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BY THOM BLISCHOK, NICHOLAS HODSON,
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This holiday season, U.S. polls are reporting more confidence in the economy — but not because consumers have more money to spend than they did last year. Indeed, because the economy is still sputtering, overall retail sales this holiday season are likely to be flat or only slightly up. The confidence may instead be coming from a shift in expectations and habits. Recession-driven consumer shopping patterns that many people assumed were temporary are now becoming permanent. Retailers have adjusted many old practices since 2008, and they have some grounds for optimism — but only if they continue to be capable of rapid change.

These insights are based on a survey of a 1,600-person informal panel made up of frequent retail shoppers, store staff, and retail and consumer executives. We also conducted more than 150 interviews in stores, malls, and airports during August and September 2012. This research shows several distinct trends in consumer mind-set and behavior:

Overall, consumers will remain very cautious this year. A full 52 percent will closely consider affordability in their shopping decisions (the number is even higher for lower-income demographics). Sixty-one percent of consumers say they have “learned to live with less” (up from 53 percent last year). Consumers are optimistic about deals: 73 percent of consumers expect to find

great deals this season (up from 62 percent last year).

At the same time, there are signs that consumers are tiring of the ongoing “misery index.” Fifty-three percent intend to buy at least one luxury item (up from 41 percent last year).

Consumers also seem to be looking forward to the holiday season more than they did last year. Fully 61 percent expect to get together with family this year (up from 54 percent last year), and they are looking forward to throwing more parties: 53 percent expect to host multiple gatherings for family, friends, and neighbors (up from 45 percent last year). An appropriate theme for holiday celebrations this year could be “I’m Still Standing”: 51 percent report that economic survival is a great reason for celebrating this year.

The Decreasing Lure of Electronics

In terms of consumer purchases, we expect that apparel will be a hot category and that electronics may fade slightly. The survey found 42 percent of consumers reporting that they intend to buy clothing as gifts (up from 37 percent last year). Anticipating sales and discounts, however, consumers tell us that they plan to buy their apparel later than they did last year — many waiting until well after Black Friday (the major U.S. shopping holiday that falls in late November, just after Thanksgiving).

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As for consumer electronics, only 38 percent of consumers have these items at the top of their personal wish lists. Apparently, some demographic groups are approaching high-tech saturation. Not surprisingly, for those who are hoping for electronics, tablets and smartphones top the list.

One electronics category — home entertainment — should remain strong; 62 percent of respondents report that they will be shopping for these items. Hardware (such as sophisticated home theater equipment), accessories, and media are all on people's lists. And 3-D movies may finally break through into the living room, as a wave of superhero movies hits the stores and meets up with 3-D TVs acquired over the last year.

Downloadable gifts will become a distinct and rapidly growing category this year. E-books, iTunes music downloads, and movies will all be popular. "Virtual goods" have clearly become an acceptable gift for many (for both giving and receiving). More than 45 percent of shoppers expect to give at least one downloadable gift this year — and those items won't even need wrapping! With more parents buying Kindles and Apple products for ever-younger children (age 10 this year versus age 12 last year), digital media sales look to remain healthy post-holiday as well.

Gift cards will be a huge category again this holiday season. More than 80 million shoppers plan to purchase gift cards this year, about 4 percent more than last year.

Black Friday and Every Day

Bargain seeking will, unsurprisingly, dominate consumer behavior. Private-label goods (whether in electronics, apparel, or groceries) will see strong growth as consumers seek greater value for their holiday dollar.

Consumers are increasingly viewing Black Friday as irrelevant: They start looking earlier and buying later, and are moving online. As a result, retailers are discounting even earlier, seeking to convert these early shoppers. As always, some shoppers will wait to make their Christmas purchases at the last minute; in fact, we estimate that some 25 million shoppers will hit the stores on Christmas Eve, a 9 percent increase over last year. They will be expecting even better last-minute deals.

Showcasing — browsing in a store before buying online — will be a major challenge for bricks-and-mortar retailers this year. We found that 40 percent of consumers now describe showcasing as their shopping strategy. Multichannel shopping will also be increasingly popular. In this form of shopping, people use more than one medium for a single purchase or group of related purchases. They may research their products online but buy them in a store, buy them online for pickup in a store, or buy a product in a store but buy its accessories online. Among some consumer groups, multichannel shopping will be the dominant path to purchase this year.

Capturing the Sale

The good news for retailers is the willingness of shoppers to start buying again — albeit cautiously and with a relentless and technology-enabled quest for value. The biggest challenge this season for bricks-and-mortar retailers in particular is how to drive more than their fair share of showcasing activity to their own websites (rather than to Amazon or another competitor). Improved shopper confidence doesn't do you much good if your stores are just a showroom and someone

else ultimately captures the sale.

What can a retailer do to capture sales in the store or drive the consumer to its own website rather than a competitor's site? This is a formidable challenge, and the retail industry as a whole is struggling to find answers. Here are some of the best practices we already see in place for this holiday season:

- Expect most or all of your customers to be simultaneously browsing in your store and on their smartphone. Develop seamless digital and physical experiences to exploit multichannel retailing, because shoppers will expect it. Make your digital experiences so compelling that your customer never feels the need to check out your competitors.

- Offer “buy-it-now” promotions at the shelf to turn browsers into buyers or to drive customers in your store to your website. Give them incentives to purchase immediately instead of going to a competitor. For example, QR codes — the little square codes on products that consumers can scan with their smartphones for further product information, comparisons, and reviews — can be used as promotions to convert a sale. Let consumers scan a code to, for instance, have items shipped to their home immediately at no charge.

- Capture information about your customers as they browse in-store (for example, through mobile apps linked to your loyalty program), then ping them a day or two later with a “too good to miss” promotion that will increase your chances of conversion.

- Use loyalty points (most retailers have proprietary loyalty schemes now) to drive conversion. For example, tell consumers “you can earn double points if you buy today in the store, triple points if you place an order online within 24 hours.”

- Refresh your return and fraud policies to ensure that your customers can return items bought online to the store.

- Consider free shipping on targeted items or basket sizes, because shoppers are increasingly savvy about their “all-in” costs. Last holiday season, free shipping was a major driver of online sales, and we expect more of the same this year.

- Use “we match online prices” messaging on the items most likely to drive overall price perception.

- In apparel, increase your chances of “buy it now” conversion by making sure your fitting rooms are clean, organized, and staffed with your best people. An enjoyable fitting room experience nearly always turns into a purchase.

- Invest in preparing your online and mobile technology platforms for high volumes. Online shoppers are quickly discouraged by slow websites and apps that crash.

- Ensure that your sales associates are intimately familiar with your website and your mobile offerings (such as apps) so that they can help customers navigate between your channels in real time. In a multichannel world, nothing alienates a consumer more than a blank stare from a salesperson in response to “Well, on your website it says...”

Some retail categories, such as food (in groceries and supermarkets), will have distinctive opportunities this holiday season. Because of the drive for frugal celebration, there will probably be an increase in parties and large home dinners — a trend no doubt viewed with some trepidation by the lead cook in the household. Grocery retailers can help these home cooks with interesting new side dishes and desserts, along with ready-cut

and ready-washed salads and other ingredients. They can also provide exhausted cooks with ideas for use between the major celebrations, such as creative recipes for using leftovers.

The last year or two has seen a tremendous expansion in farmers' markets as a source for fresh groceries. A supermarket can respond to this trend over the holidays by hosting a holiday market out in front of the store (perhaps in a heated tent in cold climates), thus attracting customers, building community spirit, and emphasizing the local store's role in a successful and happy holiday season.

The Regifting Conundrum

"Regifting" is another trend that could have a significant impact on retailers. According to the survey, 32 percent of shoppers are currently considering giving an as-yet-unused gift to someone else this season. Thirty-one percent of shoppers view this as an acceptable form of gift giving (versus 25 percent last year). Of course, most consumers will ensure that their "regift" is appropriate for the lucky recipient, and many will consider appending a low-cost accessory or fresh packaging to make the gift appear new or personalized — or, perhaps, to salve their conscience!

The regifting trend could hit retailers hard. We see two possible strategies for persuading frugal customers to spend. First, you can resist the regift. Emphasize what is new and different about this year's product, compare and contrast features (especially in electronics) or style and trim (in apparel). The online environment provides a great forum for providing this kind of information to consumers to help them choose the latest upgrade.

Alternatively, why not embrace the trend? Accept

regifting as a phenomenon and sell accessories that add some novelty and help the giver feel good about the gift he or she is offering. In apparel, this could take the form of "updating last year's looks," ostensibly aimed at the owner of last year's knitted top but actually aimed at the surreptitious regifter.

The Case for Optimism

Retailers are hearing a lot of somber forecasts these days: Economic uncertainty is everywhere, and significant technology-driven disruptions are affecting the shopping experience. But our research indicates that there is room for optimism — even compared with this time last year. Consumers are becoming more innovative and cautious with regard to spending, but many also seem focused on celebrating with friends and family — and giving thanks for economic survival. They have a value-seeking mind-set, but they will shop this year. Retailers that recognize their needs and concerns, and tailor their strategies accordingly, are the ones most likely to succeed this holiday season. +

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