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Rachel Wolff

Foot Locker’s holiday prospects are uncertain amid soft discretionary spending

Article

The news: Nike’s woes dragged **Foot Locker** down in Q3, causing the retailer to miss sales and earnings expectations and cut its full-year guidance.

- The retailer now expects sales to decline between 1.5% and 3.5% during the holiday period, worse than the 1.6% decline analysts anticipated.
- Q3 sales fell 1.4% YoY to $1.96 billion, falling short of LSEG's $2.01 billion consensus estimate.
- Foot Locker reported adjusted earnings per share of 33 cents; analysts expected 41 cents.

The situation: The company is "contending with some more recent softness out of Nike," CEO **Mary Dillon** told CNBC. That, combined with consumers' disinclination to shop outside of key shopping moments like the back-to-school season and the Cyber Five, is weighing on business.

- Shoppers are being choosy as they search for the best deals available, Dillon said, resulting in a more promotional environment as brands and retailers compete for their dollars.
- Consumers are also spending less in the periods between peak sales, which pushed Foot Locker to adopt a more cautious outlook for the holiday quarter.
- November has been a case in point: Sales during the first three weeks were soft but accelerated considerably during Thanksgiving week as shoppers took advantage of steeper discounts.

Looking ahead: Foot Locker is in the midst of a turnaround plan that includes reducing its reliance on Nike, investing in its loyalty program, and closing underperforming stores.

- The first part of that strategy is working. Allocating more shelf space to trending brands like **adidas**, **New Balance**, **On Running**, and **Hoka** resulted in "strong double-digits" sales growth for those products in Q3.
- But it's not done with Nike yet. The retailer worked with the company and its Jordan brand to develop the Home Court basketball concept, which it plans to roll out to 100 stores by 2026.
- However, in addition to showcasing Nike's wares, Home Court will also feature competitors like adidas and Under Armour.

Our take: Foot Locker's disappointing quarter reflects the challenging environment for discretionary spending, as consumers prioritize essentials and hold out for steep discounts.

It also underscores how reliant the retailer is on Nike despite efforts to diversify its mix—which could create trouble over the next few quarters if the brand can't turn its business around.

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