



The great retail bifurcation

Why the retail “apocalypse” is really a renaissance

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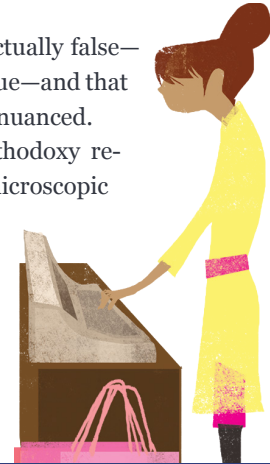
Introduction

It would seem that the retail industry is beset by an existential crisis. Every day, media and business journals declare a retail apocalypse is upon us, a day of reckoning when brick-and-mortar stores will turn to rubble and shopping malls to empty shells.¹ Conventional wisdom holds that traditional retailers have stopped growing, as shoppers, especially millennials, make more and more of their purchases online. Newspapers, with their almost daily reporting of store closings and merchant bankruptcies, drive home the storyline of an industry on the verge of collapse.

Conventional wisdom, however, is often a poor substitute for true understanding. Indeed, when one digs into the facts about retail, one may find that

much of this wisdom is actually false—or at best, only partially true—and that the picture is much more nuanced.

To break with the orthodoxy requires that you take a microscopic approach to the data emerging from the retail sector and consider what gets lost in the conventional wisdom concerning the industry.



“Conventional wisdom serves to protect us from the painful job of thinking.”

John Kenneth Galbraith (1908–2006),
iconoclast economist, thinker, and diplomat²

So what is really going on?

The economy

We asked ourselves: How might we gain a better understanding of the developments affecting retail? Where should we even be looking? We undertook an extensive process, devoting the better part of a year to examining the retail environment; studying official data; surveying consumers; and drawing on the knowledge of our clients, friends in the industry, and our own industry specialists (see the “Methodology” section at the end to learn more).

To understand the changes afoot, you must start on the ground. So to begin with, we looked at the US economy to see how it has performed over the past decade, a period that witnessed the collapse of the housing market, the great financial crisis, and the deepest and most severe recession to hit the nation since the Great Depression.

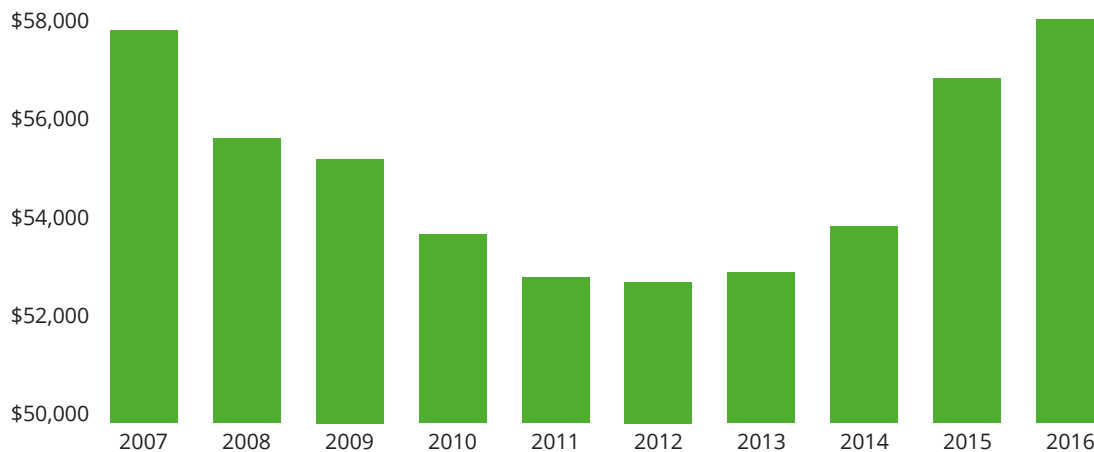
We studied the key measures impacting US households and consumers: household income, consumer sentiment, unemployment, and the housing market. On those fronts, US households

appear to have recovered from the effects of the 2008–2009 Great Recession. For instance, median income, according to the US Census Bureau, began falling in 2007 and bottomed out in 2012. Since then, it has bounced back and as of 2016 stood at \$57,617, slightly higher than it was in 2007 (figure 1).³ This suggests consumers’ wallets are fatter than they have been in recent years and finally on par with pre-recession levels.

However, shopping habits are not simply a function of income—psychology plays a critical role in consumers’ willingness to open their wallets. So we looked at measures of consumer sentiment. In 2017, consumer confidence was the highest it’s been since 2000, averaging 96.8, according to the Index of Consumer Sentiment, a monthly survey of US households.⁴

That confidence reflects the strength of the labor and housing markets. Unemployment in the United States is 4.1 percent, a 16-year low and a far cry from the 9.9 percent rate in December 2009.⁵ The housing market, which cratered during the financial cri-

Figure 1. Median income (\$ thousands)



Source: US Census Bureau data.

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sis, has also fully recovered and stands at an all-time high.⁶ Such figures bear out consumers' confidence. Together, these indices—consumer sentiment, in-

the US economy might be headed. These measures indicate the appetite of businesses and consumers to seek opportunities and take risks.

Again, we found that these numbers do not imply retail disaster; in fact, the needles on these dials point up. While US GDP growth has been modest as of late, it has rebounded from negative growth during the recession and has been growing in a range of 1.5–2.5 percent annually, until recently when the pace of growth picked up: US GDP expanded at an annual rate of 3.3 percent in the third quarter of 2017, the fastest rate in more than three years (figure

2).⁷ More importantly, the outlook for the future has improved: Due partially to the 2017 tax reform bill, GDP is forecasted to grow around 3 percent in 2018, according to the Conference Board.⁸ Further, the equity market has gone through the roof, with the S&P 500 stock index more than tripling from a low of 735 trillion in February 2009 to 2,663 trillion in February 2018.⁹

The net worth of households has more than doubled since its recession low: from \$45 trillion in

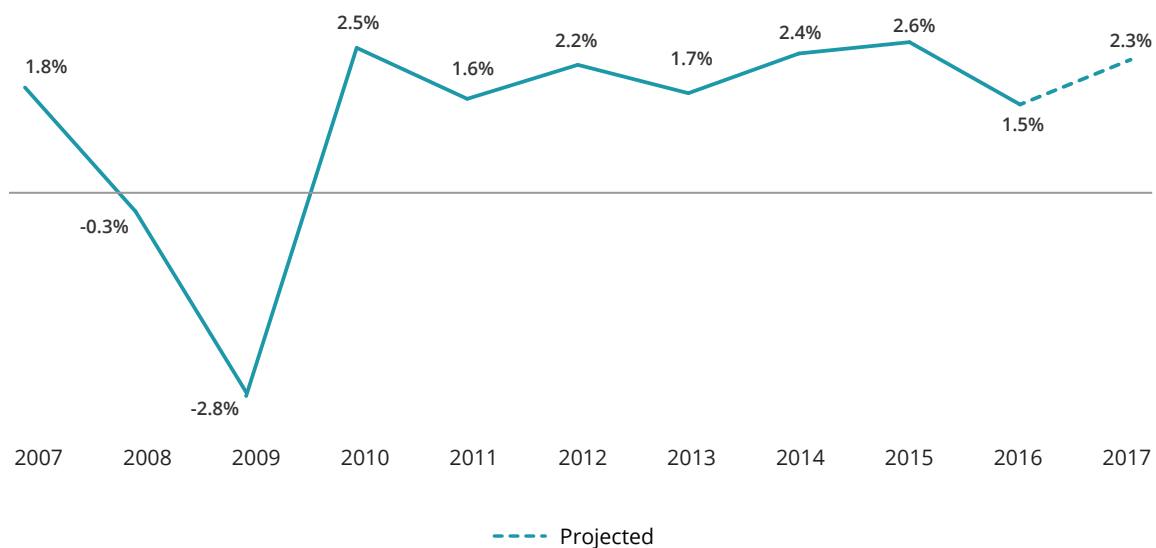


The net worth of households has more than doubled since its recession low: from \$45 trillion in 2009, to more than \$95 trillion, and growing. . .

come, unemployment, and housing prices—seem to indicate strong and robust consumers who are inclined to loosen their purse strings, rather than fragile consumers who could signal an industry collapse.

So, we needed to dig even deeper into the data to see precisely what it was telling us. Specifically, we examined additional future-oriented indicators—GDP growth, the stock market value, household net worth, and household debt-servicing payments—to see whether they painted a different picture of where

Figure 2. GDP change



Source: IBIS World.

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2009, to more than \$95 trillion, and growing, today (figure 2).¹⁰ Consumers are also financially healthier, as payments on household debt made up less than 10 percent of disposable income in 2017 (about 25 percent less than it was in 2009).¹¹

Every measure we surveyed told a positive story, one of a robust economy and a consumer operating in a healthy financial landscape. Given this state, how then could we be on the verge of a retail apocalypse? So we shifted gears to look at the retail industry through a macro lens.

The sector

Personal income and spending represents nearly 70 percent of GDP,¹² and, historically, GDP growth is tightly correlated with retail strength and a rise in retail sales. In fact, we’ve seen in recent years that growth in retail spending has outpaced GDP growth and has risen every year since 2009. It is on track to again outpace GDP. Initial estimates saw retail sales growing at a healthy 3.5 percent in 2017,¹³ compared to 2.3 percent for GDP.¹⁴ Sales for the 2017 holiday season grew the most since 2011, at an estimated 4.9 percent.¹⁵ These signs of healthy growth, again, challenge the notion of a retail apocalypse.

In fact, in the 2017 Great Retail Bifurcation Consumer survey conducted by Deloitte, 44 percent of respondents reported they spent more in the past 12 months than in the preceding 12-month period; another 41 percent said they had spent as much as they did the year before; whereas only 14 percent said they had cut back.

Probing the various retail categories, we found many bright spots. Average growth rates in home

furnishings, beauty/cosmetics, and home improvement stores were 3.3 percent, 5.0 percent, and 5.2 percent, respectively, over the past five years.¹⁶

Apparel sales lagged, but results were skewed by a decline in price per unit: The volume of units sold actually increased 2 percent from 2010 to 2015, but this growth was offset by a 1 percent decline in real prices.¹⁷

Conventional wisdom might argue that such growth represents brick-and-mortar stores’ last gasp and that their heyday is past. Further analysis, however, undercuts this assessment.

Retail across all channels, including in stores, continues to grow. While online sales growth receives the most press, it is

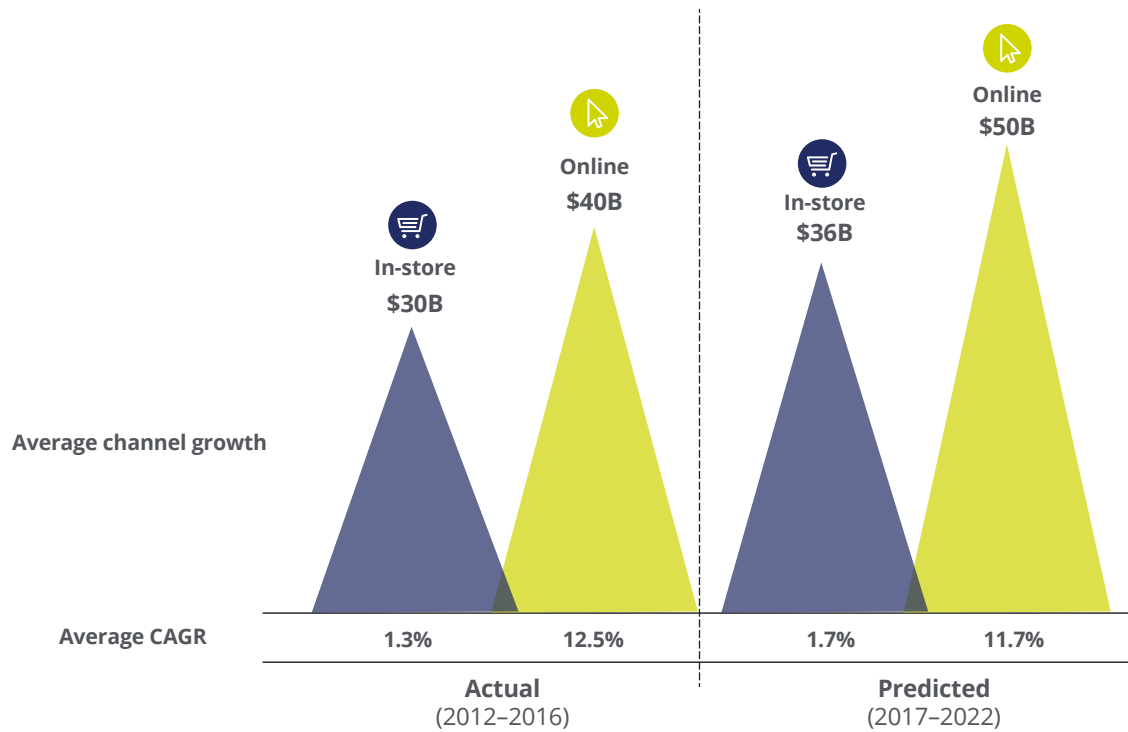
still fairly modest as a percentage of total retail sales. Online represents just 9 percent of total retail sales. The vast majority of retail sales—91 percent—take place in brick-and-mortar stores, hardly the stuff of apocalypse.

More importantly, both channels have been growing (figure 3). From 2012 to 2016, retail stores’ compound annual growth rate was 1.3 percent, compared with online’s 12.5 percent rate. In 2016, store retail added \$30 billion in incremental sales, while online sales generated \$40 billion.¹⁸ So in absolute terms, stores continue to contribute almost half of all retail growth; brick-and-mortar sales are *not* shrinking, but actually growing. Looking to the future, online sales over the next five years are projected to grow 11.7 percent annually,¹⁹ while growth in store sales is predicted at 1.7 percent.²⁰ With both channels projected to continue to contribute significantly to growth, both brick and mortar as well as online appear to be both alive and well.

Given the state of things—with retail continuing to grow, online sales expanding but brick-and-mor-



Figure 3. Channel growth: Annual average sales growth



Source: IBIS World.

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tar sales growing too, and certain retail categories putting up significant growth numbers—why then all the gloom and doom surrounding retail? The headlines push a common narrative about a fail-

ing industry, yet on the basis of the macroeconomic data and specific industry data, this would seem untrue. What's missing in the analysis?

What’s everyone missing?

ALBERT Einstein once said that you don’t need to know everything—you just need to know where to look.²¹ In retail, that would be the consumer.

So that is where we set our sights.

The consumer

We pored over the data, teasing out the underlying patterns, anomalies, and telltale signs. We looked at the consumer from many different angles, breaking down consumers by region, gender, and generation, as urban or rural, to see what insights these different prisms offered us.

Finally, we looked at patterns of shopping behaviors along lines of income and consumer economic well-being. What we discovered is that the consumer’s personal economic well-being is uniquely reflected in a consumer’s behavior, more so than any other lens by which we viewed the data. This lens, and the degree to which it revealed dramatic differ-

ences, was eye-opening, even to our well-seasoned retail team. Patterns of purchasing habits suddenly stood out, offering a level of clarity that through our further research became even more apparent. On an intellectual level, we were familiar with the notions of the income gap and the country’s growing inequalities; seeing those trends emerge in our data analysis and the relationship to retail, however, was visceral. We decided to delve deeper into the subject to look for additional implications for the retail industry.

To organize our data, we adopted the US Census Bureau’s three standard annual income brackets: low (the 40 percent who earn less than \$50,000), middle (the 40 percent who earn \$50,000 to \$100,000), and high (the 20 percent who earn more than \$100,000). We used these to align income levels of the individuals surveyed in our 2017 Great Retail Bifurcation survey to define, evaluate, and develop a profile of each income cohort.

When looking at consumer economic well-being, we considered income, net worth, nondiscretionary

Table 1. Factors of consumers’ economic conditions

Term	Definition
Income	One’s individual gross income before subtracting taxes, allowances, and deductions, not including noncash benefits.
Net worth	The difference between an individual’s assets and liabilities (considers stock, mutual fund holdings, ownership of a house and business, mortgage, loans, etc.). This analysis uses S&P stock ownership as a proxy for net worth.
Nondiscretionary expenses	Expenses that each individual must pay without discretion (health care, housing, food, transportation, education).
Discretionary income	Income remaining after deduction of nondiscretionary expenses. This is the principal source for the vast majority of retail spend.

Source: Deloitte analysis.

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expenses, and the remaining discretionary income. See table 1 for the way we define these terms for purposes of this analysis.



We found that between 2007 and 2016, a vastly disproportionate share in income growth has gone to high-income households. In 2016, the top 20 percent saw its income grow 1,425 percent more than the lowest cohort's income. In fact, between 2007 and 2015, over 100 percent of all income growth went to the top 20 percent. Only in 2016 did

For 80 percent of consumers, the last 10 years have represented a dramatic worsening of their financial situation. For them, it's been a "lost decade."

the same figure for low-income individuals turn from negative to positive.

Despite macroeconomic trends, it's actually been an abysmal decade for most Americans. For the past 10 years, the lower 40 percent income group has found itself struggling to keep up with expenses, while the middle 40 percent has seen its income shrink. Thus for 80 percent of consumers, the last 10 years have represented a dramatic worsening of their financial situation. For them, it's been a "lost decade."²²

Income, however, is only the tip of the inequality iceberg: It pales in comparison with divergences in net worth. While many may tout the growth in the stock market as a sign of consumer strength, we found that the top 20 percent high-income households own 93 percent of the stock in the S&P 500 index.²³ By that calculation, the other 80 percent of households own only 7 percent of stocks. The reality is that the vast majority of Americans own very little stock: On average, 35 out of 36 dollars of stock are owned by the top 20 percent.²⁴ Consequently, the record-setting rise in the stock market has al-

most exclusively benefitted the highest-earning group, further exacerbating consumers' economic bifurcation. The low- and middle-income consumer has had very little exposure to the appreciation in stock prices and, as a result, has not participated in the enormous wealth accumulation that's taken place over the past decade. And there are no signs of this trend letting up. In 2017, the top 1 percent grabbed 82 percent of all wealth created in the United States—in other words, more than \$8 of every \$10 of wealth created in 2017 went to the richest 1 percent.²⁵

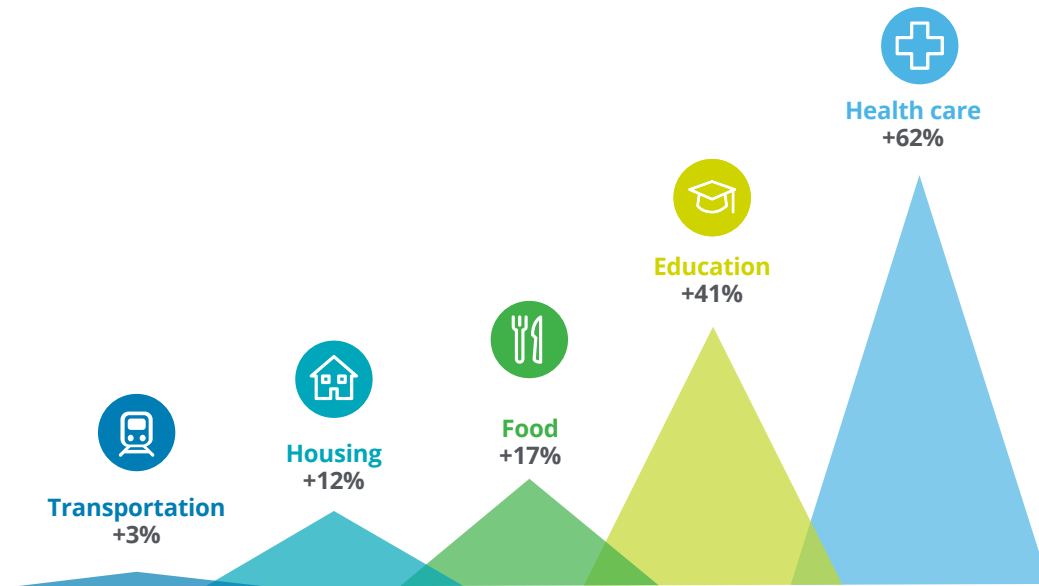
Additionally, rebounding housing prices have also primarily benefitted the most affluent in our society. Nearly 83 percent of the high-income cohort owns a home, compared with only 49 percent in the lowest cohort and 68 percent in the middle cohort.²⁶ Thus, the asset appreciation in the equity and housing markets has

spelled a double whammy in terms of wealth and buying power funneled to the high-earning cohort.

Even more shocking is that while income and net worth gains are disproportionately going to the highest-income group, the opposite is happening with nondiscretionary expenses. Not only has the income level of the lower cohort been stagnant, the share of their income that is spent on nondiscretionary spending has also skyrocketed: Health care has risen 62 percent, education 41 percent, food 17 percent, and housing 12 percent (figure 4).²⁷

These increases have hit the lowest-income group the hardest. Basic necessities now, for the first time in a decade, take up more than 100 percent of a low-income family's budget. According to our calculations, nondiscretionary expenses increased at a disproportionately higher rate for low-income consumers (figure 5). In 2007 alone, low-income earners were left with no disposable income; their nondiscretionary expenditure made up 107 percent of their income. After paying for essentials, the low-income cohort was left with no disposable income. By 2016, this gap had become even bigger: Their

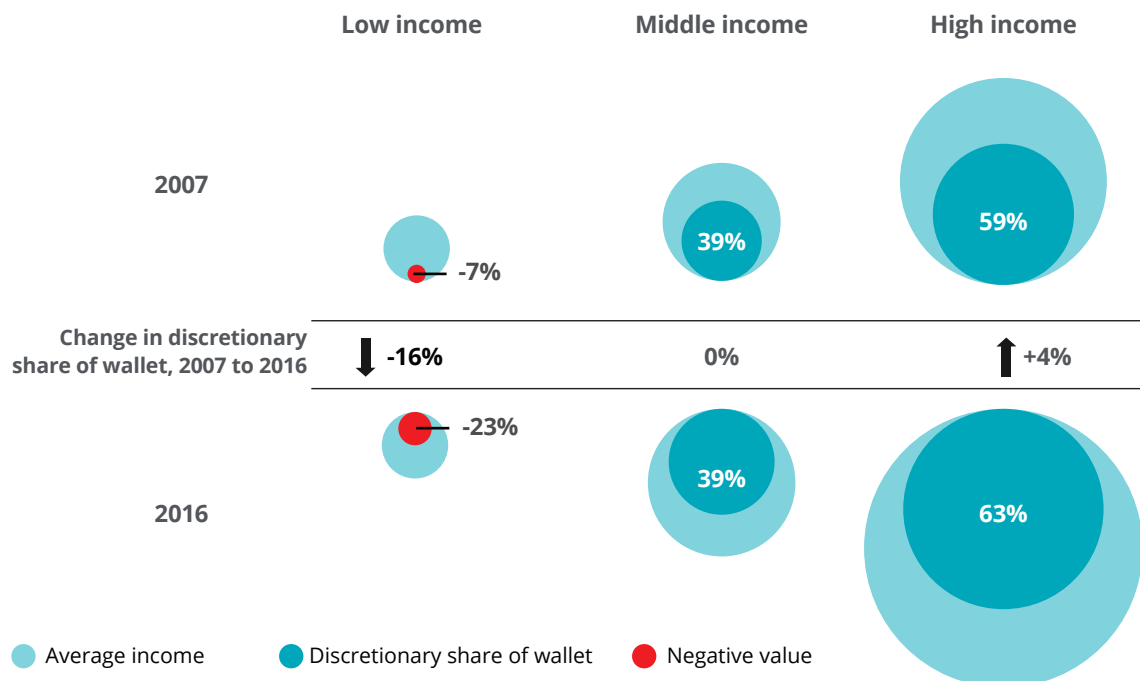
Figure 4. Increase in nondiscretionary spending, 2007–2016



Source: US Bureau of Labor Statistics.

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Figure 5. Discretionary share of wallet



Note: When broken out by income quintile, the 2016 coefficient of variation for transportation and education expenditure is unusually high.

Source: US Census Bureau.

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nondiscretionary expenditure was now 123 percent of their income. The middle-income group has been impacted as well. This group saw no change in their discretionary share of wallet from 2007 to 2016 despite increasing income levels.

Only high-income consumers saw an increase in discretionary income over this period. From 2007 to 2016, the discretionary share of wallet for high-income consumers climbed from 59 percent to 63 percent, a 4-percentage-point increase in less than a decade.²⁸ The most significant finding: Only 20 percent of consumers were better off in 2016 than they were in 2007, with precious little income left to spend on discretionary retail categories.

To make matters even more complex for retailers, new expenses and needs have arisen over the past decade that compete with traditional retail categories for available discretionary spending. These demands, such as for mobile phone devices and data plans, were minimal 10 years ago. These new needs are essential to not only high-income earners but low-income ones as well, placing an additional strain on the already-taxed budgets of lower- and middle-income consumers.

The impact of this additional category is magnified and indirectly competes for other discretionary spending. While the high-income bracket spends more on digital goods and services, the impact of that spend is disproportionate to income. For low-earning consumers, spending on digital devices and data plans takes up 3.6 percent of their income, compared with 0.7 percent for high earners.²⁹ All evidence points to the gap growing, as rising digital expenses show no signs of diminishing. At this rate, low-income consumers are likely to feel increased

pressure on their wallets, widening the split between income groups and having additional impact on traditional retail categories.

What this means to traditional retailers is new competition for discretionary dollars that are being squeezed in unprecedented ways: Beset with new needs, some of them digital, 80 percent of consumers have less funds available for, say, buying a new pair of slacks.

This income bifurcation is profoundly impacting consumers' spending behaviors. We found that the likelihood of making an online purchase versus buying in a store is highly related to income. In our survey, we asked consumers what type of shopping method they had used over the past 12 months. The difference between the low- and high-income groups was striking: Roughly three out of five low-income consumers (58 percent) show a propensity to shop in store, while just over half of high-income consumers (52 percent) skew toward buying online (figure 6).³⁰ This trend among higher-income consumers is cross-generational, suggesting that high-income consumers of all ages, not just millennials, are opting for the digital consumer journey. All this tells us that much of the channel-oriented behavior is related to consumer economics.

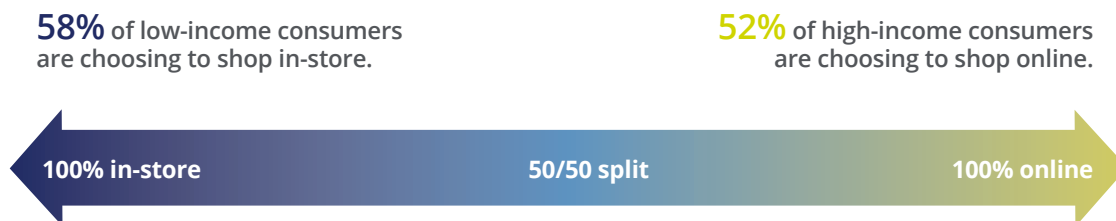
For the 80 percent of the lower- and middle-income shoppers who have seen their fortunes fall in the past decade and face strained budgets with limited disposable income, price sensitivity is paramount. They are more discerning and deliberate about how they spend their money. This factor likely influences how and where they shop and certainly influences their discretionary income decisions.

Finally, income bifurcation has triggered differences in consumer spend behavior across category and fragmentation of spending. Low-income



Only 20 percent of consumers were better off in 2016 than they were in 2007, with precious little income left to spend on discretionary retail categories.

Figure 6. Likelihood of online vs. in-store spend



Source: Deloitte analysis.

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consumers are 44 percent more likely to shop at discount retailers as well as supermarkets, convenience stores, and department stores.³¹ Online fragmentation of spending—or the number of retailers at which they regularly shop—follows a simi-

lar, even more exaggerated trend, with those in the highest income group 40 percent more fragmented across online retailers than consumers in the lowest cohort.³²

The impact on the retailer landscape

HAVING studied the broader economic landscape and discovering the bifurcating consumer, we turned to retail to see if changes were taking place that go beyond the binary equation pitting brick-and-mortar stores against online sales. We wanted to understand how economic bifurcation was impacting the performance of different kinds of merchants.



In order to look for a relationship between the changing consumer and the sector, we began evaluating the various players in the industry to determine if there was a relationship between winners and losers and the changing consumer economics. Consumers are at the heart of business—the way retailers interact with their

“Follow the customer,
if they change—
we change.”

Sir Terry Leahy, former CEO Tesco³³

consumers and meet their needs shapes strategy. Analyzing the industry through a consumer value lens highlights trends in a granular way and brings actionable strategic opportunities to light.

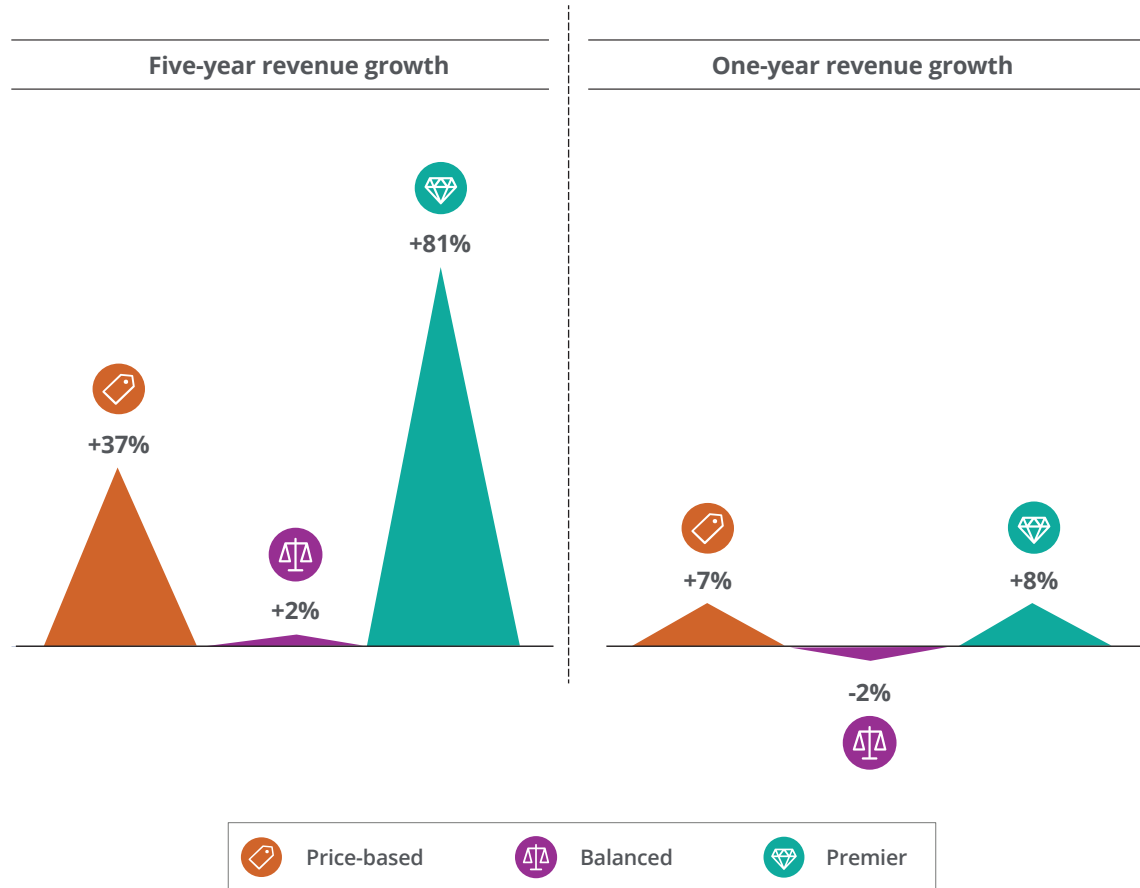
We took all US public retailers and laid them out along a value proposition continuum.³⁴ At one end of the spectrum, we placed retailers focused aggressively on price; at the opposite end were premier retailers offering exclusive or premier products or services. We categorized retailers through a review of

10Ks, marketing campaigns, various news articles, and industry and analyst reports. While we recognize that plotting retailers’ value proposition along a single continuum is subjective, it is nonetheless helpful in understanding performance. Our team of retail specialists spent significant time in debate in order to arrive at the final categorizations.

Once the relative plotting of retailers was done, we separated the retailers into three cohorts along the continuum: *price-based*, *balanced offering*, and *premier*. Price-based retailers deliver value by selling at the lowest possible prices; many of these players are referred to as “off-price,” and clearly communicate that message to their consumers. Balanced retailers deliver value through a combination of price and promotion, and many offer widely available products or experiences. Premier retailers deliver value via premier or highly differentiated product or experience offerings.

We then analyzed the performance of the three retail cohorts and found that here, too, bifurcation is clearly underway. Revenue growth is diverging, with sales growing at faster rates for price-based and premium retailers at the opposite ends of the spectrum, while balanced retailers are lagging (figure 7). In fact, over the past five years, premium retailers have seen their revenues soar 81 percent versus the balanced category’s mere 2 percent increase. That means premium retailers have seen 40 times more revenue growth than that of balanced retailers over the last five years. Price-based retailers, meanwhile, have seen their revenues steadily increase 37 percent over the same period. This trend is becoming even more pronounced: In the past year, premium and price-based sales rose 8 percent and 7 percent, respectively, while balanced retailers’ sales declined 2 percent.³⁵ So the industry is showing weakness in areas, but, at the same time, it’s also demonstrating

Figure 7. Revenue growth of different types of retailers



Source: Deloitte analysis of various annual reports.

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strength in others—an aspect that’s often missing in the narrative presented by the media. This divergence is what we refer to as the “great retail bifurcation,” and we view the change as highly related to the changing consumer economic situation.

Retailer cohorts in aggregate at either end of the value spectrum are outperforming the middle group in key financial measures, such as return on assets (ROA), return on equity (ROE), and price-earning (PE) ratios. Price-based and premier retailers are making better use of their assets, showing ROA of 8.21 percent

and 8.88 percent, respectively. The balanced group, on the other hand, has struggled to eke out a 4.60 percent ROA, supporting media headlines of retailers closing broad

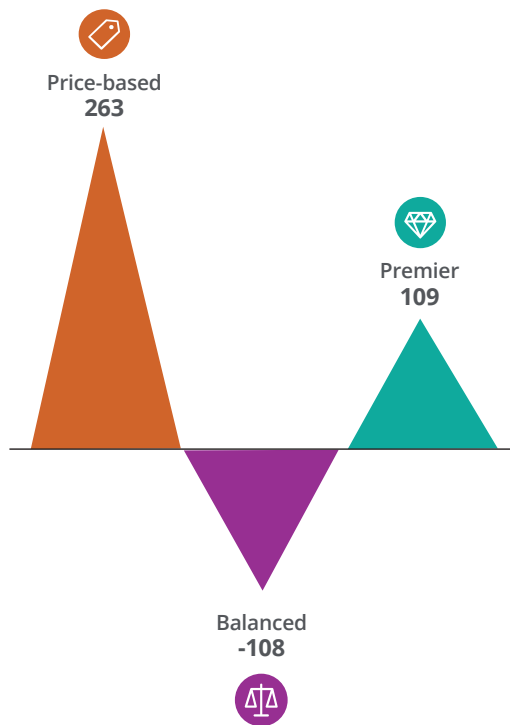
swaths of large and underperforming stores.³⁶ While both ends of the spectrum show higher ROEs than balanced, premier retailers are leading, with a 19.73 percent ROE—more than double the 9.44

percent ROE of the balanced cohort.³⁷ The stock market’s perception of this divergence is even starker, rewarding price-based retailers with a median

Price-based and premier retailers are dramatically outperforming those in the middle.

Figure 8. Net store openings

Data from 2015–2017 when available



Source: Various annual reports and news reports.

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PE ratio of 26 (higher than that of the S&P 500), and premium retailers and balanced retailers with 19.7 and 12.7, respectively.³⁸


But what about the issue of store closings—certainly that seems to be hitting the retail sector across every category, right? Once we look beyond the headlines, what we find again is that, in fact, many more stores are opening than are closing. But those net store openings and closings also align with the divergence that is taking place in the retail landscape.

While the attention has been disproportionately focused on store closings, which make for more compelling headlines, the reality on the ground is quite different. Store closures have taken place mainly among balanced retailers—but price-based and premium retailers have been opening more stores than closing them (figure 8). This pattern is

particularly apparent among the price-based retailers that we analyzed, where net store openings from 2015 to 2017 came to 264.³⁹ On average, price-based retailers gain 2.5 stores for every store balanced retailers lose.

But what may be even more troubling for balanced retailers has been the sharp decline in consumer satisfaction data: Consumers are more likely to recommend premier or price-based retailers than balanced, suggesting that retailers at either end of the spectrum are more in tune with the changing needs and are better at meeting the expectations of consumers than those in the middle.

So while much of the market is wrapped up in the brick-and-mortar vs. online debate, we think that there is



For price-based and premier retailers, many more stores are opening than closing.

something perhaps more interesting going on. The great retail bifurcation is the apparent divergent performance of low-end and high-end retailers in line with the bifurcation of the consumer's economic situation and, more importantly, in accordance with a close understanding and response to what needs the consumer is expressing. So, ultimately, economic pressure is just one way to view very real differences in consumer cohorts and results in clarity in terms of how unique consumer needs create opportunity. Failing to look closely, and from many different angles, at this evidence could result in missing real opportunities to address emerging consumer needs.

The retail renaissance

A sea change is clearly taking place in the retail market with major upheaval, but it is surely not the retail apocalypse. In our view, *the retail industry is strong, but it is undergoing a major renaissance*, a renewal akin to the renaissance that took place between the 15th and 17th centuries. That renaissance upended many of the ideas and conceptions that had long governed human behavior, uprooting traditions, institutions, and habits of thought. Much like retail today, the Renaissance substituted science in place of faith; in place of preconceived notions, it offered observation and investigation. New powers and new models emerged in the Renaissance.

A similar renaissance is taking place today in the retail sector (and arguably in all sectors of the economy). In our times, the retail renaissance is being driven by huge shifts in economics, competition, and consumer access to options, all fueled by exponential advancement in technology. Our modern-day retail renaissance is defined by the rapid changes in the consumer base and emergence of smaller and smaller sets of addressable unique consumer needs. It is being shaped by innovation, data, and science. It is a renewal that will see its share of winners and losers. In order to survive—and thrive—retailers will need to adapt their sales strategy and value proposition at the pace of the changing consumer and changing competition in order to succeed.

The great retail bifurcation reveals an industry in the midst of change, not collapse. The retail renaissance is about change, but it isn’t an either/or challenge. It’s not either digital or physical; rather, it’s thinking broadly to forge all-new models, offerings, and value that likely include both physical and digital.

Furthermore, the great retail bifurcation reveals just two related aspects of a broader trend of fragmentation of market share in the marketplace (a factor that we highlighted in an earlier research report, *The retail volatility index*¹⁰). This phenomenon is taking place in other sectors as well, as technology removes barriers to entry. At the same time,

the consumer is changing, empowered by new options, and competitive barriers to entry have fallen dramatically, unleashing an onslaught of new competitors who are nimbler and able to act quickly to meet consumers’ changing needs. Further, the traditional holy grail of scale no longer protects the largest companies from threats of new entrants. Technological changes are, in turn, changing the economy, competition, and the consumer, thus creating a vicious and fast-moving cycle.

In the retail renaissance, retailers must become more granular in their observations and value proposition to consumers in order to better appeal to targeted consumer groups. They will need to pay greater attention to the lens through which they are examining the consumer’s changing needs, preferences, and behaviors—and to be ready to evolve, aligning their value proposition with consumers’ evolving needs.

In this report, we have chosen to look at behavior through the lens of the consumer’s personal economic well-being, a lens we believe to be powerful, and one that we believe the market has yet to fully appreciate. However, we recognize that the consumer’s personal economic well-being is not the only lens through which to understand consumer behavior and thus identify opportunities—there are many. Indeed, looking at consumers in different and increasingly granular ways will reveal fresh insights and opportunities.

Finding and reacting to pockets of opportunity may sound simple, and perhaps retailers believe they already do this well. However, in our observations, this requires new and unique capabilities—the degree to which *these new requirements differ from the current operating model* for the vast majority of retailers cannot be overstated.

Those retailers willing to embrace the change, build the enterprise capabilities, and transition the organization through the renaissance have the potential to thrive. The industry will march on, driven by growing consumer spending. Retail will survive—all retailers may not.

WHAT ABOUT MILLENNIALS?

Millennials are often lumped together by the media and older generations, and portrayed as the source of disruption to everything from golf to dating to retail. They are typecast as glued to their smartphones and as shopping only online; spending on experiences, not goods; and driving massive shifts in category spend. But is there any truth to this stereotype of millennials?

On the surface, when we look at the data in aggregate, it would appear to be the case. When viewed from a very high level (averaging out the behaviors of low-income, middle-income, and high-income millennials), it seems like the retail-related behavior of the millennial generation is in fact very different from other generations.

However, once we dig down underneath the surface and separate out the millennials into the three income groups, a very different picture emerges through the consumer economic well-being lens. What we find is that the low-income and middle-income millennial consumers behave very much in line with the other members of their income cohort—so not that different at all. For example, when we look into the question of channel behavior—whether millennials are more likely to shop in stores or online—we find that low-income millennials resemble other generations in likelihood of shopping in stores (79 percent and 81 percent, respectively); and in the middle-income cohort, there's no difference between millennials and non-millennial consumers, with 81 percent of each group likely to shop in stores. Looking at other common shopping categories, such as discount and online-only stores, millennial behavior (by income group) is virtually indistinguishable from the other generations; their habits and propensity to shop are roughly the same. In our survey, we found that many of the retail behaviors of low- and middle-income millennials were not that different at all—in line with other generations.⁴¹

Taken together from a 30,000-foot bird's-eye view, the behavior of millennials seems to be different, but that difference is almost entirely the result of the exaggerated behaviors we found of the high-income cohort, which skew the results and paint the overall picture of the millennial shopper stereotype. For example, high-income millennials are 24 percent less likely than all non-millennial shoppers to shop in a store.⁴² The situation was similar across all the dimensions we analyzed.

The myth that's attached itself to the millennial generation—that it is different and is ruining retail—is once again a case of conventional wisdom. The high-income millennial represents only 19 percent of total millennial generation and a sliver—just 6 percent—of the population overall.⁴³ Our findings reveal that it's not the millennial generation that's different—it's the high-income millennial whose exaggerated behaviors are skewing the overall generation and driving the perception of the entire generational cohort.

There is, however, one anomaly where the millennial generation does seem to stand apart from others: retailer preference. Millennials are 6.4 percent less likely to report that they typically shop in department stores than other age groups, and this difference appeared consistent regardless of income level.⁴⁴



Methodology

Consumer research

Deloitte commissioned a survey via the Deloitte Customer Intelligence Labs that was conducted September 22–28, 2017. The survey polled over 2,000 participants, who were recruited using census balancing to ensure the survey population demographic divisions were within 2 percent of the most recent census population divisions.

Retailer research

For this study, the chosen retailers were among the largest US retailers (by sales) of the 2017 IBIS World Report, filtered for those that are primarily retail, serve the business-to-consumer market, and publicly traded. This set was further segmented into three categories, price-based, balanced, and premier, as discussed in this report.

ENDNOTES

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ABOUT THE DELOITTE CUSTOMER INTELLIGENCE LABS

The Deloitte Customer Intelligence Labs leverages deep industry experience, advanced data analytics/ data science, proprietary primary research, as well as first- and third-party data from a variety of sources to provide comprehensive insights on the customer and the marketplace. The lab delivers insights and data-driven action plans to help address challenges and enhance business performance. To learn more, contact Jeff Simpson, principal, Deloitte Consulting LLP, jesimpson@deloitte.com; or Rob Bamford, manager, Deloitte Consulting LLP, rbamford@deloitte.com.

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