

THAT MAKES CENTS



Season 3 Episode 18

Holiday spending and consumer shopping trends

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Kianna: Hi, everybody. I'm Kianna Sanchez, our lead producer here on the That Makes Cents podcast. You may be wondering why we have a new voice hosting today's episode. Our host, Bobby Stephens, is under the weather today, and I'll be taking over.

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 in full swing, today we're going to take a special look

at highlights from Deloitte's annual holiday quick-take report. We will cover the major themes we observed this season, including a shift in consumer buying behaviors as the overall economic environment shifted.

We will also cover some interesting trends regarding retailers' strategies around the 2023 holiday season. Joining me today, we have Kate Christian and Jen Spadaro, valuable members of the Deloitte Consulting team behind this festive report. Thank you for being here, welcome to the show.

Kate: Thanks for having us, Kianna.

Jen: Yes, very excited for the conversation today.

Kianna: All right, so before we get started, Kate, can you help ground our listeners with some background on what the holiday season is looking like for consumers? Maybe you can expand on some of the trends we are witnessing.

Kate: Absolutely. Before we get into trends and consumer behavior, let's first acknowledge that the holiday season has an interesting backdrop this year. It's

a difficult year for many consumers as they fight inflation, high interest rates, employment concerns, home finances, and political anxiety. There's a lot going on.

With this in mind, we did see a few ways consumers looked to stretch their dollars further in this challenging economic environment. I'll go through a few of these. First, holiday shopping started earlier with many retailers offering preferred sales for loyalty members starting as early as early October, and many consumers finishing their shopping by Cyber Monday.

We're seeing things start earlier and even sometimes ending earlier. We also saw a lot more consumers using deferred payment options, things like buy now, pay later—there's a lot of platforms out there. These options let consumers spread out their spending so they're not feeling the financial hit all in the same paycheck.

Additionally, even though we saw consumers spend a record amount on online shopping, there was still a big focus on discounts through these early shopping sales and the Cyber Weekend and Thanksgiving.

Separately, apart from the economic challenges, consumers are increasingly using social media during their purchase journey, everything from identifying what they want to buy, maybe even doing a little bit more research, all the way sometimes through making that final purchase.

Even though these direct sales through social media still represent a very small percentage of total sales we saw, it's still a growing space, particularly with our Gen Z consumers.

Kianna: Yep. Kate, you know, I'm seeing a lot of the same trends, and considering consumers are increasingly participating in some of these mindset shifts, how is this influencing shopping behavior on the grander scheme? Jen, maybe we can get some of your thoughts in here.

Jen: Absolutely. We've seen some interesting shifts in holiday shopping behavior this year. This Thanksgiving weekend, which is the five days between Thanksgiving and Cyber Monday, we saw customers gravitating more towards online and hybrid channels with online shopping traffic exceeding that of brick-and-mortar. Cyber Monday, in particular, saw significant growth in online shopping this year and unsurprisingly was the biggest online shopping day of Thanksgiving weekend.

We also saw some shifts in the channels by which customers purchase gifts. For the first time ever on Thanksgiving weekend, we actually saw more customers make purchases with their smartphones than with any other device, including laptops or desktop computers.

On the brick-and-mortar side, discount stores like dollar stores and off-price retailers have a larger physical footprint this year, and they're seeing explosive growth in these changing market conditions.

On a similar note, and as Kate mentioned earlier, we also saw some consumer buying behavior largely driven by discounts this season, with the retailer promotional events as early as October driving a lot of that early holiday shopping.

Kianna: You know what, that makes a lot of sense, especially thinking about how this Thanksgiving weekend is set up for consumers to want to come and shop a bit earlier than the actual holiday season. These are all very interesting points and, of course, raise the question as to how retailers are going to react to these kinds of trends and what they should be mindful of during the holiday season.

Can you both speak to those retailer highlights and some of the trends that retailers should be watching out for this holiday season?

Kate: Yep, no problem. So before we get into trends, I'll talk a little bit about how we've seen the retailers respond and

maybe which ones are seeing that growth a bit more in this environment.

So, I know Jen just alluded to discount channels a bit, but I want to dive a little bit deeper into that. So we're seeing a lot of strong growth in these discount channels. We're seeing thousands of store openings really bringing this discount value option to more shoppers than ever before. I feel like every time I drive around, I see a new one pop up. And additionally, those off-price retailers are seeing really strong year-over-year growth heading into this holiday season.

In parallel, the stigma around discount shopping, or value or off-price, is diminishing, and we're actually seeing more high-income consumers increasingly shopping at these discount retailers. So we're really seeing a blur and intersection that we haven't seen before here, as discount shopping and off-price options are experiencing this proliferation in growth. So that's the first thing that I want to cover there—that retailers are responding, sometimes within existing stores, sometimes with opening new ones as well.

Another piece that I'd like to highlight here is around new technologies and interesting things that we're seeing a lot of places and how it applies to retail and consumer here. So I want to talk about Gen AI, and retailers are really using this to expand their services and engage with consumers in new ways. This might mean developing marketing materials, recommending personalized gifts, or enhancing their contact centers. I think there's still a lot of growth in this area, but we are seeing it underway already.

So, with that, we've talked a lot about what the retailers are doing, how they're interacting with consumers. I want to recognize that we're only in early December here, and there's still a lot more to go for the rest of this season. So with that, over the next several weeks and possibly even into the new year, we'll be watching out for a few different

things. One, we'll be watching out for how retailers and consumers manage those economic pressures on their businesses and their wallets.

So, what do retailers need to do and how might consumers respond, and vice versa. I think we're going to see this economic tension continuing to come to a head here. Second, how retailers might differentiate themselves in this increasingly price-competitive environment. We've talked about economics, we've talked about off-price model. Now the question is, how do you pick which retailer you shop from and where you choose to buy with this continual focus on price.

Third, let's think about how consumers might be engaging with in-store experiences versus that online convenience differently as we head into the remainder of this season. Sometimes we see that in-store grows later in the season. Maybe if, uh, free shipping isn't quite as easy to get a hand on and as we get closer to those big holiday dates.

And last, let's really be on the lookout here for how consumers, retailers, and maybe even regulators are responding to the proliferation of these buy now, pay later options that we've seen. These installment payments can be helpful for consumers, they can be helpful for retailers, but I think there's still a larger conversation around these, and I'm curious to see what pops up, if there's any additional action here, and how that might set the stage for the retail environment going forward.

There's certainly a lot to look for in the rest of the season and I, for one, am excited to see how it all plays out.

Kianna: Thank you, Kate. Jen, do you have anything to add there?

Jen: Yes, the only other thing I'll add is that the retail industry is expected to hire fewer seasonal employees this year than in previous years. It's actually down 60% from 2021. And so retailers

are really focused on having their full-time employees or their year-round employees staff up during this busy time, during the holiday season, instead of hiring outside help.

The last thing I'll add, expanding on what Kate mentioned through direct sales through social media platforms, is that although Thanksgiving weekend we did see it was a small share. It's definitely a growing share of holiday sales, and we're expected to see even more customers purchasing via social media, especially our Gen Z shoppers.

Kianna: Perfect. All right, so now for our final and most important question in line with our dedication to buying into better and being conscious consumers in this ever-changing world. Kate, Jen, can you both share some family traditions that either embody the buying into better sentiment or can embody the buying into better sentiment as we all become more conscious of how we show up in the world? Kate, why don't we start with you.

Kate: So, in my family, we are clear and specific, and we don't really like to deal with excess shipping or the environmental impact that comes with going back and forth to stores a lot during the holiday season. So we would really rather avoid returns and get it right the first time.

So, in my family, instead of surprise gifts, we often pick things out ourselves, sometimes even placing the order and asking a family member to wrap it. It might be a little bit less magical, but I know that at the end of the day, I'm excited for what's being wrapped and that I won't need to return it.

Jen: Yeah, similarly for me, some of the hybrid shopping trends, like buy online, pick up in store, have been a really convenient way for me to still do a lot of my holiday shopping online but then help reduce retailers' carbon footprint by eliminating packaging and shipping.

Kianna: That's so interesting. Kate, that's really funny. I think that if more people adopted that mentality, it'd be easier to shop for your family members. I feel like sometimes it's so hard to guess what people want or what they would want during the holiday season. I'm actually a really big fan of gift cards. I find them to be very useful in times where you want to really mitigate, you know, buying gifts that people don't necessarily want, but you don't just want to give money.

A specialized gift card, I think, shows that you know the family member enough or the friend or person enough, but you want to give them the choice to select what they'd like. So, I feel like this has been a very fruitful conversation. We are coming into the close. This is actually the wrap of the last episode of this season and of the year. Kate, Jen, thank you so much for joining me in this conversation. It was a pleasure speaking to you both.

And for our listeners, as we conclude season three and prepare for our holiday disconnect, I'd love to leave you all with some food for thought to mull over. A little question: What small changes can you implement to start your new year off buying into better?

Thank you for joining us on this special episode of That Makes Cents for our holiday recap. For more information, look out for our 2023 holiday quick-take report on the Deloitte website. I'll see you all in the new year, thanks.

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