Trends in Retail Trade

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Social and economic trends can define the environment local main street merchants operate. Often, major trends require adjustment in operating philosophy and strategy. Currently, many communities are in a planning process to produce ideas for downtown development and revitalization. Recent studies provided for these communities have analyzed sales tax trends and consumer shopping patterns. One such city had an additional request—an overview of retail trends facing downtown merchants and business people.

This fact sheet provides a discussion of major trends impacting small businesses in the retail trade sector. Current publications, national reports and journals, and recent Internet articles were collected to provide ideas for the report. Ten significant trends were identified and are discussed on the following pages. It is hoped that this information will be useful to local groups, such as coalitions of retailers and economic development groups, and to other individuals concerned with the growth potential for retail business.

Overview of Trends

There are many trends and circumstances that can impact the potential for retail trade development. The following are 10 trends that stand out in recent literature.

1. **E-Commerce**. By 2005, the Internet will account for 25 percent of durable goods and merchandise sales.
2. **Kids in Retail Trade**. Twenty-six percent of teens in the U.S. have or have access to a credit card.

3. **Know Your Customers.** The largest data file of its kind, Sears has information on 101 million of its customers.
4. **The American Mall in Decline.** The number of trips to the mall has declined by 50 percent since the early 1990s.
5. **Challenging the Category Killer.** Category killers will soon only have competition from themselves, and that competition will be fierce.
6. **Precision Shopping.** The quick shopping trip is the basis for the new small store format being embraced by many of the nation's largest retailers.
7. **Entertaining the Customer.** The 21st Century will see the continuation of the "entertainmentization" of retailing.
8. **Globalization of Retail Trade.** Ninety of the top 100 global retailers will have international operations by the end of 1999. The 1997 total was only 30.
9. **Smart Cards.** Worldwide 805 million cards had been issued by 1996. By 2000, that number is expected to reach 2.8 billion.
10. **Decline in Retail Sales Growth.** Consumer spending is expected to increase from 1998 to 2002, but at a pace that is 14 percent lower than that of the preceding five years.

Description of Trends

1. E-Commerce

American Demographics claim that the decade of the 2010s will be the "linked decade." Whereas Americans spent $2.1 billion on computers in 1986, that figure is expected to be $666 billion by the year 2006. Already, America is online in large numbers, and retailers are understandably taking advantage of this market. Every 53 days, the number of World Wide Web pages doubles. According to Computer Sciences Corp. (Commerce By Numbers,1999), the percent of U.S. retailers offering online shopping in 1996 was 11 percent. Just one year later, in 1997, that percentage was nearly doubled at 20 percent. E-marketers 1998 E-Commerce Report states that retail commerce totaled $1.8 billion in 1997, but is expected to total $26 billion by 2002. Some estimates claim that this figure could reach $115 billion by 2005 or 2006. By 2005, the Internet may account for 25 percent of all durable goods and merchandise sales. Currently, those U.S. retail categories with the most Web retail shopping include book and music retailers, grocery and department store chains, and nonapparel specialty stores. According to J.G. Sandom, director-interactive, Ogilvy Interactive, New York, says, "If you're not on the Web ready to do electronic commerce, you're history" (Freeman, 1999).

2. Kids in Retail Trade

According to Ohio State University professor Roger Blackwell, children play an important role in the retail market (Raymond, 1999). Children may influence 17 percent of family spending on cars and vacations and as much as 80 percent on food purchases. However, teenagers have more than just influence, they have credit cards. In 1998, of the 31 million teens in the U.S., 13 percent of them had their own credit cards and another 13 percent of them had credit cards in their parents' names. In a recent poll conducted by Teenage Research Unlimited (The Class of 1997, 1999), the majority of 16- and 17-year-olds said that they spent between $51 and $100 the previous week. From jobs or other sources, teens average an annual income of more than $3,000. Add that to the projection that the teen population will reach nearly 35 million by 2010 and you get a sector of population with a substantial impact on retail sales.

3. Know Your Customer

Almost every giant supermarket chain in the U.S. is now compiling customer information. Sears has customer information on 101 million households. This is probably the largest information file of its kind in North America. Why is knowing your customer suddenly so important? The realities are this:

- The U.S. population growth rate is declining.
- More and more consumers are shopping online or by mail order.
- American women are working more and shopping less.
- Today's consumer is extremely selective.

If the traditional retailer wants a customer's business, that retailer must meet the very specific needs of the consumer. According to American Demographics, "A woman is no longer simply a woman for marketing purposes. She is, for example, a single mom, an ethnic minority, a bicycling enthusiast, a buyer of petite-sized clothing, and a wine connoisseur."

4. The American Mall in Decline

According to a recent study by Management Horizons (U.S. Department of Commerce, 1999), the number of trips to the mall has decreased 50 percent since the early 1990s. In 1980, mall visits were 4.6 per month, but dropped to 1.6 per month as early as 1995 (U.S. Department of Commerce, 1998). The number of stores visited per trip has dropped from seven to three. According to Kurt Salmon Associates, more than half of consumers surveyed said that they shop less often and that shopping is a "hassle." One of the main reasons for this decline is the time pressure faced by Americans. A result of this is a substantial surplus of retail space. In 1980, the U.S. had 13 square feet of retail space per person. By 2000, it is expected to be 20 square feet per person. According to Henry Faison, chairman of the board of Faison Associates (a shopping center developer) a significant number of malls are going to get bulldozed—possibly as many as 30 percent. His response. "So what? Give the public what it wants" (McCloud, 1997).

5. Challenging the Category Killer

A category killer is a huge, single-focus store, such as a large office supply store, which could "kill" all local competitors. For instance, Home Depot is a successful example of this kind of format in the market for home improvement and building supplies. A power center is a 200,000 (or more) square foot shopping center that is anchored by a category killer. Often, power centers locate near each other forming a regional retail center. These have been very successful, but this market is beginning to saturate. So many category killers exist that they have begun to reach a point where their main competition is among themselves. (They have "killed" all the other competitors.) Home Depot is left to compete with similar-type stores such as Lowe's. Only the strongest will survive the stiff competition. Like malls, the category killers and power centers face the challenges of surplus space, online shopping, and a "return to Main Street."

6. Precision Shopping

Americans are going to the mall less. When they do shop, they are generally looking for a specific item. They don't necessarily have the time or energy to walk up and down the aisles of a 200,000 square foot super store to find that one item. The quick shopping trip is the basis for the new small store format being embraced by many of the nation's largest retailers. OfficeMax is setting up a prototype store stocked with only 3,000 SKUs (or stock keeping units), compared to 8,000 SKUs at a regular OfficeMax. Wal-Mart recently opened a 40,000 square foot Neighborhood Market, or "Small-Mart" as it has been nicknamed, near Bentonville, Arkansas. The challenge for these smaller stores is to track their SKUs effectively so that the stores can be stocked with only their bestselling merchandise. This precision shopping trend has also spurred the growth of brand-name stores, such as Levi's, OshKosh B'gosh, and Tommy Hilfiger. In addition, it has created room for department stores, such as Dillard's, to make a comeback, even though their demise was predicted just a few years ago.

7. Entertaining the Customer

According to Ira Mayer, president of EPM Communications in New York City, the 21st Century will see the continuation of the "entertainmentization" of retailing (Raymond, 1999). For example, in November of 1998, Wal-Mart hosted a live Garth Brooks concert that was telecast in the retailer's electronics departments nationwide. Even though few new malls will be built, the revitalizing of old malls will include an entertainment theme. One example is the remodeling of Quail Springs Mall in Edmond, Oklahoma to include a 26 screen theater with stadium seating. On a less elaborate scale, retailers will continue to attempt to entertain the customer through the use of creative displays, lighting, and merchandising. In the end, entertaining the customer is just one more way of competing for the business of a consumer who has ceased to view shopping as recreation, but instead views it as a chore.

8. Globalization ot Retail Trade

Most analysts agree that international retailing will increase over the next several years. A recent survey showed that only 12 percent of 250 U.S. retailers surveyed had international operations. This number is expected to grow. Reasons for this prediction include certain "push" factors. Saturation and intense competition in domestic markets, declining population growth rates, and limited growth in consumer spending will push U.S. retailers into foreign markets. Simultaneously, U.S. retailers are being "pulled" into some of these foreign markets by rising standards of living and population growths, higher concentrations of young adults, and weak levels of competition. In addition, globalization of trade is being encouraged by the adoption of certain trade agreements, such as NAFTA, which lower barriers to international trade. For example, Toys "R" Us opened 35 international stores in 1998, compared to only 15 domestic new stores. Wal-Mart planned to open 50 to 60 new retail stores overseas in 1998. It is predicted that 90 of the top 100 global retailers will have international operations by the end of 1999. The 1997 total was only 30.

9. SmartCards

A smart card is a card that is embedded with a microprocessor and a memory chip. Such cards can be used to hold money, such as prepaid phone cards, debit cards, and gift certificate cards. Worldwide 805 million cards had been issued by 1996. By 2000, that number is expected to reach 2.8 billion. By way of comparison, there are more than 900 million credit cards in circulation today. Of interest to retailers is the popularity of the use of smart cards in loyalty programs. In these programs, customers are issued a smart card along with their club membership. Instant discounts are bestowed on purchases made using the smart card. According to Cox Direct's 20th Annual Survey of Promotional Practices, more than three-fourths of the shopping populace are already members of a store loyalty program. Furthermore, A.C. Neilsen's Annual Frequent Shopper Study shows that more than 90 percent of cardholders use their card almost every time they shop (New Survey, 1998). A trend for the future will likely be the consolidation of our smart cards. William Barr, president of the Smart Card Forum, says that in the 21st Century, people will only want to carry one card instead of 16, like we currently do (Raymond, 1999).

10. Decline in Retail Sales Growth

Most analysts seem to agree that growth in the retail sales sector will slow substantially between 1997 and 2002. The annual increase is only expected to be about 2 percent. That compares to more than 4 percent annual growth from 1992 to 1996. This declining growth rate can probably be attributed to falling growth rates in durable goods, whose 7 percent growth rate is expected to drop to 2.8 percent from 1997 to 2002.

Table 1. Millions of Smart Cards Issued, By Application

Card Application	*1996**	*2000**
Pay Phone	605	1,500
Health Care	70	120
Banking	40	250
Identity/Access	20	300
Transportation	15	200
Pay TV	15	75
Gaming	5	200
Metering/Vending	10	80
Retail Loyalty	5	75

*In Millions

Source: Smart Card Industry Association

Durable goods are those items that are expected to have a life of three years or longer. This includes cars, fumiture, and appliances. These are often big-ticket items and their sales are typically more volatile than the sales of nondurables (such as food and clothing). One reason given for the slow down in durable sales is the projected decline in real consumer spending over the same period, 1997 to 2002. According to DRI, a data research company, consumer spending is expected to increase from 1998 to 2002, but at a pace that is 14 percent lower than that of the preceding five years (US Department of Commerce, 1999). The fallout from declining growth rates for retail sales combined with an "over-stored" retail market is that there will likely be a large number of bankruptcies and consolidations that take place in the latter part of the 1990s. This trend is currently evident. For example Men's Wearhouse has been expanding through the acquisition of failing companies such as C & R Clothier in 1996, Kuppenheimer Men's Clothiers in 1997, and K & G Men's Center, Inc. in June of 1999. JCPenney has moved into the lucrative drugstore business through its acquisitions of Eckerd in 1997 and Genovese Rx in 1998. In July of 1999, Toys "R" Us announced its acquisition of Imaginarium Toy Centers' Inc., a specialty and educational toy retailer.

Summary

This fact sheet identifies and describes some current trends in retail trade. It is not intended to be a comprehensive representation of the retail sector, but a look at some of the most prevalent topics being discussed in popular literature. It is hoped that this information will be of value to the retail sectors of Oklahoma cities and towns, both as a piece of general information and as a tool for use in economic development programs.

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