



RETAIL SERVICES

2007 National Shopping Behavior Study

Executive Summary

ADVISORY



KPMG's 2007 annual National Shopping Behavior Study was conducted randomly by telephone with 815 shoppers during the holiday season from December 6 through December 16, 2007. Additional contacts were made with Hispanic and African-American shoppers to determine their preferences. The margin of error is plus or minus 3.5 percent at a 95 percent confidence level. The National Shopping Behavior Study was designed and managed by The Gordman Group, Breckenridge, Colorado, and Wiese Research Associates of Omaha, Nebraska, conducted the research.

Holiday spending in 2007 was driven as much by consumer conscience as it was by the art of the deal. While fewer shoppers spent more money last year—when compared with the results of surveys conducted from 2003 to 2006—shoppers were willing to dig a little deeper in their pockets to pay for eco-friendly items and even scrutinized the manufacturers' country of origin in the process.

Who knew that holiday shopping could feel so good? KPMG's recent study revealed that elevated sensitivities to the environment and product safety steered consumers in new directions during the past holiday shopping season. According to the survey, some 74 percent of shoppers took time to locate and purchase products deemed environmentally friendly and 60 percent of those were even willing to pay more for such items. Furthermore, 55 percent of respondents stated that they now seek retailers with a "green" reputation.

It seems holiday consumers took to heart the negative press centered on countries that have been challenged with quality issues—in both design and materials. For example, several U.S. reports stated that China exported toys coated with lead paint, seafood contaminated with carcinogens, and toothpaste and pet food containing harmful chemicals. This likely led 40 percent of those surveyed to admit that they check the country of origin when selecting potential gifts, with 31 percent using this information as a determining factor in deciding not to make a purchase. Such heightened levels of scrutiny put China-manufactured products on the receiving end of negative responses from 79 percent of respondents—with toys involved in 52 percent of those rejected products.

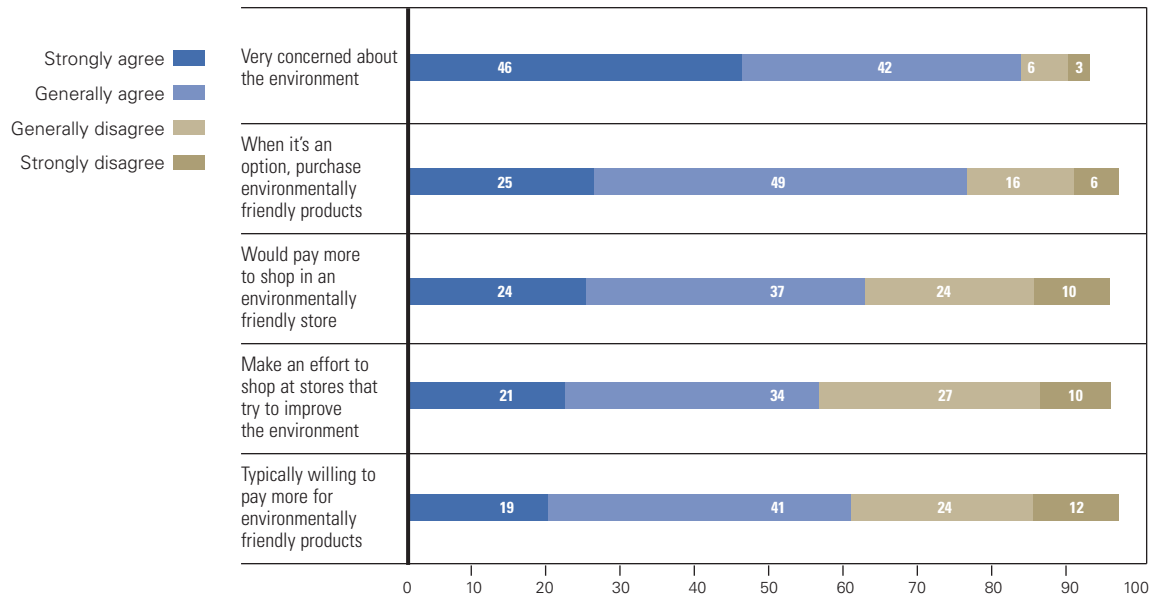
As expected, product pricing was the most significant initial driver for customers and will be addressed later in this survey report. Yet, it is intriguing to investigate the new trends mentioned above. In addition, the 2007 holiday shopping survey discloses how the shopping experience influenced where dollars were spent and how today's sophisticated and time-strapped shoppers were consistently drawn to well-stocked retailers with customer-centric policies. We can anticipate that these behaviors will take on even greater importance in future surveys.

The Greening of Holiday Shoppers

With concerns about global warming, escalating gas prices, and recycling becoming a major focus in the media and in the homes of American consumers, the KPMG study introduced environmental drivers into its annual holiday survey. Surprisingly, a whopping 74 percent of respondents stated that when given the opportunity they buy environmentally friendly products. And as mentioned earlier, holiday shoppers were willing to pay more for their green products and were particularly attracted to retailers with an eco-centric reputation.

Responses to Statements about Environmental Consciousness

(Percentage of Respondents)



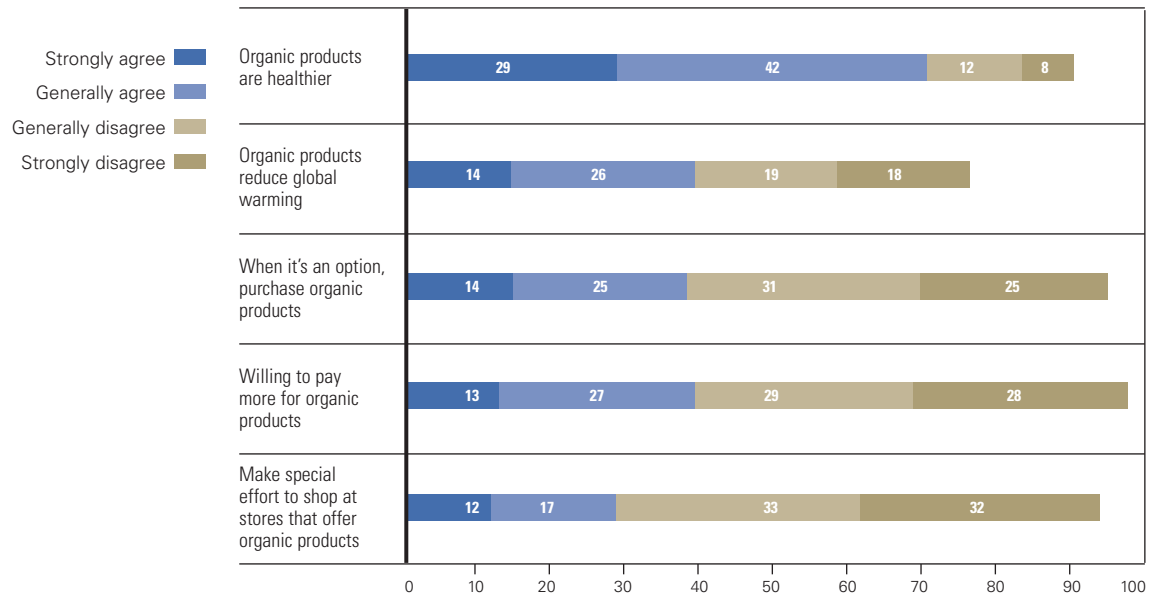
Note: Distance from end of bars to 100% = "Depends/Varies/Can't Say" replies.
 Source: KPMG LLP (U.S.), 2008

The survey goes further to report that respondents had strong—and somewhat conflicted—opinions about organic products, including:

- 71 percent viewed organic products as healthier
- 40 percent thought such products reduced global warming
- 65 percent were not willing to make a special effort to shop at retailers carrying organic products

Responses to Statements about Organic Products

(Percentage of Respondents)



Note: Distance from end of bars to 100% = "Depends/Varies/Can't Say" replies.

Source: KPMG LLP (U.S.), 2008

Label Checking

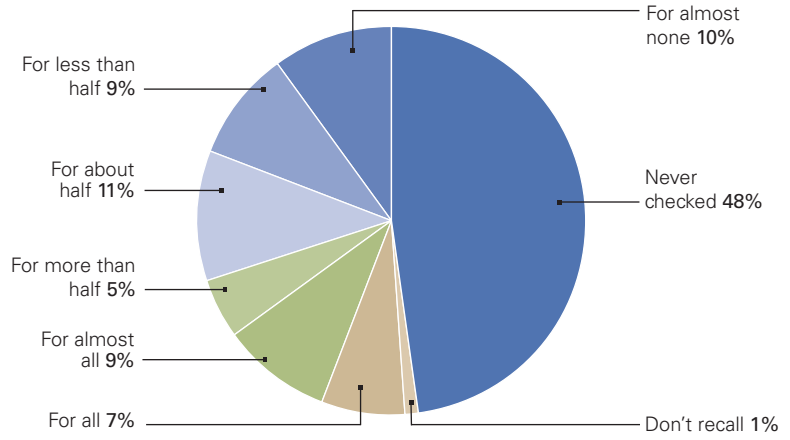
In response to growing negative press about product safety, foreign manufacturers were held to a higher standard this holiday season. Before plunking down their dollars or credit cards, 40 percent of surveyed shoppers inquired where products were made and 31 percent steered clear of certain products based on their country of origin.

As mentioned, products made in China bore the lion's share of holiday shoppers' scrutiny and refusal to buy. With concerns about the nature of its manufacturing practices, China's toymakers were the hardest hit with 59 percent of respondents avoiding them completely. This kind of reaction could have far-reaching implications for the China-reliant toy industry. It's also important to note that about 80 percent* of all toys sold in the United States are made in China.

* Andrejczak, Matt, "Toy industry moves closer to new safety rules," *MarketWatch*, February 18, 2008

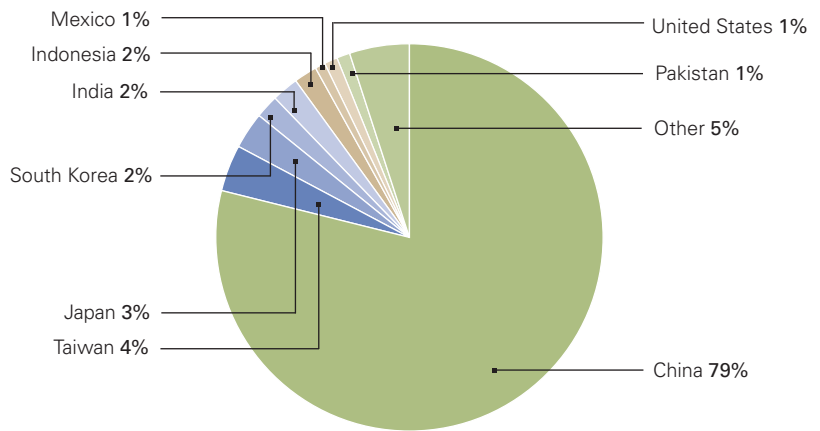


Degree to Which Respondents Checked for Product Country of Origin



Source: KPMG LLP (U.S.), 2008

Country of Origin the Deciding Factor in Failure to Purchase



Note: Multiple replies accepted with percentage based on total responses.
Source: KPMG LLP (U.S.), 2008

Origin in China the Deciding Factor in Failure to Purchase

Volunteered Item	Percentage of Items Made in China
Toys (NET)	59
Toys (Unspecified)	39
Dolls (Unspecified)	2
Toy Car/Truck	4
Dora the Explorer	2
Other Toys (Specified)	12
Clothing (NET)	7
All Other Items (NET)	27
Don't Know	7

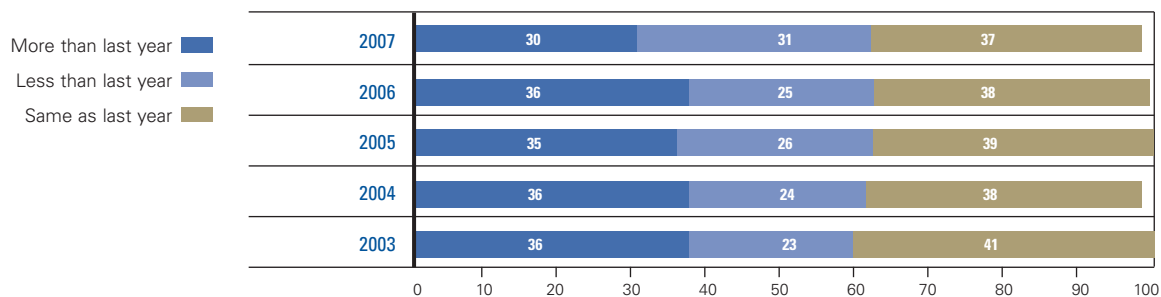
Note: Multiple replies accepted with percentage based on total responses.
 Base = Those who decided not to purchase items because they were made in China.
 Source: KPMG LLP (U.S.), 2008

Dominant Holiday Spending Habits

When compared with 2003 to 2006, this was the year of the more cautious shopper. In previous surveys, shoppers reported spending on average 36 percent more than they had the previous year, while only 30 percent of respondents in 2007 said they spent more. As indicated in the following charts, the key reason for this change in behavior—50 percent of the replies—was simply a lack of funds. Other reasons (12 percent reporting) that might figure into future surveys more prominently were fears about the state of the economy and a looming recession.

Five-Year Comparison on Holiday Spending

(Percentage of Respondents)



May not total 100% due to rounding.
 Source: KPMG LLP (U.S.), 2008

Store Categories

KPMG's 2007 National Shopping Behavior Study surveyed consumer shopping habits at major stores and retail channels. Using the survey responses, KPMG grouped retailers identified by consumers into six categories.

Mass Merchant

- Wal-Mart/Super Wal-Mart
- Kmart/Super Kmart
- Target/Super Target

Specialty Store

- Gap
- Radio Shack
- Disney

Department Store

- Macy's (Federated)
- Dillard's

Power Retailer

- Best Buy
- Toys "R" Us
- Bed Bath & Beyond

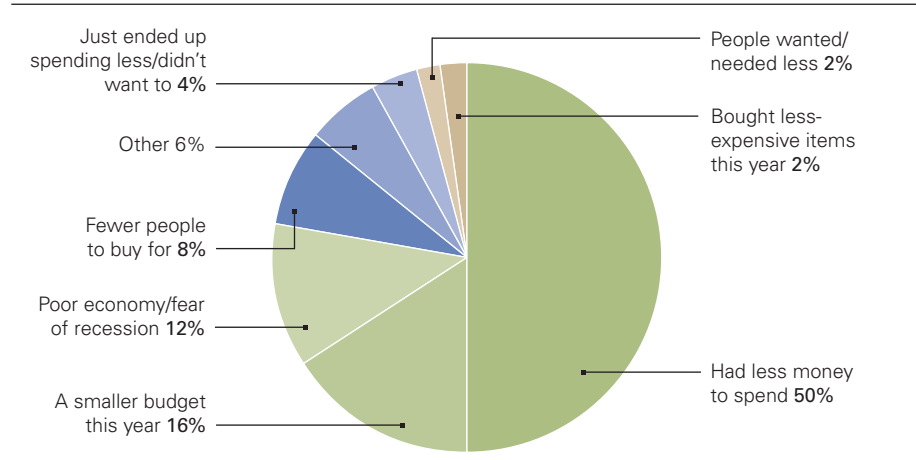
Midline Store

- Kohl's
- JC Penney
- Sears

Other

- Catalogs
- Internet
- Warehouse Clubs

Reasons Shoppers Spent Less than Last Year



Source: KPMG LLP (U.S.), 2008

Motivating Factors

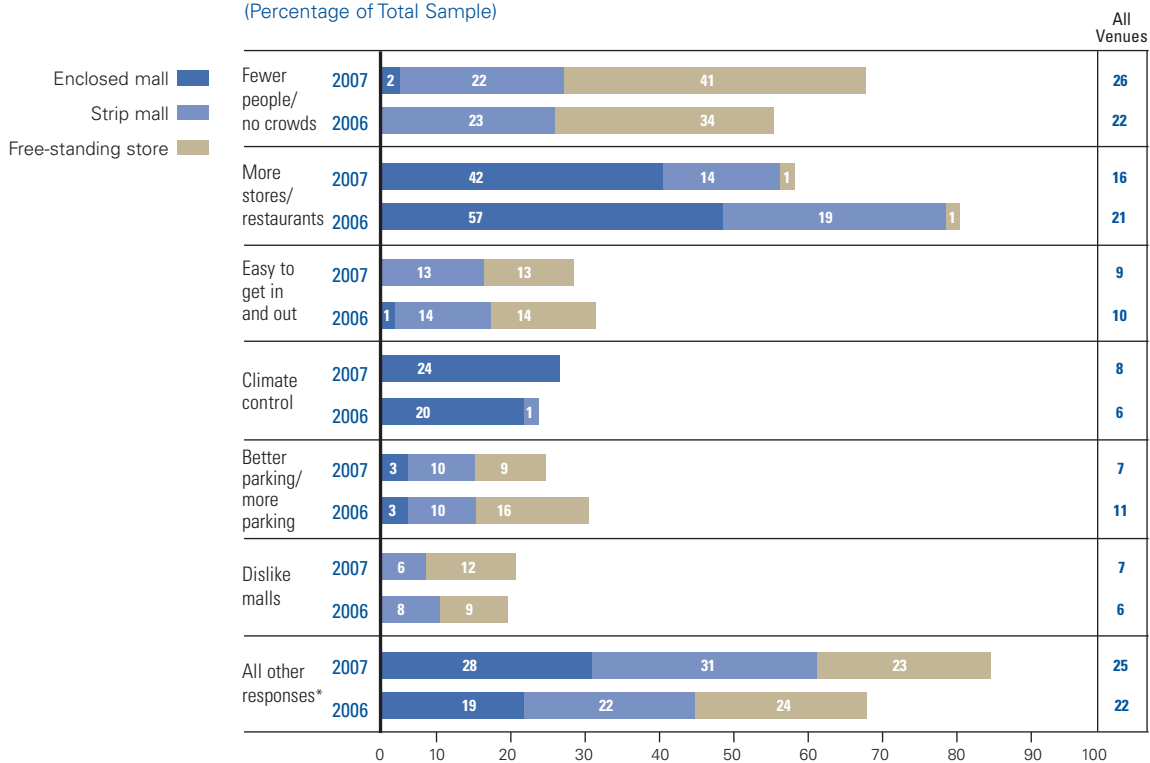
As one can imagine, the holiday season can bring out the best and worst behavior in consumers—particularly in a crowded mall. While price remains the most significant driver to attract customers, a chorus of shoppers (76 percent) stated that they were motivated by retailers who afforded them a better shopping experience. That is, shoppers not only continued to be attracted to well-stocked retailers with reasonable return policies but also expressed a preference for less-congested venues replete with more store options and restaurants, and where they could make that desirable quick exit. Retailer attempts to lure shoppers into stores immediately after Thanksgiving via heavy advertising and lower prices had little influence. However, it is interesting to note that shoppers in 2007 were less picky overall about where they shopped than those surveyed the preceding year.

Reasons Certain Stores Command Larger Wallet Share

	2007	2006	2005	2004	2003
Selection	45%	45%	49%	41%	43%
Price	19%	19%	18%	20%	17%
Convenience/location	9%	12%	11%	10%	8%
Facility	1%	2%	3%	4%	2
Staff	1%	–	1%	–	–
Stock	–	–	–	1%	1%

Note: Multiple replies accepted with percentage based on total responses.
 Source: KPMG LLP (U.S.), 2008

Reasons for Store Preference, Assuming Equal Merchandise, Price, and Location (Percentage of Total Sample)



Base = Those preferring enclosed mall, strip mall, or free-standing store.

* Includes "Don't Know"

Source: KPMG LLP (U.S.), 2008

Location, Location

Where consumers shop reflects the type of experience they seek. In keeping with former years' trends, mass merchants topped the list of channels where shoppers spent the bulk of their money with 28 percent of the wallet share, followed by power retailers (14 percent), specialty stores (12 percent), and midline stores (10 percent). Moreover, when asked their store preference—assuming equal merchandise, price, and travel distance:

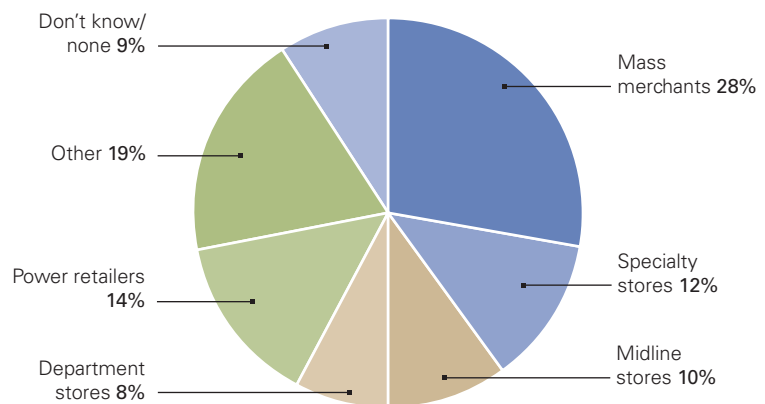
- 47 percent were attracted to freestanding stores
- 28 percent sought out enclosed malls
- 16 percent shopped at strip malls

It is interesting to note that when asked why consumers shifted spending from one retailer to another, 45 percent gave selection of merchandise as the reason. Price was named by only 19 percent of respondents.

Based on the share of holiday budget by channel in this and previous studies, we can anticipate that there won't be any major shifts next year. Survey results indicate a trend toward a stable degree of loyalty in where consumers spend their money.

Share of Spend by Channel

(Share Percentage by Channel)

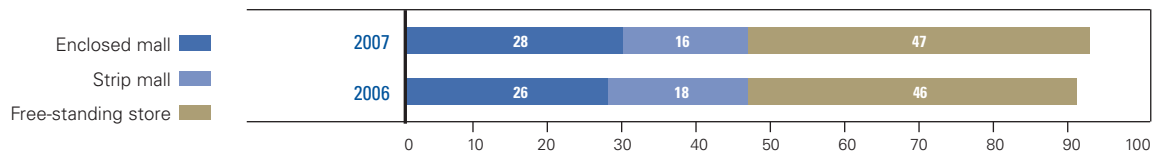


Source: KPMG LLP (U.S.), 2008



Channel Preference, Assuming Equal Merchandise, Price, and Location

(Percentage of Total Sample)



Note: Distance from end of bars to 100% = "None/Don't Know/No Preference" replies.
 Source: KPMG LLP (U.S.), 2008

Channel Trends by Ethnicity

The most recent survey identified unique shopping trends among African-American and Hispanic respondents. While Caucasians generally mimicked their 2006 spending habits, questions asked of African-American and Hispanic respondents revealed the following:

- The mass merchants' share of African-American shoppers' spend rose to 40 percent—only a one percentage point increase over the previous year—while that of Hispanic shoppers dropped to 34 percent from a 45 percent high in 2006.
- Midline stores' share percentages increased from 21 percent to 26 percent among Hispanics, but dramatically decreased from 16 percent to 7 percent among African-Americans.
- Internet shopping increased slightly in the African-American sector in 2007 (from 1 percent to 4 percent) but decreased among Hispanics (from 3 percent to 1 percent).

Channels' Share of Spending by Ethnic Group

(Channel Share Percentage by Ethnicity)

	Total	Caucasian	African-American*	Hispanic*
Mass merchants	28	27	40	34
Specialty stores	12	12	7	5
Midline stores	10	10	7	26
Department stores	8	7	10	11
Off price	1	1	4	3
Catalogs	2	3	4	1
Warehouse	2	2	1	1
Power retailers	14	13	8	8
Internet	7	8	4	1

* Includes supplemental sample.

Source: KPMG LLP (U.S.), 2008



As indicated in the chart below, all surveyed ethnic groups were influenced to a large degree by well-stocked retailers with an easy return/refund policy. However, over a three-year period, Caucasians, African-Americans, and Hispanics were increasingly less influenced by these factors. During this same period, it is worth noting that Caucasians were significantly less predisposed to retailers with on-site medical services than either African-Americans and Hispanics.

Factors That Attract Shoppers by Ethnic Group

(Percentage of Sample Segment Mentioning "Major" or "Some" Influence)

	Total			Caucasian			African-American*			Hispanic*		
	2007	2006	2005	2007	2006	2005	2007	2006	2005	2007	2006	2005
Stores with items in stock	76	81	81	78	82	83	64	77	73	64	69	72
Easy return/refund policy	58	73	74	58	73	74	47	72	65	49	63	56
Ad in newspaper circular	47	53	54	48	53	56	43	45	44	37	47	46
A coupon	43	51	54	43	52	56	26	44	43	22	26	35
An e-mail	19	21	21	19	22	20	13	18	19	10	12	20
Stores with self-checkout	15	16	14	14	13	13	27	25	25	30	23	22
On-site medical services	4	6	9	3	5	6	12	20	21	21	32	30

* Includes supplemental sample.

Source: KPMG LLP (U.S.), 2008



Conclusion

Forward-thinking retailers should heed the multifaceted shopping behaviors of today's sophisticated consumer. Based on the 2007 survey, shoppers were not solely influenced by price, but chose to patronize—or overlook—an establishment based on such diverse factors as reputation, return/refund policy, environmental friendliness, and product safety.

Buoyed by media coverage, retailers should also take into account shoppers' secondary—but growing—interest in eco-centric products and desire to identify where products were manufactured.

An additional condition gaining importance in the consumer psyche is the sputtering U.S. economy and its long-term impact. Whether one labels the current state of economic affairs a recession or something less severe, consumers are being urged to brace themselves for something “bad” down the road and this translates into more conservative and discriminating purchasing habits.

As the study disclosed, fewer shoppers reported spending more money during the 2007 holiday season in comparison with previous years' surveys. In light of a weakening job market, rising energy prices, falling housing prices, and depressed stock prices, consumers felt that they had no choice but to monitor their spending habits. Retailers could be well-advised to respond in kind by offering an experience better suited to the average shopper's financial, emotional, and social needs.

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