

The Industrious



Gen Z and the Retail Middle Class

A Path Forward

March 2021

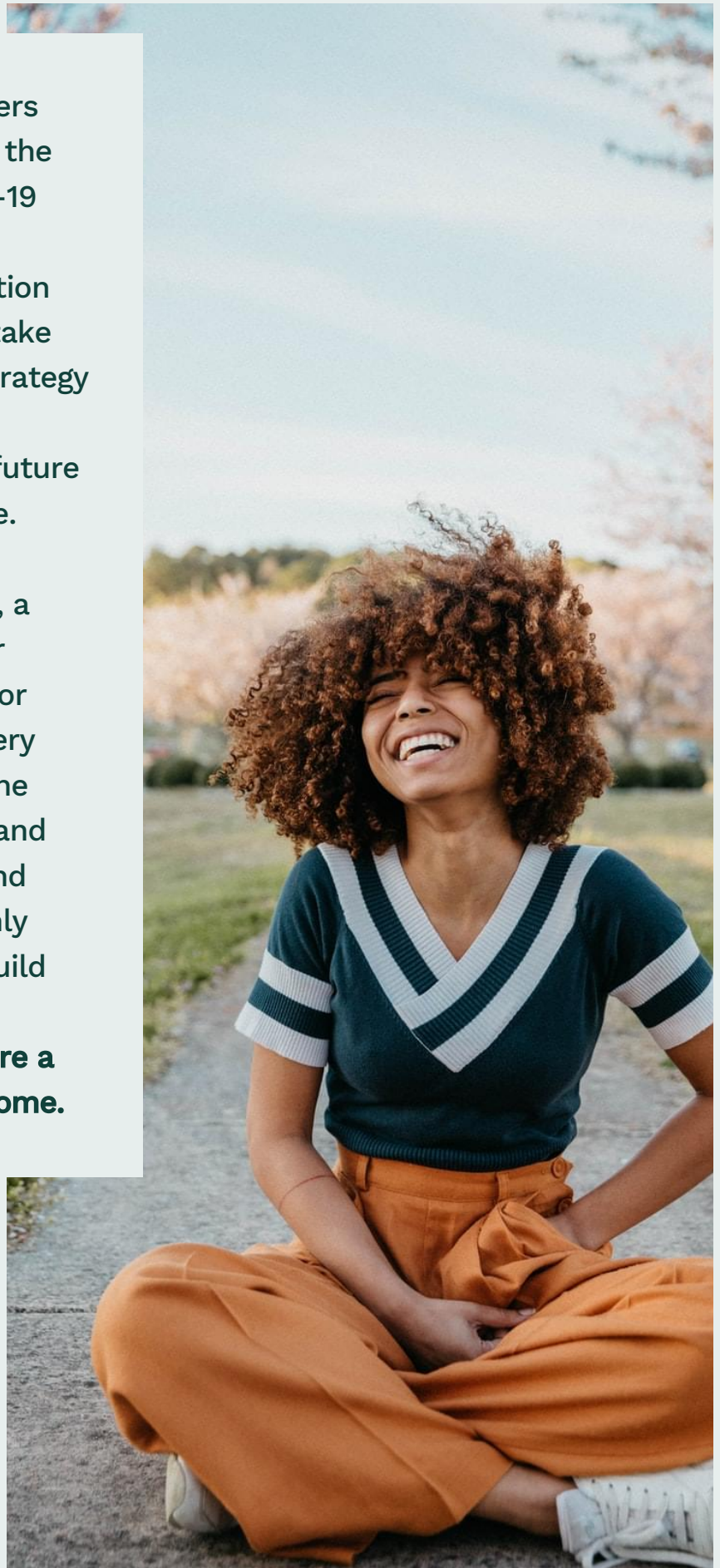
Table of Contents

04	COVID-19 and E-Commerce	06	Defining Retail Experience
15	Demography is Destiny	20	Gen Z and Retail
30	The Tenuous State of the Middle Class	36	A Clear Path Forward
42	Bringing it All Together	46	Defining Success
47	Conclusion: The Future of Retail		

Introduction

The outlook for middle-class retailers can seem rough these days, due to the combined challenges of the COVID-19 pandemic, growing economic stratification, and ongoing competition from e-commerce. But if retailers take decisive action and execute on a strategy to put experience first, we at The Industrious are confident that the future of physical retail holds real promise.

As you'll see in the following pages, a well-designed, innovative customer experience can be transformative for retailers in every vertical and at every level. An experience that delights the consumer, engages all the senses, and aligns the customer's personal brand with the retailer's brand can not only engage today's shoppers – it can build a lasting relationship with the next generation of consumers, and **ensure a solid future for retail for years to come.**



COVID-19 and E-Commerce

It's remarkable to look back at the upheavals we've experienced over the past 12 months. With society as a whole shutting down and reopening several times, consumers have had little to no sense of consistency or security from one week to the next. *Amid that uncertainty, the channel best positioned to serve customers was the one that had already been putting physical retail at risk prior to the pandemic: online shopping.*

A United Nations Conference on Trade and Development (UNCTAD) study in late 2020 concluded that COVID-19 has changed online shopping behavior forever. The survey, entitled "COVID-19 and E-commerce," found

that the greatest shift to online shopping has been made by consumers in emerging economies. "The COVID-19 pandemic has accelerated the shift towards a more digital world," UNCTAD Secretary-General Mukhisa Kituyi said. "The changes we make now will have lasting effects as the world economy begins to recover."

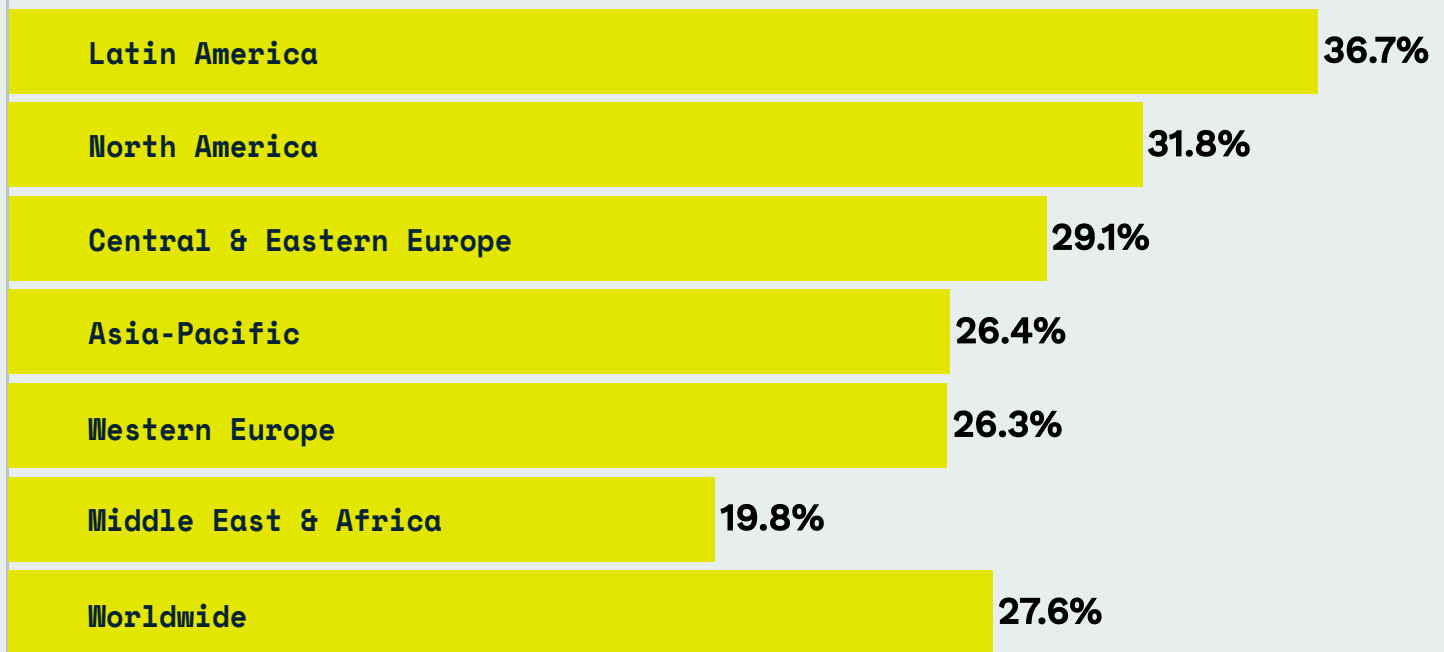
That's true everywhere you look. In markets with an already mature online shopping economy, gains were entrenched in 2020. E-commerce saw explosive growth across the board, with increases exceeding 30% across the Americas.

The changes we make now will have lasting effects as the world economy begins to recover.

Mukhisa Kituyi
UNCTAD Secretary-General

COVID-19 and E-Commerce

Retail E-Commerce Sales Growth Worldwide, by region 2020 % change



<https://www.emarketer.com/content/global-ecommerce-update-2021>

When the final sales are counted, e-commerce will have crested \$830 billion for 2020. Digital Commerce 360 anticipates an even larger increase – a massive 40.3% growth from 2019 – and eMarketer expects the global e-commerce market to approach \$5 trillion in 2021.

Much of this growth comes at the expense of physical retailers, who have either been prohibited from operating during the pandemic or struggled to adapt to new restrictions. And there's already clear evidence that many consumers won't revert to their old ways. McKinsey recently said trends in China indicate that between three and six percentage points of market share gained by online channels will be "sticky."

The conclusion is clear: **the pandemic rewarded those who were already online**, including traditional retailers who had an effective online presence. Retailers who were unable to engage with customers virtually or remotely watched revenue opportunities migrate elsewhere.

It's no surprise that virtual shopping boomed during a pandemic. It's similarly not newsworthy to report that retailers without a thriving digital strategy were at greater risk of demise. But what may come as a surprise is that the future may be brighter than you expect – as long as you're ready to execute on a strategy to **put experience first**.

Defining Retail Experience

Before getting much deeper into this, it's crucial to clarify what we mean by "experience."

Consultants and pundits have long argued for an improved retail experience, but they've done so while defining retail experience as associate conduct and attitude, or as the outcome of redesign and remerchandising. Technology vendors from point of sale to supply chain all boast of the improved customer experience their products provide. Customer experience has been a ubiquitous buzzword for so long that it's lost its meaning.

For The Industrious, customer experience is not the outcome of some individual operational improvement. Customer experience doesn't mean being greeted warmly upon entering the store. It's not the result of associates consuming hours of training materials. It's much more than that.

We view experience as the core reason for retail to exist.

Case Study: Build-A-Bear



There's one example we use frequently to drive this concept home. Members of The Industrious were involved in the original concept creation for Build-A-Bear Workshop, which gives kids the opportunity to bring a new treasured friend to life. In a fun and lively setting, children select the furry friend they'd like to create, and through seven key steps, they work with associates to stuff, outfit, and name it, complete with a birth certificate. The new companion comes to life through the child's active participation and joy, and

children return to the workshop for birthday parties, both for themselves and for their stuffed companions.

While a stuffed animal can be purchased for as little as \$25, the final tab is often much higher with clothing and accessories —called "Bearaphenalia" —to complete the experience.

Cheaper bears are available everywhere. Amazon.com offers a perfectly suitable teddy bear for under \$10.00. Why pay ten to twenty times more for one from Build-A-Bear?

What you pay for is the experience. You pay for the smiles as your child goes through the process of creating her friend. You pay for the photographs you take while it's happening. You pay for the memories and the emotions. And those experiences are worth the additional cost. The experience is key to the product.

Any parent who's ever taken their family to a Disney property knows this: you're willing to pay \$9 for a balloon and \$10 for an ice cream because you're creating memories. Being there, seeing Main Street U.S.A., hearing the barbershop quartet, viewing the parade, eating the popcorn, seeing Cinderella's castle in the distance – the experience is key to the product.

Defining Retail Experience

The Experience is the Mission

If you're going to compete with a surging e-commerce sector, experience can't simply be your companion or sideline – it has to be your core reason for being. If a close look at your business' key focus doesn't point to a unique customer experience, it's time to reexamine it.

For both Build-A-Bear and Disney, experience is so central to their offerings that **their mission statements point to experience as the reason they exist.**

At Build-A-Bear, our mission is simple: placing a heart in a furry friend that brings to mind warm thoughts of childhood, friendship, trust and love.

Build-A-Bear



We create happiness by providing the best in entertainment for people of all ages everywhere.

Disney Parks

Build-A-Bear “places a heart in a furry friend,” and Disney “creates happiness.” Corporate mission statements are often subject to criticism, much of it well-founded – they can seem like throwaway sentiments better suited to a Bazooka wrapper or a fortune cookie. But if you want to lead in your industry, evaluating all activities – including your customer experience – against the measuring stick of your mission statement can be an essential key to success.

Defining Retail Experience



Experience Is Not Appearance

Why do so many retailers miss this point? One reason is the mis-definition of the concept, as discussed above. No retailer sets out to create a poor customer experience, and good people in marketing, retail operations, merchandising, and elsewhere believe they're contributing to a good – even great – customer experience. But they **too often confuse experience with appearance.**

Retail experience transformations are often met with great fanfare and guided by pricey consultants.

The new, improved retail experience is accompanied by a new internal slogan, new visuals and training, a merchandising refresh, and/or a store redesign. These days, it often also includes a new social media campaign and web design, as well as garish (and often pointless) digital signage in stores. These can be lengthy and capital-intensive projects.

Defining Retail Experience

For some retailers, customer experience simply means friendlier or more personalized service. One of the members of The Industrious was on the steering committee for a major retailer's customer experience revolution. A prominent consulting firm siphoned off millions of dollars to create a new internal campaign, new training, and new measurements, all designed to inspire more attentive, friendlier conduct by sales associates, with enormous resources applied to the capture and analysis of customer data. The project was to be the cornerstone of new retail operations – but years later, it's hard to ascertain any difference, except that purchases are now made via an iPad on a high-top table rather than at a cash wrap.

On paper, initiatives like these can seem fantastic. Consultants, certainly, find them easy to sell. Why, then, are they almost always an abject disappointment? Because they're just putting new lipstick on the same pig. These transformations don't actually address the customer experience at all – and **the experience is key to the product.**

Think back to the Build-A-Bear Workshop. The company boasts more than 400 stores worldwide because it redefined the experience of shopping for stuffed toys, transforming it into the experience of creating a new, comforting friend.

**Getting to the core
of a great experience
means mapping out the
truly valuable
moments you offer**

Getting to the core of a great experience means mapping out the truly valuable moments you offer, moments that can trigger an emotional connection. For Build-A-Bear, that meant starting with the first squeeze an eager child gave her new bear, then working backwards and forwards. Thinking through the entire customer journey, paying attention to the smallest parts, Build-A-Bear reengineered each step, looking for ways to extend and celebrate the building of the child's relationship with the new furry friend. The result is a **truly unique experience** that makes Build-A-Bear stand apart from every other toy retailer.

Defining Retail Experience

Case Study: Eataly

Another retailer where the experience is key to the product is Eataly. Food is presented as theater in Eataly's sprawling gastronomic emporiums, where shoppers can buy fresh meat, fish, cheese, pasta or pastries, take cooking classes, or eat in one of several restaurants. Anything that would fit in a celebration of Italian food and culture has a home at Eataly. The company's mission statement is simple and clear:

*“Life is too short
not to eat well.”*

Customers eat, shop, and learn. Like Build-A-Bear, Eataly started at the moment of truth – the customer's first bite of amazing Italian food – and deconstructed the entire customer journey before and after to fully actualize the experience. Shoppers discover products, learn to prepare meals, and grow in their knowledge of wines, cheeses and sweets, all while having fun in a beautiful setting. You can buy a tin of sardines at thousands of retailers, but you'll pass them by at your supermarket – Eataly makes you wonder how you ever lived without them.



Defining Retail Experience

Case Study: Eataly

Consider this first-person reflection from a [visit to Eataly](#) in search of a box of strozzapreti pasta:

A guest services worker met me in the pasta section and helped me go through what seemed like hundreds of varieties of packaged pasta (there is also fresh-made pasta) until she located the strozzapreti. There was an entire row of strozzapreti and more than one brand to choose from. This helpful associate then led me through the crowds, past the Lavazza coffee bar, the bakeries—both breads and cakes—the candies and sweets, the fish, the vegetable and meat markets, the cheese stations, the wine shop, the cookbook and cooking utensil section, the fresh pasta and fresh mozzarella departments, the prepared food area, the olive oils—labeled by region with

taste descriptions for each—the sauces, the cooking classes, the gelato bar, and six of Eataly's seven restaurants to the checkout.

It was a good experience and I was intrigued. The place was loaded with customers, eating, drinking, shopping and having a good time. Eataly is not well lit and somewhat cavernous, but the customers, tons of them, of all ages, shapes, sizes and nationalities, were engaged and a-buzzing. Eataly is a boisterous, adventurous place, billed as a trip to Italy without the plane ride. To a certain extent, it is like a trip to Italy, or that is what customers have been encouraged to believe it is, and as far as I can tell, it is succeeding.



Eataly shows that experience can be transformative for retail even in an environment with thousands of SKUs. Customers are "engaged and a-buzzing" in a "boisterous, adventurous place." They're celebrating Italian food and delighting in discovery. And like the ice cream cone at Disney, shoppers are willing to pay more for the same pasta they could buy elsewhere, because the experience is key to the product.

Defining Retail Experience

Case Study: C&A

What's more, experiences like these don't have to require a massive capital investment. If you're a middle-class clothing retailer, you may not be able to create a "trip to Italy" in your stores, but you can certainly enhance your fitting rooms and turn shopping into an Instagrammable experience.

For the European clothing retailer C&A, The Industrious built fun, interactive scanner-enabled displays that suggest new looks to pair with shoppers' chosen items, share brand stories, and offer gesture-enabled dress-up games – giving customers a personalized, shareable connection with the brand.



The project transformed the shopping experience in C&A's stores. It cost, in total, far less than €1 million.

Retailers like these, in every vertical and at every level, enjoy success **because they sell experience** – a thoughtful, rich, and complete immersion into their brand, central to everything they do and faithful to their missions. The result? People feel drawn to these retailers, and want to associate with them.



Aligning Your Brand with the Customer's Brand

At The Industrious, we believe strongly in the importance of aligning the shopper's personal brand to the retailer's brand – mapping the customer's personal mission to the corporate mission. Making that connection with the customer requires a full and thorough disclosure of the brand's story, the essential "why" behind the retailer. We can't overstate the importance of this – if your current brand story doesn't **elicit joy or interest when you tell it**, it's time to put it under intense scrutiny. And if there's any disconnect between your mission statement and what you actually deliver, prospects are grave.

Evaluate how your customer experience holds up against your mission statement. The best retailers have ensured almost perfect fidelity to that statement – and in many cases, doing so has led to new methods, visuals, language, operations, and approaches that no competitor was even considering. Consider what all stakeholders feel and experience in a Build-A-Bear Workshop, compared to what they feel and experience in the Walmart toy aisle or on an Amazon.com web page – they're so different, they're hardly comparable.

When you're able to envision a truly compelling and differentiating customer experience, focus your entire team on bringing it into existence. As we will see, all customers – and particularly the younger demographic – crave and demand it.

The squeeze on the middle class of retail is intense, and bringing in new generations of shoppers will require new thinking.

Demography is Destiny

The Millennial Generation

Several studies have examined the buying habits and preferences of millennials, the generation born between the late 1970s and the mid-1990s. They're an oft-maligned group, stereotypically seen as lazy, entitled, and narcissistic. As with all stereotypes, these labels sell the generation short, failing to recognize that they grew up during a time of massive societal and technological upheaval. Millennials aren't lazy – they've simply found more efficient ways to produce and communicate. They're not entitled – they just came of age at a time when marketers actively polled them for their preferences and desires, and they rightly expect to be listened to. What really distinguishes them is that millennials are the first generation of digital natives, and they pioneered new ways for communicating that have had massive impacts on society as a whole. E-commerce was born right around the time they began to have the freedom to shop and explore, and the mobile revolution began with them as well.



Demography is Destiny

They've led the rest of society into digital methods of communication, but they've also experienced periods of severe financial hardship – the financial crisis of 2007-2008 and the Covid-19 pandemic. And although they're currently in their prime consumption years, they're also dealing with significant stress from work and family. As such, they naturally revert to their comfort zones, often opting for the convenience of online shopping.

So here's the tough news for retailers: millennials will not save you.

They have entrenched online habits, selecting retailers who reflect their values – and they don't view physical retail as an essential part of their lives. Some of this failure to capture the attention of millennials can be tied to retailers' limited skills in appealing to customers via digital and social channels.

Still, the mistakes of the past don't have to be the mistakes of the future. Approached actively and strategically, the next generation holds great promise.



Demography is Destiny

Generation Z: The Digital Natives

The generation emerging after the millennials – Generation Z – will soon have a major impact on brands and retailers. Born between the mid-1990s and the early 2010s, they're roughly 10 to 25 years of age, and they started having an impact on commerce as soon as they got mobile phones in their hands.



Demography is Destiny

According to a [2018 study](#) of Gen Z, 95% already have a smartphone, and 25% have had one since before they turned 10. Gen Z has always been connected, predominantly via mobile technology.

As Gen Z matures, clear differences from previous generations are emerging. While millennials grew up during the arrival of the Internet, Gen Z has always had mature online technology right at their fingertips. Millennials view the Internet as a tool in their offline lives, while Gen Z makes no such distinction – their lives have always been fully digital. Immediacy of access, ubiquity of content, and brevity of attention span are this digital generation's three hallmarks.

Gen Z gets bored easily – much like dad changes the channel during a commercial, Gen Z retreats to content on the phone as soon as what's happening before them fails to grab their attention. There's always new and better content to explore.

Gen Z's steady consumption of mobile technology continues unabated, with apps like TikTok dominating the mobile screen. They use mobile phones to hail a ride to a movie theater, to order products from China, and to send selfies to friends around the globe. They livestream video, chat with their parents, and manage their schoolwork, all from one 3" × 5" mobile device. They exist in an actively and fully connected world – and the retailer that understands how to reach this generation will have a substantial advantage.



A man in profile, looking at a smartphone. The background is dark with several glowing blue, wavy lines that resemble sound waves or digital signals. The overall mood is modern and tech-oriented.

Gen Z and Retail

The Industrious

Gen Z and Retail

Let's address the three hallmarks of Gen Z's digital life – as mentioned above, they're ubiquity of content, immediacy of access, and brevity of attention span.



01 Ubiquity of Content

According to [Takeo.ai](#), **over 2.5 quintillion bytes (2.5 e+9 GB) of new data is created every day**, and that number keeps increasing, seemingly exponentially. Data from IoT and transactions makes up a significant portion of this, but user-generated or user-created content has exploded over the past five years. TikTok didn't exist in 2018 – today, nearly one in five Internet users are TikTok users.

What led to the app's rise in popularity? TikTok allows users to create 15-second videos soundtracked by music clips. It's a simple and wildly compelling concept. The clips are just the right size: short enough to be focused, small enough to share easily, and the right length to avoid boring the user. If the content isn't funny, engaging, or entertaining, you aren't stuck in it in the way you might be in a movie, a TV show, or even a pop song. And Gen Z cannot consume this content fast enough.

02

Immediacy of Access



Gen Z is online – unceasingly. And the pandemic has kept them online even more than before as they access schoolwork through virtual classes. According to [Jason Dorsey](#), while "73% of Boomers, 69% of Gen Z, and 59% of Millennials report using the internet primarily to access information, 72% of Gen Z access the internet mainly for entertainment: videos, apps, message boards, etc."

Gen Z integrates online and offline life so tightly that there's little distinction between the two. Their constant access has made them comfortable with their digital identities. They willingly share who they are, what they prefer, and what they wish, confident that they'll have these expectations met. Perhaps due to their youthful optimism, they actively engage in online communities – as long as they find a useful and immediate return. Without that return, **they're rarely disappointed for long**, since an endless stream of alternatives awaits them.



03

Brevity of Attention

Gen Z will always change the channel. Why wouldn't they? Most of the content delivered to them arrives in 15-second slices. As short as that seems, if they aren't grabbed within the first few seconds, they'll swipe to the next offer.

This puts intense pressure on the content creator. With Gen Z, you only get a few seconds to make a first impression. They issue their judgements on content via taps and swipes, unlike millennials and members of Gen X, who like to share their opinions and engage in "you said/you said" squabbles on social media. Gen Z finds such exchanges boring. As [Business Insider's Isobel Hamilton reports regarding Gen Z's attitude toward Facebook:](#)

"It's just not very appealing anymore, older people are using it more and my feed is often clogged up with annoying political posts. I have moved to instagram [sic] so I could focus more on living and food and travel," said one 25-year-old.

Gen Z and Retail

Gen Z also likes to **be in control of the content they consume**. If the user quoted above abandoned Facebook because her feed was clogged with political posts, the Facebook algorithm failed to understand that repeatedly feeding her uninteresting (or worse, annoying) content was a doomed strategy. She wants to control what she consumes, and Instagram gives her more options to do so to her liking.

Each member of Gen Z commits several hours a day to her digital life. She'll give you a chance to attract her attention and hold her interest, but if you fail to do so, she won't give you a second thought, positive or negative – she has more interesting things to do than think about you. That's both good and bad news: failure isn't held against you, but avoiding failure requires even more bold action.

“It’s just not very appealing anymore, older people are using it more and my feed is often clogged up with annoying political posts. I have moved to instagram [sic] so I could focus more on living and food and travel”

Isobel Hamilton, Business Insider
Regarding Gen Z's attitude toward Facebook

What does this mean for retailers? Since Gen Z is the first generation to have had access to the internet and mobile technology for their entire lives, this transforms the way they interact with technology and mobile devices, especially while shopping. As you invite them into your stores, you need to think about the in-store experience the way Gen Z thinks about its digital life: **grab my interest now, and hold onto it, or I move on**. It's far from impossible – think about the sights, smells and energy of an Eataly location compared to a mobile screen. You simply have to offer a compelling experience that reaches far beyond a physical merchandise catalog.

So how can retailers help Gen Z use their mobile devices in retail stores, and what lessons from the online experience can be brought into the physical retail experience? A five-year-old mobile game, Pokemon Go, offers an indication of the opportunities for mobile in retail.



The Store is Mobile

Pokemon Go

Pokemon Go was a breakout phenomenon in 2016. Seen at the time as “the world’s most important game,” it vividly demonstrated the power of mobile, community, gaming, and augmented reality. Several commenters argued that the app made a compelling case for deploying augmented reality in retail.

At The Industrious, we saw it differently – that Pokemon Go proved the **mobile device is a crucial and active companion to everyday reality.**

And its true potential has yet to be realized. Many stores have tried to combine mobile and retail in some type of omnichannel experience – Amazon Go uses mobile apps for easier in-store purchases, and a similar blending of the mobile and the physical exists in Whole Foods markets under Amazon’s leadership. For digital natives like Gen Z (and now even Gen Alpha), **accessing product information on websites, apps and social media when deciding whether to purchase in-store** is considered a far better option than asking store associates.

Gen Z and Retail

The natural extension of this experience, however, is to provide access to the brand anytime, anywhere. Almost a decade ago, Yihaodian, a top Chinese e-commerce site, launched one thousand virtual stores overnight via their app – with those stores viewable and browsable only in specific locations via augmented reality. Using social media to notify customers, new stores can be created instantly at specific coordinates on the map, organized by theme, promotion, season – the configurations are limitless. Virtual stores can even be created that are entirely personal to each shopper, built upon her past purchases, profile and preferences, creating a tangible experience of both personalization and exclusivity. Yihaodian offers fulfillment via delivery, but retail brands that hold considerable real estate assets could **combine the virtual and the real**, both for fulfillment and to extend the customer experience.

Pokemon Go showed the world that people will use their mobile devices as active companions – as a key part of the experience – not just as a research tool. The store can truly be right where you are.

Pokemon Go showed the world that people will use their mobile devices as active companions – as a key part of the experience – not just as a research tool. The store can truly be right where you are.



Gen Z and Retail

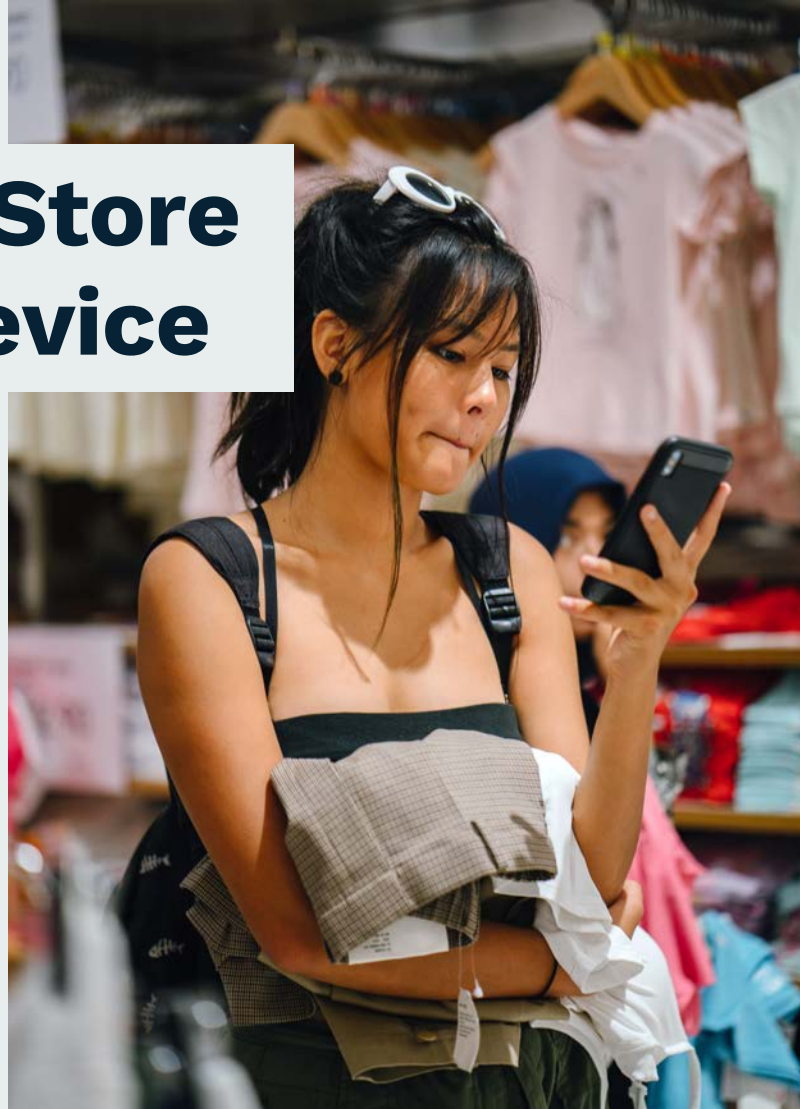
Connecting the Store to the Mobile Device

That's also true in-store. To keep Gen Z's attention, retailers must find ways to **make the mobile device an active component of the shopping experience**. Content can be refreshed and renewed depending on the shopper's location in the store. Short video clips, rewarding her with purchase incentives or even just a simple thanks, can grab her attention.

Gen Z has always been mobile and connected. If your current retail experience requires your customer to disconnect, she simply won't do it. She'll remain connected – just not with you. Her attention will remain focused outside your store, not on what you're selling. You'll quickly become, in a word, boring.

Gen Z's first instinct when the idea of shopping comes up is to reach for her mobile – why would you deny that instinct if she happens to be in your store? Why wouldn't you instead find ways to use the shopper's mobile device in-store to fulfill your brand promise and mission.

Gen Z simply finds many stores uninteresting. In a recent [AT Kearney survey](#), Gen Z respondents said they want stores to offer fun, engaging experiences, so the shopping experience doesn't feel stale. Gen Z also doesn't have much brand loyalty – 52 percent said they'd switch from one brand to another if quality dipped.



Going back to the three hallmarks of Gen Z, it's clear why fast fashion brands like Zara and H&M are still thriving: in their stores, styles and layouts are constantly changing. Pop-up shops are a key draw for the same reasons. [Kylie Cosmetics pop-up shops](#) show that the right confluence of social, content, brand, and experience can bring people to stores, even when the products on offer are available online.

Gen Z wants to try out products in person, but they often want to make the purchase online. Brands and retailers have to entice Gen Z into their stores with **experiences that expose them to products**, while making it fun and engaging to save those products on their phone to buy online later.

Social Selling and Content Creation

Gen Z spends hours every day on social media sites and apps, and this habit doesn't stop when they're shopping. That means social media ads can influence where they choose to shop – and social media ads that activate when users are in your store can have even more impact.

Gen Z will text their friends or post on social media to ask for their friends' and family's opinions of a product. They want free in-store Wi-Fi, fun Snapchat geofilters, and ways to share product information easily through the store's mobile app or by taking and sharing photos. Smart retailers will find ways both to **capture that user-generated content and to reward shoppers for generating it.**

Whether that means compensating shoppers with discounts or incentives in a loyalty program, or just giving their social posts a "like" from the brand itself, retailers need to participate in the social arena in ways that are both authentic and appreciated. And authenticity is key – connections on social media provide a real opportunity to **align your brand with the shopper's personal brand** as discussed above, but those connections have to feel genuine and meaningful.

Gen Z and Retail

The point is, Gen Z wants to come to your store, but they want it to be worthwhile. They want to have all their senses wowed. They want to see something new each time. They want to feel valued for their participation, and to feel a personal connection to your brand. They want to use their mobile in-store as naturally as they do elsewhere. They want to be where the action is. They want you to create a reason for them to congregate, shop, text, and engage. In short, they want to visit a place where the experience is key to the product.

**They want to have all their senses wowed.
They want to see something new each time.
They want to feel valued for their
participation, and to feel a personal
connection to your brand.**

And your **physical retail locations provide you with a unique opportunity to create those experiences.** It's time to start seeing retail operating expenses as marketing expenses – your physical locations give you an unparalleled ability to connect with your customers and build relationships that will lead to sales, whether the sales themselves are in-store or online. Think of all your competitors who don't have physical locations, who want to offer unique experiences and make meaningful connections with consumers but have no way to do so. You're incredibly fortunate to have a physical presence – now is the time to make the best possible use of it. Unfortunately, the past year has provided a clear sense of the risks you face should you fail to do so.

The Tenuous State of the Retail Middle Class

The Tenuous State of the Retail Middle Class

2020 was a year of escalating crisis in retail. One after another, longstanding retailers found themselves unable to survive and adapt. Brands that even five years ago seemed to have solid future prospects closed for good or entered drastic restructuring, including JCPenney, Stein Mart, Lucky Brand, Sur La Table, New York & Company, Papyrus, Modell's, and Pier 1. These middle-class retailers, neither discount nor luxury, found themselves squeezed out. Aside from the decreased demand for products due to the pandemic, the simplest explanation is that online competitors made it easier, safer, and more convenient to buy the same merchandise. And these companies are not outliers. **The middle is eroding in retail.**

Commenters have been quick to lay the blame on e-commerce, noting that online retailers operate with lower fixed costs and that as a result they can offer more product more conveniently and at lower prices. The traditional retail response is to try to play the game the e-commerce giants have redefined. The result has been a barrage of sales that often leave retailers in a worse place than they began, as stores post 40% off deals in a desperate attempt to keep people coming in the door.



The Tenuous State of the Retail Middle Class



If your value proposition is simply a combination of assortment, selection, and competitive prices, you've already lost. Walmart should have taught you that 20 years ago, but if you still didn't catch on, Amazon has now dealt the death blow. Admittedly, you might have been able to survive, even thrive, if other demographic forces weren't creating additional headwinds.

According to an analysis by the Center for American Progress, the ever-expanding gap of income inequality is taking disposable income away from the middle-class retailer. Mid-range retailers are struggling because their **customers simply have less money and more debt**. Wage stagnation and increasing costs of living have left the median family with about \$5,500 less disposable income per year today than they had in 2000. When you add in other forms of debt such as vehicle loans, personal loans, student loans, and credit card debt, another 7-10% of income that might otherwise be spent in middle-class retail has simply disappeared.

What's more, the up-and-coming Gen Z is very price-conscious. In a recent Business Insider survey, 60% of Gen Z respondents cited price as their biggest factor in choosing to make a purchase. Certainly, younger people generally have less disposable income – but what's different for Gen Z is that when they have it, they're still hesitant to spend.

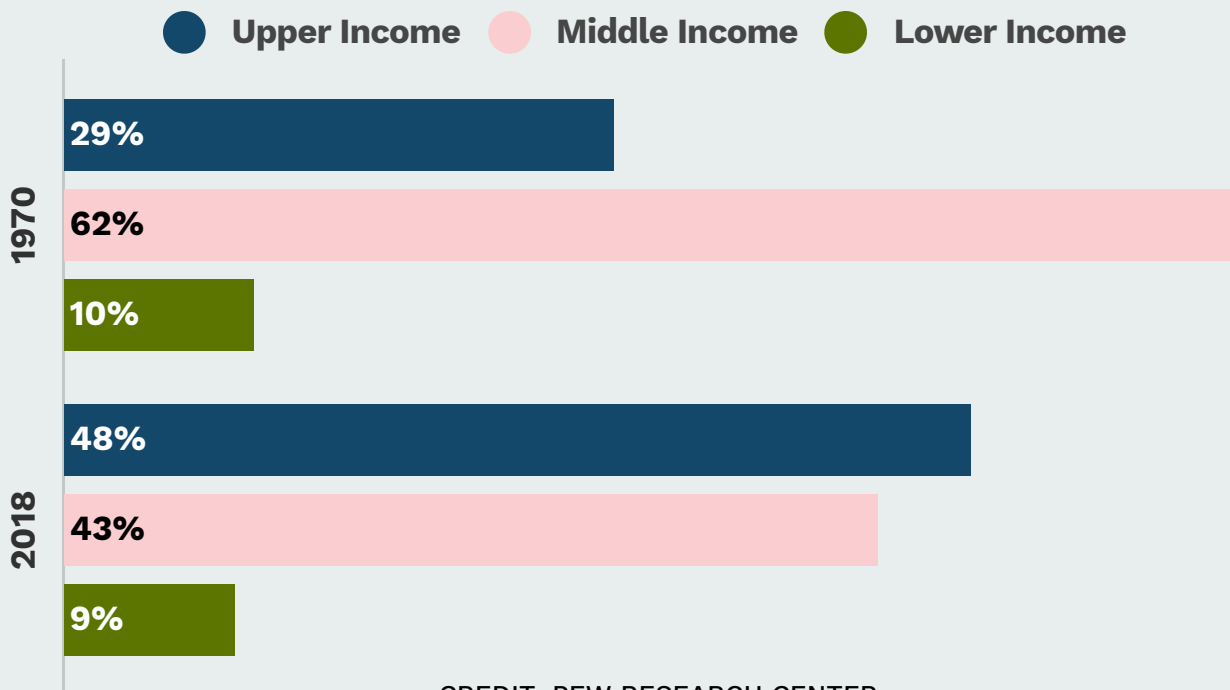
The Tenuous State of the Retail Middle Class

Gen Z watched their parents struggle during the financial crisis of 2007-2008, and this may have made a lasting impression. They also seek to consume less than previous generations, favoring options like renting clothes instead of buying them, going to resale shops, and resource pooling among friends.

With middle-class spending power on the decline and the younger generation more frugal, the result is a consumer market left poorer and spending less. Looking ahead, as the economy seeks to regain momentum in the post-Covid era, further pressure may be exerted on the middle.

The expansion of income inequality is clear from the data: over the past half decade, middle-class Americans have watched their real incomes decline dramatically relative to the wealthy.

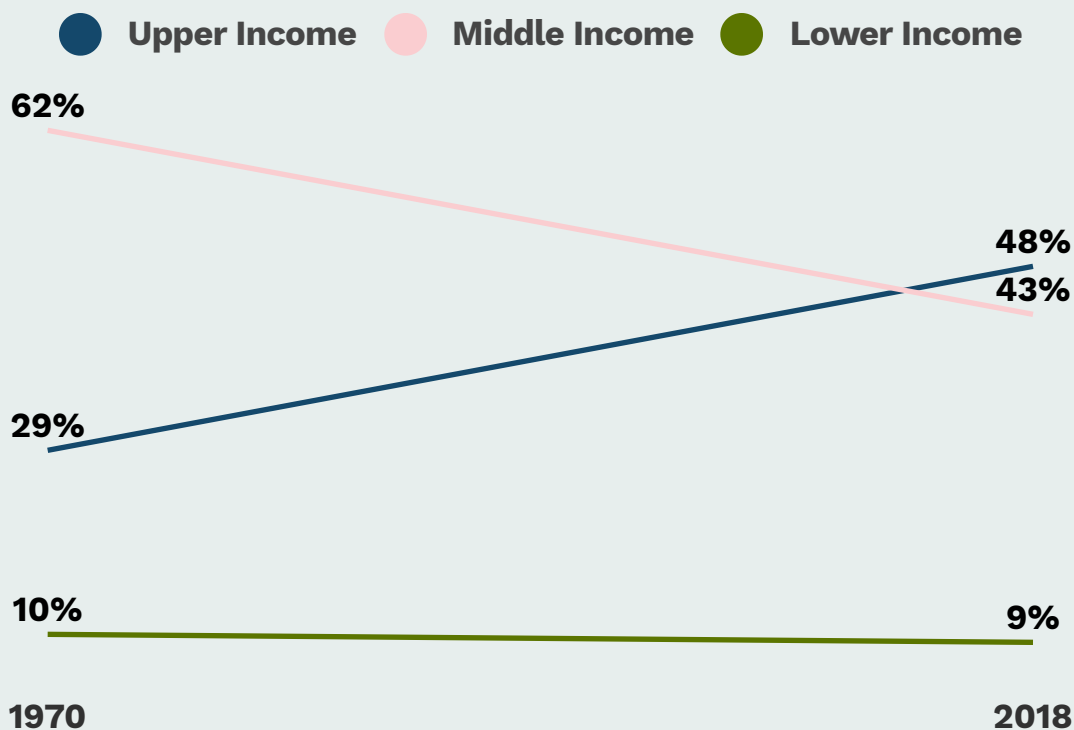
The gaps in income between upper-income and middle-and lower-income households are rising, and the share held by middle-income households is falling



CREDIT: PEW RESEARCH CENTER

The Tenuous State of the Retail Middle Class

Share of US Aggregate Income



CREDIT: PEW RESEARCH CENTER

This presents a real challenge for retail – and particularly for middle-class retail – as it concentrates money in the hands of fewer potential shoppers. The result is a thinning out of stores that don't cater either to wealthy tastes or to basic needs. That's already been manifested in the stories of Lucky Brands, Sur La Table, and others.

At a basic level, even if the wealthy were inclined to shop at Stein Mart, one affluent shopper can only wear so many shirts. Once those shoppers have acquired their fill, the remainder of their funds are moved into savings or further capital investment. Those dollars simply don't move through middle-class retail. The concentration of wealth **reduces the volume and velocity of retail commerce.**

The Tenuous State of the Retail Middle Class

On the other end of the spectrum lie the dollar stores, which have a very specific strategy for how and where they proliferate, sometimes facing strong criticism for crowding out local businesses. Their strategy places smaller-footprint stores, supported by a large corporate infrastructure, in lower income areas where other retail may have been struggling. The logic is sound, as lower income buyers are less likely to use online channels, if only because they may lack access to electronic payment methods.

The result is a widening gap with real strength at the margins – commerce is thriving in the luxury and dollar store segments while it weakens in the middle. With the incomes of upper-income households having grown far more than those of middle-income households since the mid-1970s, the result has been **a clear shift in retail's center of gravity**.

Deloitte calls this “the great retail bifurcation,” one in which retailers succeed by focusing on either end of the spectrum while those in the middle fall away.

As Deloitte puts it,

“Revenue growth is diverging, with sales growing at faster rates for discount and premium retailers at the opposite ends of the spectrum, while balanced retailers” – ones that deliver value through a combination of price and promotion, many offering widely available products or experiences – “are lagging.”

It's already having a tangible impact on retail footprints, with Deloitte noting that “store closures have taken place mainly among balanced retailers, while price-based and premium retailers have been opening more stores than closing them.”

The lesson is clear: for retailers trying to hold a place in the middle, **bold new approaches are needed**.

A Clear Path Forward

The future for retail is challenging, but it holds real promise. As we've explored, Gen Z is coming, and is actively seeking a compelling reason to visit stores. They value experience over product, and they want something they can't find online. These digital natives expect everything on their terms, and they want experiences that are personal, tech-forward, and entertaining – a conversion of the retail experience into a facet of gaming culture. Retailers can earn Gen Z's loyalty with active, participatory, and powerful experiences. Let's explore few ways to bring that kind of innovative design thinking into your stores.

A Clear Path Forward

Build a Fan Base

Adidas



CREDIT: COURTESY OF HYPEBEAST

Gen Z gaming culture is strong and pervasive. Having grown up on Minecraft, Fortnite and Pokemon Go, **Gen Z self-organizes communities around events and experiences.** Retailers are now learning to tap into this.

For the launch of its Original Ozweego line of sneakers, Adidas set out to reinforce its brand promise of being an innovative design leader by creating a portal to the future. Via a special invitation, media, influencers, and consumers found a hidden door leading to Adidas' vision of the year 2048.

A Clear Path Forward

A description of the event by Event Marketer reveals very creative thinking:

For the pop-up, adidas Originals built a faux bodega storefront in a space on the Lower East Side and manned it with a store clerk dressed in casual garb who chatted with attendees in character. After engaging with him, attendees were invited to open the door to the “fridge” next to the counter which was stocked with beverage cans behind glass. To their surprise, the door unlocked an adidas Originals “portal into the future.” Stepping through the door into the dimly lit space, attendees were greeted by what appeared to be that same store clerk—but dressed for the future with a long white tunic and face mask.

Attendees were invited to check out a lone newsstand in the space with an LED face and buttons. By inputting a secret code (the year 2048), the newsstand screen displayed a countdown and then, suddenly, sounds and visual projections of the future on the walls lit up the room. The newsstand then unlocked and attendees could open it to grab a newspaper titled “Ozweego 2048,” which contained articles explaining how teens of “this time” (2048) were “throwing it back” to the styles of the ’10s and ’20s (2010 and 2020, that is). The idea: to emphasize how adidas Ozweego sneakers, originally released in the 1990s (and updated with fresh looks in 2019), were ahead of their time.

The buzz generated from this event spread rapidly on social media through Adidas loyalists, sneakerheads, and beyond.



Creating Content Through Collaboration

Gucci

People enmeshed in digital identities and gaming seek both control and personalization. To meet that need, smart retailers are giving consumers the chance to control their interaction with the brand using digital tools. The result is a blurring of physical and digital boundaries to add an instantly shoppable layer onto the world.

Gucci offers a digital version of its collection on the avatar creation and messaging app Genies, which invites users to create digital clones of themselves, choosing from a staggering range of options including personality type, eye and hair color, and skin tone. Users can outfit their avatars with hundreds of Gucci products, and can purchase items seen on their friends' avatars with one click. It's a creative way to activate the Gen Z shopper's gaming and communal/social genes – and to align Gucci's brand in a tangible way with the consumer's personal brand online.



IMAGE CREDIT: COURTESY OF GENIES

A Clear Path Forward

Gucci is a great example of a brand that's actively courting Gen Z participation, and its efforts are succeeding. According to [Fast Company](#), **In 2018, 62% of Gucci's more than \$8 billion in sales came from the under-35 set, a demographic that is generally harder for luxury brands to capture, given the high price points of their products. But what you might not know is that Gucci's fastest-growing segment is now generation Z, the oldest of whom are only 24.**

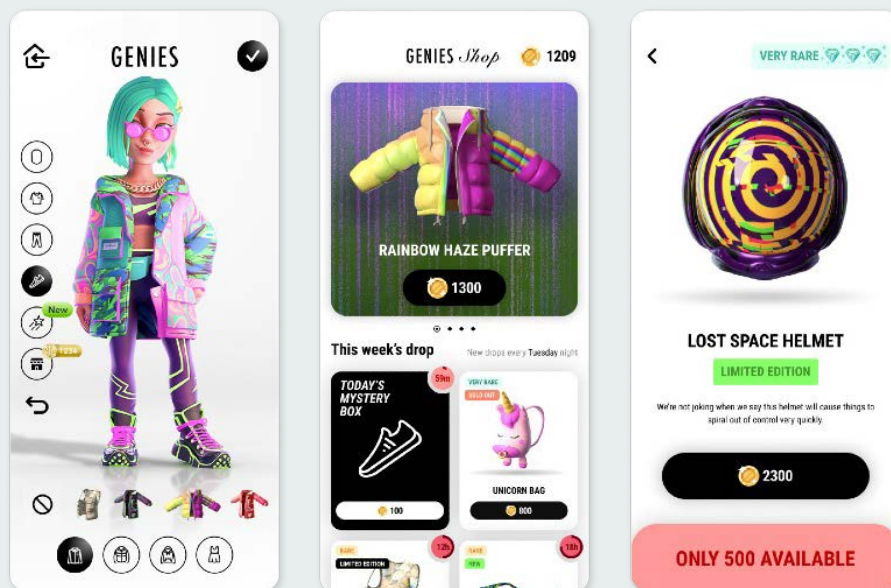


IMAGE CREDIT: COURTESY OF GENIES

The Genies app is part of an overall strategy that activates the brand in the ways that complement the Gen Z lifestyle. The **blending of mobile, physical, virtual, and retail** creates an always-changing, interesting, and compelling experience.

What makes the Gucci experience special is that despite growing up online, Gen Z shoppers crave interactive, real-life experiences where they can express themselves. This is a human-centered approach – it's not just tech for tech's sake – and it allows Gen Z consumers to assert themselves as individuals and connect with brands and peers through shared values.

GUCCI

A Clear Path Forward

Leaning Into Technology

SK-II

CREDIT: COURTESY OF JING DAILY

Data and analytics are now crucial in physical retail. E-commerce took a substantial lead over traditional retail in analyzing path to purchase and crafting personalized offers – but with the amount of data that Gen Z pushes into the cloud, traditional retail can now use that data not just to analyze path to purchase, but to predict and enhance physical experiences.

An innovative design eye can create spaces that connect the dots between the location, visitor, service, and products, using everything from ambient and interactive screens to self-service tools, virtual trial solutions, IoT, facial recognition, and mobile integration. These experiences **dynamically tailor content in real time** for everything

from messaging to pricing and payments and wellbeing, all to enhance the consumer experience and fulfill the brand promise.

Consider the Future X smart store from Japanese cosmetics brand SK-II, with a retail experience that matches shoppers to the best possible skin care regimen for them. The experience starts with an analysis in a smart mirror that uses AI to profile the customer and her skin. SK-II then leverages facial recognition technology and beaconing to curate a personalized journey through the store while recommending key products and services. For fun, the store also features an installation that creates unique artwork based on the shopper's facial expressions and features.

Bringing It All Together

The need for action couldn't be clearer. If you're entrenched in the middle class of retail, you're facing a future of unimaginably fierce competition for available shopping dollars. This competition, both from fellow physical retailers and from online competitors, is intensified by the erosion of spending power in the middle class.

The millennial generation adopted mobile commerce early and consistently, and now that they've reached a point in their lives where convenience and efficiency are paramount, luring them back to physical retail will be a difficult task. Simply put, if you're Gen X or older and you could have ordered things from a mobile device instead of packing your kids into the minivan to go shopping, you would have done the same. Convenience and efficiency are no longer luxuries for the rich – they're available to everyone – and convenience is a powerful lure.

You're competing for shrinking resources, and the next generation, Gen Z, holds the greatest promise. They want to be communal and to partake in rich experiences. They have short attention spans and a seemingly endless appetite for content. Their physical and digital lives are merged into an almost perfect whole, and they expect your brand to know and understand this.

Bringing It All Together

01 Reexamine and Refocus Your Mission Statement

Take Stein Mart, a recent casualty of the retail apocalypse:

“Our Mission is to serve our customers and community efficiently and effectively; to act with integrity towards customers, associates and vendors; to maintain profitable growth and build long-term value for our shareholders.” Stein Mart

What speaks to Gen Z in that statement? It's a mélange of bland corporate-speak that hints at what the Stein Mart experience truly was: discount clothing at modest prices. When you consider that the Gen Zer could find that on the mobile screen she's already looking at, what would inspire her to make the effort to come to a Stein Mart store?

Now consider Bath & Body Works' mission:

“We've created the scents that make you smile. Whether you're shopping for fragrant bodycare or a 3-wick candle, we have hundreds of quality products perfect for treating yourself or someone else.” Bath & Body Works

Their mission statement focuses on emotion and action. They make you smile. They invite you to treat yourself and others.

Which of the two statements above lends itself to creating compelling experiences?

Which one expresses the idea that the experience is key to the product?

What you value as a company, as defined in your mission statement, is the north star by which your business navigates.

02 Create a Unique and Compelling Customer Experience

Retail consultants spend a great deal of energy extolling the need to “know your customer.” Most retailers were founded because they identified an underserved need in the population and devised the best way to fill it. That's been true from the beginning of commerce, and it hasn't changed in the online era.

Brands and retailers should base their value propositions on the macro, not the micro. Regardless of who people are individually, we all share common desires. We all want safety, entertainment, distraction, rewards, fun, and challenges, among other things. We want to live better. We want to live more fulfilling lives. We want to fill our time with things that matter.

Retailers should find ways to build experiences that are centered on these common human needs.

Still, engineering and designing a unique experience is outside most retailers' core skillsets. To successfully create an experience that will propel your business forward, you'll likely need to work with outside talent.

Ten years ago, Harvard Business Review published a brief look at the role and value of a designer. To date, we haven't found a clearer or more concise explanation:

“Good designers aim to move beyond what you get from simply asking consumers what they need and want. First of all because they understand that most people when asked don't say what they mean or mean what they say, but also because people often don't know. Good designers want to unearth what consumers can't tell them: latent & emerging needs and motivations; actual behaviors and attitudes; and, crucially, barriers to as well as drivers of change — or simply put, what your competitors don't also already know.”

Most people have difficulty crafting an attractive PowerPoint deck, let alone seeing what can't be obviously seen and hearing what hasn't been spoken. At The Industrious, we value this talent above all else, and we believe passionately in the value we bring to clients in this area.

Bringing It All Together

So what makes for an experience that not only taps into our communal needs but attracts the attention and desires of the next generation?

All extraordinary and memorable experiences share three key elements. When you consider the best experiences in your own life, these themes will be there. And with these elements in mind, it's possible to build your own unique retail experience when you apply the right talent and drive.

01. Novel

The experiences that happen for the first time are the most powerful: your first kiss, your first sip of champagne, the time you got the keys to your first car. The fact that it had never happened to you before is what made it unique. You likely knew about it as an observer, but never as a participant – and the anticipation of triggering a personal emotion is what compelled you forward. In retail, it's no different. The Adidas experience had never happened before. The Gucci Genie avatar was new. The SK-II skin care analysis had never been seen before.

These experiences blend methods and practices that are unusual or surprising but remain in keeping with the vernacular of the brand.

Customers experience something unexpected yet welcome, something found nowhere else.

02. Sensual

When you think back on the novel experiences of your past, you likely recall each experience through some narrative of your senses. You remember the buzz of the champagne bubbles on your nose. You recall the scent and taste. You can describe the room, what you were wearing, what music was playing in the background. The memories that are tied to senses are the most powerful and rewarding. When considering the right experience for your store, it's important to activate the senses of your shoppers – all of them. **Actively engaging all of the senses** intensifies the experience and sets it apart from the competition.

Retailers have live spaces, something no online-only retailer can boast. Take advantage of the unique and powerful opportunity those spaces provide. Simply adding a digital display or putting your website on a touchscreen fails to take full advantage of your promise and strengths.

03. Shareable

When you have a great experience, you want to tell people about it – and people want to hear about it. You share information about that great B&B in an out-of-the-way spot. You tell people about the stylist who gave you the best cut and color of your life. And not all of the things you share are necessarily massive in scale – you'll tell people about the thank-you note you received from a colleague, or the gift card you were given by a coworker. People want to share the good things that happen to them.

You as a retailer need to create bite-size pieces of curatable content – digital artifacts that are interesting, portable, and shareable. If you've been successful in creating a brand connection as part of your in-store experience, your customers will want to amplify that connection through their personal networks. **Your experience has to be both shareable and desirable.**

Defining Success

At The Industrious, we use a straightforward method to evaluate the quality of the experiences we build for retailers. We call it SFDR:

See, Feel, Do, Remember

Through this simple rubric, we can evaluate the experience throughout the design process, and measure its impact once it's live. SFDR helps you focus on the needs and desires we all share. This method applies to all stakeholders in the experience, as you'll see in the example below.

For the salesperson:

I see technology specifically designed for me to build and sell the retailer's solutions through natural conversations.

See

For the customer:

I see a striking interactive that shows me how the retailer's products work together to entertain and empower my family.

I feel confident connecting the dots between our products for customers. I'm inspired using this technology, and I'm excited to show it off.

Feel

They have me covered. Everything is easy and worth the price. I feel confident I'm getting the right products for me.

I'm going to use this tool to personalize each shopper's experience, building bundles for them tailored to their exact needs.

Do

I engaged in a helpful conversation about the retailer's products. I get why this solution is right for me, and I'm making a purchase today.

The retailer supports me in my sales goals by providing me with cool tools that are always up to date. They're investing in me and my success.

Remember

I enjoyed a memorable experience at the retailer's store, and I left feeling happier than I entered. I believe this is a dependable company.

This simple method applies to both the macro and the micro. *What do you want people to feel about your brand? What do you want them to talk about? What do you hope they'll share?* Each of these things has to be envisioned and considered granularly.

The Future of Retail

Physical retail today faces unprecedented challenges. Between growing competition from online shopping, the difficulties of the COVID-19 pandemic, and increasing economic pressure on the middle class, it's reasonable to worry about the future of the retail store. But with decisive action based on an understanding of the next generation's desires and a focus on putting experience first, that future may be much brighter than you expect.

The same efforts that make retailers like Build-A-Bear, Eataly, and C&A attractive to the average consumer can also foster an ongoing relationship with the next generation of shoppers. It's crucial to create a unique and compelling in-store experience, but it's equally important to engage Generation Z consumers by including social media and the customer's mobile device as a key part of that experience.

Shoppers want to return to retail – as long as it offers the kind of exciting, memorable experiences they can't find online. By collaborating with an organization like The Industrious, you can transform your retail stores into places that engage all the senses, align your brand with the shopper's personal brand, delight your customers, and inspire them to make a purchase and spread the word. It's time to put experience first.

The Industrious

We've been in your position. We have lived the situations and pressure that you face. The brands we work with want more than anything to engage and empower — and to grow their business in lock step. As we have explored, today's landscape is challenging. Brands need fresh creative and strategic thinking that goes beyond the bounds of current operations to solve the problems they know they have — and five more they didn't.

We believe in the transformative power of design + technology to excite, engage and empower people. We reimagine and reinvent methods of engagement through design and technology to delight and amaze. We're creatives with heads for business, and skilled technologists who engineer the digital and live space experiences that activate people.

We elevate your brand by creating bold and memorable experiences that spark deep emotional connections through technology built to last. We do this by looking at the entirety of your brand's assets, harmonizing and orchestrating existing investments to build the right strategy and solutions to go anywhere your brand interacts with its people.

We do this work because we are passionate about creating deep, human connections with brands. Our team is intentionally small, agile and lean to ensure creative and project execution continuity from start to finish. We are built to scale with the industry's best talent to meet the needs of any engagement.

**We are The Industrious and we will be your biggest champions.
Contact us today so that we begin our journey together.**

Andy Austin

President

andy@wearetheindustrious.com

+1 323 736 2121

European Inquiries

Fabrice Polak

European Sales Director

fabrice@wearetheindustrious.com

+31 6 205 82 910