

Reading Santa's Mind



Retailers start gearing up for the “Super Bowl” of shopping months before snow falls in the local mountains. For many of them, a successful year depends on guessing right when they place holiday purchase orders in March or April.

By **Melissa Adams**

For holiday shoppers, the last few months of the year are all about party hopping, tree trimming and, of course, finding the perfect gift for each loved one on their list. For local retailers who rely on your purchases in the fourth quarter to nudge balance sheets out of the red and into the black, it's about biting their fingernails as they wait to see if they guessed right when they placed holiday purchase orders. If the must-have gifts on your list are on their shelves, the season will be bright. But if they bet on Barbie in a GI Joe season, the Grinch will appear.

“Consumers may not be thinking about Christmas in March, but retailers and manufacturers certainly are,” says Don Montuori, editor Packaged Facts, a market research company. They should be, because, according to local retail consultant Greg Stoffel, “Christmas is an

PHOTO BY DAVID KAWASHIMA





George Passmore, store manager of Brookstone at South Coast Plaza, says customer feedback is the key to effective planning for the all-important holiday season.



absolute make or break season for most retailers, not just for seasonal sales but for continued branding. If you can't be relevant to your core customer and to those who could become core clients during the holidays, there may not be much hope for you."

Market surveys, past experience and gut instinct guide savvy merchants as they do their best to stock gift items that will make you glad to part with the \$655 you'll spend this holiday season if you're anything like the average American surveyed by researchers at NPD Group. But it's not easy.

Factors ranging from geopolitical threats to energy prices, interest rates, post-election jitters and other elusive factors can impact buyers' decisions. "It's guesswork," Stoffel says.

Crystal balls

Overall economic conditions have a huge impact on holiday retail sales and, happily, things look fairly good for merchants as the bells of Christmas 2004 begin to jingle. BIGResearch pollsters project that merchants will wrap up close to \$220 billion in sales this holiday season. That represents a 4.5% increase over 2003.

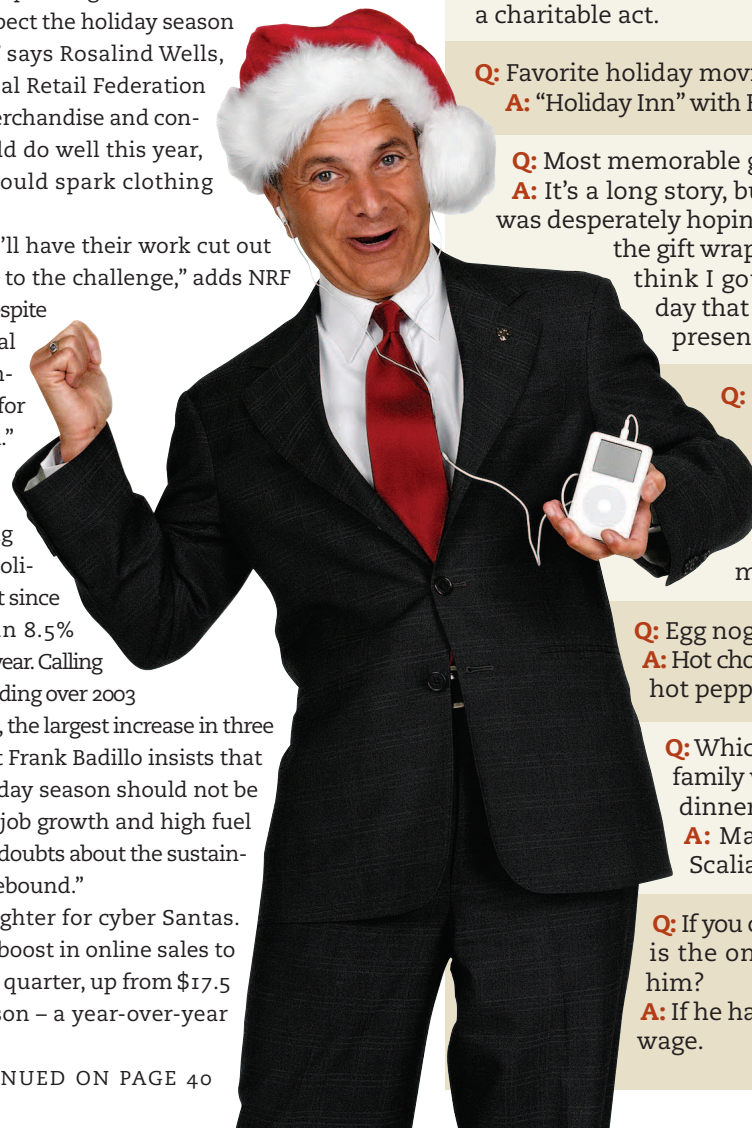
"Although consumer spending has been inconsistent in recent months, we expect the holiday season to bring more stability," says Rosalind Wells, chief economist, National Retail Federation (NRF). "Home-related merchandise and consumer electronics should do well this year, and trendy fashions should spark clothing sales."

"Retailers know they'll have their work cut out for them, but they're up to the challenge," adds NRF President Tracy Mullin. "Despite economic and geopolitical concerns, consumers continue to set aside money for what's important to them."

An even rosier outlook comes from prophets at Retail Forward. According to those seers, the 2004 holiday season will be the best since 1999, a year that saw an 8.5% increase over the previous year. Calling for a 6-to-6.5% rise in spending over 2003 – when sales grew by 5.1%, the largest increase in three years – Senior Economist Frank Badillo insists that "the outlook for the holiday season should not be deterred by recent weak job growth and high fuel prices, which have raised doubts about the sustainability of the economic rebound."

Things look even brighter for cyber Santas. Badillo's firm predicts a boost in online sales to \$22 billion for the fourth quarter, up from \$17.5 billion last holiday season – a year-over-year increase of nearly 26%.

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Q+A

Jim Doti

President, Chapman University

A sentimental executive at heart, Jim Doti unwraps his holiday secrets.

Q: Favorite holiday song

A: "I Saw Mommy Kissing Santa Claus," by Jimmy Boyd.

Q: Best holiday tradition at Chapman?

A: Wassail, sponsored by our School of Music, where our choir and orchestra sing and play holiday songs.

Q: If you could change one thing about the holidays, what would it be?

A: That it become a tradition that everyone has to do a charitable act.

Q: Favorite holiday movie?

A: "Holiday Inn" with Bing Crosby and Fred Astaire.

Q: Most memorable gift you ever received?

A: It's a long story, but basically a toy rifle that I was desperately hoping to get. It was lost under all the gift wrap and packaging, and I didn't think I got it. It was only later in the day that my dad found an unopened present – my rifle.

Q: If you could grant one wish, what would it be?

A: Peace.

Q: Your favorite reindeer?

A: Who else? Rudolph. He's my kind of guy!

Q: Egg nog or hot chocolate?

A: Hot chocolate, steeped with Mexican hot pepper.

Q: Which three people besides your family would you invite to a holiday dinner?

A: Margaret Thatcher, Antonin Scalia, Arnold Schwarzenegger.

Q: If you could meet Santa Claus, what is the one question you would ask him?

A: If he has to pay his elves minimum wage.

PHOTO BY MARK SAVAGE



PHOTO BY DAVID KAWASHIMA



Debra Fenn of Trio at Crystal Cove Promenade in Newport Beach relies on designers she has worked with for years to discern what will sell during the Christmas retail sweepstakes.

How much is that I-Pod in the window?

In Orange County, Ernst & Young projects 2004 sales will rise 6-to-7%. Although there won't be a breakout new toy, high-end collectibles like American Girl dolls and Build-A-Bear will fuel spending. "Because consumers can take on more debt, high energy costs won't deter holiday outlays," predicts Mike Gottlieb, Ernst & Young partner. With expectations of a robust season, discounting will be minimal since shoppers will pay full price for such hot fashion items as crocheted ponchos and Magic32 brand adult and children's clothing, Magic Johnson's new line.

Apparel and consumer electronics should again be top-performing segments, Gottlieb says. In the latter category, retailers will see major competition from mega-chains, spurring heavy promotions. Popular items will include 42-inch televisions priced under \$1,000, DVD players, iPod digital music players and digital cameras. According to BIGResearch, 84% of consumers consider plasma TVs "hot" in 2004, while 80% say the same about picture phones.

Technology in general will find new expression in the waning days of 2004, fulfilling futurist Faith Popcorn's prediction that a new high-tech wardrobe will enable moms to satisfy a need to protect their families. Consider such tools as GPS chips in watches and radio frequency ID tags in backpacks - gizmos that may prompt kids to strike back with what Popcorn calls the "Mom Unplugged" syndrome.

In jewelry, brooches with colored stones and cameos have made comebacks. Such semi-precious gems as moonstone and tiger's eye will be popular. High-end jewelry sales will hinge on the success of the stock market and the economy, Gottlieb says.

Other Ernst & Young predictions call for department stores to stage a comeback, due to better inventory controls and improved merchandising focused on color and trendy styles. Like other forecasters, the firm sees the Internet as a continuing growth area as consumers buy a wide range of gifts on the Web. Along with higher gas prices, increased high-speed Internet access and more user-friendly websites will contribute to strong online sales. A recent survey revealed high-speed connections in more than half of all homes, making Web shopping easier.

Although holiday shoppers will make a significant dent in their lists via keyboard, they'll make luxury purchases at such upscale venues as Nordstrom, Tiffany & Co. and Saks Fifth Avenue, says Patrice Duker, spokeswoman for the International Council of Shopping Centers (ICSC). Retailers who market more expensive items will have positive returns this season, she predicts.

Nancy Shaffer, Robinsons-May home fashion director, echoes ICSC's findings. "For 2004, such luxury items as crystal vases, bowls, votives, faux fur blankets and pillows are must-haves," she says. On the opposite end of the spectrum, NPD Group predicts

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that 72% of consumers will make holiday purchases in discount stores like Target.

According to Packaged Facts, nearly three-quarters of U.S. consumers want to receive monetary gifts and nearly 70% of shoppers like to give these types of gifts. These predictions support Ernst & Young's call for gift cards, a big hit last holiday season, to expand into such categories as rental cars, hotels, restaurants, weekend getaways and cruises.

Local retailers look ahead

Have local retailers used forecasters' predictions to plan for the all-important holiday season? More than those projections, most seem to rely on intuition, staying in touch with trends via trade shows and journals, and tuning in to customers' desires. Many watch fashion for clues about what consumers will purchase in furnishings, household items and other categories.

"Newport Beach women are very aware of fashion and have high standards," says Debra Fenn of Trio in Crystal Cove Promenade. To attract women to her outlet for trendy clothing, Fenn says, "I look to designers I've worked with for years to see what trends will sell for the holidays. They have an excellent grasp of trends and I'm comfortable relying on them.

"Another way I predict trends is by being a spectator, seeing what people are buying and trusting my instincts. I buy a lot of jewelry and accessories by such makers as Juicy Couture, always a big seller. I think there is no trick," she says. "You either know your clients or you don't."

Other local merchants in touch with their clientele include Pat Waxman of Apropos in Fashion Island. Since 1961, she's applied her "nose and feeling for upscale clothing" to predict what will appeal to women. Pointing to her love of fashion as art and her ability to visualize what different body types look good in, she anticipates the popularity of wraps, vintage accessories, boas and feminine apparel. To prepare for any season, "I keep my eyes wide open," she says.

At Brookstone in South Coast Plaza, George Passmore also sees customer feedback as key. "We have our own laboratory where we make products customers are asking for and make changes to products based on their input," he says.

Executives at Porsche Design, "engineers of luxury" at South Coast Plaza, use a proactive strategy to attract customers into the store at year's-end. Guided by the fashion sense of Vice President James Wynn, the purveyor of

high-end eyewear, watches, pens, luggage and footwear has added new specialty items "for the affluent man who has everything" to its 2004 holiday offerings.

Fashion trends also inspire holiday offerings at Papyrus in South Coast Plaza. Starting as early as February, "We predict what holiday customers will purchase by what clothing designers come out with," says Tracy Rhodes, manager at the boutique for greeting cards designed by craftspeople throughout the nation. "This year, designers have featured jewel tones – fuchsia, jade, purple and royal blue – and we've followed suit with cards in those colors rather than traditional red and green."

For unique holiday greetings, Rhodes stocks glitzy creations studded with faux jewels, fur and feathers, antique fabric and metallic accents, priced from \$7 to \$35 per card. Also popular this year, Rhodes predicts, will be frames reminiscent of jeweled brooches, a tie-in with a current vintage trend.

At Lingerie et Chocolate in Corona del Mar Plaza, Amie Pressey
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'TOY WISHES' MAGAZINE PICKS THE HOTTEST GIFTS FOR KIDS

Balloon Lagoon: the perfect combination of skill, chance and thinking for ages 5 and up; \$19.95

Barbie as Princess Anneliese and Erika: Barbie stars in roles from Disney's "The Princess and the Pauper," for ages 3 and up; \$19.99

Bella Dancerella: this ballet play-set includes costumes, accessories and a video to help little ones from age 3 to 8 learn ballet; \$29.99

Bratz Tokyo A-Go-Go Dance 'N Skate Club: hip Bratz dolls enter a retro-disco world with lighted dance floor, revolving DJ booth and roller-rink, for ages 3 and up; \$89.99

Cabbage Patch Kids: the retro toy of the year recalls the one-of-a-kind dolls of the 1980s, for ages 3 and up; \$29.99

E-L-M-O: one of the disco era's novelty songs becomes a preschool hit as Sesame Street's beloved Elmo gets into the act, for ages 1 and up, \$29.99

InteracTV: TV teaches as kids from age 3 watch DVDs and use an electronic tablet to answer questions; \$39.99

Ms. Pac-Man TV Games: no special console is required to play classic games, for ages 5 and up; \$20

Nitro Battlerz: kids from age 8 can customize remote-control cars, then crash them in competition; \$39.99

Tamagitchi Connection: another retro entry, the virtual pet is back with a pause button and opportunities for kids to interact with other owners; \$14.99

Videonow Color: this personal video player offers shows for ages 6 and up; \$75

Vtech Vsmile: kids from ages 3-7 can interact with video games that reinforce language, math and problem-solving skills; \$59.99





PHOTO BY DAVID KAWASHIMA



Makenna Burney of LiliKoi at The Bluffs Shopping Center in Newport Beach relies on manufacturers' predictions, surf industry trade shows and designers' showrooms for tips on the best gifts to stock.

uses an equally personal approach to please discriminating patrons. "I watch what customers ask for. I do special orders. I cater to customers' desires for one-of-a-kind gifts," she says. Speculating that lingerie and chocolate are Earth's most romantic gifts, Pressey opened the outlet for imported candies and sexy underwear in June, with hopes to expand throughout California.

On a more mass scale, department stores like Robinsons-May that target the needs of a broad spectrum of customers see the holiday timeframe as no different than any other time of year. "We have a team of buyers who travel to markets year-round, coordinating with vendors and selecting merchandise for our stores," reports Jennifer Munoz, public relations manager.

Surf & sandbox

At surf boutique LiliKoi, Makenna Burney relies on manufacturers' predictions, surf industry trade shows and designers' showrooms for tips on hot holiday gifts. "Clothing is a great seller around the holidays and vendors help with that," she says.

To target the younger set and their gift-giving relatives, Gary and Diane Naumann build a solid customer base founded on "smothering them with attention all year round." The couple own Toy Boat, Toy Boat, Toy Boat in Corona del Mar, Westcliff Court and Newport Coast. They will open a fourth toy emporium, their biggest

yet, in Fashion Island next spring. "We do fairly well year-round," says Diane. "We don't wait for the fourth quarter to push us into the black. We have a healthy staff in all our stores to wrap everything and help with assembly." Checking out the fall catalog mailed to 6,000 regulars, it's clear the neighborhood shops rely on such classics as Madame Alexander dolls, Thomas trains and Bruder trains for year-round success. "We can't afford to stock a lot of trendy toys that are hot for a month, then gone."

That philosophy should serve stores well this year, when there's no must-have item, according to Kathleen Waugh, Toys 'R' Us spokeswoman. Unlike past years when Furby fever, Tickle-Me Elmo alarm and Cabbage Patch Kids chaos hit, toy industry execs are looking

at the perfect gift for each child more individually this season. "The one that lights up his or her eyes, that's the hot toy for that child. That's the perfect gift," says Waugh.

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OC RETAILERS' TOP GIFT PICKS FOR 2004

Makenna Burney, LiliKoi: Paul Frank accessories, corduroy minis, hot pink pea-coats, Joe's jeans, Da-nang silk sweat suits.

Fashion Island marketing director Laura Davis: denim, suede and cashmere clothing, in plum, purple and pink.

Michele Gallagher, Porsche Design: men's travel jacket in 150 merino wool cashmere; \$4,000-\$5,000

Larry Garcia, Rangoni Firenze Shoes: rhinestone-studded metallic sandals, round-toe ugh boots with fake fur; \$175-\$250

Marion Halfacre, Traditional Jewelers: pieces that make a statement with colored gemstones; big steel watches with micro pave diamonds; lots of bling-bling for \$1,300 to \$1,400

Stephanie Ragone, Three Friends: novelty candles, crocheted ponchos, anything in jewel tones. Hottest pick: double-breasted fuchsia trench coat with zebra print lining; \$99-\$109

Nancy Shaffer, Robinsons-May: Harley-Davidson Motorcycle phone, rings like VRRRM; \$29.99 or Conair® Sqweez massage pillow for stressed-out co-workers; \$19.99

Pat Waxman, Apropos: fur-detailed hooded ponchos; \$800-\$1,200





COVER STORY

While forecasters agree the industry will again fail to have one home run toy that will lift overall sales, lack of a frontrunner may be positive. "As long as stores have lower, mid-tier and higher-priced toys on their shelves, they'll do fine because they can appeal to a range of consumers with a variety of budgets," says Reyne Rice, Toy Industry Association trend specialist.

Although it's difficult to predict which toys will sell well this year, the Toys 'R' Us 2004 "Joy List" of 30 new playthings and Toy Wishes magazine's "Hot Dozen" point to retro hits. Cabbage Patch Kids, dolls with adoption papers that caused a stampede when 600 million originals appeared in 1984, are back and expected to generate significant sales.

The perennial Elmo has returned, singing his version of the Village People's disco hit "YMCA" with the letters of his name substituted in the chorus. Like such other 2004 offerings as Barbie as the Princess and the Pauper, Bratz Tokyo A Go Go Dolls, Videonow Color personal video player and Vsmile, the furry Muppet character is on multiple toy industry lists.

Interactive toys, including four gaming systems that require only a TV, not a separate play station, have a major presence on the 2004 "Hot Dozen." "Electronics have grown in popularity in recent years because kids have grown up around technology and have had computers all their lives," says Rice. "They expect toys to interact with them. It's just part of their universe."

Rice notes that one of the effects of 9/11 is that families are trying to spend more time together. As a result, there's renewed interest in board games, and toy manufacturers are responding by creating games families can play in 45 minutes or less.

"When I first saw this game a year ago, I knew parents were going to be taking it out of kids' hands to play themselves," says Jim Silver, editor-in-chief of Toy Wishes. The action-adventure escapade depicts a day at a carnival, with players racing to collect balloons, flip frogs, spin wheels, fish for letters and match treats spilling out of a snack shack before the musical timer stops.

For faster action, thrill-seeking grownups can globetrot by land, air or sea with fantasy picks from Neiman Marcus' 78th annual Christmas Book, showcased at www.neimanmarcus.com, available for \$15 by calling 1-800-NEIMANS. Highlights include a His & Hers Bowling Center, 230-foot-long Zeppelin, custom suit of armor and underwater jet for deep-sea exploring. The featured car is a limited edition 2005 Maserati Quattroporte.

So, just in case Santa is reading your mind, you'd better be good if you want to find these charmers anywhere near your yuletide hearth. **OCM**

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WAY COOL IPOD IS GIFT THAT ROCKS

It weighs less than 5.6 ounces, yet it can hold more than 15,000 songs. It is smaller than a deck cards, but its like walking around with an entire Tower Record store in your briefcase or backpack.

Its color is cool white with a name out of Star Wars to match.

Hands down, Apple's iPod is the hippest gift on the market this season. Everyone from teens to adults who craves tunes and electronic toys want the world's best-selling digital music player. The iPod is a phenomenon. It has carried its creator, Apple, to new financial heights. While other tech companies have struggled, Apple's stock is up 50% this year following

a similar jump in 2003. Its CEO Steve Jobs is the toast of the industry. The reason: the iPod. In July, August and September of this year, Apple sold more than two million iPods. Total iPod sales since the device was first introduced three years ago now stand at 5.7 million and that figure could top eight million this holiday season. The iPod is white hot.

"The first thing people ask when they walk through the door is 'Where's the iPods,'" a South Coast Plaza Apple store clerk said of the digital player which retails from \$299 to \$499 depending on storage capacity. "It's definitely the 'it' present this holiday season."

His advice for interested buyers?

"Don't wait, the run on iPods will be big, way big."

Just in time for the holidays, is a new iPod with the capability of storing up to 25,000 photos. Experts believe the iPod Photo (retail \$499 or \$599) is going to be a big seller. With the explosion in digital photography, more and more consumers are looking for quick, easy ways to store, carry and share their instant pictures. The iPod Photo with a color LCD screen not only can archive photos, but can create slide shows with music.

Sales have been fueled in recent weeks with a promotional tie-in between Apple and the rock band U2. In fact, arriving in Apple stores any day is a iPod U2 Special Edition to coincide with the release of the band's new album, Vertigo. Available for \$349, the jet black iPod has signatures of each band member engraved on the back. **OCM**

