

THE IMPLICATIONS OF CRISIS ON THE GLOBAL RETAIL

NICOLETA BUZILĂ, GIANINA VIOLETA DRAGOTĂ

TIBISCUS UNIVERSITY, FACULTY OF ECONOMIC SCIENCES, DALIEI STREET, NO. 1A,
TIMIȘOARA

nicoleta_buzila@yahoo.com, gianina_dragota@yahoo.com

Abstract:

2009 marked one of the weakest economic performances in recent years and some economists had already mentioned a possible reenactment of the Great Depression scenario (1929 – 1930). Fortunately, the year ended on a positive note, with clear signs of recovery of the great economic powers, such as Japan and certain countries belonging to the Eurozone, which resumed their growth much faster than the analysts had predicted.

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Besides, an interesting characteristic of the crisis has been the synchronization of its starting point. The growth has resumed simultaneously in all the affected countries in the first wave. Another positive aspect of the end of the year has been the strengthening of the demand at a global level, thus facilitating commercial flows and reorienting production towards export. Another equally important element was the unitary coordination of the monetary and fiscal policies implemented, which played a vital role in the global economic recovery.

As to the global retailers, the economic recovery will again provide a positive growth rate to the industry. The nature and the geographical distribution of this growth will be relatively different from the ones prior to the recession. In Spain and Ireland a strong growth rate in the retail industry was evident in the decade previous to the current economic crisis. It was not only the excessive growth of consumption, unnatural in some cases, that contributed to the development of these countries, but also the economic policy based on import from countries characterized by overproduction, such as China, Japan or Germany. In fact, it is precisely this symbiosis between the “consumer” group of countries and the “producer” ones that is the distinct functional characteristic of the global economy in the first decade of the XXIst century.

The global economic crisis in 2008 and 2009 revealed all the disorders and imbalances of the global economic system. When the overrated price of real estate assets collapsed, the international financial institutions suffered major losses. Once investors had lost their trust, the global credit markets almost closed, while indebted consumers were forced to dramatically change their consumption and buying behavior. Recession is ending and recovery is starting to become clear, but one thing is certain: the consumption behavior of the last decade will not come round too soon.

During the next 10 years, countries that contracted massive loans in order to sustain the expenditure excess of the population will experience a slower recovery rate in what concerns consumer purchasing power. The economy of these countries will most likely rely on export and foreign investments, implying budgetary expenses.

On the contrary, countries whose growth was sustained by the export towards the great consumer group of countries will no longer be able to rely on this source of growth. Consequently, countries like China will have to reorient from an export-based economy towards an internal consumption one. The extent to which these adjustments are possible and the difficulty of the transition depend very much on the policies adopted by the governments.

For the global retailers and their suppliers the next decade will bring about a radical change in the business environment in general. Not only will the purchasing power “pole” migrate geographically speaking, but the nature of the consumption and of the buying behavior will also change. In the USA and in Great Britain, the expenses for the consumer goods will not only be reduced, but they will also take into account a new type of consumer who looks for value-added products. The recent migration towards discount stores, brought about by recession, may well be a tendency for the future.

As to the European retail field, the limitation of the large companies’ self-imposed investments represented an obstacle for the growth in the last three quarters, but still the purchasing power had a rather high level, despite the provisions of the analysts at the beginning of the crisis. The different incentives offered by governments had their contribution as well.

Nonetheless, the impact may be overestimated, considering that the smaller revenues are partially compensated for by the financial support from the state, which can even get to two thirds of the achieved revenue and can be granted for a year or more depending on the case. Moreover, the saving rate level (the percentage of the available revenue that is saved) for the countries in the Eurozone is about 15% and can work as a “damper” under the pressure of an increased number of unemployed. Considering the fact that the retail field has not suffered the consequences of recession at the same extent that other fields did, it will not have a spectacular growth rate either during this period of global economic recovery.

According to studies, several global retail trends determined by crisis are:

- change in consumer behavior;
- remove the purchase of luxury goods;
- new players on the retail market;
- social networks and retail;
- rationalizing the assortment of products;
- much more evident polarization.

As expected, the global recession has changed the consumers’ behavior. Now they pay more attention to the price/quality ratio, they are more willing to try private brands, they have given up going out and purchasing products included in the “small pleasures” category.

The important fact here is that, due to the length and the gravity of the crisis, these changes tend to be definitive. The tendency will become evident especially in those markets where the purchasing power was excessive in the period prior to the recession and where expenses were supported by credits. Here we include countries like the USA, Great Britain and Spain, just to mention the most important ones.

If this phenomenon is confirmed and the new consumer behavior is permanent, there will be important implications for retailers who work in the developed countries. Firstly, they will have to provide customers with a value-added offer. This will be even harder to achieve for retailers who do not belong to the discount chain. The value-added concept also implies the ability to clearly differentiate oneself from the competitor’s offer, so as to induce a sense of uniqueness to consumers.

This can be achieved through the exclusive brands for which a price comparison is difficult to apply. Moreover, smart retailers will also work on brand management in order to mark out the offer even better, whilst the actions regarding their buying experience level will play a key part in the differentiation process. Secondly, retailers will have to use part of their developing resources for concepts such as innovative discount. Most retailers nowadays have a multi-format market approach. The problem is that discount stores can ruin this by having a better price offer, so the strategy may prove to be unprofitable.

Finally yet importantly, the tough market conditions of some countries, like the USA or Great Britain can force retailers to invest in expansion, thus accelerating the globalization process in the retail field.

The luxury goods category has been one of the most affected during this period. As the economy recovers, the growth rate and the luxury goods market will enliven and the final result between the demand and the offer will be very different from the one prior to the recession. The luxury goods consumers can be divided into two large categories.

At the highest level, from the point of view of the social and economic status, the luxury goods remain attractive because, in the end, if someone had a fortune of 100 million dollars which was reduced to 50 million that person will still be able to afford an expensive purse or watch. For the second category of consumers, who aspire to confirm their place in society through these goods, the crisis had an impact on their own wealth perception. Consequently, their willingness to spend large amounts of money is not the same anymore.

For the luxury retailers the following period will be difficult. In order to attract customers from the second category, the aspirational one, retailers will have to focus even more on the emotional benefits, but also on providing reasons for such an investment and, why not, on readjusting the price of the goods. This last solution may prove to be offending for the sensitivity of the luxury goods consumer in the first category. This is why an even more careful market segmentation is necessary.

In the following period, retailers will give a higher importance to the aspirational needs in the emerging markets, such as China, where the new rich customers have become aware of the status offered by brands. This category of consumers can prove to be even easier to attract than the similar one in the mature markets.

Any serious discussion regarding the future of the retail industry must include a substantial analysis of the emerging countries. In the future, these markets will play a more important part in the global economy dynamics, but most of the talks on this subject have focused on the new opportunities for the important retailers. What about the native retailers from these countries? Although it may seem surprising, they are the ones who will gain the most to the detriment of the few international retailers bold enough to invest in the emerging markets.

It does not come as a surprise that many well-known retailers in these countries are quickly adapting to the competitive environment, thus becoming fearsome competitors. Not only are they well prepared to fight the great retailers “at home”, but some of them have even successfully extended, becoming real regional leaders. Such examples are to be found in Asia, Africa, the Middle East or South America.

The next step in these players’ evolution will be to invest in more developed markets. In this case, though, we are not talking about food retailers, but rather about players having a specialized focus and in whose offer customers can find unique brands evoking their original markets. Part of their success is due to the romantic and exotic perception that the customers in the developed countries have about the emerging markets.

Thoroughly analyzed, this phenomenon reveals that the global retail field is becoming more balanced. Many emerging countries now have their own social middle class large enough to sustain the operations implied by the expansion. What is more, they benefit from international expertise and there are many cases where they have hired expats experienced in the developed economies, thus acquiring knowledge at a fast pace. An important competitive advantage these local players enjoy is the easy access to the domestic and even global capital markets.

Many people who are over 40 have no idea about the existence of social networks and do not know how to use such modern means of communication. Still, as it

happens for other new technologies, social networks have an impact on the retail field because they are able to revolutionize the industry, empowering the consumer. Nevertheless, many retailers have not kept up with the consumers' evolution and do not know how to take advantage of this virtual portal.

The first step in achieving this connection is a higher degree of transparency. Consumers want to have greater access to the information regarding retailers, products and price policy. This tendency significantly changes the relation between the consumer and the retailers, turning the buying act into a public auction in which the best price wins the customers' attention.

Another aspect of the social networks is that they can have a surprising effect on imparting the buying experience. Consumers interact with their friends, exchange ideas, give advice and make recommendations about the best offers, new products, good or unsatisfactory experiences. Thus, consumers transpose part of the acquisition process in the virtual environment, seeking the validation of their opinions in real time.

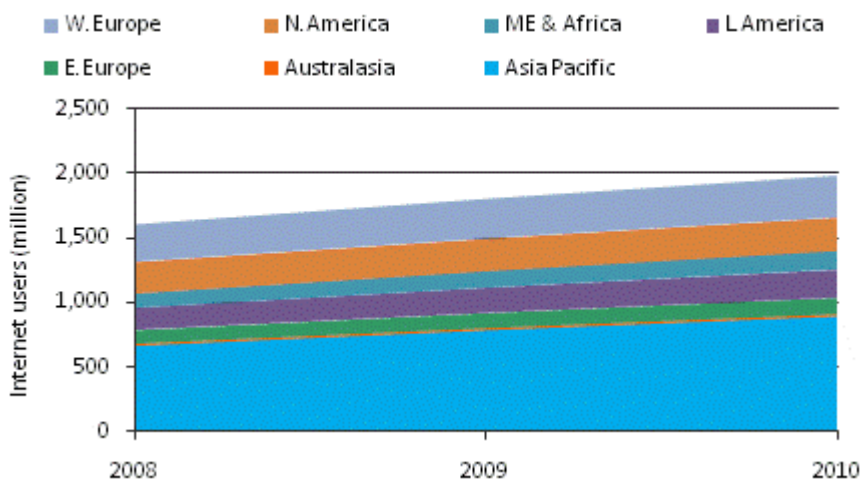


Figure no. 1 - Global internet users: 2008-2010 (Million)

Source: Euromonitor International from International Telecommunications Union/World Bank/Trade Sources

Note: Data for 2010 is forecast

Social networks not only affect consumers, but they have also led to the creation of marketing techniques that did not even exist years ago. Nowadays retailers can build a complex relation with their nucleus of loyal customers. Personalized marketing had another opportunity to launch itself 10 years ago, but at that time the market was not ready for such a vision and the concept got a bad reputation.

Personalized marketing is a feasible instrument and is about to become a necessity for those who wish to remain competitive. Networking facilitates the access to information at an unprecedented level, clearly inclining the balance in favour of consumers who have more knowledge and expertise than the retailers do. Buyers can look for information regarding products at a pace that is far superior to that at which retailers can educate them.

This "revolution" is led by the consumers' creativity when it comes to using new technologies. For retailers, the need to understand the consumers and to follow up with them is a compulsory condition in the post-recession competitive environment.

Most retailers have a product offer that is too wide. This is a typical symptom of a weak communication between the acquisition department and the ability of the company to understand customers in general. There is also the incapacity to become aware of the life cycle of a product, brand or of a stock-keeping unit (SKU).

Retailers often think that a high number of SKUs in a store is, by itself, a reason to sell. In the future, retailers will find that it is more efficient to communicate the

number of eliminated SKUs due to the portfolio restructuring, thus showing that there is increased attention towards customers' needs. In order to secure customer loyalty, retailers will have to demonstrate continuously that they understand their preferences and life style and they are able to anticipate changes.

Most developed markets can be divided into three large segments: value, mainstream and premium. For retailers, the first category often implies an assortment based on very cheap products or products available only in large quantities, whilst at the other end premium presupposes a strongly aspirational, niche component having a substantial trade markup.

Consequently, mainstream is the best represented segment and most retailers are trying to meet the demands of all customer categories. That is why this segment is the most vulnerable lately, taking into consideration the price pressure and the crisis-imposed constraints on the shopping budget.

This phenomenon will continue during the following period and will create the need to reposition either in the first category – small prices and large quantities – either in the aspirational, niche, value-added one represented by premium products. Those who will remain on the mainstream segment trying to satisfy each customer category will face an even greater pressure. Their survival and success will largely be due to their ability to strengthen the model and become more focused in the eyes of their customers.

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