ECONOMIC EXPECTATIONS FOR THE HOLIDAY SEASON: A COMPARISON OF RETAILER VERSUS CONSUMER PERCEPTIONS

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ABSTRACT

Two probability samples in the southeastern United States, of consumers and retailers, to measure economic perceptions were conducted. Comparisons were made between consumers' and retailers' perceptions in the areas of the economy, financial soundness, cost of living, and consumer holiday spending. The results suggested that retailers and consumers held similar negative perceptions in terms of the state of the economy. Consumers though felt less financial sound than retailers did. Additionally, consumers felt the cost of living had increased to a greater degree than retailers felt their cost of operating had. Finally, retailers better predicted that consumers were planning to spend less for the holiday season.

INTRODUCTION

This paper will compare the opinions and expectations of consumers and retailers in the southeast United States in fall, 2008 regarding the 2008 Holiday shopping season. The time of year of the study is significant in the study as the holiday season is considered a barometer of economic activity and consumer confidence. Many retailers have become extremely dependent on the months during the holiday season; for example, in 2007, holiday sales represented 19.1% of total retail industry sales (Davis, 2008). Dodes, Zimmerman, and McCracken (2009) suggest that retailers can generate up to 40% of their annual sales during the holiday season. Thus, understanding and comparing consumer and retailer perceptions of a significant business event, the holiday shopping season, is vital for marketers to understand.

This paper makes a distinct contribution to the literature by being one of the first comparisons of two distinct populations (consumers and retailers) within the same region, during the same time, about similar topics. The following topics are addressed by both the retailer and consumer samples: economic expectations, financial stability, cost of living/operating, and perceptions of holiday shopping. Zimmerman, Saranow, and Bustillo (2009) offer that this was one of the worst holiday sales seasons on record with total retail sales (excluding automobiles) declining 2.5% in November and 4% in December of 2008; these declines were worse than what was previously forecasted. In comparison, last year holiday retail sales increased 2.4%. In trying to understand why there was such a decrease, the opinions of consumers and retailers in fall, 2008 may indicate why the 2008 holiday season happened the way that it did. Furthermore, understanding where consumers and retailers agree and disagree on the economy and the holiday shopping season may better help marketers successfully serve consumers and succeed in future holiday shopping seasons and throughout the year in the future.

In this paper, we will review supporting literature for the topics studied including retailer's economic expectations, consumer's economic expectations, retailer financial soundness, consumer financial soundness, retailer's cost of operating, consumer's cost of living, and holiday shopping expectations. After reviewing the supporting literature, we will propose four hypotheses in order to test the relationships of the variables studied between retailers and consumers. This paper is important because it highlights the similarities and differences in perceptions that existed between retailers and consumers. The impact of these differences was felt in the holiday retail results. Thus it is critical that retailers better understand consumer perceptions and how they relate to their own views.

LITERATURE REVIEW

Perceptions of the economy

For years, consumer spending has sustained the U.S. economy (Roeder, 2008). With all the reports of the U.S. economy slipping and the stock market teetering with uncertainty, the question of "if" the country is in a recession has turned into the question of "how bad?" According to a survey from NPD Group, 58 percent of consumers in May believed that the U.S. was in a recession, up 55 percent from the month before ("Recession State of Mind", 2008). A study conducted by the Nielson Co. found that of the 49 percent of consumers who said that they planned to reduce spending in 2008, more than a third (18 percent) were reducing costs by a "great degree," while the remaining 31 percent were scaling back to a "small degree" (Foucher, 2008).

Consumers are valuable gauges of the economic environment, mostly because their perceptions drive their spending and their spending drives the economy. Here is where perception became reality. Consumers may have foreseen the downturn years before it was publicized by the media. A 2007 survey found that Southeastern residents overwhelmingly perceived the economy as doing badly compared to 2006. With 57 percent of respondents indicating they felt the economy was worsening; additionally, only 6 percent of the region thought that the economy was better than the year before (Hill, 2007).

With the 2008 figures coming in, we see more and more that retailers are feeling the impact of a worsening economy. But did they see it coming? A survey conducted in 2008 of 1,800 small businesses owners by the National Federation of Independent Businesses trade group shows that an index measuring optimism among the owners has dropped to its lowest since 1991. Only 5 percent expected the economy to improve in the coming months (Iwata, 2008). In 2007, a survey of retailers in the Southeastern region found that when asked about the current economy only 15 percent of retailers thought that the economy was better in 2007 than 2006, an 18 percent drop in confidence compared to the 2006 survey (Hill, 2007).

Thus given the literature we propose the following hypothesis to measure the relationship between consumer economic expectations and retailer economic expectation:

H1: Perceptions of the economy are the same for retailers as consumers.

Financial Soundness

Amid job losses, declining values of retirement funds, and a weaker outlook for financial markets, consumers have decreased nonessential spending (Cheng, 2008). Per the U.S. Labor Department, the number of Americans drawing unemployment benefits rose to 4.6 million for the week ended December 26, the highest since 1982 (Cheng, 2008). Consumer confidence slumped in December to the lowest level since the Conference Board first started tracking it 40 years ago, as consumers expressed deep concerns about the economy and some 42 percent thought jobs were hard to get (Cooper 2008).

With such uneasiness about job securities, consumers are truly reevaluating their perceptions of how sound their household is financially. With incomes pinched, access to credit tightened, and nest eggs drastically shrunken, Americans are poised to save much more and spend much less. Consumers are struggling with many years of accumulated debt amid dwindling resources, and they are now forced to begin saving a higher percentage of their income, leaving less for spending (Cooper, 2009). The savings rate is heading up, reaching 2.9 percent of income in the fourth quarter, the highest in seven years (Cooper, 2009). Compared with the last two recessions, the savings rise has been fast, but with the stress from lost wealth and tighter credit, it will persist for some time (Cheng, 2008).

Millions of U.S. small businesses have felt the harmful effects of the housing crisis and current economic recession. Though large corporations are not impervious to the changes in the economy, small businesses lack the financial reserves of bigger companies to weather the slump and are severely impacted by emptier shops, weaker sales, and cautious consumers unwilling to spend (Iwata, 2008). Small businesses historically, have often led the country out of recessions. That will be difficult if they cannot get the credit and capital they need to grow. A 2008 Federal Reserve survey found that 30 percent of banks were tightening standards on commercial and industrial loans to small companies, compared to only 10 percent in 2007 (Cooper, 2009). Unfortunately, conditions are likely to get worse; The International Council of Shopping Centers predicts nearly 5,800 store closures this year, outpacing last year’s 4,600, in shopping malls across the country (Hudson, 2008).

Thus given the literature we propose the following hypothesis to measure the relationship between consumers’ perceptions of financial soundness and retailers’ perceptions of financial soundness:

H2: Retailers’ and consumers’ perceptions of their financial soundness are the same.

Cost of Living/ Cost of Operating

U.S. consumers are challenged daily by growing inflation, credit card debt and interest payments, declining house values, and the constant threat of gasoline prices skyrocketing. In December 2007, Nielsen Home Scan conducted a survey on the impact of higher gas prices on nearly 26,000 consumers which were geographically and demographically representative of the U.S. population. The findings were that half (49 percent) were reducing their spending to compensate for rising gas prices, a four percent increase from 6 months earlier (Hale, 2008). The largest component of the CPI is housing which counts for about 42 percent of the total index. The Standard & Poor’s Case-Shiller Home Price Index for 10 cities fell by 2.2 percent in November, 2008 (Sweet, 2008). So now consumers, having taken a blow in their home equity, are facing other pressure from higher prices for food and commodities and from potential job losses.

American retailers have come under tremendous financial pressure as beleaguered consumers curtail their spending. But of all the troublesome economic news, inflation is what’s worrying most businesses owners. According to a 2008 poll by the National Federation of Independent Businesses, inflation is the number one concern of small businesses, with inflation fears being the highest since 1982 (Sweet, 2008). For small business owners, it is difficult to cope with the increase in commodity costs. Sweet (2008) acknowledges that businesses are consolidating departments, laying off employees, honing markets, and re-evaluating every facet of their operations in order to stay lean and efficient.

Thus given the literature we propose the following hypothesis to measure the relationship between consumers’ cost of living and retailers’ cost of operating:

H3: Perceptions of the cost of living for consumers are the same as perceptions of the cost of operating for retailers.

Holiday Spending Perceptions of Retailers and Consumers

Holiday spending has always been a major stimulant to the U.S. economy. In 2007, holiday sales represented 19.1 percent of total retail industry sales (Davis, 2008). Unfortunately, retail sales declined 1.7 percent in December 2008 from 2007 (Bustillo, 2008), even as retailers resorted to sharp discounts in attempt to attract credit strapped consumers. When the National Retail Federation initially forecasted 2008 holiday sales, it estimated that retail sales would grow 2.2 percent, well below the industry’s 10 year average of 4.4 percent sales growth (“Holiday Sales Expected to Lag”, 2008). But as the talk of the recession increased, expectations decreased. Stores hired fewer part-time staffers during the holidays to control labor costs (Zimmerman, 2008). Monthly retail-sales figures were a critical barometer of how Americans were reacting to the discouraging news, each month’s numbers showing a nation paring back in the face of economic uncertainty, fleeing extravagance in favor of low-priced basics (Bustillo, 2008). As it came closer to December, retailers edited their expectations to match the gloomy outlook. According to a survey done in September of 2008 by BDO Seidman LLP of 100 large retail companies, they expected their companies’ same-store sales in November and December to fall an average of 2.7 percent from year-ago levels (Saranow, 2008). In the survey, 88 percent of the executives also said that they plan to offer more discounts and promotions than last year. In a more ominous sign, 65 percent of the executives said they don’t expect to see a meaningful economic turnaround until the third quarter of 2009 at the earliest. Economists were soon predicting the “worst holiday season since the recession of 1991 (Zimmerman, 2008). Retailers started fighting back with an arsenal of new selling techniques, staff cutbacks and more emphasis than ever on value and low-prices (Cheng, 2008). With five fewer days between Thanksgiving and Christmas than in 2007, the 2008 holiday season was looking even bleaker.

Retailers planned bigger, bolder, and earlier campaigns to lure shoppers as early as possible, racing to make the most of the shorter season. Markdowns allowed retailers to keep inventories from climbing, but dramatically reduced their profit margins (Evans, 2009). In another worrisome sign for consumer spending, the rapid expansion of credit that helped fuel spending in previous holiday seasons continued to reverse. The Federal Reserve stated in the days after Christmas that total consumer credit outstanding declined 3.7 percent in November to $2.57 trillion (Evans, 2009). But the holidays were not all doom-and-gloom for all retailers; the world’s largest retailer, Wal-Mart’s, sales grew 1.7 percent, with more Americans shopping at the low-cost seller.

Thus given the literature we propose the following hypothesis to measure the relationship between consumers’ and retailers’ perceptions of holiday spending:

H4: Perceptions of holiday spending will be the same for retailers as consumers.

METHODOLOGY

Data was collected using two probability stratified samples, one of retailers and one of consumers in the Southeast with the stratification based on county population in that region. Trained research assistants administered telephone surveys to both samples.

Measures

Hypothesis 1: The question used to measure economic perceptions of retailers comprised of “How do you think the economy is doing this year compared to last year?” With the given responses including: (1) worse than last year, (2) about the same as last year, (3) better than last year. The survey question used to measure consumer’s economic opinions asked “Do you think the economy is (1) worse than it was last year, (2) about the same as it was last year, (3) or better than it was last year?”

Hypothesis 2: The query used to measure retailers’ perceptions of their financial soundness was “How financially sound is your company this year compared to last year?” With the given responses being: (1) worse than last year, (2) about the same as last year, (3) better than last year?” Similarly, the survey question used to measure consumers’ perceptions of their financial soundness was “Are you (1) better off financially this year than last year, (2) about the same financially this year compared to last year, (3) better off financially this year than last year?”

Hypothesis 3*:* The question that was used to measure retailers’ perceptions of their cost of operating asked “During the past year, do you think that the cost of operating your business has (1) decreased, (2) remained the same, (3) increased?” In order to measure consumer’s perceptions of their cost of living, respondents were asked the question "During the past year, do you think the cost of living has (1) decreased, (2) remained the same, (3) increased, in your area?"

Hypothesis 4: The question that was used to measure retailer's perceptions of holiday spending inquired "This holiday season, do you think consumers (1) will decrease their holiday spending, (2) will keep their holiday spending about the same, (3) will increase their holiday spending?" The survey question used to measure consumers' expectations of their holiday spending asked respondents "Is the amount you are spending on holiday gifts (1) less than last year, (2) about the same as last year, (3) more than last year?"

Sample

The first sample population was made up of retailers in the Southeast with the sampling unit being owners/managers of retail stores and the time frame was late October, 2008. A total of 278 surveys were collected with a 20 percent response rate. A list of retailers purchased from InfoUSA was used as the sampling frame. When asked their title in the business, 36.7 percent stated that they were the owner. "Manager" was the most recurrent answer at 43.2 percent of the respondents. Also, an 19.3 percent of those who answered claimed other titles such as key holders, assistant managers, sales managers, supervisors, and family members of the owners/managers. Sales of the businesses called varied significantly, showing the diversity of the sample, however the majority of the businesses surveyed were small businesses whose sales were $100,000 and less.

Of the surveys collected, 19.8 percent stated that their company's sales were less than $100,000 a year, 17.9 percent stated that their company sales were $100,001 to $250,000 a year, and 14.5 percent had annual sales of $250,001 to $500,000. In addition, the two categories of "$500,001 to $750,000" and "$750,001 to $1,000,000", both made up 10 percent. Respondents that answered "over $1,000,000" made up 13.4 percent. The retailers were also asked the amount of employees they currently retained. The answers ranged from 1 to 101 or more. A very large portion (74.2 percent) of the businesses surveyed employed 10 or fewer employees. Approximately 14.82 percent claimed 11 to 25 employees, 5.7 percent with 26 to 50 employees, 2.3 percent with 51 to 75 employees, 1.6 percent with 72 to 100 employees, and a final 1.6 percent out of the 263 respondents said they had 101 or more employees.

The fact that small businesses were the majority of the sample fits the profile of the national marketplace: In 2007, there were 27.2 million businesses in the United States, according to Office of Advocacy estimates. Census data show that there were 6.0 million firms with employees and 20.4 million without employees in 2005. Small firms with fewer than 500 employees represent 99.9 percent of the 27.2 million businesses in the U.S. (Small Business Administration, 2007). Most small businesses have a single location only; this was true of the sample when asked "How many locations does your firm have in the Southeastern region?" The majority of businesses surveyed (63.4 percent) were single proprietorships. 13.8 percent had only 2 locations in the region. "Three or more locations" made up 6.3 percent, and "4 or more locations" was 15.6 percent.

The second sample population was made up of consumers in the Southeast and the sampling unit was households. The time frame was also late October to early November, 2008 (just before the U.S. election.) A total of 450 surveys were collected with approximately a 20 percent response rate. Respondents were asked demographical questions in order to categorize variables such as gender, employment status, education level, residence, and income. Approximately 59.8 percent of the individuals that took the survey were females. When asked about their employment status, survey respondents fell mostly into two main groups: full-time employment (47.2 percent of the sample) and retired (31.3 percent of the sample). Consumers were also asked about their level of education; some of the frequencies answered were 4-year college degree (at 23 percent of the sample), and some college (at 29.7 percent of the sample). The sample proved to be varying from respondents with grade school educations to graduate degrees. Almost 86 percent of the population sample claimed they owned their home, with 13 percent claiming they rent their homes. Income levels were diverse, with 28.6 percent respondents classifying themselves in the \$50,000 to \$74,999 range and 21.3 percent claimed “\$100,000 or above” as their household income. The median and mode was 23.7 percent in the “\$50,000 to \$74,999” category.

RESULTS

Hypothesis 1 was tested using an independent sample t-test using the variables of economic perceptions of retailers and economic perceptions of consumer. The results of the t-test were not significant (t=1.28). Hence, we fail to reject the null hypothesis and conclude perceptions of the economy are the same for retailers as consumers.

Hypothesis 2 was tested using an independent sample t-test with the variables of retailers' perceptions of financial soundness and consumers' perceptions of financial soundness. The results of the t-test were significant at the .005 level (t=4.84). Therefore, we reject the null hypothesis and conclude that perceptions of financial soundness differed from retailers to consumers. Retailers felt more financially sound compared to consumers. Retailers overall felt about the same financially as last year, while more consumers felt financially worse off than the year before.

Hypothesis 3 was tested using an independent sample t-test using the variables of retailers' perceptions of cost of operating and consumers' perceptions of cost of living. The results of the t-test were significant at the .005 level (t=3.94). Therefore, we reject the null hypothesis and conclude that retailers' perception of cost of operating and consumers' perception of cost of living differed. Consumers felt their cost of living had increased to a greater degree than retailers felt their cost of operations had increased.

Hypothesis 4 was tested using an independent sample t-test using the variables of retailers' perceptions of consumer holiday spending and consumers' perceptions of their holiday spending. The results of the t-test were significant at the .001 level (t=6.72). Hence, we reject the null hypothesis and conclude that retailers' and consumers' perceptions of holiday spending differed. There was a significant difference in what retailers thought consumers would spend and what consumers claimed they planned to spend. Retailers were more likely to see consumers spending less than consumers perceived themselves spending.

INDEPENDENT T-TEST RESULTS

	N	Mean	SD	t	DF	Sign
Economic Expectations						
Retailers	272	1.14	0.42			
Consumers	446	1.19	0.46			
Equal Variances Assumed				1.28	716	NS
Financial Soundness						
Retailers	255	1.95	0.68			
Consumers	445	1.70	0.68			
Equal Variances Assumed				4.84	698	.005
Cost of Living/Operating						
Retailers	272	2.60	0.62			
Consumers	439	2.77	0.52			
Equal Variances Assumed				3.94	709	.005
Holiday Sales						
Retailers	260	1.37	0.60			
Consumers	422	1.69	0.62			
Equal Variances Assumed				6.72	680	.001

IMPLICATIONS, LIMITATIONS, AND FUTURE RESEARCH

In order to stay relevant and afloat in troubling times, retailers must forecast consumers' behavior and perceptions, and evolve within their markets. That means coming up with new ways to price their products, or scrapping old marketing approaches, or focusing on figuring out where the economy is heading next and how to use that information to grab market share (Roth, 2009). The economic climate has already led to sharp cuts in marketing budgets, and more are inevitable. When figuring out the best way to allocate ever-scarcer resources, there's one crucial principle to remember: Keeping customers one already has is a lot easier, and less expensive, than trying to land new ones.

This paper has discussed the importance of holiday spending for the retail sector. We will propose strategies that retailers can use to make this important time of the year even more effective. First, given that retailers may have to discount more to encourage consumer spending, it is more vital now than ever that they reduce their operating costs. Second, Davis (2008) also recommends holiday retailers researching when the bulk of their holiday shoppers will intend to shop. Understanding the perceptions and plans of their consumers, retailers can break their market down into different groups, each with different characteristics, that reacting to marketing differently. The motivations and behaviors of the consumer that shops the day after Thanksgiving differs greatly from behaviors and motivations of a consumer that dashes in the night of Christmas eve. If a retailer can tap into the items that these different customers are shopping for, and map out how they go about purchasing their gifts, that retailer can greatly influence their holiday sales. Thus holiday shopping is a very important portion of retail annual business, and retailers should be concerned with consumers' perceptions, and edit their perceptions to match.

Based on the findings of this research, retailers must be realistic both in terms of their own expectations as well as forecast the expectations of their customers. In terms of financial soundness, both retailers and consumers must constantly evaluate their stability and make fiscal decisions based upon their soundness. Retailers must watch their cost of operating and its effect on their bottom line, and focus on becoming a leaner, more efficient business. Consumers must also watch their cost of living. As they cut back more and more, consumers must develop a balance between saving and spending that does not negatively affect their lifestyle. Retailers need to monitor consumers' perceptions of their cost of living as these perceptions may impact how much retail spending they do; as we found in this study, consumers had a more negative view of their cost of living than retailers did for the costs of operating.

Our study suggests that retailers did a better job of predicting consumer holiday spending than consumers did; individual retailers this year did recognize sooner than consumers did, the impact of the negative economy on holiday spending. Thus, they were able to plan accordingly. They must continue to do this so they can make market adjustments throughout the year to better serve consumer needs. Finally, our results suggest that the holiday season may no longer be the economic boom for retailers in terms of sales and profits. In today's economic climate, retailers simply must focus on the customer, not just during the months of October, November, and December, but 365 days of the year. We feel the holiday season will still be a pivotal and important season for the U.S. retailer, but as consumers become more skeptical and fickle in these uncertain times, a year-round customer will be far more valuable than one simply looking for the cheapest door-buster of a Black Friday blitz.

Over the course of the study, many limitations presented themselves. Although our research focused on a regional location of the southeast, future research could conduct this type of study on a national basis. Within the instrumentation used to gather the data, only single-item measures were used for ease of conducting the phone surveys. In the future, multiple-item measures would be useful to further understand economic perceptions. Thus, this paper makes an important contribution by comparing retailers and consumer holiday spending perceptions in the southeast. We hope this study spurs additional research nationally comparing retailer and consumer spending perceptions.

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