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September 1996 No. 1

## Retail Trends: Customers and Competitors Continue to Change

Bill Ryan and Dick Mistele

*"Where shopping flourishes, so do the communities that foster it. Where it fades, so do the economic prospects of the communities that loose it."*

National Council for Urban Economic Development

Changing demographics and consumer spending patterns, coupled with the emergence of new types of stores, are creating a whole new retail environment as we head toward the year 2000. According to a recent article in American Demographics<sup>1</sup> magazine, Americans have grown older, are working harder, are earning less and have stopped shopping frivolously.

At the same time, regional malls and discount stores, that once took their toll on downtowns, are themselves being threatened by new retail concepts. Competition is rapidly changing in response to consumer demand. The intensified competition is affecting both the big retailer and the small town business owner trying to maintain a share of a shallow market.

The National Council for Urban Economic Development (CUED) sponsored a conference in June titled "Retail at the Crossroads". The conference featured some of the most respected professionals in retail, shopping center, and economic development. The following are industry insights and lessons shared at the conference, many of which are transferable to retail in smaller communities.

### The Changing Customer

According to Quentin Davis<sup>2</sup> of Marketing Development, Inc., people are spending less time in retail stores today. Shopping is considered by many to be one of their least favorite activities. When they are shopping, they are spending less.

One factor influencing consumer buying behavior is the aging of the population. Younger adults aged 18 to 34 are the most active consumers. However, this group will shrink by 11 percent over the 90's. Further, older Americans tend to spend less of their income on retail goods and services.<sup>3</sup>

Davis cites various economic issues that are hurting retail sales:

- economic insecurity given the prevalence of "worker reduction plans" everywhere;
- house and car purchases that are capturing more and more income;
- perceived drop in household income;
- increasing credit card delinquency; and
- dual income households with limited time to shop.

Given these issues, consumers desire "every-day low prices" in an environment that minimizes the "time and energy required" to shop. According to Davis, the "shop till you drop" phrase is being replaced by "malled to death."

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### **New Types of Stores are Emerging**

In response to the changing consumers, retail stores are also changing. According to Margaret Gilliam<sup>4</sup> of First Boston, new retail concepts threatening mall stores include:

- category killers: large non-mall stores offering assortment and low prices for selected types of goods (e.g. electronics);
- off-price apparel stores located outside of the mall;
- food/drug stores and neighborhood drug stores that offer convenience;
- outlet centers; and
- warehouse clubs that offer low prices.

According to Gilliam, Wal-Mart Supercenters are one of the biggest changes on the retailing horizon. These are 100,000 to 210,000 square foot shopping centers that combine a full-line grocery store with a discount merchandise store.

While the emergence of new retail stores is good for the consumer, it is escalating the competition among retailers. Since 1972, the amount of retail space has increased from 8 to 22 square feet per person. As a result, people have more choice regarding where to shop.

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### **Shopping Locations are Changing**

According to Gilliam, malls and discount stores are facing problems maintaining traffic given new competition outside of the mall. However, malls typically sit on prime real estate and have an opportunity to "bring in" category killers, entertainment and other new retail concepts.

Similarly, many downtowns with proximity to a higher density market area have an opportunity to recycle old buildings to attract new retail concepts. However, they must have night and weekend business to achieve adequate sales. According to Davis, downtowns must establish a critical mass and

mix of retail while addressing issues such as security, cleanliness, convenience, coordination and parking.

InterNet retailing, TV home shopping, catalogs and other retail locations such as flea markets, auctions and market scavenging outlets (limited hours and days) are expected to become more popular.

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## **How Retailers Can Reinvent Themselves**

Gilliam suggests that retail can reinvent itself in response to customer needs by offering:

- convenience;
- assortment; and
- value.

Those stores that can also provide a pleasurable and entertaining experience will have an edge over the competition. By making shopping a memorable experience, retailers can increase in-store time and consumer spending.

Smaller retailers obviously cannot compete on the basis of assortment or price. But as one analyst reported in American Demographics, "For every huge store, there is room for a number of creative ones. If you excel in your format, there will be a place for you."

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## **Implications for Your Community**

Local retailers and potential retailers must recognize these national trends if they hope to survive. People from throughout Wisconsin have undoubtedly shopped at Gurnee Mills or Mall of America and have brought home new expectations of retailers.

Smaller retailers will have to admit that they indeed compete with larger marketers; then examine their own operation. Why should people shop at my store? Are we offering a unique product and fun shopping experience? Are our prices, selection and hours acceptable? Are we offering the same credit terms the larger stores offer. Our smaller stores will profit from continuous self examination in the context of ever changing customers and competition. One of the most important considerations for a new or expanding retail or service business is location. A good location will provide sufficient traffic to help achieve sales objectives and allow a business to effectively compete in a market area.

1. Ira Apfel and Fanglan Du, "The Future of Retailing," American Demographics, September 1995, page 26
2. From CUED presentation by Quentin Davis, Director of Research for Marketing Development Inc., June 1996, Chicago.
3. Nina J. Gruen, "Revolutionary Changes in Retailing," Economic Development Review, spring 1995, page 7
4. From CUED presentation by Margaret Gilliam, Director of Equity Research for CS First Boston, June 1996, Chicago.

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*Web Designer can be contacted at [lbarnard@facstaff.wisc.edu](mailto:lbarnard@facstaff.wisc.edu)*

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