

THE NEWSLETTER OF THE BDO RETAIL AND CONSUMER PRODUCTS PRACTICE

CONSUMER BUSINESS COMPASS



RETAILERS RESPOND TO CONSUMER EVOLUTION

By Doug Hart

2012 is off to a solid start for retailers. Sales in the first quarter have been positive, and consumer confidence is trending favorably. Early spring temperatures bode well for the months ahead, but consumers still find themselves in a precarious position. While consumer spending has been increasing, much of it is coming out of savings due to weak wage increases and job growth that is still a work in progress. At the same time, gas prices are rising and although there are many reasons for optimism, the remainder of 2012 holds uncertainties for consumers and retailers alike.

The mixed economic picture has made the stratification between discount consumers and luxury spenders more pronounced than ever, and it has also led to the emergence of new, distinct shopper patterns. Armed

with smartphones, flash sale deals and an increasingly permanent expectation of major promotions, these consumers are changing the game for retailers.

► THE INFORMED CONSUMER

For the past few years, consumers have been playing a cat-and-mouse game with the retailer. These consumers pride themselves on finding deals, and with the advent of smartphones and e-commerce, they now have an arsenal of tools at their disposal to outwit retailers. While this has long been the trend for categories like consumer electronics, it is becoming more prevalent across the board. A recent Cotton Incorporated Lifestyle Monitor Survey found that 92 percent of consumers surveyed said price was an important factor in their apparel purchases. For retailers who

► DID YOU KNOW...

As reported by **STORES**, the "cash mob" phenomenon is gaining popularity. These organized events draw shoppers to small retailers en masse, increasing awareness and boosting sales.

According to **Nielsen**, retailers reached more smartphone users through mobile websites than through mobile apps during the 2011 holiday shopping season.

Growth in the men's luxury market is outperforming the women's market in every category. According to research by **Bain & Co.**, luxury menswear is growing at about 14 percent per year.

According to **Women's Wear Daily**, millennials have an estimated annual spending power of \$65 billion.

A recent study by **Consumer World** finds that the majority of U.S. consumers have trouble understanding metric units on food labels.

Research firm **IDC** reports that global tablet shipments increased by 155 percent between 2010 and 2011. Tablet shipments totaled 68.7 million in 2011.

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are looking to temper their promotions and discounting, the data-armed consumer raises big questions. Will they be able to move inventory without slashing prices at the end of the season? How will they attract shoppers who are so adept at finding deals online? Developing exclusive lines and strong brands will be a key tactic in maintaining loyal customers online and in stores.

▶THE MODERATE CONSUMER

This year will be a defining period for the moderate consumer, who in some ways is in the middle of an identity crisis. These consumers have traditionally put quality before discount, but during the downturn, they trended heavily towards value and became discount shoppers. Where will the moderate consumer end up? Discounters are looking to capitalize on the recent trend and keep the moderate consumer by offering better quality merchandise at slightly higher price points. Traditional mid-priced retailers are vying to win back these shoppers with enhanced focus on branding. Near-luxury retailers are also gaming for the moderate consumer with tiered brand extensions at lower price points. Luxury rookies – aspirational consumers who spend on luxury goods only erratically – present a huge growth opportunity for these higher-tiered brands.

▶THE UNEXPECTED CONSUMER

One new consumer group is creating major waves in the retail industry – men. Changing the long-held view that women are the chief consumers, growth in the men's luxury market is outpacing the women's market in every category. According to research by Bain & Co., luxury menswear is growing at a rate of approximately 14 percent per year. To keep up with demand, retailers are adjusting their apparel and accessories rosters to cater to this renewed taste for shopping. Brands like Coach and Sephora have updated their stores to provide more space for men's merchandise, and retailers are developing new styles, stores and websites catering exclusively to men. Retailers are also aiming to make shopping easier and more accessible to men through mobile commerce, iPad apps, merchandising and marketing. The strategy seems to be paying off. Coach projects their men's division will grow from \$200 million in 2011 to a billion-dollar business within the next three to five years.

▶THE IMPACT ON PRICING STRATEGY

New consumer shopping habits have forced a reset in retailers' pricing and promotional

strategies. The industry is still buzzing over the recent changes at J.C. Penney. Led by new CEO Ron Johnson, the former head of Apple retail, the department store announced a simultaneous brand overhaul and an entirely new approach to product pricing. As of Feb. 1st, J.C. Penney boasts a new logo, a big-name spokesperson, and a suite of refreshed commercials and marketing materials aimed at communicating the retailer's updated brand philosophy of "fair and square."

At the heart of this philosophy is a bold pricing strategy. According to Johnson, despite the myriad promotions and discounts offered at J.C. Penney – 590 unique promotions in 2011 alone – these deals were largely ignored by the customer. Instead, a clear "price brand" emerged, revealing the price range in which the J.C. Penney customer prefers to shop. With this price band in mind, J.C. Penney now offers just three price levels: an "everyday" price, "month-long value" and a "best price" for clearance items.

The everyday value model is gaining in popularity. Wal-Mart has touted everyday low prices for years, and following J.C. Penney, Steinmart recently announced its return to the everyday low price model. While some industry analysts have claimed that Johnson's pricing strategy is premature, and simply too risky, it is undoubtedly a bold move in an industry beset by increasingly tough competition.

Any reset in strategy takes time, and it is still unknown exactly how the consumer will respond to changing price policies. As some retailers aim to move away from slashed prices as the only sales trigger, others are rushing to develop more exclusive merchandise and remodel stores and websites to attract the new types of shoppers. As these new strategies come to fruition, most signs point to a healthy year for retail. With the industry further buoyed by strong March sales results, the only potential road bumps to a bright spring are lingering consumer credit concerns and rising fuel prices.



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2012 CALENDAR

The following is a list of upcoming conferences and seminars of interest for retail and consumer product executives:

APRIL

April 30 – May 3

FMI 2012

Dallas Convention Center
Dallas, Texas

MAY

May 5-8

National Restaurant Association Show
2012

McCormick Place
Chicago, Ill.

May 6-8

NRF Global Supply Chain Summit

The Hyatt Regency
Atlanta, Ga.

May 15

Imperial Capital 4th Annual Consumer
Summit

Loews Santa Monica Beach Club
Santa Monica, Calif.

May 20-23

RECon – The Global Retail Real Estate
Convention

Las Vegas Convention Center
Las Vegas, Nev.

JUNE

June 20-22

NRF Loss Prevention Conference & Expo

Ernest N. Morial Convention Center
New Orleans, La.

June 29-July 2

NACS Global Forum

Tivoli Hotel São Paulo – Mofarrej
São Paulo, Brazil

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BDO RETAIL AND CONSUMER PRODUCTS PRACTICE

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