

# FBIC

Fung Business Intelligence Centre

GLOBAL RETAIL RESEARCH & INTELLIGENCE

**WEEKLY INSIGHTS**

JANUARY 2, 2015

- **Retailers finished Holiday 2014 on a high note, despite some nail-biting along the way**
- **Last-minute holiday shoppers turned to gift cards in the days before Christmas, which should help to extend retail cheer into the New Year**
- **Wages and salaries rose 0.5% in November, one of the fastest monthly increases this year, fueling hopes for consumer spending in 2015**
- **Macy's, Tesco, Walgreen and Kingfisher in the headlines**

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## FROM THE DESK OF DEBORAH WEINSWIG

*Despite moments of high anxiety in the run-up to Christmas Day, retailers appear to have had a fairly decent holiday season. We chalk it up to aggressive and earlier-than-ever markdowns, rapid and sustained growth in online sales, generally mild weather and one extra selling day.*

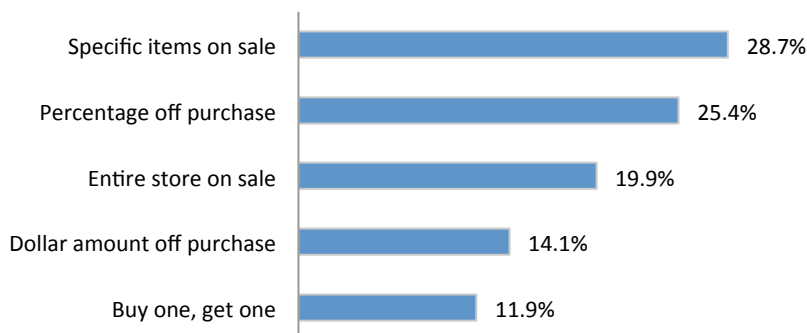
*Evidence is trickling in: MasterCard Advisors reported that holiday retail sales (excluding autos) through Christmas Eve rose 5.5% YoY. IBM's Digital Analytics Benchmark Hub reported that online Christmas Day sales grew 8.3%, with mobile sales capturing 34.8% of the day's e-commerce. Amazon Prime attracted another 10 million new users. Nearly 60% of Amazon.com customers used a mobile device this season and total holiday sales from the Amazon app doubled in 2014. We won't have a complete tally of Holiday 2014 spending receipts for another few weeks (the official end is still two days away as we write). But if these early results hold, they'll beat the high end of our forecast for a 3%-5% gain.*

*Among the biggest positive surprises of the holiday was the strong consumer response to the "buy-online, pick-up-in-store" services that retailers have been rolling out over the past year. By ensuring deliveries on time, click-and-collect gives people more confidence about shopping online.*

*Notably, apparel sales stayed weak until close to the end of the holiday run. Discounting in the category was broader and deeper than we have seen historically, likely employed to offset the impact of warmer weather this fall. A brief winter blast in December gave a late lift to outerwear and other cold-weather items, while sales of athletic wear, accessories, boots and jewelry also held up nicely. Toys (particularly those related to the movie Frozen), housewares, gift cards, restaurants and electronics including TVs, mobile devices and headphones did well, too. There were also signs of increased self-gifting, and a trend toward buying familiar replenishment items.*

*A record high 24.6% spending on gift cards (as well as the numerous \$20, \$50, and \$100s stuffed into the season's greeting cards) points to a strong January, while the buoyant economic environment portends stronger overall spending in 2015. But don't expect consumers to give up their bargain-chasing ways. That's one recession-sharpened habit that they will be loath to abandon anytime soon.*

**Figure 1. Survey of 1,000 consumers, who were asked: What subject line is most likely to make you open an email from a retailer? (Survey conducted December 2, 2014)**

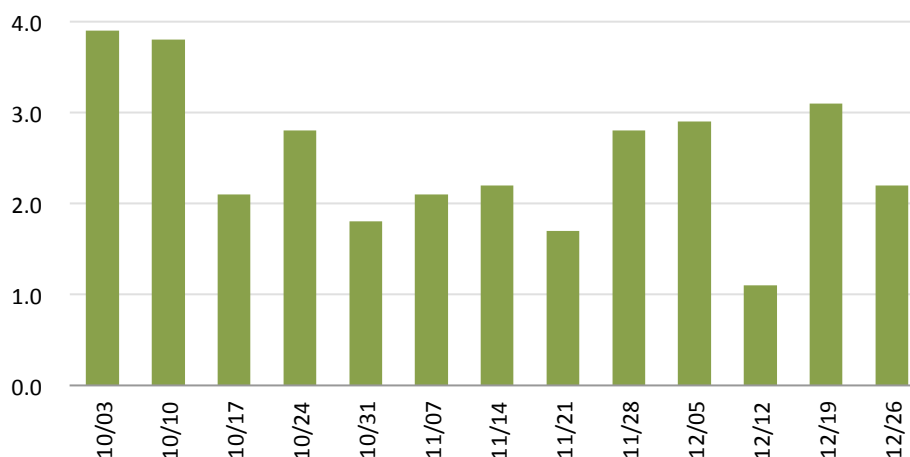


Source: Market Track and The Wall Street Journal

## US WEEKLY TRAFFIC AND SALES

### Last-Minute Shoppers Turn to Gift Cards during Christmas Week

Figure 2: ICSC US Weekly Chain-Store Sales Growth Estimate YoY%



Through December 30, 2014

Source: ICSC

Note: The ICSC-Goldman Sachs index is a statistically derived estimate of industry sales that is weighted by sales volume.

- According to the ICSC, chain store sales growth slowed to a 2.2% YoY pace for Christmas week, palling in comparison to the 3.1% uptick registered in the previous week, which included Super Saturday
- ICSC's tracking survey found that, of the 11% of consumers who hadn't begun their holiday the week before Christmas, many had ended up purchasing gift cards
- The survey showed that purchases of gift cards rose to 24.6%, up from 23.7% in 2013, reinforcing the importance of post-Christmas shopping and gift-card redemption
- Sales were particularly strong at wholesale clubs and furniture stores this past week
- On average, consumers said that one-third of their gift expenditures for the holiday season were done online
- According to Weather Trends International, this Christmas week was the second warmest in more than 25 years, which led to increased purchases of non-seasonal items such as electronics and jewelry at the expense of outerwear and electric blankets

## US RETAIL HEADLINES OF THE WEEK

### Family Dollar Adjourns Special Meeting on Dollar Tree Merger to Later Date (December 23)

- Because of insufficient votes at the time of the special meeting to adopt the Dollar Tree (DLTR) merger agreement, a proposal was submitted to Family Dollar (FDO) shareholders to adjourn the meeting to January 22, 2015, before taking a vote on the merger. *The Charlotte Observer*

**Hudson's Bay CEO Richard Baker Has Eye on Dillard's (December 26)**

- Dillard's (DDS) is being eyed by Hudson's Bay Co. (HBC.TO) CEO, Richard Baker, who would like to add the Little Rock, Arkansas-based department store chain to his retail empire, sources familiar with the situation told *The Deal*.
- Dillard's, the sources say, would complete the geographic footprint of Toronto-based Hudson's Bay in North America by adding its nearly 300 locations in the Midwest, Southeast and Southwest. A deal could happen within the next 12 months, one of the sources added. *The Deal*

**Kingfisher Sells Controlling Stake in China Operations (December 22)**

- Kingfisher (KGF), Europe's leading home improvement retailer, announced a binding agreement to sell a controlling 70% stake in its B&Q China business to Wumei Holdings, one of China's leading retail chain operators, in an all-cash transaction valued at \$218 million (£140 million). The deal will enable Kingfisher to focus its financial resources on the European home-improvement market, company officials said.
- Upon approval of the Chinese Ministry of Commerce, the transaction is expected to close during the first half of next year. *Company press release*

**Macy's Wins 2014 Mobile Retailer of the Year (December 31)**

- *Mobile Commerce Daily* named Macy's (M) its Mobile Retailer of the Year for 2014
- "[Macy's] dedicates talent, technology, marketing depth and, most importantly, budget to meet the consumer along the shopping and buying journey," said Mickey Alam Khan, editor in chief of *Mobile Commerce Daily* and *Mobile Marketer*, *New York*. The department store chain was "also quick to pivot to emerging consumer trends and evolving behavior while holding true to the business' creed: retail is detail."
- Previous recipients of Mobile Retailer of the Year include EBay (2009), Sears (2011), Walmart (2012) and Target (in 2010 and 2013). *Mobile Commerce Daily*

**Walgreens Shareholders Approve Alliance Boots Acquisition (December 29)**

- At a special shareholders meeting, Walgreens' (WAG) shareholders voted to approve the company's acquisition of the remaining 55% of Alliance Boots GmbH that it does not currently own and the reorganization of the company into a holding company.
- Roughly 97% of the votes cast were in favor of the reorganization proposal (representing approximately 73% of common shares outstanding as of Nov. 17, 2014, the record date for the special meeting), and approximately 97% voted in favor of the share issuance proposal.
- Walgreens currently expects to complete the acquisition of Alliance Boots and the reorganization merger on December 31, 2014, subject to the satisfaction of customary closing conditions. The merger was first announced on August 6, 2014. *Company press release*

**Tesco Testing a New Discount Format (December 28)**

- *The Sunday Times* reported that UK retailer Tesco (TESO) is trialing a discount format in its battle against the rise of hard discounters Aldi and Lidl.
- The new format will reportedly feature lower prices and limited ranges in some of its One Stop convenience stores, according to *The Sunday Times*. The trial is running

at three of its 780 stores—at Solihull and Burntwood in the Midlands and Northern Moor in Manchester—and the trial has been running for seven weeks.

- Tesco has owned the One Stop chain, a convenience-store format run by its own management team, since 2003. *The Sunday Times and Retail Week*

### Walmart Tastes Success with Its Bodega Aurrera Mexican Unit (December 31)

- The *Wall Street Journal* reports that comps for Walmart's (WMT) mini-grocer Bodega Aurrera Express are +12% this year, versus flat overall comps for the company in Mexico.
- According to a Bodega Aurrera executive, Walmart launched Bodega Aurrera in 2008 as a way to reach low-income consumers in Mexico.
- Walmart's similarly smaller Neighborhood Markets delivered comps of +5.5% versus +0.5% overall comps for Walmart for the three months through October; Carrefour (CA.FP) has also had success with smaller stores in Brazil. *The Wall Street Journal*

Figure 3. US Regular Gasoline Prices

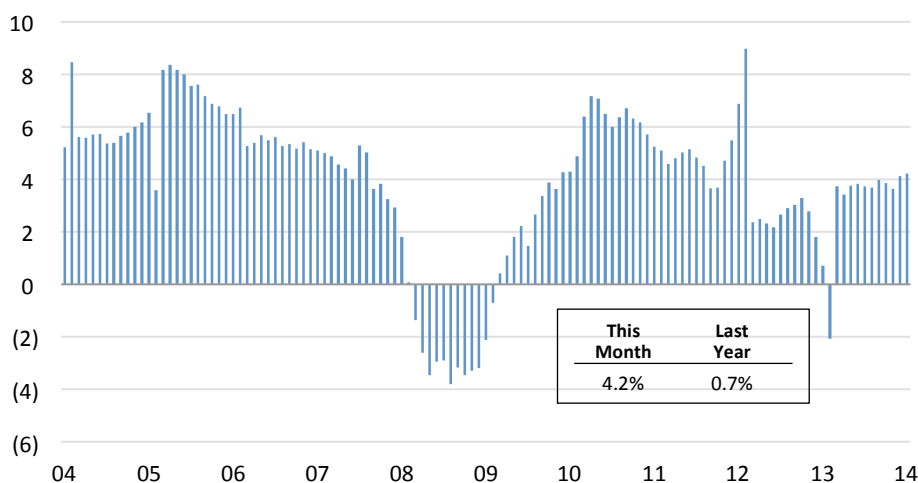
| \$ per Gallon |          |          | Change from |          |
|---------------|----------|----------|-------------|----------|
| 12/15/14      | 12/22/14 | 12/30/14 | Week Ago    | Year Ago |
| 2.55          | 2.40     | 2.30     | ↓ (0.10)    | ↓ (1.03) |

Source: US Energy Information Administration

## US MACRO ECONOMIC UPDATE

### Personal Income Growth Accelerates Modestly, Another Plus for Spending in 2015

Figure 4. US Personal Income YoY % Change



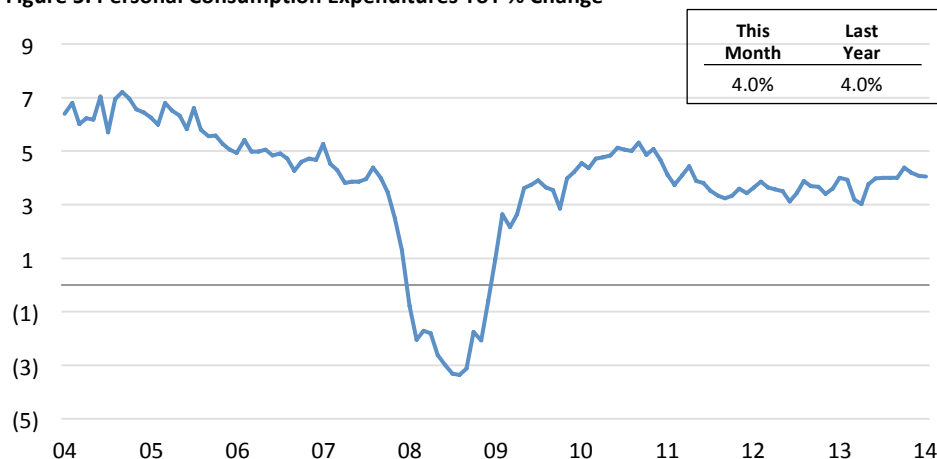
Through November 30, 2014

Seasonally adjusted; preliminary

Source: US Bureau of Economic Analysis

- Personal income grew 0.4% MoM, up from 0.3% in October, while personal expenditures rose 0.6%
- Adjusted for inflation, disposable personal income in November rose 2.9% YoY, the biggest YoY gain for any month in 2014
- Private wages and salaries increased \$38.7 billion, or +0.5% MoM, versus an increase of \$24.9 billion, or +0.3% MoM, in October.
- Real personal consumption expenditures for the month were up 2.8% YoY, reflecting an 8.4% gain in durable goods and a 2.6% pickup in nondurable goods
- Savings were 4.4% of disposable income in November, down modestly from 4.6% in October

**Figure 5. Personal Consumption Expenditures YoY % Change**



Through November 30, 2014  
Seasonally adjusted; preliminary  
Source: US Bureau of Economic Analysis

## CHINA RETAIL HEADLINES OF THE WEEK

### **Tencent to Launch China's First Private Internet Bank (December 30)**

Chinese Internet giant Tencent launched its WeBank website, soon to be the first private Internet bank in China. WeBank is just a placeholder site for now and provides a QR code that, when scanned, gives a short presentation about WeBank. Tencent owns 30% of the Internet bank, while Baiyeyuan Investment and Liye Group each own 20%. The remaining 30% is held by seven other shareholders. WeBank, which was approved in July, has a registered capital of RMB 3 billion (US\$ 482 million) and is expected to offer personal banking, corporate banking and international banking services. *Asia First*

### **Tmall Global GMV Continues to Skyrocket in 2014 (December 29)**

Tmall Global, Alibaba Group's B2C e-commerce platform, which enables foreign retailers to sell directly to Chinese consumers, reported total gross merchandise volume (GMV) up 1,000% from February to November 2014. Around 5,400 foreign brands from 25 countries have set up stores on the platform. According to Alibaba, five of the top 10 European supermarket chains are setting up Tmall Global storefronts, while more than 100 global merchants are preparing to join the platform. *Alizila.com*

## US WEATHER ANALYTICS: January 4–10, 2015

### Early Week Warmth Gives Way to Much Colder Conditions by Weekend

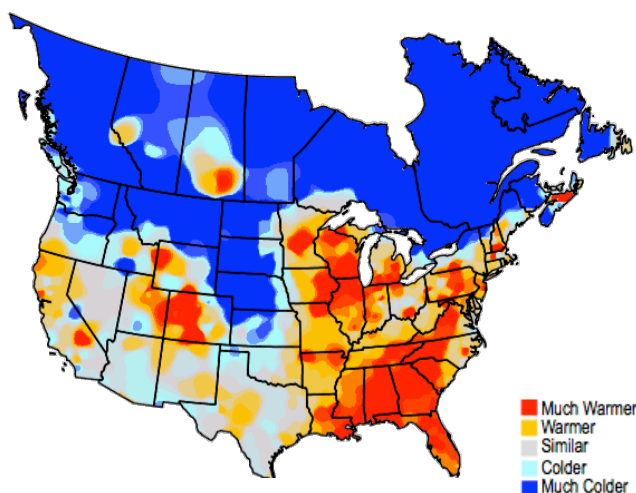
- **Cold Air Moves in, but Still Warmer Than Last Year.** Cold air will push out of Canada into the Central Plains throughout the week. The East will start out warmer than last year, but colder conditions should reach the area late in the week. While most markets east of the Mississippi River will trend milder than last year, the shot of cold air later in the week will support demand for winter categories.
- **Varying Temperatures in the West.** The West should start the week cold and warm up as the week progresses, which will likely help increase foot traffic into stores. The coldest temperatures versus last year will be in the Northern Plains and Pacific Northwest.
- **Multiple Rain and Snow Threats.** A pair of storm systems will move across the Northwest and into the Plains, causing light rain and snow. The first system will reach the southeast and work its way up the East Coast during the middle of the week, providing a chance for a wintry mix of precipitation from Missouri to the southern Appalachians and into the Mid-Atlantic and New England regions. Another system could affect the Midwest and Great Lakes region next week. This storm has the potential to bring moderate to heavy snowfall, although details need to be monitored.

The cold temperatures will help support demand for cold-weather apparel and warming categories.

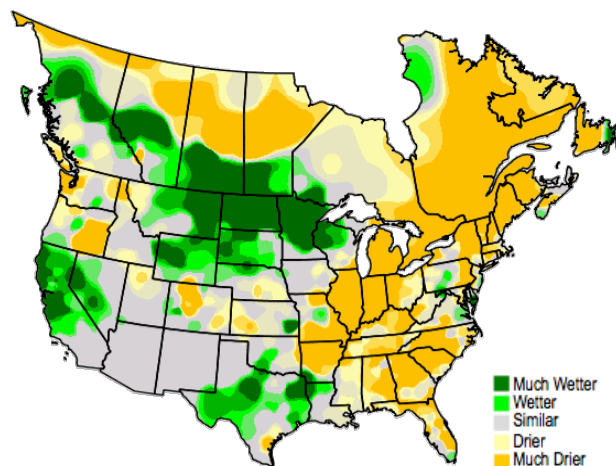
- **Weather-driven demand:** Firewood +2% YoY

### January 4–10, 2015, Weather Outlook

Average Temperature vs. Last Year



Precipitation vs. Last Year



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**EARNINGS CALENDAR**

| Company        | Event                                | Date         |
|----------------|--------------------------------------|--------------|
| Fast Retailing | Q1 15 Earnings Call/Earnings Release | Jan. 8, 2015 |
| Family Dollar  | Q1 15 Earnings Call/Earnings Release | Jan. 9, 2015 |

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**EVENT CALENDAR**

| Event  | Location       | Date(s)      | FBIC Presentation |
|--|----------------|--------------|-------------------|
| International Consumer Electronics Show (CES)                                  | Las Vegas, NV  | Jan. 6 - 9   | Deborah Weinswig  |
| Retail Orphan Initiative (ROI) Super Saturday                                  | Washington DC  | Jan. 10      | —                 |
| NRF Big Show   | New York, NY   | Jan. 11 - 14 | —                 |
| ICR Xchange  | Orlando, FL    | Jan. 12 - 14 | —                 |
| Clicks and Mortar  | New York, NY   | Jan. 13      | —                 |
| New Partners for Smart Growth (NPSG)   | Baltimore, MD  | Jan. 29 - 31 | Deborah Weinswig  |
| American Apparel & Footwear Association (AAFA)<br>2015 Annual Executive Summit | Washington, DC | Mar. 18 - 20 | Deborah Weinswig  |



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