"Retailers and consumers are cautiously optimistic about the holiday spending season." Does this sound familiar? For the last three to four years, consumers and retailers have really wanted to believe that things are getting better economically, socially, and politically. Unfortunately, they haven’t been able completely buy in to this notion, and it’s getting really old.

Consumers, retailers, and those of us who make a living serving them face yet another confusing holiday spending season. On one hand, there are reasons for optimism. Economically, the stock market is hitting all-time highs, the housing market has made steady strides of improvement, unemployment is slightly better, gas prices are down and inflation remains low. Every day, retailers are bringing more innovative and differentiated merchandise to market and providing shoppers with more innovative shopping experiences. The National Retail Federation is also optimistic, predicting a 3.9 percent sales increase over 2012, better than last year’s increase of 3.5 percent and the 10 year average of 3.3 percent.

On the other hand, most of the economic factors impacting consumer spending, such as employment levels, wage levels, interest rates, inflation, tax rates, etc., will continue to limit what consumers spend at retail. Many consumers question how sustainable the stock market run up really is. The absolute levels of employment are too low, with still too many job seekers not finding adequate employment. The threat of rising interest rates concerns consumers for both servicing current debts and for anticipating the impact on large upcoming purchase decisions like mortgages and new cars. The recent government shutdown, and potential sequel, only reiterates that our national debt is a huge problem that will take time, spending cuts and higher taxes to resolve. And finally, consumers are still trying to figure out how exactly they will be impacted by the roll-out of Obamacare.

The November release of the FIndex, a quarterly index of innovation in fashion trends (developed by Kalypso, Indiana University and CollegeFashionista.com) reinforces this confusion. Respondents told us they are eagerly trying out new brands and have a positive outlook for merchandise they expect to see in stores early next year. But, they say they have less money to spend this holiday season compared to last year and are less inspired about the level of innovation in fashion merchandise in the stores this holiday season. So what the heck are we supposed to believe and act on?

Our view continues to be that in this confusing environment, retailers that choose to pursue competitive advantage via innovation will take share from competitors and grow. This competitive advantage will be created by:

1. Bringing innovative, differentiated merchandise to market, especially a retailer’s own brands
2. Enabling the consumer to shop when, where and how she/he wants to shop
3. Applying unique business models to high priority business opportunities and challenges

In the end, we still think the most innovative retailers will win.
About the Author

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Steve has dedicated his entire 30-year career to serving retailers and their suppliers, first as a retail executive and more recently as a partner and practice leader for several prominent consulting firms.