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Balance Sheet – Winners and Losers on the Fiscal Battlefield

Consumers are expected to dish out \$26 billion to \$30 billion on gift cards this holiday season, but there's a potential downside: increasing fraud. "Fake gift card activity is increasing because it is a relatively easy way to get value on a card you can carry around," said Joseph La Rocca, vice-president of loss prevention for the National Retail Federation, in a recent holiday crime media briefing. Common scams include the sale of stolen merchandise back to stores whereby a person returning the hot goods without a receipt can still get a merchandise credit in the form of a gift card. The card can then be pawned, sold on the street or online at destinations such as auction sites and gift card swap sites, La Rocca recounted in an interview. People buying gift cards in these third-party venues may wind up with ones that have little or no value left on them, or with stolen cards that have subsequently been canceled by the original owners, who have reported the cards' registration numbers.

In such cases, La Rocca said, "the buyer is left holding a worthless piece of plastic with only an anonymous seller to go after."

U.S. specialty stores, boosting payrolls for the holidays, added 11,400 seasonally adjusted jobs last month, while department stores continued their long-term slide, cutting 9,300 jobs. Apparel manufacturers had a surprising gain of 400 jobs in November and textile manufacturers narrowed job losses to 1,100 last month, the Labor Department reported recently. Overall, employers added 94,000 jobs to payrolls in November, compared with 170,000 in October. The gain was driven by increases in retail, health services, professional services, and the leisure and hospitality sectors. Those increases offset job losses in manufacturing and construction. The unemployment rate was unchanged at 4.7 percent, its level for the past three months. Although job creation exceeded most forecasts, many economists were still cautious because of the housing slump, subprime mortgage crisis, credit crisis and higher energy costs. "Job growth near 100,000, combined with a steady unemployment rate, does not signal an economy dipping into recession and provides important support for consumer incomes," Nigel Gault, U.S. economist for Global Insight, wrote in a report.

The dismal retail numbers reported this season-alleviated only by early sales-mean one thing to vendors: markdown money. Facing these profit-eating demands come January, many midsize moderate and better manufacturers are turning to the M&A community for a strategic solution, including merging with other companies in similar situations with which they could share back-office costs. **"Except at the very upper tier, everything that is being sold at retail is all promotional, and those markdowns at retail revert to the vendor," said Jack L. Hendler, president of Net Worth Solutions Inc., a New York-based mergers and acquisitions firm. Although companies build kitties into their cost sheets that anticipate 3 to 10 percent dilution at retail, those numbers could double this year, Hendler said. "Probably only half the companies have the substantial wherewithal to withstand hits like this before considering finding a strategic partner or simply going out of business."**