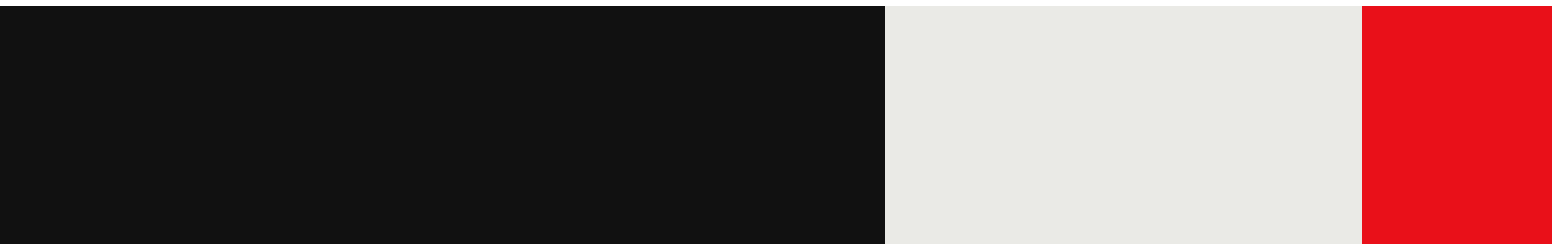


Reimagining Retail: Retail pulse check—Why prices are still a hot topic, how people derive value, and why things feel bad

Audio



On today's podcast episode, we discuss why prices continue to be such a hot topic, how consumers determine what value means to them, and which retailers performance is representative of the broader retail space. Join our analyst Sara Lebow as she hosts senior director of media content Becky Schilling and analyst Zak Stambor.

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Episode Transcript:

Sara Lebow (00:00):

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Hello, listeners. Today is Wednesday, June 5th. Welcome to Behind the Numbers re-Imagining Retail and e-Marketer Podcast. Made possible by Round De. This is the show where we talk about how retail collides with every part of our lives. I am your host, Sarah Lebow. Today's episode topic is the Retail Pulse Check. Before we get into that, let's meet today's guests. Joining me for today's episode. We have director of content on our media team, Becky Shilling. Hey, Becky.

Becky Schilling (00:56):

Hey, great to be back.

Sara Lebow (00:57):

Good to have you back. Also with us is senior analyst, Zak Sta. Hey

Zak Stambor (01:02):

Zak. Hey Sarah. Hey, Becky.

Sara Lebow (01:04):

You sound so dejected. Zak.

Zak Stambor (01:06):

Hey, Sarah. Hey, Becky.

Sara Lebow (01:07):

That's more like it.

Zak Stambor (01:09):

Okay.

Sara Lebow (01:10):

All right. On that note, let's jump right into our retail pulse check. This is a look at how the retail industry has fared in the first few months of the year. Inflation did rise in April, but not steeply with the consumer price index increasing 3.4% year over year. The US GDP also grew in Q1, but by less than initially expected and monthly retail sales were flat in April. That's a lot of information. So Zak, what do you make of all of this?

Zak Stambor (01:40):

By and large, I think things are looking pretty good. The retail sales numbers that you stated in April, that was month over month numbers, month over month isn't really a great way to look at retail sales numbers. I prefer year over year, and if you look over a broader span at the first four months of the year, sales are up 3.5% or if you pull out auto and gas prices, 4.2%, that's pretty good. And so all things relatively speaking, I think look promising.

Sara Lebow (02:11):

Anything to add, Becky,

Becky Schilling (02:12):

Consumers are spending, and as much as people want to talk about the economy feeling bad, that feeling isn't translating into how they're spending their dollars into opening their wallets at retailers.

Sara Lebow (02:26):

Yeah, that's a good segue because I feel like every headline I see is about price sensitivity, companies lowering their prices, retailers lowering their prices, questions about loyalty. Why is that the case? If the economy's doing okay,

Zak Stambor (02:43):

Prices are a lot higher than they were pre pandemic. Undoubtedly, even though inflation has significantly come down, it has winged. However, the cumulative effect of inflation is jarring, and we haven't seen anything like this since the Reagan administration roughly, if you look at cumulative CPI from inauguration, day 2021 to the 40th month of the presidency was 19.3%, so prices are significantly higher than they were before the pandemic that said insulation is waning, but people remember what prices used to be, and so that's kind of uncomfortable. That's jarring. It makes people think about how much stuff costs.

Sara Lebow (03:31):

Yeah, I mean, this is the thing where I buy groceries, I complain about grocery prices, and then I still buy a \$7 coffee the next day.

Becky Schilling (03:40):

I just have to remember that retailers are smart and they can sense how consumers are feeling. And so if consumers are feeling like inflation is the big thing that they're worried about and their economy is a struggle, at least in the mindset of consumers putting out stories about how they're slashing prices, even if that price slashes 5 cents, that's a good PR move and it's a good marketing move. It's a good way to get people on board with your brand in an environment where people feel tight.

Sara Lebow (04:10):

So retailers are slashing prices for pr?

Zak Stambor (04:13):

Yeah, a hundred percent. And it's like all types of retailers are trying to cloak their brand in value oriented messaging, and Michael's is doing it, IKEA is doing it, Walgreens is now doing it, and Target is doing it. And I think for some brands it makes more sense than others. Walgreens, you're not going to because stuff is expensive or cheap, you're going there for convenience, whereas Target it makes more sense because you want to get people into the store because it's a mass merchant.

Sara Lebow (04:46):

Yeah. Becky told me yesterday that she is signed up for Michael's deal text messages and that she's getting them constantly. Becky, when's the last time you set foot in a Michael's?

Becky Schilling (04:55):

Oh, this weekend.

Sara Lebow (04:56):

Okay, then nevermind. I guess it's good that you have those expanding on what you were saying though about the broader retail, every kind of retailer. I want to expand our conversation a bit further than just the basic stats we looked at at the top of the episode. What is a signal from each of you that you're picking up on that we haven't talked about already?

Zak Stambor (05:19):

Yeah, so I want to talk about the QSR space. I think it's really interesting and indicative of what is happening. I think what's happening is that consumers are very focused on value, but value doesn't mean price. And so that's why you are seeing McDonald's young brands, which owns KFC, pizza Hut and Taco Bell, Starbucks. All of them have relatively disappointing quarters and talk about how consumer behaviors are shifting, whereas Chipotle, sweet Green kava these higher priced restaurant chains, fast food chains report fairly good quarters and talk about how consumers are continuing to splurge on pita chips or the guac because they feel like they're getting a good value for their dollar and that's not something that they're feeling when they go to McDonald's and getting a Quarter Pounder.

Sara Lebow (06:21):

Can you break down specifically how you see value as different from price?

Zak Stambor (06:26):

Yeah, I think it's like are you getting a good banging for your buck? And that's essentially what it is. It's like, does this dollar that I'm spending translate into something that I'm actually going to enjoy that's different than am I going to get calories to input into my body? And so you want to enjoy your burrito, but do you really enjoy the McDonald's Quarter Pounder? Maybe some people do

Becky Schilling (06:55):

The French French fries. Yes, a hundred percent.

Sara Lebow (06:58):

Becky, on that note, what is your signal that you're picking up on that we haven't talked about?

Becky Schilling (07:04):

My signal is travel over the Memorial Day weekend, AAA expected nearly 44 million people to travel during that weekend, which was up 4% year over year. The TSA said that they hit a record all time high with a number of passengers screened in a single day. That was on Friday. And the AAA survey also found that a good chunk of Gen Z and millennials said that their travel plans were tied to events. And if you think about what happened with Taylor Swift's recent tour and increasing demand for flights in the regions whenever she's playing, I think it's

a really good indication of how consumers are feeling, but also what they're willing to pay for, what they're willing to spend money on. And don't forget that travel isn't just about the transportation. It extends other things like accommodations, meals, tickets, shopping, other pleasure based spending. And so when I see these travel numbers perk up, it makes me feel like the retail side of things is also perking up.

Sara Lebow (08:04):

I'm being so targeted on this episode as someone who traveled to see Taylor Swift perform last year,

Zak Stambor (08:10):

But you're so far from alone. I mean, I just look at my social media feed and people are in Portugal. They're going as

Sara Lebow (08:18):

Someone who's going Portugal next week

Zak Stambor (08:22):

Or they're going, my friends are largely going to the spear and seeing fish or the dead. And so this is just happening all over. And so it really is indicative of the fact that consumers still have money to spend, real pages are up and they're spending, it's just like Becky said, how they're spending is shifting a bit because to go back to what I was saying a few moments ago, they derive real value from that experience, whereas they don't get the same belt. Buying a T-shirt traveling part,

Sara Lebow (08:58):

This concept of value, how are we seeing it play out in earnings?

Becky Schilling (09:04):

I mean, I think you can see it in some of the companies that have been doing well in the past quarter is again, there are certain categories, there are certain products that consumers are willing to spend their money on. We can take a look at Abercrombie, right? They posted their strongest first quarter in history this past quarter, 22% fiscal sales growth in the first quarter. And one of the things that the CEO had mentioned was that they opened this wedding shop,

which they said clearly exceeded their expectations. That Wedding Shop opens, offers mid-tier prices and pieces that Abercrombie says you can use, not just on the wedding day, which is anytime you've been in a wedding that that's the biggest thing is that you spend all this money on something that you can never wear again. So Abercrombie says you can. So it's really interesting that that's the value they're putting out there is that you can wear this to the wedding, it's not going to cost you an arm and a leg, and then you can also wear it to a party or to a work event or out with friends on a date.

Zak Stambor (10:07):

Yeah, I think that's exactly right. I think people derive value from items that are on trend and also that they feel like are somewhat high quality. And so that's why you are seeing Hoka sales jump 34%. That's why Croc sales continue to just soar. And it's just time it again, these items that people value are continuing to sell.

Sara Lebow (10:33):

One company that does have low prices, but I would say high value as well that had a good earnings is Elf Beauty. And I think that's also indicative of that category at large. We are projecting health and personal care. Sales will rise 14.4% this year, and beauty specifically will rise 12%. And Elf, I think is an area where consumers are seeing that value.

Becky Schilling (10:59):

I think it's interesting because Ulta warned of pulling of cooling growth and beauty before Elf came out with their results, but Elf products are doing really well at Ulta, and so it's going to be very interesting to see if there is a divergence or if that cooling doesn't happen as much as Ulta has warned in their earnings.

Zak Stambor (11:20):

Yeah, it did seem after Alta said that it was an Alta specific issue going on rather than an industry wide phenomenon as front of me, but there were several other brands that subsequently reported pretty decent results.

Becky Schilling (11:40):

I think Elf is more about the branding around Elf right now. They posted their first billion dollar fiscal year, their sales grew by 77%. I think they have really great strong branding, really great

marketing, it's cold favorite for Gen Z. They have this focus on dupes. I think everything that they're doing as a company in the marketing space is really working right now.

Sara Lebow (12:03):

Okay. This has been such an optimistic episode. I feel great. I feel ready to go spend all of my money, but I don't actually feel that way. I still feel pessimistic. I still feel like prices are high. Let's talk about some earnings that aren't so good. I mean, Kohl's just came out with earnings and they were awful.

Zak Stambor (12:23):

And I think it all makes sense though. I really do because I think retailers and brands with very strong brands and brand positioning are doing well and those that aren't or are struggling to define why somebody should buy their products or goods are struggling.

Sara Lebow (12:44):

Are you saying Kohl's cash is poor brand positioning? They have a whole currency.

Zak Stambor (12:48):

So Kohl's time, and again, I've said they lean so heavily into other brands to drive consumers into their store, whether it's Sephora or Amazon with the returns or lately babies of Rust. So those brands may get you into the store, but what about Kohl's? What does Kohl's stand for? And why are you shopping or buying a pair of jeans from Kohl's when you could get a very similar, it's not the exact same pair of jeans from any number of other retail.

Sara Lebow (13:20):

Well, what's interesting is that Jeans specifically, it's funny you bring that up because my social media feed is full of how good Abercrombie's jeans are, which is a brand that we singled out as having good earnings. Yeah,

Zak Stambor (13:31):

There you go. Right?

Becky Schilling (13:32):

I think my challenge with Kohl's is that it's so focused on discounting and coupons in the Kohl's cash is lowering that value perception of what we've talked about, and I think at this point, that's hurting the brand more than it's helping it.

Sara Lebow (13:48):

Oh yeah, for sure.

Zak Stambor (13:49):

Well, right. Yeah. That's why you're seeing off price retailers have their moment in the sun because they also are offering items at relatively low prices, but they also offer that excitement around the hunt and the somewhat fun, exciting experience of shopping in their store. And Kohl's, no matter what you might say, is not a fun experience to go into the store or go online.

Sara Lebow (14:19):

On that note, putting you both on the spot here, any 32nd takeaways from this conversation?

Zak Stambor (14:25):

I think things are generally good, but the unremarkable retailers and unremarkable brands are going to struggle because consumers are not going to open their wallets and spend for them. Their only spending when it's enjoyable, when they derive some pleasure from the purchase

Sara Lebow (14:48):

Solid. What about you, Becky?

Becky Schilling (14:50):

It's all about value proposition. Several CEOs in their earnings calls said that they had exceptionally high full price selling in the last quarter. Consumers will spend, they just are really picky about what they're going to spend and if they feel like what they're getting is a good value for them, and that does not mean price, they're going to spend a \$5 T-shirt is probably not something that somebody's going to buy, but an \$80 pair of jeans, they may because that to them is worth it.

Sara Lebow (15:22):

Love that. Okay, that is all we have time for today, so thank you for being here, Becky.

Becky Schilling (15:28):

So happy to be back on the pod.

Sara Lebow (15:30):

Thank you, Zak.

Becky Schilling (15:31):

Yeah, thanks for having me.

Sara Lebow (15:32):

Please give us a rating and review wherever you listen to podcasts. Thank you to our listeners and to Victoria who edits the podcast and who I think had a solid start to the year. We'll be back next Wednesday with another episode of Re-Imagining Retail and Tomorrow join Marcus for another episode of the Behind the Numbers Daily, an e-Marketer podcast made possible by Roundel.