

Emerging Retail Trends Report

Q4 2023

Entering the last quarter of 2023, retailers have adopted innovative approaches to engage with customers to maintain growth and sales during a period of ongoing economic challenges. Deloitte has identified the following insights:

- Consumers remain cautious with regard to their spending, with a notable increase in bargain hunting
- Transferring return responsibilities to the customer might lead to short-term cost reductions, yet poses the risk of long-term customer dissatisfaction and erosion of loyalty
- Embracing emerging social media trends centered on personal, one-on-one interactions can help retailers establish close-knit communities, acquire valuable consumer insights, and harness the ever-evolving digital preferences of the younger generation

Trend 1: Amplification of Bargain Hunting

Consumers are increasingly seeking value as the U.S. economy battles persistent inflation and the 2023 holiday season begins. Shoppers are shifting spend patterns across retail categories, cutting back on high-priced items and home goods that saw a sales bump over the pandemic, and hunting for bargains at discount and off-price retailers instead of higher-end department or luxury stores. The following data reflects the evolving consumer preferences and spend patterns. While [consumer spend grew 0.7% from July '22 to July '23](#), shoppers are increasingly looking for sales and discounts, confirmed by [off-price retailers such as Marshalls reporting a material rise in sales](#). Additionally, in a [2023 holiday retail survey](#) of consumers Deloitte found that, “consumers only plan to shop 5.8 weeks this year, down from 7.4 weeks pre-pandemic,” alluding to the fact that retailers’ could see the most opportunity for gains around promotional periods.

Hunting for Deals: Consumers shifting to off-price retailers

In 2021 and 2022, luxury retailers in particular experienced strong growth from U.S. shoppers, though now, that [growth seems to be slowing](#). “The global mood is not one of revenge buying like we saw in 2021 and 2022...[with] sluggishness in the U.S... [global] sales in the sector continue to weaken” said the [CFO of the one of the world’s largest luxury firms](#), and considered the bellwether of the sector. [In Q2 2023](#), various luxury brands saw declines, some even as great as a drop of 23% among U.S. sales. With this decline in revenues trend occurring across high-end, ‘luxury’ department stores as well, some department stores have pivoted to prioritizing their off-price business units/divisions in an effort to combat the downward pressures that are expected to continue throughout the rest of FY23.

[According to the International Council of Shopping Centers](#), “...consumers are continuing to spend, but they're price conscious. And so they're going to look to retailers that offer discounts...” This has benefited off-price retailers, such as TJX Companies, which reported strong gains in profit and revenue [for the latest quarter](#) driven by powerful customer traffic and premium inventory gains from higher-end retailers offloading excess inventory.



After seeing large scale returns in last year's holiday shopping season, retailers have responded by tightening their return policies in a bid to recoup much of the cost of goods they lose through the return process.

Actions to take

It is important to understand that this trend is more complex than consumers merely wanting to save money. Consumers are *still* spending and *still* want high-quality items, but they've evolved their *approach and behavior* to procuring these items. Consumers have become more *disciplined* in their habits, turning to off-price retailers to hunt for these high-quality products at a discount, thereby decreasing discretionary spend at higher-end and/or luxury stores.

For the discount retailer, consider capitalizing on excess inventory in warehouses / stores, prioritize sought-after products, and then offer these discounted rates to consumers to drive in store traffic.

For all retailers, regardless of demographics and/or price points: build consumer loyalty via incentives and loyalty programs – seek to create 'stickier' retail platforms and experiences for consumers. Strong customer loyalty programs can help incentivize customers to stick with a particular store / retailer, as they feel that they have preferential status and deals compared to other customers.

Trend 2: Shifting the Burden on Returns

As many retailers look to capitalize on the holiday shopping surge, they are also starting their sales earlier than ever. At the same time, aiming to minimize costs, many have chosen to tighten their return policies and transfer the responsibility to consumers. While this strategy might result in short-term cost reduction, the possible negative consequences of upsetting their customer base and eroding consumer loyalty could give rise to lasting challenges.

Returns, with a catch

After last year's holiday shopping season, companies saw return rates as high as 10-16%. Returns are notoriously costly for retailers, and, in some cases, can even cost up to two-thirds of the original item's price. As a result, many retailers launched efforts to be more restrictive with their return policies, hoping to discourage mass returns. However, this unintentionally deteriorated the shopping experience for customers that expect returns as an anticipated benefit rather than a value-added proposition. A recent report indicates that 56% of consumers are willing to pay for hassle-free

returns and 98% are more likely to order again because of convenient returns. Some retailers like J. Crew and Urban Outfitters are balancing stricter returns while attempting to still live up to consumers' expectations. They charge a fee for [mailing back online orders](#), but allow items to be returned free in stores. This allows retailers to reduce their shipping/restocking expenses while also encouraging consumers to visit their physical stores and, ideally, buy more items. While simple returns are still an option, retailers are placing big bets that they can change consumer behavior and expectations.

Actions to take

So, what should retailers do to balance profitability with consumer desires? While short-term profits from shifting the onus of returns to the customer can be tempting, this holiday season retailers can consider implementing more intuitive, seamless return experiences. Retailers should communicate their return policies very clearly during the purchase process and reduce as many intermediary steps as possible. Consumers can be more likely to buy additional items if they feel comfortable with the return policy. The extra peace of mind could serve as additional motivation for them. For retailers who cannot provide a generous virtual return experience, consider alternative ways to elevate the customer experience by providing in-store discounts with in-person returns or other innovative tactics to provide the same satisfaction.

Trend 3: Building a Digital Community: Nurturing Brand Loyalty in the Digital Frontier

Retail and consumer product brands are in hot pursuit of staying relevant and connected with the younger demographic, especially Gen Z, as they trade public forums for more personal and intimate social media platforms. Messaging and digital community apps are gaining popularity and becoming a more preferred platform for shoppers. Retail and Consumer Product brands are taking notice and dedicating more of their marketing efforts to these platforms.

Putting the 'social' back in social media

While platforms like Slack, Geneva, and other alternative social media platforms were already popular pre-COVID-19, they experienced a tremendous surge in popularity as individuals sought more intimate and personal digital interactions. These spaces, referred to as "digital campfires" by [Harvard Business review](#), allow brands to connect on a more personal level with consumers, leading to more intuitive product development and an organic, deeply loyal, group following.

Digital community composition

"Digital campfires," defined as more private and interactive online spaces than more mainstream social media platforms, are particularly popular for Gen Z and Gen Alpha – roughly those born after 1997, or 26 years or younger. Younger generations feel an acute sense of pressure to carefully curate their online presence, on display for their online friends and followers. As a counter to this pressure, younger consumers are attracted to the [greater privacy and opportunity to form authentic connections](#) online. Additionally, Gen Z and Alpha also have formidable buying power - Gen Z is now responsible for over [\\$100B dollars](#) in combined spending power globally, and the oldest of Gen Alpha are turning 13 years old and beginning to heavily influence household purchases - and social media is where they turn for inspiration. [97%](#) of Gen Z shoppers use social media for shopping ideas and [45%](#) have bought something online after seeing it on social media.

Brands' experiments with 'Digital Campfires'

Initially, [DTC startups](#) were quicker to jump into the space, taking advantage of the opportunity for direct, real-time communication with their audiences. They were able to gather valuable consumer feedback and foster a collective sense of brand ownership, inspiring other Retail and Consumer Product companies to quickly follow in pursuit of the same benefits.

Brands like Supergoop!, Mejuri, and Rare Beauty all have built up strong followings on more mainstream social media platforms but are now branching out to other platforms to create stronger communities. One such app is Geneva, a social app that has seen triple-digit growth in members, particularly among Gen Z women, to create one-one-one relationships with their consumers and cultivate a hyper-engaged online community. Some brands have created themed servers that appeal to consumers with overlapping interests, even if the brand itself is not at the center. Notably, [Hot Topic](#), an American retail chain, recently launched an anime-focused chat server called [Anime & Beyond](#) which has grown to over 10,000 members.

While this trend may not be a stark pivot away from traditional marketing techniques, it does demonstrate a shift. Companies are incorporating "digital campfires" into their expanding arsenal. These nascent digital community platforms may hold promising rewards for brands, including first-party research-driven product development, increased market exposure, and enduring brand loyalty.

Conclusion

As 2023 comes to a close, retailers face both an acceleration of known trends around returns and economic distress while also facing new frontiers and opportunities. As we enter the new year, retailers will continue to need to think innovatively in order to grow in continued economic uncertainty while also seizing opportunities to build community and attract and retain customers.

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