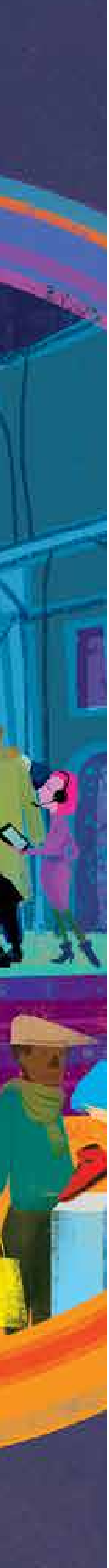
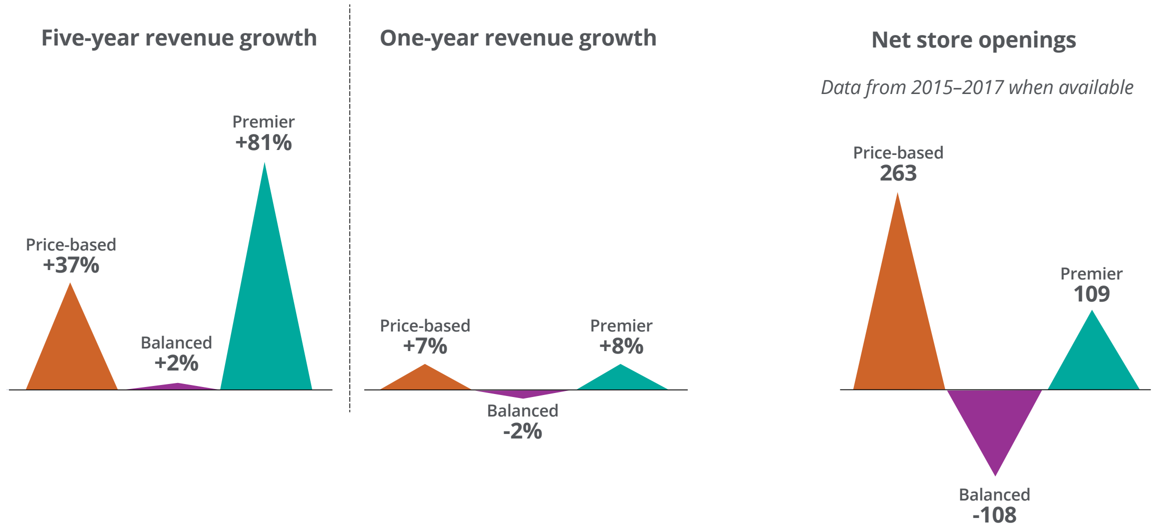
The great retail bifurcation

IT'S popular to declare a retail apocalypse is upon us. The narrative goes something like this: Shoppers, especially millennials, are making more and more purchases online and that's decimating traditional retailers, in turn forcing the closure of bricks-and-mortar stores. Yet it's not quite that simple. Our research reveals a greater set of factors are driving consumer behavior and, looking behind the gloomy headlines, the so-called apocalypse may actually be a renaissance—if you're the right kind of retailer.

We spent the better part of a year examining the U.S. retail environment: Studying official data; surveying more than 2,000 participants; and drawing on the knowledge of our clients, industry contacts, and our own industry specialists. We found that at the upper end of the spectrum, premium retailers—who seek to deliver value through premier or highly differentiated offerings—have seen revenue soar 81 percent during the past five years. Retailers at the other extreme—who deliver value by selling at the lowest-possible price—have enjoyed a steady 37 percent revenue increase during the same period (see figure).



Dangerous middle ground for U.S. retailers



Source: Deloitte analysis of various annual reports.

So who's losing? Balanced retailers—those seeking to deliver value through a combination of price *and* promotion. Revenue among balanced retailers rose just 2 percent in the past five years,[1] and they account for the majority of store closures and bankruptcies. In fact, price-based and premium retailers actually opened more stores between 2015 and 2017 than they closed.[2] What's more, consumers are more likely to recommend retailers at either end of the spectrum, suggesting they are more in tune with changing consumer needs.

What could be driving this bifurcation of the world's biggest retail market? While the overall financial landscape appears healthy, supported by U.S. macroeconomic conditions and industry trends, it's actually been a tough decade for 80 percent of American consumers. The bottom 40 percent measured by income has struggled to keep up with expenses, while the middle 40 percent has seen its income shrink.[3] Income and net worth gains have disproportionately gone to the highest-income group. Mirroring this divergence, price-based retailers are meeting growing demand from shoppers with limited disposable income, while premium retailers cater to wealthier consumers.

These economic considerations also affect spending behavior across channels and categories. For example, we found low-income consumers are 44 percent more likely than their wealthier counterparts to shop at discount retailers, supermarkets, convenience stores, and department stores. High-income consumers, on the other hand, report they are 52 percent more likely to shop online.[4] Of course, even with e-commerce growth expected to continue to outpace in-store sales, one factor traditional retailers need to remember is online shopping still represents just 9 percent of total U.S. retail sales.[5] Not to downplay the challenges, but commanding 91 percent of the retail market hardly seems the stuff of apocalypse.

To read more about the state of the world's biggest retail market, read *The great retail bifurcation* on www.deloitte.com/insights.