The New Normal: The Deliberate Consumer

N. David Milder
DANTH, Inc.
718-805-9507
www.danth.com
danthinc@yahoo.com

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The $s for the last deviant decade of hyper consumer spending came from…

- Home "piggy banks"
- Credit cards
- Diverted savings
- These sources are no longer there.
- While consumers have not stopped spending, many have changed how and why they spend
- They have become deliberate consumers
- Downtown retailers and their organizations need to be able to respond appropriately
- That starts with understanding the deliberate consumer

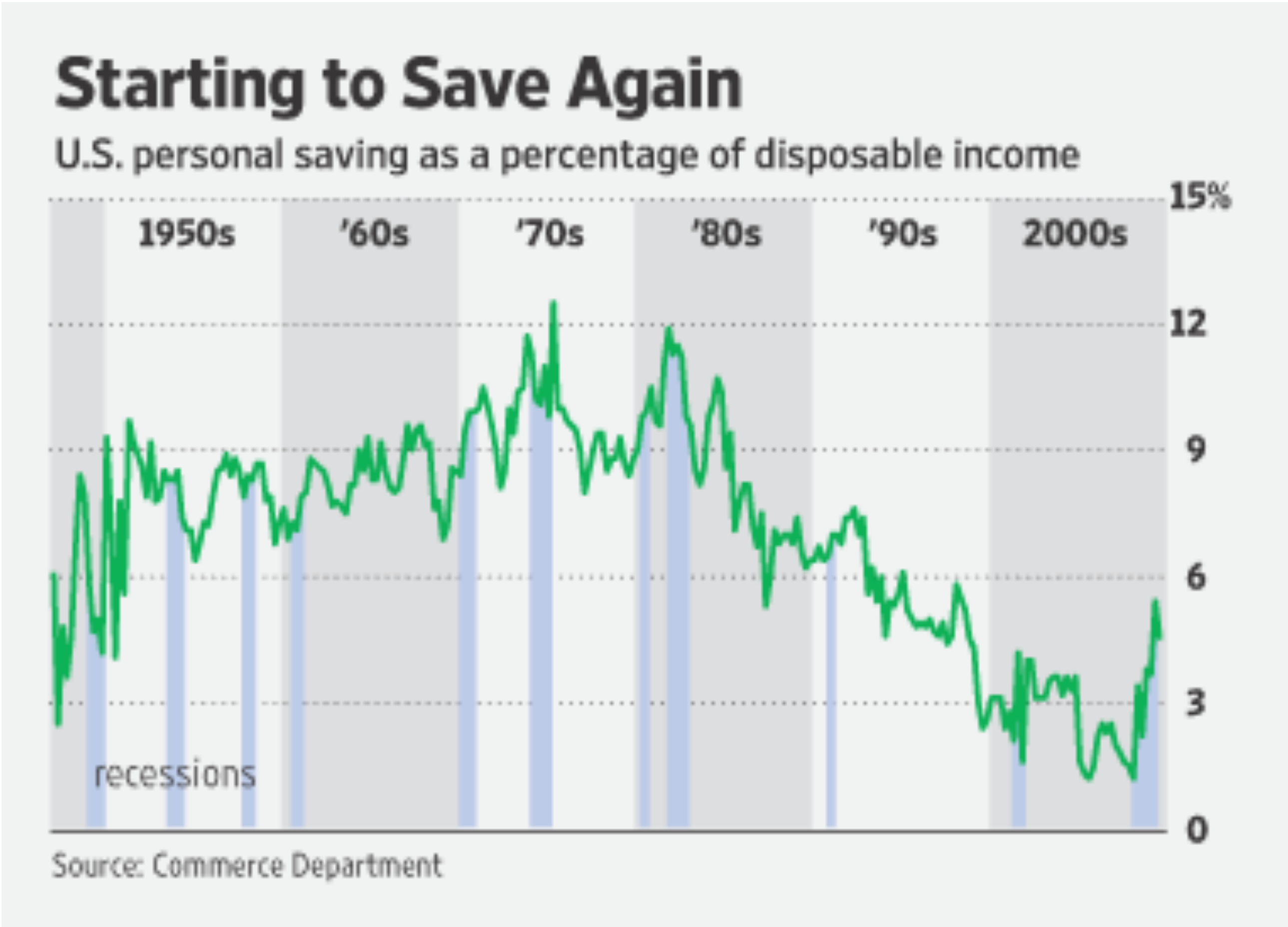
The 2000s Were A Bust For Most Americans: incomes were flat and job growth slow even before the recession, when net worth crashed

Decade	Growth Personal Income		Growth Net Worth		Growth Employment
1950s	28%		26%		24%
1960s	36%		25%		31%
1970s	17%		12%		27%
1980s	23%		35%		20%
1990s	18%		44%		20%
2000s	*5%*		*-14%*		*1%*
Income Per Person*		**Net Worth Per Person***		**Number of People Employed**	
Dec-99	$ 37,448	4Q 1999	$ 200,076	Dec-99	130,532,000
Oct-09	$ 39,446	3Q 2009	$ 173,683	Nov-09	130,966,000
Sources: Bureau of Economci Analysis, The Wall Street Journal. *Adjusted for inflation					

Home Values: Once the family piggy bank, now a drag

- Before the recession homeowners were taking hundreds of billions out of their homes annually to spend on consumer goods and home prices only seemed to go up
- In 2009, 14 million homeowners, about 25%, were ”underwater”
- According to Economy.com (Mark Zandi) 25 million, close to 50%, will be underwater by 2011
- While moderately priced homes have stabilized, declines are now hitting medium and high priced residences
- Experts: recovery in home values will take 10 years

Savings Rate Is Up – these dollars are not going for shopping



Consumers are treating their credit cards differently

- Cards are harder to get, limits are lower and rates are often significantly more expensive
- An Oct '09 Nielsen survey of 2,500 consumers found 33% use their credit cards less and 30% plan to still use them less when conditions improve
- Actual credit card indebtedness has declined
- Debit card purchases now almost equal that of credit cards, suggesting consumers are doing more "pay as you go" shopping
- When facing financial problems people are increasingly making their credit card payments before their mortgage payments
- Retail sales are bound to be impacted by shoppers' lower credit card spending power and their more careful use of credit cards

Job creation was and is slow, with few signs of acceleration

- Job growth in the 2000s was anemic
- In past recessions, it has taken almost 5 years for lost jobs to be recovered
- Experts expect job recovery from this recession will take at least as long
- Concerns about company stability and job loss constrain consumer spending

Costs of "Sneaky Necessities" Keep Rising Ahead of CPI

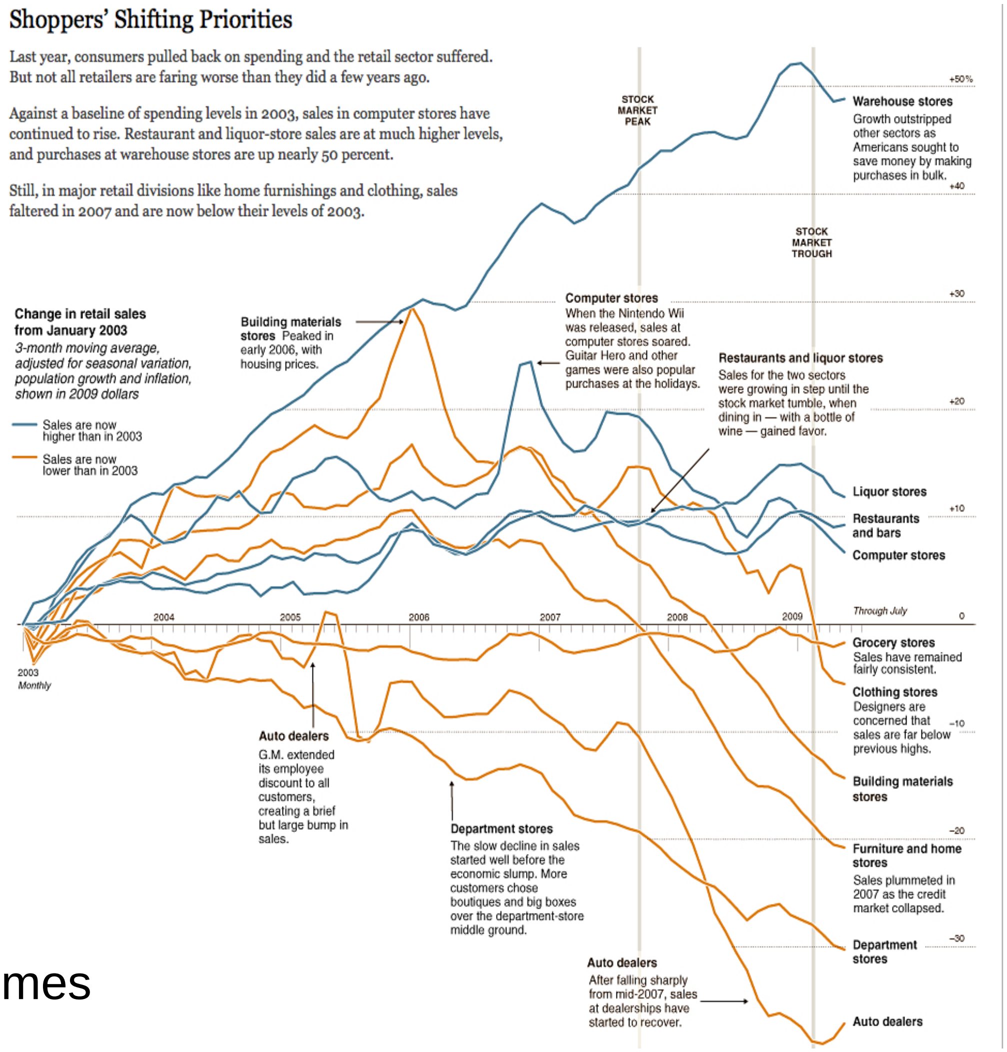
Date Ranges	CPI	Medical Care	Tuition, Fees, Childcare	Gasoline
1/99 to 12/08	128.5%	145.3%	178.0%	173%
12/08 to 11/09	102.7%	104.3%	104.5%	147%

Some key consumer items are not so "discretionary," especially for families. Their costs were skyrocketing before the Great Recession and continued to grow faster than the overall CPI since.

SHOW ME THE MONEY!!

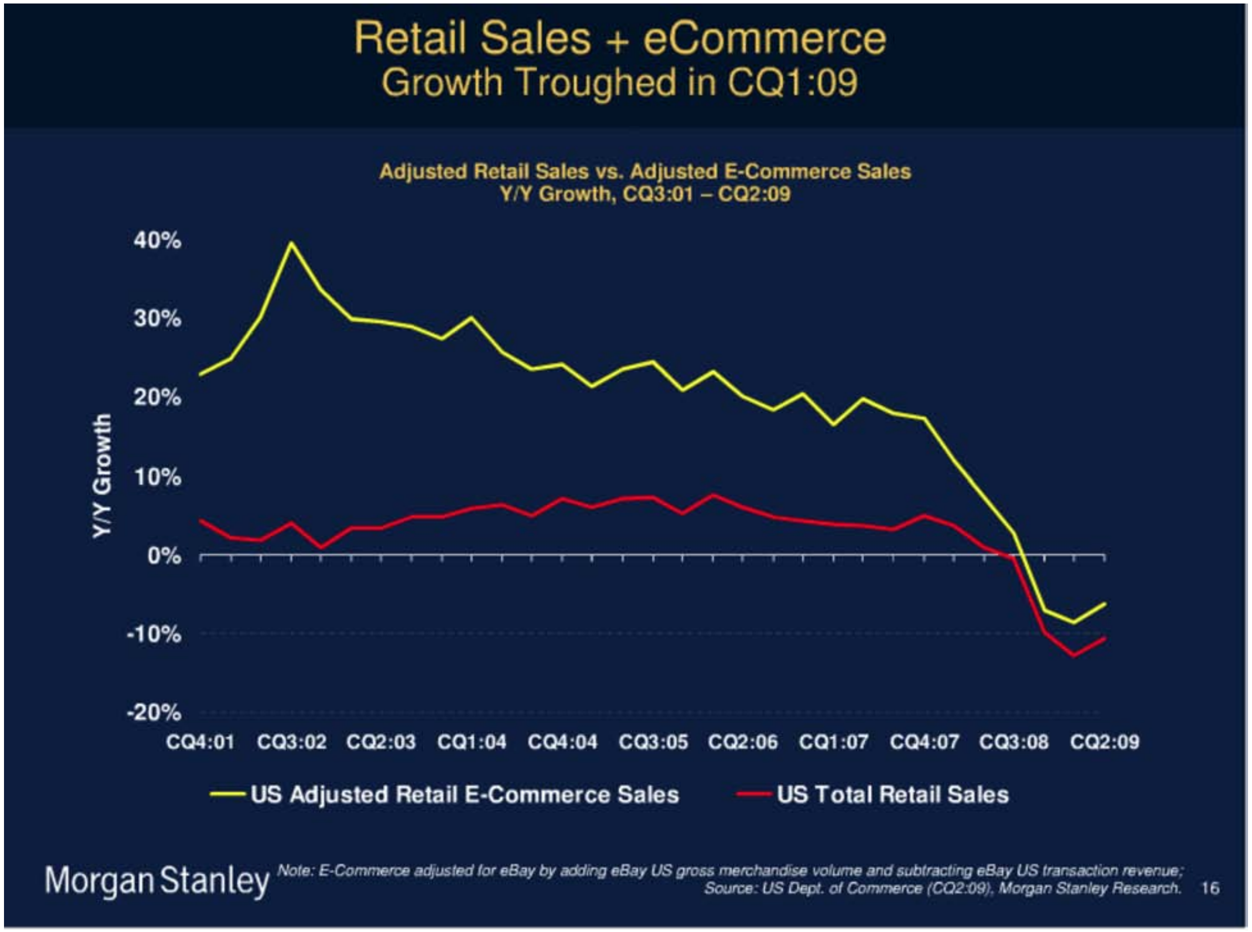
- Surveys may show that many, perhaps even most, consumers expect that an improved economy will allow them to return to their old shopping behaviors
- But, it is hard to see where, in the foreseeable future, they will get the money or credit to do so
- Many key economic problems predated the recession and continued on through it
- Show me the money!

In the recession: discounters grew, shoppers avoided higher cost items requiring credit; necessities stable



Source: NY Times

Even the magic of e-commerce disappeared during the recession



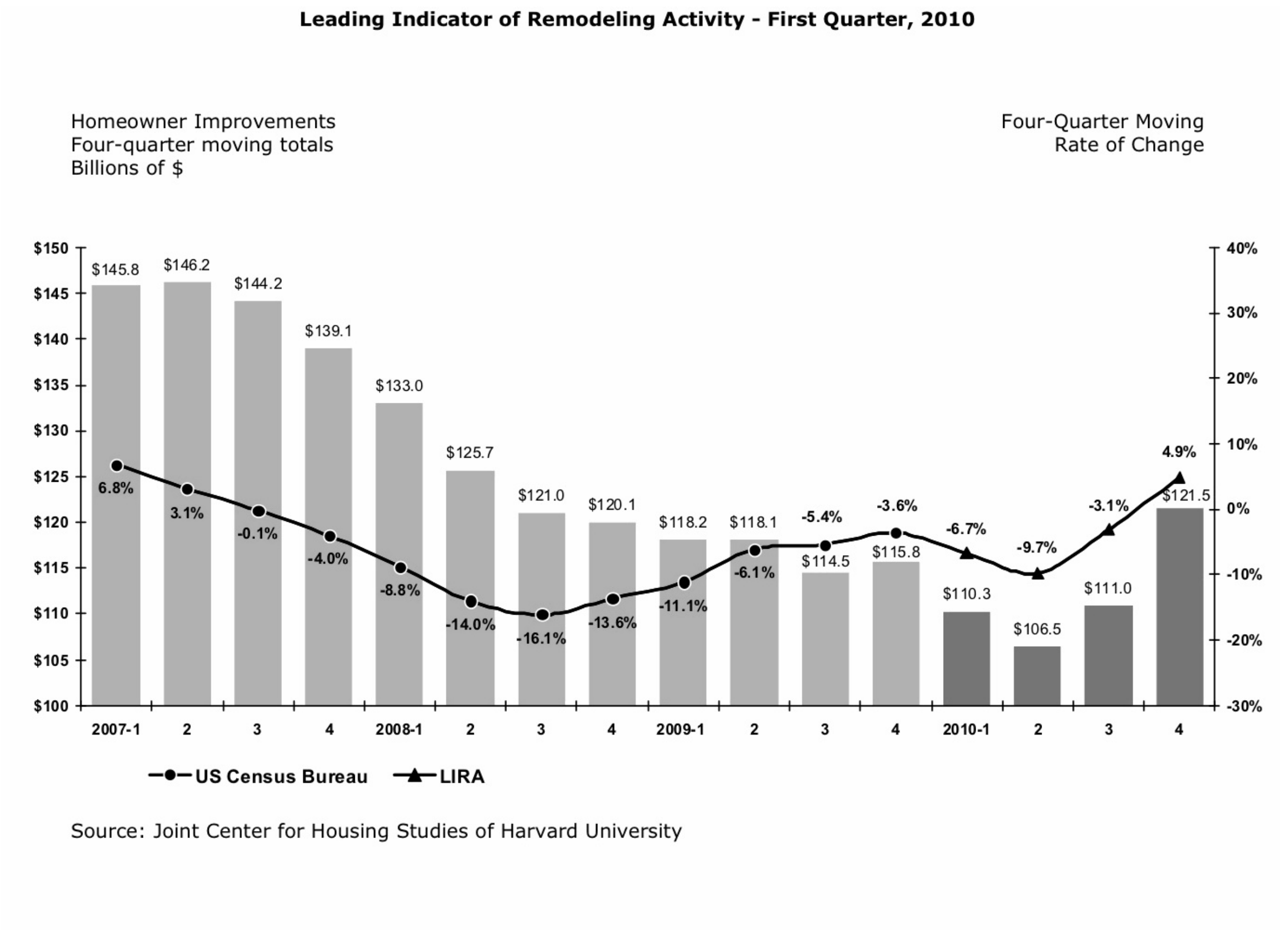
Which retail sectors will do relatively well in the New Normal?

- The retail market will continue bifurcating as it was before the recession, with continued weakening in the middle
- Value discounters keep kicking butt at the bottom price points
- Luxury will return, probably not at full throttle, at the top; expect major fall off in “trading up”, mass luxury traffic
- Those that sell “necessities” – e.g., food, drugs, personal care – will continue to do well
- Home & hearth will rebound: went so low; home maintenance, remodeling, cocooning needs; demand still constrained; Ashley 300 new stores
- Between 2007 and 2008, annual household expenditures for pets, toys, hobbies, etc. increased by almost 26%
- Goods and services for children: we still love and pamper our kids

Who will be looking for retail space?

- Retail chains will be opening far fewer new stores
- The share going to downtowns will be less than before
- Small independent retailers will be sought increasingly in small towns and larger cities
- New small retailers or existing ones interested in cloning have a big problem: finding capital
- Valhalla retailers

Home improvement spending will recover this year



Consumers are becoming more cautious and frugal…

- “A January 2010 survey of 8,000 American consumers found that 51% say they have become more budget conscious and will consider each purchase more carefully over the next five years.”*
- “60% said they now focus on what they NEED versus what they want”*
- An Oct ‘09 Nielsen survey of 2,500 consumers found:
  - 71% of respondents reporting they are in no position to buy right now
  - “The prevailing mood could likely be summed up by one respondent who noted bluntly: ‘I will not be making any large-item purchases for a long while.’ ”
  - “Greatest concerns are around investments….What we’re hearing: the recovery for the consumer will be a longer, and more personal road back.”

**Cited in: White Hutchinson Leisure & Learning Group White Paper © 2010*

Consumers want simple, easy to use, affordably priced products

- Percent of consumers who want a basic set of features at a good price:*
  - 68% Washing machines
  - 67% Refrigerator
  - 67% Cell phone
  - 60% Video camera
  - 54% Laptop
  - 48% Television
- The lessons of the Flip camcorder and the netbooks:
  - few bells and whistles
  - easy operation
  - low price

*2009 McKinsey Survey of 2,500 U.S. consumers

Many consumers find lower cost products very acceptable and they are impacting on manufacturers and retailers

- McKinsey & Co: 18% of consumer-package goods customers tried lower-priced brands and
  - 34% of them no longer preferred the higher priced products
  - 41% still preferred the more expensive products, but felt they were not worth the additional money
  - Many find their quality of lower prices goods much better than expected; e.g. 33% of bottle water users found the quality difference did not warrant the price differential
- For many product lines and retailers such small consumer shifts can have big impacts on profitability.
- What happens at the margins is very often important!
- P&G and L'Oreal have come out with less expensive product lines; high end dept stores are offering more affordable merchandise

Style, design and uniqueness still matter

- Compared to other retailers, “cheap chic” chains that offered attractive product design/style did well during the recession
- For example: Ikea, CB2 and Target.
- As the economy slowly rebounds they should capture more frugal, design appreciative shoppers and their $s
- Also, independent retailers serving narrow niche markets with unique needs (e.g., Orthodox Jewish women) have relatively done well during the recession and should do even better as the economy upticks

Have Americans dumped "conspicuous consumption" and stopped "keeping up with the Jones?"

- According to Randy White, the work of many research firms (e.g., Zogby, The Boston Consulting Group, Context, WSL/ Strategic Retail, The Hartman Group, IPSOS, Envirosell, Decitica Marketing Strategy & Research, Nielson, Bain & Company):

> "… confirmed the trend of American society's transformation away from aspiring to materialism to aspiring to a life better lived."*

**Cited in: White Hutchinson Leisure & Learning Group White Paper © 2010*

Is the “citizen consumer” emerging?

- Some experts see consumers decisions increasingly being based on factors such as these:*
  - Environmental concerns, including pollution and climate change
  - Labor practices at home and abroad
  - Food safety and agricultural sustainability
  - Heath and wellbeing
  - Human rights issues in foreign countries
  - Ethical treatment of animals
  - Other societal issues such as diseases, poverty, health and education
- Will these factors impact most consumer decisions? Too early to tell, but probably not
- Can each impact 5% to 10%, maybe 15%? Perhaps. Some have already reached those numbers. Added together? More time and research needed.

*White Hutchinson Leisure & Learning Group White Paper © 2010

Summary: Key characteristics of the deliberate consumer

- Increased frugality and price consciousness
- Needs are more important than wants
- Prefers products that are easy to use, not loaded with unused bells and whistles, affordably priced that work really well
- Appreciates attractively designed/styled affordable products
- Social concerns may be an increasing, though probably not dominant, influence in consumer purchases; may also be most prevalent among those who can afford to act this way (e.g., Prius, Tesla, & solar roof owners)
- Income influences who will be deliberate consumers.

Low income shoppers – relatively little change

- Low-income retailers have long had reputation for being recession proof, originating in dependability of welfare checks
- Though public welfare has been reformed, the lowest HH income quintile in recessionary ‘08 had average income of $10,263, while average consumer expenditures were $22,234
- That means an average HH financial inflow of $11,971
- DANTH’s canvassing found low-income urban centers reporting relatively low retail vacancy rates, unchanged by the recession; media report same trend
- Low price has always been an important characteristic of retailers targeting low income shoppers (value another matter)
- Value discounters (e.g., Walmart) have “discovered” the urban low income market

Luxury shoppers – how many will return to old behaviors?

- Wealthy and aspirational shoppers have cut back in different ways
- The very wealthy reportedly not leveraging their investments as much. Is this caution also reflected in their spending?
- Affluent shoppers reportedly buying classic, less ostentatious, more durable” merchandise
- Aspirational consumers are trading down to more affordable merchandise
- Some market experts expect a luxury market rebound by 2012
- But how many of the wealthy still will have “behavioral memory trace” or feel financially insecure?
- How many aspirational consumers still have the money or credit to trade up?

The Affluent Dominate Retail and Entertainment Spending

Quintiles of income before taxes: Some shares of annual aggregateexpenditures						
Item	**Aggregate ($ Millions)**	**Lowest 20 percent**	**Second 20 percent**	**Third 20 percent**	**Fourth 20 percent**	**Highest 20 percent**
Number of consumer units (in thousands)	120,770	24,122	24,143	24,172	24,157	24,177
Avg income before taxes	$63,563	$10,263	$27,442	$47,196	$74,090	$158,652
Percent distribution of consumer units	100.0	20.0	20.0	20.0	20.0	20.0
Average annual expenditures	$6,094,697	8.8	12.6	16.9	23.2	38.5
Food at home	$451,454	12.6	15.6	18.3	23.2	30.2
Food away from home	$325,371	8.2	12.1	16.1	24.1	39.6
Household furnishings and equipment	$196,026	8.0	10.6	16.6	23.3	41.5
Apparel and services	$217,176	10.7	12.8	15.1	22.6	38.8
Purchases of cars and trucks, new	$157,600	4.0	9.1	14.7	23.4	48.8
Public transportation	$61,961	8.6	8.8	11.7	18.8	52.1
Entertainment	$342,185	7.6	12.1	17.1	23.1	40.1
Fees and admissions	$74,337	5.1	7.2	12.1	21.0	54.6
Audio and visual equipment and services	$125,111	10.3	14.0	18.3	24.4	33.0
Pets, toys, hobbies, and playground equipn	$84,872	7.3	12.3	18.4	21.2	40.9
Personal care products and services	$74,300	9.9	13.0	16.6	22.8	37.6
Gasoline and motor oil	$327,872	9.1	14.9	19.9	25.2	30.9
Healthcare	$359,365	10.9	16.5	19.4	23.6	29.5

Source: Items taken from BLS Table 55,Consumer Expenditure Survey, 2008

Most “deliberate consumers” will be from the broad middle class

- From the 60% in income quintiles 2, (and especially) 3 & 4
- Average HH in 3rd income quintile in 2006 invested/saved about $2,400; the top quintile about $47,000
- Confluence of pressures:
  - Underwater mortgages
  - Reduced credit
  - Unemployment
  - Growing sneaky necessities
  - Stagnant earnings

How retailers can respond to their biggest challenge: low price value retailers

1. Find those shoppers who are not price sensitive
2. Create new, meaningful ways to provide value for customers besides low price
3. Build up a backdoor retailing operation
4. Identify and cultivate niche markets and even micro markets
5. Generate and cultivate store apostles – 50% of sales can come from 10% of customers
6. *How many downtown retailers have the skills for this*?

Find shoppers who are not price sensitive

- Geographic variability: McKinsey found that price sensitivity could vary by a factor of 5 across cities in a region and 3 across the zip codes in those cities
- You need good market research
- Surveys are one means
- New owner lists of sports cars, stock cars, horses, second homes, etc.
- Personal observation and interaction cannot be beat
- In store events, niche events and some other downtown events can create key personal contacts

Create new, meaningful ways to provide value for customers besides low price

- Go beyond the Prince and Princess level of customer service to the **Empress and Emperor** echelon!
- Convenience – Americans still time starved
- Design and style
- Uniqueness
- Social value – e.g., “Buy Local,” “green products,” Fair Trade products, union labels

Backdoor Retailing

- Provides additional market segments to tap, off-site, as well as additional revenue streams
- Face to face and electronic approaches
- Lots of B2B relationships, but also special B2P ones
- A retail tobacco shop in downtown Rutland, VT, that also was a distributor of tobacco products to merchants in Rutland and the surrounding region
- A well-known fish market in Maplewood, NJ that supplies over 40 restaurants
- A women's clothing shop that took its wares to model and sell at local women's clubs, PTAs, etc.

For more detail see:

http://downtown-curmudgeon.blogspot.com/2009/11/backdoor-retailing.html

Identify and cultivate niche markets based on special needs, behaviors and characteristics

- Clothing and foods for specific religious or ethnic groups
- Feature locally manufactured or grown products, e.g., artisanal cheeses, pottery – also has sustainability fit
- Senior population will be exploding and full of special needs for clothing, furniture, equipment, etc.
- People like to spoil children and pets
- People are cocooning, spending more time at home: $s for home theaters, family rooms and kitchen improvements
- In your town, if you seek, you will find

Generate, cultivate and leverage store apostles

- In small and medium districts the keys to successful marketing are:
  - Attracting a bevy of store apostles
  - Using electronic media to echo and facilitate their messaging
- Offer very appealing and fresh merchandise to lure the apostles
- Apostles are created face – to - face; they can be reinforced electronically
- Provide great customer service
- Create an attractive store environment with pampering amenities
- Use email, Facebook and Twitter judiciously – they can help or hurt you
- Hold in-store events to convene your apostles – once you have them, might as well put them to work
- Use the apostles as key message distributors in your electronic and face-to-face social marketing networks

To help retailers, downtown organizations must address these problems:

- Expect more average or weak retailers to fail, continued high churn
- Retailers need much better market research …and the skills to use it!
- Merchants, newbies or old, need new capital sources (bank loans dropped 7.5% in ‘09, most since the 1940s, credit cards down)
- Need to assure non-retail downtown traffic. Formal entertainments weakened, entertainment niches must revise; the importance of vibrant public spaces greater than ever… and growing
- Significantly more retailers will be “stressed” by the deliberate consumer; they must learn to be real merchants to survive. Their needs will be broad and deep. How will they be (re)trained if they will not leave their shops?
- Marketing is a whole new ballgame… for everyone.
- Margins are more critical, so affordable rents are more essential

Getting the merchant to use more information about markets

- Most small independent retailers lack the funds to gather or buy such information… and the skills to use it
- They will need some kind of training
- The downtown organization can play a major role on both accounts by aggregating $s from its members; BIDs can do this more easily than the standard Main Street operation
- Lifestyle and demographic analysis as well as surveys can be powerful tools
- But simply assembling or purchasing mailing lists of people with specific characteristics – e.g. people with incomes over $100k; folks getting married; members of the Sierra Club; buyers of hybrid cars, etc. --can be a powerful tool and often be done at a relatively low cost.
- Look first for simple information that is easy for the average merchant to use, easy to get and affordably priced

How downtown organizations can help retailers meet financing needs

- Connect them to banks that lend;
- Connect them to government agencies that facilitate lending, e.g., SBA, USDA
- Create revolving loan pool
- Create loan guarantee fund (?)
- Invest in key businesses – if they are that good and you want them that bad
- Encourage “balloon leases” – savvy landlords will do this
- Encourage coop bulk buying
- Redevelop a building into *de factor* low cost incubator spaces

A danger to downtown customer traffic: “Formal Entertainments” are in trouble. According to the NEA…

- “Nearly 35 percent of U.S. adults… attended an art museum or an arts performance in the 2008 survey period, compared with about 40 percent in 1982, 1992, and 2002
- Attendance at the most popular types of arts events – such as art museums and craft/visual arts festivals – saw notable declines. The U.S. rate of attendance for art museums fell from a high of 26 percent in 1992-2002 to 23 percent in 2008, comparable to the 1982 level.
- Between 1982 and 2008, attendance at performing arts such as classical music, jazz, opera, ballet, musical theater, and dramatic plays has seen double-digit rates of decline.
- Fewer adults are creating and performing art. For example, the percentage of adults performing dance has lost six points since 1992. Weaving and sewing remain popular as crafts, but the percentage of adults who do those activities has declined by 12 points. Only the share of adults doing photography has increased – from 12 percent in 1992 to 15 percent in 2008.”

More from the NEA survey…

- "Aging audiences are a long-term trend. Performing arts attendees are increasingly older than the average U.S. adult (45). The aging of the baby boom generation does not appear to account for the overall increase in age.
- Educated Americans are participating less than before, and educated audiences are the most likely to attend or participate in the arts.
- College-educated audiences (including those with advanced degrees and certifications), have curbed their attendance in nearly all art forms.
- Ballet attendance for this group has declined at the sharpest rate – down 43 percent since 1982.
- Less-educated adults have significantly reduced their already low levels of attendance."

Downtown organizations must help create more vibrant open spaces and foster “informal entertainments.”

Carousel and round house, Mitchell Park, Greenport, NY

Amphitheater, Mitchell Park, Greenport, NY

Informal Entertainments generate traffic…and they're "sticky"

- Formal entertainments' increasing time and $ costs
- Great public spaces like Rockefeller Center, Bryant Park, Mitchell Park, etc.
- Work as entertainment:
  - The Mill in Quechee, VT
  - The Torpedo Factory in Alexandria, VA
  - The Banana Factory, in Bethlehem, PA
  - Miami City Ballet rehearsals
  - Chelsea Market (Manhattan)
  - Artisans in Williamsburg, VA; Sturbridge Village, MA; Old Town, San Diego, etc.

Merchants need to be (re)trained in their shops. Downtown organization need to be the information linkers and coaches…but not the experts

- Downtown retailers are hard to get out of their stores and into workshops, so that is where the training must occur
- Tap the expertise of local universities for in-store consultations
- Organizations like DNJ, BMA-NYC, UWEX, IDA, IEDC, NMSC need to generate inter-active training programs that merchants can do in their stores or homes.
- A model for this is the aircraft maintenance training CDs Boeing did for the 767 and 777, though internet access may be better than CDs
- A downtown organization's staff should be able to:
  - Help merchants identify their training needs
  - Link them to the learning resources they need, including their nearby peers
  - Be able to coach them on how to use these resources

Downtown Marketing Efforts…

- Now, more than ever: Get merchants to stop bad mouthing their district to shoppers and the media!
- The best marketing is done in a store, is face-to-face and very personal. It's relationship building, yet involves merchandise, customer service, displays, storefronts. Many programs of a downtown organization can have substantial marketing impacts
- Training merchants in marketing is admittedly difficult, but the payoffs can be great. You do not have to win them all to have a big effect. MARKETING TRAINING IS A MARKETING PROGRAM!!
- We need to rethink lots of downtown marketing and promotional efforts. Loads of it is boiler plate or copy cat. Seldom is there a proper discussion of objectives (successfully doing an event is not a justifying objective) or effectiveness. They often are done because they have been done before or some other district is doing them.

Downtown Marketing Efforts…2

- Many still think of marketing in terms of the declining print media and stale traditional events like sidewalk sales, etc.
- Marketing via online social networks (Facebook, Twitter, YouTube, etc.) is growing rapidly among large retailers, consumer goods manufacturers, some really savvy downtown independent merchants and a few downtown organizations. More merchants…etc.…
- Many, if not most, merchants in small and medium downtowns lack the skills and resources to maintain a complex web presence. How can a downtown organization help? An unvisited page on its website is not a solution. This is an unanswered challenge
- Some downtown events – such as a bridal show or a hospital fundraiser – have implicit networking opportunities. If properly leveraged, these can be very effective tools for both merchants and their downtown organizations
- The inescapable bottom line: most of your downtowns are filled with small merchants and most of them need a lot of help to effectively market their shops and your downtown. Who will provide that help?

What are "affordable retail rents" and how much space can they buy? The 15% rule of thumb

Affordable Retail Rents					
Annual retail sales	$250,000	$300,000	$350,000	$400,000	$450,000
Affordable Rent Percentage	High of 15%	High of 15%	High of 15%	High of 15%	High of 15%
Max Affordable Rent $s triple net	$37,500	$45,000	$52,500	$60,000	$67,500
Affordable SF at:					
$10/SF	3,750	4,500	5,250	6,000	6,750
$20/SF	1,875	2,250	2,625	3,000	3,375
$30/SF	1,250	1,500	1,750	2,000	2,250
$40/SF	938	1,125	1,313	1,500	1,688
$50/SF	750	900	1,050	1,200	1,350
$60/SF	625	750	875	1,000	1,125