

THAT MAKES CENTS



Quick take: 2019 holiday shopping

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Bobby Stephens: Hey, everybody. Welcome back to That Makes Cents, the show where we talk all things consumer. We can't talk consumer without covering off on the biggest season in retail, the holidays. Here we are for a special quick episode on this festive season. Now, you may be wondering why we're talking about the holiday season when we're barely two months into 2020. Well, it's really all about timing. 2019 earnings have come in, the Census Bureau has released their stats, and we've really had enough time to reflect on what went down in stores and online over the last few months. So were the predictions right, what were the biggest trends, and, probably most importantly, where can we expect the next holiday season to go? Today, I'm joined by two of my colleagues from Deloitte's Retail and Consumer Products practice, Simon Chafetz and Meghan Cole, who are both responsible for Deloitte's annual holiday quick take

report. Let's do a quick take on the holiday season. Thank you both for being here.

Simon Chafetz: Thanks for having me.

Meghan Cole: Thanks for having me as well.

Bobby Stephens: All right, guys. Well, before we get to the good stuff, I want to give you both a chance just to tell us a bit more about yourself and how about . . . What is your favorite holiday memory?

Meghan Cole: I'm Meghan Cole. I'm originally from Boston, but I'm currently based out of our New York office. One of my favorite memories—or should I say, holiday traditions—is baking with my family. I bake a bunch of different things, but my favorite is this rum cake my sister and I have been making for years. It's delicious and always a big hit.

Simon Chafetz: Meghan, that sounds awesome. And this is Simon. I'm a manager in the New York City office. One of my favorite holiday memories actually happened this year. I was in India for a friend's wedding over the holiday season, and I met up with a group of people to light the Hanukkah candles and have a little bit of a holiday party in New Delhi. It was a pretty unique and special experience this year.

Bobby Stephens: Awesome. As you guys know—you listeners, you may not—Deloitte's been doing a [holiday survey](#) every year for the past 34 years. So basically, this Holiday survey is an aging Millennial at this point, but in that survey, we poll consumers right before the start of the shopping season, which really gives us insight into the potentials of the season—the hows, the whens, the wheres, and the “for what” people will be shopping. But today, our listeners will get an extra special gift of

hearing about the unpublished, dare I say super-secret quick take report that you both worked on. Now what's cool about this is it, actually right after the fact, examines what actually happened in the holiday season. But a little curveball: I do want to start not at the 2019 sales and trends, but instead go all the way back to 2010. I would love to spend a little time talking through what holiday shopping was like 10 years ago to set the stage. Simon?

Simon Chafetz: Thanks, Bobby. Yeah. As we were developing our report, we took time to look back at what news stories were dominating the holiday headlines in 2010. And what we found made us chuckle a little bit, so I'll highlight two themes quickly. One of them was all around the explosion of e-commerce. Back in 2010, digital sales during the holiday rose to \$36 billion, and that was legitimately a big deal at the time. It's just funny to compare that to 2019's digital sales numbers, which were \$125 billion, which is three and a half times bigger than it was in 2010. Of course, the evolution of mobile commerce and social media have played a really major role in that growth. The other interesting headline from 2010 was around the types of stores that were the big winners back then. In 2010, the holiday headlines were all around big-box and department stores grabbing the majority of consumers' share of wallet. Today, those formats represent a much, much smaller share and continue to fall, due in large part to cheaper and more convenient options. So we really have come a long way, Bobby.

Bobby Stephens: That's really cool. I think if you always put yourself in the present, people will talk about today being the most rapid change and crazy disruption, especially in retail. But when you do go back 10 years, it really hits you how far we've come. So let's come back to the present, and let's talk just a little bit about the tip of the iceberg of the 2019 holiday shopping season, which, by the way, just to be clear, it's the period between October and December. So Meghan, tell us a little bit about the predictions going into this year's holiday shopping season.

Meghan Cole: Well, the pre-holiday consumer sentiment was positive, and total retail sale predictions were strong,

ranging from 4.5 to 5 percent, and helping to drive this goal were higher projections for e-commerce sales, as well as smartphone usage. So how did the results compare to the predictions? The 2019 holiday season yielded positive overall growth, but it did fall short of the projections. Total spend reached \$880 billion, but this only represented 3.4 percent growth, compared to our projections of 4.5 to 5 percent. In terms of the breakdown by channel, though, online spend and digital spend continued to grow, up to 18.8 percent from last year.

So despite a healthy holiday season, why were we below projections? Several factors may have contributed to the missed expectations, including the international trade wars, as well as political uncertainty, making it really difficult to project consumer spend. There was also the cooling economy and the shorter holiday season. For the first time since 2013, there were six fewer shopping days between Thanksgiving and Christmas. Another interesting takeaway from this holiday season is that traditional key shopping days like Black Friday and Cyber Monday are becoming less and less important, which is likely a result of shoppers being able to access holiday products and promos online throughout the holiday season rather than through doorbuster deals on key days.

Bobby Stephens: Interesting. And an interesting nugget in there was the number of shopping days. It feels like that's probably a really important factor there, just having less days to shop, almost a week less this year than previous years. But let's shift a little bit from mixed expectations and kind of go glass-half-full, because there still was 3-plus percent increased spending this year. From what I've read and got a sneak peek of the report, there really are a couple of giants in the room when it comes to the US retail holiday season. These are the ones that, combined, captured nearly a third of all consumer spend in November. I'm talking about the biggest retailer, the biggest online site. We all know who they are. Tell me, Meghan, a little bit about these giants, and help me understand how they continue to win during the holiday season.



Meghan Cole: Yes, these giants performed extremely well this holiday season. During the week of Thanksgiving, the biggest retailer was able to transition from the world's largest grocer to the world's largest Black Friday merchant, and part of their success was due to the buy online, pick up in-store offering, also known as BOPIS. They were able to leverage their extensive retail footprint of nearly 5,000 stores to boost sales and reduce shipping costs. Meanwhile, the biggest online retailer continued to dominate the online market, and they don't appear to be slowing in growth anytime soon. Of course, this means that other retailers had to compete for the remaining share of holiday spending, and they amped up the experiential tactics and unique offerings.

Simon Chafetz: Yeah, Meghan, that's a good point. I was actually really impressed by those retailers who went the extra mile to incorporate the augmented reality technologies into shopping experience through mobile apps. One mass merchant I can think of actually allowed shoppers to place home furnishings in a room alongside their holiday items like a Christmas tree. Kind of interesting.

Meghan Cole: Definitely, and speaking of mobile apps, there was actually one home improvement retailer who unveiled a line of prelit Christmas trees with smart technology, allowing customers to control patterns and colors when they were in-store.

Simon Chafetz: Yeah. Another interesting play this holiday season was the rise of

multisensory concept stores. One specialty apparel retailer actually created what they called Arctic rooms or cold rooms, where they set the rooms at 10 degrees Fahrenheit and surrounded it with real snow, allowing shoppers to try on winter coats and jackets, really trying to simulate that environment in which they'd use the product in real life.

Meghan Cole: Well, it's pretty evident that retailers went to various lengths to differentiate themselves this holiday season. Another tactic that they used was to join forces and partner with direct-to-consumer brands, as well as nonretailers like subscription services. We even saw mass merchants partner with really brand-conscious DTC companies.

Simon Chafetz: Yeah. I was really blown away by the number of partnerships that were used to drive sales this holiday season. The collaboration between retailers and ride-sharing services was a unique tactic, and it was something that could potentially evolve beyond just the holiday season.

Bobby Stephens: That's super interesting. I love the sort of ping-pong back-and-forth about different ways that retailers outside of the big two really were focusing on the need to stand out, whether it's from experiential tactics in-store, unique features and functionality on the mobile app or a website, or even partnerships, right, to bring in eyeballs and interest from people who have shared values with other companies. I love those examples. I would expect to see more of those each holiday season, and probably some of those things like, you know, BOPIS that you talked about, Meghan, becoming more normal during the regular season, if you will, not just the holiday season.

One area I think a lot of listeners might take for granted, and a lot of consumers, frankly, take for granted, is what it takes to . . . behind the scenes to support a holiday season, and that's really the infrastructure of the shopping season. It has to expand dramatically to support the demand and the time crunch that comes this time of year from shipping vendors to cloud hosting and from the ad platforms to software providers. Really almost every corner of the behind-the-scenes retail ecosystem is under duress.

So, Simon, maybe you could start by talking us through how these players invest, and walk us through a little bit where they drive efficiency and where they're still working on trying to keep up with the demand.

Simon Chafetz: Sure, and I liked, Bobby, how you broke down the groups of infrastructure providers into both the physical infrastructure and the digital infrastructure, the technology back end. But we're thinking about the physical infrastructure for a second. There are a couple of things to think about when we're talking about their role during the holiday season, and so let's start with a number that's pretty shocking. It's 80 million. That's the number of packages that carriers deliver per day during Cyber Monday. The question is, what were they investing in to be able to allow for that capability? Well, number one is hiring. One major carrier actually increased their hourly pay from \$10 an hour to \$14 per hour this year to incent more labor to work for them. Number two was unique hiring methods. One major online retailer, Amazon, actually encouraged its employees to quit and start their own Amazon delivery businesses.

And thirdly is the technology. Another parcel carrier retrofitted 20 of their facilities to be able to handle increased sorting capacity by 400,000 additional parcels per hour. It's pretty incredible. But the interesting thing is that even with those investments, with the huge delivery volume that we experienced this year, carrier performance actually declined when we compare it to the performance from 2018. So, despite the massive investments, there's still work to be done to shore things up for next year.

Meghan Cole: Right. Even with one of the big shipping carriers ending its two major shipping contracts with Amazon, it still saw a decline in performance. On the other hand, Amazon's last-mile delivery operations, which I'll say is definitely nontraditional and growing in size, they actually received a 98.9 percent service level during the holidays.

Bobby Stephens: So I could talk for hours on this, because it's really fascinating, but I promised at the start that this would be

a quick take. So in that spirit, each of you, what's one final takeaway you think our listeners absolutely have to know? Maybe, Meghan, you go first.

Meghan Cole: Sure. I believe that spend on entertaining at home and away from the home will continue to grow. As a so-called Millennial, I've definitely seen the shift occurring, so it's something retailers need to be wary of going forward.

Simon Chafetz: Well, for me, my biggest takeaway is that this is the year that BOPIS finally stuck. BOPIS, of course, is the buy online, pick up in-store capability, and we actually saw a 47 percent uptick in consumers' use of BOPIS this year. It was likely a combination of reasons that contributes to this phenomenon—the incredible investment that retailers made in their back-end infrastructure to allow for it, as well as the heavy marketing to drive awareness among consumers—but I expect this to continue to grow in years to come.

Bobby Stephens: It's interesting. Those two things might have impacts on each other, right, entertaining more at home, and a BOPIS capability when you realize you've run out of a key item for your dinner party. Those two things, at times, might actually come with some sort of a connection to drive it going forward. But I know we had to keep it quick, but still, amazing information from both of you. I loved hearing about the wins and losses this holiday season, and frankly, I hope you'll join me again same time next year or, I don't know, maybe after back to school for another quick take on that season. So Meghan, Simon, thank you so much for your time and insight.

Simon Chafetz: Thank you so much.

Meghan Cole: Yes, thanks for having me. This has been so much fun.

Bobby Stephens: Any time. Okay, so that's it. Join us next time for another episode of That Makes Cents. You can listen on your favorite podcatcher, whether it be Apple podcast, Stitcher, or Spotify. Simply search for That Makes Cents. Connect with me on social media: Bobby Stephens on LinkedIn or @bobbystephens on Twitter.

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