

# point of view

## How will this recession affect the future of retailing?

The current economic crisis is a catalyst for many trends we described in *Retailing 2015: New Frontiers*

### Highlights

Retail sales growth, which slowed to 1.8% in 2008, will be flat (0%) this year.

Near-term shopping behaviors are changing and could significantly alter the consumer mindset in the long run. As a result, evolving retail trends will gather momentum.

Retailers will be out of expansion room in the US for many of their core concepts. "Bigger is better" will be replaced by aggregation of small; point of purchase and not shelf space will become the battleground for consumers; and global scope will no longer be an option but a requirement for growth.

### A protracted period of sluggish demand

Consumer demand remains weak in an economy that has already been in recession for more than a year. Consumer spending fell at a real rate of 0.9% in the second half of 2008 and is expected to continue its downward momentum through much of 2009.

### An accelerated rate of change

Despite the economic upheaval, the retail industry will continue to be shaped by the long-term trends we described in *Retailing 2015: New Frontiers*. In fact, the economic shocks will precipitate the end of many cycles that shaped the industry during the first part of the decade.

### Success now and in 2015

Retailers and suppliers will need to not only recognize the end of familiar long-term cycles but also manage the complexities associated with the trends that emerge in their place.

# An economy in crisis and a shift in consumer mindset

## Changes in shopping behaviors because of the US economic downturn

### Limiting behaviors

Buying only things I truly need	65%
Buying fewer things	55%
Shopping less often	54%
Buying fewer luxury items	51%
Postponing purchases	47%
Buying only items needed in the near term	40%
Using/keeping items longer before buying	35%

### Deal-seeking behaviors

Taking advantage of good sales/deals	65%
Doing more price comparison shopping before making a purchase	52%
Using more coupons	47%
Doing more shopping at discount and value retailers	37%
Buying in bulk quantities	23%
Stocking up on items expected to rise in price	21%

### Trading-down behaviors

Buying less-expensive versions of products	45%
Buying more store brands instead of national or high-end brands	43%
Trading down to less-expensive brands	33%

### Other/some other way

4%

\*Among shoppers who have significantly or somewhat changed their shopping habits due to the US economy

Source: Retail Forward ShopperScape™, August 2008

## Financial and emotional shocks ...

US consumers are reeling from a series of financial and emotional shocks. Personal wealth is shrinking because of the housing market collapse and stock market declines. The Congressional Budget Office estimates that pension funds in the US have declined by \$2 trillion within the past year-and-a-half. It also says there are 12 million negative-equity homeowners. Unemployment, job anxiety, and stagnating incomes are squeezing already tight household budgets. Huge write-downs by large banks and high-profile frauds have inspired a crisis of confidence in the US financial system. Government loans to the private sector have become a source of consternation among taxpayers. The cumulative effect of these shocks is plummeting consumer confidence.

## ... alter shopping behavior

According to Retail Forward's monthly ShopperScape™ survey of 4,000 US primary household shoppers, three-quarters of all respondents have significantly or somewhat changed their shopping behaviors because of the economy. A majority of these shoppers are buying only essentials, shopping less, and looking for deals. Changes in shopping patterns can be grouped into three general categories: limiting behaviors, deal-seeking behaviors, and trading-down behaviors. Limiting behaviors, which generally involve making do with less or going without, are mentioned by the most shoppers in the current environment.

## Habits are likely to linger

The habits learned during this economic crisis have the potential to permanently alter the mindset of consumers. The vast majority of shoppers who are changing their near-term shopping behaviors say they plan to continue them as the economy improves.

That claim could be debated, but because this recession is long and deep, current shopping behaviors will have plenty of opportunity to get entrenched.

Payroll trends suggest that the economy will continue to shed jobs this year and the unemployment rate could remain uncomfortably high through 2011. The homeowner vacancy rate is also rising; more than 1 million empty homes will need to be purchased in order to restore the long-term average vacancy rate. Households are spending only on essentials, while using excess cash—including savings from lower gasoline prices—for reducing debt loads. In late 2008, US household debt declined for the first time since the Federal Reserve started tracking this data. This process of deleveraging will constrain consumer spending through most of the year and possibly beyond.

## Retailers are under pressure

Retail sales growth (excluding automobiles and gasoline) slowed to 1.8% in 2008 and will be flat (0%) in 2009. The outlook improves by 2010 when sales growth across all retail sectors—food, drug, mass; homegoods; and softgoods—is expected to rebound. However, growth is likely to remain below the 5% inflation-adjusted pace averaged in the decade prior to 2008.

# The economic crisis is accelerating trends that were already developing

## Top 15 trends for retailing in 2015:

- The downsizing of (almost) everything
- The glocalization of retailing
- Breaking the 80/20 rule
- The unchaining of retailing
- Global consolidation of big-box retailers
- Share of life retailing
- The “un-storing” of retailing
- The rise of the anchor place
- Consumer as co-creator
- Exclusivity escalates
- Suppliers defend turf
- Power to the people
- New technological environment
- Value chain evolution
- Triple bottom line scorecard

For an in-depth analysis, please see *Retailing 2015: New Frontiers* available for download at [www.pwc.com/us/retail](http://www.pwc.com/us/retail) and [www.retailforward.com](http://www.retailforward.com).

*In Retailing 2015: New Frontiers*, we discussed why many long-term retail cycles that dominated the first half of the decade were beginning to fade. The economic shocks will accelerate their end and create greater urgency for retailers to address the new marketplace realities. The relative winners on the retail battlefield over the past few months are already proving the relevance of the emerging trends we identified (see sidebar). Looking ahead, retailers and suppliers must not only recognize that the tried and tested may no longer deliver results, but also manage the complexities associated with the evolution of these trends.

**Downsizing of (almost) everything:** As consumer mindset shifts from conspicuous consumption to conscious consumerism, expect everything—be it packaging, store footprint, and even growth expectations—to downsize going forward.

**Glocalization of retailing:** With consumer spending contracting, room for retail expansion is running out faster than initially envisioned. Initiatives such as My Macy’s are evidence that retailers recognize future growth is more likely from tailoring existing stores to specific customer segments and local markets than from adding stores.

**Breaking the 80/20 rule:** Eager to drive traffic, a greater variety of retailers are turning to limited editions and small runs to build shopper excitement and generate stronger full-price sell-throughs.

**Global consolidation of big-box retailers:** Tight credit markets have meant fewer retail sector M&A deals in recent months. However, by 2015 the world’s largest retailers are expected to increase their global presence through acquisitions and organic growth. For many of these retailers, such expansion would be a matter of necessity to meet growth expectations.

**Share of life retailing:** The roster of retailers adding complementary—or even seemingly unrelated—categories continues to grow in an effort to become a one-stop shop for consumers.

**Rise of the anchor place:** As growth prospects for retail spending dampen, mixed-use centers are poised to become the norm rather than the exception. With new shopping centers coming online, some centers’ non-retail space could approach 50%.

**Exclusivity escalates:** Private brands, because of their often favorable value proposition, have become even more popular. Trading down to private brands is among the most prevalent changes in shopping behavior. Retailers from Best Buy to Kohl’s to Wal-Mart are increasing their bets on private brands.

**Suppliers defend turf:** Economy-related store closings and retail consolidation have sharply cut the number of distribution points for many brands and increased competition to get into the remaining retail doors. This less-than-favorable environment is leading to some innovative distribution strategies. For instance, denim brand People’s Liberation, which targets teens and young women, will now be distributed exclusively through vertically integrated specialty retailer Charlotte Russe.<sup>1</sup>

**Power to the people:** With about 20% of mobile phone users using smartphones, consumers’ anytime access to information is growing. Consumer clout is also growing as social networking and participation in services such as Twitter increases. More shoppers are turning to consumer ratings and reviews as important inputs in shopping and buying decisions.

<sup>1</sup> People’s Liberation partners with Charlotte Russe in exclusive product distribution agreement, Reuters, December 18, 2008

# Assessing near-term growth prospects

## Q&A

**Q: Which retailers are best positioned to weather the economic turmoil?**

**A:** The food, drug, mass (FDM) channels will fare better than others. But the sales growth rate for the combined channels is forecast to slow to 2.4% in 2009, an almost 3 percentage point decline from the annual average rate registered during 2003–2008. Supercenters and warehouse clubs are expected to generate the strongest sales growth, while discount department stores and supermarkets will be the weakest performers.

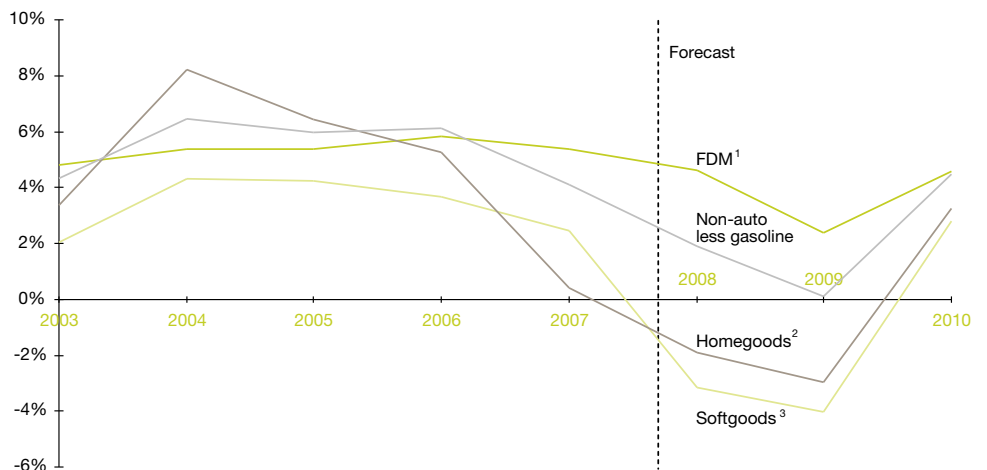
**Q: With the continued housing market collapse, what is the forecast for home-related retailers?**

**A:** The housing market collapse will continue to dampen sales growth in the combined homegoods channels, and nominal sales growth will decline by 3% in 2009.

**Q: As shoppers focus on spending for needs, not wants, how will retailers of discretionary goods—such as apparel—fare?**

**A:** The softgoods sector will be the hardest hit and slowest to recover. It will rebound in 2010 but still lag supercenters, warehouse clubs, e-commerce, and non-store retailers, all of which compete for spending in softgoods categories.

**Retail sales by broad channel groups**  
(Percentage change year-to-year, not seasonally adjusted)



**1** FDM includes supermarkets, eating and drinking places, discount department stores, warehouse clubs, supercenters, drug stores, and small format value retailers.

**2** Homegoods includes building materials/home improvement stores, non-store retailing, furniture/home furnishings stores, consumer electronics stores, jewelry stores, sporting goods stores, book stores, and office supply stores.

**3** Softgoods includes apparel stores, shoe stores, and conventional/national department stores.

Source: Retail Forward and US Department of Commerce

## Contact information

To have a deeper discussion regarding the state of the retail industry and its impact on your business, please contact:

Lisa Feigen Dugal  
North American Retail & Consumer  
Advisory Leader  
PricewaterhouseCoopers LLP  
Phone: 646-471-6916  
Email: lisa.feigen.dugal@us.pwc.com

Mary Brett Whitfield  
Senior Vice President Retail Forward  
Phone: 614-355-4010  
Email: mwhitfield@retailforward.com

The information contained in this document is provided 'as is', for general guidance on matters of interest only. Although we believe that the information contained in this document has been obtained from reliable sources, PricewaterhouseCoopers is not responsible for any errors or omissions contained herein or for the results obtained from the use of this information. PricewaterhouseCoopers is not herein engaged in rendering legal, accounting, tax, or other professional advice and services. Before making any decision or taking any action, you should consult a competent professional adviser.

© 2009 PricewaterhouseCoopers LLP and Retail Forward. All rights reserved. "PricewaterhouseCoopers" refers to PricewaterhouseCoopers LLP or, as the context requires, the PricewaterhouseCoopers global network or other member firms of the network, each of which is a separate and independent legal entity. NY 09-1086