

Return of the middle market

by Dave Hunt and Daniel Kimber

The events of recent days add further evidence to Straterjee's forecast of the reversal in Retail polarisation. The overwhelming trend of the last 15 years has been the polarisation of Retail; the growth of premium and discount brands and the decline of the middle market. The forces driving this have reversed and therefore so will this trend. Retailers should reposition themselves back to the middle ground.

What was happening; polarisation

Over recent years we have seen the polarisation of retail, with growth in low cost and premium brands. Polarisation has been driven by an abundance mindset; at one end of the spectrum consumers have sought differentiation on key purchases in premium brand experiences, at the other extreme they have bought discount everyday items with a disposable mindset. This has been fuelled by high levels of consumer confidence, increased availability of credit, strong economic growth and job security.

Why it's no longer the case; GFC has consumers spooked

The Global Financial Crisis has consumers spooked, eroding consumer confidence and leading to a survival mindset. The latest results suggest many consumers spent the December economic stimulus package on reducing household debt. This is in response to declining confidence:

- Consumer confidence declined in January since hovering around 16 year lows in late 2008
- Straterjee's own research suggests 42% of consumers believe conditions will further decline in the first six months of 2009
- Unemployment rose to a 12 month high of 4.5% in December with 43,900 full time jobs lost for the month and job advertisements down 30% for the year. 2009 has started with significant redundancies from some of Australia's leading companies
- Economic growth has slowed with just 0.1% GDP growth in the September Quarter, versus 1.0% in the 2007 September Quarter
- Consumers are thought to be paying off debts in preparation for hard times ahead

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The new behaviour; survival mindset

The reversal of the consumer's mindset from abundance to survival, reverses the polarisation effect. Consumers are trading down from premium brands and trading up from discount brands to mid-market trusted brands;

- Up market retailer David Jones has announced cuts to 10% of back office staff following a 9.5% decline in sales over the Christmas period
- Luxury business wear chain Herringbone entered voluntary administration in December
- Receivers have been appointed to Australia's largest discount variety retailer, Australian Discount Retail, to sell off 402 stores nationwide from the Crazy Clarks, Go-Lo and Sam's Warehouse chains
- Meanwhile Country Road expects net profit for the first half of FY09 to rise by 70 to 80%, with total unaudited sales up 20% and like for like sales up 12.8%. Chief executive Ian Moir attributes the strong sales performance to cost cutting and offering value for money.

The poles still exist, just less so

Whilst depolarisation will reduce the premium and disposable buying behaviours, there are still valid premium and discount positions. The US demonstrates the strong consumer appetite for value purchasing of everyday goods in a downturn. Data gathered on consumer spending through November and December shows Americans are saving on food by: buying store specials (76%), buying more store brands (66%), buying fewer snacks (62%), using coupons more (50%), buying in bulk (45%), buying less meat (44%) and freezing more food (38%). There also remain many successful premium brand retailers in the US.

What it means for Australian retailers; consider positioning

If their markets are depolarising, premium and discount retailers need to improve their value positioning. Discount retailers should focus on proving their quality. Premium retailers may consider value pricing.

For more information on which industries are likely to depolarise and or how to exploit this trend contact Dave Hunt at the Straterjee office.

Dave Hunt

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For more information go to www.straterjee.com