

THAT MAKES CENTS



Cheat sheet: Back-to-school retail trends

Host: Bobby Stephens, principal, Deloitte Consulting LLP

Guests: Rod Sides, vice chairman and US Retail, Wholesale & Distribution leader, Deloitte LLP
Kate Ferrara, US Retail, Wholesale & Distribution leader, Risk & Financial Advisory, Deloitte & Touche LLP
Tanya Ott, Press Room podcast host and producer

Bobby Stephens: Hey everybody! Welcome or welcome back to That Makes Cents—the podcast where we discuss the wide-sweeping impact of consumer trends. It's still July so some, including myself, say that summer is in full swing. However, for students and parents, the time has come to start preparing for the upcoming school year.

Unlike last year, when schools were still undecided between remote, virtual, and hybrid, many schools and universities have already announced their plans for the school year. And a large portion of students will be gearing up to return to physical classrooms.

Will school supply lists look similar to 2019? When, where, and how are people planning to do their school shopping? In our last two episodes, we explored how pandemic-

influenced consumer behaviors impacted the food and health care industries. What consumer behaviors and preferences are in play for retail going into this back-to-school shopping season?

To answer those questions and get a sense of what we can expect in the coming weeks, Deloitte surveyed 1,200 parents of school-aged children on their shopping plans. The good news is the outlook for the season is bright, with spending set to increase by 16%.

To find out why that is and really delve into the survey findings, I'm going to share excerpts from a new episode from our friends over at The Press Room podcast by Deloitte Insights. You'll hear from Rod Sides, vice chairman and leader of Deloitte's US Retail Practice, who produced the survey

with his team; Kate Ferrara, who leads the retail sector for Deloitte's Risk and Financial Advisory practice; and podcast host Tanya Ott. They break down the survey findings and highlight how some of these new trends may impact retailers. Let's hear what they have to say.

Rod Sides: We were expecting a lot of parents to roar back in with their wallets and be able to try to make up for the last year, and that's exactly what we're finding.

Kate Ferrara: So overall, we see spending up about 16% year-over-year from last year, which is a big jump. The average back-to-school spend per child is about \$612 per student. And 40% of the households that we surveyed expect to spend more on back-to-school items than they did last year.

Tanya Ott: When you did your survey last year, just 17% of respondents said they were more confident in the economy's prospects. That number is up dramatically this year. I was surprised to see that 78% said they were in either similar or better shape than they were last year. What do you make of that number?

Rod: A lot of it has to do with the stimulus packages that were put in place. A lot of folks have stockpiled some cash along the way. So they believe that they're at least poised to return to the school year with a little more in their pocket and the prospects of seeing things like retail sales, et cetera, pick up in the back half of the year. Many economists and probably many consumers felt like that once we were able to raise the controls or what have you from allowing people back in the marketplace that we would see that kind of a rebound. That's why the prospects are up so much year over year.

Kate: I also think this time last year, again, so much uncertainty of what the school year was going to look like. With the economy and questions about the economy, people just were spending less as well, I mean, didn't perhaps need as much apparel or shoes, some of the traditional back-to-school items that we typically see. There was a lot of remote learning going on or being planned for, too. So it's also a combination of less spend last year as well as people just feeling a lot more positive about their own personal financial situation, as well as the economy.

Bobby: Bobby here. I'd like to jump in with my two cents. We've seen across so many industries how the pandemic has forced us to embrace the use of technology and digital in our daily lives. Just the past two episodes of *That Makes Cents*, we looked into how the food industry and the health care industry went digital. Schools and colleges did so in a big way as well, and going into the next school year, we'll see that digital adoption reflected in the products parents have to buy for their children to succeed.

Kate: The absolute biggest percentage jump was technology. So while there was sort of a modest, like 2%, growth in more traditional products, things like school supplies,

your pens, your pencils, and apparel, the biggest jump was in electronics, computers, hardware. We saw a 37% year-over-year jump in things around technology products and only a 2% jump in the traditional products. So that's a trend that is not surprising given, again, the fact that we still could have some hybrid learning next year. Even if students are fully in the classroom, a lot of these students are just used to a more digital learning experience, using the portals, using some apps that they used last year. For my own children, they're really using the technology more and more. They've gotten used to that. So that was probably one of the biggest changes that we saw this year in the survey and how much the digital learning has really propelled the technology spending this year.

Rod: The other thing that's kind of interesting in that space is that a lot of the elementary schools started to really use technology in a way that we hadn't seen before. So I have friends and colleagues who talked about the fact that tech was being now integrated even at the kindergarten level, which is quite amazing when you think about it. However, a lot of kids are really ready to use it at this point because we do expose them so early.

Tanya: What I found maybe a little bit surprising, at least to me, was that the tech spend was up so dramatically or is expected to be up so dramatically this year. I would have thought that people would have already purchased the laptops or tablets or other technology that they needed last year.

Rod: They probably did make some of those purchases, but at that point we didn't know how permanent this change would really be. So there was some of that that rebounded. I also believe that we're seeing a major growth in the middle-income folks making those investments. We looked at the pickup of tech spend among that middle cohort, which is \$50,000 to \$100,000 [annual income] and we saw that grow dramatically. So what that told us is that that group of individuals didn't necessarily invest last year, but they know they're going to have to this year. That really propelled a lot of the growth as well.

The other thing that's interesting as well is that when we look at things like digital subscriptions for learning aids, et cetera, that also continues to stay high and has continued to grow year over year. The interesting thing about that is that you would expect that to subside as we go back to, quote unquote, normal classrooms. If you remember, last year, there was a fair amount of anxiety around the quality of education that perhaps the kids were getting. What that says is that parents were able to supplement some of those online learning, they have stayed with that. And so they continue to make those investments on behalf of their kids so they get the extra help they need, but in a digital environment.

Tanya: We have also faced some real issues with supply chain. What types of school supplies are being most affected by supply chain issues?

Rod: There's been interesting shortages that we see across a number of products, not just what we're dealing with with paper products last year. But shelves themselves are not quite as full as they've been in the past. That's really driving a lot of the parents to start to shop earlier.

Kate: One of the things that could be a bright spot for some of our retailers, 59% of the spend is going to happen before the end of July. Any time you can get a customer to start shopping earlier, generally they're going to spend more. So to the extent that you get people in the stores, get promotional early, get people starting to shop early, that could also be a bright spot for retailers in terms of overall spend.

Rod: That's a move forward of about two to three weeks from what we normally see. It's just interesting how shoppers are pretty attuned to the challenges they're seeing manifest themselves that a lot of retailers have had to deal with.

Bobby: It's interesting we've seen shortages of all kinds of products—workout gear, tents, and home improvement supplies over the past year or so. What was a little surprising to me from the findings was that the category of traditional supplies—things

like backpacks, pens, paper, markers—are only up 2%, which is small compared to the jump for the tech category. More on that from Kate and Rod.

Kate: So when we look at tech, it's much broader than just a laptop that you might bring to school. It's some of the software that goes along with it, the subscriptions, as well as just kind of the manifestation of wearables, of mobile, and everything that goes along with that. That's getting younger and younger. I mean, we're certainly seeing that driving down even to the elementary levels.

Rod: Things like casualwear we expect to be down 10% year over year. But uniforms and shoes, we expect to be up. So it really is an interesting look at subcategories in terms of how we expect them to perform. So in general, the spending across every category is going to be up, but there are going to be pockets of winners and losers like we always see.

Kate: There's a couple of key insights that came from the survey. One is this real movement toward athleisure, which is not a new thing. The leggings and the comfortable clothes, but certainly most people who have spent most of the past year or so at home have gotten used to a much more casual attire. But I also think there is a bit of pent-up demand with some of the apparel. Some of those students that maybe didn't get a new wardrobe last year because they weren't back in school or get those new shoes that they're going to wear on the first day of school last year, I do think that we'll certainly see an uptick in that. The other piece that came out of our survey, which is interesting, is with some of our higher income respondents, they're certainly interested in fashion and spending more money in particular on that athleisure concept that I talked about and kind of moving more toward fashion. We saw that, again, a little bit more with the higher income respondents, but certainly something for retailers to keep an eye on because people are out there, and they're ready to spend for their kids to go hopefully back to the classroom in September.

Bobby: I think all of us saw the spend on clothing go down over the pandemic. Well, this is the time of the year we will see a lot more spending on apparel for that first day of school for the first week back. Now, where will parents go to shop for those items? One maybe unexpected player is thrift stores, especially for apparel. That might not be surprising if you're the parent of a teenager, but it may surprise some of you for the younger kids. And of course, online is a super popular channel. You might be wondering if parents are going to continue shopping online to the extent that they recently have. This may be a permanent shift in the way people like to get their shopping done.

Rod: It's interesting that thrift in general has made that kind of return, and I do think it's something in the generation. But when we looked at who was going to use the thrift channel this year, we were up to about 22% of folks looking for fast fashion there. Again, 19% of the folks said they expected to be in those stores on a regular basis. That was up from 9% last year. And you might have thought about, given the economic uncertainty last year, that that probably would have flipped. But perhaps it's because there were so many places that were on lockdown and you really couldn't get out to get to the thrift store. So I do think we're going to see more and more folks shop at that particular area. My son who just graduated from college, that was his favorite place to shop during college.

When we asked folks about preferred channel, certainly stores continue to be number one, but close on the heels is online. So we saw this movement last year with all the challenges where those two lines started to converge, but what we're finding this year is about 43% of the total spend is expected to be in store. Thirty-nine percent is expected to be online. That's up 2% from last year. It was 37 last year. So we have seen a fundamental shift here. What we were watching for a number of years was that the back-to-school season was one that was predominately in store just because it was easier, et cetera. What has happened is parents have figured out

that, yeah, I can shop for my kids online. It's easier. It's faster, in certain respects. And we're seeing a permanent shift here. I don't see it going back. What we normally find in a downturn is that behaviors that were trending tend to accelerate. And in this instance, we found the acceleration of online over the last 18 months. And it's here to stay.

Bobby: Another thing we saw during the pandemic was the rise of shopping within social platforms. Hitting the checkout button in an influencer or friend's post is getting more common by the day. Another noteworthy takeaway from the survey is around the technologies that consumers are embracing and integrating into their shopping journeys, like voice assistants, digital wallets, and augmented reality, being able to try a product on or at least see what it might look like in your house or in your room before you buy it.

Even social media—it's not new, but for some consumer groups, scouring product reviews on social media is an important step before purchasing. It's a place to get inspiration for products, as you might have seen recently. It can also singlehandedly revive the popularity of a seemingly random product, like a logo sweatshirt. So what does this mean for the back-to-school period and how social could impact that?

Rod: That's an interesting discussion. So for the back-to-school school-aged parents, we find that they are going to use social media really in a few ways this year that maybe they haven't in the past. Certainly, they want to be able to check out prices and offers, et cetera. But recommendations are also a big part of what they are looking for around that. So we're finding that the use of social has continued to rise this year, probably more than we've seen in the past. So that one is kind of interesting as we're looking at how things have evolved in the market. Now, one of the things that we're doing with our back to college is we're comparing and contrasting how much social media use is there for that group of parents who are typically a little bit older and they don't rely on it nearly as much.

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So, for instance, about 44% of our respondents for back to school said they would use social media, but only about 22% in the back to college. So that just tells you there's a little bit of a generational gap and we're a little bit in transition in terms of how folks are using the technology to find the right products, find the right price, et cetera. So to me, that was a really interesting finding.

When we get into emerging technologies, what we find is use of digital wallets about the same. So roughly 15%, 17% of total respondents said they would use that. But when we get into things like using voice assistance, "back-to-school" parents are much more comfortable using voice assistance than are the "back to college." When we look at buy buttons on social media posts, again by two to one, the "back-to-school" parent is much more comfortable with that than the "back to college." Using augmented reality and virtual reality, same thing. It's almost a two to one advantage for those who are "back to school." So, again, it's a little bit generational in terms of what we're seeing here, but that to me is one of the most fascinating things that came out of these two studies we did this year.

Kate: I would just add to what Rod said. So this past year, with just people getting more used to using technology, sort of being forced to use it, and we've had this technology component to our survey for the last few years, and it's slowly starting to, we've seen at least a trend that it's slowly starting to increase in terms of people actually using it in a meaningful way during their shopping experience. But this year was a really big leap. And that's really good news, but something that the retailers should be paying attention to as they start thinking about how to modify their shopping experience, both in-store and online.

Bobby: I'd certainly agree with that callout from Kate. And I want to re-emphasize the other big takeaways from the research, which both Kate and Rod called out for retailers entering this season. First, the shift to digital. That's here to stay and retailers need to meet that consumer demand. There's the generational element as well. While the current parents of school-aged kids are the ones using social media and shopping technology most, in about 10 years, they'll be sending their kids off to college, so there's opportunity for retailers to set up for that. In the meantime, they've got to figure out how to appeal to both groups of consumers simultaneously. Those who do are most likely to win.

The other big one isn't a shocker because retailers have been facing this challenge. They've got to continue focusing on the supply chain. With consumers having so much choice over where to shop, it's so important to make sure you're not driving customers away with stockouts or unavailable products. For back-to-school, you've got to have the items people really want: the tech, the apparel, and the traditional supplies.

That does it for our special feature today. You can find the full episode by searching for The Press Room podcast by Deloitte Insights. Check out their other episodes and subscribe wherever you get your podcasts.

And remember, this was just a high-level take of the back-to-school and back-to-college surveys. There's a lot more data to check out. Find them at [Deloitte.com/insights](https://deloitte.com/insights).

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