

THAT MAKES CENTS



What really went down in the 2020 holiday season?

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Bobby Stephens: Hello, everyone. Bobby Stephens here. Welcome back to That Makes Cents. It's a new year, new season. Season two. So we have some great topics and great guests lined up for you in the coming months.

And today is really no exception. We're starting off right by recapping the holiday shopping season that just wrapped. We've analyzed the season sales and major trends. We've really found some interesting things.

Of course, we all know that the holidays in 2020 were in so many ways, like all of 2020, pretty different than they've ever been before. But just how differently did people shop, and how big of a deal was digital? What actually happened to Black Friday, Cyber Monday, et cetera. We also have some fun findings too, like how much did people spend on themselves, not others, or even how much did they spend on their new furry quarantine pets?

The good news for everyone is that I will not be sharing these insights alone. Here to give us the readout on the season are Megan Cole and Simon Chafetz. If you're a longtime OG listener to That Makes Cents, you might remember these two from one of our very first episodes last year. But for everyone else, Megan, Simon, I'll let you introduce or reintroduce yourselves. And to make it just a little more interesting, Megan, when you go, you're creative, so what's the most creative gift you have given or received. And Simon, no offense, but you're not afraid of treating yourself a little bit. So why don't you share an interesting self-gift that you gave. Megan, why don't you get started?

Megan Cole: Thank you. Hi, everyone. I'm Megan Cole, a senior consultant based out of our Boston office, and really excited to be back on the podcasts again this year. This is my second year working on the holiday quick take with both of them.

The most creative gift that I gave this holiday season was a photo calendar that I created and customized. Since my family and I weren't able to spend much time together in 2020, we shared pictures with one another throughout the year, and I thought the photo calendar was really a great opportunity to compile all these photos, add a little touch of personalization, and then share it with some of my loved ones, including my grandma, who's 98. She was so excited when she opened it and loved looking at all the pictures.

Simon Chafetz: That's awesome, Megan. Yes, Bobby, you know me too well. I'm a manager in Deloitte's retail practice and I help large retailers with digital growth strategies, and I've helped lead the holiday reporting for about four years now. And I'm really excited to be back to talk about this year's findings.

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This year I gifted myself an entire barrel of single malt scotch. It's sitting and aging in a warehouse in Scotland, and it won't be fully matured for another several years, but it's a fun investment that I'll be able to talk about and enjoy for the next 20 years or more.

Bobby: Well, I love both of those gifts. Megan, we do something similar in our family, so I love it. Sounds like yours is probably more professional than ours ever is. And, Simon, I love scotch and I also probably won't be fully matured for another couple of years either. So, I think it matches up. For me, this year, it was about the one thing that got away. I still really want a PS5. So, I'm just going to copy and paste that from my holiday list to my Valentine's Day list, if that's an actual thing. But let's get going and let's get into our recap of the sales and trends and everything else from the holiday season.

Let's just start with a brief summary. What's the headline version of what people were expecting, and then what actually went down this year?

Megan: Sure. I'll jump in here. So even though consumers planned to spend less this holiday season, industry analysts, including Deloitte, still projected slight overall growth, primarily driven by higher digital growth, which was forecasted at about 25 to 35% this holiday season. Consumers still spent in mostly predictable ways, but digital did account for higher growth than we were expecting. When looking at that extended holiday time frame known as the 75 days of Christmas, digital grew almost 50% year over year.

Bobby: Let's talk about that last point around timing. I mean, my main question is, what the heck exactly is the 75 days of Christmas, other than the potential title of an extremely long and very annoying holiday song. So how did the shift in Prime Day, the launch of the big console, other sales events, how did that all affect the timing this season? What was truly unique about it?

Simon: Yeah, 2020 felt like a really long year and the holiday season was extra long too. So I guess it's fitting. Traditionally, the holiday season is measured as

November 1 to December 31, which is roughly 60 days. This year's season started early, about 15 days early, which is why analysts have referred to this year as the 75 days of Christmas.

So why did this happen? Well, retailers knew that safety was going to be a top priority this year and inviting customers to shop in stores would have been impossible. The obvious choice was to shift consumers to digital channels, but retailers knew that if consumers all shopped online late in the season, there would be a massive crunch to fulfill online orders by Christmas shopping deadlines. So, they began sales and promotions a few weeks early to ease the congestion later on in the season. Amazon was the first major retailer to kick off their holiday promotions. They held Prime Day on October 14 and 15, which really set things into motion for the rest of the industry to follow suit.

The impact of retailers starting promotions early was what we call a pull-forward effect, which in essence redistributed the spend pattern throughout the season. Sales were a lot more smooth this year and relied less heavily on those traditionally major shopping days that we've all gotten used to, like Black Friday and Cyber Monday. Now don't get me wrong. Thanksgiving weekend is still the biggest shopping weekend of the year. Black Friday and Small Business Saturday were the two busiest days of the year, largely due to nostalgia and tradition. In fact, Cyber Monday set records for the most digital spend on a given day. But all that said, these days are increasingly less critical to the overall season as shoppers spread their spending over more days.

One notable example of a traditionally key day is the Monday before Christmas, for those last-minute shoppers. That day ranked third last year in terms of the day with the most spend. But this year, it didn't even make the top 10 list.

Bobby: So shifting spending patterns, let's talk about that. Let's get a little deeper into the digital aspect. I mean, personally, we probably all experienced this, but now data's coming in. Retailers, restaurants, it's pretty tough out there if you aren't digitally

enabled. And once you got online, it was still tough to make a strong, real, authentic connection with your customers and really get them all the way to the product delivery, the pickup point, curbside. Let's talk about that more.

Megan: Sure. So obviously with COVID-related stay-at-home orders, we knew that digital would be huge, but it was really huge, just like the jump in digital spending all year round. The holiday season definitely accelerated additional growth as more consumers shopped for gifts online in addition to essential items that they were already purchasing online, like their groceries. However, certain shopping methods were also enabled through digital, like you mentioned, curbside pickup, and buy online, pickup in store, also known as BOPIS. A lot of shoppers utilized these offerings at extraordinary rates this holiday season, since they were looking for ways to minimize human contact, as well as avoid those delayed delivery and expensive shipping charges.

Consumers really learned to embrace the curbside pickup and BOPIS during the onset of the pandemic. So, as we moved into the holiday season, many sought retailers with these types of offerings.

It's also interesting to note that some retailers even offered special discounts and implemented unique curbside tactics to entice customers.

Nordstrom's holiday curbside pickup featured pre-wrapped items and allowed patrons to drop off a letter to Santa accompanied by a 15-minute Zoom call in lieu of sitting on his lap this year.

Bobby: That's pretty interesting. I mean, I think digital, curbside, maybe a Zoom call with Santa aside, there are some themes there that seem to be successful and probably drove success for certain retailers. So let's talk about that. Who were the big winners, and other than what you just mentioned above, what really set them apart from maybe those who weren't able to fare quite as well this season?

Simon: Yes. As we looked at the performance data, Bobby, there were essentially three major themes that stood out to us among retailers who fared well. The first theme really points to retailers' size. During the holidays our team tends to group retailers into a few cohorts. And one of those cohorts we affectionately call the Giants. That refers to Amazon, Walmart, and Target because together they account for a third of all retail spend, leaving the remaining two-thirds of holiday spend to every other retailer to fight over. The Giants just simply dominate in terms of market share.

So Amazon captured somewhere between 42 and 47 cents of every dollar spent online this holiday season. And even though Amazon is mostly an online business, it captured 18% of total spend, that includes brick and mortar, up from 14% last year. It's just incredible when you think about how much Amazon continues to dominate year after year, even at this incredible scale. And then Walmart, who is the traditional leader for in-store sales, adapted to the new normal and found ways to grow its online business by over 120% this year, which well outpaced overall industry growth for digital during the holiday. So, in this first theme, it was the Giants who did so well due to their scale.

Megan, maybe you tell us about the second theme.

Megan: Sure. The second major theme were the stores who sold the right things, the right assortment of items that customers really yearned for this holiday season. What really differentiated this holiday season from years prior is that consumers spent most heavily on categories that really supported being home for the holidays, rather than traditional holiday gifts.

Due to the impact of COVID-19 and the quarantine restrictions, consumers just continue to spend more time and money on their homes. We saw increases in categories for furnishings, home improvement, and appliances, as well as electronics, while we observed decreases in categories like

apparel and jewelry. This meant that the mass merchants, grocery stores, and home improvement stores did really well this season, while department stores and specialty retailers tended to suffer.

Simon: Yeah, and then the third theme, Bobby, were retailers who invested in their digital commerce capabilities regardless of their size. We saw a slew of small businesses who successfully used Shopify as their core platform and were able to scale really quickly. Other small merchants who were successful used Amazon Marketplace and achieved scale in that way. Ultimately, this was just a bright spot for the economy and for everyone who is rooting for their local businesses, like me.

For retailers who relied on digital channels, cultivating a presence on social media was critical. And something we've been tracking for years is the evolution of social media platforms from being a channel for inspiration and idea sharing to being a channel used for commerce and conversion. And this may finally have been that year that that shift began in earnest. Tik Tok, Pinterest, Instagram, and others all enhanced their platform, enabling customers to purchase directly in the app, rather than having to redirect consumers to merchants' websites. And it means more revenue for retailers if retailers use those platforms effectively. We expect this, along with other digital tools, just to grow in the coming years.

Bobby: A lot of talk about digital. A lot of talk about doing things remotely. I think that comes with probably an enormous tax on the infrastructure that needs to make that happen. I mean, relying on consumers to come to your store and pick everything up is one thing. But now that you've got to get it all the way to them at their apartment, or their house, or some other location is a big deal. So I really want to talk about the people and the systems that got all those packages to the doorstep all year long, but especially the holidays. I would sort of say delivery providers and carriers were maybe the unsung heroes of the holiday season, but I do feel like general appreciation for these

folks has gone up this year. How did that group of unsung heroes hold up against the increased demand this season?

Simon: Right. So let's start with a key component of the physical infrastructure ecosystem, manpower. Of course, we all know about how the pandemic has significantly negatively impacted the labor market, with both retail and travel and hospitality taking the biggest hits. Simultaneously, we know that the retail sector traditionally hires a huge number of seasonal workers to help meet the increased demand during this time. What we found most interesting was that despite the high unemployment rates, both retailers and carriers still ended up competing in really interesting ways to attract and hire that seasonal labor. Companies like Nordstrom and Amazon increased pay for frontline workers, often called hero pay, to incentivize employment. Other companies developed creative rewards programs that provided perks to delivery drivers who made the most deliveries just in an effort to attract more talent.

And of course, the roles that seasonal workers were asked to fill this year were a bit different compared to last year, with a lighter focus on stores and a heavier focus on warehouses and distribution centers, as well as call centers. Really at the end of the day, labor was still key, like it always is, but the retail sector employment was significantly down compared to last year. And we're just hoping that the labor market will be able to rebound next year.

Megan: Next, let's talk about fulfillment. If anyone received a package late this season, you aren't alone. More than two million parcels were not delivered by Christmas. And more than half of consumers reported that gifts they purchased online arrived later than the date that was promised. The surge in digital spend in e-commerce this season placed a strain on some retailers, and they just struggled to fulfill digital orders fast enough. Consumers reported various issues.

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For example, certain items weren't available during checkout, some consumers were unable to ship orders to multiple locations, while other retailers did not provide gifting options. So there's some issues that retailers need to work on, but they do stand to benefit large gains if they can successfully fulfill orders and meet their customer's expectations.

And let's not forget to cover the carriers, those that made the shipments and package deliveries possible. This season over three billion parcels were delivered, setting a new industry record. In terms of transporting packages, not only were carriers dealing with a surge in online purchases, but the vaccine shipments also coincided with the busiest shipping weeks of an extraordinary peak season. Fortunately, with respect to the vaccine, FedEx and UPS had the capacity to handle the rollout since they had been proactively investing in automation, tracking technology, as well as dry ice production.

In terms of on-time delivery performance, UPS and FedEx performed better than expected, primarily because they limited volumes on larger shippers and instituted conservative cutoff dates. However, this placed a strain on the United States Postal Service, because they had to accept all remaining packages, and they also had to deal with the coronavirus impacting their workforce availability.

Bobby: Lot going on there. And you know what's fun? It's only 11 months until the next 75 days of Christmas starts. So it wouldn't be a good podcast if we didn't just fast-forward right through the whole rest of the year, because it doesn't matter. Back to the holidays again. So let's do that. If we look ahead to next holiday season, what can we expect? What are some of your guys, since you follow this so closely every year, big predictions for what will actually carry over from this season, to next season, which we hope is a lot more normal.

Simon: Sure. Yeah, Bobby, I'll start with the obvious one. To me, it'll be a similar story, different year. Digital just continues to gain in importance, particularly during the holiday season. It's no longer a "nice to have" for retailers. The successful retailers are the ones who really leaned into digital. And it's becoming the default shopping channel for consumers. COVID obviously accelerated this shift, but it seems very clear that it's a major part of what we call the new normal.

Megan: For me, it'll be interesting to see how consumer behavior changes as the COVID vaccine rolls out this year. I think many consumers will be excited to travel again once it's safe. I mean, I know I am. And so they'll be more likely to spend on travel and experiences due to pent-up demand.

Bobby: We could keep going for a while, but we won't. Let's wrap this thing up. And so what I want to do is try to just take a moment to pull out a few of the points that I heard in the three areas that you mentioned. So first on the consumer side, it feels like consumers were really resilient this holiday season. Everyone was worried about a myriad of things, but consumers really had a plan. They began shopping earlier. They placed more orders online. They embraced things like curbside. And I think that's going to bear fruit, not just at the holiday season, but year-round. When you look at the retailers and the categories that they sell, similar story. Those who embraced digital first, have been investing in it for several years, or decided to cannonball into the digital pool this season, I think were the winners. The other big thing was self-gifting. We didn't talk too much about it, other than Simon's giant barrel of scotch that he has waiting for him, but it really was a popular trend as consumers splurged in those kinds of categories, like home improvement, things that showed people nesting at home, and just kind of improving the small environment that you have around you.

Finally, it's not the sexy part, but I think it's really important for us to cover infrastructure, like you did, Simon and Megan. Infrastructure providers had a major strain this year and really quickly adapted to that surge. I mean, they're always ready for something to be different in a surge, but I think this year was just way out of the norm. And so, shipping, transport, while UPS and FedEx dealt with COVID-19 vaccine shipments, on top of holiday orders, USPS was dealing with mailing ballots on top of holiday orders. There was a lot going on there. And I think all of those organizations performed pretty admirably, say that one twice, in the situation.

So, thank you guys, seriously, Simon and Megan, both for being here and for filling us all in once again. And listeners, thank you for tuning in to the first episode of this season. Really hope you're excited for the rest of the episodes we've been working on. And thank you all, and talk again real soon.

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