What Does Shopping Tell Us About the Economy?

June 17, 2014

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West Texas A&M University
Consumption matters

- 66% to 70% of GDP
- \( Y = C + I + G + X - M \)
Try to connect how the students and their families shop to the overall numbers.
Demonstrate the interaction between households and firms.
Focus on Retail Sales - about 1/3 of consumer spending.
Retail Sales have been up but slower.
Who was up in May?
- Automobiles
- Grocery stores
- E-commerce
Automobiles and Restaurants
Retail Sales

[Graph showing retail sales trends from 2006 to 2014]
How and where are we shopping?

- Value Migration
  - Low-cost
  - High-value
- Consumers will pay up for items that provide “extra value”
- Consumers will go to the lowest price producer of items in which they seen no extra value or uniqueness
- A sale requires trust
Trend: More e-commerce by everyone

- Not just Amazon anymore
- Not just technology items
- Switch from computer/laptop to phone
- No longer need the high-speed access from work
- More purchases on mobile devices
  - Immediate reaction (impulse buying?)
  - Immediate results
  - A new way to entertain oneself?
E-commerce is growing
Still has lots of room to grow

Source: U.S. Department of Commerce: Census Bureau
Shaded areas indicate US recessions - 2014 research.stlouisfed.org
Many traditional stores are closing

- Barnes & Noble: 226 stores to close between 2011-2021
- Staples: 225 stores to close by end of 2015
- GameStop: closed in 2013
- The Gap: closed in 2012 and 2013
- Abercrombie & Fitch: to close by 2015
- Aeropostale: to close between 2014-2019
- JCPenney: to close by May 2014
What do we buy online?

Percent Of Retail Sales Attributable To Online In Selected Merchandise Categories (U.S.)

BI INTELLIGENCE

Source: U.S. Census, Internet Retailer, BI Intelligence Estimates
Websites

Not just a tombstone anymore

- Convey information
- Geared to buying
- Geared to make buying easy - navigation
- Need to be usable/readable on a mobile device
- Lack of information on small screen
  - Creates a need for reviews

Activity ideas:
- Ask students to find one website that is easy to use for purchases and one that is not easy to use
- What makes Amazon’s webpage so great?
Amazon

Profit Margins below 1%

- Front page has purchase ideas
- Good search engine including refinement
- Ratings
- Shopping cart stays

- Activity ideas:
  - Dynamic pricing
    - Leave item in cart for a while to see what happens to price
- Amazon owns Zappos
  - Compare prices
## Razor thin margins
Retail always has had low margins

### AMAZON

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Profit Margin</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>3.2%</td>
</tr>
<tr>
<td>2008</td>
<td>3.1%</td>
</tr>
<tr>
<td>2009</td>
<td>3.7%</td>
</tr>
<tr>
<td>2010</td>
<td>3.4%</td>
</tr>
<tr>
<td>2011</td>
<td>1.3%</td>
</tr>
<tr>
<td>2012</td>
<td>0.2%</td>
</tr>
<tr>
<td>2013</td>
<td>0.4%</td>
</tr>
</tbody>
</table>

### WALMART

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Profit Margin</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>3.4%</td>
</tr>
<tr>
<td>2008</td>
<td>3.5%</td>
</tr>
<tr>
<td>2009</td>
<td>3.5%</td>
</tr>
<tr>
<td>2010</td>
<td>3.5%</td>
</tr>
<tr>
<td>2011</td>
<td>3.5%</td>
</tr>
<tr>
<td>2012</td>
<td>3.6%</td>
</tr>
<tr>
<td>2013</td>
<td>3.5%</td>
</tr>
</tbody>
</table>

Amazon: Margins are like a retailer not a tech company
Dynamic pricing
Different storefronts – same company
iOS or Android?

- iOS is on fewer phones but
- iPhone users buy more
  - Various studies show 2X to 5X the dollar value
- iPhone users buy more often
  - Various studies show about twice as often
- One reason new apps first arrive for Apple over Android
Trend: Delivery times continue to decrease

- Comparative advantage
  - Shopping experience
  - What if no store?
    - Focus on website or app
    - What can I provide you that others cannot?
  - Speed
  - Reliability
Amazon Prime

- $99 a year
- Free two-day shipping
- Lots of other free stuff

Amazon pushed Prime right after it had to start paying taxes in major states

Needed a new comparative advantage
Trend: Personalization

Not just initials

- Trend of personalized items
- Eliminates the ability to resell item unless at substantially reduced price
- Personalized coupons
Ebay threat

- Personalization removes the threat of bulk buying and reselling on Ebay
Unique

A world of ME

- One child family
  - In U.K. 47% of the families have only one child
  - In U.S., of those families with kids, 43% have just one child
    - One in every five homes
- Personalization allows everyone to be unique
- People expect that the product is individualized
  - Very specific
  - Not just S,M,L,XL but
- Willingness to pay a little but once someone provides it for free, it becomes a free good
Bonobos
Online Men’s Retailer

- Adding physical stores
- Small footprints sometimes within department stores
- You find the size and style you want and then can just buy online
Lowe’s & Sephora

3-D

- See your renovation and get item list
- ModiFace's 3D Augmented Reality Mirror
- Improve in-store experience to keep customers returning
  - Augment online shopping
Price Discrimination

Race to the top or to the bottom?

- First – each individual; firm takes all consumer surplus
- Second – bulk discounts
- Third – based on an attributes or groups
- Internet allows firms to find your maximum willingness to pay
- Consider airline ticket prices
Price Discrimination Meets E-commerce

- The market goes to the main retailer so it gets market share
- For a time, the firm can charge a little more
- Unless it is something that other firms cannot mimic, competitors arrive and market share moves
- Price discrimination works best for inelastic demand but lots of what we buy online is elastic demand
  - Brand or store loyalty?
Rocket Internet

Mimic successful internet businesses
Banks can profit, too

Each swipe is data

- Debit card holds a huge amount of information about your shopping habits
- Prior purchases combined with GPS on your phone make for usable data
- How much of this information is private?
- Is it ethical for banks to sell this information?
Trend: Security

Three New Details From Target's Credit Card Breach

2 million Facebook, Gmail and Twitter passwords stolen in massive hack

Twitter says 250,000 accounts have been hacked in security breach
Cost of security breach
From a Texas A&M webinar

Consequences of a Security Breach Cont’d

Below is a list of the estimated expenses incurred as the result of a security breach:

• Costs related to forensic investigation to determine the magnitude of the breach—varies
• Notifying cardholder - $1-$2 per person
• Card re-issuance costs - $25 per card
• Credit monitoring - $100 per person
• Reimburse issuing bank for card misuse – unlimited
• Fines and lawsuits (Visa levied $4.6 million in fines in 2006)
• Preserving your institution’s reputation – priceless!

Examples of a Security Breach Cont’d

The theft or exposure of a mere 10,000 accounts can cost well over $1 million dollars as shown below:

<table>
<thead>
<tr>
<th>Expense</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Independent forensic investigation</td>
<td>$10,000 (or much more)</td>
</tr>
<tr>
<td>Notifying cardholders ($1.50 average cost X 10,000)</td>
<td>$15,000</td>
</tr>
<tr>
<td>Card re-issuance costs ($25.00 cards X 10,000)</td>
<td>$250,000</td>
</tr>
<tr>
<td>Credit monitoring ($100 per person X 10,000)</td>
<td>$1,000,000</td>
</tr>
<tr>
<td>Total costs that can be estimated</td>
<td>$1,275,000</td>
</tr>
<tr>
<td>Reimburse issuing bank for card misuse</td>
<td>$ unlimited</td>
</tr>
<tr>
<td>Fines and lawsuits</td>
<td>$ unknown</td>
</tr>
<tr>
<td>Damage to institution’s reputation</td>
<td>$ unknown</td>
</tr>
</tbody>
</table>
Trend: Outlet stores

Many items are specific to the outlet stores

- Nordstrom's
- More Rack stores (140) than traditional stores (117)
- Are outlet stores gateways to traditional stores?
- Do outlet stores dilute brand?

GRAND OPENING

This spring we are excited to open new stores across the United States! Join us at 8:00am—before our doors officially open—for music, breakfast treats and more! Enter for a chance to win one of thirty $100 gift cards. Plus, one lucky winner will receive a $1,000 gift card and early access to the store.* Doors open at 9:00am. Check out our upcoming locations below!

*Winners must be present at time of drawing. No purchase necessary. See store for details.
Gucci & Coach

Gucci now pushing lower priced items

- Aspirational consumers
- Gucci purse vs. sunglasses
  - $1,000 vs. $300
- Coach – just about everywhere now
- Saturated market?
- Do I want a purse that a high school girl also has?
Trend: Revamp stores

Will they survive?

- Radio Shack
  - Great Super Bowl commercial
  - Did not bring in customers
- Best Buy
  - Decreasing footprint
  - Kiosks
- JCPenney
  - Store redone for a different customer
Starbucks

Becoming a restaurant?

- Added food
- Adding wireless charging
- Continually updating experience
- Leverages social media and online components
- Loyalty card
Trend: Loyalty programs

If not brand/store loyalty, maybe to get the points

Grow your business with loyalty

Your customers are passionate about loyalty points and miles. Award them by partnering with the biggest loyalty programs using PointsSelect.
Trend: Reviews of products

How many stars?

- Firms respond to every comment
  - Especially in industries with lots of competition and easy to compare prices
  - Hotels
- People paid to review
- Stores highlight serial and positive reviewers
- Do you sort by price or by reviews?
- We also review the store
- Retailer is now much more responsible for both the store and the products that it sells
  - Circuit City and the televisions it sold
Trend: Make shopping fun
Victoria’s Secret – focus on college women (or are they girls?)

PINK GIRLS ON THE GO
Get everything you love about PINK Nation on the go with our iPhone®, Android™ and iPad® apps! Download them now for the latest PINK happenings and for brand new exclusive content you can’t find anywhere else.

How does a firm stay trendy?
First mover on trend
Social Media

What is trending?

Planet Retail
@PlanetRetail

The world's leading provider of global retail intelligence. Follow our Analysts for the latest news, insight and opinion - twitter.com/PlanetRetail/.

Global
planetretail.net
Joined March 2009

275 Photos and videos

Tweets

REPORT: Western European Grocery Trends, 2014 by @D_Gray5 With consumers continuing to feel the squeeze from... plnt.re/1vsqCsn (£)

INSIGHT: #Publix urban - a work in progress by @tackett_kelly Last month, Publix, the employee-owned regional... plnt.re/1shZUEq (£)
Retailers can use to promote but doesn’t always look like advertising
Appeals to aspirational shoppers

Pinterest

What I want to be not who I am

Lowe’s Fix in Six
Explore our six-second home improvement tips as seen on Vine!

- Youtube
- rubber bands
- paint brushes
- extension cords
- planted flowers
- paint cans
- rake head

1. Make simple yard art
2. Paint lemons for a bright splash of color
3. Use cupcake pans to make cookies
4. Upcycle egg cartons into a useful storage solution
5. Organize your home with colorful boxes
6. Organize your home with a colorful box

Follow Board
Send Board
46 Pins
106,358 Followers

Lowe’s

Pinterest

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Trend: Success is hard to maintain

- Customers have low brand and store loyalty
- Coldwater Creek
  - Bankruptcy
- Chico’s
  - Decline in mid-market retail sales
- Family Dollar
  - Low price isn’t always enough
- Compare to Sears’ longevity at or near the top from the 1950s – 80s
# Retail shake-up

## Expanding

### All 2014 U.S. Retail Industry Domestic and International Store Openings:

<table>
<thead>
<tr>
<th>Store</th>
<th>Openings</th>
</tr>
</thead>
<tbody>
<tr>
<td>1600 7-11 (Japan)</td>
<td></td>
</tr>
<tr>
<td>Starbucks (China, through 2015)</td>
<td></td>
</tr>
<tr>
<td>Subway (Europe)</td>
<td>1000</td>
</tr>
<tr>
<td>Tim Hortons (U.S., Middle East through 2018)</td>
<td>800</td>
</tr>
<tr>
<td>Dollar General</td>
<td>700</td>
</tr>
<tr>
<td>Family Dollar</td>
<td>425</td>
</tr>
<tr>
<td>H&amp;M (U.S., China, Australia, Philippines, India)</td>
<td>375</td>
</tr>
<tr>
<td>McDonald’s (China)</td>
<td>300</td>
</tr>
<tr>
<td>Wal-Mart (small format)</td>
<td>300</td>
</tr>
<tr>
<td>Dollar Tree</td>
<td>223</td>
</tr>
<tr>
<td>O’Reilly Auto Parts</td>
<td>200</td>
</tr>
<tr>
<td>Sub Zero Ice Cream &amp; Yogurt (China)</td>
<td>180</td>
</tr>
<tr>
<td>ALDI (U.S., 650 stores through 2019)</td>
<td>130</td>
</tr>
<tr>
<td>Nordstrom Rack (through 2016)</td>
<td>120</td>
</tr>
<tr>
<td>Wal-Mart (large format)</td>
<td>115</td>
</tr>
<tr>
<td>Dunkin Donuts (through 2017 in India)</td>
<td>100</td>
</tr>
<tr>
<td>Starbucks (Malaysia, through 2017)</td>
<td>100</td>
</tr>
<tr>
<td>Samsung (Best Buy Canada Kiosks)</td>
<td>90</td>
</tr>
</tbody>
</table>

## Closing

### Complete List of U.S. Retailers Closing Stores, Going, Bankrupt, and Going Out of Business in 2014:

<table>
<thead>
<tr>
<th>Store</th>
<th>Openings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Family Dollar</td>
<td>370</td>
</tr>
<tr>
<td>Coldwater Creek</td>
<td>365</td>
</tr>
<tr>
<td>Dots</td>
<td>360</td>
</tr>
<tr>
<td>Blockbuster</td>
<td>300</td>
</tr>
<tr>
<td>Sears</td>
<td>300</td>
</tr>
<tr>
<td>Staples (through 2015)</td>
<td>225</td>
</tr>
<tr>
<td>Barnes &amp; Noble (through 2023)</td>
<td>223</td>
</tr>
<tr>
<td>Radio Shack</td>
<td>200</td>
</tr>
<tr>
<td>Abercrombie &amp; Fitch (by 2015)</td>
<td>180</td>
</tr>
<tr>
<td>Aeropostale (&quot;over the next several years&quot;)</td>
<td>175</td>
</tr>
<tr>
<td>Jones Group (by mid-2014)</td>
<td>170</td>
</tr>
<tr>
<td>Sbarro</td>
<td>155</td>
</tr>
<tr>
<td>American Eagle Outfitters</td>
<td>150</td>
</tr>
<tr>
<td>Rent-A-Center</td>
<td>150</td>
</tr>
<tr>
<td>Brown Shoes / Famous Footwear</td>
<td>145</td>
</tr>
<tr>
<td>GameStop</td>
<td>128</td>
</tr>
<tr>
<td>Children’s Place</td>
<td>125</td>
</tr>
</tbody>
</table>
Trend: Living-shopping communities
Make shopping local

The Residences at Town Square

Smaller footprint
Older families
Closing Thoughts

- Major restructuring of retail
  - Painful process
- The question is how will we shop in 5 and 10 years not just next year
- Lesson on how to be successful on thin margins
Thank you!