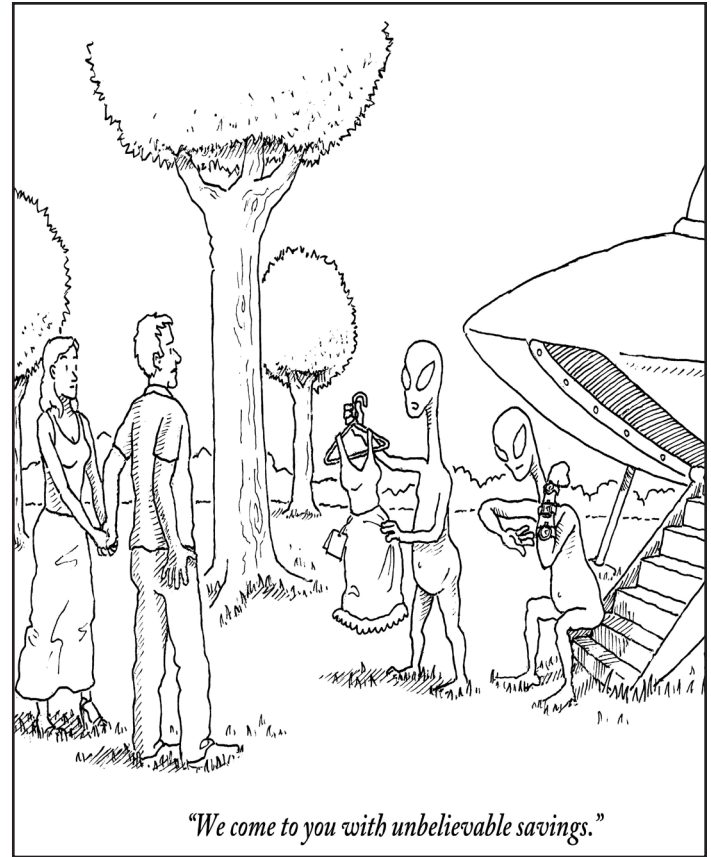




Retail

# RETAILERS EXPERIMENT WITH THE NEW VALUES HIERARCHY

**Restraint, Simplicity, Connectivity and Experience:** These are the new values Americans are expressing through their behavior in the marketplace and purchases in recent months. Now we are noticing retailers starting to experiment with ways to offer these values to customers. Such retailers are likely to outperform their competition.



## TAKEAWAYS

- Secular changes in the marketplace are forcing retailers to experiment with different ways of operating and different value propositions for consumers, as they undertake what we have called The Great Restructuring.
- Through their actions, Americans have been expressing a Hierarchy of Values, favoring Restraint, Simplicity, Connectivity and Experience.
- Some retailers are starting to experiment with how to engage consumers around those values.

## IMPLICATIONS

- Retailers that succeed in aligning with the Hierarchy of Values will see net sales increases, more customer loyalty and improved customer satisfaction.
- Retailers that are experimenting with offering the new values are likely to outperform their competitors within the same retail segment.
- Retailers that excel in aligning with the Hierarchy of Values gain pricing power that can lead to higher margins.

## COMPANIES

### Representative Companies

Oxford Industries	(OXM)
Nordstrom	(JWN)
Safeway	(SWY)
Walgreen Co.	(WAG)
Amazon	(AMZN)
eBay	(EBAY)
Macy's	(M)
Intercontinental Hotels Group	(IHG)
Wegmans	(Private)
Quirky	(Private)
Continuum	(Private)
ThredUp	(Private)
Warby Parker	(Private)
AirBnB	(Private)
RelayRides	(Private)
Frank & Oak	(Private)
Fresh Dish	(Private)
FAB.com	(Private)

In the [previous inFocus](#), we noted that retailers are experimenting with new distribution and logistics operations to offer same-day delivery to online customers. At heart, these retailers are trying to offer value through Simplicity – the convenience of being able to order products needed today online, without having to make time in a busy schedule, drive from store to store or deal with traffic and lines (see [inF 801](#), 2/21/13).

You'll recall that Simplicity is one of the four values of [The New American Values Hierarchy](#) – the four characteristics that American consumers seem to be valuing as they make choices on how to spend limited incomes (see chart at rear). These values, in ascending order of importance, are **Restraint** (keeping prices down, avoiding unnecessary spending and finding sufficient substitutions for popular items); **Simplicity** (finding products and services that reduce the complexity of life); **Connectivity** (products and services that offer ways for consumers to connect and socialize with others); and **Experience** (choosing anything that provides consumers with something unique, memorable, and enjoyable). Consumer actions suggest these values form a hierarchy, where consumers will forgo the lower values (Restraint, Simplicity) if it enables them to engage in the higher values (Connectivity and especially Experience) (see [IF 3315](#) "A New Values Hierarchy Emerges: Consumers' Behavior Reveals a Reset of Priorities," 7/13/12).

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## RESTRAINT

- Nordstrom is focusing its growth on doubling the number of its lower priced "Rack" stores. (*Women's Wear Daily*, 2/23/13)

- Founded in 2010, Warby Parker is challenging Luxotica and other makers of fashionable eyewear by selling prescription glasses for \$95 a pair, rather than the average price of \$300. (*Business Insider*, 2/13)

- The so-called "Share Economy" (somewhat misnamed as it often involves leasing and renting rather than sharing) is a form of Restraint in which consumers can rent out items they own but don't use full time (like a car) for an alternate source of income, and other consumers can rent-as-needed what they don't want to necessarily own (like a car). There are now dozens and dozens of services that facilitate such exchanges. Companies from Airbnb, which does this with housing, to RelayRides which does it with cars, are benefiting from the growing interest in this "sharing economy." (*Forbes*, 1/23/13)

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## SIMPLICITY

- As mentioned in the last *inFocus*, eBay, Amazon, Walmart and others are testing same-day shipping so that customers can order a product online in the morning and receive it at home the same night. These offerings involve a massive buildout of distribution centers and logistics as well as delivery capabilities. (*AllThingsDigital*, 2/12/13)

- Numerous companies, such as Fresh Dish, now offer same day delivery of the specific ingredients and recipes needed to prepare individual meals – with everything pre-measured exactly as needed. (*AllThingsDigital*, 12/31/12)

- Last year, Nordstrom increased the number of products available online to near-parity with its bricks-and-mortar stores. (*Women's Wear Daily*, 2/23/13)

- ThredUp simplifies the process of consigning used clothes for kids. The company sends parents a prepaid self-mailable bag, which they can fill with their kids' worn items. ThredUp then sells the clothes online and remits one-third of the sale to the parents. (*Washington Post*, 9/3/12)

- Online retailers like Frank and Oak are personalizing customers' offerings as they shop using algorithms that infer style based on past purchases (much like the Netflix algorithm), simplifying the process of choosing products. (*Business Insider*, 2/13)

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## CONNECTIVITY

- Quirky is a community of inventors and 300,000 others interested in new consumer products. The community collaborates on design to fuel a never-ending pipeline of new products. Stores, such as the Container Store, Bed Bath & Beyond and Target, now stock products that emerged from the Quirky community. (*Fast Company*, 2/13)

- Fab.com is a fast growing social retailer that uses crowd-sourcing to select products it will sell and provides users a variety of ways to share their favorite products with their friends. Since it was founded in June 2011, the site has gained 4.5 million members. (*TechCrunch*, 12/31/12)

- Design-firm Continuum is redesigning the lobbies of 1,243 Holiday Inns to create a space where guests can

hang out and socialize. At the first test location of the new lobby, beverage sales rose 36 percent and food revenue climbed 25 percent.

## EXPERIENCE

- Audi has also hired Continuum to redesign the process of selling cars. Continuum's 160-person staff focuses on designing experiences and the aesthetics of buying a product. (*Bloomberg Businessweek*, 2/14/13)

- Story is a new boutique in Manhattan's Chelsea neighborhood. Every four to six weeks, the store completely changes with a new theme and a calendar of theme-related events. Each reinvention is a new experience for customers. (*Forbes*, 2/9/13)

- Walmart plans to offer a subscription to monthly shipments of food and artisanal items – but the contents of each month's shipment are a surprise. The model replicates Birchbox, a monthly shipment of ever-changing grooming products. (*Internet Retailer*, 6/1/12)

- Oxford Industries has incorporated a full-service restaurant into 13 of its Tommy Bahama clothing stores. In creating a broader shopping experience, Oxford saw sales-per-square foot climb 2.5 times at the stores that added restaurants. (*Bloomberg Businessweek*, 12/6/12)

Retail is currently experiencing the effects of what we call the Great Restructuring. Several structural changes have created new pressures in the retail sectors – everything from online and mobile-device shopping, to price comparisons, to less driving, to a proliferation of overseas manufacturers, to a rising interest in local and do-it-yourself product-making including 3D printing. All this concurrent change is forcing retailers to rethink their value proposition with consumers and experiment with how to best operate in the shifting environment. Because Americans' consumer behavior has made clear their preference for Restraint, Simplicity, Connectivity and Experience, those retailers experimenting with how to align with those values are likely to end up ahead of their competition.

We are also beginning to see that institutions beyond retailers are starting to experiment with how to align with these new values. For instance, the County Executive of Montgomery County (MD) sees the need for his county's communities to align with the emerging consumer values, particularly as that county competes with nearby Washington, D.C. and Arlington (VA) for population. The Executive has created a "Task Force on the Night Time Economy" to enliven the experience of living in places like Bethesda and Silver Spring (MD) to keep empty nesting Baby Boomers and members of Gen Y interested in living in those communities. Are institutions in education, healthcare, the media, finance and government ready to get on board the New Values Hierarchy? (*Washington Post*, 2/16/13)



*"Hello, my name is Tony. I'm your waiter, and I'll be dining with you tonight."*



# THE NEW AMERICAN VALUES HIERARCHY

