Twenty Trends for 2010: Retailing in an Age of Uncertainty

Sponsored by
Intel Corporation

RETAIL FORWARD

Retailing 2010: Our Point of View

If you thought the 1990s were fast-paced and full of change, welcome to the new millennium where…

- **Retail Darwinism will continue to prevail.**
- **A handful of retailers will come to control the global market.**
- **Not only companies, but entire formats and industry segments will die out.**
- **Retailers will become suppliers and suppliers will become retailers.**
- **New and powerful competitors will do business in a whole new way.**

Forces of Change

Retailing 2010 will be a new ball game, with new rules, new roles, and new relationships – a whole new world.

- **Driving change will be a consumer zeitgeist unlike any other.** Retailing will be a buyer's market where consumers will be more proactive and self-reliant, but also more pragmatic. Many have become more somber about their own economic prospects – cautious in the aftermath of recession, a still-turbulent stock market, and the continued risk of terrorism and other geopolitical uncertainties.

- These events have conspired to produce the most **uncertain business environment** since the 1970s – an environment in which the world's retailers and their suppliers will find it difficult to plan. Continued economic weakness in the US, Europe, and Japan will leave few places in which to find growth.

- Compounding the challenge in the years ahead will be an **increasingly inscrutable consumer** who will be more difficult to understand, much less predict, than ever before. Demographics will be less of a determinant. Lifestage will be less relevant. Lifestyles will be more idiosyncratic. Buying behavior will be more complex. Each consumer will have many faces. This multi-dimensional consumer will shop in different ways based on a range of considerations that trigger store choice and purchase decisions.

- The road to 2010 will see an **evolution in how retailers create value** for consumers and shareholders. The efficiency era, which drove unprecedented industry consolidation and changed the face of retailing forever, is nearing its end. The push is on into the promising era of the intelligent value chain, where smart technology and demand-based management optimization tools will enable the execution of tactical merchandising decisions based on real-world consumer demand. Where we are heading is toward far greater intimacy, where every touch point becomes a moment of truth in the business.

Twenty Trends for 2010

How will these forces of change play out over the remainder of this decade? What will 2010 look like for retailers and suppliers? Who will win? Who will lose?

Retail Forward projects the following twenty trends to transpire by the end of the decade.

1) **No More One Size Fits All.** Individual retailers will adopt a more robust portfolio approach to the market to appeal to the multi-dimensional consumer mindset.

2) **Wal-Mart Keeps Smiling.** While the world waits for Wal-Mart to collapse under its own weight, Wal-Mart will wait for no one.

3) **Supercenters Keep Rolling.** Wal-Mart's push into the grocery business is changing the way we shop – and the supercenter juggernaut will steamroll on.

4) **Surviving the Supercenter.** Conventional food, drug, and mass formats are under attack, but there is still room to maneuver.

5) **Department Store Death Spiral.** Department stores are caught in a vicious circle propelled by escalating competition from mass retailers and lifestyle specialists – more consolidation and retrenchment are inevitable.

6) **Malls Get Mauled.** Malls aren't going away, but many will change almost beyond recognition.

7) **Re-concept Rather than Remodel.** Compressed lifecycles for products, retail concepts, and brands mean the days of the large, mass-merchandised specialty chain are over.

8) **Experience Excels.** Experiential retailing concepts will mix context and commerce as never before.

9) **E-commerce: More Action than Transaction.** E-retailing's impact will extend well beyond its contribution to retail sales, which will remain a relatively minor share of the total.

10) **Smart Shopping.** Consumers will embrace new technologies that give them better information and more control over the shopping process.

11) **Smart Stores.** Stores and store associates will get smarter as retailers adopt technologies to drive greater space and employee productivity. Over time, some smart store solutions will displace human resources with technology.

12) **M-commerce: More B2B than B2C.** For the rest of this decade, the selling of products and services via mobile devices will remain largely elusive. In the next few years, wireless will focus primarily on business-to-business applications.

13) **Global Land Rush Continues.** Despite growing world tensions, the strong interest that businesses have in further liberalization of international borders will prevail – and with the global land rush will come a global retail oligopoly.

14) **Retailers Act like Suppliers.** As retailers grow and become more global, they will seek alternative sources of supply. By 2010, many suppliers will find their biggest competitors are their retail customers – and they own the shelves.

15) **Retailers as Brand Managers.** Retailers will become brand managers on an unprecedented scale as the search for competitive differentiation accelerates. This decade means build your own brand or be gone.

16) **Brand Sharing.** Retailers will plug into each other's shopper base and leverage location strength through innovative store-within-a-store, or brand-sharing, partnerships.

17) **Über Retailers.** Over the course of the decade, retailers will find out just how far they can stretch their brands as they continue to transcend competitive boundaries.

18) **Suppliers Act like Retailers.** Suppliers that survive the decade will become best-in-class category consultants as they take on an increasing number of activities that traditionally have been the responsibility of the retailer.

19) **Suppliers Become Retailers.** As more suppliers get locked out of traditional retail channels, supplier direct-to-consumer will become a more viable scenario for the future.

20) **Consumers Call the Shots.** In a buyer's market, where technology is changing the dynamics of the buyer-seller interface, the relationship between retailers and consumers will become much more symmetrical and, if anything, tilt in favor of the consumer. Now and forever more, consumers call the shots.

Age of Uncertainty

With any luck, the first decade of the 21st century will end better than it began. The first three-plus years of this millennium have produced an age of anxiety and uncertainty that has resulted in fear and inertia among consumers and businesses alike.

- **2000: *Economic threat*.** After 10 years of sustained economic growth, the US economy fell into recession and the stock market began an extended decline. Older Americans lost retirement funds, Boomers lost 401k value, Gen Xers lost jobs, and Gen Y got a wake-up call.

- **2001: *Security threat*.** September 11 attacked the US' most basic assumptions that foreign-planned terrorism would never come to its shores; that its freedom and openness were a source of national strength, not a vulnerability.

- **2002: *Corporate/institutional corruption*.** Scandals at Enron, Arthur Andersen, Global Crossing, the Catholic Church, Tri-State Crematory, INS, Tyco, Wall Street analysts, et al. attacked our belief in the integrity of our corporations and institutions, which betrayed the trust of their constituents.

- **2003: *Global crises*.** In the first quarter of 2003, consumers and businesses have turned even more cautious, cutting spending in the face of war, a heightened risk of terrorism and other geopolitical uncertainties, a still-turbulent stock market, and the risk of an oil price shock.

Regardless of what transpires over the course of the rest of the decade, the events to date will leave an indelible mark on the collective consumer psyche that will affect our values, attitudes, lifestyles, and spending patterns for years to come, just as the Great Depression left its imprint on the GI Generation.

- What will be the new consumer priorities in a post-9/11 world, in the aftermath of Enron, when the war with Iraq is over, and the economy rebounds?
- What is the outlook for the global economy in this uncertain world?
- What impact will technology have on business?
- Where will value be created in the future?
- How will the forces of change transform the face of retailing and the requirements for success?
- Who will win and who will lose?

This report examines the fundamental issues affecting the retail business environment to 2010. Our goal is to help companies plan for the future in an age of uncertainty by anticipating changes in the economy, consumer markets, resource markets, marketing practices, competitor dynamics, and trading partner relationships – changes that will transform the retail landscape over the rest of this decade.

Economic Outlook in an Uncertain World

This period of time is probably the most uncertain business environment that retailers and their suppliers have faced since the 1970s. The range of current and potential global crises (Iraq, North Korea, Venezuela, terrorism) creates enormous risk for oil, currencies, equities, interest rates, consumer and business sentiment, and economic relations between countries. Moreover, an unprecedented fiscal experiment in the US involving cutting taxes during war and creating future deficits just before the Baby Boom generation retires creates enormous risk for all types of asset prices.

The bottom line is that **retailers cannot expect a stable business environment and must, therefore, plan for uncertainty.** That entails conservative inventory management, tremendous merchandising and pricing flexibility, and battling for market share, rather than relying on a growing market.

Sluggish Growth in the US

The US continues to face relatively weak economic conditions and retail sales growth. Even in the absence of war and other global political crises, several fundamental economic problems will restrain growth in the coming years, including:

- ***Deflation/disinflation*.** Continuing deflation or disinflation will persist in many retail categories, particularly durable goods. But it likely will be less severe than in recent years because of the inflationary impact of a weaker dollar. Longer-term inflationary pressures will be focused on other categories such as fuel and particularly services, including medical services and insurance. Pressure also will come from rising labor costs as a retiring Baby Boom population and smaller successor generations make labor scarcer.

- ***Excess investment*.** Business investment will be somewhat restrained owing to excess capacity in information technology and telecommunications built up prior to Y2K and as a result of the Internet hype. While it's not likely that technology investment will return to the boom years of the late 1990s, new technology will still yield benefits. There will be a shift from just supply chain to more demand chain, from pure productivity to more customer facing and market effectiveness, and more management of customer assets, not just inventory.

- ***Overextended consumer*.** Consumers are laden with debt. That was not really a problem in the late 1990s, when asset prices were rising like there was no tomorrow. Unfortunately, tomorrow is here, asset prices are diminished, and the consumer's balance sheet looks increasingly unhealthy. To rebuild their asset base, consumers will have to reduce debt and increase savings – both entailing a diminished rate of spending growth.

- ***Aging consumer*.** Demographics represent a longer-term challenge for retailers and consumer products companies. Rapidly growing numbers of aging consumers with empty nests will have more discretionary income, but they will spend less of it on goods and more on healthcare and other services, as well as saving for retirement.

- ***Market saturation*.** There are few underserved markets left in the US. Market saturation is quickly becoming a reality, limiting the number of new stores that can be built. New locations have become less productive, merely dividing the same amount of business among a larger number of rivals. Future revenue streams will be harder won than in the past, forcing retailers to look for new growth venues.

- ***Competitive parity*.** It also is becoming much more difficult to grow sales by taking market share from competitors. The past decade has done a good job of weeding out many marginal performers, leaving retailing the domain of larger and better-managed companies – and those retailers have already reached a high level of competitive parity.

This leads us to one of the most fundamental challenges of this decade – where will growth come from?

International Growth

One of the big problems for US economic growth will be **continued slow growth in the world's other large economies** – particularly Europe and Japan. Slow growth in Europe and Japan will be a drag on the US economy because it will suppress US export growth.

- ***Europe's growth is being restrained.*** Europe has an overly tight monetary policy –although that is starting to change. It also has a very restrictive regulatory environment, including very rigid labor laws, restraining its growth.

- ***Japan's economy remains sick.*** Despite ruinous deflation, the Central Bank refuses to inject sufficient liquidity into the banking system, and the government refuses to force banks to write off non-performing loans. This ensures that inefficient companies continue to have access to credit while Japan's fledgling entrepreneurs are starved for capital.

Most of the growth around the globe is taking place in emerging markets – places where many American retailers have never been before. Hot spots include Europe's non-EU periphery, China, and India.

- ***"New Europe" will experience strong economic growth in the years ahead*** compared to "old Europe." New Europe – the smaller peripheral countries of western Europe (e.g., Netherlands, Spain, Portugal, Scandinavia) as well as the countries of central Europe (e.g., Poland, Czech Republic, Hungary) – with less labor market regulation and fewer restrictions on retail development offer the best opportunities for expansion-minded retailers and suppliers.

- ***China is the fastest-growing large economy in the world.*** The country's recent entry into the WTO, its relative immunity to the global slowdown, and its emphasis on creating home ownership and reducing consumer saving will serve its growth prospects well. On the other hand, China faces one huge risk. The country's state-controlled banks are sitting on a vast portfolio of non-performing loans, mostly to inefficient, state-supported enterprises. How this situation eventually unwinds will, in part, determine the future path of China's economy.

- ***India is becoming the world's giant***, accounting for one-fifth of the world's annual population increase. India's population increases by more in one week than does the European Union's in one year. Over the next half century, India is expected to overtake China as the most populous country. Higher incomes and new media are helping to direct pent-up consumer demand toward modern, higher-quality, and frequently western products. Liberalization has been the main theme of the Indian economy over the past decade. While the country's infrastructure remains an impediment to the growth of organized, modern retailing, the relaxation of foreign ownership laws will see the entrance of more international retailers and branded consumer products over the remainder of this decade.

Interconnecting Geopolitical Trends

The global economy serves up massive opportunity, but also massive risk. For better or worse, we live in a very interconnected world – a world characterized by political volatility and upheaval. In the current climate, businesses face increased risk to assets deployed on foreign shores. There also is increased risk to global distribution infrastructure that supports the consumer products marketplace. There is potential to execute acts of terror using the millions of shipping containers that enter the US each year. Ultimately, far more containers will have to be searched, thereby slowing the supply chain and reversing some of the efficiency gains of the past decade. This could slightly retard economic growth and can certainly increase the cost of doing business for retailers and suppliers.

Inscrutable Consumers

While the economy affects consumers' ability and confidence to spend and influences what and where they buy, demand originates with the consumer. In the years ahead, **it will become more difficult than ever to understand, much less predict, consumer demand.**

- The decipherable threads of demographic change in the consumer marketplace signal growing diversity and market fragmentation.

- Demographics themselves are becoming somewhat less of a determinant of lifestages, lifestyles, attitudes, and spending patterns.

- By 2010, the consumer marketplace will be defined more than ever by shopping behavior and shopping motivations rather than demographics.

The Changing Face of the American Consumer

The growing diversity of the consumer marketplace by age, ethnicity, lifestage, and lifestyle will result in greater market complexity for retailers and suppliers – a key reason why the old rules will no longer apply.

Two key age groups – Baby Boomers and their Gen Y offspring – will experience rapid growth over the rest of this decade, with significant implications for retailers and consumer products companies.

- Between 2000 and 2010, the 50-69 year old age group is projected to increase by 37%, or 3.5 times the pace of general population growth. The strongest growth will be among those age 55-64, as the first half of the Baby Boom generation swells the empty nest and pre-retirement lifestage.

- The children of the Baby Boom, popularly referred to as Gen Y or the Echo Boom, will expand the ranks of older teens and young adults age 15-29 – especially those age 20-24 who will be embarking on adulthood, establishing careers and households.

- Representing less spending potential to most retailers and consumer products companies will be the rapidly growing number of people age 80+.

Priorities and spending habits will change as the Baby Boom and Gen Y segments enter new lifestages over the rest of the decade. However, the lifestage norms that we normally associate with these age groups will become less relevant.

Aging Boomers

Consumers in late middle-age, which so far have been the most overlooked group of consumers relative to their spending potential, will represent the best opportunity for consumer spending growth in the coming years – although much of it will go towards services and experiences, rather than goods.

- ***Empty nest.*** As their children become financially independent and leave home, Boomers will discover newfound discretionary income that they can now use to pursue their own interests that previously may have been put on hold.

- ***Productive retirement.*** One of the biggest lifestage and lifestyle changes on the horizon for aging Baby Boomers is retirement. There will be a sea change about the age 65 as better health and greater longevity change the way people think about their later years. The whole concept of aging will continue to undergo radical redefinition as large numbers of people contemplate how to spend 20 or more years beyond retirement age. As a result, retirement will become a much less clearly defined lifestage. Many older consumers will reach normal retirement age with the motivation, resources, and energy to chase unfilled dreams and forge second careers. At the same time, more and more seniors will *need* to work to support themselves in their later years and to offset the decline in their retirement funds over the past three years.

US Population Projections by Age Range, 2000 - 2010 (in thousands)
(Medium variant)

	2000	% of Total	2005	% of Total	2010	% of Total	% Change 2000-2005	% Change 2005-2010	% Change 2000-2010
0 to 4	20,421	7.2%	21,166	7.1%	21,885	6.9%	3.6%	3.4%	7.2%
5 to 9	21,087	7.4%	20,727	6.9%	21,457	6.8%	-1.7%	3.5%	1.8%
10 to 14	20,691	7.3%	21,747	7.2%	21,360	6.8%	5.1%	-1.8%	3.2%
15 to 19	20,119	7.1%	21,638	7.2%	22,656	7.2%	7.6%	4.7%	12.6%
20 to 24	19,118	6.7%	21,020	7.0%	22,502	7.1%	9.9%	7.1%	17.7%
25 to 29	19,511	6.8%	19,979	6.7%	21,834	6.9%	2.4%	9.3%	11.9%
30 to 34	20,745	7.3%	20,145	6.7%	20,566	6.5%	-2.9%	2.1%	-0.9%
35 to 39	22,821	8.0%	20,946	7.0%	20,331	6.5%	-8.2%	-2.9%	-10.9%
40 to 44	22,736	8.0%	22,753	7.6%	20,898	6.6%	0.1%	-8.2%	-8.1%
45 to 49	20,469	7.2%	22,529	7.5%	22,555	7.2%	10.1%	0.1%	10.2%
50 to 54	17,654	6.2%	20,179	6.7%	22,224	7.1%	14.3%	10.1%	25.9%
55 to 59	13,700	4.8%	17,232	5.7%	19,723	6.3%	25.8%	14.5%	44.0%
60 to 64	10,930	3.8%	13,127	4.4%	16,555	5.3%	20.1%	26.1%	51.5%
65 to 69	9,563	3.4%	10,193	3.4%	12,304	3.9%	6.6%	20.7%	28.7%
70 to 74	8,896	3.1%	8,561	2.9%	9,196	2.9%	-3.8%	7.4%	3.4%
75 to 79	7,460	2.6%	7,457	2.5%	7,251	2.3%	0.0%	-2.8%	-2.8%
80+	9,079	3.2%	10,638	3.5%	11,627	3.7%	17.2%	9.3%	28.1%
TOTAL	285,000	100.0%	300,037	100.0%	314,924	100.0%	5.3%	5.0%	10.5%
Median Age	35.2		35.9		36.3				

Source: Population Division of the Department of Economic and Social Affairs of the United Nations Secretariat, The 2001 Revision.

- ***Dealing with denial.*** Although most people think of themselves as younger than they really are, Baby Boomers, especially, are in denial about their age. Their bodies are getting older, but their minds and spirit cling to youth. Wellness will become a major area of emphasis for these consumers, who will seek to play a more active role in their own health and well-being, making this one of the biggest opportunities for businesses in the years ahead. Aging consumers also will concentrate their spending on looking younger than their age, stimulating demand for "cosmeceuticals," nutraceuticals, and fitness products.

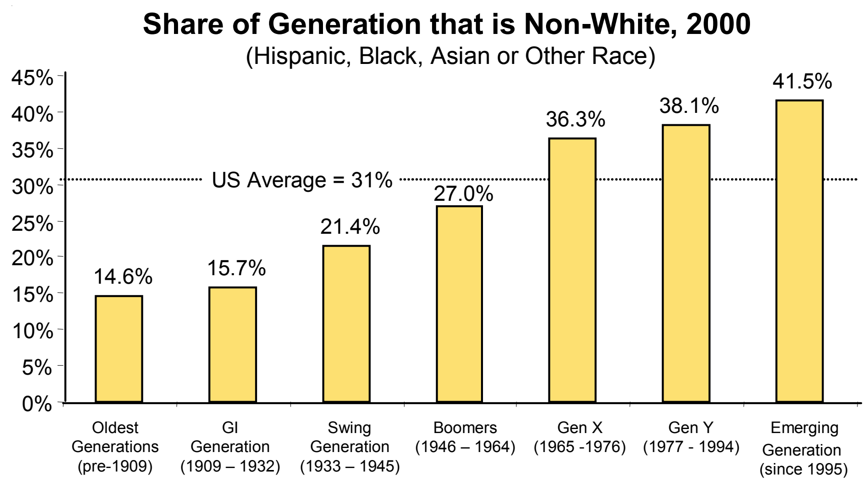
Up-and-coming Gen Y

Gen Y – the children of the Baby Boom – is poised to reshape the cultural landscape just as their parents did decades before. Rivaling the Baby Boom for the largest generational group in the country, their sheer size makes them a force to be reckoned with. This will be a free-spending, but hard-to-reach generation.

- ***Get a life.*** Over the course of this decade, most of Gen Y will be at a major turning point in their lives as they start out on their own. But, they will have different priorities than previous generations at the same age. While Boomers live to work, Gen Y consumers will embrace more flexible, less traditional work styles where the boundary between work and the rest of life is blurred. They will seek a more meaningful life that is not defined by what they do for a living.

- ***The unreachables.*** Gen Y also is distinct from previous cohorts in other ways that any business targeting them will need to recognize. Not unlike previous generations, understanding their formative experiences is crucial when developing marketing strategies. During their more impressionable years, Gen Y witnessed an unprecedented spurt of economic growth and a stock market bubble. This has created unrealistic expectations about the economy. Gen Y also is the first generation to grow up online, which is taking place at the expense of print media and even television. They are a tough crowd to sell – turned off by conventional branding and traditional advertising messages. With this group, marketing as the Baby Boomers have known it is dead. Instead, they will respond to retailers or brands that become an honest and authentic part of their lifestyle; that create a connection between the brand and the experience surrounding the brand. With Gen Y, it's not about reaching the masses, it's about building community and trust.

- ***Generation diversitY.*** Younger generations are far more racially and ethnically diverse than older generations and can easily visualize the day when minority groups become the majority. This growing age-based race gap is the result of higher birthrates among minorities, as well as continued immigration, which disproportionately affects younger rather than older cohorts because most immigrants themselves tend to be young and/or have young children. To these younger consumers, interacting with people different from themselves is simply a part of everyday life. At the same time, these new immigrants are more mobile



Source: U.S. Bureau of the Census and Retail Forward, Inc.

and more connected to their homelands than previous generations of immigrants. They are proud of their cultural heritage and will seek to preserve their ethnic identity. They also will transform the definition of mainstream culture as they become a larger and larger share of the population.

Adding to the Complexity

- As **ethnic diversity** changes the complexion of the market opportunity by the year 2010, by far, the most dramatic shift in the American demographic landscape is being brought about by the enormous growth of the Hispanic population. Hispanics became the largest minority group in the US in 2000 at 12.5% of the population. While Hispanics will continue to be a major force in certain markets (e.g., Texas, California, Florida, New York City), the fast-growing Hispanic population also is becoming increasingly geographically dispersed and will become more and more an important part of the national landscape, not just an isolated market segment in a handful of states.

- The future consumer marketplace also will be characterized by less commitment to or pursuit of a particular lifestyle in favor of **more unique, individualized, and personally meaningful lifestyles**. Spending patterns will reflect a desire for greater personal fulfillment rather than tangible advancement and conspicuous consumption.

To understand tomorrow's inscrutable consumers, more intimate information will need to be gathered. Retailers will need to go directly to the consumer to capture information on the needs, preferences, shopping and purchase behavior of each and every one of them. Fortunately, there will be more opportunities through more consumer touch points to collect customer information, and consumers will be better equipped to communicate their needs and wants directly to retailers and suppliers. The end result is that retailing 2010 will become much more personal.

The Multi-Dimensional Consumer Mindset

The multi-dimensional consumer shops in different ways based on a range of considerations that trigger store choice and purchase decisions.

As the consumer market splinters into smaller and more diverse groups with different values and attitudes, and lifestyle aspirations become more idiosyncratic, buying behavior will become more complex. Moreover, each consumer is actually many different customers depending on the particular purchase occasion or shopping motivation, as well as a myriad of other factors affecting a particular buying decision. This consumer makes distinct value judgments with each new purchase occasion, even as merchants themselves have blurred the distinctions that once sharply differentiated one retail type from another.

Because traditional approaches to market segmentation are less helpful in understanding the inscrutable consumer, **successful marketers increasingly will segment consumers on the basis of multi-dimensional shopping motivations**. Retailers that are not in tune with one or more of these primary shopper strategies will increasingly find themselves at a competitive disadvantage.

Retail Forward believes that **four fundamental consumer shopping modes will prevail:**

- ***Speedy, low-cost replenishment*** shopping for routine purchases is designed to meet the basic requirements of a self-reliant consumer. Replenishment shopping will be characterized by declining shopping frequency (or automatic replenishment), rising brand loyalty, and a growing preference for dependable everyday value pricing. One-stop shopping increasingly will define convenience for these efficiency-minded shoppers who will seek to meet more of their everyday household and personal needs on the same shopping trip. Retailers seeking to capture replenishment shoppers will focus on building low-cost, highly efficient delivery mechanisms.

- ***Solution-driven*** shopping caters to the task-oriented shopper's interrelated requirements for products, services, information and support needed to solve a problem or accomplish a goal. This shopping mode shifts away from a focus on individual products toward a more holistic approach to meeting life's needs. Solution selling will require retailers to focus on assortment management to ensure that a complete, one-stop solution is available to the customer. It will necessitate new approaches to marketing and merchandising in order to package products and services together to provide seamless solutions. Better customer communication skills will be needed to understand what these customers are trying to accomplish and where they are in the process, as some solutions may be pursued incrementally over time. Retailers seeking to capture consumers in a problem-solving mode will focus on customer relationships, not transactions.

- ***Self-expression*** shopping is designed to reflect the shopper's individuality or provide external validation of a fashion preference or lifestyle perspective. This shopping mode is ego-intensive, emotional, and cognitive. It is driven by desires rather than needs. The drive for self-expression may resonate so strongly with some consumers as to make other store choice factors (e.g., location, price) almost irrelevant. Customer focus, customer understanding, and customer connection, supported by sharply edited assortments are critical for retailers focused on consumers in this shopping mode.

- ***Sense of discovery*** shopping is an impulse-oriented shopping mode. Although consumers have become more purposeful shoppers over the past decade as they look for a higher return on their time, effort and money, they also are sensation-seekers that like to be inspired by a unique assortment or an experiential shopping environment. Sometimes it's simply the thrill of the hunt – finding something they wouldn't ordinarily buy at a price that's too good to resist. Consumers in this shopping mode want an enjoyable shopping experience, and they are strongly influenced by innovative products, sensory stimulation, and the opportunity to have fun. Tapping into the pleasure of shopping will boost profits, drive repeat patronage, and enhance brand value with consumers in this shopping mode.

Responding to the multi-dimensional consumer mindset will mean harnessing all of the dimensions of the retail mix in different ways to create multiple formats with distinct kinds of shopping appeals. The most successful retailers will carefully engineer a particular shopping experience and communicate their position in the market by explicitly presenting consumers with a coherent series of visual and experiential clues emitted by the physical environment, assortment strategy, employees, processes, customer communications, and other managed touch points. By clueing in customers, retailers will help them determine whether or not a particular shopping experience is consistent with their needs and expectations. It will be incumbent on retailers operating a portfolio of different concepts to educate multi-dimensional consumers how each format satisfies different shopping needs.

Retail Value Chain Evolution

Changing consumer markets and competitive conditions will drive profound change in the retail business model over the remainder of this decade. Companies that hope to prosper will progress through three value-creation stages.

- **Efficiency.** The first stage is efficiency, where the consumer value proposition is predicated on the retailer's ability to beat competitors by selling the same product at a lower price. This is essentially a mature strategy.

- **Intelligence.** The industry is beginning to move into the intelligence stage, using smart technology to manage larger and more complex businesses and using information to optimize demand and supply chain activities. The retailer's goal is to do more with the products, stores, and customers it already has.

- **Intimacy.** The retail industry is heading toward far greater intimacy, where every touch point becomes a moment of truth in the business.

As the retail value chain evolves from efficiency to intelligence to intimacy, the skills and approaches that worked in an earlier era reach a point of diminishing returns and are no longer sufficient to create value and drive growth.

Efficient Value Chain

Efficiency has driven economic concentration in retailing into the hands of just a handful of companies in almost every line of trade. Successful retailers created value by using the power of the productivity loop to drive down costs, lower prices and, in turn, expand market share and increase profitability. During the productivity loop era, the industry focused its efforts on two generations of efficiency. In both cases, enhanced technological capabilities have provided an opportunity to improve operational workflow and integration across business functions, processes, and geographies.

- ***4-wall efficiency*. Today, retailing is approaching the latter stages of step one, four-wall efficiency** – which has focused on building efficient, streamlined operations within the four walls of one's own business by increasing visibility inside the organization chart. Optimizing one's own business requires a clear sense of workflow, information flow, and decision flow by effectively linking the functional silos and reengineering the business processes that make up most organizations – purchasing, merchandising, logistics, store operations, human resources, financial functions, information systems.

- ***Inter-firm efficiency*.** The efficiency era has continued with a focus on inter-firm efficiency, recognizing that there is more value to be realized in collaboration and integration with trading partners to optimize the entire value chain. The operative focus is on end-to-end supply chain efficiency and the seamless flow of information and inventory. This requires more joint planning, product development, and demand forecasting. We are in the midst of this stage today, but it is essentially the same game – trying to deliver product to the consumer at a lower price in order to gain market share. **Future results of this strategy will be far less dramatic than in the past, producing fewer returns and marketplace advantages.**

Over the past decade, the efficiency era has changed the face of retailing by favoring the low-cost operator over the higher-cost service provider. It has been one of the primary factors behind both retail sameness and retail price deflation. The productivity loop worked as long as there were similar, less efficient competitors from whom to take market share. The oligopolistic structure of retailing today limits the future application of the productivity loop.

While lots of work is still going on between trading partners, players on the leading edge are beginning to reach the limits of what they can do on the cost side. Yet intensifying competition continues to put downward pressure on margins, squeezing operating profits. Efficiency has become a necessary, though not sufficient criterion for survival. Looking forward, operational efficiency will be enhanced not by increased economies of scale, but by increased leverage of knowledge. As a result, the focus of the retail value chain is shifting from cost and efficiency to innovative ways to drive revenue and growth.

Intelligent Value Chain

We are moving now into the promising new era of the intelligent value chain – which is all about asset intensification, or doing more with what you have. In some respects, this can be considered as the next level of efficiency, but focused on customer-facing processes as opposed to supply chain-oriented processes. In the intelligence stage, the consumer value proposition revolves around the retailing mantra of delivering the right merchandise in the right place at the right time in the right quantities at the right price.

Over the past decade, growth resulted largely from physical expansion – new store openings and new product introductions – as well as ever-lower costs. Tangible assets – property, plant, equipment, and inventory – were the chief source of value creation. Now, new locations are less productive and new products are less successful, merely dividing the same amount of business among a larger number of stores or skus. Retailers and suppliers are finding it more and more difficult to grow the business the old-fashioned way.

In a world of greater market intelligence, customers and customer relationships are the new assets. They are not on the balance sheet, but they are the lifeblood of retailing, driving cash flow and enduring value. With fewer opportunities to build new stores, the focus now becomes how to get more from existing stores and existing customers. This will require a greater focus on optimization of demand chain activities. Enter smart technology and smart tools.

- ***Smart technology*.** Smart technology will underpin the market intelligence revolution. One of the most compelling new developments for retailers involves RFID technology, which makes it possible for individual items to be uniquely identified and tracked as they are manufactured, transported, purchased, and used or consumed. A microchip embedded in each product or device includes information and commands that make inanimate objects intelligent as they travel through the supply chain and interact with each other. We'll have smart products, smart signs, smart labels, smart shelves, smart carts, and smart cards, and everything will talk to everything else. Information and insight will be available to us like never before.

  As a result of smart technology, the customer shopping experience will evolve dramatically by 2010, such that retailers will be able to deploy their assets in different, more productive ways. For example, salespeople won't be needed to sell products in the same way as today as the store becomes more interactive with the customer. Price changes will happen more or less automatically via the combination of mobile devices and electronic shelf tags. The store replenishment process will become more automated. This will affect the ordering process itself as well as the process of moving goods to the sales floor, helping to produce a higher in-stock level and reduce lost sales. Even though some of these applications will remain cost-prohibitive for a few more years, retailers and suppliers need to respond now by planning for the future to ensure that their technological and operational infrastructure will accommodate smart technologies once they reach a feasible cost.

- ***Scientific retailing*.** Data will feed the new tools of the intelligent value chain. Throughout the decade, optimization technologies and their application in customer-facing merchandising activities will grow, while reliance on intuition, anecdotal evidence, and historical insights will decline. Using new analytical tools, processes once considered too complex to do cost-effectively will become possible, with the promise of improving performance in everything from assortment planning, pricing, and promotions to strategic sourcing, space optimization, and customer analytics.

  The value of optimization technologies will lie in the ability to take full advantage of the data, a skill set that is not yet in place in many retail organizations. The interface of the smart technology with the not-as-advanced social system is where it typically falls apart. Retailers will need to adapt their organizations and design processes and metrics in order to utilize the technologies and take maximum advantage of the information. This will require not only smart technology, but smart employees and a higher level of execution discipline. Even then, it will not be enough.

- ***Customer analytics.*** If retailers want to appeal to the inscrutable consumer and excel in an intensely competitive world, they must focus not on the back door of the store, but the front door. The key to prosperity in 2010 is fairly simple – listen to the voice of the customer. Retailers can derive a lesson from Six Sigma by focusing on those moments of truth where things break down and defects occur (e.g., long lines, inability to find products, out-of-stocks). They must be riveted on what the customer is trying to accomplish and work to eliminate the defects in the shopping process by meeting customers' qualifiers or basic requirements, performing well on their satisfiers or attributes that determine store choice, and innovating the breakthroughs that become customer delighters. Customer intimacy is what this is all about.

Intimate Value Chain

For the most part, retailing hasn't made much progress moving to the next level from intelligence to intimacy. The ability to get intimate will require that retailers understand what creates value for each individual consumer for each shopping occasion and execute an appropriate strategy at every point of contact.

It will require techniques and systems to get inside consumers' heads.

- To succeed, retailers will need to build customer relationships and retain customer loyalty by **recognizing, exploiting, and appealing to the differences**, rather than the similarities, among consumers.

- Managing consumer relationships by **"customerizing" the interface and interaction with individual consumers** will be the key in this new environment.

Greater customer intimacy and knowledge – i.e., a true understanding of who I am as a consumer – will be valued by the customer when it is effectively translated by the retailer into a superior shopping experience based on the identification and interpretation of individual interests, needs, and wants. It will also require that consumer privacy be protected and respected.

It used to be the rule was build it and they will come – create a point of presence. Now the battle is on the frontline of every contact marketers have with the customer. The technology infrastructure is being put into place to collect customer information at all the points of contact. However, as with many of the other optimization analytical tools, the data mining capabilities required to successfully use the information – to transform customer information into customer knowledge – do not yet exist in many organizations, not to mention the cultural, process, and organizational changes required to execute these strategies successfully.

This technology will be critical as the industry moves from transactions to customers to relationships.

- Retailers will need to **track each customer** with the same degree of precision and interest as they currently apply to individual stock keeping units.

- **Customer data will become as critical as operating data**. Customer metrics will become as important as same store sales and sales per sq. ft., eventually leading to the ability to track the profitability of individual customer relationships.

- The intimate value chain recognizes that **not all customers are created equal** in terms of their profit potential or lifetime value. The ability to identify the customers with whom the retailer wants to become intimate in order to allocate resources productively will be a critical measure of success.

In the intimacy era, the consumer value proposition will be focused on the customer experience. It will be about connecting with customers on a visceral level. Value will be delivered by strong retail brands that stand for something important to the customer; brands that create a high level of trust and connection. Retailers that are able to couple the brand experience with flawless delivery of desired benefits will create a customer experience that will win business in the years ahead. **In 2010, the battle will not be about points of presence. It will be about the points of contact that a customer experiences.**

Twenty Trends for 2010

How will these forces of change play out in the marketplace? What will 2010 look like for retailers and suppliers?

Retail Forward has identified twenty trends that will alter the face of retailing in the remaining years of this decade.

1) No More One Size Fits All

One size rarely fits all in today's world, and it certainly won't in the future. It will be increasingly difficult to go to market with a single, monolithic model. The multi-dimensional consumer mindset, coupled with growing demographic diversity, will result in greater market segmentation.

To meet the differing needs of customers at specific times or in specific locations and maximize the market opportunity, individual retailers will employ a more robust multi-format or portfolio strategy. These retailers will have wide tentacles, yet they will be highly focused on their core competencies. They will be multi-format, but they won't be retail conglomerates in the traditional sense of operating multiple unrelated formats. In the future, expect to see bigger distinctions among commodities, solutions, specialty goods, and experiences in terms of how they are marketed, merchandised, and distributed.

2) Wal-Mart Keeps Smiling

Wal-Mart will be even more successful by 2010. While the world waits for Wal-Mart to collapse under its own weight, Wal-Mart waits for no one, demonstrating a remarkable capacity to manage the retail lifecycle and keep right on rolling. The history of Wal-Mart is a history of innovation – innovation around business processes, products, formats, and geography. The company thinks big. Its strategy of innovation is not about creating incremental change. It's about creating new businesses that disrupt traditional businesses.

As the world's largest retailer continues to transition away from declining businesses like the discount department store, it is extending its reach with customers into a variety of new businesses, products, and service offers: gasoline, dollar stores, used car sales, financial services, et.al. Despite occasional missteps, Wal-Mart is a learning organization, applying lessons from one division or part of the globe to other parts of the business. Expect Wal-Mart to continue to make plays that take it far beyond its conventional discount store roots and national boundaries to capture a much larger share of the market for many merchandise categories.

3) Supercenters Keep Rolling

Wal-Mart's push into the grocery business is changing the way Americans shop. As consumers search for greater shopping efficiency, their store preference is shifting away from traditional supermarkets and discount department stores towards supercenters. No longer a fringe offering, food is becoming an increasingly important category for the mass industry with the supercenter as the sector's primary growth vehicle.

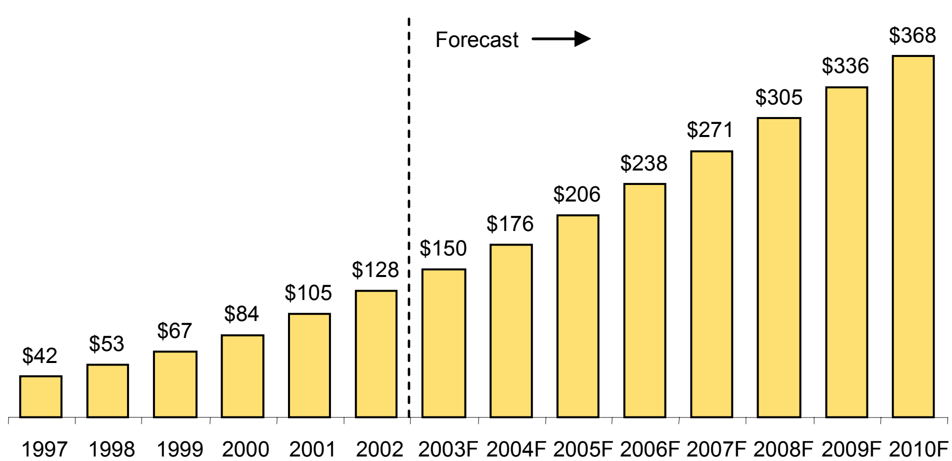
And there is plenty of room to grow. **Supercenter sales are expected to almost triple by 2010.** To boost revenue and one-stop shopping appeal, supercenters will continue to add non-traditional offers like financial, telecom, travel, and entertainment services.

4) Surviving the Supercenter

Discount department stores, supermarkets, and drug stores are under attack from the supercenter and other alternative formats that offer lower prices, more convenience, and/or greater one-stop shopping appeal. Surviving the supercenter challenge will require these formats to adopt distinct positioning strategies that will set them apart as the struggle for competitive advantage intensifies.

- ***The discount department store industry is at the end of its life cycle, and discount stores will be this decade's biggest site donors.*** Discount department store shopping frequency will continue to slide as doors close and Wal-Mart converts conventional units to supercenters. Only Target, with its flair for fashion and unique assortments and its stellar brand management capabilities, will

Supercenter Sales Growth and Forecast
($Billions)



Sources: U.S. Department of Commerce, company annual reports, *Discount Merchandiser*, *Discount Store News*, and Retail Forward, Inc.

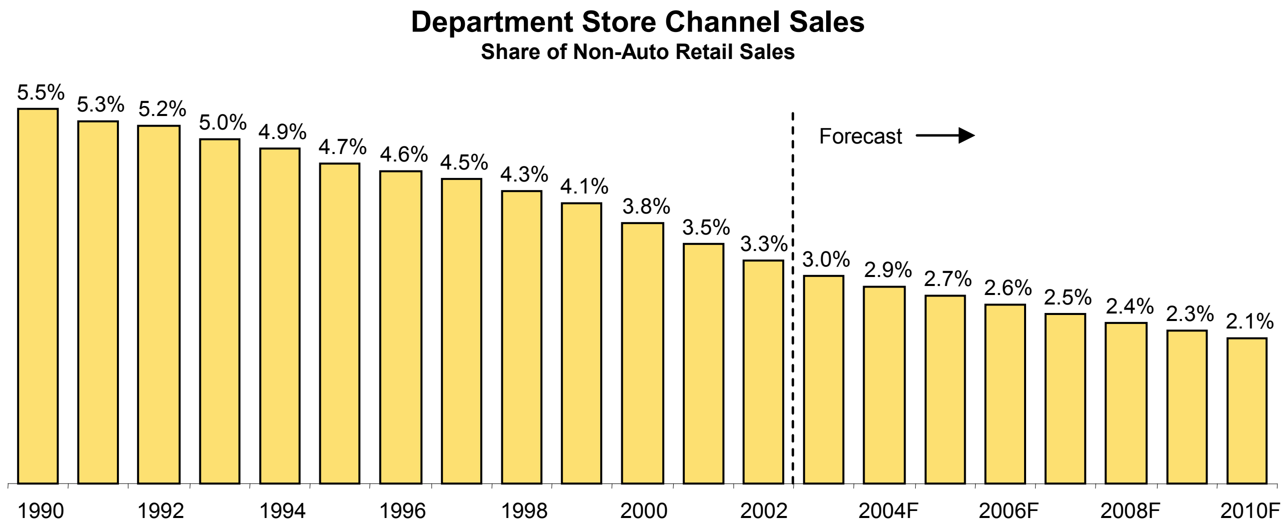
experience growth in what was once the conventional discount department store sector. Kohl's (which is classified as a discount department store based on US Department of Commerce definitions), another burgeoning powerhouse on the verge of attaining national coverage, will continue to take advantage of marketplace opportunities as they arise, capitalizing on the bankruptcies of discount dinosaurs by acquiring and converting selected stores to bolster its pace of expansion.

- ***Supermarkets have a number of viable strategies, except for one – standing still.*** There is still room to maneuver in the grocery industry. Forward-thinking supermarkets will expand their one-stop shopping appeal with the addition of fuel pumps, more non-foods (often in partnership with other retailers), and mealtime options in order to become the new convenience store, or at least a *more* convenient store for the many shoppers who prefer supercenters or warehouse clubs for their stock-up shopping trips. As more non-food merchandise makes its way into stores, some supermarkets will continue to grow larger and become more closely associated with the supercenter concept. Many will become more like fashion retailers by tapping the potential of under-penetrated or emerging markets and trends such as natural/organic, ethnic, gourmet/exotic, and healthy food products.

- ***Drug stores also need a prescription for change.*** Pharmacy has carried the business, but it is under attack as alternative formats – including supercenters, supermarkets, and mail order – encroach. Expect drug stores to leverage their reputation and expertise in pharmacy as a springboard for more value-added health care offerings – becoming full-service health and well-being solution centers. They also will aggressively play their convenience card to appeal to an efficiency-minded shopper.

5) Department Store Death Spiral

More consolidation and retrenchment are inevitable as department store market share continues to decline. Department stores have been desperately trying to get in step with a retail transformation driven by customer demands for greater value and a more productive shopping experience. At present, the sector is caught in a vicious circle being propelled by escalating competition from the mass channel, lifestyle-focused specialty retailers, and category killer superstores. Department stores continue to see their market share erode, which is forcing their suppliers to seek other avenues of growth. The growing availability of department store brands in other channels further aggravates the competitive situation and perpetuates this vicious circle. Investments currently being made to fix the department store model – e.g., improving the shopping experience, creating a more compelling offer – may slow the decline, but will not reverse it.



Sources: U.S. Department of Commerce and Retail Forward, Inc.

6) Malls Get Mauled

Malls aren't going away, but many will change almost beyond recognition. The history of malls in the US is wound up in the history of department stores. As mall department store anchors close – with the shift in consumer preference toward more convenient off-mall venues showing no sign of abating (particularly as the population ages) – the rest of the mall tends to decline quickly. Compounding the problem, the trading area around many older suburban malls is undergoing significant transformation. In the years ahead, more retailers will attempt to intercept consumers wherever they may be, rather than rely on the pull of a centralized shopping center. As with department stores, there will not be enough demand to support all the malls that have already been built. While some of these malls will die, others will be reformulated and reborn.

The mall of the future, like the store of the future, will need to have a clear market position. With the exception of the destination mega-mall, it will no longer be sufficient to be a big box filled with a diverse range of stores. The most promising position for malls will be value, entertainment, upscale, or lifestyle-driven, with a much broader mix of retail and non-retail tenants. The latter will entail a willingness to go against the boundaries of past mall experience to include a wide range of companies that will want to reach out and touch their customers directly. In the future, health care and telecom companies, post offices and athletic clubs, government outreach services and entertainment venues will take over a lot of former retail space in malls.

7) Re-concept Rather than Remodel

The days of the mass-merchandised specialty chain with multitudes of outlets delivering the same narrow and deep assortment of goods to the market, year-after-year, regardless of location, is over. **Going forward,**

successful specialty retailers will manage a portfolio of different concepts, each operating a smaller chain of stores, in order to address multiple market opportunities.

This will require rapid innovation in response to the needs and wants of more narrowly defined customer groups, micro-merchandising to the individual store, more flexible sourcing, and a multi-channel approach to the market. Rather than pursuing strategies to extend a concept's lifecycle, specialty retailers – especially those targeting a younger consumer – will hop on trends quickly, then move on to the next concept before the existing brand becomes overexposed and target customers lose interest. Expect the speed of change in consumer markets, technology markets, media markets, and merchandise markets to continue to compress the lifecycle for specialty retail concepts, products, and brands.

8) Experience Excels

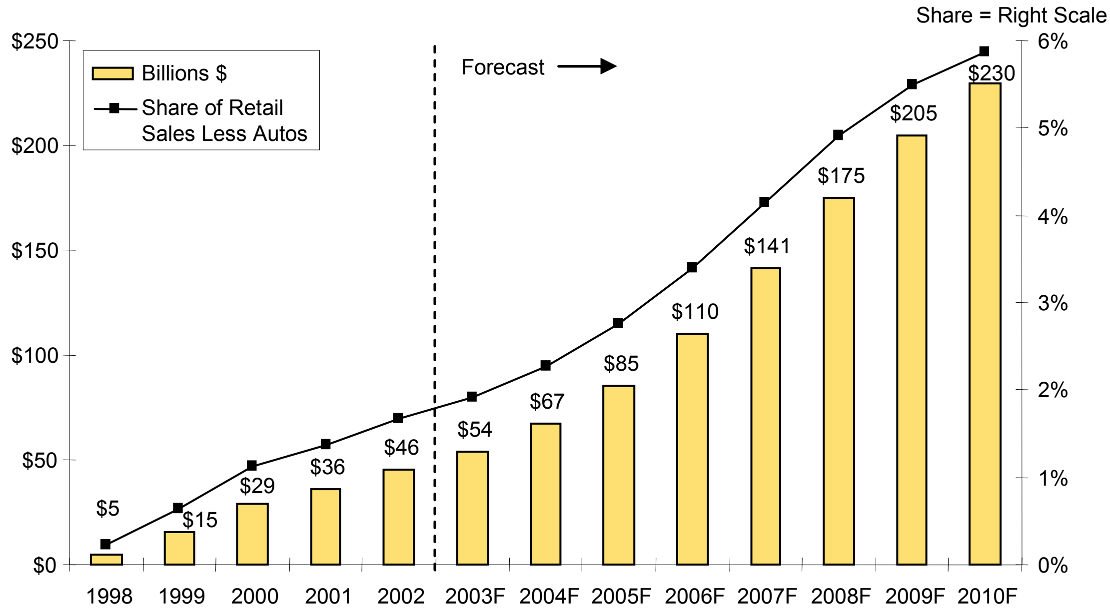
For retailers targeting the sensation-seeking consumer, goods and services are no longer enough. Increasingly, **retailers will differentiate themselves by using experiences to sell the dream – as well as the product.** Some retailers will mix context and commerce to such an extent that retail and experience become indistinguishable. Experience retailing will go beyond entertainment, education, or interaction to engage customers in a more meaningful way where the experience or activity becomes an authentic part of their life. This will help establish a sense of community with the customer and create repeat business by literally bringing the brand to life. The retail venue will become a place to spend quality time – and, increasingly, a place to spend money to spend time. These retailers will expand the definition of their businesses such that the experiential environment will become as much a selling point as the merchandise itself.

9) E-Commerce: More Action than Transaction

As consumers increasingly use different channels for different purposes at different points in the same shopping process, **the role of the Web will continue to expand – but it will be more action than transaction through 2010**.

E-commerce will continue to grow as new online customers have satisfactory online shopping experiences and overcome the four primary barriers to online purchasing – fear, feel, frustration, and fulfillment. Nevertheless, in the absence of a major inflection point that would substantially change consumer behavior (such as terrorist incidents in conventional shopping venues), e-commerce will remain a relatively minor share of overall retail sales for the rest of this decade. And the move toward taxation of online sales, which began quietly in February 2003, may become a new hurdle to e-commerce adoption.

Annual E-Commerce Retail Sales
(Billions of Dollars and Share)



Sources: U.S. Department of Commerce and Retail Forward, Inc.

As with all things new and different, e-commerce is largely a generational phenomenon. Young people are very comfortable going online and, as the next generation of shoppers, they will have a much bigger impact on the growth of online sales. However, that impact will only begin to be felt by 2010 when Gen Y consumers become young adults with greater purchasing power and higher consumption needs.

Increasingly, retailers will view their online efforts as a method to grow sales offline, in effect leveraging the web as a “contribution” channel as well as a distribution channel. The influence of e-marketing and e-shopping on spending in stores will continue to grow rapidly. However, e-retailing’s impact extends well beyond its contribution to retail sales – online or offline. As a change agent, the Internet will continue to transform many aspects of the shopping process and the customer experience, including access to information on products, prices, and availability; promotion strategies; customer service and aftermarket care; brand management; and especially customer communications.

10) Smart Shopping

In the years ahead, **putting more technology into the hands of the shopper will provide benefits to customers and retailers** alike. With each year that passes, shoppers will get smarter. They will embrace technology – the Internet, e-kiosks, wireless, RFID – that gives them more control over the shopping process. Customer-friendly technology that interfaces with both retailers and the products they sell will provide shoppers with more self-service options to access information and to complete transactions. The expanding role of technology in the customer experience will include:

- *Web-enabled in-store kiosks*, which give consumers access to a retailer's full inventory and information about products, prices, and availability.
- *Wireless technological advances* will provide shoppers with detailed information about product features and benefits from hand-held mobile devices.
- *Smart carts* will interact with consumers during the shopping process, drawing on a customer's current or past shopping behavior to alert them to products or promotions that may be of interest.
- *RFID-enabled checkout* – where all the RFID-tagged items in the cart can be scanned at once – will eventually replace wireless portable scanning devices that now let shoppers scan their own purchases, dramatically reducing checkout lines and time.
- *New contactless payment solutions* using RFID-enabled smart cards or transponders to speed up the checkout process will become commonplace by 2010.

11) Smart Stores

Stores and store associates also will get smarter as retailers adopt technologies to drive greater space and employee productivity. This will require that associates be provided with access to real-time information about products and customers. Over the next few years, employee personal digital assistants or other hand-held devices will be widely enabled in stores – long before consumer use of mobile devices for shopping becomes widespread. A sales associate assisting a shopper will have ready access to product information at the point of sale as well as to customer purchase records to facilitate the returns process or suggest complementary items. Employees will be able to locate any item in the store or anywhere in the supply chain. One key driver of smart stores will involve the installation of wireless network infrastructure capable of supporting RFID applications as they become commercially viable technologies over the next few years.

Over time, smart store solutions will trade human resources for technology. RFID offers compelling advantages over the barcode systems currently in use because it delivers a higher level of information and requires a lower level of human intervention. For example, electronic shelf-edge labels (ESLs) will allow retailers to monitor and change prices remotely, reducing the time required to affect price changes and improving price consistency across stores. In addition, they will pave the way for fluid pricing strategies, allowing prices to be reduced automatically as products reach the end of their shelf life or raised at times of peak demand. ESLs will empower price optimization systems, which allow retailers to analyze and adjust pricing strategies for entire product categories, accounting for the effects of cannibalization and product affinity. Smart shelves that can read the radio frequency waves emitted by microchips embedded in product labels or packaging will scan their own contents and alert store employees when stock is running low. This means the retailer will no longer have to rely on employees to monitor the shelves. RFID-enabled checkout will reduce front-end labor requirements.

12) M-Commerce: More B2B than B2C

M-commerce – the ability to interact and transact at the point of need – is more a matter of when than if. The mobile revolution is underway, but it is still very much in its infancy and progressing at a slower-than-expected pace. For the rest of this decade, the selling of products and services via mobile devices will remain largely elusive.

- While an increasing number of mobile phones are Web-enabled, today's mobile device interface is inadequate for the online shopping process – it is too small and too slow.
- Consumers have shown little interest in using current mobile technology to shop for or purchase products.
- Incompatible devices and networks also exist across mobile carriers, making it impossible for certain mobile devices to communicate with other devices.
- Significant investment in new technology will be required before m-commerce becomes an integral part of the shopping experience.

Mobile devices are, however, expected to become a major technological change driver in consumer products distribution over the course of this decade – with the most significant opportunity in B2B applications – using RFID technology to provide critical information in real-time (e.g., inventory levels, sales, delivery schedules) to retailers, manufacturers and other supply chain partners. In the longer-term, mobile technologies will fundamentally alter how companies communicate with and market to consumers and how consumers develop relationships with companies – but that will be beyond the timeframe of this report.

13) Global Land Rush Continues

Both retailers and suppliers will continue to look to other countries to provide a greater and greater portion of their revenue and profit as they encounter market saturation at home. Opportunities will be primarily in emerging economies. However, as the global land rush continues, many retailers are discovering that global expansion is not a guaranteed route to success. Increasingly, we can expect to see companies rationalize their global operations and pull out of countries where profitability is in question, turmoil is rampant, or opportunities are limited. Globalization will compound the issue of consumer diversity. However, western influence will be found everywhere, with the long-term trend more convergent than divergent.

Despite growing world tensions, the strong interest that businesses have in further liberalization of international borders with respect to the movement of goods, people, and capital will prevail. The single largest hindrance to this trend will be the necessity of improving the security of the global distribution infrastructure. Doing so will slow the supply chain and impose some additional costs.

With the global land rush will come a global retail oligopoly. A handful of large retailers with superior operating skills will control the most attractive consumer markets across the globe. Consumer products companies can expect to encounter the same power customers – and their high expectations – wherever they do business. It will no longer be appropriate to talk about distribution channels. In the future, it's all about customers.

14) Retailers Act like Suppliers

Given that inventory is their single biggest cost, expect retailers to become much better at procurement over the next decade. With nearly $200 billion in cost of goods, who can argue with Wal-Mart for taking greater control of its source of supply?

Retailers with sufficient size and market presence increasingly will look for alternative sources of product beyond those available from traditional suppliers. At the same time, continued price deflation combined with operating expense inflation will keep pressure on margins, forcing retailers to look for lower-cost product overseas. Their options are multiplying as more suppliers in developing countries add reliable, low-cost production capacity and develop the ability to manufacture to quality standards that are acceptable worldwide.

With increasingly global operations and global sources of supply, the complexity of the supply chain will continue to increase. Overseas sourcing will lead to the need for more retailers to have local expertise abroad to manage freight, clearance, consolidation, and supplier relations in order to have greater visibility and control of the flow of inbound product. In addition, leading retailers will stretch into their suppliers, actively participating in the design and production processes, to ensure their needs are met.

15) Retailers as Brand Managers

For suppliers, the biggest competitors in 2010 will be current retail customers. The growth of retail powerhouses and the search for competitive differentiation will continue to accelerate the development of strongly positioned and well-supported private brands. Scale is affording more retailers the wherewithal to invest in the necessary brand infrastructure and the sales base to leverage that investment. Private brands increasingly will be used to reinforce the retailer's own brand values and unique personality by extending those with a strong lifestyle appeal across categories to create storewide umbrella brands that resonate with core customers.

As proprietary brands comprise a growing share of retail sales, retailers will become brand managers on an unprecedented scale, taking on responsibility for such traditional brand-building activities as:

- Trend tracking and product innovation
- Creating and maintaining the brand's image and identity
- Developing expertise in brand marketing, brand editing, and brand repositioning and renewal.

As retailers look for new ways to grow, some will look to leverage their investment in private brands by becoming a supplier to other non-competitive retailers on a global basis.

16) Brand Sharing

Expect to see more innovative "retailer + retailer" relationships – store-within-a-store or brand-sharing concepts – in the future. As the economic environment challenges retailers to find cost-efficient, sales-driving innovations in the face of consumer demands for greater one-stop shopping convenience, these "retailer + retailer" partnerships will gain speed. Increasingly, it will be seen as an effective way for complementary retailers to:

- Differentiate themselves from the competition.
- Gain recognition and credibility with consumers.
- Expand their points of presence by leveraging location strength, customer traffic, product expertise, and brand equity.

Homegoods retailers have been at the forefront of this growing trend as they look for growth by plugging into someone else's shopper base. Most have found this new shopper base in the supermarket aisle. Supermarkets have had much reason to respond in favor of these types of partnerships. They have used the branded department concept in an effort to fend off supercenters and warehouse clubs that continue to steal market share away from the sector.

17) Über Retailers

With the lifecycle of products becoming ever shorter and the brand pendulum swinging away from the supplier and toward the retailer, brand power will continue to shift from product brands to retailer identities. The corporate brand will become the signature for the retailer's relationship with its customers, and the role of the brand will expand or deepen to encompass the entire shopping experience.

Over the rest of this decade, we will find out how far retailers can stretch their corporate brands as the industry consolidates into the hands of fewer, larger, but clearly differentiated companies that continue to transcend competitive boundaries as they move from share of market, past share of wallet, to share of life. Some will become "über retailers" – leveraging their brand identities, customer relationships, and scale to develop “consumer eco-systems” that aim to fulfill virtually all of the purchase needs of certain kinds of customers. As industry consolidation becomes more pronounced and über retailers extend their reach, distinct channels of distribution will all but cease to exist.

18) Suppliers Act like Retailers

Just as retailers are acting more like suppliers, they are expecting their suppliers to take on an increasing number of activities that traditionally have been the responsibility of the retailer. Retailers will look to their key suppliers to become category consultants – setting strategy for the category and managing inventory and selling space by location, almost as if they were operating leased departments. Many retailers will expect suppliers to maintain ownership of the goods even after they hit the retail floor.

In the years ahead, retailers will exert ever greater control over the brands they offer to their customers at the expense of more widely distributed manufacturer brands. Manufacturers will face increasing difficulty fighting back to protect the equity of their brands because the typical retailer will be more important to the typical consumer products company than vice versa. Indeed, many suppliers will find it tougher to find a home for their brands. What does all this mean for suppliers? How will they deal with retail customers that are becoming more diverse, with different needs, expectations, performance models, and operating capabilities?

In response to the growth of retailer private brands, manufacturers will be forced to focus their own businesses on a smaller number of power brands. To meet the increased demand for differentiated products and promotions, many will become essentially private brand suppliers to their major retail customers. They will work in cooperation with individual retailers to develop customer-specific private brands, exclusive brands, and co-branded programs in order to keep their space in the retailer’s stores. This will require a different type of brand management. To gain and maintain shelf space at key retail accounts, consumer products companies will spend marketing dollars formerly earmarked for trade promotion to buy sell-through, not sell-in.

19) Suppliers Become Retailers

As more suppliers think and act like retailers, more suppliers will become retailers – or at least become a more proactive participant in the relationship with consumers than ever before. However, with only a handful of product lines, most aren’t broad enough on their own to offer a meaningful solution to consumers as a freestanding shopping destination or to represent a meaningful share of their spending. In addition, consumer products companies will continue to face the difficult question of how to sell directly to consumers without alienating or cannibalizing their existing retail customers. Conflicts will arise over who owns the consumer and, more importantly, who owns the market knowledge that every transaction with the consumer generates. Nevertheless, suppliers will become more adept at communicating directly with consumers – generally by harnessing the Internet's capabilities to interact with them in ways they have never been able to do before. And, as more suppliers get locked out of traditional retail channels, expect supplier direct-to-consumer to become a more viable scenario for the future.

20) Consumers Call the Shots

Technology is changing the dynamics of the buyer-seller relationship, giving consumers unprecedented control in the marketplace. In this new environment, where access to products and product information has grown dramatically, consumers will do more for themselves. They will have more control over the shopping process. They will be less reliant on retailers and manufacturers for information, advice, or recommendations. Consumers are accustomed to having many choices and will take the initiative to get what they want, how, when, and where they want it. They will seek to dictate the nature and pace of their own shopping experience, and they will expect reciprocity for their patronage.

Now and forever more, consumers are in control – active and opinionated decision-makers, rather than passive and undifferentiated receivers of messages and products. This shift will give rise to a new, customer-driven business model by 2010, built around greater customer intimacy – where every touch point becomes a moment of truth and customer relationships become the key competitive assets of the business.

Contributors: Frank Badillo, Vice President and Senior Economist
Jill Fleming, Senior Vice President
Diane Hamilton, Senior Vice President
Lois Huff, Senior Vice President and Manager, Softgoods Track, Retail Intelligence Program
Ira Kalish, Senior Vice President, Chief Economist and Director, Global Retail Intelligence Program
Nancy Lee, Senior Vice President
Elaine Pollack, Executive Vice President
Mandy Putnam, Vice President
Tom Rubel, President and Chief Executive Officer
Sandy Skrovan, Vice President and Manager, Food/Drug/Mass Track, Retail Intelligence Program
Dan Stanek, Executive Vice President
Peter Weil, Senior Vice President
Mary Brett Whitfield, Senior Vice President and Director Retail Intelligence Program
Geoff Wissman, Vice President and Manager, Homegoods Track, Retail Intelligence Program

Author: Linda Hyde

Economic Forecasts: Steve Spiwak, Consultant and Economist

Research Associate: Yvonne Speece

Production Associates: Cindy K. Schaaf
Lisa Weiderman

RETAIL FORWARD

700 Ackerman Road
Suite 600
Columbus, OH 43202
Telephone (614) 437-1021
Fax (614) 437-1028
www.retailforward.com

About Retail Forward, Inc.

Retail Forward, Inc. (www.retailforward.com) is a globally focused management consulting, market research, and executive development firm specializing in retail intelligence and strategies. The company offers a variety of strategy consulting and research solutions for retailers, consumer products companies and other businesses that track these industries. Retail Forward's team of consultants and economists has extensive experience delivering strategic solutions from new concept development and market positioning to brand strategy and distribution channel analysis.

Senior executives from over 200 leading retail and consumer products companies rely on the Retail Forward Intelligence Program for the answers to their most critical strategic issues. The Intelligence Program monitors, assesses, and forecasts trends in retailing and related consumer behavior, and distributes value-added news, analysis and perspective in the form of newsletters, in-depth reports, and conferences.

Sign up for Retail Forward's free daily retail newsletters at www.retailforward.com. Retail Forward's daily electronic newsletters deliver the top headlines from hundreds of global news sources! Newsletters cover all channels of the retail industry: E-Retailing; Global; Homegoods; Softgoods; and Food, Drug, Mass. An All Retailing Newsletter communicates news across all retail channels.

Retail Forward also offers a Key Issues Series of free weekly e-newsletters. Choose from among the following topics:

- News from Bentonville – A Wal-Mart Newsletter
- Branding - focusing on the hot topics in the branding environment.
- The Economic Climate - delivering key economic reports from the week.
- Retailer Performance - featuring the biggest financial news of the week.
- E-marketing - discussions and developments in the e-marketing arena.
- Executives on the Move - keeping track of all those executive changes.

Twenty Trends for 2010: Retailing in an Age of Uncertainty is a special report that combines the research and analysis of Retail Forward, Inc. and data gathered by Retail Forward, Inc. from retail industry sources.

700 Ackerman Road, Suite 600
Columbus, Ohio 43202
614-437-1021
www.retailforward.com

For more information about Retail Forward or the Intelligence Programs, contact:

Katherine R. Clarke
Retail Forward, Inc.
kclarke@retailforward.com