December. We expect to see improved traffic this season given the improved weather forecast, the extra day of holiday shopping, and our expectation of a 4.5% lift to the season's receipts.

Average YoY Sales, Traffic, & Conversion

Figure 12



*4-5-4 weeks starting Sunday to Saturday

Source: Retail Next Composite Index YoY Report, August 2014

Appendix: Holiday 2014 Giftables

As the love fest continues with the marriage of fashion and technology, wearable tech will be big this holiday season, with some great new items in the mid-level price range. As with the last few holiday seasons, electronics including mobile devices, gaming systems and related tech should continue to be strong sellers, especially as larger retailers such as Best Buy are coupling electronics with services in a reduced cost, one-stop shopping environment.

The iPhone 6 pre-orders became available at Best Buy Sept. 12 and is set to release September 19. Smart watches such as the i'm Watch are available now for less than the cost of an iPhone, but die-hard Apple fans may hold off until the iWatch release next year.

iPhone 6

Samsung Gear 2 Neo

Pebble

Sony SW2

Samsung Galaxy S5

Samsung Gear Fit

Polar Bluetooth Footpod

i'm Watch

New York Fashion Week proved once again that the newest technology is driving the latest fashion. "Technology is what's moving fashion forward," said Ken Downing, Fashion Director and Senior Vice President at Dallas-based retailer Neiman Marcus. Take a look at some of these new "tech accessories."

Intel MICA – My Intelligent Communication Accessory

Rebecca Minkoff Bracelet Phone Charger

Tory Burch Jewelry Collection for Fitbit

Stellé Audio Clutches work wirelessly with any Bluetooth devices