

# The Fear and the Hope

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## *Trends, challenges, opportunities and the drivers of change*

In preparing this white paper, we spoke with a number of consultants, academic experts and retail association executives who work and talk with small independent retailers every day. They identified a number of broad industry trends and specific challenges faced by independents. They also spoke about potential opportunities that can be realized if small independents take advantage of their strengths, recognize the inherent limitations of their larger competitors and position themselves in a differentiated way.

There were a number of broad, universal trends and changing realities of doing business today that were identified and discussed. While the trends that follow are not an exhaustive list, they are major drivers of retail change. Small independent retailers should be aware of these broad trends, should think about how they may positively or negatively affect the future of their business, and should adjust their planning accordingly.

Some trends may benefit the small retailer while others may not work in their favor. For example, the broad trend to “personalization” may provide new opportunities for small independents, while the consumer perception of “value” may work against the smaller store. Understanding these trends may be the key to future success.

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## **TREND: Personalization**

Advancements in communications technology have created a more personal experience. The customization and specialization of products have created a more personal experience. New media that give consumers new choices that match their interests have created a more personal experience. Access to information has created more personal experience. Alan Toffler has called it “demassification.”

So why wouldn't consumers want retail experience that is more personalized as well? This important trend bodes well for small independents that can leverage their inherent advantages of flexibility and customer intimacy to create a more personalized experience for their customers. While technology permits sophisticated databased marketing and promotions, small independents are still the best poised to get to know their customers individually as they are often a personal part of their lives. Knowledge of customers' birthdays, favorite colors, time of day they like to shop, and other information is not just pleasantry any more. It can be an

### About this paper

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This white paper originated from an observation and a supposition by Jim Baum, a highly active and successful Morris, Illinois, small, independent retailer. His observation was that macro and micro trends affect the small independent entrepreneur differently than their large competitors. His supposition that if small independents could just step back, take a deep breath and think about what's really happening, what's changing and what's just over the horizon, they might act differently. They might change how they do things. They might experiment more to take advantage of new emerging opportunities. They might see solutions more clearly. They might find new ways to connect more closely to their marketplace.

This project also came to be with the help and support of the Illinois Retail Merchants Association (IRMA) and the National Retail Federation Foundation (NRF). Special thanks to Dave Vite and Gary Rejebian of IRMA and Kathy Mance of the NRF Foundation. They, among others, believe that a significant benefit can be derived by discussing and showing how many small independent retail entrepreneurs are meeting today's challenges by being different and better, by taking risks and embracing change in an intelligent, bold manner.

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essential driver of sales. So while big companies employ slogans like “reach out and touch someone,” it is more likely the small independent retailer who can actually shake their hand.

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### **TREND: Value equation**

American consumers are becoming more interested in getting more value for their money and less interested in getting less for less. Price is not the only factor in a value determination. Speed, convenience, service and knowledge all play an increasingly important role. Both large and small retailers continue to redefine their value propositions with better prices, better selection, better service and better products. A value proposition refers to the unique characteristics that distinguish your business from competition. It defines the intrinsic worth of your business’s offering to customers. A strong value proposition communicates a clear message to your marketplace about why potential customers should buy from you. It defines what your customers will get for their money.

Customers are becoming more demanding about value. They want new. They want better. They want now. They are increasingly tired of paying for the old, the same and the later. Each customer is different. It is they who define what is valuable to them. They define what “deal” will trigger the sale.

And so, the traditional retail power structure has permanently shifted from sellers to buyers. Doing business as usual can mean doing no business at all. Buyers now hold the trump card.

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### **TREND: Increased competition**

Competition continues to increase in number and intensity. We are over-stored with an explosion of products displayed in an ever-increasing amount of retail square feet per capita in the United States, double that of many developed countries. The NFIB’s national small business poll on competition cites 61 percent of all respondents describing competition over the last three years as being more or much more competitive.

The big retailers continue to get bigger. They employ market share growth strategies and communicate value propositions that are designed to dominate either a product category or customer segment. Increased size and scale leads to increased efficiencies that in turn fuel additional growth. Given their large scale, these companies eventually compete against each other because that’s the only playing field where significant market share can be gained. As a result, small companies are left to scramble for the remaining share of the market where they can compete effectively. The small store must find the niches in the market not served or find ways that are more appealing, more knowledgeable or more time saving than their competitors.

Another critical aspect of competition is the fact that the marketplace is becoming truly global in scope. The Internet is blurring the lines of traditional market areas. Competition for small independents can now come from anywhere, big chains or other small independents halfway across the country or halfway around the globe. This fact is particularly problematic for small independents that sell widely distributed branded goods—goods that can default to price. Many popular branded goods are becoming more widely distributed in order to fuel manufacturers’ appetite for increased quarterly sales volume.

Because of the presence of the Internet and the increasing clout of large national chains, small independents must not compete on price. To do so is a death wish. It is not sustainable. It is not winnable. And it will likely lead to ruin.

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The real strengths of successful small independent retail revolve around specialization, differentiation and finding profitable, defensible and sustainable niches.

Success for many retail segments derive from the decision to move beyond just the selling of product to creating customer experience, moving from a transaction orientation to establishing ongoing relationships. This decision shifts focus from what moves product to what moves people. While an individual retailer may not be able to own a merchandise category, he or she can own a buying experience.

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### **TREND: Changing demographics**

*Three powerful demographic trends will cause profound change:*

**The aging of America**—It is predicted that the number of Americans age 55 and older will almost double between now and 2030—from 60 million today (21 percent of the total U.S. population) to 107.6 million (31 percent of the population). During that same time period, the number of Americans over 65 will more than double, from 34.8 million in 2000 (12 percent of the population) to 70.3 million in 2030 (20 percent of the total population).

This aging of America will present many opportunities for small independents that may choose to target this growing segment. New products, new services and new retail concepts will be introduced to capture this growth.

**The growth of the Hispanic population**—The U.S. Hispanic population became the largest minority in the United States in 2002, and will continue in this position through 2050. Today, 43.5 million U.S. Hispanics make up almost 15 percent of the U.S. population—a number that is growing five times faster than the general population.

This growing market continues to be underserved by many retail segments. Many do not realize the possible opportunity in understanding Hispanic consumer needs that are not necessarily the same as the general population. Serving this market can create new customers, increase sales and profit, and enhance competitive advantage.

**Generation Y**—Born between 1981 and 1995, this new generation numbers 57 million. It is the largest consumer group in the history of the U.S. and represents a dominant future market. Many of the most popular traditional brands are having a tough time appealing to this group, who seem immune to traditional marketing messages and who gravitate to all things new—to brands that understand them and speak their language. Their medium of choice is the Internet. It drives diversity and the ability to know what's new in an instant. Companies unable to relate to this group will obviously miss out on a huge potential opportunity.

These three demographic trends provide specific target markets for small retail niche opportunities in which some retailers can find a home.

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### **TREND: Community activism**

There is a growing national trend of community resistance to unrestrained retail development in order to protect local community personality, feel and values. This trend is intensifying as large national chains are rediscovering downtown areas, looking for new growth opportunities

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by following population migrations. A member of the Arcata, California, local development committee was quoted in a recent *USA Today* article as saying, “Citizens were concerned about corporate power issues. There’s a revulsion against what’s happening all over the United States. You drive through most any town and you’ll say, ‘Where am I?’”

This trend obviously speaks to the perceived benefits of small independent retail. However, protectionism from increased competition has often proved unproductive. First, consumers will find their way to where they want to shop—big box, specialty store, or national chain. Secondly, trying to stop new development often becomes a major distraction for the small retailers when they should be spending time thinking about their own business and improving their downtown or neighborhood shopping areas.

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### **TREND: Health care costs**

The most important domestic problem in the U.S. is the health care insurance crisis. While this affects everyone, it hits the small business especially hard due to the runaway costs of providing benefits to employees. It creates a real competitive disadvantage. The availability of health insurance is often a determining factor in choice of employment. Until government fixes this problem, small independents need to explore every available alternative, from exploring the availability of state or trade association health plans to implementing new solutions like the recently available high deductible health savings accounts. If small retailers want to attract and retain the kind of employees who will give them competitive advantage, health care benefits must be considered.

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### **TREND: Changing consumer attitudes and behavior**

The traditional customer definitions and delineations have been blurred by the sheer volume of marketing activity across the entire socioeconomic spectrum. People are more fluid in their shopping behavior. They no longer sit still comfortably in a single segment. They move in and out and around and through value retailers, middle market stores and luxury goods purveyors on a weekly basis. Everybody is everybody’s customer now. One size no longer fits all—not even for a single customer. Trying to pigeonhole consumers by their economic status is a major mistake. Today, the same customers will buy a luxury good in the morning and then buy a lowest discount price item in the afternoon. It is up to the retailer to know their customers well enough to make the connection and offer that will entice them to buy.

We value most what is most scarce. Time has become number one on the list of what Americans cherish most. The desire for convenience will continue to drive changes in store concepts, formats, retail mixes and locations. Witness the trend of developing mixed use, open-air retail complexes. People are time-starved and small independents need to factor the need for speed and convenience in their individual value propositions. People pressed for time look for ways to simplify their lives.

This trend may negatively impact mall shopping and other large store formats that require more time to complete a shopping trip. Smaller store concepts located in more easily accessible locations may be positively affected.

Given the explosion of choice, consumers are less loyal, less tolerant and more willing to explore and experiment in search of satisfaction. If a small independent has relied on tried and true customer loyalty in the past, the satisfaction bar has been raised and loyalty has to be earned every day. It is not bankable.

Consumers are growing more cynical and skeptical. Trust, therefore, becomes a defining issue. Small independent retailers need to develop trust through clear and consistent demonstrations of their differentiated value propositions. These demonstrations must be carried through all dimensions of store activities, from marketing and communication to personnel and operations.

Given the increasing overload of information and proliferation of choices, consumers long for simplicity and control. Retailers need to make the shopping experience easy for the customer by eliminating confusing or inefficient elements that frustrate customers and complicate their choices. Consumers want a transparent buying process devoid of hassles. A retail experience that fulfills these dual emotional needs will be highly valued.

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### **TREND: Urban sprawl and real estate development**

A recent trend in new retail development is to create community spaces of mixed use that exhibit a strong sense of place. Many of these developments, called “the new urbanism,” incorporate features more in keeping with feelings of towns and neighborhoods vs. traditional large retail centers. They are designed to promote social interaction and leisure time activities. These mixed-use, smaller scale, more friendly environments hearken back to the tradition of Main Street, providing a social hub where people, live, shop, work and play. These new lifestyle centers include more upscale specialty stores than traditional malls.

According to America’s Research Group, consumers are spending 20 percent less time in shopping centers since 2001 and 20 percent less time driving. People are shopping closer to home.

David Szymanski of the Center for Retail Studies at Texas A&M said, “Americans are seeking more of a sense of community. Lifestyle centers, you look at them and go, ‘I like these places, I feel comfortable here. These are the kinds of things I like and these people understand me as a customer.’ And the other part of it is they are located where these customers live.”

## The Challenges of the Future

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*Small independent retail fits this model more logically and more naturally than many larger format competitors.*

While running a successful small independent business is, in and of itself, a daily challenge, our panel identified a number of specific emerging issues that are becoming increasingly important and are changing the small retailer's landscape. The major consensus challenge areas identified were:

- The changing nature and effectiveness of marketing and advertising
- Difficulties in product sourcing and merchandise acquisition
- Speed and overwhelming nature of technological change
- Need for delivery of higher levels of service
- Transparency of price and product information
- Limitation of management skills and capabilities