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2010 Discounting Forecast: Retail and Auto

By Rebecca Kern

For consumers, 2010 may not look very different from 2009 when it comes to discounts. Companies in the apparel, jewelry, and home furnishing industries are planning to keep their [inventories](#) low to cut operating costs, which means fewer large discounts for customers, says Marshal Cohen, chief industry analyst for the NPD Group, a market research company.

"Consumers right now are still hunkered down, and even though economy is improving, we still have double-digit unemployment and a housing market that is in flux," says Scott Krugman, vice president of industry relations public relations at the National Retail Federation. Jobs and housing are two key indicators that affect the consumer the most right now, and until there is real improvement in those areas, Krugman says he doesn't think retailers can expect large increases in consumer spending.

However, there has been some slight growth in spending, especially during the holiday season of 2009. Retailers saw a 2.9 percent increase in sales in December, according to Thomson Reuters. Sales at department stores increased by 0.7 percent, apparel stores increased by 4.7 percent, and discount stores increased by 5.3 percent in December, according to data from Thomson Reuters.

In the auto industry, car [manufacturers](#) are slowly beginning to recover, seeing a 15 percent increase in U.S. auto sales in December 2009. Expect to see an increase in auto manufacturing in the beginning of 2010 and some selective discounting on certain vehicle models, says Jeff Schuster, executive director of automotive forecasting at J.D. Power and Associates, a global marketing [information company](#) that makes forecasts about the auto industry.

While retailers may not be discounting as drastically as in the past, Cohen says every business, even luxury retailers, is looking to add some value or discount into the equation in 2010. Here's a breakdown of what type of discounting you will see from the fashion/apparel, jewelry, home furnishing, and auto industries.

Fashion/apparel

The best discounting this year will take place in clothing stores. You will most likely see discounts at levels similar to those in 2009, but there will be

no new apparel categories that will be discounted, says Jack Hendler, president of Net Worth Solutions, a fashion and retail [mergers and acquisitions](#) firm.

Hendler says he expects to see declines in sales this year similar to those in 2009, which were as great as 20 percent. "Manufacturers have recognized that apparel, just like new cars, has become more of a luxury purchase than of a necessity," he says. "If consumers are purchasing clothing, it will primarily be replacement items."

"Deeper discounts are a function of being overstocked in a category, having either too much inventory at the wrong time or the incorrect inventory," Hendler says. As a result of the financial crisis in 2008, retailers have learned to manage their inventory more efficiently in order to cut back on costs. Offering less merchandise on the floor prevents retailers from having massive discounts at the end of season.

Cohen says retailers will start a "discount detox" process this year, trying to wean consumers off deep discounts by offering fewer of them. "This year will be more about the planned discount rather than the panic discount," Cohen says. The panic discounts of 2008 occurred because of excess inventory going into the holidays, while 2009 featured retailers selling to manage inventory. Cohen predicts retailers in 2010 will focus on planned discounting and promotions as well as nondiscounting on new and innovative products.

Women's clothing will be the most discounted sector of apparel, with sales focused on denim, knits, and blouses, says Hendler. Next comes men's clothing, which will have promotions on shirts and ties. Children's clothing will be the least discounted, as this is the most competitively priced clothing. Also, footwear won't see many discounts this year.

Jewelry

"The luxury area is without a doubt taking a significant beating," Hendler says. In 2009, luxury retailers had up to 30 percent declines in sales and profitability. These poor sales figures mean larger discounts for consumers this year, especially in moderately priced jewelry, such as silver and pearls.

In the jewelry [business](#), there will be constant discounting throughout the year, not just near Valentine's Day or Mother's Day. Hendler predicts that gold and diamonds will see discounts between 25 and 40 percent off, which is on par with 2009's discounts. Moderate jewelry will continue to be purchased in lieu of higher-end jewelry. Sterling silver will be purchased over gold, for example, and pearls will be bought over diamonds. Companies that have recognized this transition to moderate jewelry are having major growth, and those that have not followed the trend will do so this year, he says. As a result, this moderate jewelry market will get clogged with too much [inventory](#), and the consumer will benefit from more discounts, Hendler says. Also, more and more jewelry retailers will be going out of business in 2010, so look for more promotions and sales across the board, says Brit Beemer, chairman of America's Research Group, a consumer and [market research](#) group.

Jewelry manages itself through economic cycles, Cohen says, meaning you will see less expensive jewelry become more important during challenging economic times. However, as the [economy](#) recovers, jewelry is going to be one of the first industries to really show the sign of recovery with pent-up demand and frugal fatigue setting in, Cohen says.

Home furnishings

If you're looking for new furnishings, bedding, and bath products this year, you may benefit from continued discounting throughout the home furnishing [industry](#). Fewer people buying new homes means that more home furnishing items will go on sale. Look for more sales on furnishings at big-box stores like Wal-Mart and Lowe's, as these mass merchants try to keep their prices competitive with fellow large retailers, Cohen says.

The common signs promising, "No interest! No [payments](#) for 18 months!" at furniture stores will soon be hard to find. Beginning on February 22, provisions from the "Credit Card Accountability, Responsibility and Disclosure Act of 2009" passed by Congress in May 2009 will go into effect, requiring retailers to be more honest with their deferred-interest promotional programs. The act will ensure that retailers disclose all the terms of the deferred-interest promotion upfront. It will also require that all deferred-interest promotions last at least six months. The act outlaws "hair trigger" defaults, wherein a customer is retroactively charged all accrued interest on the deferred-interest promotion if he or she makes monthly payments several days late. From now on, unless consumers are more than 60 days late with payments, they cannot be charged accrued interest on the promotion.

This new act will drastically affect how furniture sellers do business. More than half of all furniture purchases are made because of these deferred-interest promotions, Beemer says. Once the act goes into effect, furniture suppliers may continue to offer zero-percent interest promotions but with a reduced down payment on a monthly basis, with possibly a lump sum due after a set time, Beemer says.

Cars

If you are looking to buy a car this year, expect to see more selective discounting on certain models but fewer industrywide discounts, says Schuster with J.D. Power and Associates. Car transaction prices will be higher, and the average incentives will be lower. "That means consumers may be paying more for their vehicles on average in 2010," he says.

In the first months of this year, Schuster says there will be a large increase in car production. He says if there is not enough consumer demand right away, this could lead to selective and targeted discounting. If manufacturers see certain vehicle types that are not selling, there will be more specific discounting on those. Schuster says consumers can expect to see more targeted discounting like this but fewer blanket discounts.

Of the major auto manufacturers, Chrysler will offer some of the biggest discounts in an attempt to remedy its poor sales last year. In 2009, it fared the worst of all major U.S. automakers, seeing sales decline 36 percent and selling less than 1 million vehicles, for the first time since 1962. Chrysler plans to offer more buyer incentives this year, including no-interest financing for almost all 2010 models and up to \$3,000 cash back to buyers. GM and Ford will also offer cash-back incentives and low APR financing on 2010 models. However, both have said they are trying to curb incentives and use more competitive pricing structures, says John Tews, a spokesperson for J.D. Power and Associates.

Also, expect to see rising prices on used vehicles this year. In 2009, car manufacturers sold fewer fleet vehicles, cars typically sold to rental car agencies or commercial businesses. Therefore, fewer older fleet vehicles were sold to [used car](#) companies, in turn reducing the total number of used cars on the market and increasing their prices. This fleet management process will continue throughout 2010, Schuster says. As these used car prices rise, the new vehicle market will begin to look more attractive to car buyers.

Additionally, look out for lower monthly payments for [new carleasing](#) in 2010, Schuster says. "The benefit of leasing is you can buy more car with less of a monthly payment, as you are only paying for part of the vehicle," he says. The availability of new car leasing is increasing, as GM and Chrysler are returning to leasing after a hiatus from the fall of 2008 to the spring of 2009. There are still fewer leased [cars](#) available on the market and thus fewer going into the used car market. This has increased the leased vehicle's value at the end of the lease, ultimately lowering monthly leased car payments across the industry, Schuster says.

"In other words, the deals aren't going away, but you have to look harder to find them," Schuster says. "You may have to be more flexible; the incentives may not match exactly what you are looking for."