



Retail's Remarkable Resilience

A Special Report from Media Group Online, Inc.

Even before the pandemic, retail's resilience was already being tested, as stores were closing by the thousands. Granted, many of these were locations of major chains, but those closures left voids in the local retail landscape, which led to less foot traffic for local retailers.

The pandemic's devastating effect on retail, both national and local is well-documented, but it also motivated many local retailers to change their business models significantly. In the process, however, many discovered advertising strategies and tactics to engage and attract new customers and created businesses better prepared for future crises.

Despite many consumers eagerly returning to in-store shopping, retailers face a new set of challenges. Supply-chain issues and a lack of sufficient inventory have created a frustrating situation for retailers since they can't serve consumer demand.

This month's Special Report from Media Group Online explores these challenges, what retailers are doing to overcome them and retail's bright future.



www.mediagrouponlineinc.com



2022 Retail Undeterred by Inflation, For Now



Although inflationary pressures weigh on consumers' wallets as well as retailers' inventory costs and expansion plans, April 2022 retail sales increased 0.9%. When motor vehicle and parts sales are excluded, the increase was two-tens of a percentage point more than the estimate, or 0.6% and 0.4%, respectively. Compared to April 2021, sales increased 8.2% during April 2022.

The U.S. Commerce Department also significantly revised March's retail sales, increasing its estimate from an initial 0.5% increase to 1.4%. Removing motor vehicle and parts sales from the equation boosted the estimate from 1.1% to 2.1%.



US Retail Sales Performance, by Primary Categories, January–March 2022

Category	Total Sales	YOY Change*
Total retail and food services sales	\$1.85 T	+12.1%
Total sales, excluding motor vehicle and parts	\$1.48 T	+13.8%
Automobile dealers (new and used)	\$312.8 B	+6.8%
Food and beverage stores	\$220.6 B	+7.5%
General merchandise stores	\$184.9 B	+2.6%
Nonstore retailers	\$292.4 B	+11.3%
Food services and drinking places	\$227.2 B	+27.2%

US Census Bureau, May 2022

*compared to January–March 2021

Clearly, inflation has increased the prices for consumer goods and services and is responsible for a portion of the increase in retail sales. Some economists report consumers likely had to use some of their savings to pay these higher prices, but McKinsey & Company estimates Americans had \$2.8 trillion in additional savings compared to 2019.

Another critical indication of retail's resilience is the 91 million square feet of retail space absorbed during Q1 2022, the most during almost the past five years. This trend is particularly strong in suburban retail areas because more people are working from home and find it very convenient to shop and eat in their immediate neighborhoods.

Marcus & Millichap, a major commercial real estate firm, reported a recent survey of investors of retail properties anticipated more investments in these properties during 2022.





Supply Chain and Inventory Issues Persist

Forecasting the direction of the US economy is always tricky. Nonetheless, the nonpartisan Congressional Budget Office (CBO) estimated during late May that the GDP will increase 3.1% for all of 2022.

Inflation may have peaked and will increase 4.7% for 2022, compared to 8.3% for the 12 months through April. The CBO expects the inflation rate will decrease significantly by 2024 to 2%.

The current inflation situation is somewhat unique since brands and retailers had insufficient inventory to supply the surge in consumer demand during 2021. The pandemic is still affecting global production, the movement of cargo and, subsequently, the products on store shelves. Progress is being made to rebalance demand and supply and could occur by the end of 2022 or early 2023.



Survey results from Morning Consult's May 2022 U.S. Supply Chains and Inflation report indicate April may have been the toughest month for consumers. Households with incomes of less than \$50,000 continued to be most affected by inflation according to Morning Consult's price sensitivity index. April was also when the price sensitivity index for households earning \$100,000 or more increased the most of all income groups.

More recent information from Placer.ai and Numerator suggests consumers are adjusting to higher gasoline prices and the lack of some products in stores. Placer.ai stated overall retail foot traffic returned to pre-pandemic levels during May 2022. For the week of May 16th, foot traffic was 2.7% less than the equivalent week of 2019; however, during the first week of March when gasoline prices increased the most, foot traffic was 5.7% less than March 2019.

Numerator's retail sales index for the week ending May 1st was 120, compared to 116 for the week ending March 30th. Of the 12 retail channels Numerator measures, the shopping trips index had increased for many of them. The index for all shoppers was 110.

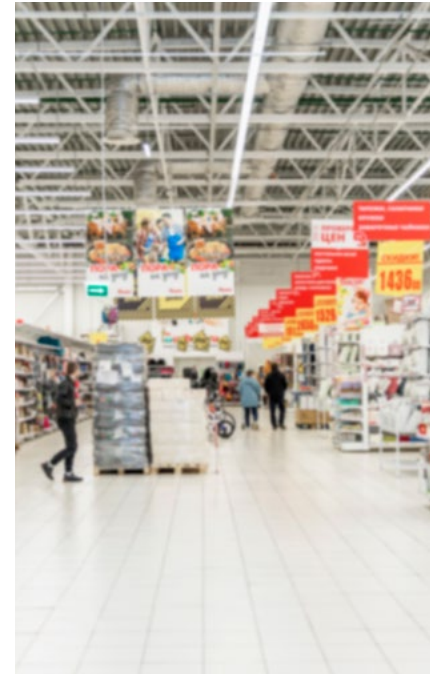


Consumers Are Returning to Stores

With many Americans vaccinated, having contracted a COVID-19 virus or just weary of the health and safety protocols, they are generally less concerned about the pandemic. A March 2022 Ipsos survey found 42% of respondents were worried about inflation or increasing prices. The pandemic was 11th on a list of 19 concerns at 13%.

Despite inflationary pressures, the Placer.ai data mentioned on page 3 shows weekly visits at discount and dollar stores for the week of May 2nd increased 36.9% and at superstores by 8.5%, compared to the baseline week of January 3-9. As inflation increased in-store prices, more consumers preferred these "value" shopping channels. Weekly visits to grocery stores decreased for most of the weeks since February 7, averaging approximately 8%. For the week of May 2, however, grocery visits increased 0.5% relative to the January baseline week.

Diving deeper into the Numerator Shopping Behavior Index shows shoppers at all income levels over-indexed for shopping trips for the week ending 5/1/22.



Shopping Trip Indices for Selected Retail Channels, May 2022

Retail Channel	All Shoppers	Low-Income	Middle-Income	High-Income
Total	110	105	112	112
In-Store	109	105	110	110
Online	111	105	114	112
Beauty	126	129	136	120
Dollar	108	105	114	107
Drug	103	100	107	104
Food	108	106	109	107
Home Improvement	99	95	98	102
QSR	115	107	118	119

Numerator, May 2022

The large indices for QSR (Quick-Service Restaurants) in the Numerator table are supported by similar data from Placer.ai. Weekly visits for the fast-food & QSR category increased 23.8% for the week of May 2nd compared to the January baseline week. All other restaurants, especially full-service, are well on their way to recovering from the pandemic's crushing effect as their weekly visits increased 23.1%.



Consumers Have Money to Spend

Inflation has certainly caused US consumers to adjust their shopping habits; however, they still have trillions in savings they didn't have when the pandemic started, and they haven't been afraid to spend it.

During March 2022, when inflation may have reached its peak, consumer spending increased 18% compared to March 2019. McKinsey & Company data for February–March 2022 reveals consumer spending increased in five major retail categories much more than the added cost from inflation.



Retail Categories In Which Consumer Spending Increased More Than the Effect of Inflation, February–March 2022

Category	Consumer Spending	Inflation	Total Change
Wholesale clubs	+19%	+9%	+29%
Sporting apparel	+24%	+5%	+28%
Pet shops	+17%	+7%	+24%
Cosmetics	+25%	0%	+25%
Software and electronics	+20%	-2%	+18%

McKinsey & Company, May 2022

In the sales category from the latest Numerator Shopping Behavior Index, shoppers of all income levels over-indexed for in-store shopping for the week ending 5/1/22.

- **All shoppers - 121**
- **Low-income shoppers - 114**
- **Middle-income shoppers - 122**
- **High-income shoppers - 124**

All shoppers and shoppers by the three income levels also over-indexed for the average amount spent per in-store shopping trip.

- **All shoppers - 112**
- **Low-income shoppers - 109**
- **Middle-income shoppers - 111**
- **High-income shoppers - 113**

Unsurprisingly, the gas and convenience store category had the largest indices, 130, 124, 128 and 134, respectively. The next largest indices among all shoppers were 107 in the mass merchandiser category; low-income shoppers 107 in the club category; middle-income shoppers 108 in the mass merchandiser and QSR categories; and high-income shoppers 108 in the mass merchandiser category.



Consumers' Purchasing Intent Is Another Good Sign

Although the future path of the US economy, employment, wages and inflation (and unknowns) can always disrupt or delay consumers' purchasing intent, they can also be another positive indication of retail's resilience.

According to the May 2022 Morning Consult U.S. Household Finances & Consumer Spending Report, slightly more than 15% of US adults said they planned to buy a home during the next 12 months, the largest percentage since November 2021.

Late May data from multiple sources indicates more existing homes are entering the market. More single-family homes were built during April since November 2006, leading many analysts to predict a reduction in prices throughout 2022 and improving affordability for many buyers.

In seven purchase-intent categories in the Morning Consult survey, home repairs or improvements increased from 35.5% during March to 38.0% during April.



This intent for in-home repairs or improvements is mirrored in the latest monthly update from The Farnsworth Group and the Home Improvement Research Institute. Of consumers surveyed during May, 83.5% said they started a DIY project during the last two or three weeks and 37.3% said they would definitely start a project and 33.6% will probably start a project during the next few weeks.

Analysis of data from five representative 2021 consumer/market surveys conducted by The Media Audit revealed, unsurprisingly, that Millennials over-index for planning purchases in six major consumer categories.

Indices of Millennials' Major Purchase Plans, in Selected Markets, 2021

Purchase Plans	Tampa-St. Petersburg	Indianapolis	Little Rock	Denver	Monterey-Salinas, CA
New vehicle*	134	179	155	161	158
Major household appliance*	98	130	145	120	110
New TV*	145	131	110	142	144
Personal home electronics*	163	159	156	142	135
New furniture*	161	122	130	143	141
A new home (next 2 years)	187	148	220	171	172

Based on The Media Audit's 2021 surveys

*during the next 12 months





Retail Tech Trends

The 2022 Store Experience Study from RIS and IHL Group of large and midsize retail executives and managers in three broad retail segments revealed the importance of adding and updating various technologies to maximize customer engagement.

Although the surveyed retailers said 66% of their total revenues are from store purchases, 30% is now generated from other channels: buy online, deliver from a warehouse at 15%, local store delivery at 7%, ship from a store at 5% and BOPIS at 3%. As this segmentation advanced during the pandemic, retailers of all sizes had to utilize more tech tools.

Specialty hardgoods retailers plan to increase their store IT spending by 6%, food/grocery by 5.5% and convenience stores by 5.1% during 2022. This is in response to their expectations of a 9.3% increase in mobile commerce and an 8.3% increase in desktop e-commerce, compared to a 5.7% increase in stores.

The study also found most of these retailers are prioritizing some of the same tech needs from before the pandemic.

Retailers' Top Tech Priorities for 2022

	Priority	Percent
	Upgrade CRM/Loyalty	50%
	Personalize customer experience	46%
	Inventory visibility	42%
	Update payment terminals/PCI	40%
	Refresh POS infrastructure	40%
	Empowering store associates	37%
	Store communication upgrade	32%
	Connect/Manage disparate systems	29%
	Update CMS	29%
	Support contactless payments	25%



RIS/IHL, May 2022

Although "support contactless payments" is 10th on this list, the largest percentage (29%) said contactless payment technology would be a major upgrade during the next 12 months. Mobile devices for managers were second at 27% and updating store servers was third at 25%.

Despite the many challenges caused by the pandemic for retailers, it was also an opportunity to explore emerging technologies, which typically receive a very small portion of retailers' IT budget. Geo-location technology for marketing or fulfillment at 22% was the first choice among these retailers for a major upgrade during the next 12 months.



Forward into the Future of Retail

With the dawning of the digital age, brands and retailers, both national and local, were slow to grasp the implications of the many new channels to engage with consumers, from Websites to social media to e-commerce to BOPIS to contactless payment apps. Now the Metaverse and Web 3.0 are looming, creating new challenges for retailers to follow consumers where they choose to discover new products and services and shop and buy them with new technologies.

According to Accenture's Store of Tomorrow report, retailers must address several elements to evolve their business models and succeed in the future of retail.



- 1. More Focus on Customers** – Although retailers have always focused on their customers, the future will require another level. Within an integrated in-store and online operation, more precise customer data will allow retailers to stock their stores with the products customers prefer, initiate personalized promotions and offer more seamless payment, delivery and returns services.
- 2. Updating the Supply Chain** – As retailers continue to face supply-chain issues, they are recognizing the flaws and gaps in their system. Implementing and relying on cloud technologies, artificial intelligence and more automation are the next steps for a more efficient operation and the ability to serve more customers faster.
- 3. Employee Training** – Implementing new technologies and new methods to engage with customers are relatively meaningless without a significant investment in employee training.
- 4. A Force for Good** – Serving customers better is critical, but those same customers expect retailers to be proactive about social issues and sustainability in the form of clean energy usage and recyclable packaging.

Their pandemic experience taught retailers many lessons and forced many of them to make significant changes to their operations. All of which are now the foundation for a brighter future for retail and new opportunities for media to help them strengthen their customer relationships.

Sources: CNBC Website, 5/22; US Census Bureau Website, 5/22; McKinsey & Company Website, 5/22; Marcus & Millichap Website, 5/22; US Bureau of Labor Statistics Website, 5/22; Morning Consult Website, 5/22; Placer.ai Website, 5/22; Numerator Website, 5/22; Ipsos Website, 5/22; The Farnsworth Group Website, 5/22; Time Website, 5/22; The Media Audit Website, 5/22; RIS Website, 5/22; Accenture Website, 5/22.

Prepared: May 2022

© 2022 Media Group Online, Inc. All rights reserved.

