How America SHOPS® ...EVERYDAY
THE EDGE
A FAST AND FURIOUS TOPLINE OF CONSUMER AND RETAIL TRENDS
WSL STRATEGIC RETAIL
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"The Great Divide" Redefines US Retail

If you are wondering what's happening to your business lately, why your customers are behaving erratically, why you can't get a handle on what is going on, you might want to take a closer look at the changing economic picture that is facing most American families today. It is what we call "The Great Divide". And never has it been greater.

Until recently, when most marketers and retailers looked at their customers and evaluated their potential spending power, there was always the recognition that the median US household income was around $45,000. Depending where a household or family fell – above/below/equal to – one could determine what disposable income they could spend. But not any more.

While $45,000 is the median household income it no longer defines the spending mindset and spending capabilities of most families.

As mentioned last month in *THE EDGE*, in our 2006 **How America Shops® Mega Trends** report it was emphatically evident that the difference between those who shop more places for more categories and those who shop fewer is no longer defined by the $45,000 mark. Today, the demarcation line is $75,000.

Let's put that in a more dramatic context. Consider that for the better part of the last decade, American shoppers, almost regardless of their income, felt entitled to shop everywhere. We've said it here many times: the notion of "Shopping Democracy" has reigned in this country for the last 10 years. Broadly stated, lower-income shoppers waited for sales and coupons to shop at more premium-priced places, the likes of **Macy's** and **Bloomingdale's**. And higher-income shoppers were smart enough to know when to pay full price and when to shop at warehouse clubs like **Sam's** and **Costco** and discounters **Wal-Mart** and **Target**.

Today, it is crystal clear that the concept of "Shopping Democracy" is dead as lower-income shoppers cut back on the number of places they shop and categories they buy. Remember, lower income is now under $75,000. Who would ever consider that "lower"?

Let's put all this in an even more disturbing context. In addition to our bi-annual mega-trends study, we talk to shoppers around the country about what's on their minds everyday. In our May 15 **How America Shops®… *Everyday* PULSE** report, 50% of shoppers said they are cutting back on their spending because of gas prices.

The big "aha" here is not that half the population is doing that, but rather that the line of demarcation between those who are and those who are not is household income of $100,000.

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What that means in pure, simple business terms (forget the research technicalities) is that "The Great Divide" is getting bigger. While people with higher incomes still have money to spend, they are increasingly like their lower-income counterparts. They have the same concerns, face the same realities, and potentially change their shopping behavior in the same ways.

Making this even more complicated is of course "The Gas Effect." When shoppers around the country have a calculator running in their heads every moment of their shopping day that says, "Gallon of gas or a magazine? Gallon of gas or **Starbucks** coffee? Gallon of gas or a new lipstick? Gallon of gas or….?" you recognize that the challenge of getting shoppers to buy one more item in your stores gets greater every day.

So what do we do? Well, first and foremost, we all need to recognize The Divide, and that this mindset applies to most -- if not all -- of the shoppers who buy your brands and shop in your stores. This is not any longer about traditional definitions of economic "haves" and "have nots."

Second, people can find money for something they consider truly worth it: an **iPod**, a **Motorola Razor** phone, a **Panasonic** flat screen television, **Puma** sneakers, **Abercrombie & Fitch** jeans, **Crest White Strips Supremes** or, yes, Starbucks coffee. But they will only do so if that ever-present calculator in their head says it's worth it, it's relevant to my life, it's really different and redefining. That is one tough value equation. But it's also the good news. People can often find the money if you offer them the right goods.

Third, you need to dig beneath the numbers to understand where your target shoppers fall in The "Great Divide": a single person with $50,000 household income is in a very different spending position than a family of four with $50,000 income. A family of two with $75,000 who lives in Chicago is in a very different spending position than a family of four with the same income, living in the same city.

It seems self-evident. But it isn't. Now we really have to know our shoppers in more intimate ways, not only by traditional demographic measures – income, age, ethnicity, household size -- but what truly moves them beyond that. Without that knowledge, the clicking of the calculator in their heads will be loud enough to drive us all crazy in "The Great Divide."

Wal-Mart Comes to Plano, TX -- Upscale or Not?

There's been much written of late about **Wal-Mart**'s new supercenter in Plano, Texas. All the chatter has been about this more upscale format designed to attract higher-income shoppers with $500 bottles of wine, organic food, heightened service levels and improved store design, amongst other things.

A visit to the store cuts through all the chatter, demolishes all the hypotheses, and reveals what this store is really about. It's not about $500 bottles of wine. It is about offering Wal-Mart shoppers of all incomes a better, brighter, easier to shop, more relevant, more interesting and sometimes more surprising experience.

The most noticeable change is the fact that a five-foot-two-inch female shopper can actually see what's in the store – all the store. No more narrow, crowded canyons that require expert navigation, especially if she has a shopping cart and two kids in tow. She can stand at the front of the store and virtually see an entire vista of what she needs and where it is.

And there's lots to see. The most obvious are the enhanced food departments. Lots of fresh food, great signing, yes, and wine.

Electronics, clothes, home, bikes, beauty and pharmacy are just some departments that present a more improved, more shoppable, and more appropriate offer for Wal-Mart shoppers, in fact, any shoppers.

That the pharmacy is right at the front of the store says, "We recognize some days you may just need to get a prescription filled for your sick child. So we've made it easy for you. Not buried in the back or at the side. It's right up front." As too is the area that could be defined as the "What will I make for dinner tonight?" area.

While this is clearly a 200,000 square-foot store, what the new format tries to do is ensure that what shoppers need every day is more readily accessible.

There's much to say about the new fixtures, presentation of merchandise, flooring, ubiquitous flat screen televisions with branding messages and enhanced service. In addition, there's a lot to be said for the good mood of the associates.

However, more than anything what this store is all about is not Wal-Mart wanting to attract a more upscale, higher-income shopper. It is, in reality, a more respectful nod to the intelligence of every Wal-Mart shopper.

It is a more respectful nod to the fact that every Wal-Mart shopper today is a smarter, more experienced shopper than the company may have given her (him) credit for. Yes, she shops there because of the great prices, because she needs to stretch her hard-earned money as far as she can. However, she is also one smart shopper who knows not only the value of a good deal but also the value of a great shopping experience. She is smart enough to demand new and innovative products, and respect for her business and her time. She will spend a little more (when she can) if she is enticed, romanced and valued. That is what Wal-Mart forgot on its quest to offer a low cost, highly efficient shopping experience. That was a mistake. A missed opportunity, one the company has now corrected in the new, more relevant and respectful store in Plano, Texas.

An Apple All Day

Last Friday at 6 PM, **Apple** opened a breathtaking new store at 767 Fifth Avenue, in New York City. Its first 24 hours a day, 7 days a week store. And a new retailing icon was born.

The entrance is through a glass cube that sits on the plaza of the **General Motors Building** at 59th Street, across from Central Park, the former **Plaza Hotel**, **Bergdorf Goodman** department stores and the **Pierre Hotel**. (It's the high rent district.) Suspended inside the cube is the Apple logo. In the daytime it looks like it is frozen in a block of ice. At night it glows like a full moon.

The store itself is below street level, in what used to be a very underused concourse level. Shoppers make a grand entrance worthy of Scarlet O'Hara coming down the staircase in the "Gone With The Wind," or the **Louvre Museum** in Paris where you enter through a glass pyramid.

Here, you enter through the glass cube and go down either the glass staircase or a cylindrical glass elevator. You arrive into a world of play, where nothing is off limits, where every product entices the shopper (regardless of age) to share the experience.

It's no surprise that 12 hours before the store was to open, people were lined up to be the first to get a free

UPCOMING SPEECHES:

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T-shirt or win a laptop. It was a nasty rainy Friday but it did not deter the loyalists. (Two hours after the store officially opened, the line of customers wound around the entire city block.)

When you look at this store, you are reminded of the degree to which Apple has transformed a computer business into a community, a way of life for many, and has become one of the best retailers in the country. What continues to amaze us is that the company has only been in the retail business for five years and now has 150 stores that do an average volume of $2,500 per square-foot. Takes your breath away. It will be interesting to see what this new 24-hour store does, all day, everyday.

Beauty Moves – Seismically

If you were in New York City on May 5, you may have felt the earth move. No, it was the not the impact of the subway rumbling under the Waldorf Astoria hotel – or worse. The movement was caused by the announcement of the 2006 **Cosmetic Executive Women** "Beauty Insider's Choice Awards" for the best new products of 2005.

As 1,400 beauty executives watched the new guard of beauty was revealed. The old guard looked ashen.

The winners in 34 categories, voted on by over 4,000 beauty executives, were dominated by what could, for the most part, be called niche or indie brands. It is true that highly recognized names such as **Lancôme**, **Chanel**, **Avon**, **Olay**, **Maybelline** and **Dove** won awards. However, the majority of winners included **Shiseido**, **Clarins**, **Kiehl's**, **Burt's Bees**, **Dr. Andrew Weill for Origins**, **Dermalogica**, **FusionBeauty** and **L'Occitane**.

The award that truly reflected the changing nature of the US beauty business was for "Lip Products under $12." It was a three-way tie between **L'Oréal**, **Sephora** and **Sonia Kashuk for Target**.

If you're wondering what's going on in the US beauty business all you need do is re-read the above. You'll get the message. Or please call us, we'll explain.

See you from *THE EDGE,*

Wendy Liebmann

P.S. If you'd like more information on any of these articles, please don't hesitate to call (212-924-7780) or email (info@wslstrategicretail.com). Hope to hear from you.