

Recession-Proof Retailing

BY BERTRAND PELLEGRIN

Marketing strategies for retailers in a slow economy. Keep on inventing.

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AMERICAN CONSUMERS are cutting back. They are spending less on junk food, T-shirts, and jeans, and on cars many couldn't afford anyway. According to Andrew B. Hargadon, associate professor at the Graduate School of Management at UC Davis, "Fifteen years of binge-buying SUVs is just one of the reasons. People are losing that discretionary income and pouring it into their gas tank. Remember that most of them are filling up their tank three times every two weeks. That's a hundred dollars less a week to spend at the store." Many consumers were ill-prepared for a weak economy. Now retailers are seeking ways to reestablish their value with consumers in order to keep them shopping. A few retailers have seen sales drop by as much as 25 percent. The bankruptcy of the twenty-year-old Sharper Image is one of many retail casualties, and the International Council of Shopping Centers is forecasting that overall store closings could reach nearly 6,000 this year alone, the highest since 2004.

Consumer spending has steadily declined since the beginning of the year, following a weak Christmas season. In a May 2008 NPD Group survey, 58 percent of consumers said "We are in a recession," and indicated that they plan to curb spending or carefully consider how they spend. Chief industry expert Marshal Cohen of NPD Group, Inc. says, "Consumers are finally starting to react to the price of gas and other rising costs and are shifting shopping intentions." That is certainly reflected in another study, which found that only 12 percent of people who were asked, "What will you do with your government rebate check?" indicated that they would use the money for discretionary items (Table 1).

Cohen argues that far too many retailers are cutting back in the wrong places—less product, less service, even less inventory.

Table 1: How consumers would spend U.S. rebate checks

What will you do with your government rebate check?	
Pay down bills	42%
Save it	21%
Do not qualify for rebate check	14%
Spend on discretionary items	12%
Other	11%

Source: The NPD Group Inc./Consumers Speak Out on the US Economy, April 2008

However, this knee-jerk reaction ultimately short-changes the customer. So what can retailers do to entice consumers back into the store and part with that stimulus check? From big-box retailers to corner boutiques, the smart retailer is one who is strategic with his merchandise while exploring new ways of connecting with consumers.

The Moving Target

Many retailers were unprepared for the sharp decline in consumer confidence that occurred in late 2007, opting for a bunker mentality rather than a strategic one. But in such times, the last thing a retailer should sacrifice is positioning and a loyal customer base. According to *STORES Top 100 Retailers*, the most successful retailers consistently remain ahead of the competition, reinventing themselves well before a trend peaks. But many retailers, both large and small, have cut back on their fundamental outreach tools. They have slashed marketing and advertising budgets, scaled back or eliminated in-store services, and stopped updating their website with fresh content and just-in-time messaging. “Retailers today are trying to let the merchandise speak for itself... And brands too should not rely on retailers to communicate their message—they won’t,” says Cohen. Many retailers end up chasing trends that have nothing to do with their brand value in the market.

A recession is a time to go back to basics, that is, getting the merchandise right, communicating what the product does (with the right message), and showing why the consumer needs the product. This is the formula that retailers such as Apple and the “everyday low price”-type stores have stuck with through thick and thin.

Now, more than ever, is the time to develop messages and concepts that speak to the customer with the theme of “purchases with a purpose,” focusing on bulk foods, dual-purpose items, and merchandise that satisfies the whole family.

The successful merchandiser understands the desires of the consumer, such as: “This will last a long time and never lose its value;” “I will be able to share this with my family;” or “It’s a classic item that can be used every day.” Home electronics—always a volatile category—still manages to feel like a sensible purchase to many consumers, perhaps because soaring gas prices are keeping them at home rather than on an expensive trip. A plasma screen television helps parents rationalize keeping the kids at home, and saving \$40 on an evening at the movies.

Satisfying consumer concerns is a philosophy Target Stores, Inc. has embraced, but it has recently gone to extra lengths to underscore its message. During the Golden Globe Awards, Target launched its “Hello Goodbuy” campaign to remind consumers that Target still stands for style and value (Figure 1). Target spokesperson Hadley Burrows says, “We’ve heightened our focus on our frequency-driving business including pharmacy, food and commodities, and placed greater emphasis on the Pay Less side of our brand promise—in our weekly circular, in-store signage, and through greater use of value-pricing on end-cap displays.” Target has also begun to experiment in about 100 stores with what it calls “Pharmacy TV:” television programming on health and wellness, as well as new products. It is reinforcement of Target’s value message. But, is it working? “We’re still testing it, but our store managers say that customers are watching it. We’ll be exploring this tool further,” said a Target spokesperson.

Figure 1: A direct mailer from Target’s “Hello Goodbuy” campaign



Courtesy Catalyst Studios

Private label items are also an emerging market. In 2007, Target's private-label food items contributed to a 13.1 percent sales increase. Walgreens has begun selling "premium" products that blur the distinction between national and house brands. Of course, it is always easier for big-box retailers to negotiate value pricing with their key vendors, but how does a small, locally owned boutique succeed without compromising selection? The answer lies in closer tracking of customer purchases. Many smaller merchants have been successful in negotiating smaller orders with their top vendors, or split orders with another retailer. The result is less stock, but a greater chance of it being sold at full price.

Learning From Losers

"There but for the grace of God go I" is what many retailers are thinking these days, as former heavy-hitters bite the dust. In the 1990s, themed shopping—retailing masquerading as an amusement park—was popular. The Disney Store (Figure 2) was a classic example. But in an age of sharper and more highly calibrated methods of retailing, the shopping-as-entertainment paradigm has lost its meaning. The Disney Stores lost their relevance when they saturated the market and the "fun experience" lost its luster. The recent closure of 98 Disney Stores (in the United States) was due not simply to an economic downturn but also to an over-saturation of the market and lack of synergy with neighboring tenants.

In an economic downturn, being next door to a Tiffany's or Saks Fifth Avenue may no longer be an advantage. Retailing synergy, whether in a boom or a bust, is critical to sustaining a brand's integrity during hard times. Recession-proofing a retail center requires the right tenant mix. And while every brand wants to be a flagship, an economic downturn demonstrates that the important questions are: Is the brand still relevant? Do neighboring brands reinforce the audience profile?

The Sharper Image, on the other hand, lost its appeal not only because of its debacle with an air purifier (resulting in a class-action lawsuit and a large inventory of unsold products), but also because of an over saturation of the market. The Sharper Image brand ceased to be relevant in a world where new technology moved so fast that by the time it was displayed in a store it was already being discounted at Best Buy or in an online store. The Sharper Image merchandise became outdated—even kitsch—with a random mix of goofy gadgets.

Connecting Online

It is no secret that the network television audience is getting older, in fact, it may even be disappearing. The average

Figure 2: Disney Store, San Francisco



household has made a slow and steady move away from network television, to cable and the Internet, where they find not only entertainment and community, but also a way to shop that does not require them to step into a store. "Most young people in their twenties are getting all their content on the Internet," says Andrew Hargadon, the author of *How Breakthroughs Happen: The Surprising Truth About How Companies Innovate*. "They're finding more of their needs satisfied online. It's become a place where they can not only exchange ideas, but make decisions about what to buy."

The number of U.S. online shoppers will double to 132 million in the next five years, and men are emerging as one of the most active target groups. According to the NPD Group, men's purchase of online apparel rose 4.4 percent, or \$57.2 billion, from last year—compared to only a 1.1 percent increase among women. Neiman Marcus is taking notice with a revamped website presence geared toward a male consumer. From sneakers to stereos, shopping online is not only convenient; it in many ways offers what the store experience lacks: easy price comparison, convenience, and concise product information.

In the online world, shoppers not only can compare prices and product ratings, but can also discuss the benefits of a product in chat rooms and with friends. Such real-time user testimonials influence buying decisions and create an online community around special interests. But many retailers continue to see their online brand identity as merely a virtual storefront, rather than as an opportunity to connect with their customers. Chat rooms, fan sites, and fashion blogs are just a few of the online

formats through which retailers can develop a client base and obtain customized information. According to Hargadon, “Retailers should really embrace the online world and try to create their own online community. Consumers are becoming more accustomed to a fair amount of meaning associated with a product, and Internet communities give producers and retailers real user experience and feedback. It’s also where they can provide a deeper meaning behind the product than they might be able to in a store. In the end it’s a more meaningful connection with the consumer.”

Last year, MySpace launched the MySpace Fashion Channel, an online “sub-community” that allows users to connect with brands, designers, and fashion world celebrities (Figure 3). Designed like an online magazine, the site contains first-person stories by fashion groupies. “If you’re an apparel or fashion marketer, MySpace Fashion will give you a focus group to test your product and receive feedback from your core user,” says Todd Dufour, director of strategic partnerships at MySpace. In turn, designers get a direct communications line to the consumer that can keep them on the pulse of what customers are thinking. The site makes heavy use of streaming video from fashion shows and parties, which means there is almost no down time in keeping consumers on the cutting edge of new collections.

New Formats

Even successful companies need to discover new ways to frame their offer and expand their audience. The San Francisco office of the architecture and design firm Gensler was hired to develop a new retail approach for outdoor sports supplier REI, Inc. REI’s 42,000-square-foot flagship store in Boulder, Colorado had become a crowded assortment of clothing, equipment, and supplies that made it difficult for shoppers to find their way around, and gave the impression that the store was an outlet rather than a specialty store. The revamped Boulder store serves as a laboratory to evaluate new retail concepts for the company, including a “hearth” component that has evolved into a central community space. Where before store displays felt random and disorganized, now there is a clear “story.” Thanks to an enhanced signage system, customers are able to actually learn about products while they shop. The store was also designed to achieve LEED Silver status in order to enhance REI’s brand connection with the environment. The goal for the design team was to create a retail experience equal to the brand’s premium products and services. “We’ve had a long history of building green,” says Dean Iwata, REI’s director of store development. “The objective of our prototype stores was

Figure 3: MySpace Fashion Channel

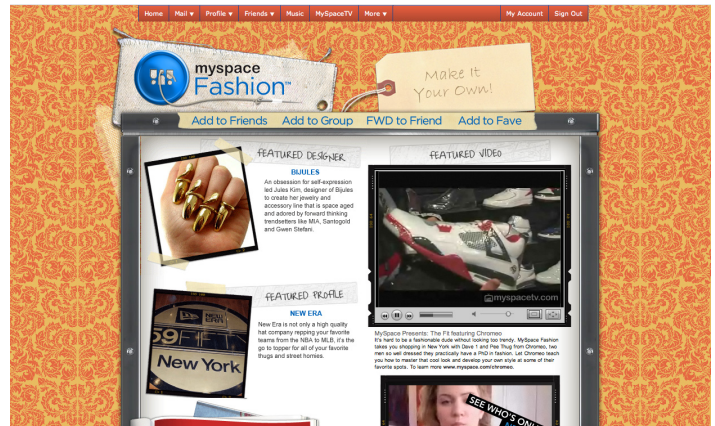


Figure 4: REI Store, Boulder



to envision what REI stores would look and function like in the future, with a special focus on the environment and the community.”

The redesigned REI store (Figure 4) appeals to a new demographic without alienating the core customer base—a key goal for the project. The 2,000-square-foot community space acts as a place for shoppers to learn more about the outdoors and opportunities to protect natural resources. It is also a venue for events, presentations, and demonstrations by REI and its many community partners. “The community center has been a big success with many non-profit partners and local organizations utilizing the space, in addition to an expanded program of REI clinics, presentations, and other events,” says Iwata. Partnering with local groups enables the store to educate and entertain the customer, while further solidifying the brand’s role as an “expert” in its field. Educational communications and in-store messaging offer an even broader opportunity to inform customers about the diverse product spectrum, the store’s customized sustainable features, and REI’s service offerings and benefits—all while building affinity and loyalty.

Pop-up stores are temporary shops that create a sense of urgency and performance, and allow a retailer to try new merchandising strategies. The success of pop-up retailing is that it is more casual and approach-able, and the limited-time idea signals “get it while you can.” At this spring’s Salone Di Mobile in Milan, there were two interesting pop-up stores that received plenty of attention. Charles & Marie, a distributor specializing in one-offs and limited editions of home accessories and gift items, set up shop for only five days in an empty thrift shop in the heart of Milan’s warehouse district. The tiny pop-up store was always packed.

Meanwhile, across town, corporate beauty brand Nivea installed a portable pop-up store shaped like a doughnut (Figure 5), offering skin consultations, hair stylists, and a range of beauty products. Vintage bicycles painted an electric blue were chained to posts on streets leading up to the shop—a signage concept that doubled as installation art. At the entrance to the store, a tall, handsome model dressed as a security guard stood sentry next to a giant digital clock that ticked off the minutes before the store would fold up and disappear.

Apple’s flagship stores have a similar energy, with a sense of excitement, freshness, and education that has made it the benchmark for most retailers today (Figure 6). “Their quest is to create the ultimate shopping experience,” says NPD’s Marshal Cohen. “It’s a place for you to shop, learn how to use the

Figure 5: Nivea pop-up store, Milan



Figure 6: Apple Store, New York



Courtesy Apple, Inc.

product, learn what you can buy to enhance your product... and most important, a place to come to feel comfortable, to bond with the brand... No pressure to purchase, just a wholesome learning and entertaining environment.”

Apple stores convey an aspirational message—one in which the brand appears to enhance an individual’s lifestyle and status. Even in tough economic times, the brand never loses its appeal. This message can also be applied to outlet stores, discount stores, and value-priced retailers. Some retailers are taking a page from the pop-up concept and creating temporary outlets, although with less atmosphere than the Milan examples. Earlier this year, Saks Fifth Avenue launched a 24,400-square-foot Off 5th outlet in the Prime Outlets International Center in Orlando, Florida. This outlet gave Saks a chance to experiment with

Figure 7: Woodbury Common Premium Outlets, Central Valley, New York



marketing strategies it might not pursue in its regular stores—from gifts with purchase, to lucky draws. Such outlets are new distribution channels, and opportunities to tap different, more aspirational customers. Outlets are also an opportunity to control excess inventory without sacrificing brand identity in a conventional store environment. With an outlet, brands control the pricing, hire the employees, and determine the build-out of the store. It is an orchestrated brand experiment that is executed with care, lest it tarnish the parent brand.

According to *Women's Wear Daily*, retailers like Kate Spade, Lucky Brand Jeans, Puma, and Juicy Couture have all jumped on the outlet train. Retail property managers see outlets as an opportunity to fill holes left by mid-level brands. Indeed, the outlet mall is having something of a revival. Woodbury Common Premium Outlets in Central Valley, New York (Figure 7), for example, has 220 outlet stores and 840,000 square feet, with a virtual laundry list of top brands, from Bottega Veneta to Valentino. Other brands at Woodbury, like Helmut Lang and Judith Ripka, are literally taking the pop-up approach, with mini-outlet shops that are open for only a few months at a time. Indeed, luxury brands are taking a cautious approach to outlets, but with careful positioning and execution, many are finding that it pays off.

Conclusion

A successful business doesn't rest on its laurels. Instead, it refreshes itself in order to stay compelling and relevant, tapping into an evolving audience, with evolving needs. What makes a business shine is that it is strategic in its operations, and uses competitive intelligence in informing how it faces a challenge. A successful retail strategy is not much different, although the power of a brand can take that strategy one step further. Success is less about implementing a revolutionary retail strategy and more about revolutionary execution. The key to a successful brand is its ability to remain relevant and meaningful to the consumer—and add value to the shopping experience. The brands that extend their relationship into the online world are likewise discovering new ways to connect with the customer. Until the U.S. economy rebounds—and even thereafter—many retailers will be forced to close their doors. To remain successful in a recession, a business needs to be inventive and flexible, and must work collaboratively in finding creative solutions. A recessionary retail strategy requires reinforcing the value of the brand experience on every level, while exploring new and innovative ways of articulating it.

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