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F&T FUNG BUSINESS INTELLIGENCE CENTRE
GLOBAL RETAIL & TECHNOLOGY

BACK TO SCHOOL

2015 REPORT #1

MIXED PREDICTIONS FOR BACK-TO-SCHOOL SHOPPING

- *NRF forecasts combined Back-to-School/Back-to-College spending to drop 9.3% in 2015 to \$67.95 billion; electronics, the largest category, is expected to see an 16.8% sales decrease.*
- *Per family Back-to-School spending is projected at \$630, a 5.8% decline, and Back-to-College per family spending of \$899 is a 1.9% decrease*
- *eMarketer sees retail sales growth of 4.6% in the prime Back-to-School selling season, with a 14.4% gain in ecommerce Back-to-School*
- *FBIC Global Retail & Technology sees Back-to-School sales growth in tandem with the recent June sales report, 0.1% or flat year-over-year*



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MIXED PREDICTIONS FOR 2015 BACK-TO-SCHOOL SHOPPING

The National Retail Federation (NRF) released its annual Back-to-School and Back-to-College (BTS/BTC) outlooks early this morning, and projected a combined total spend on these categories of \$67.95 billion, a 9.3% decrease from the \$74.94 billion projected season's spend in 2014.

The combined BTS/BTC period is the second-largest spending season in the US, after the holiday shopping season, and is frequently considered a harbinger of the holiday retail environment, providing an early read on consumers' state of mind and willingness to spend. However, NRF CEO Matthew Shay said in a press release, "It is important to remember that spending on school and college is not indicative of future spending trends, especially the holiday season," which sharply contrasts with the industry rule of thumb.

THE PROJECTIONS

Across the \$67.95 billion combined BTS/BTC projected spend, only two categories are expected to see a lift: dorm furnishings, which are projected to rise 18.4% in the aggregate, to \$6.05 billion, and food items, snacks and beverages, which are projected to rise 2.9%, to \$5.65 billion. The most precipitous declines are expected to be in gift cards and prepaid cards (down 22.2%), electronics (down 16.8%) and collegiate branded gear (down 12.8%).

Figure 1. Total Back-to-School + Back-to-College Spending (USD Billions)

	2014	2015E	YoY % Change
TOTAL BTS + BTC	74.94	67.95	-9.3%
Shoes	9.04	8.13	-10.0%
Clothing	16.50	15.15	-8.2%
School Supplies	7.96	7.06	-11.3%
Electronics	21.29	17.71	-16.8%
Dorm Furnishings	5.11	6.05	18.4%
Collegiate Branded Gear	2.50	2.18	-12.8%
Food Items, Snacks and Beverages	5.49	5.65	2.9%
Personal Care	4.12	3.74	-9.2%
Gift Cards and Prepaid Cards	2.93	2.28	-22.2%

Source: NRF

According to the NRF's *Back-to-School Spending Survey*, conducted by Prosper Insights & Analytics, the average family with children in grades K–12 plans to spend \$630.36 on electronics, apparel and other school needs this year, down from \$669.28 last year. Families with children in the K–12 grades are expected to spend more on electronics (including PCs, cell phones, calculators, digital cameras and MP3 players) and apparel than on other categories, spending an average of \$197 on electronics and \$218 on apparel.

Figure 2. Projected Net Average Back-to-School Spend per Family (USD)

	2014	2015E	YoY % Change
Total	669.28	630.36	-5.8%
Shoes	124.46	117.56	-5.5%
Clothing	231.30	217.82	-5.8%
School Supplies	101.18	97.74	-3.4%
Electronics	212.35	197.24	-7.1%

Source: NRF

Total BTS spending is expected to reach \$24.9 billion.

Figure 3. Total Back-to-School Spending (USD Billions)

	2014	2015E	YoY % Change
Total BTS	26.54	24.87	-6.3%
Shoes	4.94	4.64	-6.0%
Clothing	9.17	8.59	-6.4%
School Supplies	4.01	3.86	-3.8%
Electronics	8.42	7.78	-7.6%

Source: NRF

According to the NRF's *Back-to-College Spending Survey*, the average family with a college student will spend \$899 on dorm furniture, school supplies, electronics and more, a 1.9% decline from \$916 last year. Spending on apparel for college-age students is expected to average \$137 and spending on electronics is projected to average \$207 per family.

Figure 4. Projected Net Average Back-to-College Spend per Family (USD)

	2014	2015E	YoY % Change
Total	916.49	899.09	-1.9%
Shoes	77.60	72.79	-6.2%
Clothing	138.73	136.95	-1.3%
School Supplies	74.80	66.70	-10.8%
Electronics	243.79	207.27	-15.0%
Dorm Furnishings	96.70	126.30	30.6%
Collegiate Branded Gear	47.36	45.49	-3.9%
Food Items, Snacks and Beverages	103.87	117.89	13.5%
Personal Care	78.08	78.02	-0.1%
Gift Cards and Prepaid Cards	55.56	47.68	-14.2%

Source: NRF

Total BTC spending is projected to reach \$43.09 billion total.

Figure 5. Total Back-to-College Spending (USD Billions)

	2014	2015E	YoY % Change
Total BTC	48.40	43.09	-11.0%
Shoes	4.10	3.49	-14.9%
Clothing	7.33	6.56	-10.5%
School Supplies	3.95	3.20	-19.0%
Electronics	12.87	9.93	-22.8%
Dorm Furnishings	5.11	6.05	18.4%
Collegiate Branded Gear	2.50	2.18	-12.8%
Food Items, Snacks and Beverages	5.49	5.65	2.9%
Personal Care	4.12	3.74	-9.2%
Gift Cards and Prepaid Cards	2.93	2.28	-22.2%

Source: NRF

Mobile's Influence Grows Among the College Bound

Mobile devices are a handy aid for BTS/BTC shopping: 34% of BTS shoppers who own a smartphone intend to use it for research and 20% expect to make a purchase using it. These figures represent a decline from 2014, when 37% of BTS shoppers planned to use their smartphone for research and 22% for purchasing. Among BTC shoppers intent for smartphone usage increased significantly, with 41% planning research (up from 34% last year) and 31% planning to purchase (versus 22% last year). Both BTS and BTC shoppers use their mobile devices to locate brick-and-mortar stores and to locate and compare products and prices.

Omnichannel Intentions

For the first time, NRF asked shoppers this year about their intentions to use retailers' omnichannel offerings. Of those planning to shop online (36% of BTS shoppers and 39% of BTC shoppers), nearly half (48% of BTS shoppers and 47% of BTC shoppers, respectively) said they plan to pick up in-store. That's good news for retailers hoping to convert a pickup into an additional purchase.

eMarketer's Back-to-School Forecast

eMarketer is projecting a 14.4% increase in e-commerce BTS sales (which the company defines as digital sales, excluding travel and event services, occurring in July and August), to \$56.35 billion, with core BTS categories (apparel, accessories, books and media, computers and consumer electronics, office equipment and supplies, toys and hobby) growing at a 14.2% pace to \$28.68 billion. eMarketer expects these core categories to remain vibrant through 2015, led by a projected 15.5% gain in toys and hobby e-commerce sales, 14.9% in furniture and home furnishings, and 14.3% in apparel. For the July–August period, eMarketer predicts that retail sales across all categories will grow 4.6%, to \$831.33 billion, and drive BTS sales to 17.3% of total retail sales in 2015.

Figure 6. Projected US Retail E-Commerce Back-to-School Season Sales

	2014	2015
Total (USD Billions)	\$49.27	\$56.35
YoY % Change	15.0%	14.4%
% of Full-Year Retail E-Commerce Sales	16.5%	16.5%
% of 3Q Retail E-Commerce Sales	70.0%	70.1%
% of Total Retail Back-to-School Sales	6.2%	6.8%

Note: Includes products or services ordered using the Internet, regardless of the method of payment or fulfillment; excludes travel and event tickets. Sales are for July and August of each year.

Source: eMarketer, June 2015

Figure 7. Projected US Retail E-Commerce Back-to-School Season Sales in Core Product Categories*

	2014	2015
Total (USD Billions)	\$25.12	\$28.68
YoY % Change	14.6%	14.2%
% of Full-Year Retail E-Commerce Sales	8.4%	8.4%
% of 3Q Retail E-Commerce Sales	35.7%	35.7%

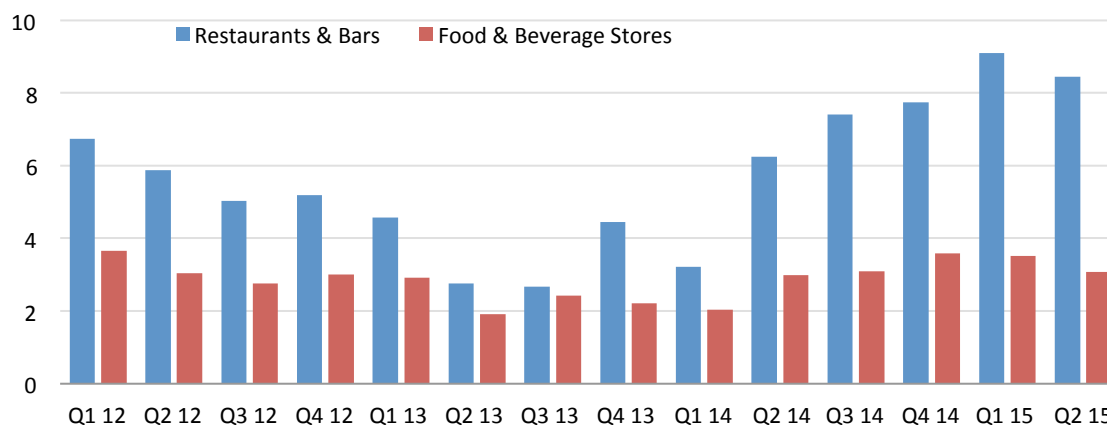
Note: Includes products or services ordered using the Internet, regardless of the method of payment or fulfillment; excludes travel and event tickets. Sales are for July and August of each year.

**Includes only apparel, accessories, books and media, computers and consumer electronics, office equipment and supplies, toys and hobby.*

Source: eMarketer, June 2015

Food Capturing Greater Share of Discretionary Spending

Figure 8. Spending for Food and Beverages: At Home and Away From Home YoY % Change



We can see consumers have increased their spending for food away from home significantly since the first quarter of 2014. Growth peaked in the first quarter of 2015 at 9.1%, and remains at a still healthy 8.5% year over year gain in the most recent second quarter. Meanwhile, spending for food and beverages has remained steady for home consumption and has averaged 2.9% in the last 14 quarters despite the increase in spending at restaurants. This trend suggests consumers are feeling confident and not economizing on their food purchases, but rather enjoying a meal out with family and friends. Experiences, such as fine dining, an afternoon at the spa and tickets to a sporting event are siphoning discretionary dollars from many merchandise categories. To counteract this trend, strategies and shopping environments that engage the shopper are vital.

What FIBC Global Retail & Technology Thinks

We have been concerned about the tenor of retail sales through 2015. While we are encouraged by the improving macroeconomic backdrop of increased wages and employment, along with stronger consumer balance sheets, we are apprehensive that these supports haven't translated into a pickup in sales. In most of the categories we track, we have not seen a sustained sales lift in 2015. Moreover, the promotional cadence hasn't lessened and many products are hovering on deflationary pricing. The Weinswig Hourglass thesis we honed years ago continues to play out, squeezing those retailers and brands in the middle, while value-focused businesses enjoy consumers' increased focus on value and benefit from those trading down on selected merchandise in order to splurge on a few luxury items.

That said, we think the NRF projections are a tad too pessimistic, and eMarketer's a tad too optimistic. FIBC sees a continuation of the trend evinced in the Department of Commerce June sales report (released July 14): a 0.1% year-over-year gain in retail sales excluding autos.

We think fashion at a value price will be a real winner in the second half of 2015, beginning with BTS shopping. This will benefit the outlets and off-price retailers. Macy's Backstage will be open in time to capture BTS sales, and we expect this new format (along with traditional Macy's, with its sharp pricing) to outperform the aggregate. Nordstrom Rack should see traffic from the BTC fashionista shopping for Topshop at clearance prices, and the family assortment at Old Navy (along with the value pricing the chain is known for) makes it a good BTS shopping destination. The projected increase in dorm furnishing sales should benefit a handful of retailers with appropriate marketing, from Amazon and Bed, Bath and Beyond, to Kohl's, JCPenney and Target.



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