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PRI QUARTELY RETAIL ANALYTICS

"BRINGING RESEARCH TO RETAIL"

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By David A. Aaker, University of California, Berkeley

California Management Review, Vol. 38, No. 3, Spring 1996

CONCEPTUALIZING, MEASURING, AND MANAGING CUSTOMER-BASED BRAND EQUITY

By Kevin Lane Keller, Stanford University

Journal of Marketing, Vol. 57, January 1993

PRI's mission is to initiate and secure the funding of studies on specific retail business issues. PRI functions as a conduit, bringing together retail executives with leading researchers. The genesis of the Retail Institute is the recognition of the wealth of knowledge being produced at the University level, on the one hand, and the need for more advanced yet practical business research and insight at the retail level, on the other. It is, therefore, the Retail Institute's main objective to serve as a knowledge bridge between the University and retail industry and its related vendors. It will achieve this objective through the commercialization of the resources of its Research Fellows and University relationships.

We are grateful to the following members of the Platt Retail Institute for their support.



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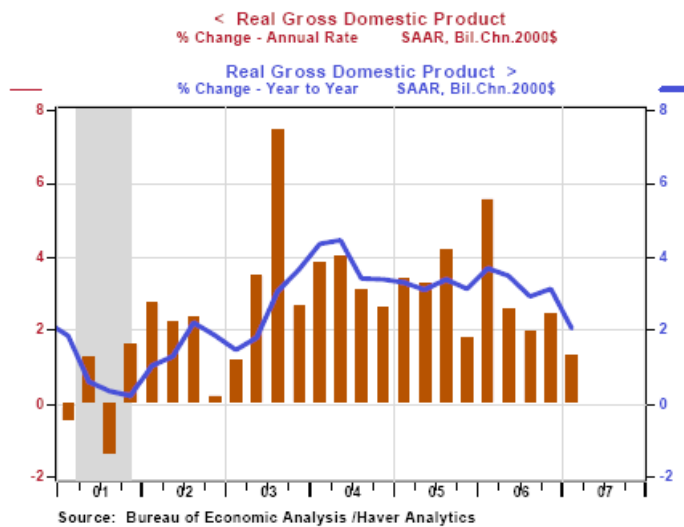
I. BUSINESS OUTLOOK

BUSINESS INDICATORS

David Rosenberg, chief North American economist at Merrill Lynch, was recently quoted as saying that there is a “disconnect between how the economy is doing and the way the equity market is doing.” This caused us to contemplate if the equity markets cannot rationally access the state of the U.S. economy, and economists are not much better, how are we mere mortals to gauge the economic outlook for the next six-to-twelve months, and plan for our businesses accordingly? Predicting the course of the U.S. economy is difficult at best, but herein we give it our best shot.

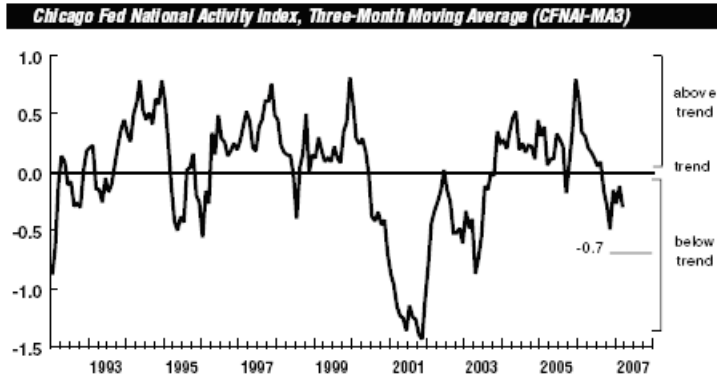
Gross Domestic Product is the ultimate scorecard, albeit a lagging indicator. First quarter 2007 GDP was 1.3%, versus 5.6% in the first quarter of 2006. This is the slowest pace of growth in four years (see Chart 1).

Chart 1.



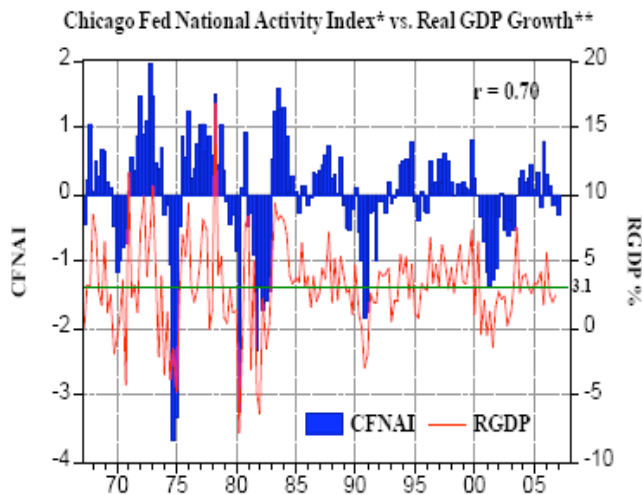
Another indicator of the current state of the economy is the Chicago Fed’s National Activity Index (see Chart 2). The Chicago Fed stated in March that “growth in national economic activity was below its historical trend.” As Chart 3 illustrates, when the Index trends below 0, GDP will likely be below its historical average growth rate of 3.1%.

Chart 2.



Source: Federal Reserve Bank of Chicago

Chart 3.



Source: Northern Trust

Peering out into the future, the Index of Leading Indicators rose slightly in March, but for the first quarter has fallen by 0.58%, the first such decline since the recession of 2001 (see Chart 4). According to the Conference Board, “weaknesses among the indicators have become increasingly more widespread than strengths over the past few months.” As Chart 5 illustrates, the LEI is a reasonable predictor of the economic outlook.

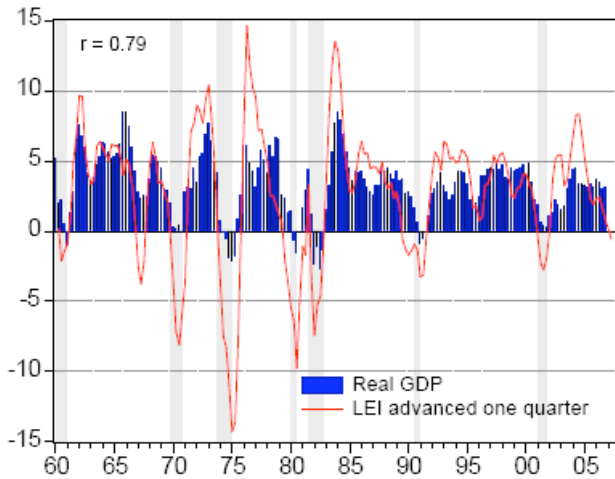
Chart 4.



Source: Wachovia Corp.

Chart 5.

Index of Leading Economic Indicators (LEI) vs. Real GDP
year-to-year percent change



Source: Northern Trust

We see more negatives implications than positives inputs for the economy this year. We are standing by our 2007 GDP forecast of 2.1%. Recall GDP growth for 2006 was 3.3%, 3.2% in 2005, and 3.9% in 2004.

RETAIL INDICATORS

Retail sales were up an impressive 0.7% in March (see Chart 6). However, excluding cyclical auto and gas sales, on a year-on-year basis, retail sales are, in fact, easing (see Chart 7). Another indication of this easing is demonstrated by the fact that for the trailing three months, retail sales are up 4.7%; trending down for the trailing twelve months to 3.8%. Personal Income rose in March, yet Personal-Consumption Expenditures eased to an increase of 0.3%, following a 0.7% rise in the prior month. Adjusted for inflation, Personal-Consumption Expenditures fell for the first time since August of 2006 (see Chart 8).

Chart 6.

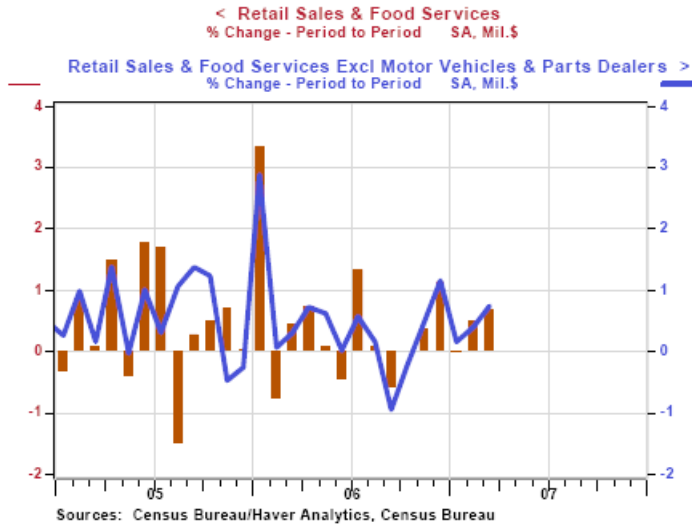
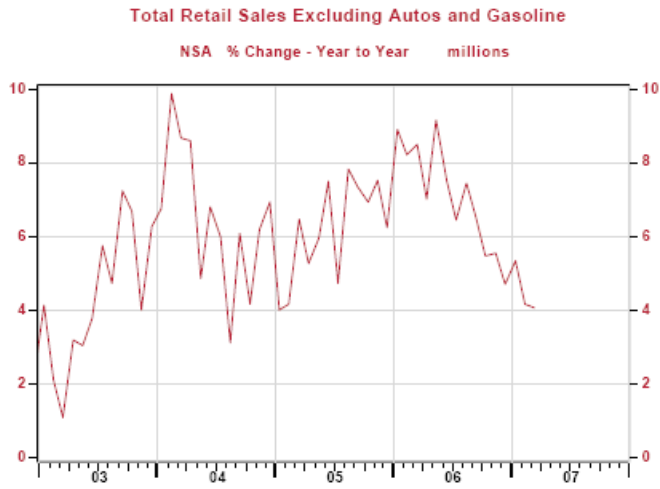
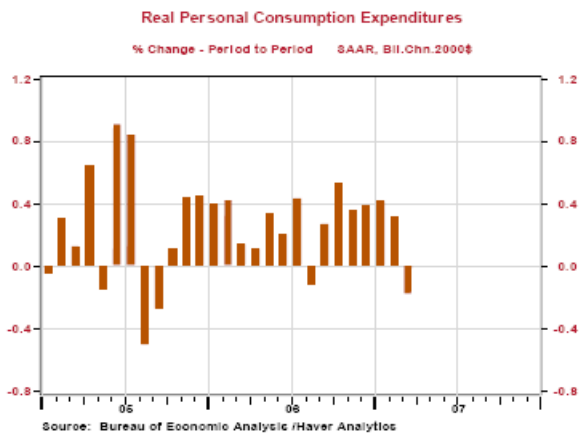


Chart 7.



Source: Northern Trust

Chart 8.



So the question becomes where do we look to demonstrate this weakness in the economy and the resulting slowing in retail sales? Rising gas prices and a slowing housing market (see Chart 9) are, of course, obvious starting points. The reduction in cash-out mortgages to fuel spending is another. Consider, for example, that former Fed Chairman Alan Greenspan estimated this month that home equity served as a growing source of funds for American consumers from the early 1990s to 2005, when it financed close to 4% of total personal-consumption expenditures. Also, the recent Federal Reserve Beige Book noted that “manufacturing activity remained sluggish.” Productivity growth is slowing, growing by 1.7% in the first quarter, following a 2.1% increase in the previous quarter. The Conference Board’s Consumer Confidence Index fell in April, reaching the lowest level seen since August 2006 (see Chart 10). Further, the Commerce Department announced that corporate after tax profits increased 0.8 percent in the fourth quarter, compared to 4.2 percent in the third quarter. This reduction in corporate profits is impacting capital spending (down -4.8% in the fourth quarter, up 1.9% in the first quarter). And a slight weakness in the jobs market is appearing. U.S. job growth fell to its lowest level in more than two years in April, and according to Challenger, Gray, and Christmas, on a year-over-year basis, announced layoffs were +18.4 percent higher in April 2007 than April 2006.

According to the National Retail Federation, the average annual rate of increase in retail sales over the last ten years was 4.6%. They forecast that retail sales will grow by 4.8% in 2007, following 2006’s 5.4% rate-of-growth. We think that this is overly optimistic, and believe that most retailers do as well. For example, according to McGraw Hill Construction, retail construction starts are projected to decrease by 7% in 2007. And last month, retailers cut 26,000 jobs. Finally, retailers gave very weak guidance for April same-store sales. Wal-Mart gave guidance of flat to down 2%, while Target, who posted a 12% same-store sales increase in March, gave guidance of a drop of 2 to 4% in April. Thus, it appears that retailers are bracing for a slowing in sales this year.

Chart 9.

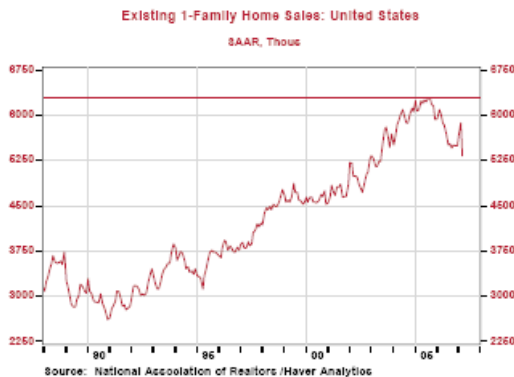


Chart 10.



DIGITAL COMMUNICATIONS NETWORK INDUSTRY COMMENT

2007 will be the breakout year for the digital communications network industry (“DCN”). The industry is moving from a novelty to a respectable part of the integrated marketing communication process. Active segments include financial services, retail, and out-of-home. This is not only a North American phenomenon, but is occurring on a global basis. An interesting stat just released by iSuppli forecasts that digital signage sales for DCN applications will reach \$7.2 billion by 2011. Consider that this just refers to sales of flat panels. The economic slowing that we forecast for the U.S. will be a drag on activity, so we continue to look at more robust overseas markets for growth.

II. MAJOR RETAIL SECTOR TRENDS

BUILDING MATERIALS, GARDEN AND SUPPLY STORES

Sales rose 1.4% in March. On an annualized rate, sales are up 6.3% for the trailing 3-months and are down -4.4% for the trailing 12 months.

FOOD AND BEVERAGE STORES

Sales were flat in March. On an annualized rate, sales are up 4.6% for the trailing 3-months and are up 5.3% for the trailing 12 months.

HEALTH AND PERSONAL CARE (DRUG) STORES

Sales rose 0.1% in March.

CLOTHING AND ACCESSORY (APPAREL) STORES

Sales rose 2.4% in March. On an annualized rate, sales are up 13.9% for the trailing 3-months and are up 8% for the trailing 12 months.

GENERAL MERCHANDISE STORES

Sales rose 1.1% in March. On an annualized rate, sales are up 6.2% for the trailing 3-months and are up 5.8% for the trailing 12 months.

DEPARTMENT STORES

Sales fell -0.2% in March. On an annualized rate, sales are down -4.9% for the trailing 3-months and are down -1.9% for the trailing 12 months.

III. RESEARCH NOTES

MEASURING BRAND EQUITY ACROSS PRODUCTS AND MARKETS

By David A. Aaker, University of California, Berkeley
California Management Review, Vol. 38, No. 3, Spring 1996

Little has been written on the topic of measuring brand equity in a retail environment. Yet the importance of measuring and thus understanding activities that either strengthen or weaken brand equity over time is important. In this article, the researcher advances ten measures of brand equity that may be applied, depending upon the circumstances. These ten measures are an outgrowth of the four noted dimensions of brand equity, including: loyalty, perceived quality, associations, and awareness. They also include broader market behavior measures. While not applicable to retail stores per se, this research advances an excellent framework from which to begin to apply a measurement model of retail brand equity.

CONCEPTUALIZING, MEASURING, AND MANAGING CUSTOMER-BASED BRAND EQUITY

By Kevin Lane Keller, Stanford University
Journal of Marketing, Vol. 57, January 1993

This article introduces the concept of customer-based brand equity, which seeks to explain how a consumer's brand knowledge impacts their response to specific marketing activities. As defined, brand knowledge encompasses both brand awareness (consumer recall and recognition), and brand image (the set of consumer associations made with a brand). Leveraging brand knowledge to build customer-based brand equity through the creation of a familiar brand that has favorable, strong and unique brand associations is detailed. Five relevant guidelines are advanced to help better manage customer-based brand equity, including:

1. Influencing brand knowledge can affect sales.
2. Core consumer needs and wants to be satisfied by the brand should be defined to facilitate building consumer brand knowledge.
3. New methods of marketing communication (i.e., non-traditional media) which may offer a lower cost and effective means to impact brand knowledge should be contemplated.
4. Current campaigns should consider the long-term brand impact on future marketing activities.
5. Measurement of consumer knowledge over time should be tracked.

(Our research notes are published monthly, and can be found on the National Retail Federation's website at: <http://www.nrf.com/RetailResearch/View.aspx>).

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