

Collective Brands Inc.'s Payless ShoeSource

COMPANIES: PSS, WMT

Higher-Priced Brands, Trade Down Drive Sales

Better styles and higher-end products attracted customers trading down from midtier stores, driving up FY1Q09 ticket averages at Payless ShoeSource, as most stores met or exceeded plan.

- PSS FY1Q09 sss flat-down slightly yy; almost three-fourths of stores meeting or exceeding plan because of higher ticket averages and increased BOGO shopping yy
- Ticket averages up yy for almost one-half of stores because of higher prices overall yy and some trading down from higher-end shoe and department stores; transaction counts mixed
- Sales boosted by increased promo levels yy, with more coupons often sent via email or text message; markdown levels tick up slightly yy
- Area to Watch: Higher prices turn off some customers, who turned to lower-priced offerings at big-box discount chains

EXECUTIVE SUMMARY

Collective Brands Inc.'s Payless ShoeSource FY1Q09 (February–April) same-store sales were flat-down slightly on average yy, but almost three-fourths of stores were meeting or exceeding plan. The new designer collections meant to spur sales and key in on trade-down shoppers from mid-tier department stores worked as customers snapped up higher-priced offerings during BOGO sale events. Managers also noted a stronger assortment yy that spurred better demand yy for Easter. Tickets averages increased yy for almost one-half of stores because of higher overall prices and increased promotional shopping yy. Sentiment was mixed about transaction counts because of the difficult selling environment.

KEY DATA

Most Stores Meeting or Exceeding Plan

(number of sources)

Exceeded	7
Met	15
Fell below	8

SOURCES & BACKGROUND

30 Payless ShoeSource store managers, comprising 4 each in California and Texas, 3 in Florida, 2 each in New Jersey, New York and Pennsylvania, and 1 each in Arizona, Connecticut, Georgia, Illinois, Louisiana, Michigan, Massachusetts, Maryland, Minnesota, Missouri, North Carolina, Ohio and Washington. By sales volume, 1 source was low volume (under \$500,000), 20 were mid-volume (\$500,000–\$1 million) and 9 were high-volume (\$1 million–\$2.5 million)

INTERVIEWS First week of May

AVERAGES Straight

BACKGROUND Collective Brands retail concepts includes 3,954 domestic Payless, 598 international Payless and 340 Stride Rite stores for a total of 4,892 doors. During 2008, domestic Payless stores contributed to 76% of companies sales, international Payless, 14% and Stride Rite, 3%. Stride Rite wholesale, whose top four brands are Keds, Saucony, Sperry and Stride Rite, accounted for the remaining 7% of sales.

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Payless manager

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Higher Price Points, Designer Names Attract

Payless ShoeSource's FY1Q09 same-store sales were flat—down slightly on average yy, with almost three-fourths of stores meeting or exceeding plan because of higher average price points, better offerings and increased promotional activity. Ticket averages benefitted from higher price points yy at almost one-half of stores, with shoppers gravitating to the more fashion-forward styles. “Our ticket averages have gone up because shoe prices have gone up and people are buying the cutest shoes at the higher price point of around \$24.99 and flip-flops at \$9.99, which is about \$4–\$5 more than last year at this time,” one source said. Sources were mixed on transactions yy, as some were hurt by the difficult selling environment but others were helped by consumers trading down, better fashion and increased coupon offerings.

Managers said better styling yy attracted customers trading down from mid-tier shoe and department stores. Managers said the most expensive new designer brands were carried at a few very high-volume locations, and were only meant to attract the higher-end customer looking to trade down, but many managers said the designer brands raised the fashion profile of Payless overall. Sandals were the most popular sellers during FY1Q09, especially Payless' private-label brands American Eagle and Montego Bay. “Those gladiator sandals flew out the door — we could not keep them stocked,” a source said. However, while some customers were willing to pay the higher price tag for more stylish shoes, others lost some customers to the lower prices at big-box chains such as **Wal-Mart Stores Inc.**, which often are located in the same shopping plazas.

Sales also benefited from pent-up demand for new shoes and Easter styles for kids. Some sources also said the later arrival of Easter yy had a positive overall impact on FY1Q09. A few managers said in addition to the fashion-forward designer additions, Payless also extended shoes sizes during FY1Q09 in its kids' division from size 4 up to size 6 to maximize children's purchases.

Plan attainment also was helped by an increase in shopping during Payless' BOGO-half off sales. “People are spending more — especially at the BOGOs — because they are stocking up on necessities, clearance bargains and new higher-priced styles all at the same time,” a source said. (The FY1Q09 BOGO sales this year ran Feb. 10 through March 1 and April 13 through May 4.)

New Coupons, Increased Clearance Inventory

Managers at almost one-half of stores said promotions were heavier yy because of new discount coupons in addition to the usual sales and BOGOs. Payless stores now collect email and phone number lists to send out additional discount coupons by email and text message. Managers said the sending and redemption of these coupons was increasing and enticing customers. “I know they're using our text coupons because they have to show me their cell phone to get the coupon code. The younger customers just love this!” one said. Several also said clearance inventory was beefed up during the BOGO sales to entice customers to buy more than just two pairs of shoes, and a few managers said all promotions and sales had increased in duration from about two weeks to three weeks.

Most managers said their stores implemented cost-cutting measures during 2H08, when the economy faltered initially, and that even though energy-saving lighting initiatives and inventory and

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COUPONS & CLEARANCE BEEF UP PROMOS

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delivery cuts were customary at that time, deliveries and general inventory were back to normal and "just right" for two-thirds of stores.

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Additional Quotes

"I think they added the designer brands to attract the more fashion-forward shoppers and mall shoe shoppers."

"Our shoes are definitely better in quality and style than last year, and they cost more, too."

"We put more shoes on clearance to make additional pairs purchases irresistible during the BOGOs."

"The extended sizes from 4 to 6 in our kids' shoes boosted our tickets as parents stocked up on Easter shoes for kids."

"We're not the old Payless — we carry more fashion and quality now, and people can see that."

"Actually the cheap shopper is gravitating more to Wal-Mart, and we are getting more of the mall shoe shoppers this year."

"People are buying the higher price points and buying four pairs or more at the BOGOs."

"The designer brands online bring people into the store looking for it; once we get them in, we show them similar styles that cost less."

"Styles and quality have gotten a lot better over the last year, but prices have gone up every year. There comes a point where the Payless shopper complains about the price."

"The weather warmed up nicely in time for Easter week, and we sold out of sandals!"

Tally

1. Did FY1Q09 same-store sales increase, decrease or remain the same yy?

Up 6%–10%:	2
Up 1%–5%:	8
Up:	2
Flat:	8
Down:	1
Down 1%–5%:	6
Down 6%–10%:	1
Down 11%–14%:	1
Down 15%–19%:	1
Average:	Flat–down slightly

2. Did FY1Q09 sales exceed, meet or fall below plan?

Exceeded:	7
Met:	15
Fell below:	8

3. Did FY1Q09 ticket averages and transaction counts increase, decrease or remain the same yy?

	TICKETS	TRANSACTIONS
Increased:	13	11
Same:	9	8
Decreased:	8	11

4. Did FY1Q09 promotional and markdown levels increase, decrease or remain the same yy?

	PROMOS	MARKDOWNS
Increased:	13	7
Same:	17	21
Decreased:	-	1
No response:	-	1

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