

State of the Retail Design Industry 2010

DDI's second-annual survey finds retailers and designers are seeing cautious signs of a slow recovery, and innovating to stay relevant

By Alison Embrey Medina, Executive Editor

What a year 2010 has been already—and we still have a couple months to go yet. As consumers spent, then balked, then spent again, retailers have rolled with the punches, opening stores where they could and innovating with new concepts and strategies to attempt—from week to week, and even day to day—to appeal to today's enigma of a consumer. Meanwhile, the retail design industry has continued to see contraction and staffing reduction, as we all try to do more with less, in every sense of the definition.

Piggybacking off of the abundance of useful information we found last year, DDI conducted the second-annual State of the Retail Design Industry Survey for 2010, aiming to capture an accurate representation of exactly where the mindset of our industry currently lies. In addition to charts and data directly from those measurables, on the next

several pages we have included commentary from prominent industry leaders reacting to the findings.

Growing slowly?

While the nation's leading economists continue to tell us that the Great Recession has been over for a year and a half, the retail industry is certainly still feeling the effects of cautious consumer spending. However, 50 percent of survey respondents said that America's retail economy is now "growing slowly," up from only 31 percent last year. A whopping 45 percent of respondents believe we are still "stagnating in a recession," but that is down from last year's 52 percent.

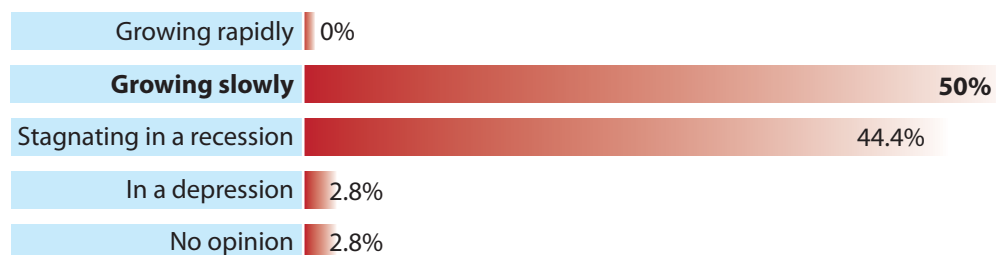
So, if the retail economy is growing slowly, how long will we have to wait? When asked, "Where do you view the economic recovery occurring for your business?" nearly 36 percent of respondents said they were "already seeing signs

of light"—up from 30 percent last year. However, the road ahead may still be a long one, as 42 percent of respondents don't see a recovery in sight until "second half 2011" (24 percent) or "2012 or beyond" (18 percent). "Although there have been signs of improvement, the recovery in the retail industry cannot fully occur until consumer confidence gains real momentum," says Danette Kroll, director of store planning for Foot Locker Inc. "That cannot happen until the unemployment rates decline in the United States from their current levels."

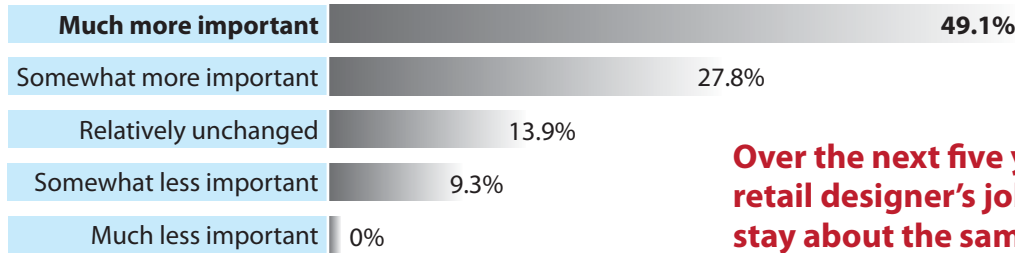
With so much up-and-down movement in sales figures and consumer confidence, how are retailers responding to the climate in the meantime? Respondents felt that department stores are the retail channel currently suffering the most from the economy, followed by softlines specialty stores. They also believe that supercenters, discount stores, warehouse and club stores will most likely rebound the fastest, followed closely by supermarkets, grocery stores, drugstores, convenience stores and fast-food service. "The change cycles seem to be on a 'rapid oscillation' cycle, with no clear direction emerging," explains Justin Hill, senior principal at MulvannyG2 Architecture. "Improvement feels stalled as the industry deals with these quick ups and downs. The winners will be the ones who can pierce this cycle with a solid plan and successful implementation."

Job security held a bit steadier for the retail design industry in 2010 than we saw last year, with nearly 60 percent of respondents saying their

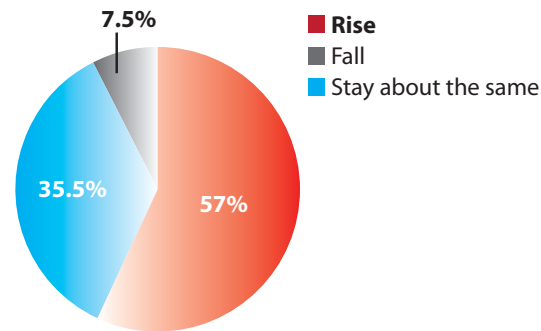
When you think about America's retail economy today, do you think it is...



Compared to five years ago, how important is the design/store planning/visual component to the retail industry today?



Over the next five years, do you think the average retail designer's job importance will rise, fall or stay about the same?



The recovery in the retail industry cannot fully occur until consumer confidence gains real momentum.

—Danette Kroll, Foot Locker Inc.

companies had “no change in design staff personnel/staffing levels.” While 21 percent did decrease their design staffs this year, another 20 percent said that their design staffs increased personnel this year. And, another 26 percent said they plan to increase their staff head count for 2011—a good sign for the health of the industry at large.

Pay cuts and four-day workweeks have kept many organizations in the black this year, with just under 40 percent of respondents reporting that they received a reduction in salary this year. Fifteen percent said they received more than a 20 percent cut in pay, 13 percent received a more than 10 percent salary reduction, and 11 percent received a cut of less than 10 percent.

In terms of economic stability, business seems to be faring better heading into 2011. Nearly three-quarters of respondents said their company's current economic situation is “Excellent/

Very Good” (18 percent) or “Good” (57 percent). Another 22 percent said business was “Barely Acceptable,” and less than 3 percent answered “Poor” or “Very Poor.”

The importance of design

The importance of the retail designer's role has risen in the last year, with 49 percent agreeing that the role is “much more important,” and another 28 percent saying it is “somewhat more important.” Looking to the future, more than half of respondents (57 percent) believe that the average retail designer's job importance will rise even more in the next five years.

“The consumer today is a value-driven customer and savvy enough to take into account the physical shopping experience when formulating their own value equation,” says Janis Healy, vice president of visual merchandising and design for

Orchard Supply Hardware. “When given an option of a great price versus a great price and enhanced physical environment, I believe they want it all. In a price-competitive market, the retailer who can offer a complete package will win.”

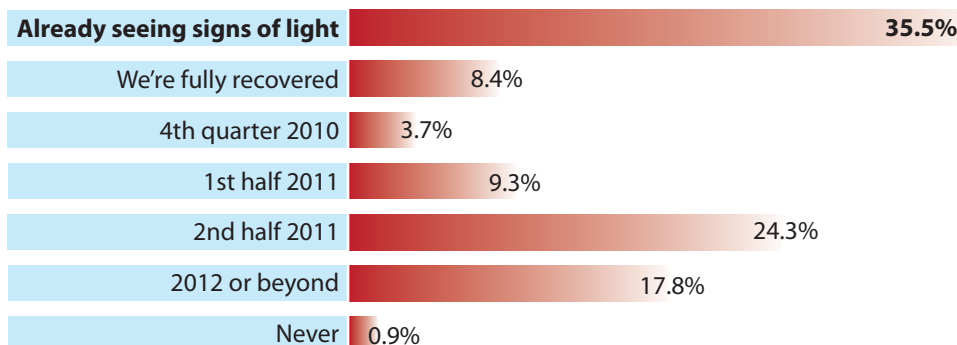
In today's competitive consumer landscape, design may very well be the differentiating factor that keeps a retail brand in line with the heart of today's consumer. “Retailers need to make their stores a lamp that attracts shoppers into their spaces like flies at night,” says Deverell Smith, project architect – retail design for Tiffany & Co. “Designers need to think about how they can attract passersby into their store when they never had any plans to shop in the first place. Even if they do not leave with a full shopping bag during that visit, they should leave with a full understanding of the brand's message.”

The age of innovation

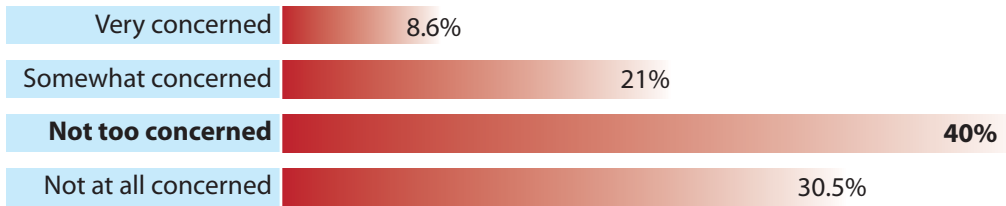
As retailers scratch their heads in order to figure out how best to approach today's fickle consumer, experimentation continues to sprout new ideas onto the retail landscape. “The industry has become very experimental—both in exploring new formats like smaller footprints and pop-up stores, and expanding into new product categories,” says Lucy Baraquio, senior design manager for Starbucks Coffee Co., which has been proactive in unveiling new products, relaunching brands and testing new concepts this year.

Nearly 90 percent of respondents said their company has experimented with new test strategies

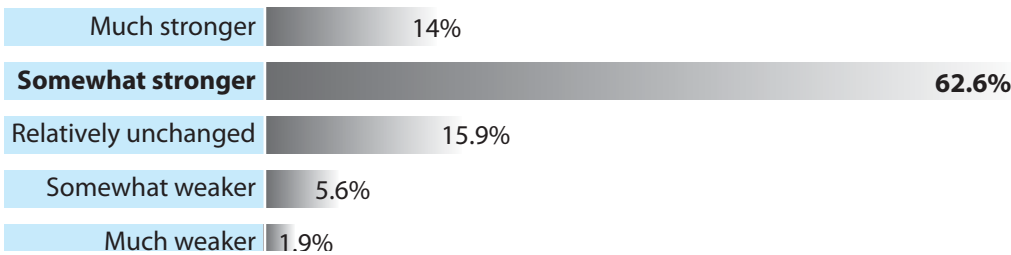
Where do you view the economic recovery occurring for your business?



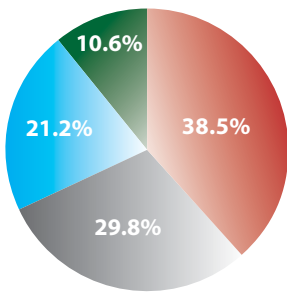
How concerned are you that you will lose your job in the next year?



Do you think the retail design industry will be stronger in five years time?

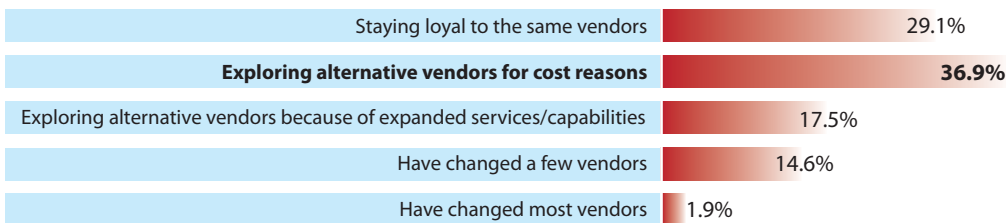


Has your company experimented with new test strategies or initiatives during the down economic period?

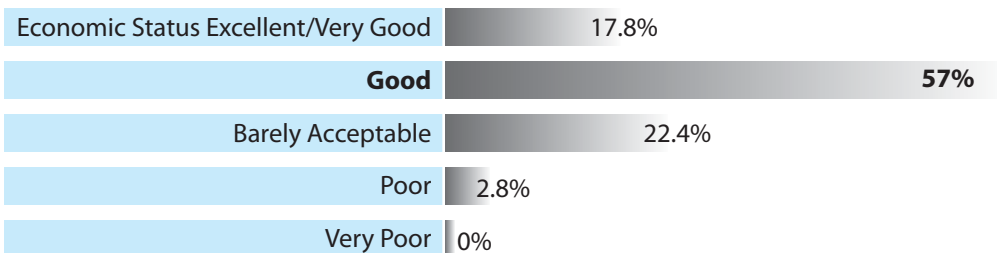


- Yes, we have tested one or two new concepts and strategies to see if they work
- Yes, we have tested several new concepts and strategies and have seen success
- Yes, we have tested several new concepts and strategies, but with limited success
- No, we have stuck to our core business model

How have your supplier relationships been affected?



What is your company's current economic situation?



or initiatives during the down economic period. Thirty-nine percent answered “We have tested one or two new concepts and strategies to see if they work;” 30 percent said “We have tested several new concepts and have seen success;” and another 21 percent said “We have tested several new concepts, but with limited success.” Regardless of success, the courage and conviction to try something new has pervaded the industry, and the fresh approach is a welcome change to the core retail model. “The payoff has been, and will continue to be, a higher level of engagement with customers and a stronger brand that is recognized as an innovator on all fronts,” Baraquo explains.

But retailers aren’t just blindly testing left and right. “It appears that a lot more financial studies are being made before conducting a retail experiment,” says Chuck Luckenbill, vice president visual merchandising for OfficeMax. “It makes sense to study ROI more thoroughly, rather than to make emotional decisions that may not be based in facts.”

Innovation and creativity never sleep!

—Chuck Luckenbill, OfficeMax

Retailers and designers have also looked to the vendor community to be their partners and stewards during this time of cost-driven analysis. While 29 percent said they are “Staying loyal with the same vendors,” 54 percent said they are exploring alternative vendors for either cost reasons or because of expanded services/capabilities. “We have made [supplier] evaluations across the board,” Smith explains. “Our relationships have been revised where needed. Everyone has had to reinvent themselves to stay relevant.”

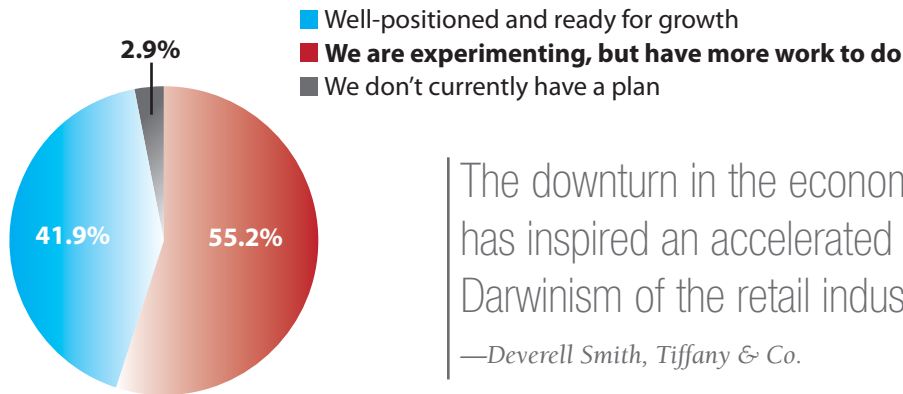
Luckenbill adds that partnering with existing suppliers to work toward a common goal is now the norm. “It’s the time to partner with loyal vendors and openly and honestly drive for lower costs without negatively affecting the integrity of design,” he says.

The look ahead

When asked about the strength of the retail design industry in the future, an overwhelming majority of respondents (77 percent) answered that the industry would be much or somewhat stronger in five years. Statistically, that would be a safe bet compared to where we are now, Hill notes.

As a fortunate side effect of the economic downturn, retailers have also become increasingly

How well is your company positioned for the new consumer in the new economy?



The downturn in the economy has inspired an accelerated Darwinism of the retail industry.

—Deverell Smith, Tiffany & Co.

savvy at playing toward the emotional connection of a shopper toward his or her retail experience. “We’ve seen so many businesses evaporate in the last few years,” Smith says. “The downturn in the economy has inspired an accelerated Darwinism of the retail industry. Those that have survived are the ones who have innovated in a major way. The strong that survive will continue to compete against one another, only getting stronger, as well as birth the creation of other strong competitors.”

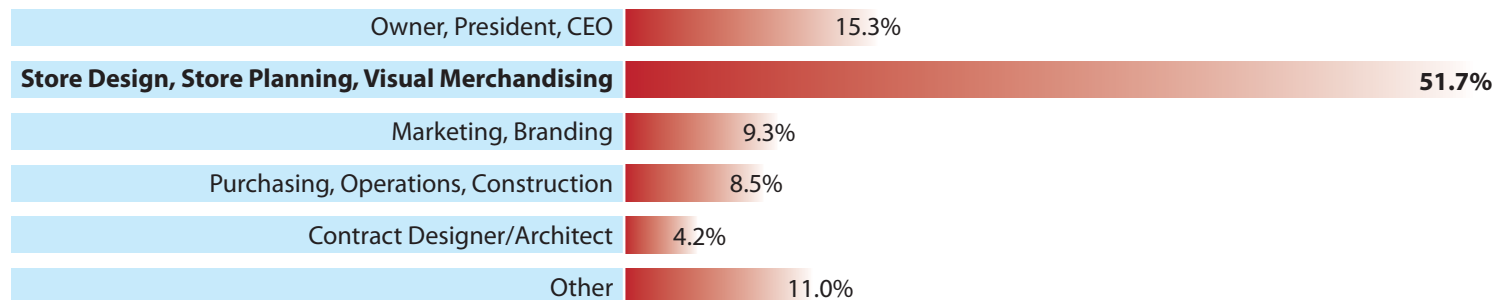
So what does the future hold? Hopefully plenty more opportunity for the retail design community. “Innovation and creativity never sleep!” Luckenbill exclaims. “It may take a few years for the economy to return to a point where retailers invest in growth opportunities in a bigger way, but customers will continue to expect innovation and creativity—and those expectations will drive our retail design industry to continue to search and develop new ways to present merchandise.”

This period of economic instability has caused retailers to understand the value of high-quality design as a differentiator in an increasingly competitive market. “The design industry is getting stronger in terms of its ability to stay relevant and expand its influence, which at some point translates into commercial success,” Baraquio says, adding that design is also getting stronger in the artistic sense. Today’s designers, she explains, are being charged with sharpening their ability to hone in on the emotional core of a brand, and express it visually in the stores that are designed—a general movement away from an “entertainment” focus in stores to providing holistic, multisensory individual experiences that resonate at a deeper emotional level with customers. “It’s a more sophisticated approach to design that is refreshing and inspiring,” she explains. “Instead of just keeping customers’ attention during their shopping experience, retailers and their designers are attempting to create special ‘moments’ for customers that provide lasting emotional connections. It’s a great time to be in retail design, and I think our future is pretty bright.” **DDI**

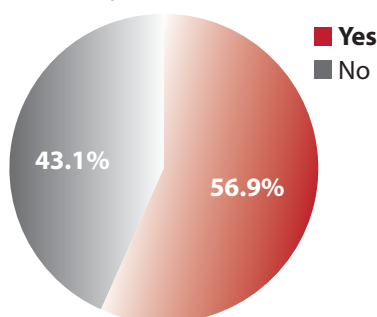
For the full results and additional downloadable charts, please visit www.ddionline.com/specialreports.

More Survey Charts

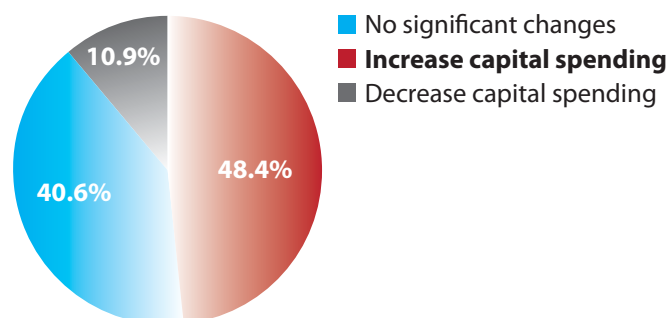
Which of the following best represents your current job function?



Are you a retailer?

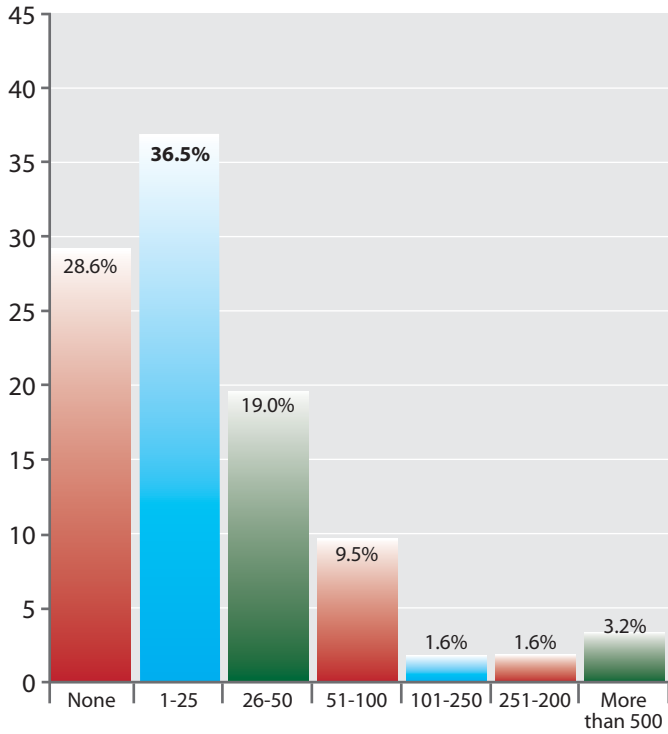


What are your company's plans for capital spending in the next 12 months?

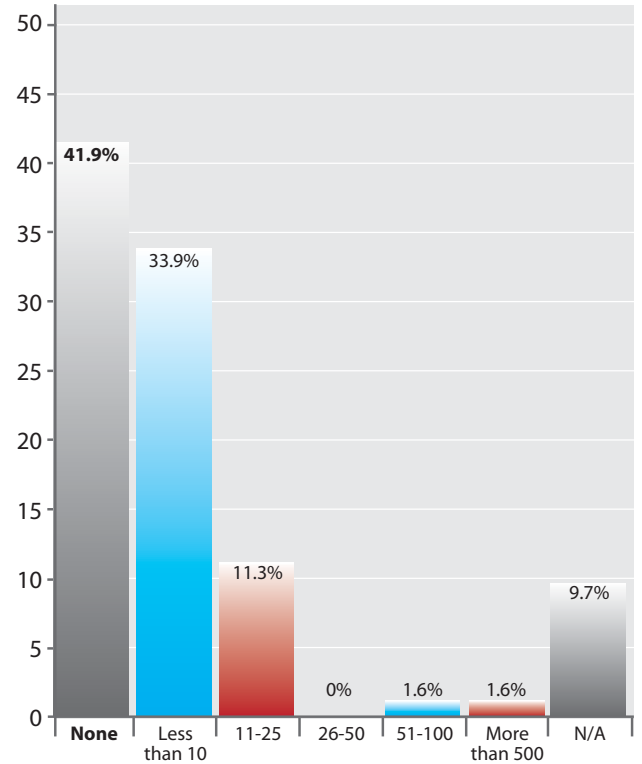


More Survey Charts

How many new stores has your company opened in 2010?



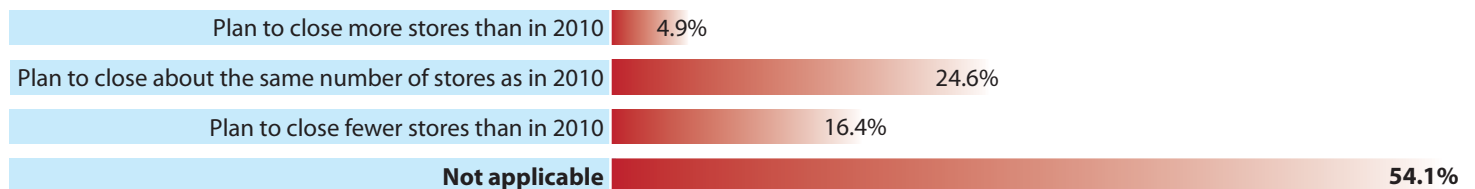
How many store units did you close in 2010?



How many new stores does your company expect to open in 2011?

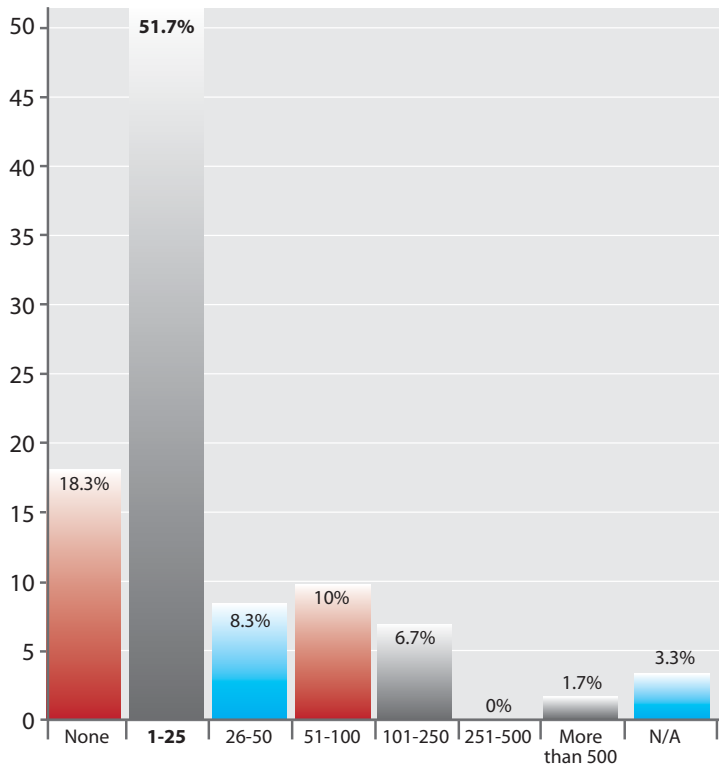


How many store units do you expect to close in 2011?

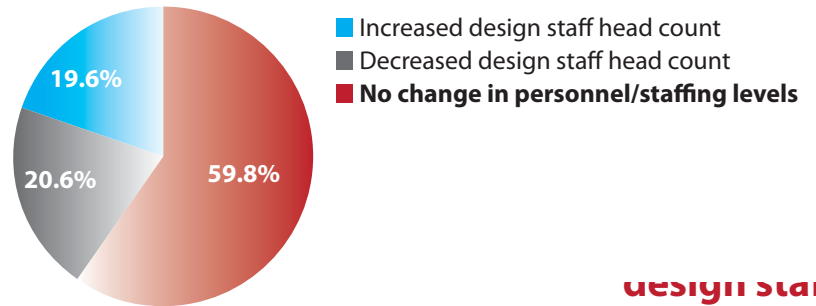


More Survey Charts

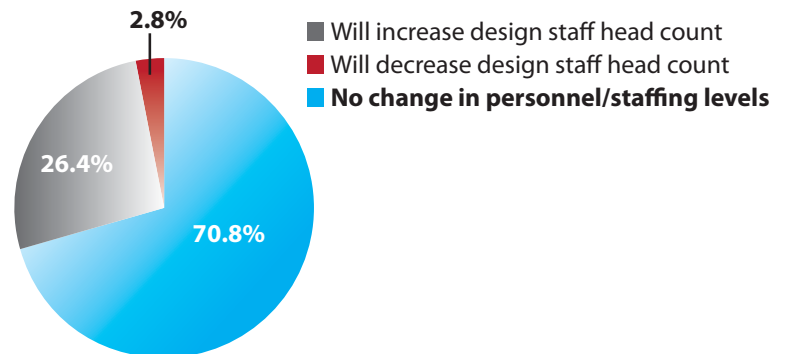
How many stores has your company remodeled/renovated in 2010?



How have your company's design staff personnel levels been affected in 2010?



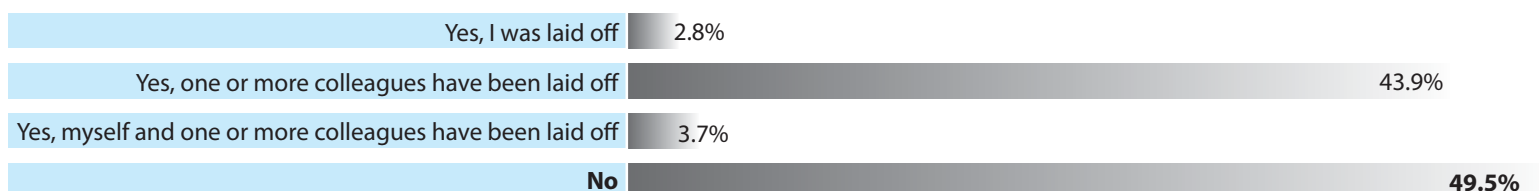
What are your company's plans for design staff personnel levels in 2011?



Which of the following statements best describes your plans to renovate stores in 2011?

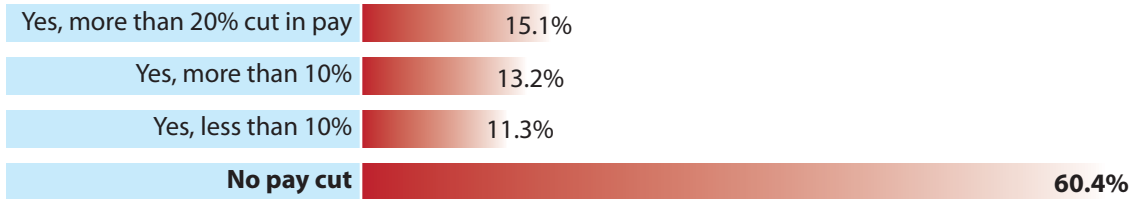


Have you or a colleague been laid off from a job in the last year?

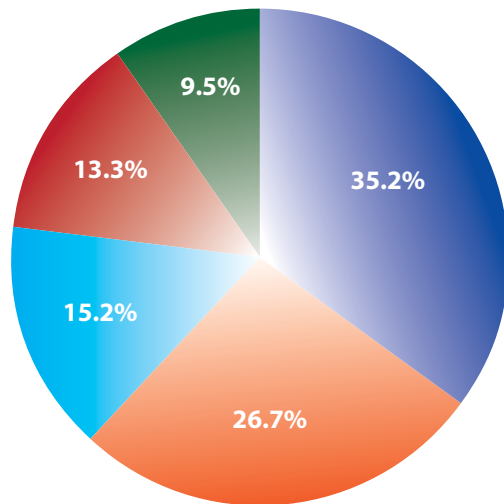


More Survey Charts

Have you or those at your firm taken a pay cut through these difficult times?



Which channel of the retail industry do you think is currently suffering the most from the economy?



■ Department stores

■ Softlines specialty chain stores: fashion apparel, footwear, jewelry, accessories, beauty and spa

■ Showrooms, automotive, financial, service/agency

■ Hardlines specialty chain stores: home/housewares, gifts, electronics, entertainment, books/music, sporting goods, etc.

■ Big-box specialty stores

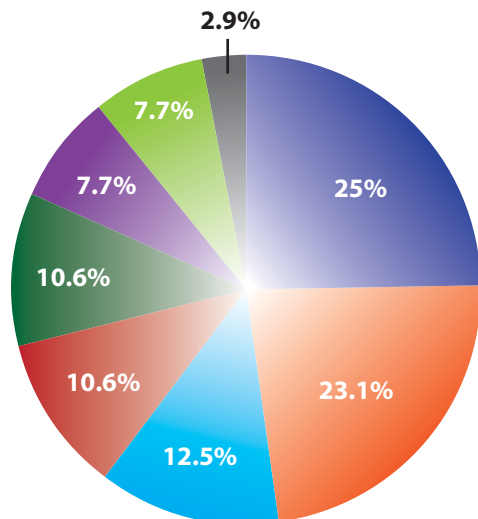
Not pictured: 0%

Supercenters, discount stores, warehouse and club stores

Supermarkets, grocery stores, drugstores, convenience stores, fast-food service

Closeout retailers, dollar stores, factory outlets

Which channel of the retail industry do you think will rebound fastest?



■ Supercenters, discount stores, warehouse and club stores

■ Supermarkets, grocery stores, drugstores, convenience stores, fast-food service

■ Hardlines specialty chain stores: home/housewares, gifts, electronics, entertainment, books/music, sporting goods, etc.

■ Big-box specialty stores

■ Closeout retailers, dollar stores, factory outlets

■ Department stores

■ Softlines specialty chain stores: fashion apparel, footwear, jewelry, accessories, beauty and spa

■ Showrooms, automotive, financial, service/agency