

# Retail Formats in Transition: Clouds On The Horizon

BY BEN BALL

When we set out to develop the RETAIL:NEXT study in the third quarter of 2008, many of the economic warning signs were already on the horizon. But the fallout for consumer spending and retail sales hit in earnest in the fourth quarter. This first survey conducted by DHC in conjunction with RetailWire, was conducted during a three-week period in November when the economic turmoil and election excitement was in full swing. We asked the RetailWire community and other industry participants to pick the “winners and losers” among various retail formats over the next five years and to identify the factors that would drive that outcome.

## KEY FINDINGS

- **Winning formats will not focus on “what to sell” so much as “how to sell it.”**

Traditional product-focused attributes of retailing are expected to take a back seat to how – and where – the shopping experience is offered. For example, “stocking national brands” and “broad assortment within category” fall in the “much less important” tier of format attributes.

- **Winning formats will focus on consumer groups – not product groups.**

Targeting consumer groups, such as seniors, teens and ethnic, is predicted to be a format winner. Existing “category killers” are expected to continue their recent declines. And category specific formats (such as cookware stores) are not expected to be a driver of future success.

- **Unique formats will prosper – multiple chains within a format will not.**

Respondents overwhelmingly predicted continued fallout in the number of chains that can exist within a given format. But they also expect the number of unique retail formats to grow over the next five years. Much as Whole Foods and Trader Joe’s have developed as icons synonymous with organics and the treasure hunt, successful chains will own their own unique concept.

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*The current economy is having an undeniable impact on retailing, and the search for value will not go away as a retail driver – but its importance will be trumped by other attributes of the consumer’s shopping experience.*

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The importance of the economic environment on shopper behavior is apparent in these results. A third of respondents said “economic

trends” would be the major source of successful new retail formats. But over half said “changing consumer habits” would trump the economy as a key driver. The single highest rated factor in importance to the future of current formats was “value for the money” – but the next six factors are all related to the consumer experience. Looking forward, the “search for value” continues to be a top rated consumer trend – but it is joined by the “aging of Baby Boomers” and “health/wellness issues” as “extremely important.”

## **SMALL FORMAT GROCERY and DOLLAR STORES WILL BE BIG WINNERS**

For the foreseeable future, department stores will be the big loser and, in short, what is winning today will continue to win. The convenience and ease of shopping afforded by



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neighborhood markets and other small format grocery is predicted to have continued appeal to consumers. And we believe the current economy has breathed renewed life into the extreme discount/dollar store format. Both very reasonable predictions given what we were seeing in Q4 of 2008.

Other formats predicted to prosper are supercenters, club stores, food/drug combo stores, drug stores and convenience stores focused on food and food service. Interestingly, most of these formats embody some form of convenience and value. The supercenters, club and food/drug superstores offer “one-stop shopping”, with the supercenters and club adding price/value to the offering. Drug stores are the original “high penetration” format – seemingly offering consumers shopping opportunities from every busy urban and suburban corner in America. And c-stores that focus on food/food service instead of oil/gas are generally in high traffic urban locations as well.

### **SO WHAT DOES IT ALL MEAN?**

Consumers make retail format choices based on a complex set of interrelated attributes or “utilities.” The relative importance of any one of these utilities is influenced by the environment the consumer is presented with on any given shopping occasion. Some of these environmental factors are quite compelling – but also quite temporal. “I’m hungry”, “I’m in a hurry” and “it is easier to reenter the highway from this corner” are a few examples. Other environmental factors are much more global and enduring. “Aging population”, “sustainability” and ethnic population shifts all have a lasting impact on who we are and how we shop. “The economy” is tougher to categorize as an influence on shopper behavior – particularly as it relates to choosing one format over the other. It certainly has a big influence in times like these, but it also tends to take a back seat to the more

stable trends like aging and health over the longer term.

In response to this set of utilities and environmental factors, retailers offer shopping formats and manufacturers offer brands. Typically both groups strive to satisfy the broadest possible set of utilities and environmental factors possible in order to attract the most traffic and sell the most products. But consumers may demand a different posture going forward.

“Me-too” retailers within a format are quickly losing their reason for being. Regardless of what attribute or set of attributes a retailer embodies, it needs to be a unique concept – and the retailer needs to own that concept in shoppers’ minds.

- Aldi = Limited Assortment
- Trader Joe’s = Treasure Hunt
- Apple Store = Cool Lifestyle
- Walmart = Lowest Prices Everyday
- Victoria’s Secret = Sex Appeal

Perhaps the surest interpretation of this survey is that change will continue apace on the retail horizon. That is why we plan to do this again soon.



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