Retailers shift strategy as middle class turns away from name brands

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Thrifty isn't just the spending mantra for shoppers these days. It's also the new marketing plan for a growing number of retailers.

As the recession squeezed the middle class, many people shifted their preference for buying name-brand goods at the local grocery or department store to seeking cheaper brands, store-brand goods or discount prices.

The marketplace has responded. Behemoths such as Procter & Gamble have changed brand strategies, putting more emphasis on cheaper laundry suds such as Gain versus Dawn. And luxury brands such as Missoni have developed limited lines for Target. Discount store chains are booming.

Valerie Thomsen recently scored a Duncan Hines cake mix during her regular Dollar Tree stop in Royal Palm Beach, where she shops regularly for off-brand cleaning supplies and candles.

The dollar store used to be her destination for extras. But she said she's spending more of her dollars there now, especially as she finds more name brands such as Duncan Hines.

Loyal customers like Thomsen are reflected in the rapid growth of dollar stores in the down economy. Dollar Tree expects to have opened 275 stores by the end of the year, spokeswoman Shelle Davis said.

Thomsen considers her family middle-class, but the Acreage resident saw her income decrease during the Great Recession. As an American Indian, she receives casino revenues, but those are like any investment these days - down.

"I spend less in general," Thomsen said, describing how she limits her shopping trips with her granddaughter, whom she baby-sits in her semi-retirement.

"There's no question the consumer has moved down-market in purchasing things," said William Stronge, professor emeritus of economics at Florida Atlantic University.

Retailers adapt

Middle-class shoppers who have changed their buying habits are rattling the business plans of retail giants such as Procter & Gamble, The Wall Street Journal reported. During the recession, sales of brands such as Tide and Gillette suffered as people looked for lower-cost alternatives. The brand has introduced dish detergent in its lower-price brand, Gain.
Recent retail sales figures show that people are spending more than they did in the recession, but it's not much. Sales have risen almost every month this year, and September posted a large jump for these economic times: a 1.1 percent increase from August and a nearly 8 percent boost from September 2010.

But shoppers don't feel good about it. Consumer confidence remained at recession levels in September, even though it inched up slightly.

The reality is that some of the middle class has joined the lower class because of the recession. Thousands of families in Palm Beach County in the $50,000-to-$150,000 income bracket have slipped since 2006, according to census figures. The lower-income brackets here have grown, although the margin of error inherent in these surveys means it's possible there's been very little change.

"There are reasons to believe that people who were in the middle class may have been pushed down, and it may have happened more here than elsewhere," Stronge said.

Many people who haven't lost income still have gone several years without raises, living under the constant specter of layoffs. Retirees have seen nest eggs fluctuate wildly. Maybe that's why so many people are spending as if they've joined the lower class.

Carol O'Keefe of Palm Springs was shopping recently at the West Palm Beach Dollar Tree on 10th Avenue North, where she buys aluminum foil and garbage bags.

The private-duty nurse said she buys more store-brand clothes and shoes, even though her family budget hasn't changed much.

Brand names used to be a "surrogate for value," said Robert Passikoff, president of Brand Keys, a market research firm concentrating on customer loyalty issues. But people have learned that some of that value is not so obvious. Maybe they tried a cheaper alternative and discovered it worked just as well, or nearly so.

"The issue of a soft economy is that in the absence of a real brand value proposition, people are going to buy on price," Passikoff said.

Stores and brands are getting on board.

Missoni made a big splash with its limited run at Target, and Versace is planning a line with fast-fashion retailer H&M. Such luxury brands hope consumers in their 20s will buy the full-price items into their 30s and beyond.

With its latest iPhone rollout, Apple is offering older models at prices significantly cheaper than at their launch, specifically a "free" iPhone 3GS, with a two-year contract for wireless service. All phone companies offer discounts for the promise of a contract, but Apple can be considered a luxury brand that rarely discounts.

**Looking ahead**

Daniel Burrus, a consultant who advises businesses and issues forecasts on technology, said Apple is using a strategy that plays to the slower economic recovery and absorbing some of the phone costs to gain bigger sales later.
Although there is a movement down from the middle now and the jobless recovery is keeping people there, it will cycle back, Burrus said.

Melissa Swanson, who was shopping at the Royal Palm Beach Dollar Tree with her 4-year-old daughter, Myah, said her middle-class family of four has had to watch expenses since her freelance work has dried up and her husband, Rob, has gone three years without a raise.

She now shops at Goodwill for clothing and household goods. If she can't find them there, she tries the clearance racks.

"Unless it's something we really, really need," Swanson said, "if I can't get a deal on it, I don't get it."

*Staff writer Adam Playford contributed to this story.*