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Mass Retailers Bet on Last-Minute Rush

By Molly Prior and Faye Brookman

NEW YORK — The mass market holiday rush started early, thanks to price-slashing discounts on high-ticket items, such as DVD players and computers, which steered consumers straight to the electronics department. While there's a danger that the stampede will stop short of the beauty department, some retailers are hoping for a ruboff effect that will benefit cosmetics.

One industry observer who thinks that any traffic swell will bode well for beauty is Carrie Bonner Mellage, industry manager for Kline & Co. She asserted that mass retailers are off to a strong start, getting more aggressive earlier to beat last year's results.

Early promotions managed to bolster retail sales. The National Retail Federation reported November sales increased 6.7 percent in health and personal care stores from November 2004, and 7.1 percent in general merchandise stores. NRF expects total holiday sales, which includes the period of November through December, to rise 6 percent to \$438.5 billion.

In terms of beauty sales, retailers expect this holiday's results to be flat with 2004 sales. However, since many bought for a flat year, retail buyers expect a cleaner sell-through. One downside of 2005, however, has been consumer interest in holding out for bargains, which dig into overall profits of holiday merchandise.

Although board members of the National Association of Chain Drug Stores met last week to discuss pharmacy issues, during session breaks, many chatted about the holiday season.

"The hallway chatter is that it is a robust selling season," said Anthony Civello, chairman, president and chief executive officer of Kerr Drug Inc., and chairman of NACDS. He continued: "Black Friday was good, but we all made every effort to make it so, such as opening earlier and offering hot specials....We are also doing well with gift cards. When I hear we are out of stock already, I know we are having a lot of movement. It is good to hear since we had been worried with all the talk of the gas crisis," he said during a press briefing.

Mark Griffin, president and ceo of Lewis Drugs, said his chain has seen sales strength since Black Friday, as well. He commented that the nearly 10 inches of snow blanketing South Dakota, where Lewis stores are located, have spiked holiday spirit.

Still, many of the beauty sales in the mass market still are transacted in the waning days before Christmas, and this year, Hanukkah, which begins on the heels of Christmas. However, true-to-form, Wal-Mart got in the game early and very aggressively, influencing the whole season, said Griffin.

He added that in Lewis' stores, Adidas men's fragrances and Stetson gift sets, such as Shania by Stetson and Stetson Black fronted by Matthew McConaughey, are off to a robust start. Mary-kateandashley scents and imported gift sets, sold at steep discounts, are expected to appeal to Lewis' younger shoppers, while prestige offerings like Clinique Happy and Davidoff Cool Water will likely appeal to adult consumers, said Griffin.

That last-minute rush in the mass channel is why Jim Koepl, the newly minted president of Markwins North America, said it is still too early to predict the strength of the holiday 2005 season. "We do think we are pretty much on target and we are seeing good movement with items like Bratz," he said of the children's beauty line.

Retailers, as usual, said Markwins is one of the drivers of their holiday sales. One buyer said she bought a

closeout item from Markwins that is selling like "hot cakes" because it is a good deal. "Everyone is waiting for the deals and they will be starting this week," she added.

Another retailer agreed that the last-minute push is vital for the mass market. However, she has seen momentum in men's fragrance with AXE. Also, as expected by many buyers, Curious by Britney Spears is the biggest gift a chain could ever want for Christmas. "It is doing well and pulling fragrance up in general," said one source.

Kathy Steirly, the divisional manager for Walgreens, said her chain continues to benefit from its strong heritage in fragrances. "We have excellent beauty consultants and they are always important for our fragrance sales," she said. Steirly added that value gift sets are moving well at Walgreens along with the celebrity scents. But it isn't all about fragrances at Walgreens. "We are also doing well with color and our exclusive brand IsaDora, which is now in line and performing very well."

Coty Beauty, which expects its Stetson fragrances and The Healing Garden Organics franchise to fuel brisk sales this season, is collaborating with mass retailers to spiff up their departments. "We have worked with retailers to create beautiful, high-impact displays, which show off our brands and celebrity stars with prestige-quality imagery," said John Galantic, president of Coty Beauty U.S.

The company anticipates its sell-through to be ahead of last year, due to its "strong launch pipeline and major advertising investment," noted Galantic.

He added that diverted prestige fragrance gift sets and Asian imports in the bath category present a challenge again this year for branded manufacturers. Galantic said that both Calgon and The Healing Garden's holiday sales are off to a fast start and ahead of last year's sales, confirming that consumers prefer nationally branded product.

He added that innovation, such as The Healing Garden Organics Wild Honey, backed by national advertising, stimulates category sales and gives the consumer a brand they can repurchase on a regular basis.

Griffin of Lewis Drugs said the consumer is looking for both no-name imports and branded gift sets. In his view the imports cater to value shoppers, while brand names reinforce a retailers' own brand equity.

Several electronic retailers, such as Drugstore.com/Beauty.com, QVC and Amazon.com, are looking to cap off a successful year with an equally robust holiday season.

"This has been a great year for us overall, particularly in beauty and home accessories," said Sarah Munson, general manager of both Drugstore.com and Beauty.com.

A pre-holiday survey conducted by the e-tailer of 1,000 consumers nationwide revealed that "skin care for a flawless complexion" ranked number one on wish lists. Reflecting that survey finding, one of Beauty.com's bestsellers is **Clarisonic Skin Care Brush**, an accessory designed to deep clean and unclog pores.

"It's more effective than a wash cloth," said Munson, adding the \$195 item is also gentler than microdermabrasion. In terms of holiday collections, Fresh's Memoirs of a Geisha gift sets are selling briskly.

QVC had a stellar year, as well, attracting more prestige brands to its mix and launching exclusives such as Mally Beauty.

"QVC had a great year in beauty and that is certainly the case this holiday season," said Allen Burke, director of beauty and cosmetics for QVC. "For us, it's the brands that have been doing great all year long that are having an exceptional holiday season." Several of those brands include Bare Escentuals and Philosophy, which on Dec. 4 aired QVC's most successfully beauty show in history. Unlike its bricks-and-

mortar competitors, QVC wraps up its holiday selling season by Dec. 18, which is the last day it can guarantee delivery by Christmas. This year, QVC shifted some beauty air time from October to November, to make more of an impact, which proved to be a good move, noted Burke. It also ran ads for QVC on other cable channels and, for the first time, this fall mailed out a catalogue to a select group of its beauty customers.

Amazon.com's holiday sales have so far been spurred by Oprah Winfrey's "favorite things" episode, which aired the Monday before Thanksgiving, featuring beauty items such as Lovely by Sara Jessica Parker and Philosophy skin care. "We saw sales of them spike the day they aired," said Maria Renz, the director of Amazon.com's Beauty and Health & Personal Care stores. "It's just fascinating the connection and power she has with our audience." For its part, Amazon is aiming to drive holiday sales by offering its online customers gift certificates with purchases. Customers who spend \$50 get a \$15 Amazon gift certificate; a \$100 purchaser gets a \$30 gift certificate. Also selling well on Amazon's beauty store during the Holiday season is Zeno, the acne clearing device formerly only available at the dermatologist's office. It costs \$225 and uses heat and light to zap away pimples in 24 hours. Britney Spears' Fantasy is doing well, as is the "overall celebrity fragrance trend," Renz said. Lip items, such as Lip Fusion, the \$36 lip plumper available only at Sephora, are also popular. Pricy professional hair tools, such as the T3 Tourmaline blow dryer are "taking off," too.

In the midtier arena, The Estée Lauder Cos.' BeautyBank brands are in the midst of their first full-fledged holiday program at Kohl's Department Stores. BeautyBank has rolled out four brands to more than 600 Kohl's stores, and this fall added gift sets to the mix, said BeautyBank president Jane Hudis. The gift sets range in price from \$12 to \$45 each and include three of its four brands, namely American Beauty, Flirt and Grassroots.

Hudis reported that American Beauty's Wonderful fragrance is doing "exceptional." So much so that BeautyBank created a Wonderful gift set, which includes a 1.7-oz. perfume spray and a 3.4-oz body lotion for \$45. Hudis said Kohl's is supporting its new beauty brands through its store circulars, with in-store signage and by creating table-top displays.

"The Kohl's consumer is still in the process of discovering beauty," said Hudis.

This coming week will be pivotal for mass retailers, which will aim to take advantage of a flurry of last-minute holiday shopping.

"There does seem to be some life in the fragrance department," noted Wendy Liebmann, president of WSL Strategic Retail. "But most retailers are still holding their breath."

— **With contributions from Andrea Nagel**