

RETAILING IN THE RECESSION

Playbook 1
THROUGH THE LOOKING GLASS



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GLOBAL RETAIL INITIATIVES

WPP

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This report is the first in a series of Playbooks to help retailers and brand marketers succeed in today's unprecedented global financial and economic crisis.

A playbook should be filled with rules, regulations and directions deemed immutably correct by experience. The problem, of course, is that experience is inadequate for today's challenges.

Some venerable financial institutions have suddenly disappeared. Others have received protection from governments known for the promotion of free markets. Consumers recently hungry for premium goods now are on a spending diet. Inflation is reversing to deflation.

We seemed to have passed through the looking glass.

We have entered a place where useful advice can not be formulaic, where a playbook in the traditional sense is anachronistic and insufficient, but where guidance is required more than ever.

Although little is certain in this global economic turmoil, we know this for sure: It will end. Many of today's retailers and suppliers will be history. Most will simply survive. A select few, however, will fall into a third category. They will emerge stronger—because they seek opportunities where survivors see only challenges. This vision requires intelligence and invention.

That's where we come in. Using the unparalleled insight and resources of *The Store*—WPP, these Playbooks will identify and analyse what's working and what's not in retailing and brand marketing worldwide. They are intended to help stimulate and focus conversations among WPP experts and clients; conversations that translate Playbook insights into actions to gain competitive advantage.

We begin this first Playbook with a strategic summary. It explains today's retailing weakness as act one in a three act drama. This perspective helps inform both immediate and long-term activities. The strategic summary is followed by insights into consumer behaviour, key take-aways for retailers and suppliers, and selected action items.

For additional in-depth information, check out three recent webcast Fast-Track Briefings about Retailing in the Recession produced recently by *The Store*—WPP. Learn how to view the complete webcasts at the end of this report.

These regular webcasts, podcasts, and the quarterly Playbooks are part of *The Store*—WPP commitment to sharing best retail practice worldwide and its promise to deliver honest, current, and useful insights to help clients succeed in the challenging and rapidly changing state of retailing worldwide.

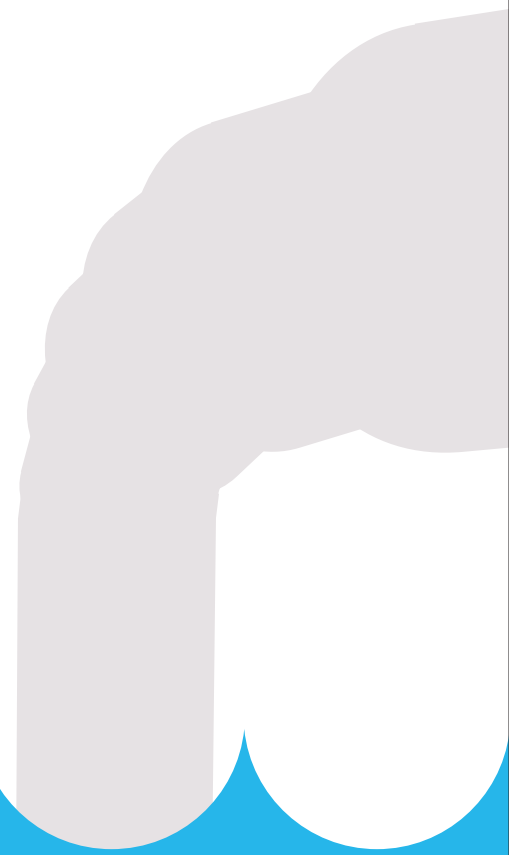
DAVID ROTH

CEO *The Store*—WPP

Europe, Middle East, Africa and Asia

david.roth@wpp.com

STRATEGIC SUMMARY



TAKE A DEEP BREATH

We are at the end of a long run.
Consumers are out of money.
Retailers are out of ideas.

Today's unremitting negative economic news is but the first stage in an uncharted journey. It is a frightening and disorienting experience. Our consumer-driven way of life is shifting and the outlines of the coming era are still blurred.



Consumer spending in the United States rose to 71 percent of GDP during 2008, from 63 percent about twenty-five years ago. Spending is likely to retreat to those earlier levels over roughly the next decade.

The conventional wisdom already has dismissed any sales growth in 2009 and does not expect even modest stirrings of recovery before middle of 2010. We know that this stressful period will end, but we don't know when. We also know that doing something is better than doing nothing.

SO WHAT TO DO?

For retailers and brand marketers, the question is existential. Priority number one is survival. With the caveat that there are no easy answers for navigating through this sea change, here are three prescriptive actions required to survive:

1. GENERATE CASH

Cash is requisite for survival.

2. STRENGTHEN TRUST

Remain true to everything your brand promises and to your commitment to your customers.

3. COMMUNICATE

Stay intensely engaged with your customers, employees, and all of the business's other important constituents.

Beyond survival, to emerge as a stronger company, seek the opportunities lurking in this crisis. Be especially sensitive to the changing needs and attitudes of your customers.

THREE STAGES

Fearful of job loss, home repossession, and diminished savings and net worth, consumers act as if they are mourning the loss of a life that had seemed eternally optimistic, abundant, and secure.

They are likely to transition through stages that are roughly comparable to the way individuals cope with—and emerge from—grief. As you respond to today's consumer, note the following three stages and be alert for signs that the consumer is transitioning from one stage to the next. Be ready with the right product, prices and, most important, with the right attitude.

STAGE 1 – ACUTE DISTRESS

How consumers feel:

- Angry, sad, helpless
- “There’s no end in sight.”
- Betrayed

How consumers act:

- Stay home
- Buy mostly necessities
- Reject extravagance
- Pay down debt
- Begin making compromises

STAGE 2 – ACCEPTANCE

How consumers feel:

- More comfortable. “It will get better.”

How consumers act:

- Begin accepting that they didn’t need all that stuff
- Form a revised set of values
- Spend a bit more money
- Value product function over form
- Reject excess

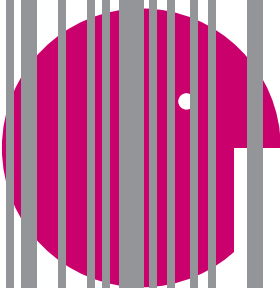
STAGE 3 – MOVING ON

How consumers feel:

- More confident. “It is much better.”
- “It will get better, but not like it was.”

How consumers act:

- Look for real eco component
- See life as “we” rather than “me”
- Purchase with concern about product provenance
- Purchase to a new set of values from a tighter portfolio of stores, brands, and products
- Act more restrained and less impulsive about major purchases
- Continue to seek value as a major consideration



IMPACT STAGE 1

Stage 1 has had a drastic impact on consumer spending. It is important to remember that we will experience improvement and that companies that partner with consumers on this journey have a shot at emerging stronger. At the same time, it is important that retailer and brand marketers relate to consumers as partners, not as objects of research.

- **Discount is king**

Retailers that traditionally have traded on price and value are doing well and gaining market share.

- **Liquidation is the new reorganisation**

Retailers that would have reorganised, such as Circuit City, in the U.S., and Woolworth's in the U.K., are going out of business because they lack suitable buyers and available credit, and because demand for retail space is much diminished.

- **Survivors divide into two groups**

Retailers that are experiencing strong traffic and want to grow basket size. And retailers, experiencing weaker traffic, that want to increase shopping visits. To an extent, this trend reverses the situation of just a few years ago when consumers sought product differentiation rather than price. Target did well in that environment, while Walmart is in its element.

- **The idea of value has changed**

The traditional binary links—high price/high quality; low price/low quality—have been disconnected. Competitors from all segments of retailing are competing for the same sweet spot where high quality and low price converge.

- **Suppliers are paying the price**

During the recent period of inflation, when commodity prices rose rapidly, suppliers gained multiple price increases. Now, in a deflationary period, retailers are trying to reverse that price appreciation.

No one really knows what life will be like in the later stages of economic recovery. Conspicuous frugality is the new conspicuous consumption. In this fundamental shift away from conspicuous consumption, a sense of responsibility and community is likely to replace the luxury logo as the badge of accomplishment.

Companies that partner with consumers on this journey have a shot at emerging stronger. At the same time, it is important that retailer and brand marketers relate to consumers as partners, not as objects of research. Consumers will remember your brands for the role you play as reliable neighbours and comforting landmarks on the emotional landscape.

These companies will make frequent course corrections to how they understand and communicate their brand. While maintaining the core brand values and proposition, they will recalibrate to reach the changing customer.

Future editions of the Playbook will explore these possibilities more fully. For now, we take a deeper look at consumers, retailers, and suppliers in Stage 1.

Consumers feel a need to simultaneously cut costs and maintain their accustomed lifestyle. They are more likely to respond positively to retailers and brand manufacturers who appreciate that apparent contradiction.



THE CONSUMER GOES SUMMER

WORRY

Consumer attitudes to this downturn vary country-to-country, but one reaction is constant — worry.

The Futures Company has developed a scale it calls “The Four Ps” to measure consumer worry. In the United Kingdom, it found that about half the population is at the extremes: a quarter is “placid” and a quarter is “panicked.” The majority are in the middle, feeling either “perturbed” or “pressured.”

When consumers are feeling this stressed, it is especially important to build trust, to be empathetic, and to be on their side. Consumers feel a need to simultaneously cut costs and maintain their accustomed lifestyle. They are more likely to respond positively to retailers and brand manufacturers who appreciate that apparent contradiction.

TO HELP UNDERSTAND IT, CONSIDER THE FOLLOWING FOUR “MENTAL WALLETS” DEvised BY THE FUTURES COMPANY.

BASIC

Routine shopping.
“My family needs these items.”

SANITY

Small daily treats, a cup of coffee and a newspaper. “I need to take the edge off this stressful morning.”

LIFESTYLE

Similar to sanity items, but bigger ticket and more entwined with personal identity. “I need to exercise daily at the gym to feel at my best.”

FUN

Indulgences. “It’s an expensive restaurant, but a great evening out.”

People tend to economise in the “basic” and “fun” categories to enable their spending on “lifestyle” and “sanity” items. Those small everyday treats are lifestyle anchors. They reassure us that even though some of our shopping behaviours are changing, our identities are in tact.

This news is potentially good for retailers and brand marketers. It means that brand loyalty is resilient. A consumer who prefers a particular brand in good times will still prefer it when times are tough. Rather than switch to a less costly alternative, a consumer may save longer to make the desired purchase.

STEP TO THE LEFT

While predisposed to remain brand loyal, consumers are stepping to the left, downshifting—from wants to needs and from durables to consumables; from products that have long purchase cycles, durable goods, to recyclable products like food.

The durable wants—home wares, home furnishing and electronics, for example—are being hit hard as discretionary spending is deferred, delayed, or eliminated.

Downshifting does not mean slamming on the breaks, however. Consumers are moderating spending in order to preserve their lifestyle. Durable necessities, like a refrigerator that needs replacement, are doing OK, as long as the consumer has access to credit.

While they are trading out of expensive durable goods, consumers also are trading into less expensive premium items. Last summer, high-end ice cream was among Walmart's best selling products.

To understand this phenomenon, MVI divided consumers into two categories based on how they perceive their financial situation.

The income statement shopper

These individuals and families are struggling to make ends meet. They evaluate their financial situation by comparing their income to their expenses. This group comprises those living payday to payday, looking carefully at what's coming in—or not; and what's going out.

The balance sheet shopper

These individuals and families evaluate their financial situation by comparing assets and liabilities. While often solidly middle class, owning homes and investments, members of this group have obligations and are not feeling well off in this economy.

Both income statement and balance sheet shoppers are abandoning some habits (trading out) and adopting new habits (trading in), resulting in both threats and opportunities for retailers and brand marketers.

TRADING IN BEHAVIOUR
TRADING OUT BEHAVIOUR



The trade-in behaviour of income statement shoppers produces “The New Value”, while the trade-in behaviour of balance sheet shoppers produces “The New Premium”.

THE NEW VALUE BEHAVIOURS OF INCOME STATEMENT SHOPPERS

- Coupon redemption
- Smaller packs
- Second-tier brands
- Private label
- Promotion responsive

THE NEW PREMIUM BEHAVIOURS OF BALANCE SHEET SHOPPERS

- Transparency
- Preservation of the self or the world (sustainability)
- Higher purpose

The trade-out behaviour of income statement shoppers produces “The New Poverty”, while the trade-out behaviour of balance sheet shoppers produces “The New Frugality”.

THE NEW POVERTY BEHAVIOURS OF INCOME STATEMENT SHOPPERS

- **Trip consolidation**
Fewer shopping visits
- **Category rationalisation**
Buying a shampoo conditioner combination instead of buying each product, thereby eliminating an entire category
- **Back to non-modern trade**
A return to purchasing from second-hand shops and pawn shops

THE NEW FRUGALITY BEHAVIOURS OF BALANCE SHEET SHOPPERS

- Bulk purchases
- Lower cost solutions
- Reducing meals out but eating better at home
- DIY

Amid all this trading in and trading out, underlying consumer trends endure. Although they bend somewhat over time to accommodate economic realities, long-term trends are exactly that, long term. For example:

Stop-go-lives

The fluctuations of the economy will not change the rapid pace of modern life and the impact on our lives. The added tensions of slow economic growth, tight credit, and unemployment actually may increase our need for down time.

Navigating well-being

This long-term trend will continue, but perhaps with an emphasis on emotional health.



KEY TAKE-AWAYS

CONSUMERS

The silly years are over

We see where self-indulgent spending has gotten us and we're chastened—at least for now. Where we had derived satisfaction from filling our closets and garages with more stuff, we now value transparency, trust, and frugality.

Life goes on

Consumers have not stopped spending. They have changed their spending priorities. Generally, consumers are taking care of their needs rather than their wants, although not in an absolute way. The most successful businesses today are those that appreciate and correctly respond to the nuances of the changing consumer mood.

Today, the calculus of value also includes consumer concerns about product provenance and environmental impact. And, as if going full circle, this larger bundle of value attributes needs to be delivered at a saving. And that saving needs to be made clear to the customer.

The loyalty challenge

Consumers are notoriously fickle—frightened, economically stricken consumers are even more so. Their commitment to helping themselves and their families survive hard times overrides just about any other loyalty. Retailers and brand marketers need to constantly prove that they are helping the consumer achieve these overarching goals.

Lack of trust

She trusted her employer, the banks, and the government. Now, she's out of work, her savings are diminished, and policies and programs aren't fixing her problems. Retailers and suppliers can not ignore the consumer's failing faith in institutions, which impacts the places she shops and the brands she buys.

Conspicuous frugality is the new conspicuous consumption

Not too long ago, carrying a designer label shopping bag signalled taste, status, and affluence. Shoppers will not forego luxury completely, but they will be more discerning. Whether or not this shift in mentality is passing or permanent, it is here for now and for the foreseeable future.

The happy balance

At the end of the day, in fat or lean times, people want to be happy. In fat times, we're tempted to buy happiness. In lean times, struggling with debt and trying to make ends meet, we try to resist that temptation. Consumers are searching for the happy balance between over indulgence and deprivation. Retailers and suppliers who help consumers find this balance will make new friends.

The new choreography of purchasing

For every two (rational) steps to the left, to purchase lower-cost merchandise, consumers often take an (emotional) step back to the right, to purchase an affordable treat, a symbol of the abundance that they reluctantly feel forced to abandon.

A more complicated notion of value

Once upon a time, value equalled low price. Then value meant quality at a fair price. Eventually, other attributes, like convenience, were added to the value formula. Today, the calculus of value also includes consumer concerns about product provenance and environmental impact. And, as if going full circle, this larger bundle of value attributes needs to be delivered at a saving. And that saving needs to be made clear to the customer.

Pay check living

More consumers are living pay check to pay check. They never feel rich. But on certain days of the month—immediately after payday—they feel less poor. They are likely to spend a bit more at these times, and perhaps top off a basket of necessities with something extra for themselves or their families.

Stealth shopping

Consumers have rejected conspicuous consumption as unaffordable or at least distasteful. However, inconspicuous consumption now is an option for those who desire, and still can afford, luxury. These consumers eschew the coveted designer shopping bags and simply click online to purchase discretely.

RETAILERS / SUPPLIERS

Price. Price. Price. It's about price

But it's not only about price. The sale price of 50 percent off of prior discounts may clear the shelves, but it also risks compromising the integrity of the brand. A discount off of an untrustworthy original price will not represent value to the customer and it will damage the credibility of the brand.

Be on the side of the consumer

Retailing is no longer about out-smarting consumers (if it ever was). Rather, retailing, at its best, is about helping the consumer procure the goods and services that best fulfil her needs and wants while delivering value.

Uncertainty rules

When consumers felt more certain about tomorrow, some of them relieved stress with "retail therapy". That spending reflex, which may have been over exercised in good times, is moribund today. Yet a little spending, which doesn't break the household budget, could be a positive mental health step. Although you can't change the daily headlines or the conditions that produce them, you can help your customers cope.

Especially today, the shopper is willing to do the necessary mental work in the aisle to analyse offerings and compute comparative value. This engaged shopper presents challenges and opportunities. If your product is on the shopping list, how do you keep it there? If it's not, how do you get it put in the basket?



Doom buster sales

Retailers have the power to change the consumer mood, at least momentarily. They've done it in the past with door buster sales that excite consumers with the promise of irresistible bargains. They can change the consumer mood today with doom buster sales that capture moments when consumers are ready for relief and are willing to pay for it.

Be prepared for cuts in ranges

There are too many SKUs in most categories. Cash constrained retailers will attempt to rationalise the complexity of the supply chain, adding efficiency for themselves and simplifying shopping for their customers.

Profit certainty will trump profit maximisation

Suppliers will encounter this retailer attitude in tougher price negotiations and a focus on higher margin products that will yield profit without relying on high volume.

The last yard

A shopping list is a work-in-progress, subject to deletion and addition as the shopper moves through the store. Especially today, the shopper is willing to do the necessary mental work in the aisle to analyse offerings and compute comparative value. This engaged shopper presents challenges and opportunities. If your product is on the shopping list, how do you keep it there? If it's not, how do you get it put in the basket?

There's no such thing as a twelve-month business plan now

This recession will change too much quarter-to-quarter to rely on old assumptions and realities.

A crisis is a terrible thing to waste

While no one knows what will happen in twelve months, you can bet that three years out we'll be feeling a lot better about the economy. Especially since we can't change the current economic circumstances, it is a great time to focus on long-term plans and to grow market share as weaker players disappear.

There's some consistency in today's chaos

Brand loyalty is resilient, even in tough times. And underlying consumer trends—the multi-tasking nature of modern life, for example—do not fluctuate with every tick up or down of the markets. So take some comfort that important marketing trends endure. Strong brands endure, but staying strong is vital.

Build trust in your brand

Feeling betrayed by institutions and governments, people are not in a trusting mood. The most trusted brands are those that have earned trust by being consistent in the promises they make and keep. The discounters are a good example.

Hard to believe, but new opportunities exist

For example, families eating out less frequently are cooking more meals at home and sometimes rewarding themselves with premium ingredients and foods.

Keep innovating

Recessions typically are short. The average post-war recession has lasted about eleven months. While preoccupation with current pressures is almost unavoidable, businesses need to plan simultaneously for the recovery. If innovation and marketing investment is eliminated now, in the desperate search for cost-savings, increased spending may be necessary when the economy rebounds and the business, disadvantaged by these economies, is forced to play catch-up.

ACTION ITEMS

1

Understand your customer and your employees. And take care of them. While it is much easier to fulfil this commandment in good times, adhering to it today will earn lasting loyalty.

2

Innovate in ways that deliver a better experience to customers, while still controlling costs. In what ways can you improve your stores or your online presence without a huge investment? Don't know the answer? Ask your best employees.

3

Acquire new talent. There are many top people out there now: both individuals that bring retailing experience; and bright, enterprising individuals who may have not considered a retailing career — until now. These people bring fresh energy and insights. Investigate an employee exchange program with an organisation that complements your company and offers the prospect of shared learning.

4

Look for talent in your own organisation. In difficult times, when everyone is asked to do more, the barriers that keep people within their disciplines relax. In this freer environment, organisations gain new ideas and associates reshape their careers. That formula sometimes is the difference between surviving and thriving.

5

Optimise the capital base. It may be time to reduce store openings. But keep investing in existing units. Refresh the stores to appeal to reluctant consumers, to signal overall financial health, and to gain competitive advantage.

6

Study 49-year-olds. At the tail end of the baby boom, they comprise the largest single demographic group in the United States and other developed markets. These individuals are in midlife with a lot more spending ahead of them.

7

Study 19-year-olds. Children of the 49-year-olds, they are the second largest demographic group in the United States and other developed markets. Study their attitudes and priorities and the differences between them and their parents. Their behaviour will illuminate the future.

8

Watch cash. Nothing is more vital to survival than conserving cash.

9

Introduce or expand private label. Particularly in food, consumers will see value in private label as a way to purchase quality at a lower price. Private label offers retailers a way to significantly improve margins.

10

Be obsessive about serving customers. Look for ways to improve service to customers while at the same time saving costs.

11

Think internationally. Half the global economy is in the developing world—the half that will experience the fastest growth and strongest consumer spending.

12

Keep it simple. Keep it honest. Today's sceptical consumers will be impatient with complicated formulations. Be honest and to the point.

13

Offer value. Don't simply keep lowering prices or staging deep discount sales. Add new benefits.

RESOURCES

RETAILING IN THE RECESSION FAST-TRACK BRIEFINGS

To help navigate through today's unprecedented economic volatility, *The Store*-WPP developed a three part series of Fast-Track Briefings that were web cast over the past few months. To view these presentations on your computer or download the series as podcasts follow the links below. These insightful presentations are another part of The Store-WPP commitment to sharing best retail practices and knowledge worldwide.

For full instructions on how to download the material with clickable links use the following address in your web browser to download the explanatory pdf <http://thestorewpp.wtms.com/howtodownload.pdf>

To download the podcast series from iTunes use the link in your web browser below <http://phobos.apple.com/WebObjects/MZStore.woa/wa/viewPodcast?id=299069984>

To watch the individual presentations 'as live' on your computer use the following links in your web browser

SERIES ONE: THE RISE AND POWER OF DISCOUNTERS

Retailers Respond to Reluctant Shoppers

Economic overview, what the forecast means for retailers

Actions retailers are likely to take that will impact stores, consumers and suppliers.

David Roth

CEO, *The Store*—WPP Europe, Middle East, Africa, and Asia
https://admin.emea.acrobat.com/_a773565070/p67305766/

The rise of the discounters

An Analysis of the discounter business model and implications for competing retailers.

Vincent Verdier

Senior Analyst, MVI
https://admin.emea.acrobat.com/_a773565070/p67305766/

SERIES TWO: USEFUL INSIGHTS ON THE ECONOMY

Retailing, Retailers, and the Recession

European retailing in the recession

Ethan Sinick

Managing Director, MVI—EMEA
http://admin.emea.acrobat.com/_a773565070/p87882709/

The City and investor viewpoints

Forecasts for the UK and European retailing space

John Kershaw

Senior Retail Analyst, Merrill Lynch, UK and Europe
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The fundamentals of the UK and European economies

The impact of the credit crisis on the European economy and prospects for a recovery.

Kevin Daly

Economist and Executive Director, European economics team, Goldman Sachs
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Shopper behaviour in a recession

How retailers are devising new tactics to appeal to reluctant shoppers.

Leon Nicholas

Director of Retail Insight, MVI—US
http://admin.emea.acrobat.com/_a773565070/p24495370/

SERIES THREE: CONSUMERS AND THE RECESSION

The Future for Retailers, Stores and Shopping Centres

Commercial property and shopping centres

A new financial reality

Harvey Kasin

Managing Director Europe, Middle East & India, Hypo Real Estate Bank International
http://admin.emea.acrobat.com/_a773565070/p87682543/

The changing nature of value

How retailers are satisfying revised consumer expectations

Vincent Verdier

Senior Analyst, MVI
http://admin.emea.acrobat.com/_a773565070/p72757647/

The mind of the consumer

How new realities shape consumers thinking, feeling and priorities

Will Galgey

Managing Director, The Futures Company
http://admin.emea.acrobat.com/_a773565070/p86459017/

American and worldwide retailing overview

Summary of economic conditions in the US, retailer responses and implications for developing countries

Bryan Gildenberg

Chief Knowledge Officer, MVI—US
http://admin.emea.acrobat.com/_a773565070/p58158590/

MVI

www.mvi-insights.com

Bryan Gildenberg

Chief Knowledge Officer, USA

Leon Nicholas

Director of Retail Insight USA

Ethan Sinick

Managing Director EMEA

Vincent Verdier

Senior Analyst

THE FUTURES COMPANY

www.thefuturescompany.com

Will Galgey

Managing Director UK

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The Store, WPP - London

Maria Larsson

mlarsson@wpp.com

+44(0) 207 3184900

Berger House, 38 Berkeley Square, London W1J 5AJ

The Store, WPP - Chicago

Gwen Morrison

CEO, The Store—WPP

The Americas and Australasia

gmorrison@wpp.com

+1 312 596 3622

233 North Michigan Avenue
Chicago, IL 60601 USA

Jennifer Phillips

jennifer.phillips@wpp.com

+1 312 596 3623

233 North Michigan Avenue
14 floor, Chicago IL, 60601 USA

Designed by **Lambie-Nairn**

