



RETAIL PERSPECTIVE – PRECISION NEEDED TO BEAT MEDIOCRE OUTLOOK



BRG Consumer Survey and Retail Outlook

In the book *Endurance: Shackleton's Incredible Voyage*,¹ author Alfred Lansing tells the epic story of polar explorer Ernest Shackleton's ill-fated journey to Antarctica in 1914. He details the saga of Shackleton and his crew of 27 men as they struggled against seemingly insurmountable odds to escape and survive a situation that was dire at best. What makes the story riveting and inspiring is that the crew did not just overcome a single obstacle—or even two or three. They faced challenges that seemed to change daily, and ultimate success came only through relentless persistence and ingenuity.

While not as perilous as a shipwreck in the Antarctic ice cap, the retail terrain today presents an array of ever-changing and difficult challenges that can threaten a retailer's existence. Retail survival demands creativity in tackling a shifting consumer mindset, disruptive technologies, and competitive pressures that did not exist ten years ago—or perhaps even six months ago. This is the world of retail today: a business survival test in all aspects of a company's operation.

Retail - No Slowdown in Disruptive Shifts

Every retail executive knows they have been facing a new and more challenging environment in recent years. The convergence of five major trends—value shopping, channel shift, technology, mobility/delivery, and the rise of Millennial spending power—have had a dramatic impact on the landscape, which can be shown in Amazon's stock price before and after Q1 2009.

If you went back to January 2000, you would find Amazon.com laying off 2% of its workers and a stock price of about \$65. By September 2001, Amazon's stock price would sink to around \$6 to \$7 per share, and it would end 2008 in the low \$50s. From Q1 2009 to August 2016, Amazon's stock increased by roughly 14 times, to more than \$750.

Several major disruptive changes in recent years have helped fuel Amazon's progress and have challenged traditional retailers. Chief among them are:



Value Shopping: The decline in median income, wage stagnation, and increased competition for discretionary dollars have led to more frugality for most consumers. This has led to price deflation in some key retail verticals (i.e., apparel) and growth in value channels (i.e., discount retailers).

Channel shift: Online shopping has grown at 15.3% CAGR since the beginning of 2009, with online sales as a percentage of total sales doubling to 7.7% in this time period.²

Technology: Technology has forever changed retail in many ways, from the consumer experience (price transparency, customization, endless aisle) to operations (in-store technologies, data analytics/localization, DC robotics).

Mobility/Delivery: The true power of mobility and emerging delivery models are trends that will have a more profound impact on retail in future years. Amazon Prime, Amazon Fresh, and different approaches to overcome the 'last-mile' delivery dilemma enable Amazon to reach more customers with more products.

¹ Lansing, Alfred. *Endurance; Shackleton's Incredible Voyage*. New York: McGraw-Hill, 1959. Print.

² U.S. Census Bureau

Millennials: Millennials embrace all of the above trends and are just beginning to enter their peak spending years. Each trend has a more significant impact with Millennials, and they will be the key demographic for retail over the next 30 years.

Given the importance of Millennials, let us take a closer look at this cohort based on our recent proprietary survey.

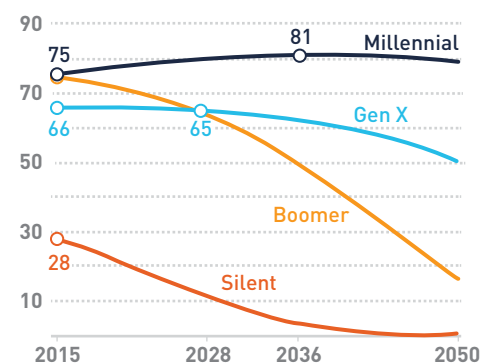
Millennial Consumers: Changing the Equation for Retail Success

As we entered 2015, Millennials overtook Baby Boomers as the largest generation of adults age 18 and over.³ These shoppers are entering their prime spending years and will dwarf the impact of the aging Baby Boomers on retail sales.

We decided to revisit and quantify some key differences between younger consumers and older generations. In a recent BRG survey, we asked 1,000 adults in the United States how they shopped, both online and in store, and what they expected to spend during the 2016 holiday season.

Nearly everyone shops online now, so it comes as no surprise that 88% of respondents said they had made an online purchase in the last year. What is telling is that among Baby Boomers, 84% (below the survey average) had shopped online, while over 90% of younger shoppers had done so. Further, 49% of Millennials said their online spending **increased** in the last 12 months, while just 37% of Baby Boomers reported an increase.

PROJECTED POPULATION BY GENERATION
In Millions

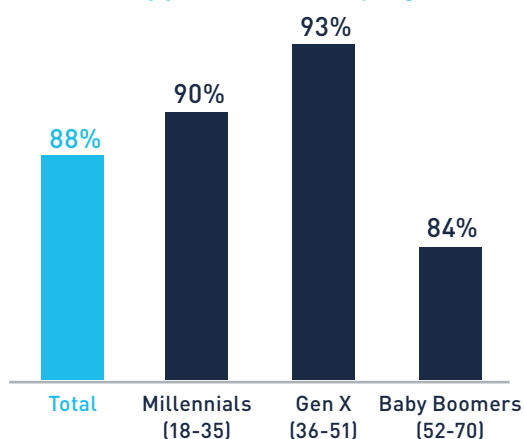


Note: Millennials refers to the population ages 18 to 34 as of 2015.

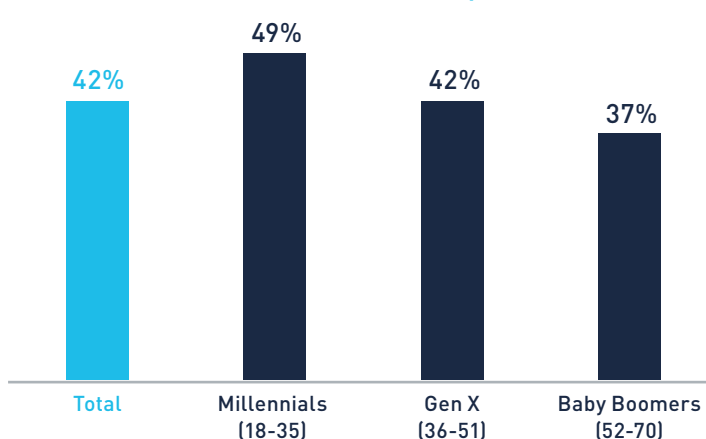
Source: Pew Research Center tabulations of U.S. Census Bureau population projections released December 2014 and 2015 population estimates

PEW RESEARCH CENTER

Shopped Online – By Age



Online Purchases – Amount Spent Increased



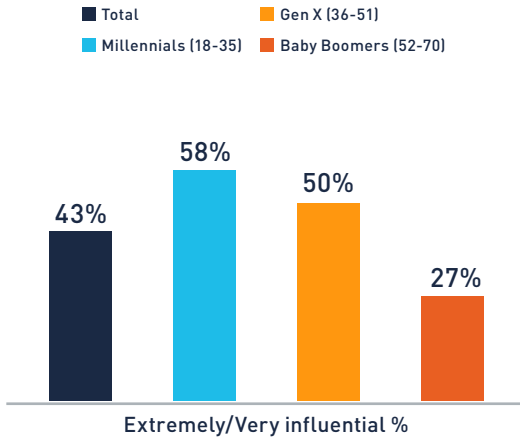
In the same survey, we asked how influential loyalty programs will be in deciding where consumers will shop for holiday gifts in 2016. The best loyalty programs use technology/mobile apps to connect with targeted customers—does it follow that younger shoppers are more likely to react to loyalty program offers and benefits? Survey says, absolutely!

For example, among those expecting to shop at electronics or mass merchandise retailers, Millennial shoppers are nearly twice as likely as Baby Boomers to be influenced by loyalty programs when it comes to holiday shopping in 2016. This difference in the effectiveness of loyalty programs extended to other retail categories in our survey (e.g., grocery, drug, specialty apparel).

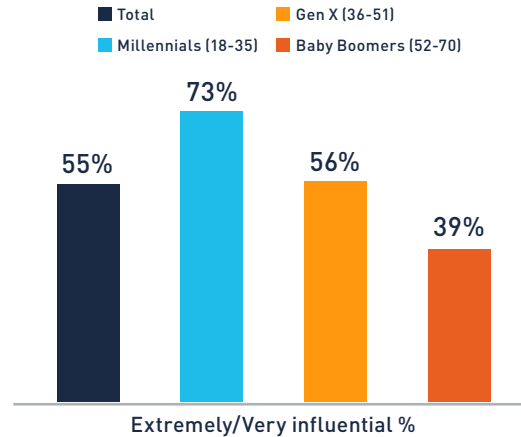
³ Pew Research, based on tabulations of U.S. Census Bureau population estimates

Thinking about reward/loyalty programs and their impact on where you will shop for holiday purchases in 2016, how influential do you expect these programs to be when deciding where you shop?

Impact of Loyalty Programs *Electronics*



Impact of Loyalty Programs *Mass Merchandisers*



Younger consumers present a unique profile for retailers and differ in many ways from the Baby Boomer generation. They are more likely to shop online, tap into technology as part of the shopping experience, use mobile apps to compare pricing and read product reviews, etc. Their use of technology, reliance on mobile apps, expectations of retailers—and even their attitudes about work and play—create challenges for retailers when it comes to marketing and communicating with customers.

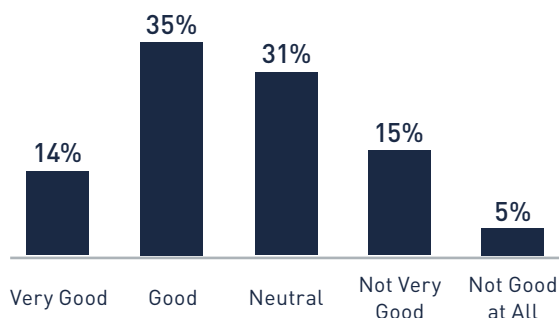
A Look Ahead for 2016 Holidays

What did our shoppers say? When asked how they felt about their personal financial situation, our shoppers provided consistent and generally positive answers across all age groups. Twenty percent overall felt badly about their personal financial situation, and nearly half (49%) said they felt Good or Very Good. Yet it appears that consumer retail spending may continue on its current trajectory and result in mediocre sales increases, not unlike the last few years.

Despite a generally optimistic tone among shoppers when evaluating their personal finances, there is little indication from our survey results that consumers are ready to open their wallets and splurge. Seventy six percent (76%) said they plan to spend **about the same or less** than last year: 57% expect to spend the same and 19% expect to spend less. Just 15% expect to spend more than last year.

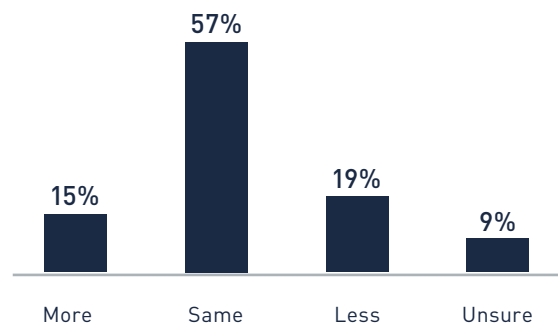
How do you feel about your personal financial situation right now?

Personal Finance Situation



Compared to the amount you spent on holiday gifts in 2015, do you expect to spend more, the same, or less this year?

Expected 2016 Holiday Spending



Other factors in the U.S. economy may also point to lukewarm holiday sales. For example, unemployment has leveled off, but many are “underemployed.” According to a recent survey by PayScale,⁴ 46% of Americans consider themselves underemployed. Additionally, consumers will enter the holiday season more leveraged than they have in recent years. Personal savings rates are trending downward, and based on Federal Reserve statistics, total revolving credit held by consumers has reached its highest level in years. The Wall Street Journal reported that total credit card debt in the United States could surpass \$1 trillion by year end—close to the record level of \$1.02 trillion in July 2008.⁵

Will underemployment and high debt levels put a damper on holiday spending? Possibly. When we asked shoppers why they expected to spend less on holiday gifts in 2016, 30% cited rising household expenses, 27% said their income had gone down, and 25% said they had too much debt.

What can retailers do to stand out from the crowd and bolster holiday sales? Our survey results provided five key ideas/takeaways that should help.

4 PayScale.com, “The Underemployment Big Picture,” available at: <http://www.payscale.com/data-packages/underemployment>

5 Andriotis, Annamaria, and Robin Sidel, “Balance Due: Credit-Card Debt Nears \$1 Trillion as Banks Push Plastic,” Wall Street Journal (May 20, 2016), available at: <http://www.wsj.com/articles/balance-due-credit-card-debt-nears-1-trillion-as-banks-push-plastic-1463736600>



RETAIL IMPERATIVES

What elements are critical when it comes to retail success for the remainder of 2016, especially in the holiday season? What can retailers do to improve sales and traffic conversion, and to create a more enjoyable shopper experience for the holidays?

1

REIGNITE LOYALTY PROGRAMS

For many retailers, loyalty programs present a powerful opportunity to connect with shoppers and create a connection that ultimately drives sales and profitability.

Thinking about retailer reward/loyalty programs and their impact on where you will shop for holiday purchases in 2016, how influential do you expect these programs to be when deciding where you shop?

Impact of Loyalty Programs – by Retailer Type



Influential



Not Influential

MASS
MERCHANDISERS



DRUG
STORES



DEPARTMENT
STORES



APPAREL
RETAILERS



ELECTRONICS
RETAILERS



SPORTING GOODS
RETAILERS



CLUB
STORES



OFFICE
SUPPLY
RETAILERS

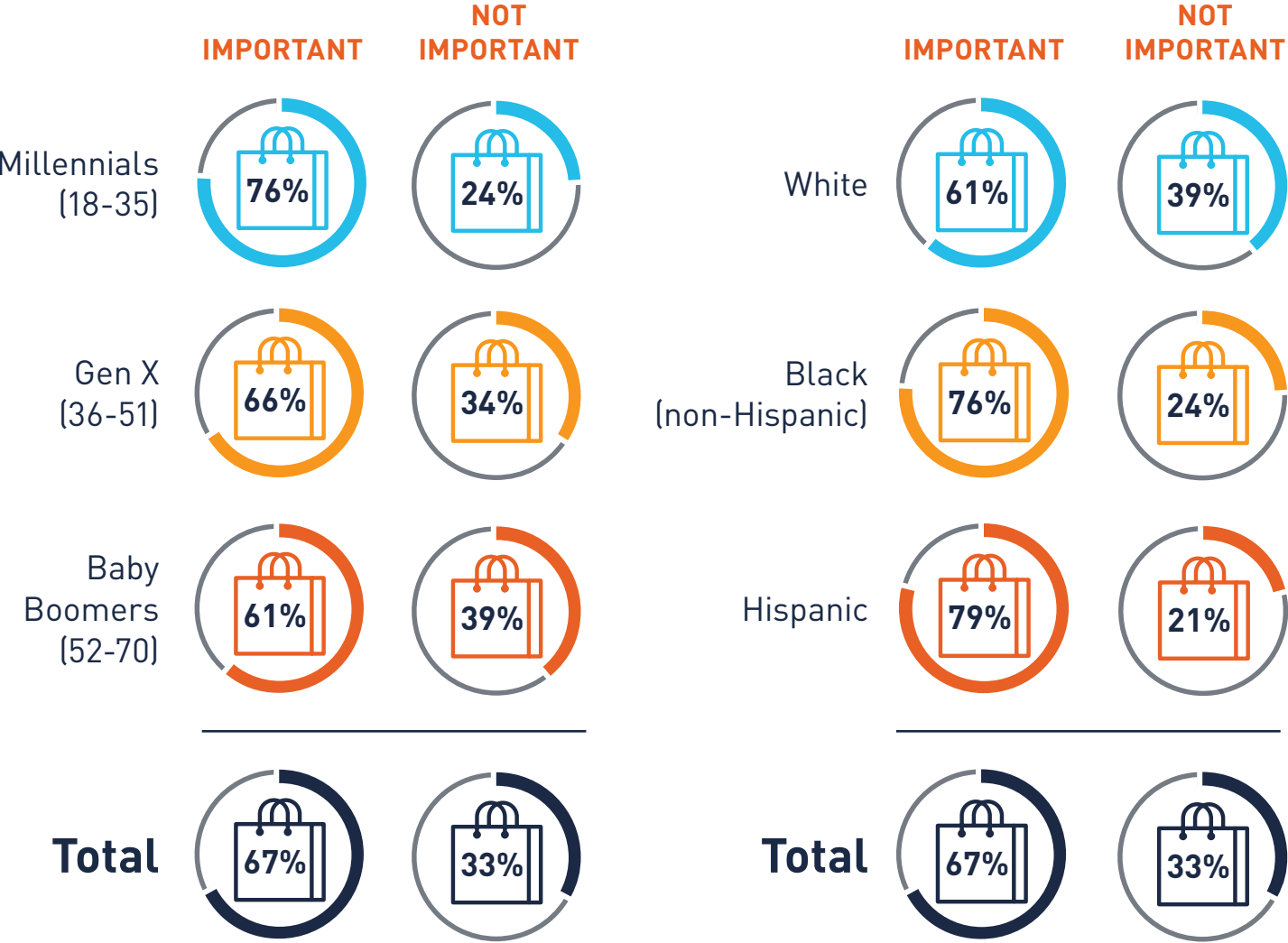


CATER TO LOCAL PREFERENCES

2

Nearly 70% of consumers surveyed told us it is important that stores carry assortments that cater to the local community. A relatively small change, 5% or less, in the right areas can make a significant impact. This includes carrying the right colors and sizes. In fact, African American and Hispanic shoppers found that localization is very important.

How important is it to you that stores you shop at carry items that represent the needs/characteristics of your local community?



3

ACCENTUATE VISUAL MERCHANDISING AND DISPLAYS

Fifty-six percent (56%) of consumers in our survey told us that window signage is Very/Extremely influential to crossing the lease line. Do your window signs and displays tell a compelling story?

When you shop at physical store locations, how influential is window signage (e.g., pricing, new products) in making a decision to come into the store?

EXTREMELY
INFLUENTIAL



VERY
INFLUENTIAL



NOT VERY
INFLUENTIAL



NOT AT ALL
INFLUENTIAL



IMPROVE STORE PLANNING AND EXECUTION

4

Consumers told us the biggest reason for leaving a store without a purchase (60%) is they could not find the item they were looking for. Make sure they can find what they want!

When you shop in-store, what are the reasons you typically leave a store without making a purchase?

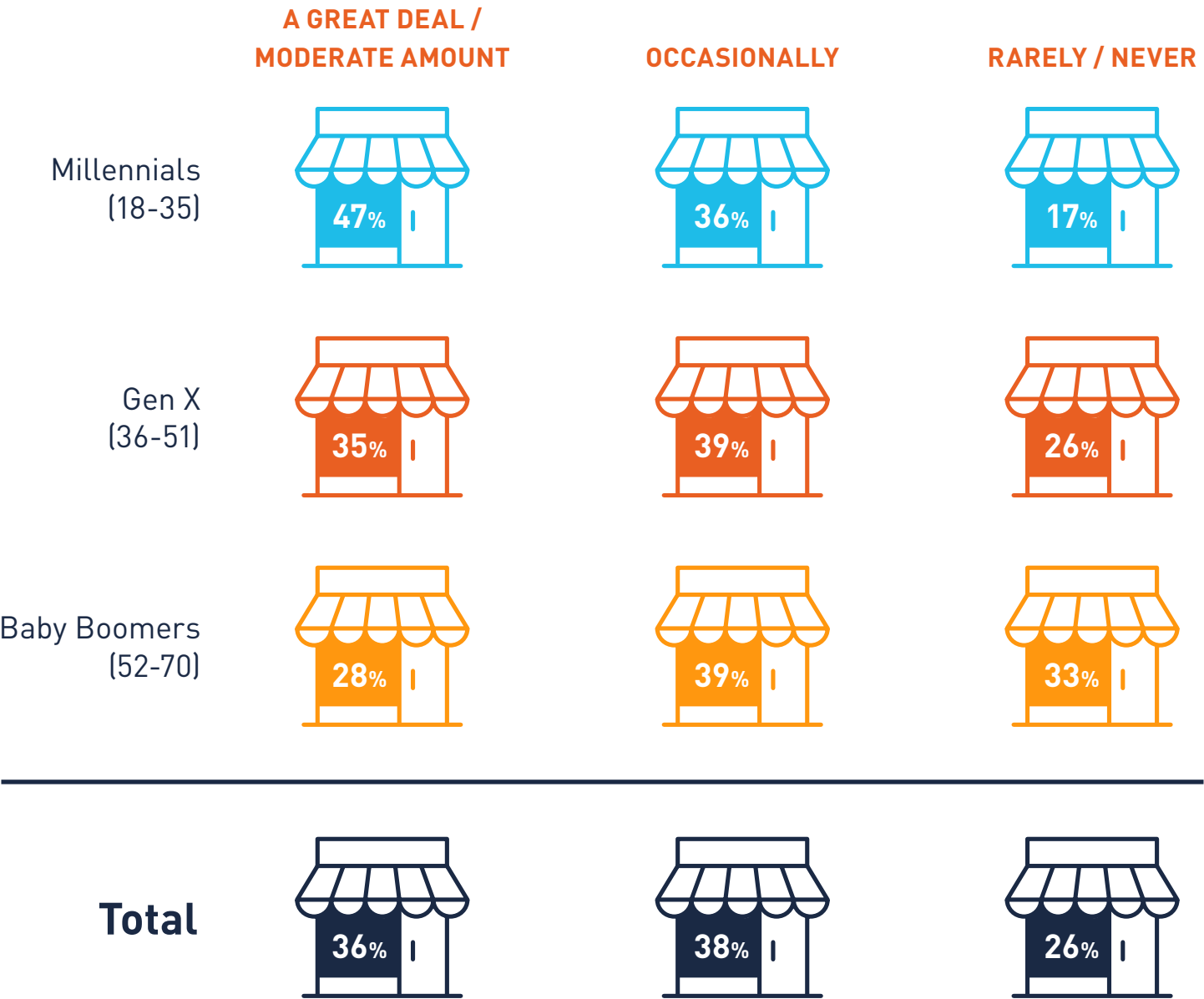


5

TRANSFORM THE SHOPPING EXPERIENCE TO
RESONATE WITH TODAY’S SHOPPERS

The omni-channel experience is not just about online shopping, and while traffic to malls has declined, nearly three-quarters of shoppers say they still visit traditional malls at least occasionally. Baby Boomers told us that they are less likely to visit malls, yet they have more disposable income—find ways to ‘lure’ them in.

How often do you shop in-person at traditional malls (defined as a retail shopping location anchored by one or more major department stores)?



Succeeding in a Challenging Environment

Retailers face multiple disruptive forces that will equate to a continued period of unprecedented change. In the near term, increased demand will not come to the rescue, as our survey suggests the 2016 holiday season will provide little growth compared to last year. At the same time, there are tangible opportunities to resonate with customers more effectively through the Retail Imperatives described earlier:

- Reignite loyalty program
- Accentuate visual merchandising and displays
- Improve store planning and execution
- Cater to local preferences
- Transform the shopping experience to resonate with today's shoppers

The retail landscape has changed, but it still comes down to delivery of a compelling value proposition and great shopping experience. Retailers can take action to enhance their assortment, connect with customers via effective programs and marketing, and execute in store more effectively to meet and exceed customer expectations.



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