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Retail in transition

Where we've been, how far we've come

DIGITAL advances combined with changes in consumer preferences have helped to transform retail operations¹ more in the previous five years than in the last twenty. Through the early 1970s, US retail was often dominated by community-based local mom-and-pop stores offering highly local, personalized shopping experiences. In the late 1970s, this scenario gave way to the rise of “chain” retailers, whose success was based more on purchasing power than personalization. Today, in the digital age, it may be easier than ever to become a retailer, but many believe that consumers wield a great deal of power in the retailer-shopper relationship, and personalization has come back with a vengeance. People can—and often do—shop online for a wide variety of items, yet many also prefer retailers to maintain a physical presence, with one-third of this year’s holiday survey respondents saying that it was important that brands offer “both a store I can visit and an online site.”

What can retailers do to capture consumers’ hearts and minds—and wallet share—in such an environment? Understanding their spending plans for the upcoming holiday season can help. By taking the pulse of anticipated consumer budgeting, shopping, and purchase behavior prior to the launch of seasonal gift-buying, Deloitte’s annual holiday survey can not only help retailers plan their year-end marketing and merchandising strategies, but help identify trends that will likely remain important year-round as retailers continue to adapt to evolving consumer demands and expectations. For instance:

- The number of both online shopping channels and offline shopping venues available to consumers continues to grow. Our annual holiday

survey now tracks 28 discrete retail formats, up from 13 five short years ago.²

- The use of laptops, desktops, smartphones, and social media for holiday shopping is widespread, with 83 percent of survey respondents expecting to use their desktops and/or laptops for this year’s holiday-season shopping.
- Retailers stand a 75 percent chance of converting a desktop- or laptop-using shopper to a purchaser this holiday season—and a 59 percent probability of converting a smartphone shopper to a customer.³
- In 2012, only 5 percent of holiday shopping occurred after December 25; in 2017, among those who shop after Christmas, 38 percent plan to take advantage of after-holiday deals.
- On average, according to our survey, this year’s holiday shoppers will purchase 15 gifts during the season—and spend an estimated \$228 more per household than last year.

The picture that emerges is one of rising consumer expectations for a seamless, effortless customer experience. And once again, this expectation is anticipated to affect both online and in-store channel preferences for where consumers do their research, browse for ideas, and ultimately make their purchases. Retailers that understand what makes for a satisfying shopping experience—and that can deliver that experience across channels to an increasingly fragmented consumer base—will be poised to set themselves apart from the competition.

Economic and financial outlook

Impact on holiday spend

ECONOMIC indicators point to another year of growth in holiday shopping. A recent Deloitte estimate suggests that 2017 holiday sales will increase approximately 4 to 4.5 percent compared with 2016.⁴ US retail sales between November 2016 and January 2017 (seasonally adjusted and excluding automotive and gasoline) grew 3.6 percent and totaled \$1.0 trillion, according to the US Commerce Department.⁵

This year's holiday survey suggests that online channels will capture a majority (51 percent) of Americans' holiday budgets, contributing to an estimated 18 to 21 percent increase in 2017 *e-commerce* sales compared with 2016.⁶ In-store purchases are expected to account for only 42 percent of this year's holiday purchases. The average consumer, accord-

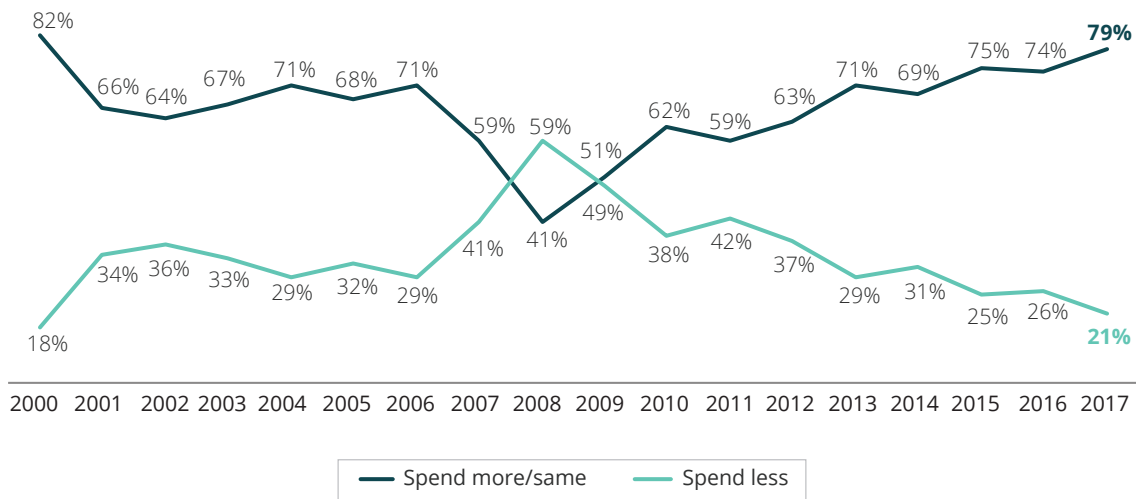
ing to our survey, plans to purchase 15 gifts this holiday season, roughly the same as in 2016; half of our respondents admitted that they are planning to purchase gifts for themselves while shopping for others. While shopping for others, 53 percent of respondents plan to buy indulgent gifts for others that the recipients would not buy for themselves.

Non-gift spending is expected to account for almost two-thirds (65 percent) of the average holiday budget this year, as consumers say they plan to spend more on household essentials such as clothing or furniture (29 percent), as well as experiences such as socializing at home, travel, or tickets to sports or entertainment events (39 percent).

The number of gifts purchased this holiday season is expected to be stable, with consumers likely

Figure 1. General spend sentiment improves

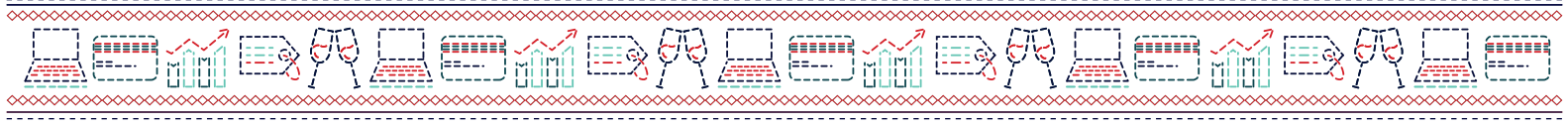
"How will your total holiday spending compare with last year's holiday season?"



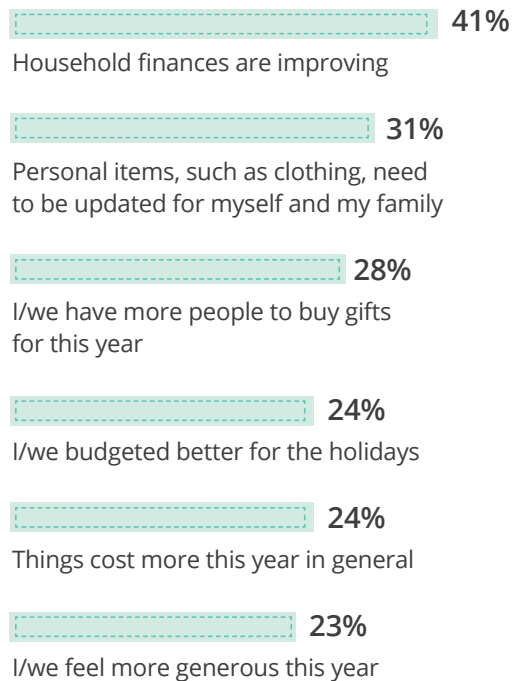
Note: Holiday spending includes all holiday gifts, holiday entertainment/socializing, holiday decorations, holiday donations, etc.

Source: Deloitte 2017 holiday survey.

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TOP REASONS FOR PLANNING TO SPEND MORE THIS HOLIDAY SEASON



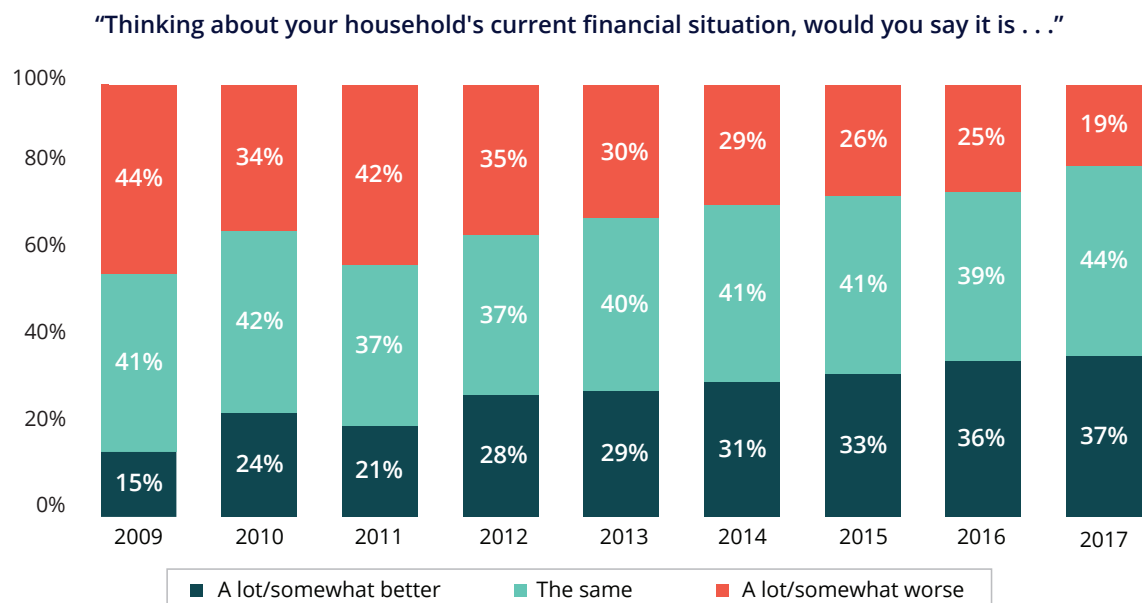
to average one more gift than in 2016. Nearly 1 in 5 respondents claim that they plan to take advantage of holiday sales. Those who do are likely to spend 23 percent of their budgets after December 25.

With US retail sales totaling \$3.7 trillion in 2016, our survey indicates consumer spend sentiment continues to improve: 79 percent of our respondents plan to spend as much or more this holiday season as they did during last year's. In short, this year's holiday shopping season may well be worth upwards of \$1 trillion to American retailers.⁷

A closer look at the data suggests some interesting patterns in consumer spending.⁸ For example, the reasons cited most often by our respondents for spending less than last year during the 2017 holiday season encompass factors such as saving more, paying down debt, higher food prices, and a worsened financial situation, among others (see the sidebar, "Top reasons for planning to spend less this holiday season").

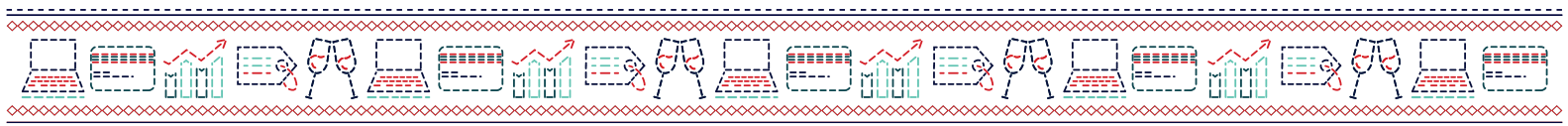
While shoppers may aspire to be less consumed by consumerism,⁹ the numbers tell a different story—namely, that the lure of shopping, with its own type of experience, is likely to remain in high demand. All of this likely bodes well for retailers

Figure 2. Household financial situation improving



Source: Deloitte 2017 holiday survey.

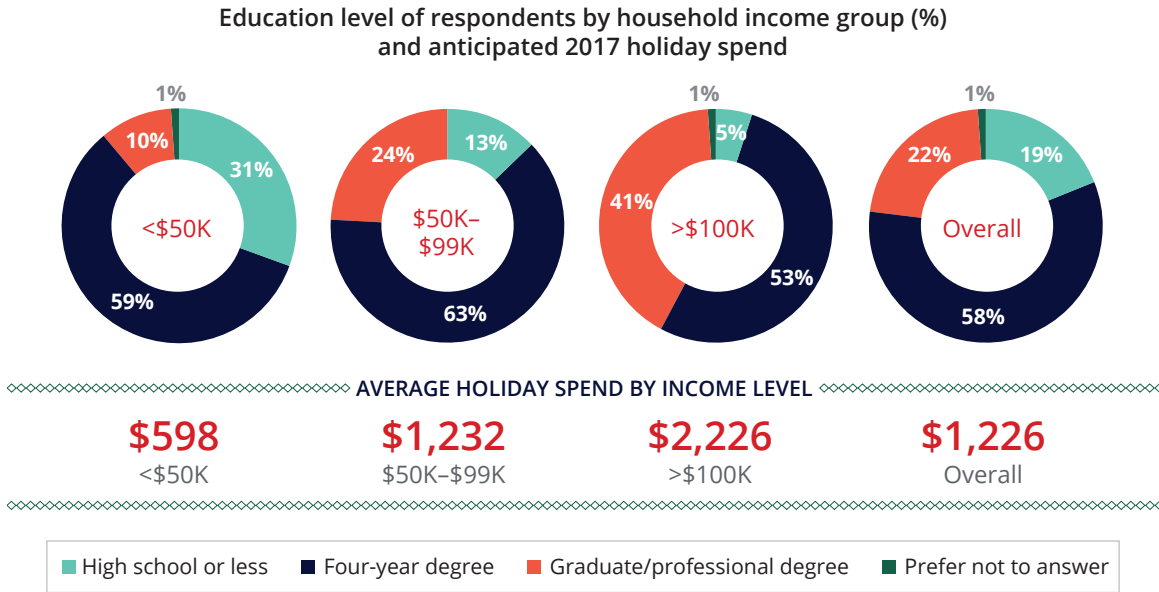
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that can provide a differentiated shopping experience along with unique products, an assortment of in-demand merchandise, and a variety of shipping options. Moreover, a demographic analysis of our survey results reveals that higher-income shoppers are expected to spend nearly double (\$2,226)

the overall average (\$1,226), while households with annual incomes under \$50,000 are likely to spend about 48 percent of this amount. Those with graduate or professional degrees are slightly more likely to earn and spend more than other segments.

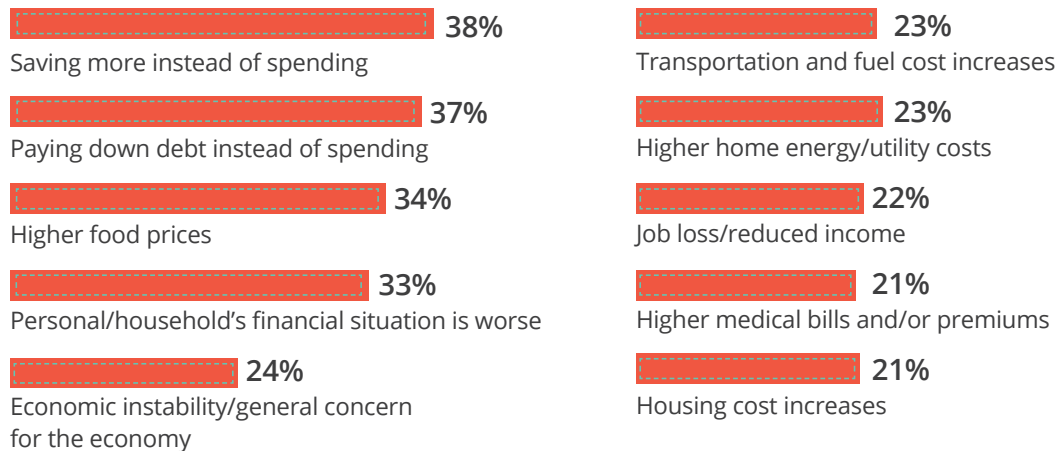
Figure 3. Holiday spending differs among demographics



Source: Deloitte 2017 holiday survey.

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TOP REASONS FOR PLANNING TO SPEND LESS THIS HOLIDAY SEASON



Digital influence

Importance of a mixed retail presence

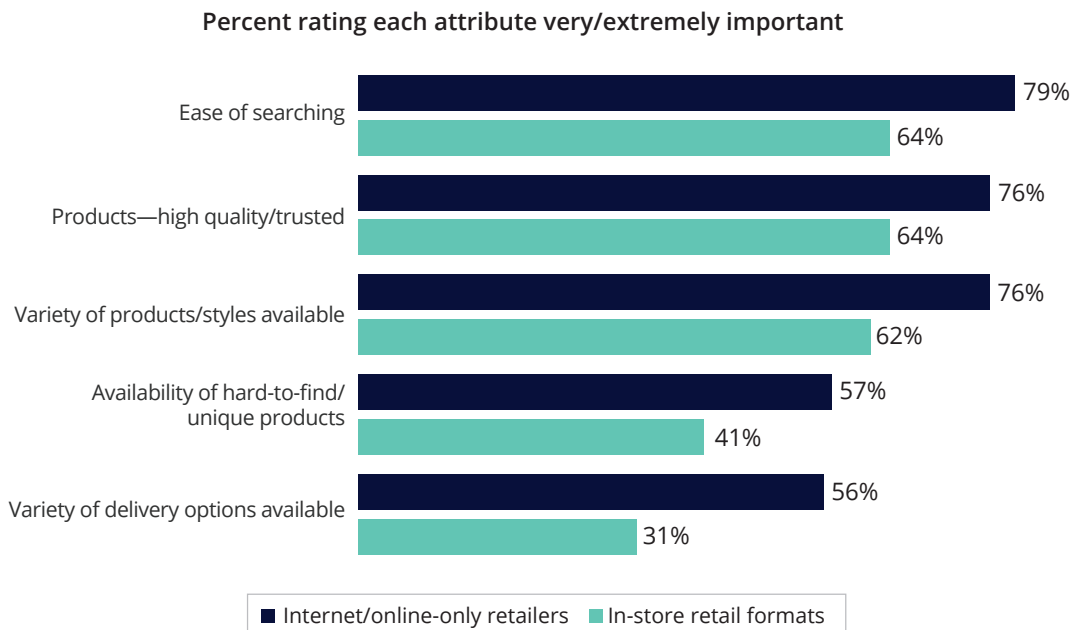
TODAY, consumers have more options for how and where to spend their money, with both switching costs and brand loyalty lower than ever before. To survive, many retailers are finding ways to serve individual consumers in ways tailored to their circumstances and desires—transforming both their value propositions and their business models.

Online has edged out in-store this holiday season as consumers' preferred retail channel, capturing 51 percent of our respondents' anticipated holiday spend. In-store purchases, on the other hand, are likely to account for only about 42 percent of our respondents' holiday spend. (The remaining 7 percent of spend is expected to occur through channels

such as print catalogs and direct mail promotions.) This may represent a watershed moment in holiday retail, as last year's survey showed respondents' spending split equally between online and in-store, at 47 percent each. Also noteworthy is that 3 out of 10 survey respondents said that it is important that retailers have both a physical and an online presence.

The retailers most likely to survive amidst the rising tide of online purchases are those that can provide a tremendous variety of offerings while maintaining a more personalized level of customer engagement than their competitors, regardless of the interaction channel.¹⁰ Our survey suggests that

Figure 4. Key store attributes driving retail format preferences



Source: Deloitte 2017 holiday survey.

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several competitive attributes are especially important in helping retailers win consumer wallet share:

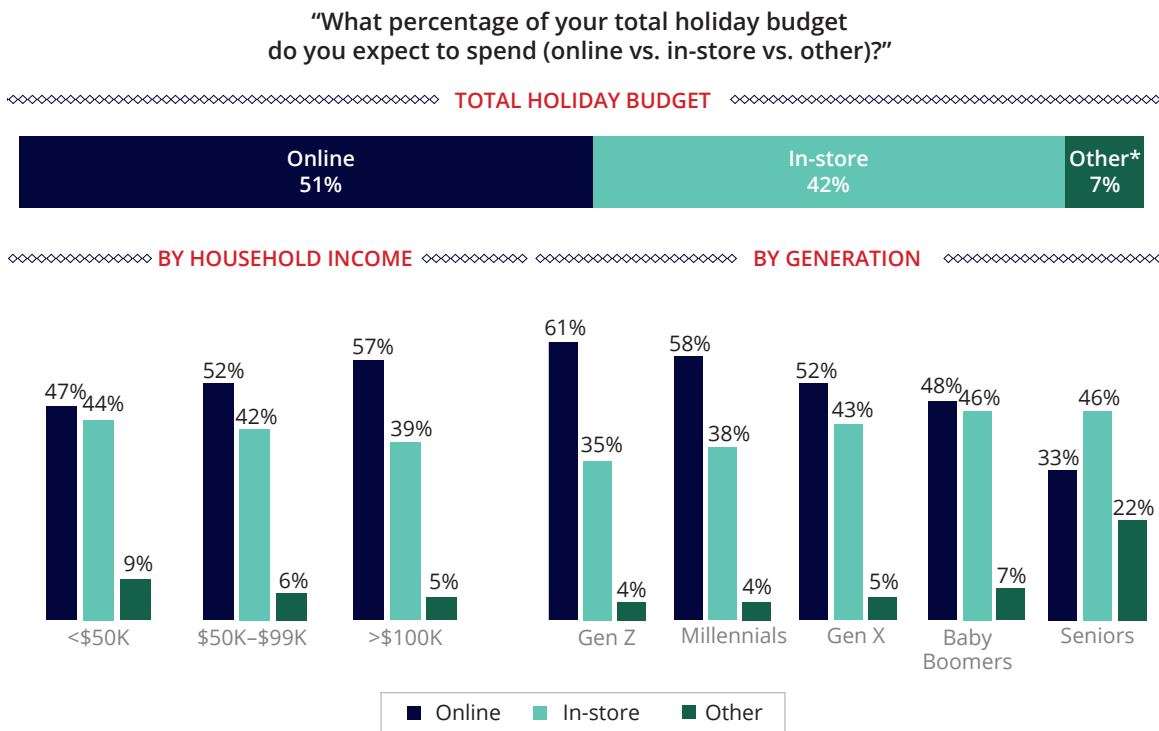
- Variety of available delivery options
- Availability of hard-to-find/unique products
- Variety of available products/styles
- High-quality/trusted products

Internet retailers are anticipated to win a greater share of consumers' holiday budgets in part by outperforming in-store venues in five specific areas, illustrated in figure 4. In addition, our survey revealed that consumers in certain demographics, including higher-income households and Generation X,¹¹ are likely to visit a slightly wider variety of retail store formats than those in other demographics, with Generation Z consumers,¹² seniors, and those with annual household income less than \$50,000 visiting the fewest.

Younger shoppers and those in higher-income households (with an annual income of \$100,000 or more) are expected to spend significantly more online than seniors (those 65 and older). Among the most popular purchase categories, clothing is expected to consume the largest proportion (25 percent) of the average household budget, with toys (18 percent) and electronics (16 percent) rounding out 60 percent of shoppers' total allocation.

Retailers may wish to consider assessing the maturity of their digital strategy in light of online's increasing importance as a holiday shopping channel. Our analysis found that 83 percent of survey respondents expect to use their desktops and/or laptops for holiday-season shopping, and among that 83 percent, the probability of converting a browser to a purchaser is an estimated 75 percent. Among those using a smartphone in holiday shopping, the

Figure 5. Online emerges as top retail channel

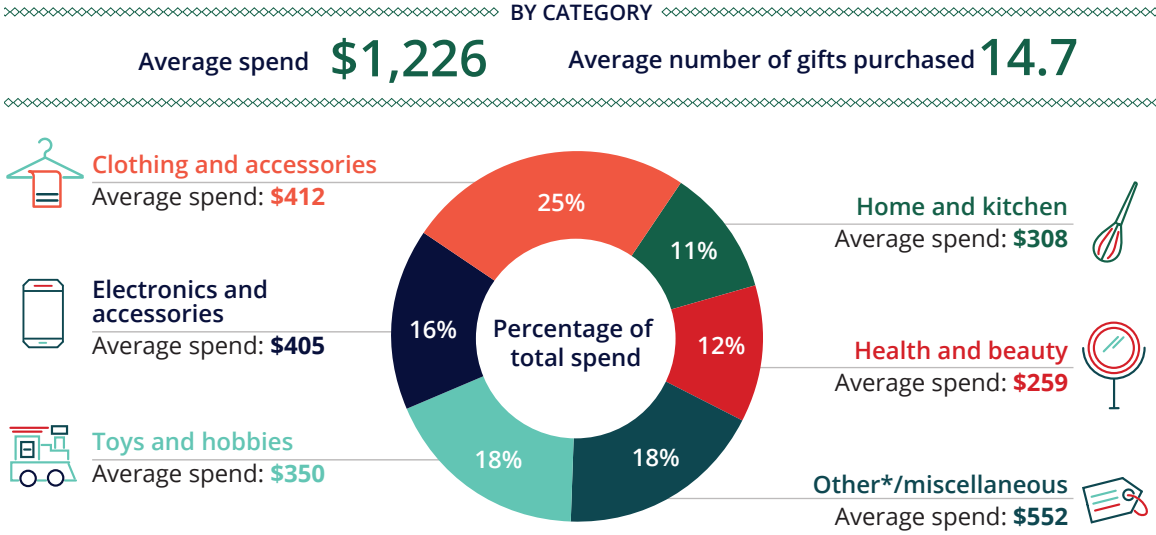


* “Other” includes catalogs or direct mail promotion.

Source: Deloitte 2017 holiday survey.

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Figure 6. Top product categories and average consumer spend



* "Other" includes data plans, gift cards/gift certificates/money, tickets to events, and socializing experiences.

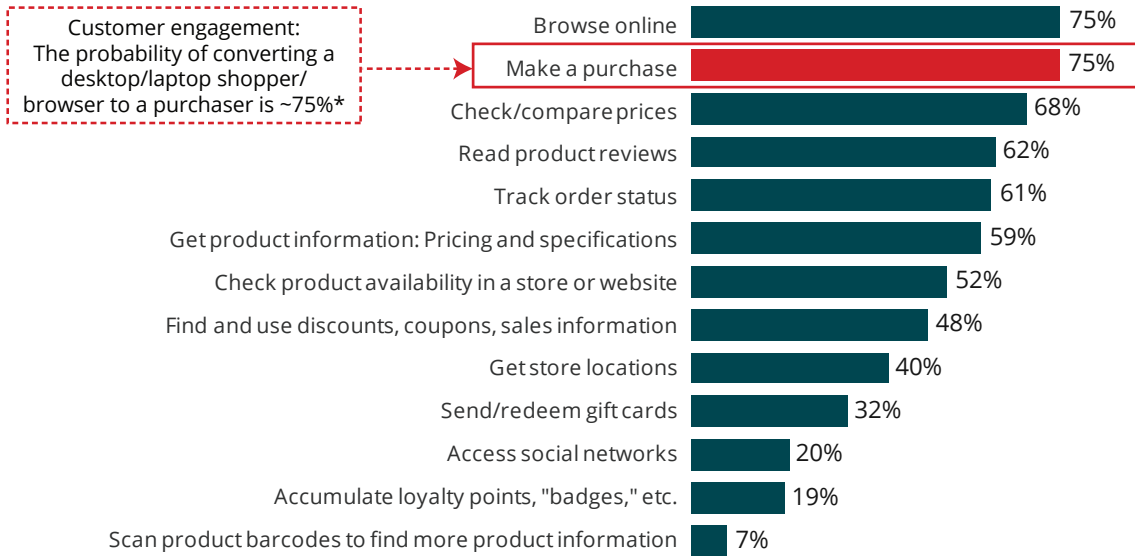
Note: Average spend is calculated only for those respondents who plan to purchase at least one item from the abovementioned categories.

Source: Deloitte 2017 holiday survey.

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Figure 7. 83 percent use a desktop/laptop for holiday shopping

"How do you plan to use a desktop/laptop to assist you in your holiday shopping?"



*Probability is based on a 100% base of the 83% of respondents that use a desktop/laptop for holiday shopping.

Source: Deloitte 2017 holiday survey.v

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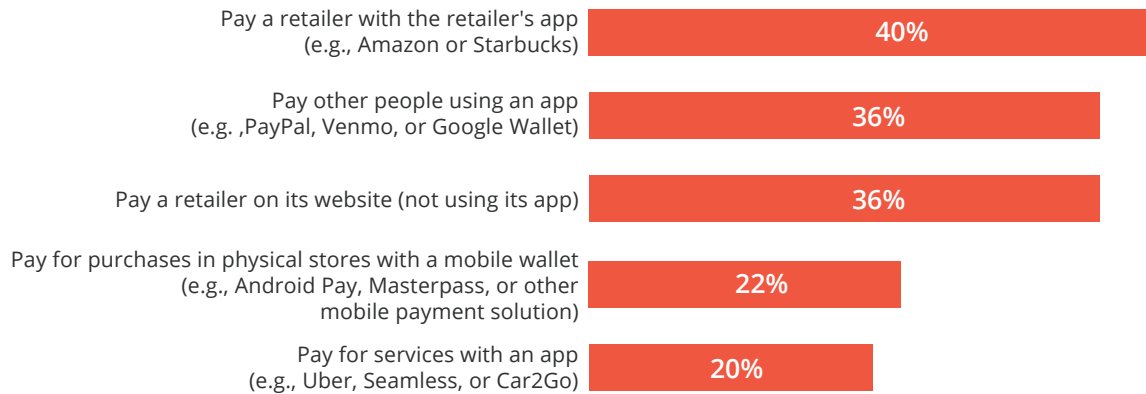
expected conversion rate is 59 percent. Similar to last year, consumers in this year's survey again said they would use digital devices for activities such as checking and comparing prices, reading reviews, tracking order status, and obtaining product information such as availability by store location.

Among preferred payment methods, 52 percent of higher-income and 40 percent of mid-range

households cite using credit cards, while lower-income shoppers prefer to use debit cards. Additionally, the use of smartphones as a digital payment platform continues to rise. Shoppers electing to pay via smartphone most often said that they planned to use a retailer's dedicated app, a third-party payment app, or go directly to a retailer's website.

Figure 8. Smartphones are used for a variety of payments

"What types of payments do you make with your smartphone?"



Note: Respondents could select more than one option. Percentages across categories will not sum to 100%.

Source: Deloitte 2017 holiday survey.

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Customer experience

Where, what, why, and when do consumers shop for the holidays?

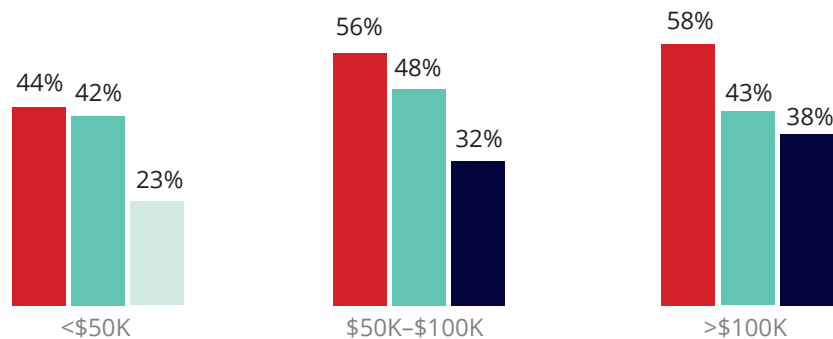
CONSUMER fragmentation by age and income continues to manifest, as cohorts such as Generation Z, Generation X, Millennials,¹³ Baby Boomers,¹⁵ and seniors show distinct preferences

and behaviors. Our survey identified several curious retail venue preferences. For instance, both seniors and those with annual household incomes below \$50,000 share an inclination for visiting supermar-

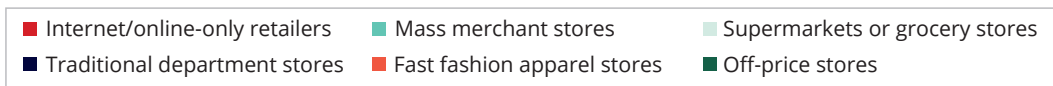
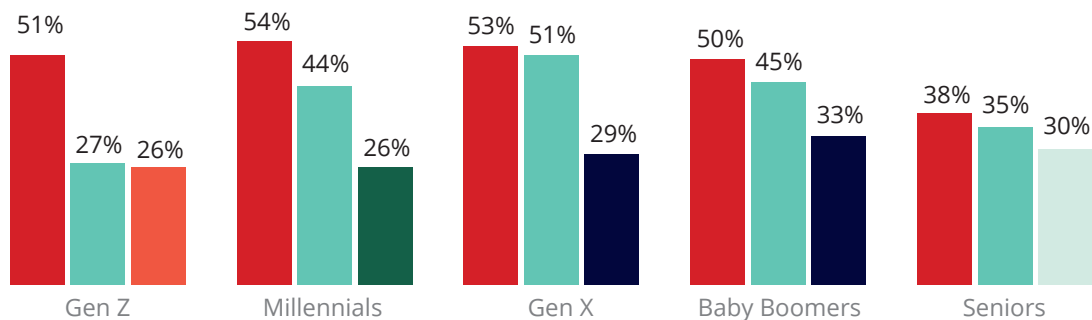
Figure 9. Where do consumers shop? Age and income matter!

“At which of the following types of retailers will you likely shop for holiday gifts?”

TOP THREE FORMATS BY HOUSEHOLD INCOME



TOP THREE FORMATS BY GENERATION



Source: Deloitte 2017 holiday survey.

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kets and grocery stores for gift shopping, relative to other demographics.

While the online channel remains the top choice across segments, it was intriguing to uncover that Generation Z respondents selected fast fashion stores, and Millennials off-price stores, among their top three preferred retail destinations—both cited at the rate of 26 percent. Traditional department store loyalty seems to reside with both Gen X and the Baby Boomers, as well as with households with an annual income of \$50,000 and above.

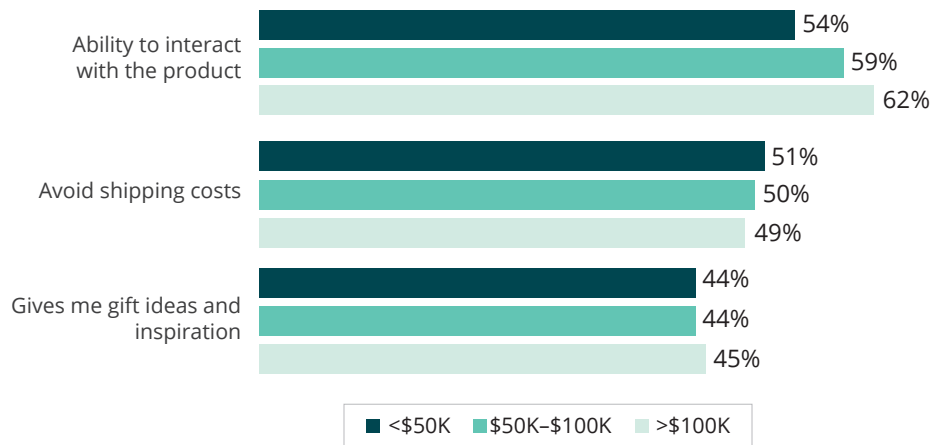
The reasons that consumers prefer to shop either online or in-store also differ by demographic. Among those preferring to shop in-store, the ability to interact with a product, the absence of shipping costs, and the opportunity to find inspiration top the list of factors driving this preference.

Conversely, many online shoppers say they prefer the online channel for the time-saving convenience of shopping from home, the ease associated with home delivery, and the financial benefit of free shipping. Free shipping, in fact, topped the list

Figure 10. Top reasons for shopping at a physical store

“What are the reasons you plan to shop in a physical retail store rather than online?”

TOP THREE REASONS BY HOUSEHOLD INCOME



TOP THREE REASONS BY GENERATION

	Gen Z	Millennials	Gen X	Baby Boomers	Seniors
Ability to interact with the product	49%	52%	59%	63%	62%
Avoid shipping costs	72%	47%	49%	47%	57%
Gives me gift ideas and inspiration	29%	40%	43%	49%	51%
Easier to make returns later	23%	31%	33%	39%	55%
Need to acquire gifts immediately	42%	34%	33%	25%	31%

■ Most-selected reason ■ Second-most-selected reason ■ Third-most-selected reason

Source: Deloitte 2017 holiday survey.

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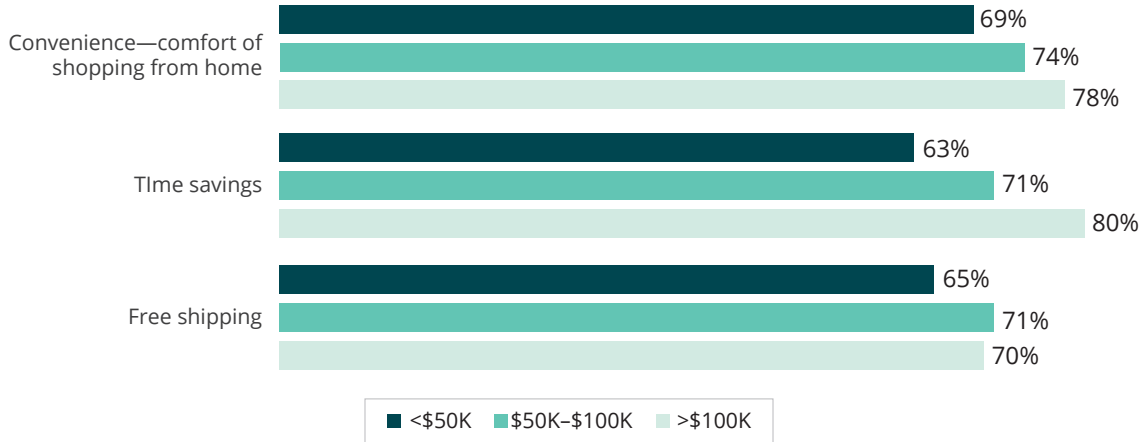
of perks shoppers planned to take advantage of in this year's holiday season (72 percent), in addition

to store policies for easy returns (44 percent) and price matching (42 percent).

Figure 11. Top reasons for shopping online over in-store

"What are the reasons you anticipate shopping online instead of in a physical store?"

TOP THREE REASONS BY HOUSEHOLD INCOME



TOP THREE REASONS BY GENERATION

	Gen Z	Millennials	Gen X	Baby Boomers	Seniors
Convenience—comfort of shopping from home	66%	67%	76%	83%	77%
Time savings	64%	66%	74%	75%	74%
Free shipping	68%	61%	72%	74%	80%
Home delivery	48%	56%	71%	72%	77%

■ Most-selected reason ■ Second-most-selected reason ■ Third-most-selected reason

Source: Deloitte 2017 holiday survey.

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Summary

Adapting to change

IN this 2017 holiday season, we encourage retailers to evaluate how our survey insights might apply to their store operations. Growing fragmentation across numerous segments⁴⁵ may create the imperative for retailers to better understand consumers' preferences with regard to:

- Influencers along the path to purchase
- Preferred brand and store attributes
- Favored retail store formats and venues
- Optimal merchandising techniques and product assortment choices

- Consumer-backed policies around returns, shipping, and payment options

Physical retail store formats will not disappear. However, they may need to adapt and transform in order to realize profitable growth in a highly competitive blended environment where digital has the potential to not only influence but also capture market share. For many retailers, too, maintaining a dual in-store and online presence will remain important. In this new reality, knowing which operational levers to pull may be key to thriving.

The 2017 holiday survey was developed by Deloitte and conducted online by an independent research company during September 6–18, 2017. It polled a national sample of 5,085 consumers aligned with the US census for age and income. The survey has a margin of error for the sample of plus or minus one to two percentage points.



ENDNOTES

1. John Hagel, et al., *The retail transformation: Cultivating choice, experience, and trust*, Deloitte University Press, June 16, 2015.
2. *Deloitte 2012 annual holiday survey: Will retailer registers jingle?*, Deloitte, October 2012.
3. *2017 holiday survey: Retail in transition*, Deloitte Insights, October 2017.
4. "Deloitte forecast: Retail holiday sales to increase 4 to 4.5 percent," Deloitte, September 20, 2017.
5. Ibid.
6. Ibid.
7. According to the US census 2016/17, annual retail sales were 3.7 trillion. Deloitte estimates \$1 trillion would be ~1/4 of annual retail sales.
8. Danny Bachman and Akur Barua, *The consumer rush to "experience": Truth or fallacy?*, Deloitte University Press, August 18, 2017
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10. Hagel et al., *The retail transformation: Cultivating choice, experience, and trust*.
11. "The whys and hows of generations research," Pew Research Center, September 3, 2015. Generation X is often defined as those born from 1961 through 1981.
12. Ibid. Generation Z is often defined as those with birth years ranging from the early to mid-2000s.
13. Ibid. Millennials are often identified as those with birth years ranging from the early 1980s to the early 2000s.
14. Ibid. Baby Boomers are often identified as those born from 1946 through 1964.
15. Sharon McDonnell, "Micro segmentation," *Computerworld*, January 29, 2001.



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ACKNOWLEDGEMENTS

Many thanks to **Leslie Ament, Venkata Sangadi, Arun Tom, Ashley Dunham, Courtney Flaherty,** and **Kerri Sapp** for their contributions to this report.

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