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Emerging Retail & Consumer Trends Report
Q3 2024

In Q3 2024, the retail & consumer products industries are navigating significant shifts driven by technological, economic, and consumer behavior changes. This report examines three key trends: the deprecation of third-party cookies, the rise of shrinkflation, and the growing prevalence of "store within a store" pop-ups. The deprecation of cookies challenges brands to rethink their data strategies, while shrinkflation pressures them to balance cost and customer trust. Simultaneously, the continued rise of the "store within a store" model offers innovative ways to enhance the shopping experience. Understanding these trends is essential for retailers and consumer products companies to adapt and thrive in this dynamic environment.

Our report looks at three notable trends:

1. **The Deprecation of Cookies**
2. **Combatting Shrinkflation**
3. **Treasure Hunting via Stores within a Store (SWAS)**

Trend 1: The Deprecation of Cookies

Google's plan[1] to deprecate third-party cookies, initially set for completion by 2022 and later delayed to 2025, has now been cancelled. This reversal elicited mixed reactions: frustration from companies that had prepared for a cookie-less future and relief from those that were not ready. In fact, by the time of the announcement, only 60%[2] of brands felt 'mostly' or 'very' prepared for deprecation.

Google's latest solution now allows customers to more easily opt-out of cookies, which appeases both marketers who were concerned about the reduced fidelity of consumer data, and consumers and regulators who were concerned about individual privacy. However, companies may view Google's announcement as a pit stop rather than the finish line – the shifting privacy landscape still points toward likely deprecation, and companies who invest in a cookie-less future can take instrumental steps towards understanding and owning their customer insights and monetizing the data.

What is the third-party cookie?

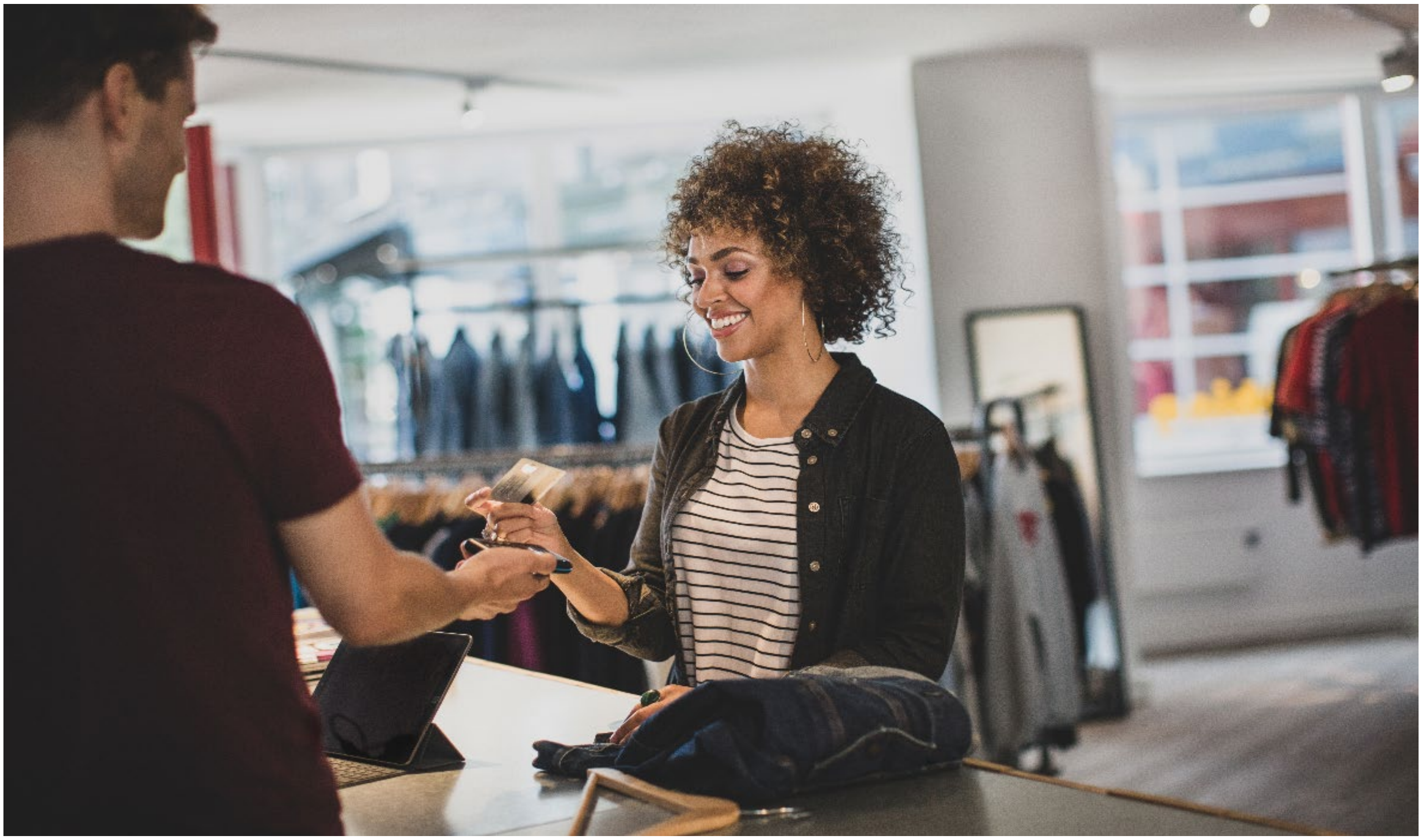
Third-party cookies track user behavior from one site to another, allowing advertisers to reach and target current and potential customers with ads along their browsing journey. As consumers became increasingly wary of the intrusive nature of third-party cookies, concerns grew over user privacy and data collection. Governments and regulators responded – by May 2018, the European Union's Member States had implemented the General Data Protection Regulation (GDPR),[3] putting into place rights and regulations around personal data in the EU. By 2019, the EU's top court established the right of users to consent to all analytic cookies. Regulations in the US have since then followed suit, beginning with the California Consumer Privacy Act[4] in January 2020.

How have companies responded to cookie deprecation?

Leveraging first-party data as an alternative

First-party data is information collected directly from customers through a company's own channels, ensuring accuracy, relevance, and, most critically, ownership.

However, as this information is only collected from existing customers who have interacted with the business, first-party data can be restricted in scope, limiting understanding to only existing audiences and lacking insight into new audiences. First-party data's accuracy can also be affected by inconsistent engagement and seasonality.



Supplementing strategies with zero-party data

Zero party data is information that customers intentionally and proactively share with a company, including survey responses, product reviews, and social media interactions. Consider Netflix asking customers whether they liked or disliked a movie – this voluntary feedback provides valuable insights into customers' explicit preferences, intentions, and desires, while also fostering trust between the customer and the brand.

However, because this information is voluntarily provided, zero-party data may be limited in volume and likely require further investment in technology, such as survey-building platforms and customer data platforms (CDP).

Integrating and activating the data

By combining first-party data (implicitly gathered) and zero-party data (explicitly provided), businesses may overcome each solutions' limitations and begin painting a clearer picture of their customer:

- Nike[5] blends first and zero-party data through their loyalty program which tracks purchase history, app usage, and workout activity while encouraging members to share their fitness goals and preferences. This integration enables Nike to provide tailored product recommendations, exclusive content, and personalized training plans.

- Sephora[6] gathers and activates data through their Beauty Insider loyalty program, tracking purchase history and browsing behavior while also offering quizzes and surveys to collect preferences and more. This combination allows Sephora to offer highly personalized product recommendations and targeted marketing campaigns.

This blend in strategies has proven highly successful – Sephora's 17 million North American loyalty members are responsible for 80% of the company's sales,[7] and greater engagement with this audience has led to a 22% increase in cross-sell and a 13-51% increase in upsell revenue.

What's next?

As the privacy landscape evolves, companies aiming to maintain customer experiences and strengthen marketing outcomes can prioritize ownership of their customer insights and seek opportunities to unlock further values through these insights. These opportunities may include loyalty programs,[8] personalized recommendations, and targeted marketing campaigns such as those initiated by Sephora or Nike. Harnessing activation of this data is key to understanding the customer and building the long-lasting relationships necessary to navigate future transitions and continue to thrive in the digital landscape.

Trend 2: Combatting Shrinkflation

The Situation

Amidst a cost-of-living challenge in the U.S., retailers have begun adjusting packaging and pricing strategies to preserve profit margins, leading to a phenomenon known as shrinkflation. According to newly proposed legislation, shrinkflation is defined as "the practice of downsizing, including by reducing the amount or size of, a consumer product while not decreasing the price of such product by a commensurate amount,"[9] which usually occurs in response to rising input and production costs or market competition and is considered a "hidden Form" [10] of inflation.

Shrinkflation has increased at the expense of consumer trust and loyalty, as retailers and consumer products companies, notably within food and beverage industries, risk alienating customers from their product/brand. Recent studies have revealed that Americans are increasingly aware of shrinkflation practices;[11] in a study published in August 2024 by the personal finance site Empower,[12] 79% of consumers said that "there are less chips/cereal/product in a bag than there used to be." In a survey from YouGov,[13] 72% of U.S. consumers had noticed shrinkflation in food products; and finally, in a May 2024 survey,[14] nearly 81% of U.S. consumers stated that they were 'aware' of the shrinkflation trend.

Consumers are feeling the impacts of shrinkflation, taking note of their smaller grocery hauls coupled with decreasing purchase power amid inflation.[15] Data shows this concern is warranted – the Labor Department data shows "shrinkflation is more common now than in the peak pandemic years of 2020 and 2021."[15]

Retailer Recommendations

Here are a few key strategies that retailers can employ to balance their interests with those of their customers:

- Instead of increasing price, consider enhancing promotions instead to drive up volume of product sold. "Value-added promotions"[16] in particular, such as loyalty points or deal bundles, can protect against customer frustration of the reduced quantity of the product. Examples of 'value-added promotions' include "buy one (or multiple), get one free" promotions.
- Integrate transparency with marketing initiatives to sustain positive customer sentiment and reinforce a customer-centric narrative. If retailers decide to modify their packaging or reduce product size, it is important to clearly display and communicate the new size on the packaging to maintain customer trust. Brands can enhance this approach by emphasizing the benefits of the new packaging or product size, such as more sustainable packaging or higher-quality, nutritious ingredients.

In summary, economic pressures are tangible and affect both demand and supply sides. As companies and consumers navigate these challenging times, businesses can implement a range of strategies to maintain profit margins while continuing to meet customer expectations.

Trend 3: Treasure Hunting via Stores within a Store (SWAS)

As a result of increasing grocery prices,[17] more inflation-strapped consumers are bargain hunting.[18] To capture and retain the loyalty of these "treasure-hunting" consumers, more retailers are differentiating in-store experiences through Store within a Store (SWAS) pop-ups.

What is Store within a Store (SWAS)?

SWAS entails a larger retailer allocating floor space for another brand to establish a dedicated storefront. An early example is the integration of pharmacies into grocery stores, designed for customer convenience in filling prescriptions. Retailers have also incorporated food and beverage restaurants within their stores, even evolving offerings to meet changing customer demands.[19] Many department stores also house multiple brands under one roof.[20] More recently, both big-box and smaller retailers are getting in on the action.

Today's Evolution of SWAS

- **Expanding instances and caliber of SWAS**: Retailers have introduced new types of partnerships while also expanding existing SWAS instances. For example, those same grocery store pharmacies now administer medical care on-site,[21] and Target has rolled out a new Drive Up fulfillment feature[22] that allows consumers to order from the Starbucks in their stores.
- **Curating a treasure-hunting experience**: Bargain-hunting consumers are visiting more stores to do their weekly shopping.[23] By bringing other specialized stores in-house, retailers are better accommodating this "treasure-hunting" experience that consumers are seeking.
- **Acting as the one-stop shop to expand offerings**: Through SWAS, retailers can provide both primary goods and services (e.g., groceries) as well as supplemental goods and services (e.g., their favorite cosmetics). This diversified offering is a low-risk way for retailers to expand into new categories in an increasingly competitive retail landscape.
- **Foster symbiotic relationships**: Historically, retailers have focused on their own core business. However, with the continued rise of SWAS, retailers are continuing to invest in such mutually-beneficial relationships. For instance, Kohl's has partnered with Sephora[24] and opened storefronts for the beauty brand in 850 locations. Some retailers also look to house pop-ups for brands that were previously largely direct-to-consumer (DTC). These retailers can then form financial agreements with the brands, either by charging rent for the floor space or by taking a percentage of the profits from the sales generated by the pop-up shops.

In an era where customers are willing to bargain hunt across multiple stores, it is imperative for retailers to demonstrate enhanced value by aligning with customer desires for the "treasure hunt" and novel experiences. Adopting SWAS can be a strategic approach for retailers to diversify their offerings and elevate the retail experience, thereby encouraging transient consumers to develop long-term loyalty.

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