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Trends That May Impact the Retail Industry in 2015

RETAIL

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Articulating just what is happening in the retail industry is often challenging, partly because of the fickle nature of the consumer. Indeed, what incites consumers to spend may include a broad spectrum of factors, including confidence in their own finances, a desire for luxury items, perspectives on value for their money, stimulus activity and even recent trends such as gasoline prices dropping to two dollars per gallon.

Prioritizing what is happening in the retail industry is often the greater challenge, especially with a mixed bag of global and domestic news and ever-changing markets due to technology taking us places that we wouldn't have even thought possible five or ten years ago. This article attempts to share a perspective on what may be happening globally and domestically, and be at least a little helpful in formulating your opinion on what is happening in the world of retail and investment. You may think such a high-level approach is dilutive because it doesn't pinpoint solutions or specific actions to take advantage of consumer sentiment. However, paying attention to a few global trends may help one achieve the perspective that sometimes is lost when inundated by the constant barrage of news and data points.

We all have heard of the massive opportunity, and more importantly the massive population, that China represents. As China grows, exacerbated by the flow of knowledge from the internet, consumer demand continues to become exponentially greater. Fueled by the desire and knowledge of how Western culture lives, China's working class appears fascinated by middle and upper-class lifestyles. The enormity of the population indicates that there may be as many as 600 million consumers in the next five years, or twice the population of consumers here in the United States. Whereas wage pressures in the United States and Europe are causing consumers to be more value-focused, the rise of the upper and middle class in China, and their insatiable appetite for consumerism, seem to be driving demand for luxury or premium assets. As such, larger private brands are in vogue where the consumer seeks differentiated products that can and do sell at premium prices.

Large investments in technology and social media have been, and continue to be, made as companies focus on marketing and ecommerce. How companies sell their product is almost as important these days as the products themselves. If companies haven't understood and realized the advantages of reaching the broadest base of consumers, it may be too late as the train has already left the station. The proliferation of smart phones and the ease of access to information, as well as traditional computer-based online buying trends, have boosted many companies' intent to expend resources on technology, as well as areas that companies perceive as adding high value. This has also inspired companies to trim less value-added resources like print copy

advertising.

From a mergers and acquisition standpoint, consumer demand for the best of the best brands seems to be driving a strategy of aggregation and consolidation. Whereas the last decade or so of activity in the U.S. and Europe has been a trend towards discount retailers and value menus for the cost-conscious consumer, private equity as well as strategic and financial players in China and greater Asia are very interested in investing in the best of best private label brands while reducing the competition.

Knowing the trend towards consumerism in China and other developing nations may bode well for the U.S. manufacturing economy and help shrink the trade deficits we have built for the last several decades. A number of things have to fall in place for the U.S. to be competitive again, but the trends and demographics on the other side of the world sure seem like an opportunity that commands some attention.

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