



How to survive the recession in retail

INSIDE

The only way is down?

Is there any relief from the retail downturn?

How to encourage consumer spending in a recession

Understanding shopper types and targeting them effectively

Retail '09 – The story so far...

Some of the star performers and biggest casualties in early 2009

Looking on the bright side of a retail recession...

It's tough out there, but there are opportunities

Introducing Counter Culture

Counter Culture is our quarterly update for anyone in the retail sector – identifying trends in consumer behaviour.

In each publication we will review current trends and issues in the retail sector, offering comment supported by relevant retail data and examples.

We also want to stimulate ongoing debate, to inspire change and help with future sector development. We'd like you to become part of that process, to comment on trends and issues and question our views.

To facilitate this and to keep you fully up to date with new material, the Counter Culture website will give you access to further information and insights, allow debate and discussion from others in the sector and enable you to post comments of your own.



...at www.cculture.co.uk

We look forward to hearing from you.

Counter Culture is produced by Conran Design Group with the support of Verdict Research. Conran Design Group is a leader in consumer branding and design – from naming and brand creation, through marketing communications to the customer experience. Verdict is the UK leader in retail research and analysis, and brings additional understanding and observations on the sector.

COUNTER**CULTURE**

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Welcome to our first issue

As we all know, we are facing one of the most demanding retail environments for decades. In this first issue we focus on the trends and characteristics of the current situation, some of which are unique to this recession.

We review the advances of technology and the pervasive influence of the internet – both will have a significant impact on retailers and their survival. Technology is also playing a part in another significant feature of retailing over the last decade – the increase in male shoppers. Traditionally women have had a dominating market influence. What opportunities does this trend create?

In terms of responding to the current conditions, in 'How to encourage consumer spending in a recession' (pages 4 to 9), we look at what businesses can do to encourage specific consumer groups back into store or back online and, more importantly, encourage sales.

We also look at some of the recent winners and losers in the battle for sales over the crucial first quarter trading period. How have some seemingly bucked the trend and what can we learn that might inform future strategy?

Our intention has been to strike the right balance between reviewing the trends and features of the current retailing environment (which is a little bleak), with enough ideas and insight to suggest that there are ways that progressive retailers can not only survive but continue to grow and build customer loyalty.

Our aim for future issues of Counter Culture is to identify and comment on the trends, and highlight the potential pitfalls and opportunities in the retail sector – whichever direction the economy takes.

Please do visit our website and let us know your thoughts.

Jane Simmonds

Managing Partner, Conran Design Group

The only way is down?

Despite the prevailing media coverage, it's not all doom and gloom for retail – there are positives and opportunities as well as the much-reported negatives and risks.

This is the first 21st century recession in the UK and as such it brings some new features as well as traditional ones.

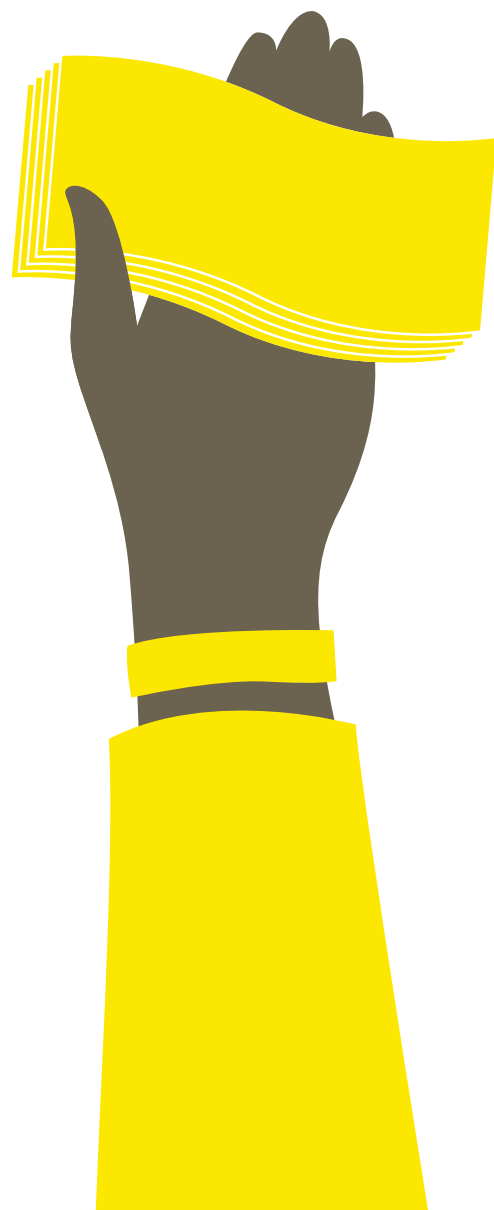
Factors that make this recession different:

THE INTERNET

Accounting for 7.3% (£20.9bn) of all retail sales, though the growth rate is slowing, the web continues to take a significant share. Without this channel, many retailers would be reporting worse figures than they are. It is a far more cost-effective channel than physical stores and serves as a significant driver of footfall into those stores.

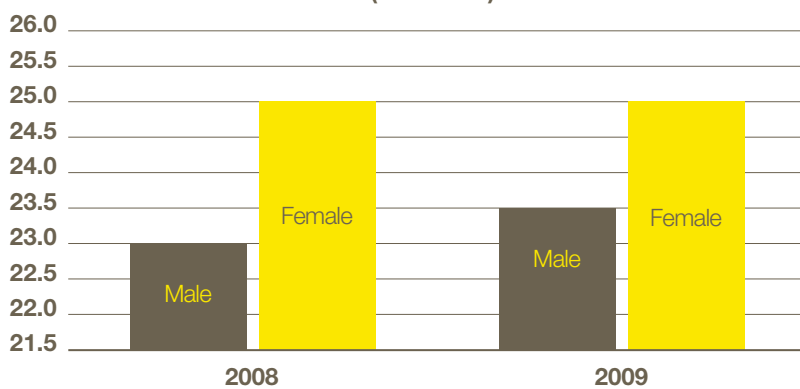
TECHNOLOGY

Efficiencies in retail operations, the supply chain and logistics are all due to technological innovation, much of which has also been driven by the internet. This is hugely important when demand is contracting, costs are inflating and credit is more difficult to negotiate. Technology allows easier, quicker and more targeted communication with consumers than ever before. Retailers can design specific messages to suit niche customer groups – the faster you can get customers to your store, the less likely they are to spend with your competitors. Although investment in technology can be costly, there's no doubt that being fast, flexible and efficient is more likely to ensure survival in this recession. It provides competitive edge and when the market begins to improve, the most agile retailers will be the first to maximise on it.



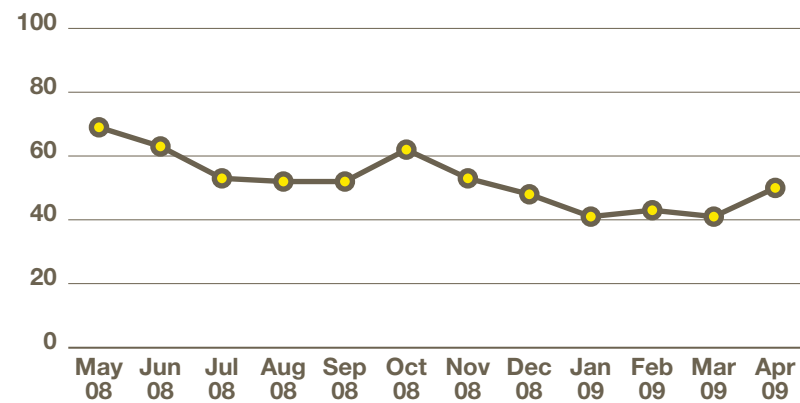


MALE AND FEMALE SHOPPERS (MILLIONS)



Source: Verdict Research, 'How Britain Shops', 2009

CONSUMER CONFIDENCE INDEX



Source: Verdict Research

THE MALE SHOPPER

Traditionally women have been the driving force in the retail sector. However, over the last decade men have started to catch up and in the past year there have been big rises in male shoppers across every sector.

Gaining incremental sales rather than winning market share from competitors is much harder in a recession when shoppers are reducing their spending – but men offer that opportunity. By finding ways to encourage spend in sectors that aren't traditionally male (such as groceries and personal care) total expenditure will increase. And, of course, tailored marketing is much easier to an audience with a natural love of technology.

Are you increasing your investment in online technology?



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How to encourage consumer spending in a recession

We have identified four shopper 'personalities' who have emerged in the current downturn. Recognising them and understanding how to encourage them to buy could be a key step in strengthening your business.

Despite Lehman's collapse, Verdict's annual survey in October 2008 recorded the highest percentage of shoppers for over seven years – 99% of UK adults, 48.8 million people. But these shoppers have become price sensitive and are shopping around more.

THE NERVOUS SHOPPER

Challenge:

Marketing Week reported in February 2009 that research by HPI confirmed women are shopping around for cheaper products, cutting down on leisure spending and are more worried about the overall economy than men. Women are more likely to look for bargains and move to own brand items to save money. So how do retailers cater for budget-conscious shoppers without devaluing their core offer or future revenue?

For retailers who emphasise value (Asda, Primark), they have to ensure that they maintain price competitiveness. But for middle market or premium operators (Next, Waitrose), competing on price compromises their propositions and confuses loyal customers who value their quality position. However value is more than just price – it signifies a mix of quality, price, longevity and service.

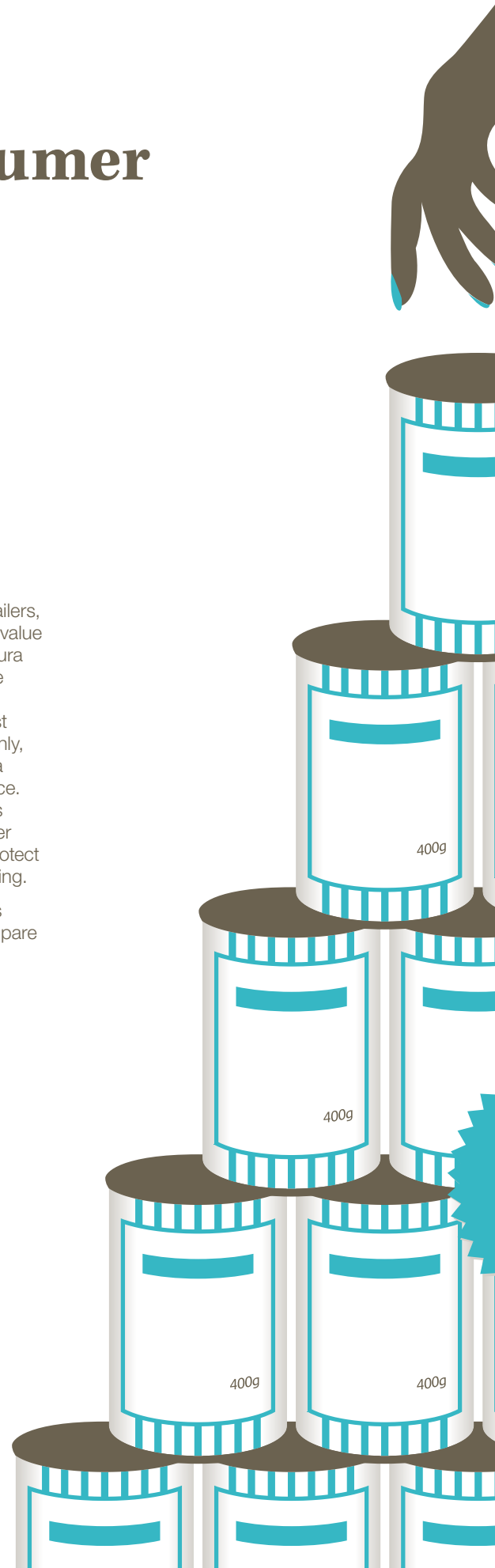
Possible solutions:

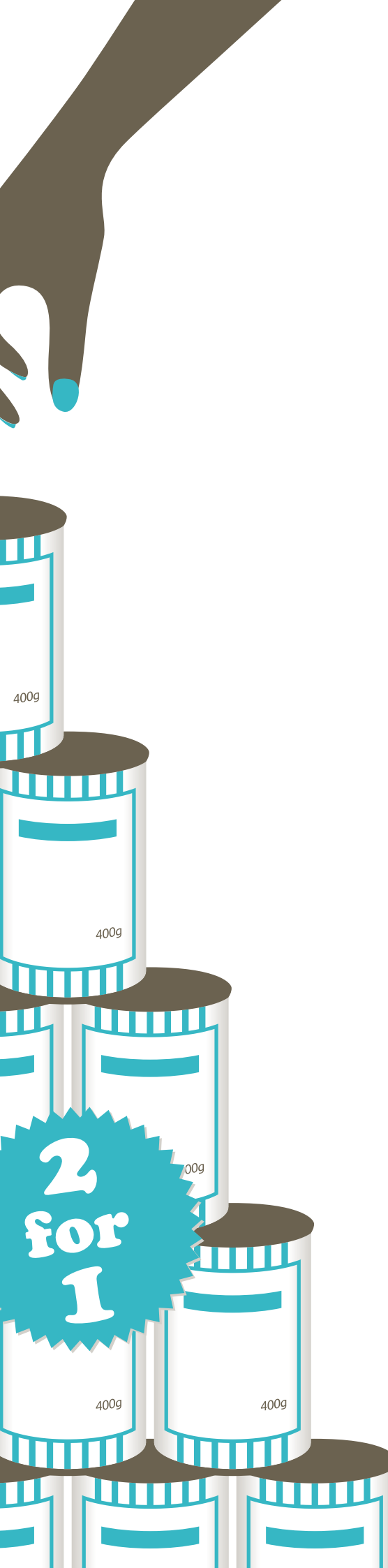
- For middle market and premium retailers, targeted promotions offer customer value without devaluing the brand, e.g. Laura Ashley's blanket 25% discounts. The retailer uses the internet to advertise promotions to those on its mailing list but the discounts are store-based only, providing cross-sell opportunities via product displays and personal service. The benefits are higher volume sales which generate cash and give greater leverage with suppliers, helping to protect overall margins despite the discounting.
- The internet caters well for shoppers seeking value, allowing them to compare prices across retailers. Retailers can advertise promotions directly to customers, allowing flexibility and speed in reacting to sales trends.

How much do you feel value now dominates the retail decision?



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HOW TO OFFER CUSTOMERS VALUE WITHOUT DEVALUING THE BRAND

Non-food

- Be competitive on like-for-like (LFL) products but offer non-comparable, unique, 'must-have' products to encourage trading up. For example, Zara has basic products such as t-shirts at competitively low prices but its fashion items are more expensive compared with mid-market competitors.
- Use sub-brands to communicate price architecture so shoppers know from branding whether they are buying the cheapest, medium or premium product. For example, Tesco's Value and Discount ranges, with mainstream ranges defined by Healthy Living, and premium by Finest.
- Proactive personal service – giving qualified advice ensures that the customer buys the right product for them – therefore gaining better value and greater loyalty, e.g. Hobbs, John Lewis.

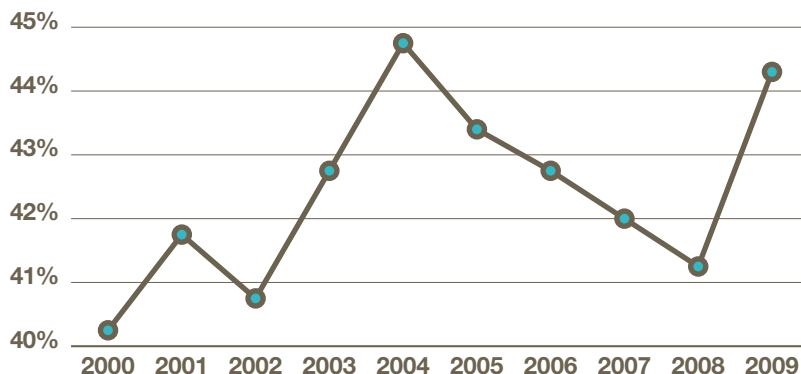
Food

- Promote own brands that offer lower price points but higher margins. Choose products carefully – 'value' meat, even from a premium retailer, is questionable but lower grade kitchen towel is often acceptable.

All

- Use targeted, short-term promotions on the internet to drive sales, e.g. Laura Ashley.
- Exploit brand trust – consumers need consistency in an unstable market and will buy 'big ticket'/forward order items from brands they trust to survive and offer good customer service, e.g. Marks and Spencer, John Lewis.

PERCENTAGE OF SHOPPERS MENTIONING PRICE AS A DRIVER OF LOYALTY



Source: Verdict Research

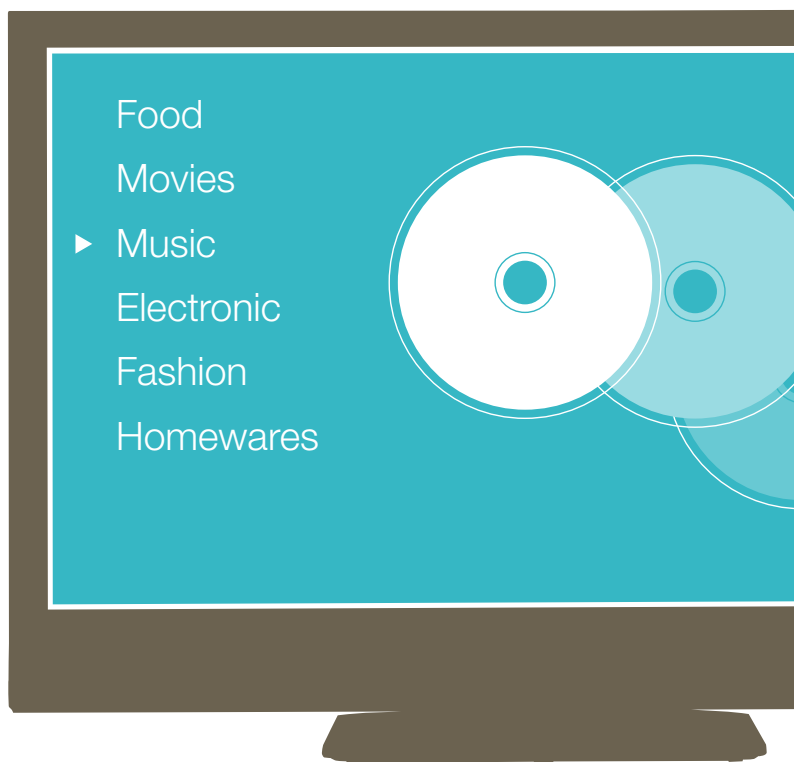
THE COCOONING SHOPPER

Challenge:

Some consumers are still shopping but cutting down on leisure expenses and spending more time at home. They prefer to buy 'treat' items for use at home than go out and spend. Retailers who can adapt product ranges to cater to this trend could be at a distinct advantage.

Possible solutions:

- Substitutes for 'going out' activities – e.g. meal deals; wine; cookery books vs restaurant meals; dining out; home entertainment products vs cinema.
- Pamper at home – candles, lingerie, wine, bath and bed products.
- Provide comfort and security. An opportunity for heritage brands, e.g. Bird's custard, Heinz beans, Radox bath products.
- Indulge with low-price treats. An opportunity for cosmetics and premium chocolate brands.





THE RELUCTANT SHOPPER

Challenge:

The reluctant shopper is likely to be both nervous and cocooning. As these consumers conserve funds and pay off debt, they are only shopping for necessities. While the internet and TV is an effective way of reaching all shoppers in their homes, the reluctant ones need more incentives to spend than any other shopper personality.

Possible solutions:

- Create a sense of urgency to stimulate spending – reluctant shoppers respond to this as they feel they might miss a bargain or something exclusive if they delay.
- Pop-up retailing – where consumer and retail brands take over a space for short periods to promote their brands to niche customer groups (see pages 8 and 9) – builds on this desire. It is also a way of creating 'retail theatre' and excitement. It encourages spending and has become a more prominent trend during the recession. The availability of space has made it easier to create a buzz and sense of immediacy as brands appear one day and are gone the next.
- Use pop-up retail to clear stocks, meet seasonal demands (e.g. Christmas cards and gifts) and drive additional revenue at low cost.

THE MALE SHOPPER

Challenge:

Although men are becoming more active shoppers in all sectors (from fashion to food), with big gains in footwear, music and video and personal care, there is still some residual reluctance to 'get out and shop'.

Possible solutions:

- Promote internet shopping options, even in-store. It provides very direct, fast and convenient shopping options and is non-personal.
- Men like the reassurance of brands that convey the aspirations and lifestyles they identify with. Emphasise brand aspects that attract men by being on trend, innovative and technically advanced, e.g. Apple, Ted Baker, Paul Smith.
- Combine offerings, e.g. the Ted Baker & Friends concept store sponsored by King of Shaves. Health, fashion and gadgets all in one shop.
- The male take-up of personal care products has been fuelled by brands such as Nivea and L'Oréal producing previously considered 'female' products under male brand names and stressing male features. Adapt existing products to the target market and emphasise male attributes to encourage take-up.

Are you changing your marketing strategy to attract more men?



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POP-UP RETAILING – A TACTIC TO STIMULATE IMPULSE SPENDING

This trend, where brands occupy a space for short periods to promote to specific customer groups, is not restricted to physical stores. Retail can 'pop up' at events (TopMan at music festivals); on the road (Adidas camper van, La Senza's bra fitting bus); or any space (Uniqlo's shipping container that opens out into a store). This type of retailing appeals to those who want to be 'in the know' – like the appeal of flash mob events instigated via social networks.

Comme des Garçons, one of the originators of pop-up retailing, took this one step further and produced one of the most effective versions with its range for H&M. Once the item had gone, it was gone. There were no repeats and most of the range sold out on the first day, unlike previous designer/celebrity ranges which were available for much longer.

Retail '09 – The story so far...

Different businesses have employed a range of strategies to beat the downturn. Some have been more successful than others in their attempts to woo customers...

Winners

Sainsbury

A winning recessionary marketing strategy for a middle market supermarket.

ASOS

Demonstrating the power of the internet and branding, it reaches shoppers 24 hours a day and attracts a wide and diverse audience, including men, at all price levels.

Morrisons

Total sales grew by 12% to £14.5bn, with like-for-like sales increasing by 7.9%.

HMV

Strong Christmas trading results – for 10 weeks ending 3 January 2009, total sales: +5.8%, LFLs: +3.0.

Thorntons

Everyone needs chocolate to cheer them up during hard times.

HMV – WINNING

In a sector with strong competition from online providers and many casualties (e.g. Woolworths, Zavvi), HMV has taken a different approach to its economic environment by focusing on its brand positioning, building loyalty, and sales. Focusing on the emotional content of its offering – music is about life, memories and experiences, rather than a commodity – it is turning around its business.

Some of the tactics employed by HMV include:

- Exploiting the internet to communicate its new brand proposition: 'Get closer' is its new networking site which it can maximise on users' love of music.
- Diversifying into events: part of the 'Get closer' campaign with live music venues such as the rebranded HMV Apollo.
- Strengthening ties with brand icons: David Bowie and U2 are supporting its latest campaign 'My Inspiration'.
- Loyalty schemes: 'Money can't buy' experiences – points can be exchanged for back stage passes and merchandise.

Conran comment

HMV has confounded industry pessimists with its turnaround. With 'Get closer' as the central brand proposition, opportunities have been created to connect with consumers across a wider and deeper space than purely shops and a website. Evidence that having a clear focus on an idea that is relevant to consumers, drives their preference for that brand and is a recipe for success.





Losers

Stylo

Strong competition from clothing specialists who have greater fashion focus, higher sales densities and inspirational ranges pushed it into administration.

Bay Trading

Never distinctive enough to be top of the list for young fashion shoppers – and, like several other value fashion retailers, could not generate sufficient volume of sales to cover costs.

Whittards

Already poor sales prior to the recession due, again, to the wrong product and proposition. A product range that the recessionary shopper can do without.

Jessops

Annual sales: -23%, LFLs: -6.5%, operating loss.

Who do you see as the winners and losers and why? Which businesses do you think might suffer before the upturn?



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JESSOPS – LOSING

Its core market, digital cameras, is shrinking – there is little innovation in the sector to attract new spending and Jessops faces strong price competition from specialists and non-specialists. Recent reports are that some good work has been done to make the company more profitable, including securing a more stable financial status to 2011, but Jessops is still carrying a heavy debt burden and faces a challenging market. It needs to revolutionise its business quickly. Some of the solutions could include:

- Added value services – Jessops is not justifying its prices in relation to customer service and quality. Partnering with another strong brand to offer services such as online photo printing could help.
- Communicate offers and benefits at point of sale in the way that telecoms stores do with phones by using icons to illustrate selling points.

Conran comment

Jessops has started to tackle some environmental branding issues with the relaunch of its flagship store. The introduction of black to the fascia gives the store authority and standout. They have improved communication about their passion for photography rather than just competing on price. The new store also offers better segmentation between the SLR Specialist and the Digital Lifestyler. This improved focus adds real value. By adopting Apple's 'Simplexity' approach on product presentation and service customers can now browse more and self-select. All in all, a great step in the right direction.

Looking on the bright side of a retail recession

Times are tough but we think there are some positives to be gleaned from the conditions that we are operating under. Looking on the bright side...

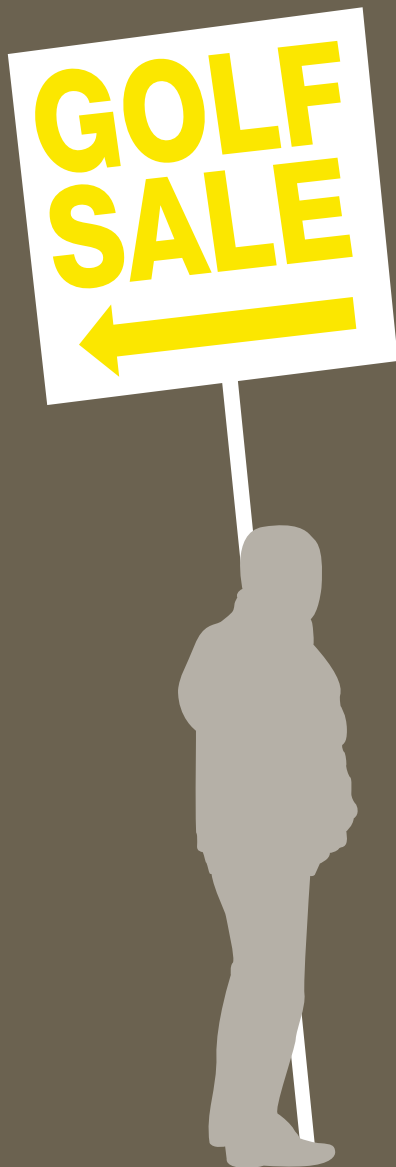
DARK SIDE	BRIGHT SIDE
Retailers collapsing into administration	More spend and market share available for successful survivors
Lower spend	Cheaper space, lower rents Space for new entrants, trials at lower risk
Empty shops	Opportunities to innovate at low risk Pop-up retail opportunities Make them feel good with 'at home' indulgences Communicate brand trust Coddle them with service Inspire them with innovative products and propositions
Nervous, reluctant shoppers	Develop a clear price architecture to convey value as well as encourage trading up
Lower spend	Create excitement/urgency with short-term price promotions, pop-up retail and tailored marketing to build loyalty Target male shoppers – less exposed to family budget than women and becoming more active shoppers Develop multichannel shopping, e.g. the internet, for convenience and accessibility Use social networking, website feedback, online loyalty schemes to drive traffic and maintain your profile
Stay-at-home consumers	Replace the restaurant, cinema, luxury experience at home with meal deals, indulgences, pampering products and home entertainment Shoppers will stay in the UK, tourists will visit – target UK holiday destinations/needs
Weak sterling, higher costs	Create unique products and encourage trading up to higher margin products

Source: Verdict Research

What would you like to hear about in our next issue? Let us know what's on your mind...



...at www.cculture.co.uk



We have enjoyed putting together the first issue of Counter Culture and we hope you have found it interesting. We look forward to your comments and feedback, and particularly suggestions for the next issue. In the meantime if you would like to talk about any of the issues raised or if you have ideas for future discussion, please do contact us at editor@cculture.co.uk.

Thanks again.



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