

Increased costs bit US retailers despite higher holiday sales

January 11 2019, by John Biers



Retailers ate more of the promotion costs over the holiday season, denting the profit boost despite a strong consumer environment.

Holiday shopping reports released Thursday underscored anew the challenges US retailers face in the Amazon era—even if consumers are willing to open their wallets to spend.

The updates were a mixed bag overall, with several retailers reporting

small or moderate increases in comparable store sales during the critical November-December period.

But a report from Macy's aroused the most angst on Wall Street, after the chain slashed its profit forecast even as it signaled a modest increase in sales.

Shares in Macy's plunged almost 20 percent, while nearly every major retailer was pulled down as well.

That included companies like Target that reported higher holiday sales and confirmed—but did not raise—profit forecasts.

The results were an ugly finale to a holiday shopping season that opened with high expectations owing to robust consumer confidence amid a strong employment market, relatively low gasoline prices and a boost from tax cuts.

Mastercard SpendingPulse in December estimated holiday sales growth of around 5.1 percent to more than \$850 billion, the strongest jump in the last six years.

By that estimate, the 2018 holiday shopping season was a strong one—just not for retailers.

"It was a good season. Consumers had more money to spend. They spent it," said retail industry consultant Dana Telsey.

"But the cost of doing business is getting higher."



Bed Bath & Beyond shares surged 13.5 percent after it projected flat earnings in

2019 instead of the decline that had been previously seen

Eating costs

Traditional brick-and-mortar retailers have invested in heavily beefing up their online platforms and offering incentives to lure buyers, such as free shipping during the peak holiday season.

At the same time, these companies also have spent heavily to improve the in-store experience, hiring consultants to help beautify the surroundings and in many cases employing more workers during the peak festive season.

The latest results suggested retailers still have not found a winning recipe for the transition to the e-commerce era.

"We know expenses are always a problem as more and more stuff moves online because people simply will not pay for you shipping it to them," said retail industry consultant Jan Rogers Kniffen.

"They want it to be the same price in the store in my door. That's just the way it is."

Experts say the retail industry is still undergoing an existential shakeout.

Companies like Macy's, JC Penney and Gap have shuttered stores in recent years, while Toys "R" Us went out of business—a fate that could soon befall iconic American retailer Sears.

Wall Street seeing red

Macy's shares tumbled 18.7 percent after it reported an increase of 1.1 percent in comparable sales, but lowered its annual earnings forecast to a range of \$3.95 to \$4.00 a share from \$4.10 to \$4.30.



Macy's had higher sales over the holidays, but still had to trim its profit forecast because of higher costs.

Sales were dented by a fire in a distribution center in West Virginia and a pre-Christmas "earn and redeem" promotional event that was unsuccessful, Macy's said.

"The holiday season began strong," Macy's Chief Executive Jeff Gennette said, "but weakened in the mid-December period and did not

return to expected patterns until the week of Christmas."

Target said comparable sales grew 5.7 percent over the [holiday](#), while Kohl's put sales growth at 1.2 percent. L Brands, the parent of Victoria's Secret, reported flat comparable sales for the five weeks ending January 5.

Bookseller Barnes & Noble estimated sales growth at 1.3 percent over the two-month period, adding that its earnings guidance "may be reduced by as much as 10 percent" due to increased advertising and promotional costs.

Shares of Target fell 4.0 percent, Kohl's dropped 7.1 percent, L Brands 7.6 percent and Barnes & Noble plunged 13.0 percent.

Analysts said the declines were exacerbated by expectations that earnings growth will be tough in 2019 after a strong 2018 following the US tax cut enacted in late 2017.

An exception was Bed Bath & Beyond, which surged 13.5 percent after it projected flat earnings in 2019 instead of the decline that had been previously seen. The company expects investments in store beautification, e-commerce software upgrades and other ventures to pay off more.

The company raised its threshold for offering free shipping to \$39 from \$29 and required a threshold for delivery of \$19 over the Thanksgiving weekend instead of nothing.

"You'll have certain customers perhaps not buy due to the higher threshold and perhaps other customers add something to the cart," said Chief Executive Steven Temares.

"It does have some impact on sales, but it's difficult to quantify."

© 2019 AFP

Citation: Increased costs bit US retailers despite higher holiday sales (2019, January 11) retrieved 3 July 2024 from <https://phys.org/news/2019-01-bit-retailers-higher-holiday-sales.html>

This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.