

# Nielsen Economic Advisor Series: *What You Need To Know*

## 2008 Holiday Forecast

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# Most Closely Watched Holiday Season Since 1991

- Unstable economic environment worsening as we head into this holiday season
- Consumers, consumer goods companies & retailers are reacting with increasing caution & decreasing confidence as a result of:
  - Expanding credit crisis
  - Ongoing inflationary concerns
  - Falling housing prices
  - Weakening labor market
  - Global economic slowdown
- 4<sup>th</sup> quarter behaviors will intensify in 2009

# Summary of the Season

## What's Hot?

- Necessities not novelties & luxuries
- Practical apparel & household goods
- Categories aligned with at-home entertainment
- As in past years, DVDs, video games, mobile phones, books, wines/ spirits
- Although many consumers are curtailing their spending on out-of-home food, alcohol & entertainment, sales of movie tickets, which remain an affordable luxury, are expected to stay strong

## • What's Not?

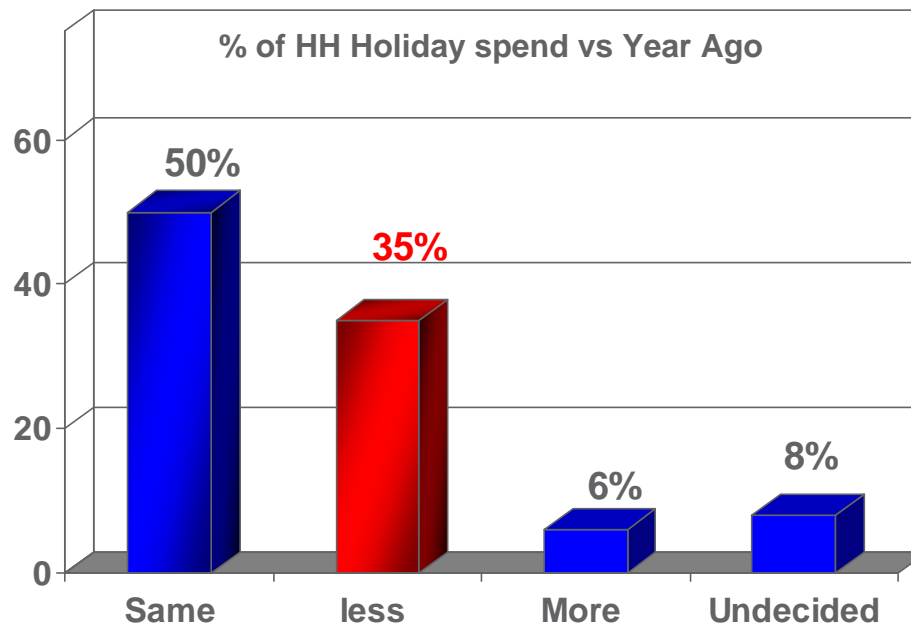
- Department, electronic, toy, home improvement, & office supply retailers are likely to feel the brunt of the economic slowdown as consumers shift their purchases to more value-oriented retailers

## Where's the Action?

- Online retailers, dollar stores, grocery stores, supercenters, mass merchandisers & club stores will attract lion's share of holiday spending as consumers minimize shopping trips & find good values

# Over One-Third of U.S. Consumers to Cut Holiday Spending: Forecast Flat Sales

- Nielsen projects dollar sales over \$98 billion, resulting in a 4.7% gain in dollar sales, with flat to declining unit sales (-0.8%)\*
- Expect big season for channels driving value:
  - Online, Supercenters, Dollar, Club & Convenience
  - Grocery should benefit from consumers combining shopping trips



\* 125 core cpg categories sold over the 8 wk period from Nov – Dec within Food, Drug, Mass including Walmart, Convenience channels

# Category Opportunities This Holiday Season

- The Nielsen Holiday Forecast is built from the category up & identifies the categories with the highest expected spikes
- Utilize this target list to ensure you are generating your fair share of category sales or implement strategies to capture share from other channels

| Target Holiday Categories:                   | Nov/Dec Projected Dollar Share of Total Annual Vol |
|--|--|
| <b>Musical Instruments &amp; Accessories</b> | <b>63%</b>   |
| <b>Children's Cologne &amp; Gift Sets</b>    | <b>49%</b>   |
| <b>Women's Fragrances</b>                    | <b>40%</b>   |
| <b>Men's Toiletries</b>                      | <b>38%</b>   |
| <b>Seasonal General Merchandise</b>          | <b>35%</b>   |
| <b>Candles, Incense &amp; Accessories</b>    | <b>29%</b>   |
| <b>Computer Electronics Products</b>         | <b>28%</b>   |
| <b>Refrigerated Meal Starters</b>            | <b>27%</b>   |
| <b>Flashlights</b>                           | <b>25%</b>   |
| <b>Grooming Appliances</b>                   | <b>25%</b>   |

| Target Holiday Categories:             | Nov/Dec Projected Dollar Share of Total Annual Vol |
|--|--|
| <b>Film &amp; Cameras</b>              | <b>25%</b>   |
| <b>Sports &amp; Novelty Cards</b>      | <b>25%</b>   |
| <b>Butter, Margarine &amp; Spreads</b> | <b>24%</b>   |
| <b>Nuts</b>                            | <b>23%</b>   |
| <b>Soup</b>                            | <b>22%</b>   |
| <b>Baking Mixes</b>                    | <b>22%</b>   |
| <b>Kitchen Gadgets</b>                 | <b>21%</b>   |
| <b>Spirits</b>                         | <b>21%</b>   |
| <b>Candy</b>                           | <b>20%</b>   |
| <b>Wine</b>                            | <b>20%</b>   |

• Projected share of Total US FDMWM + C-stores, Nov-Dec 2008

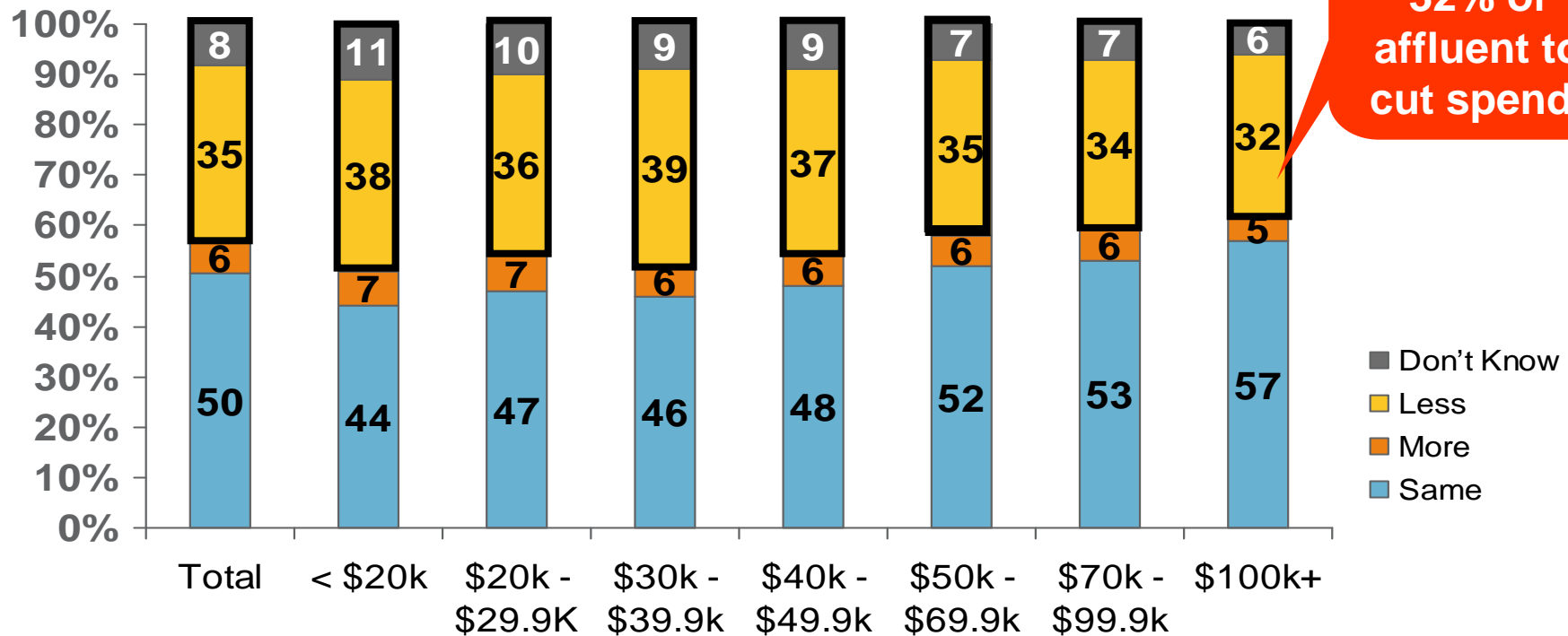
# Nielsen Holiday Expectation Survey



- Exclusive Nielsen Consumer Panel survey of 21,000 households; delivers foresights into the level of expected spending this holiday season

50% of Households to Spend Same as 2007;  
35% Less; 6% to Spend More; 8% Uncertain -  
 Lower Income at **> Risk**

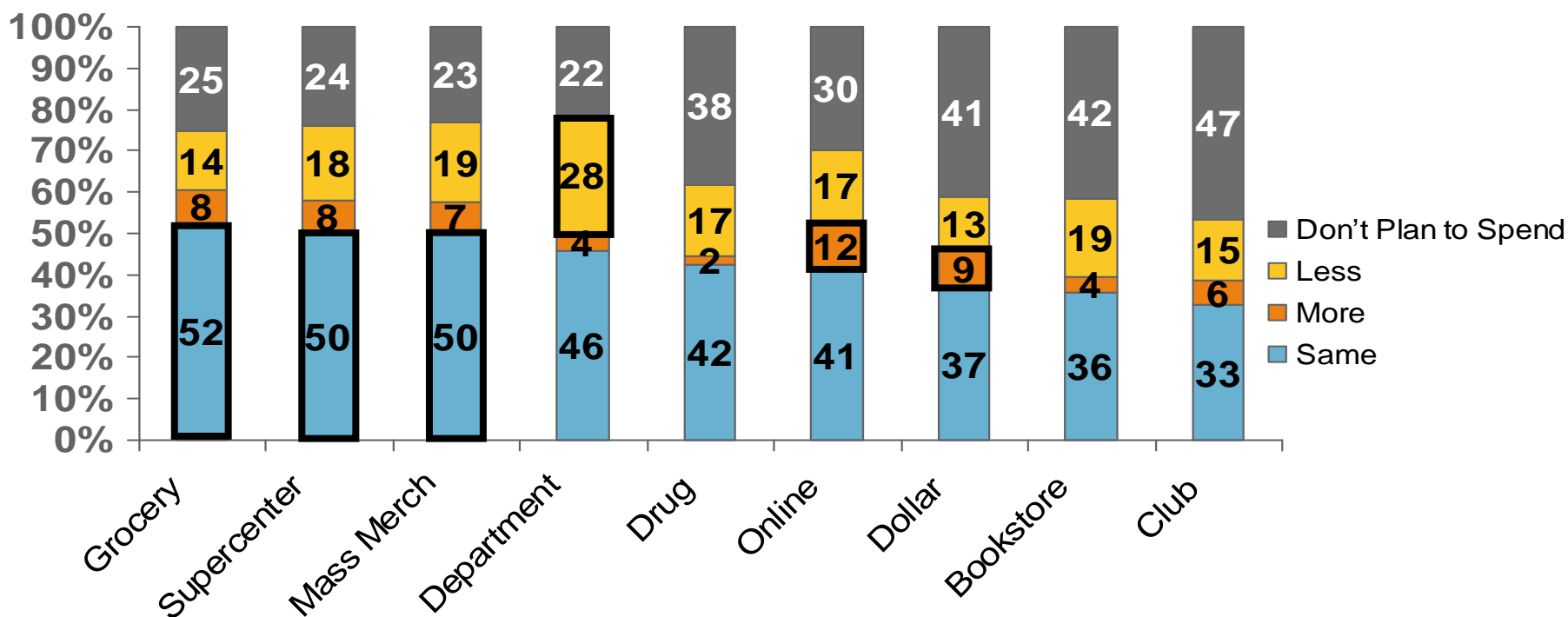
### Expectations for 2008 Holiday Spending



Source: Homescan®, a service of The Nielsen Company – PanelViews Survey – September 2008

# Grocery, Supercenters & Mass Should Do Better Among Those Expecting to Spend the Same – big Risk for Dept Stores; Upside for Online & Dollar

## Expectations for 2008 Holiday Spending

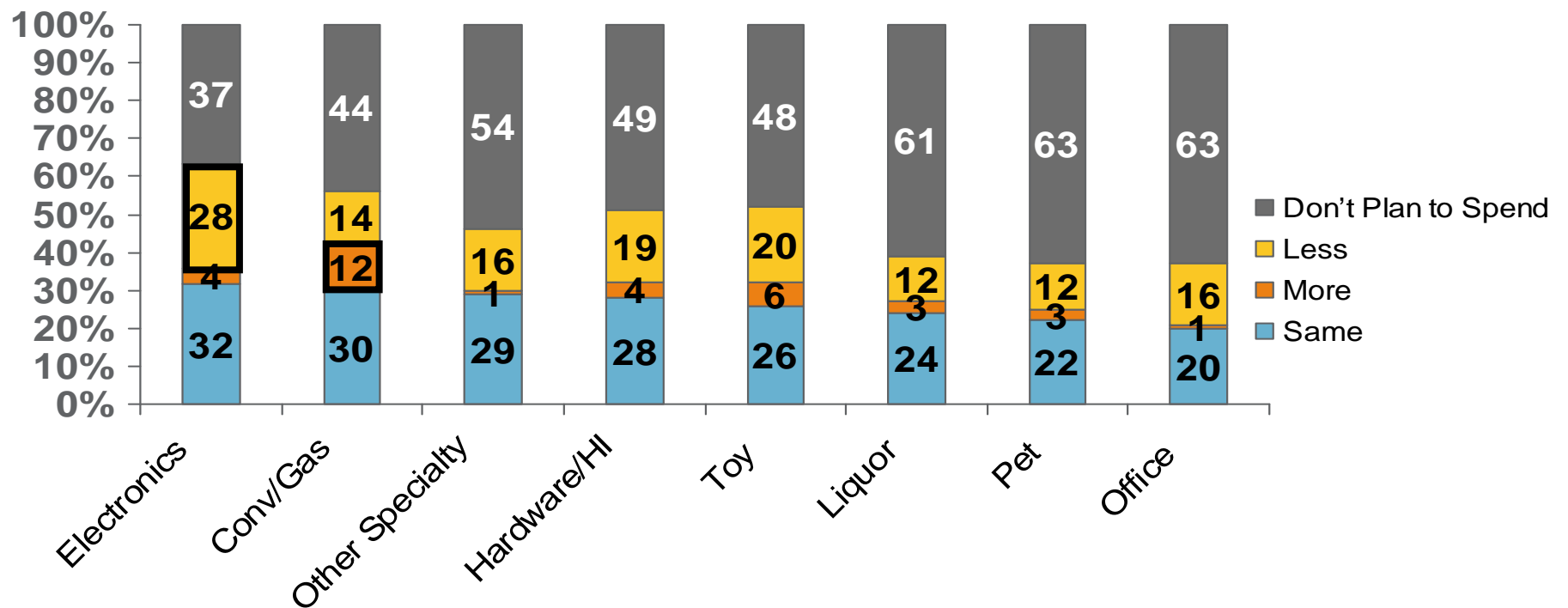


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# A Tough Season for Electronic Stores & Smaller Retail Channels? Consumers Looking to Spend More on Gas Cards at Convenience/Gas?

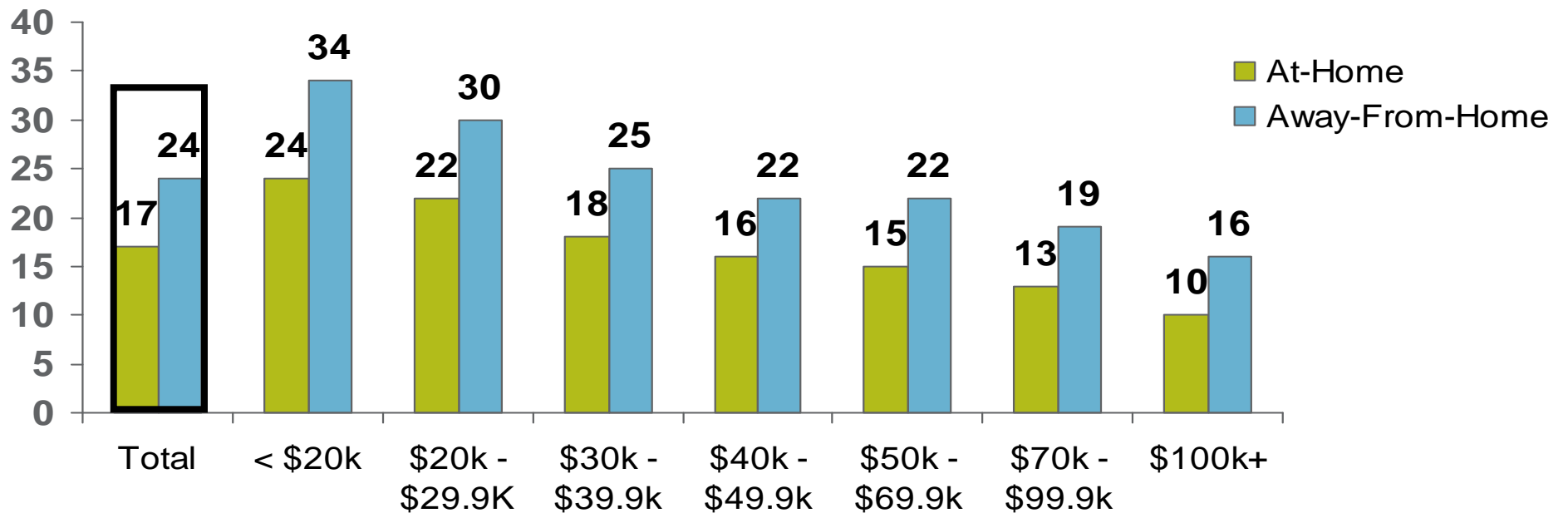
## Expectations for 2008 Holiday Spending



Source: Homescan®, a service of The Nielsen Company – PanelViews Survey – September 2008

# 17% Don't Entertain at Home & 24% Don't Entertain Away-From-Home - No Surprise, Lower Income Entertain Less

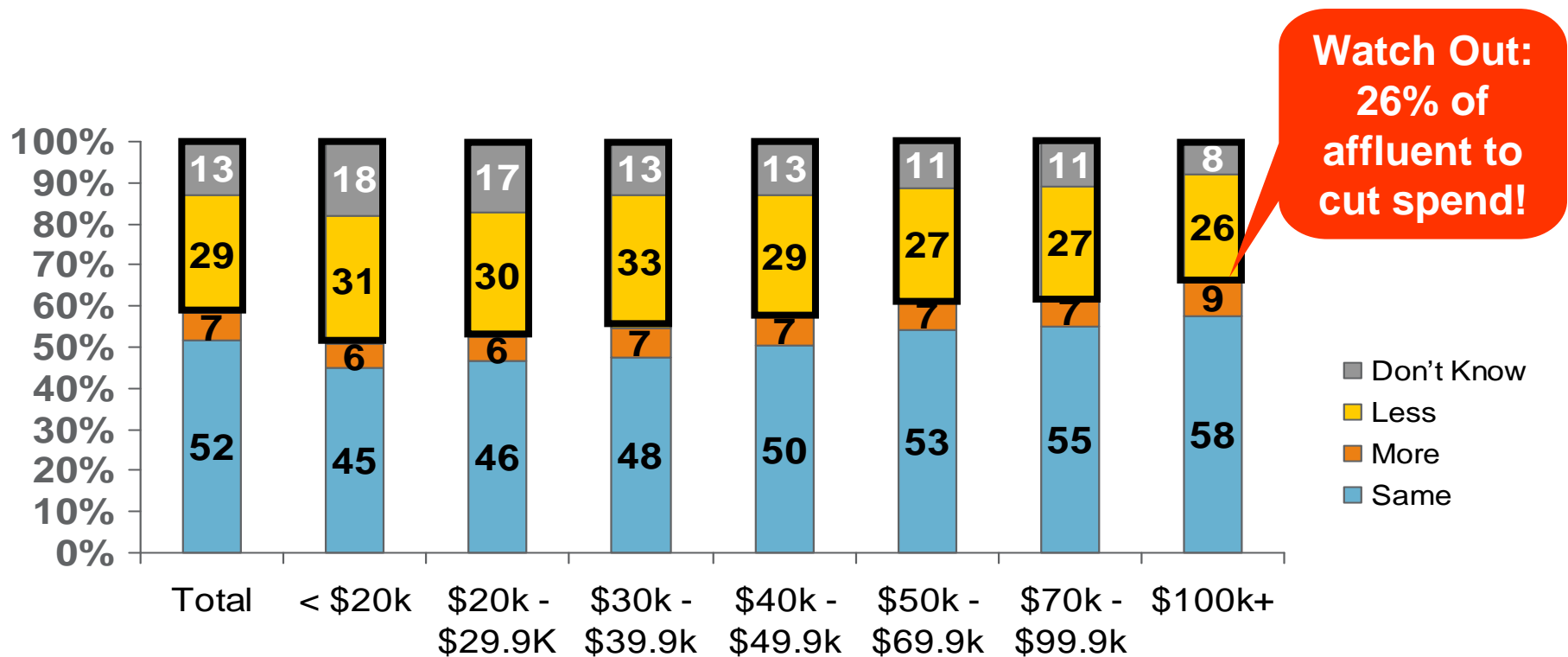
## % Households Claiming No Holiday Entertainment



Source: Homescan®, a service of The Nielsen Company – PanelViews Survey – September 2008

Of Those Who Entertain At-Home, 52% to Spend Same; 29% Less; 7% to Spend More; 13% Uncertain – Lower Income at **> Risk**

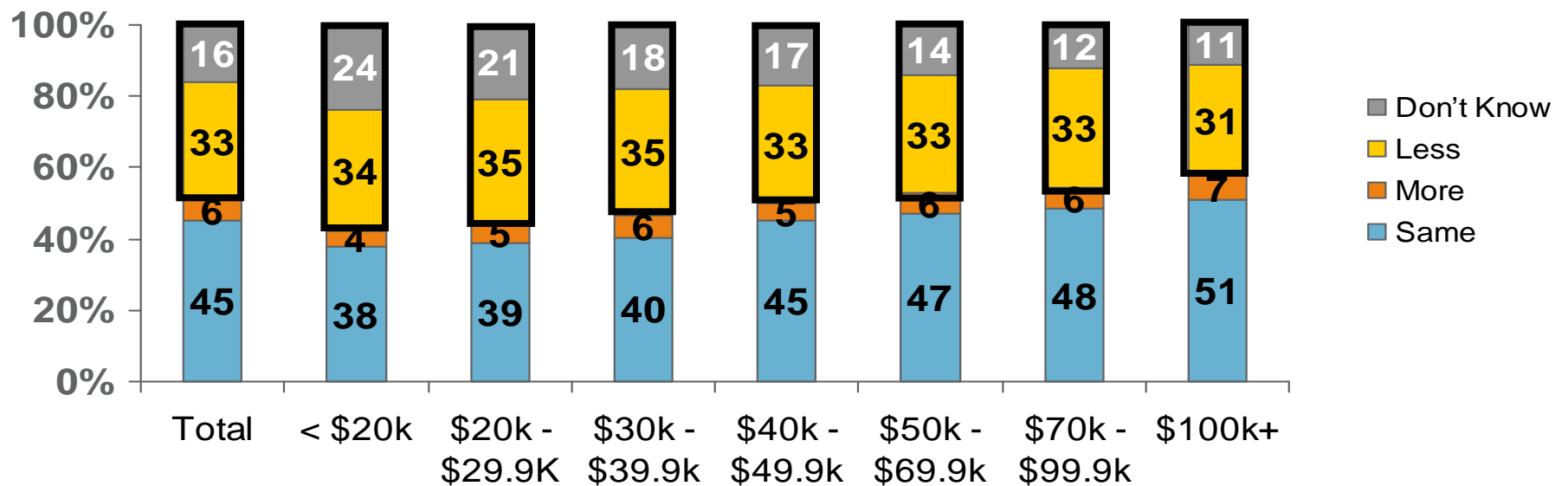
### 2008 Holiday At-Home Entertaining Spending



Source: Homescan®, a service of The Nielsen Company – PanelViews Survey – September 2008

Of Those Who Entertain Away-from-Home, 45% to Spend Same; 33% Less; 6% More; 16% Uncertain – Not as Much Variance by Income

### 2008 Holiday Away-From-Home Entertaining Spending



Source: Homescan®, a service of The Nielsen Company – PanelViews Survey – September 2008

# Holiday Sales Will Hit Well Before Thanksgiving Week

## U.S. Consumers Will Be Seeking Value, Value & More Value!



- Manage inventory like never before
- Reach out to best customers & make them feel special
- Necessities – not nice-to-haves – will drive strong sales

# Holiday Sales Will Hit Well Before Thanksgiving Week

## U.S. Consumers Will Be Seeking Value, Value & More Value!



- Leverage CPG categories to drive basic gifts & stocking stuffers:
  - From toiletries, diapers, household cleaners, pet care, food stuffs ....
- Gifts cards go basic:
  - groceries, gas, telephone, car maintenance & .....

# Holiday Sales Will Hit Well Before Thanksgiving Week

## U.S. Consumers Will Be Seeking Value, Value & More Value!



- Apparel & household goods need to satisfy at-home needs or comfort & warmth during winter
  - Think undergarments, socks, fleece jackets, hoodies & cheap casual
  - Think cook books, basic kitchen supplies, & bed/bath linens

# Holiday Sales Will Hit Well Before Thanksgiving Week

## U.S. Consumers Will Be Seeking Value, Value & More Value!



- For those serving more affluent serve up:
  - Generators, fireplace accessories, kitchen ware, family games & entertainment in lieu of jewelry, designer bags, & new cars
  - Gift cards, wine, liquor & electronics should sell well
- Mobile phones, DVDs & books should sell well



# Holiday Sales Will Hit Well Before Thanksgiving Week

## U.S. Consumers Will Be Seeking Value, Value & More Value!



- Restaurants & banquet facilities need to aggressively pursue business
- Grocers need to focus on value & comfort foods to minimize impact of cutbacks in at-home entertaining & win dollars from away-from-home

# How Will Economic Slow Down Impact 2009 & Beyond?



- Tumultuous economic climate will only get worse
- We can learn from past 12 months, but existing behavior will intensify
- More at-home trends & fulfillment of basic needs over discretionary spending
- Deep rooted societal & lifestyle trends emerging

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# How Will Economic Slow Down Impact 2009 & Beyond?



- Variety & convenience take a back seat to value!
- Consumer trade down continues: from higher-end retailers & brands to value-retailers & brands; from fresh segments to canned & frozen varieties
- Coupon clipping becomes a family necessity

# How Will Economic Slow Down Impact 2009 & Beyond?



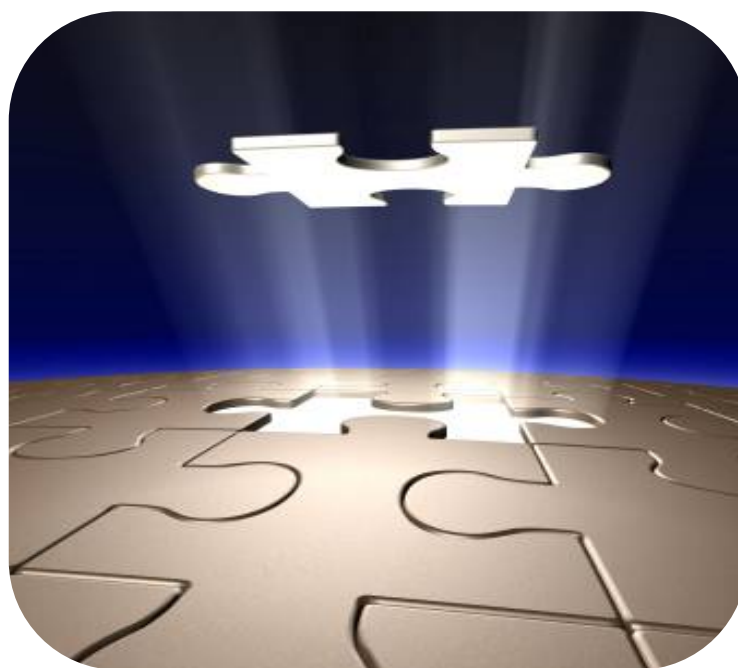
- Local sourcing continues as manufacturers & retailers control costs & market freshness & value
- Banner years for restaurant & retailer closings & bankruptcies – aggressive companies will find real bargains
- Growth to manufacturers & retailers who drive the wave & not just ride it!

# Looking Beyond this Holiday Selling Season



- Results of this holiday season will be precursor to 2009 retail sales
- Expect fundamental changes in consumer behavior
- Use the economic slowdown to build competitive advantage, differentiation & loyalty
- More than ever, the ability to understand your consumers at an increasingly granular level will deliver the insights to drive success

**The Nielsen Holiday Forecast is an integrated look into the consumer & media activity that will drive growth this season & into 2009**



# A Breakout Season For CPG Online Categories



- "We expect the 2008 holiday season to a healthy one for online sales as consumers use comparison shopping sites to locate bargains and competitive prices during a tough economic climate"
  - Ken Cassar, VP Industry Insights, Nielsen Online
- Though growth is unlikely to reach historic rates, the online segment should continue to out-pace offline channels in terms of growth and continue to increase as a share of overall holiday spending
- Nielsen Online research conducted in November 2007 found that convenience (81%) , not price (46%) , drives holiday shopping. This may change this holiday season as economic need has clearly trumped convenience as a motivator
- Brick and mortar retailers are looking at Cyber Monday, to size up the online competition. Last year Nielsen Online reported that 2007 Cyber Monday traffic increased 10% over 2006, with combined home and work traffic to the Holiday eShopping Index reaching 32.5 million unique visitors on that day
- Cyber Monday should be a very strong kick off to the online selling season

# Consumers “Drinking Out” Less, “Drinking In” More



- The economic downturn has wreaked havoc on the on-premise channel as consumers stay in and entertain at home more often
- While many consumers are eating (and drinking) out less, many others are trading down to fast casual or quick service restaurants where alcoholic beverages are non-existent or limited
- Given the importance of the holiday season to restaurants and bars, on-premise outlets will build customer loyalty programs to drive repeat business
- Grocery stores are targeting restaurants with well-priced easy meal solutions, and increased promotional efforts
- Expect to see a continued increase in online shopping especially for wine. Even Amazon will be offering wines online, a further indication of potential opportunities within the “direct to consumer” channel
- With exchange rates unfavorable to the dollar, imports have been forced to raise prices, making it more difficult for these products to compete with domestics
- Suppliers will build on the past success of seasonal beers with new releases for 2008.
- Expect a larger than normal upturn in gift purchasing of wines and spirits, the latter supported by value added “bonus” packaging



# Expect a Wave of Mobile Phone Upgrades



- Mobile phone upgrade intention is the highest it has been in 31 months, and a lower rate of summer acquisitions this year suggests consumers may be holding out for the holidays
- Subscribers paid an average of \$74 for a new handset, after rebates, in 2007. There are two primary reasons that consumers are holding the first half of 2008 out for the holidays:
  - Contractual upgrades and holiday device launches. Nielsen Mobile typically sees a spike in device upgrade at the 24-month mark. 24 months prior to December 2008 was December 2006, another holiday period that provided a peak for new phone acquisition
  - Consumers may be holding out for hot holiday devices. The original iPhone and its 3G brother bred a wave of compelling competitors and several of these new handsets will come out just in time for the holiday season. For example, T-Mobile's G1 by HTC, the first phone to use Google's highly anticipated Android platform and RIM's BlackBerry Bold, which some are calling an iClone because of its visual experience and style, both launch in time to go under the tree

# 24% of DVD Sales Occur During the Holiday Season



- DVD sales show heavy seasonality, with nearly 40% of annual sales occurring in the 4th quarter alone
- Nearly 24% of all DVD sales occur in the last six weeks of the year
- Thanksgiving week is becoming increasingly important, generating more than 6% of annual sales in 2007, up from 4% in 2001
- Two interrelated factors drive the increase in end-of-year sales:
  - Major summer hit movies generally become available for sale on DVD three months after their theatrical release so a lot of premium content enters the market during this time
  - Retailers use DVD new releases as loss leaders in order to drive store traffic and increase sales in other categories

•Nielsen VideoScan data aggregates raw sales data from its reporting retailers which do not include Walmart, Sam's or ToysRUs

# An Early Start, a Mid-Season Lull and Strong Finish For Book Sales



- Typically, the holiday season for books begins in October. The trend starts with a gradual rise in sales through the Thanksgiving Day week, after which sales increase dramatically through the remaining weeks of the year
- The peak week for book sales is generally the week before Christmas
- In the final five-week period of calendar years 2005 – 2007, consumer book sales consistently accounted for 17% of the overall year-to-date unit totals, a trend that is fairly consistent throughout all categories (i.e. Adult Fiction, Adult Non-Fiction, etc.) and in all years
- **Based on the year-to-date performance of books in 2008, we anticipate that this trend will continue with highly anticipated releases:**
  - Christopher Paolini's new book (Brisingr, out September 20)
  - Stephen King (Just After Sunset: Stories, out November 11)
  - J.K Rowling (The Tales of Beedle the Bard, out December 4)
  - Toni Morrison (A Mercy by, out Nov. 11),
  - Malcolm Gladwell (Outliers: Why Some People Succeed and Some Don', out Nov. 18)

# Games Appear Recession Proof in a Make-or-Break Year



Nielsen Games

- **The industry's biggest games are released in the 4th quarter, mostly in October and November to capitalize on the shopping cycle**
- **So far in 2008 the gaming industry has been rather resilient against the weak economy, and looks to be set for another record year in software and hardware sales, based on several factors:**
  - The Wii continues to be the next-generation console leader, even with tight supplies and high demand
  - Microsoft lowered their price for the base 'Arcade' model of the Xbox 360 to \$199, a full \$50 lower than the Wii, which will likely have an interesting effect on holiday sales
  - Console manufacturers often aim to release a game at the holidays that will move both hardware and software, such as last year's Halo 3 for the Xbox 360. This year the Xbox 360 - Gears of War 2 & Fable II and the PS3 - Little Big Planet & Resistance 2 will take that approach

# Going to the Movies Remains a Cost Effective Means of Entertainment



Nielsen Entertainment

- Despite widespread plans to cut discretionary spending this year, a night out at the movies remains one of the few affordable nights out for families and couples
- The holiday season is always one of Hollywood's busiest, and this year is no exception
- Families will have much to choose from at the theater this year
  - **Disney** unveils two family films this season -- the 3-D animated comedy Bolt, out on November 2nd, and the family-friendly Adam Sandler comedy Bedtime Stories, opening Christmas day
  - **Paramount** also doles out fare for the younger kids with Madagascar: Escape 2 Africa, the sequel to the blockbuster animated comedy that garnered more than \$190 million in 2005
  - **Warner Brothers** brings Four Christmases, opening November 26, in which newly-married couple Vince Vaughn and Reese Witherspoon, both from divorced parents, hop between four separate Christmas celebrations, and Jim Carrey stars as a man who decides to change his life by saying yes to everything in Yes Man, out December 12th
  - Ramping up the special effects and action sequences are the new James Bond film from **Sony**, Quantum of Solace with Daniel Craig, on November 14th, and the Keanu Reeves sci-fi thriller The Day The Earth Stood Still from **20th Century Fox**, out November 26th. **Lionsgate** brings us two action flicks -- the high-octane Transporter 3 on November 26th and the supernatural action film The Spirit starring Samuel L. Jackson, out on Christmas day

# What Do Consumers Think About Holiday Advertising?



- In mid-December, Nielsen IAG will deliver an exclusive real-time summary of the most effective holiday advertising, with a focus on CPG categories and retailers. Change your advertising course before it's too late by putting your support behind creative that is resonating most with viewers this season.
- Insights to be posted on <http://blog.nielsen.com/nielsenwire/>

Thank you

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