

## THAT MAKES CENTS



### Season 3 Episode 10 A look back at the 2022 holiday shopping season

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**Bobby:** Hi everybody, I'm Bobby Stephens. Welcome, or welcome back, to *That Makes Cents*, the podcast where we break down consumer industry trends and explore their impact on both businesses and on us, as consumers. With the holiday season just behind us, today we are going to take a very special look at highlights from Deloitte's annual *Holiday Quick Take Report*.

We'll cover the major themes we observed this season, including a shift in consumer buying behaviors as the overall economic environment shifted. We'll also cover some interesting trends regarding retailer strategies around this 2022 holiday season. Joining me today are Meghan Cole and Alexandra Heckel, who helped co-lead

the Deloitte Consulting team behind this very festive report. Thank you both for being here, and welcome to the show.

**Meghan:** Thanks for having me again, Bobby. I'm looking forward to our conversation today.

**Alexandra (Alex) Heckel:** Thanks, Bobby. I'm excited to discuss what we saw.

**Bobby:** Great. Thanks to both of you for joining me, this will be really fun. I got to participate in some of the workup to it, although you guys did 99% of the work. I'm really excited for you guys to share this with our listeners.

For our returning listeners, you may know that in conjunction with our holiday podcast, which you are listening to right now, we also publish a report in much more detail that compares the predictions that were made to the results from the holiday season and provides a deeper dive into some of those things. Please go ahead and check that out on [Deloitte.com](https://www.deloitte.com).

Now, we do have a wrap-up on the numbers, and Meghan, why don't we just start there. Can you give us a quick overview of what we really observed this season at a high level?

**Meghan:** Sure thing, Bobby. As you mentioned, consumers and retailers entered this holiday season with quite a bit of economic uncertainty.

Given this sentiment, Deloitte forecasted there would be moderate year-over-year growth in total retail sales, somewhere between 4% and 6%, and stronger year-over-year growth in e-commerce sales between 12.8% and 14.3%.

As we look back on the holiday season, we see that actual growth slightly surpassed our overall projections. The recorded year-over-year growth rate did vary between sources, which is typically due to different methodologies as well as data sets. We observed that the growth range from 5.3% to 7.6% for total retail sales, and from 3.5% to 10.6% for e-commerce sales. I would also like to note that while overall spend growth did exceed analyst projections, high inflation during the period reduced consumers' overall buying power and significantly offset the actual growth.

We saw purchasing behavior shift this holiday season as consumers took a more cautious approach; some shopped around for discounts, others used buy now, pay later, but I know we'll get into the details shortly.

**Bobby:** Those numbers are pretty interesting, totaled up a bit from projected, e-commerce—maybe not. To me, that signals a couple of things that we might want to keep our eye on. One is simply that consumers shopped a little bit more in stores than they have been in recent years, which can be understandable, for a variety of reasons. The other is just that the comparison of e-commerce year over year—the last couple of years have been so high, in terms of year-over-year growth, in terms of e-commerce—it would be hard to replicate that as we've come out of the pandemic.

It'd be sort of interesting to keep our ears open as you look at the report offline to see what you think about it when you look at that. But if we go beyond those top-line numbers, what are some of the major trends that listeners should know about?

**Meghan:** As we were developing this year's report, we wanted to look at a few primary focus areas as we summed up the year. First off, how would consumers shop, coming out of the pandemic? As you mentioned, would they return to brick-and-mortar stores, or would they rely on e-commerce? Additionally, how would consumers make decisions about when and what to buy? And from a retailer perspective, how did retailers meet shoppers expectations with in-store and digital experiences? I know that Alex and I are both really excited to discuss the answers and data behind these questions.

**Bobby:** Perfect. And sorry, I jumped ahead of you a little bit on that. I was so excited to think about why the predictions were a little different, but also some of the trends you just mentioned there—I'd love to discuss those. I'm curious to learn, first, more about consumers just spending more time, and potentially more wallet, in retail stores—you know, brick-and-mortar—this year. That's probably good news to some people.

Alex, what did this look like, and maybe add on to that, when did consumers start their holiday shopping this year?

**Alex:** Totally. So this year consumers did spend more time in stores, and this was fueled by an uptick in the buy online, pickup in store (or BOPIS) option that retailers continued to provide. Nearly one out of five orders was made through BOPIS demonstrating that this pandemic convenience will likely stay around as we get a few years away from 2020.

Additionally, customers started shopping earlier than the usual Black Friday and Cyber Weekend holiday kickoff; nearly half of customers were finished with their shopping by December. I was not one of them! But retailers contributed to this earlier shopping trend by offering early access to loyalty members and an increase in pre-Black Friday deals.

Now I have to ask, when did you all finish your holiday shopping?

**Bobby:** Meghan, you want to go first?

**Meghan:** I was a bit of a laggard. I think I was about two days before Christmas when I finally wrapped things up.

**Bobby:** Wow, I win, but because of necessity. My whole family travels before Christmas, so we do everything early. I had to be done early, and also I will state for the record that my wife gets most of the presents for the kids and the extended family, so I really only had to shop for one person. That also made it a little easier—a little degree of difficulty and a forcing function of a deadline.

But I think it's really interesting to learn about how behaviors have shifted quickly, frankly, as we came out of the pandemic, for both consumers as well as retailers. Alex, before we shift to the retailers, or even just the economic conditions, I'd like to keep it just a little bit more about the season itself and gifting. What were consumers buying this year for the holidays?

**Alex:** Absolutely, that is a great question, Bobby. In the past few years, we've seen home improvement, electronics, and home really come out as the big winners since 2020. But this year we saw a shift away from these categories that was reallocated to mass, grocery, club, and drug and convenience—generally more the non-discretionary categories.

This shift in focus away from the specialty retailers did not just impact the home category, but also last year's big winners: department and footwear and apparel. Based on everything we've discussed so far, this shift in consumer focus is likely due to the impact of inflation on discretionary spending.

**Bobby:** At first glance, and what you mentioned there, it seems like at least some consumers were just more cautious. Even though the overall number was positive,

there's definitely pockets of the consumer base that were more cautious, perhaps anticipating the downturn, or some just adjusted given the potential impact of inflation that they were already seeing or would see. How did the other side, how did the retailers, respond to this? What did they change in terms of engagement with consumers going into this year? Meghan, you can handle that one.

**Meghan:** Sure thing. Last year we saw retailers experience a significant increase in customer returns. The rate climbed to almost 17%. Going into this holiday season, consumers were expected to return over \$1.4 billion in holiday purchases, representing a 57% increase year over year. To mitigate this financial impact, and the logistics headache that comes with these returns, retailers shifted their policies to disincentivize consumers.

For example, some retailers abbreviated their return windows to just one month after purchase, while others took it a step further and put the onus of the shipping and processing fees on the customer. We saw that these shifts were relatively common across most retailers, with 60% making some sort of change to their policy. I'm really interested to see if this trend continues as retailers de-prioritize return flexibility—and what impact that will have on the overall customer experience.

**Bobby:** That's pretty interesting, especially if you combine what people bought—bought more things from mass, club, department versus home improvement that are—maybe this isn't perfect, but—probably are more likely to be returned. And so you combine that with the expectation of that \$1.4 billion in returns. It's not a surprise that retailers tried to put some sort of a governor on that. Alex, what's something else that you saw that we should be keeping our eye on?

**Alex:** Another shift we saw is the buy now, pay later (BNPL) option continuing to be popular among consumers, particularly within millennial and Gen Z shoppers. A

significant number of customers, almost 25%, were worried about paying off their debts and the ability to afford gifts impacted by rising inflation. Retailers and financing partners offering BNPL were increasingly popular at the end of 2022. More than a third of the shoppers during Cyber Weekend indicated that they would use a financing option for their holiday shopping.

**Bobby:** That seems like something that's interesting this year, but also to keep an eye on as we move into both subsequent holiday seasons and retail and consumer spending in general; a really interesting one to kind of keep an eye on.

Something else that we've discussed on a previous episode of this podcast was frontline workers, who—especially with people spending more time in stores, as well as e-commerce in terms of shipments and in the warehouse, and people driving things to people's houses—are important. During the pandemic we saw that unprecedented demand. What trends did we see from retailers this holiday season as they prepared, perhaps, to meet even greater demands from consumers?

**Meghan:** This year, seasonal hiring took an interesting turn, Bobby. Like you said, last year, we experienced a labor shortage. This year, we saw a 26% decline year over year in seasonal positions; for the first time in 15 years, the retail industry added the lowest number of retail seasonal jobs during the month of November. So as we head into 2023, and if inflation eases, we anticipate that seasonal hiring may be a bit higher as retailers become less focused on these cost-reduction behaviors.

**Bobby:** That's a really noticeable change from prior years. I wonder—and I don't know if we can answer it today—if the cause was more supply or demand related? It's certainly a little bit of both, but which was the more principle driver there: retailers trying to manage costs, or just not having a ton of people willing to do the seasonal bump-up work that they had done in the

past, especially in stores and other things like that?

One thing we've kept dancing around, but never hit head-on was overall economic conditions. How have the current economic conditions, both real or perceived, impacted consumers' behavior this season?

**Meghan:** This year, the economy was another driving factor, as most consumers focused on discounts. When surveyed before the holiday season, 60% of consumers said that discounts and sales would be a deciding factor in where they spent their time shopping, which was definitely top of mind for me too. Retailers responded to consumers by offering steeper discounts this year, especially on Cyber Monday: toys were discounted at an average of 34%, and electronics were discounted at an average of 25%.

We also saw that retailers experienced excess inventory, which was a shift from last year's concerns of supply chain and low stock issues. This encouraged retailers to offer additional post-holiday deals to clear out their inventory, even after the holiday season had wrapped up.

**Bobby:** One thing we do keep an eye on every year, as we hop around from trend to trend here, is social media—social commerce, digital experiences—and how that significantly influences consumers and their buying behaviors; what they buy, how they buy it, etc. So, how did this ever-present trend shape this year's holiday season?

**Alex:** You're right, Bobby. Social media has been a central theme every year. This year, in particular, we saw one social media platform well known for creating and sharing videos gain a significant share of influence with consumer decision-making. Additionally, retailers used the metaverse to create new experiences for their consumers as well. Overall, I think the digital environment will remain influential during the holiday season.

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**Bobby:** I love it. So, we did a great job going around from trend to trend and picking out some really interesting ones, but the frequent listeners of *That Makes Cents* will know that we like to end usually on a more personal, fun, festive note. Honoring that tradition, what was really unique about your holiday shopping, perhaps this year compared to prior years? Or what was the most unique gift that you gave or received? Meghan, why don't we start with you, and then, Alex, you go second, and I'll close it up.

**Meghan:** Sounds good. So for me, this was the first time that I was out of the country during Black Friday, which has always been one of my favorite shopping days. I love finding great deals and bargains, but fortunately when I returned I was still able to take advantage of retailer's sales and discounts during the month of December and finish all of my holiday shopping, just in the nick of time.

**Alex:** I typically lean on my sister to do all of the planning and present purchases, and I like to just do collaboration upfront and give her a list. But I participated in execution a bit more this year, and I actually made Mickey ears out of money for my parents, who are going to Disney World for its 50th anniversary. I gave the gift of inflation, but pulled out some craftiness as well.

**Bobby:** Well done, well done. You know, it's interesting, even though I'm not a Gen Z, we did a Gen Z theme: We used hand-me-downs for gifts. I have a seven-year-old daughter, and she's very into a certain type of doll that you guys have probably heard of that is very prevalent, and the accessories for this doll are numerous and not cheap! Luckily she has a cousin who's a little older than her, and we were able to take a lot of the hand-me-downs from her and mix it in with a couple of new items to create a very fun, themed Christmas for her. That was fun, and also a little easier on the checkbook for us. So that was great.

Both of you, Alex and Meghan, thank you so much for joining our special holiday recap on *That Makes Cents*. Big thanks to you and the team for all the work you've done, for joining to share your takeaways, and providing us the nice, high-level overview of this.

For more information—and honestly there's a ton more information—look out for our *2022 Holiday Quick Take Report*. I hope both of your years are off to a healthy start. I know we're a few weeks into it already—and everyone out there, same thing to you. Catch you on the next episode, and be sure to subscribe to the show so you can be notified when our next new episode drops.

Happy 2023, everyone!

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