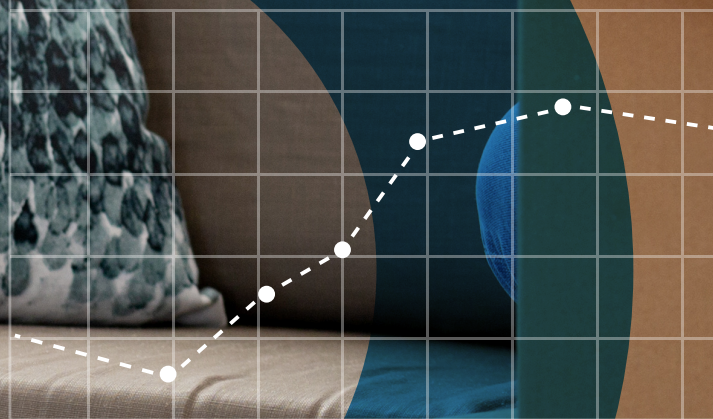


# Holiday Shopping Trends Report

Winning Customers  
Despite Uncertainty





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## METHODOLOGY

Stamps.com worked with Retail Economics to conduct consumer surveys in August 2022. This report includes answers from a sample of more than 8,000 nationally representative consumers across the US, UK, Canada, Australia, Germany, France, Italy, and Spain.

Market intelligence and forecast data has been modeled by Retail Economics.

Participants



US



UK



Canada



Australia



Germany



France



Italy



Spain



# Introduction

**With expected cutbacks of around \$46 billion in holiday gift spending due to inflation, we examine how retail merchants can adapt to the unique changes and continue winning customers despite uncertainty.**

For many, 2022 has introduced a wealth of macroeconomic challenges, leaving some uncertainty lingering over the golden quarter for the retail and ecommerce industries. As merchants face rising costs and consumers experience the tightest squeeze on discretionary income in recent memory, what will holiday sales look like this year?

Hopes for this year included a return to more normal times. However, high inflation and increasing interest rates across markets prompted consumers to ask themselves whether now is a good time to spend. Similarly, merchants are wondering just how much additional cost can be passed onto their core customer base in order to remain profitable.

Ongoing industry disruption, financial anxiety, and elevated uncertainty is contributing to reduced confidence, which in turn, is leading to reduced spending intentions for Black Friday and Christmas this year. As such, the golden quarter is set to be more muted, with some \$46 billion of holiday gifting expected to be wiped off this year as consumers look to cut back non-food spending across eight international markets covered in this research (US, UK, Canada, Australia, Germany, France, Italy, and Spain). Apparel and electronics are among the unfortunate categories set to bear the brunt.

Most merchants surveyed in this research are not expecting such a decline. This means their 'winning strategies' of passing on heightened fulfillment costs to consumers are at odds with current shopper sentiment – and indeed their ability, and even willingness to pay.

## What is the Golden Quarter?

The 'Golden Quarter' is also referred to as 'peak' or the 'holiday season' in the ecommerce industry. It is the most challenging time of the year for many retailers as they deal with an increase in demand and shifts in consumer behavior and expectations around delivery.

**When is the Golden Quarter: Oct - Dec**

This report explores three key themes:

1

The financial squeeze

2

The cutback landscape

3

Adapting and thriving





# Introduction

As finances tighten for both merchants and consumers alike, we're noticing recessionary behaviors start to influence the market. Consumers will reconsider familiar channels, brand loyalties will be tested, and price and value will quickly become key drivers of change, thus will need to be deeply understood by retail brands.

This research identifies four types of consumers, based on attitudes towards finance and their financial security. It shows how market characteristics play an influencing role in shaping changes in behavior, together with category-related factors.

Indeed, the report investigates what categories are likely to suffer most from consumer intentions to cut back on spending, and how different consumer types will impact sales performances over the holiday season. More broadly, it aims to assess retail sales performance across holiday sales in the context of intensifying cost-of-living pressures going into the fourth quarter of the year.

- **The financial squeeze:** looks at the macroeconomic backdrop and how consumer sentiment is being impacted by rising costs
- **The cutback landscape:** forecasts how much consumers are looking to cut back holiday gift giving this year – including analysis by category, household, and channel – and how merchants' predictions for this holiday season may be misaligned with shopper expectations
- **Adapting and thriving:** highlights strategies that merchants need to focus on to remain relevant and profitable during a challenging fourth quarter

Key insights presented within this report can inform, and potentially help improve, retail strategies to address current conditions for this holiday season and beyond. The report contains economic modeling and data-driven insights developed from a nationally representative consumer panel survey comprising over 8,000 households across the US, UK, Canada, Australia, Germany, France, Italy, and Spain. The research also details input from over 800 businesses across the US, Canada, the UK, France, Germany, Italy, Spain, and New Zealand.



**Key insights presented within this report can inform, and potentially help improve, retail strategies to address current conditions for this holiday season and beyond.**





# Key Stats

Based on data from eight international markets (US, UK, Canada, Australia, Germany, France, Italy, and Spain) expect a cutback in spending this holiday season as consumers look to save on non-food spending.

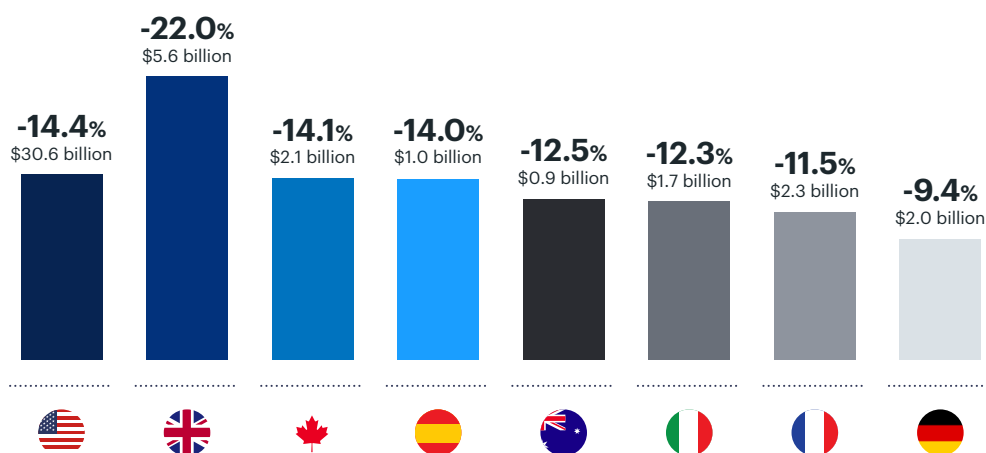


## \$46 billion

in cutbacks on holiday gifting this year

### Cutbacks by country

(% reduction in spending this holiday season)

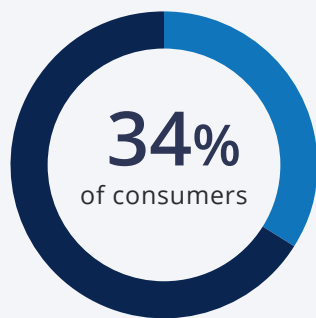


## 2x

the increased likelihood of less affluent consumers to cut back spending.

## More than 25%

will cut back spending on **clothing and footwear** — the most of any category.



are facing **financial distress** going into the holiday season.

## 3 in 5



consumers expect to cut back on **non-food spend**.



# Key Stats

Similarly, a survey of ecommerce and retail merchants reveals concerns around inflation and rising prices. They're in a unique position to have to decide whether they offload some of the costs to consumers, or look for ways to cut back.



also expect online sales to **increase** this holiday season, while **58% of consumers** plan to cut back, showing some expectations are out of sync with reality.

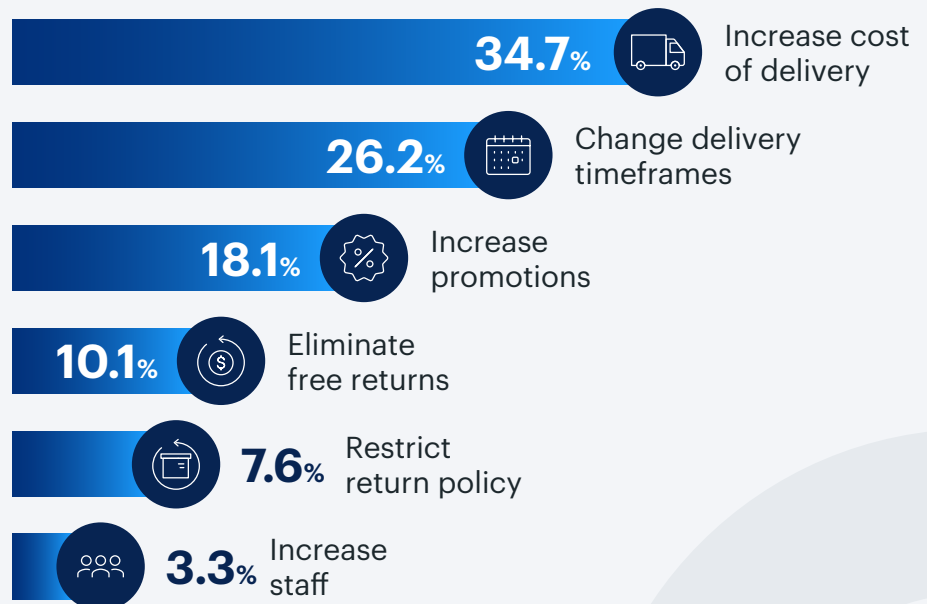


## 9 in 10

businesses expect to be **impacted by rising costs** this the holiday season.

## Top 6

ways merchants plan to offset rising operating costs this holiday season:



# The Financial Squeeze



Retail industries across the world are approaching a holiday season like no other. Inflation has surged to decade highs across key consumer markets as escalating energy, fuel, and food costs continually squeeze consumer living standards.

Set against a softer consumer backdrop, retail profitability has come under intense strain. Labor shortages, ongoing supply chain disruption, and rising operating costs are testing business models – some to breaking point.

**Nine in 10** (91.9%) businesses surveyed in our research, expect to be negatively impacted by rising costs over this holiday season; while on the consumer side, **three in five** (58.0%) shoppers expect to cut back on non-food spending amid rising living costs.

It comes as households face deteriorating discretionary budgets for non-essential purchases. Families are having to make tough choices regarding where to shop, what they buy, and how frequently. This is leading to consumers trading down to cheaper alternatives, delaying 'nice-to-haves' and canceling certain purchases altogether.

**"Inflation and economic uncertainty are forcing consumers to rethink their spending priorities this holiday season. To combat this, merchants must proactively formulate a holiday season game plan. This includes re-examining and improving the experience they offer: from the moment an order is placed online through last-mile delivery."**

ROBERT GILBREATH  
GENERAL MANAGER, STAMPS.COM

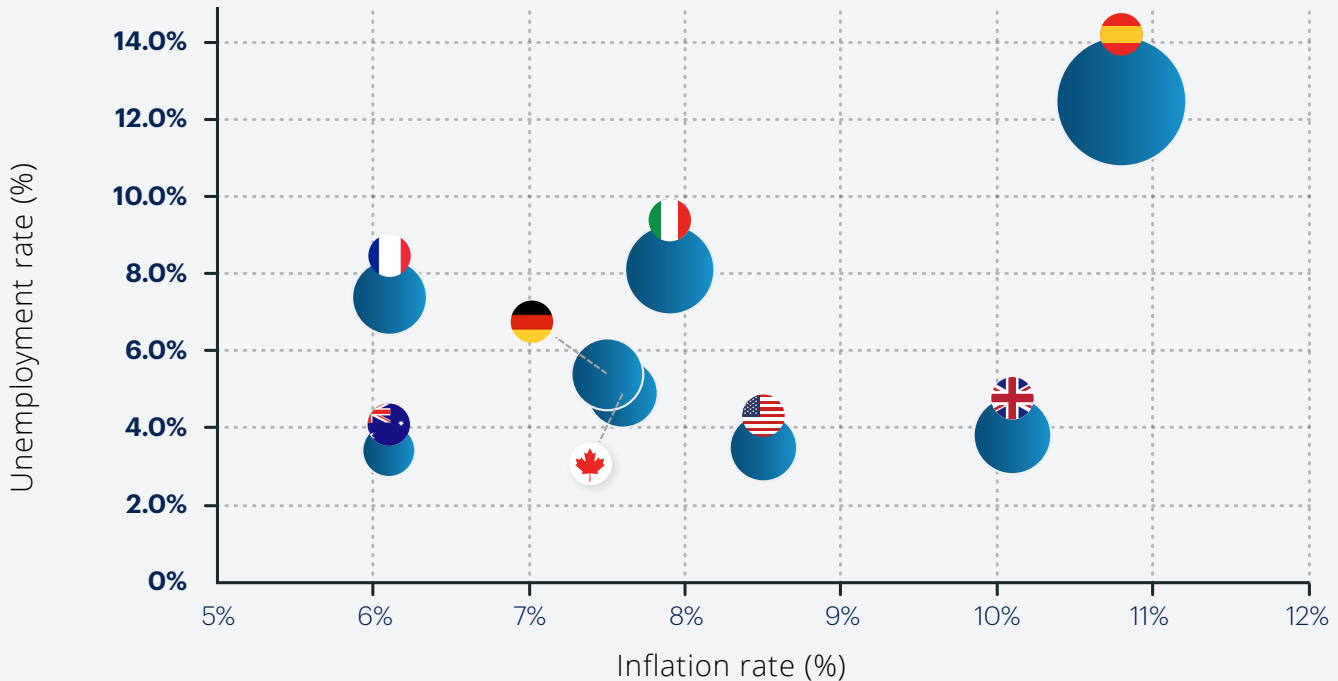


expect to cut back non-food spend amid rising living costs



## SECTION 01: The Financial Squeeze

Figure 1: Inflation across key markets is at uncomfortable levels heading into the final quarter



Size of bubble= economic hardship  
(combining inflation and unemployment into a single metric)

Source: Retail Economics

**“We are seeing very low volume right now, and are expecting the same during the holidays. With the cost of everything rising, people do not want to put money into anything right now other than their essential needs.”**

OPEN BOX GUYS  
STAMPS.COM USER

Economic hardship varies considerably by country depending on many factors such as government policy, regional market dynamics (e.g. supply of energy) and domestic interest rates. For instance, the US and UK have both been exposed to rising wholesale gas prices, significantly impacting the price of staple goods, which disproportionately impacts the least affluent households. This compares to France, which has shielded its consumers due to the government's stake in major energy supplier EDF, as well as having greater access to alternative sources of energy such as nuclear power.

Government  
Policy



Regional Market  
Dynamics



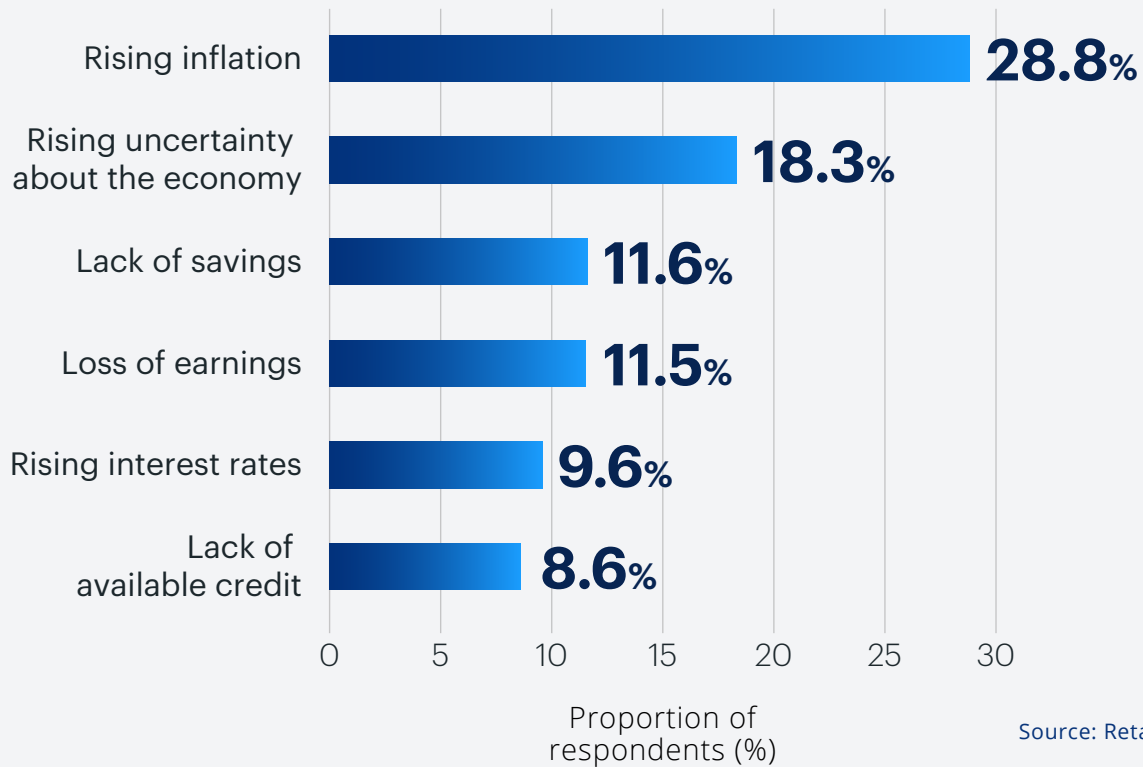
Domestic  
Interest Rates



## SECTION 01: The Financial Squeeze

Figure 2: Inflation is having the biggest impact on consumer spending intentions over the golden quarter

What are you most concerned about impacting your spending heading into the holiday season and next year?



The research shows that across all markets, inflation remains the biggest concern for consumers followed by uncertainty about the economy and lack of savings, which will undermine holiday spending.



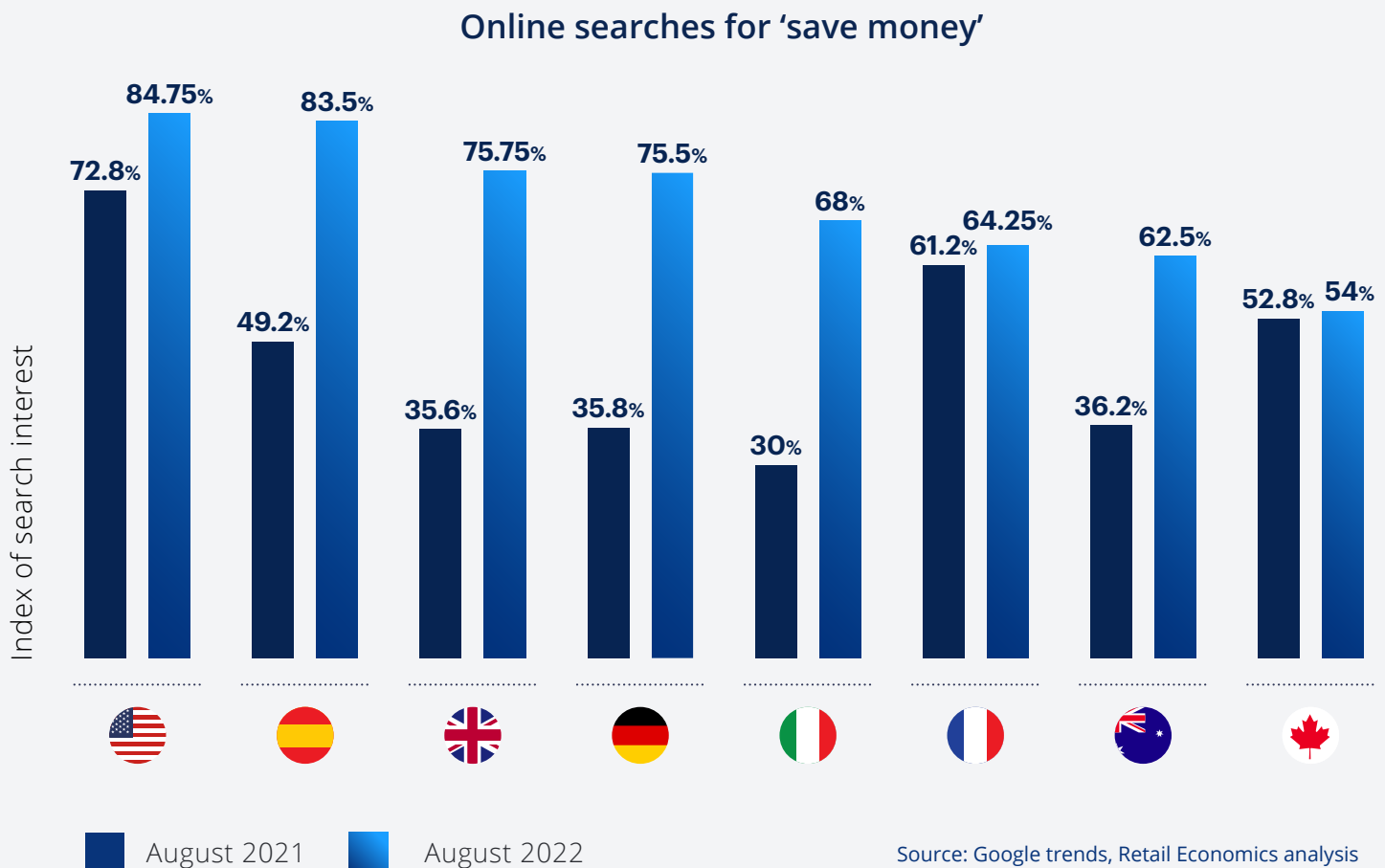


## SECTION 01: The Financial Squeeze

Many consumers will be forced to adopt recessionary behaviors such as trading down, cutting back spending, and canceling purchases as inflation persists over the golden quarter.

Seeking ways to stretch budgets through increased savviness is already on the rise. Online searches for the term 'save money' have increased in all of the markets covered in the research. These searches hit a five-year high, with countries such as Spain and the US facing higher inflation rates and the UK recording the greatest increase in interest rates.

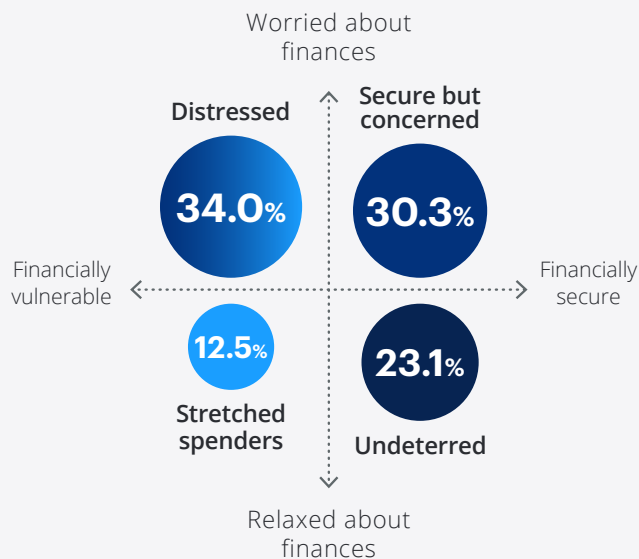
Figure 3: Interest in ways to save money has stepped up significantly in the last year



## SECTION 01: The Financial Squeeze

The research identifies four key consumer archetypes, mapped against a quadrant that measures attitudes towards personal finances (vertical-axis) and underlying financial security (horizontal-axis).

Figure 4: A significant proportion of consumers are financially distressed as the cost of living rises



like to spend but are on tight budgets, they are the most concerned about inflation going forward. They are typically older consumers approaching retirement, with a slight bias towards women (51%).

- **'Secure but concerned' [30%]:** Financially strong consumers, but their attitudes towards spending are being influenced by cost-of-living concerns. They display risk-averse attitudes towards spending as inflation and interest rates rise, and are often savvy, looking to switch shopping channels to save money. This group represents a broad mix of ages (including 18-24-year-olds) and is a roughly even split between men and women.
- **'Distressed' [34%]:** Consumers at high risk from rising living costs; financially vulnerable with significant concerns. They are most likely to be worried about lack of earnings, savings, and credit availability going into the holiday season and next year, therefore most likely to cut back on spending. They are also considering switching preferred shopping channels to save money. These consumers are typically middle-aged or older, facing prospects of weak earnings growth and pension funds being eroded by inflation. Just over half (54%) are women.

30% of consumers are secure but concerned



- **'Undeterred' [23%]:** The cost of living has a lesser impact on shopping behavior compared to other cohorts as they have the greatest financial freedom and are the least concerned about inflation. However, they worry about the economy, spending is at risk from a deteriorating economic outlook, and they have increased saving intentions. These consumers are typically at established points in their careers aged between 35-54 years old and skewed toward males (56%).
- **'Stretched spenders' [13%]:** Consumers that are attempting to maintain a resilient attitude toward spending (particularly after years of Covid-related restrictions), despite finances coming under pressure from rising living costs. Given consumers in this cohort

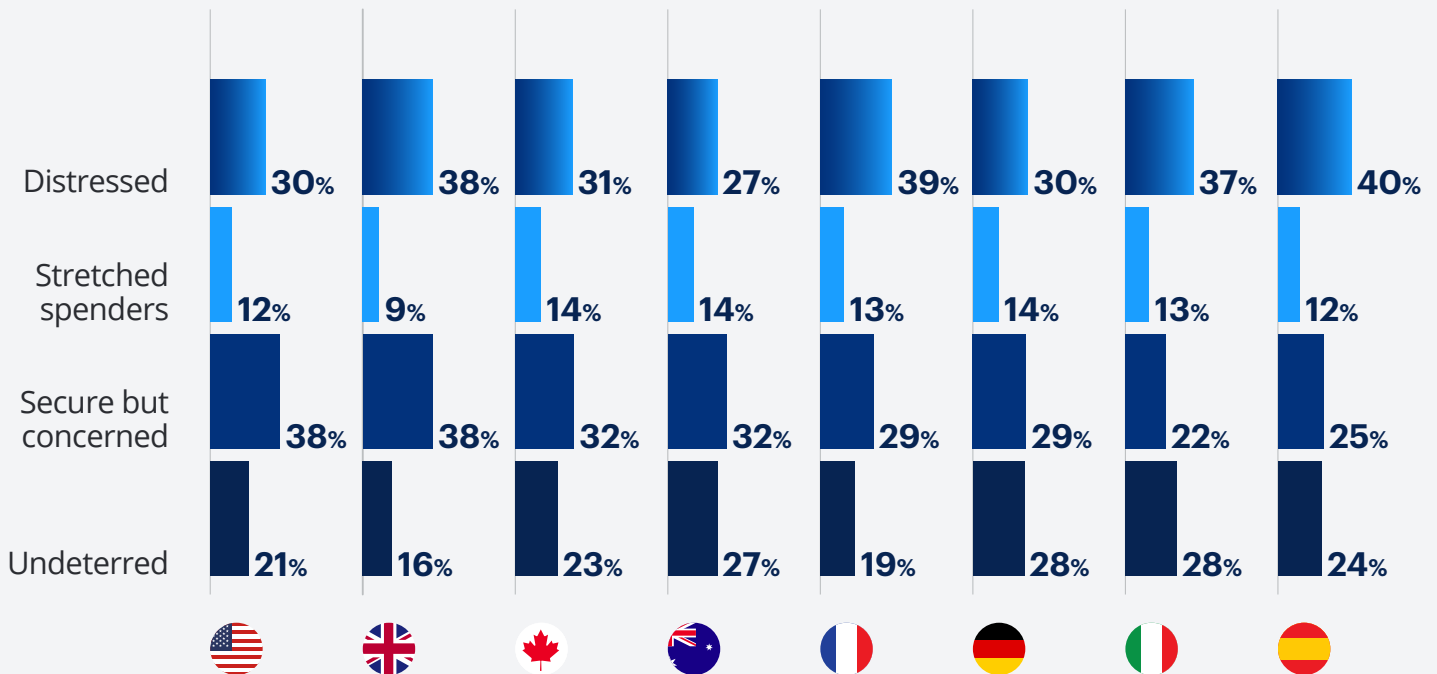


## SECTION 01: The Financial Squeeze

As expected, consumer sentiment varies by market. British and Spanish shoppers suffer the highest levels of financial distress, while German and Australian shoppers have relatively greater financial freedom. Those in the US cite feeling financially secure but worried about the rising costs.

Figure 5: Perceptions around personal finances vary by market

What statement best describes your attitude to your personal finances as the cost-of-living rises?



Source: Retail Economics

### Highlights on cutback cohorts:

**38%**

of US consumers are secure but concerned

**38%**

of UK consumers are distressed

**40%**

of Spanish consumers are distressed

**32%**

of Australian consumers are secure but concerned

## SECTION 01: The Financial Squeeze

### Consumer sentiment versus merchants' expectations

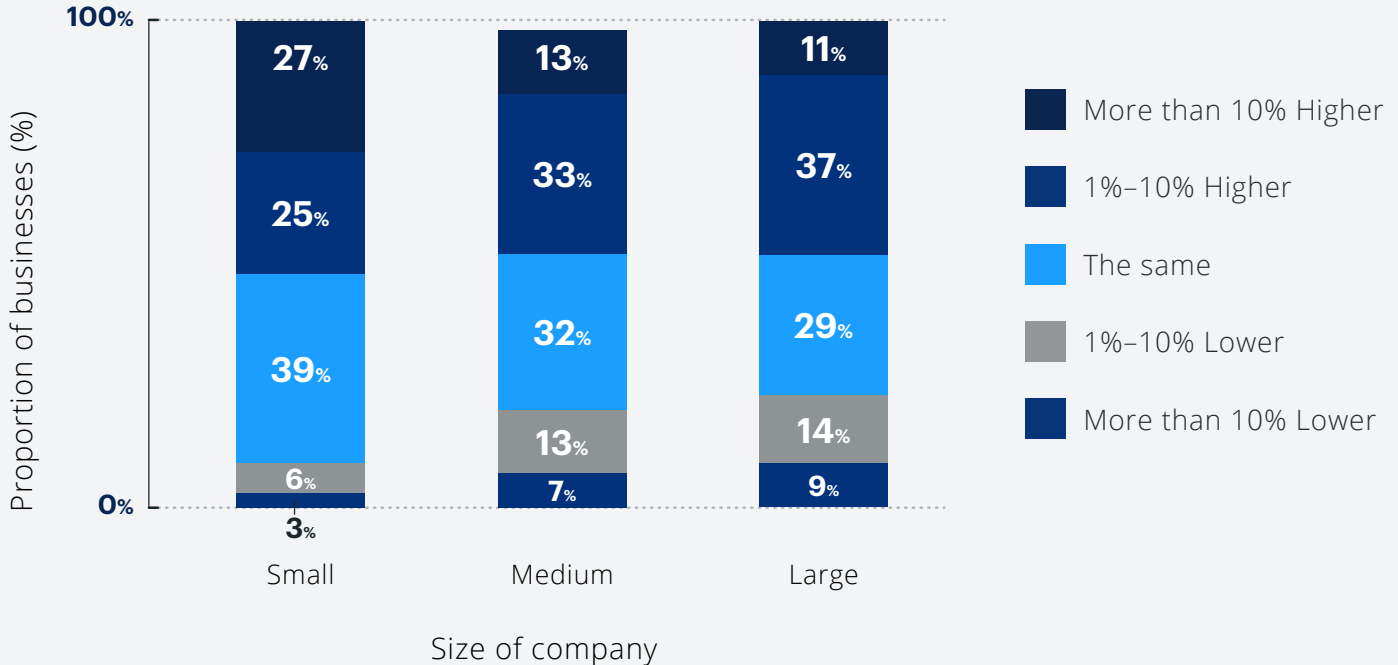
Despite growing concerns over the state of the global economy, retail businesses surveyed appear significantly more optimistic and are generally planning for order volumes to increase this year compared to last. From these merchants (that are predominantly small and medium-sized businesses), smaller companies are most confident. Over a quarter (27%) of small companies expect order volumes over the golden quarter to be more than 10% higher than last year.

**"Our sales are up 53% YTD compared to 2021. We predict that the 2022 holiday season will be much busier than 2021. We placed our orders in March with discounts to maximize holiday profits. We also increased some selling prices to offset higher shipping costs."**

BAIR'S POWERSPORTS  
STAMPS.COM USER

Figure 6: Merchants are optimistic about a volume uplift this year

**What sort of order volumes do you expect this holiday season, compared to 2021 volumes?**



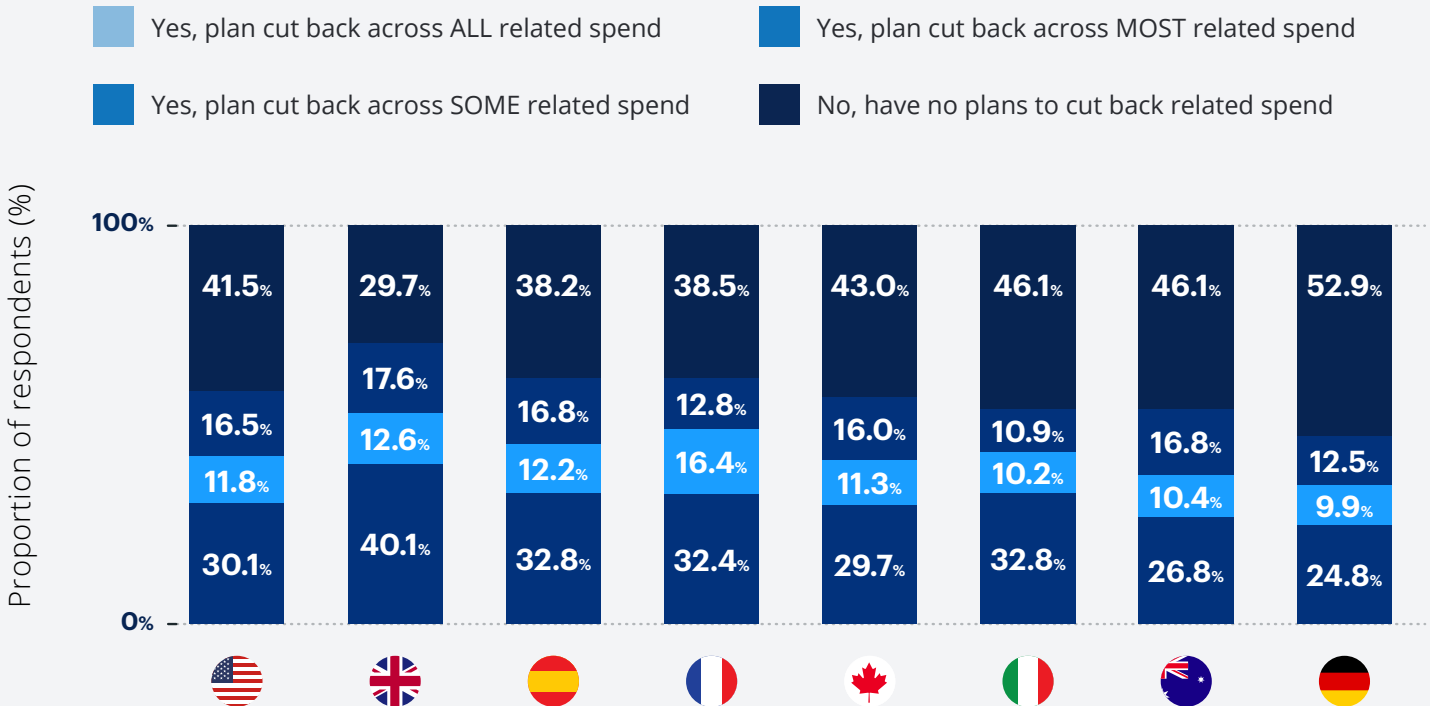
Source: Auctane, Retail Economics analysis



## SECTION 01: The Financial Squeeze

Figure 7: The majority of consumers expect to cut back over Black Friday and Christmas

Thinking about your non-food spending over Black Friday and Christmas, do you expect to cut back this year due to the rising cost of living?



Source: Retail Economics

This particular finding contradicts current consumer sentiment. Well over half of shoppers expect to cut back non-food spending to some degree over Black Friday and Christmas. UK consumers expect to cut back the most over the holiday season, which is likely to lead to a sharp reduction in holiday gifting this year. Conversely, German consumers appear much more resilient than other European countries, with the US and Canada more closely aligned to the average across all countries.

**53%**

of Germans have no plans to cut back

**70%**

of the UK plan to cut back to some extent

**58%**

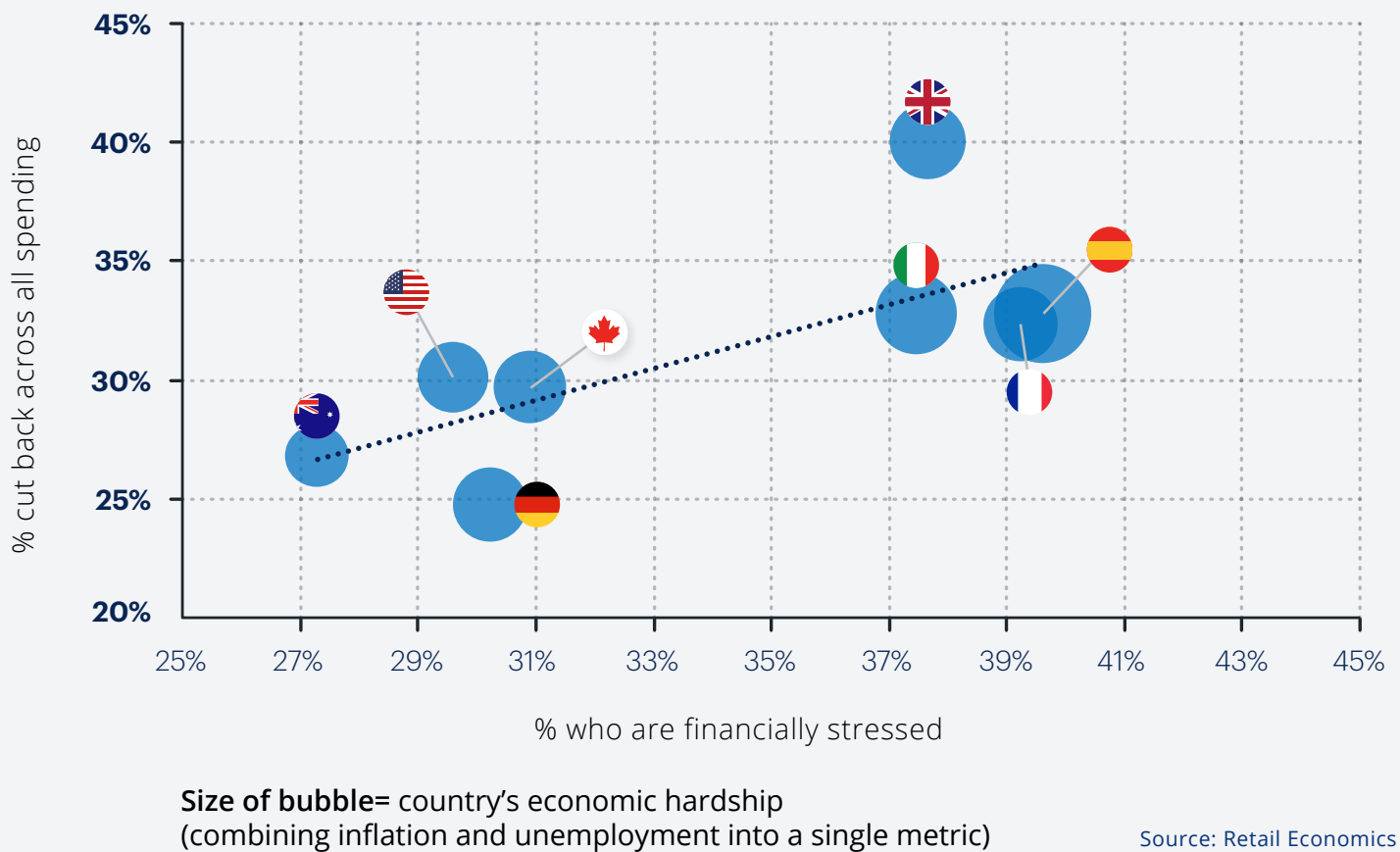
of the US plan to cut back to some extent

## SECTION 01: The Financial Squeeze

The research confirms that the extent to which consumers intend to cut back is correlated with the degree of economic hardship each country faces (measured by adding inflation and unemployment rates together<sup>1</sup>). Similarly, consumers residing in countries facing the greatest economic hardship are also more likely to be those looking to cut back their spending over the holiday season.

<sup>1</sup>Economists measure 'The Misery Index' by adding the inflation rate and unemployment rate.

**Figure 8:** Financially distressed consumers are those cutting back the most



# The Cutback Landscape



Given the state of the global economy, there is uncertainty from all sides when it comes to gauging how successful the holiday shopping season will be this year. Households facing financial pressure will cut back on non-essentials and merchants are looking for ways to cut back on their overhead costs.

For most, holidays are likely to be a more muted affair in 2022. Spending on non-food Christmas gifts over the festive season is expected to decline by \$46 billion this year compared to the previous year, with consumers (across all the markets analyzed) set to reduce spending.

## \$46 billion

in cutbacks on holiday gifting this year

This research shows that the UK is expected to face the sharpest decline in gifting based on the change year over year. Here, consumers are already facing double-digit inflation, with the squeeze on personal finances expected to intensify in Q4.

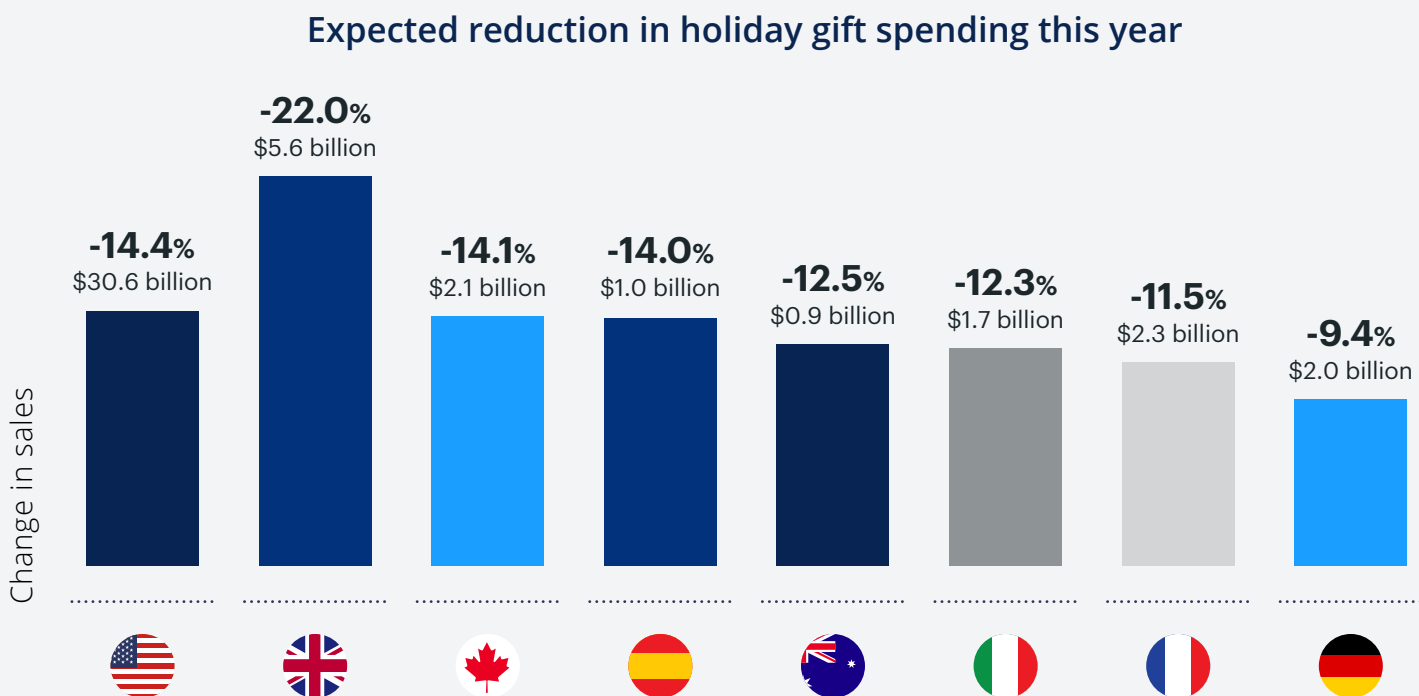
**Consumer confidence is at a record low as recession looms, with rising interest rates hampering growth into 2023 and beyond.**



## SECTION 02: The Cutback Landscape

These conditions present a bitter reality for merchants to swallow. By comparison, German consumers are cutting back to a lesser extent, reflecting a stronger economic backdrop going into the final quarter of the year. The impact will vary significantly by category, channel, and merchant, which is explored further in this section.

Figure 9: \$46 billion hit to holiday gifting this year



|             | US             | UK            | CANADA        | SPAIN         | AUSTRALIA     | ITALY         | FRANCE        | GERMANY       |
|-------------|----------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| In USD (\$) | \$30.6 billion | \$5.6 billion | \$2.1 billion | \$1.0 billion | \$0.9 billion | \$1.7 billion | \$2.3 billion | \$2.0 billion |
| In GBP (£)  | £24.1 billion  | £4.4 billion  | £1.7 billion  | £0.8 billion  | £0.7 billion  | £1.3 billion  | £1.8 billion  | £1.6 billion  |
| In AUD (\$) | \$43.0 billion | \$7.8 billion | \$3.0 billion | \$1.3 billion | \$1.3 billion | \$2.4 billion | \$3.2 billion | \$2.9 billion |
| In EUR (€)  | €28.6 billion  | €5.2 billion  | €2.0 billion  | €0.9 billion  | €0.9 billion  | €1.6 billion  | €2.1 billion  | €1.9 billion  |

Source: Retail Economics

## SECTION 02: The Cutback Landscape

### Categories under pressure

Heading into Q4 2022, consumers are set to cut back across non-food categories; however, the intensity of cuts in spending will vary across categories.

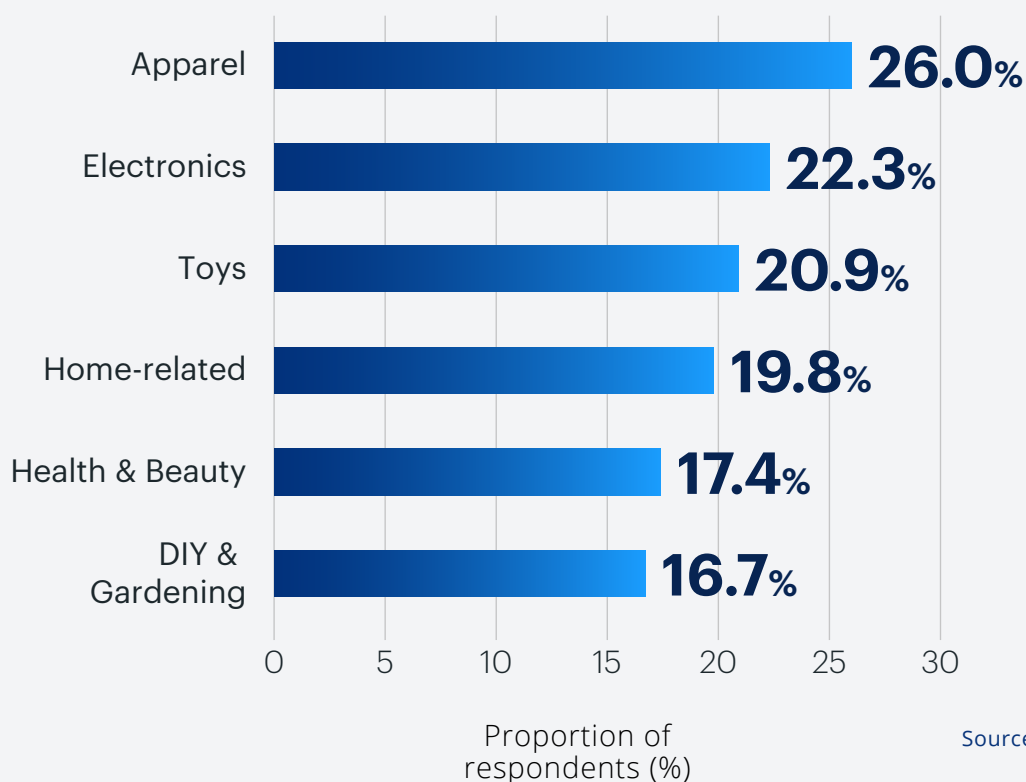
**"We see this holiday season being slower than the past two seasons. Selling outdoor products during the pandemic was really busy. We have seen substantially slower sales this year so far."**

35TH AVE SKATEBOARDS  
STAMPS.COM USER



Figure 10: Apparel and electronics set to be hit hard over the holiday season

Thinking about your shopping in the final three months of the year (e.g. Black Friday and Christmas), which areas of retail are you looking to cut back on the most?



Source: Retail Economics

## SECTION 02: The Cutback Landscape

Following months of Covid-related restrictions dampening demand for new outfits, apparel merchants were crippled by lockdowns as consumers worked from home and socialized less. But lifted restrictions in 2022 meant fashion merchants enjoyed a bounce back in spending over recent months. Now, clothing and footwear merchants are set for disappointment once again as **more than a quarter** (26.0%) of consumers look to cut back apparel spending moving into Q4 after their recent flurry of spending.

Similarly, the electronics industry is also wired for a tough end of the year. This comes despite the FIFA World Cup kicking off for the first time in its 92-year history in the winter, hosted by Qatar (21 November-18 December 2022). Traditionally, electronics outperforms during such sporting events as households look to upgrade televisions and other entertainment systems ahead of significant games – albeit to a lesser degree in the US, Canada, and Australia where football/soccer is not the national sport.

However, electronics benefited from a sales boom in 2020/21 as ‘stay-at-home’ consumers turned to home entertainment and renewed home office equipment during lockdowns. As the intensity of product replacement cycles fizzle, with supply chain issues dragging on, the category is likely to suffer spending cut back as shoppers ‘cut their cloth’ accordingly.

Essential categories are somewhat more defensible. DIY spending is often distress-related and unavoidable. Similarly, the cosmetics industry will experience sporadic uplifts from the ‘lipstick effect’ – shoppers indulging in little ‘pick-me-ups’ during times of economic hardship as evidenced during the 2008 financial crisis.

### Essential categories

DIY spending



Cosmetics



**26%**  
of consumers look to cut back apparel spending moving into Q4 after their recent flurry of spending.



## SECTION 02: The Cutback Landscape

However, faced with rising prices and a deteriorating economic outlook, consumers generally feel that now is not an ideal time to increase spending as they look to squirrel away funds for rainy times ahead.

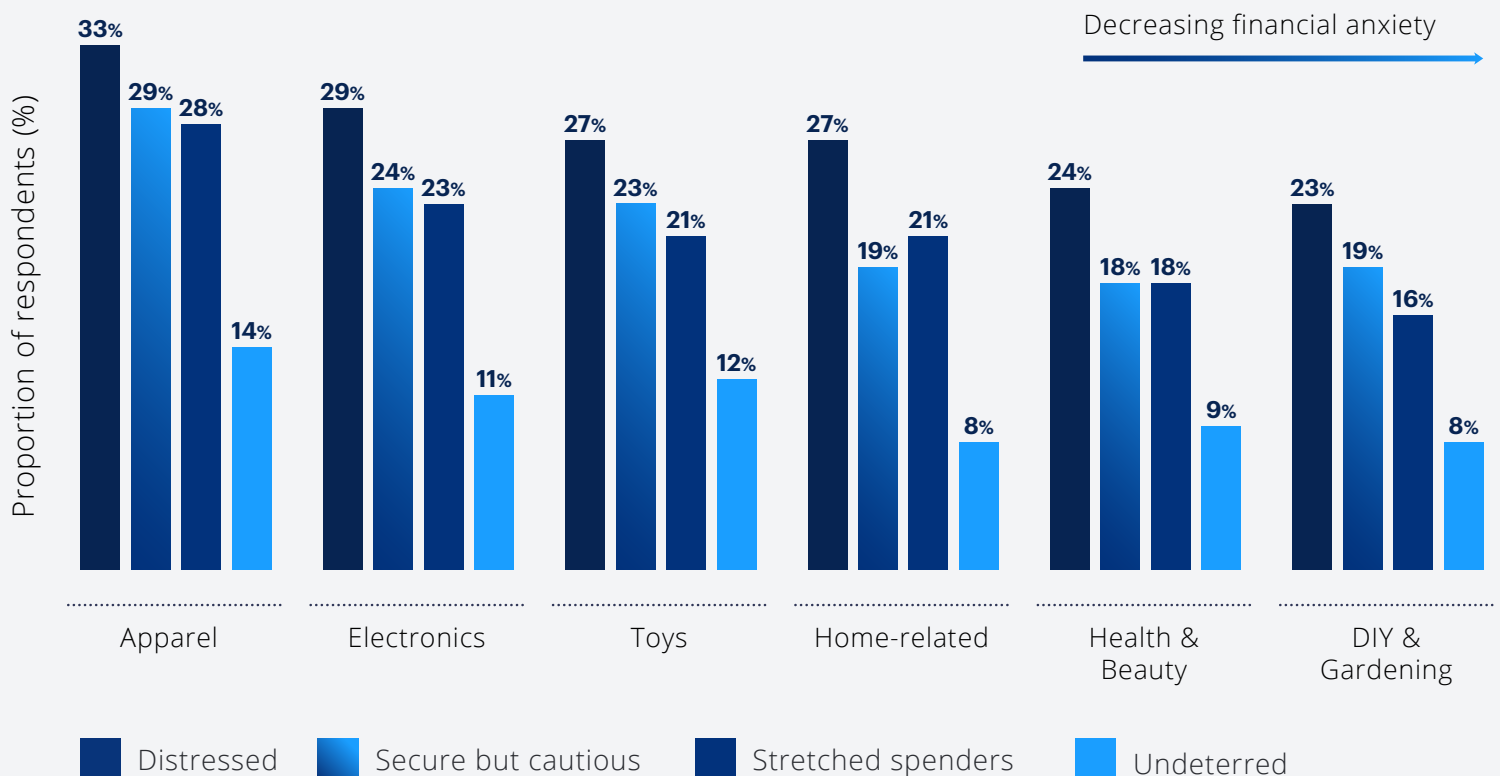
Unsurprisingly, consumers under the most financial pressure (the 'Distressed' cohort) are looking to cut back the most

in Q4 2022 across non-food categories, as inflation impacts their already tightened budgets.

Even those that have financial freedom (the 'Undeterred' cohort) are demonstrating weak confidence, looking to reduce spending, albeit to a far lesser extent than the 'Distressed' cohort who often experience anxiety around finances.

**Figure 11:** Financial anxiety is driving intentions to reduce spending over the busy holiday season

Explore how our four cutback cohorts (distressed, secure but cautious, stretched spenders, and those who are undeterred) are cutting back across retail categories this holiday season.



Source: Retail Economics

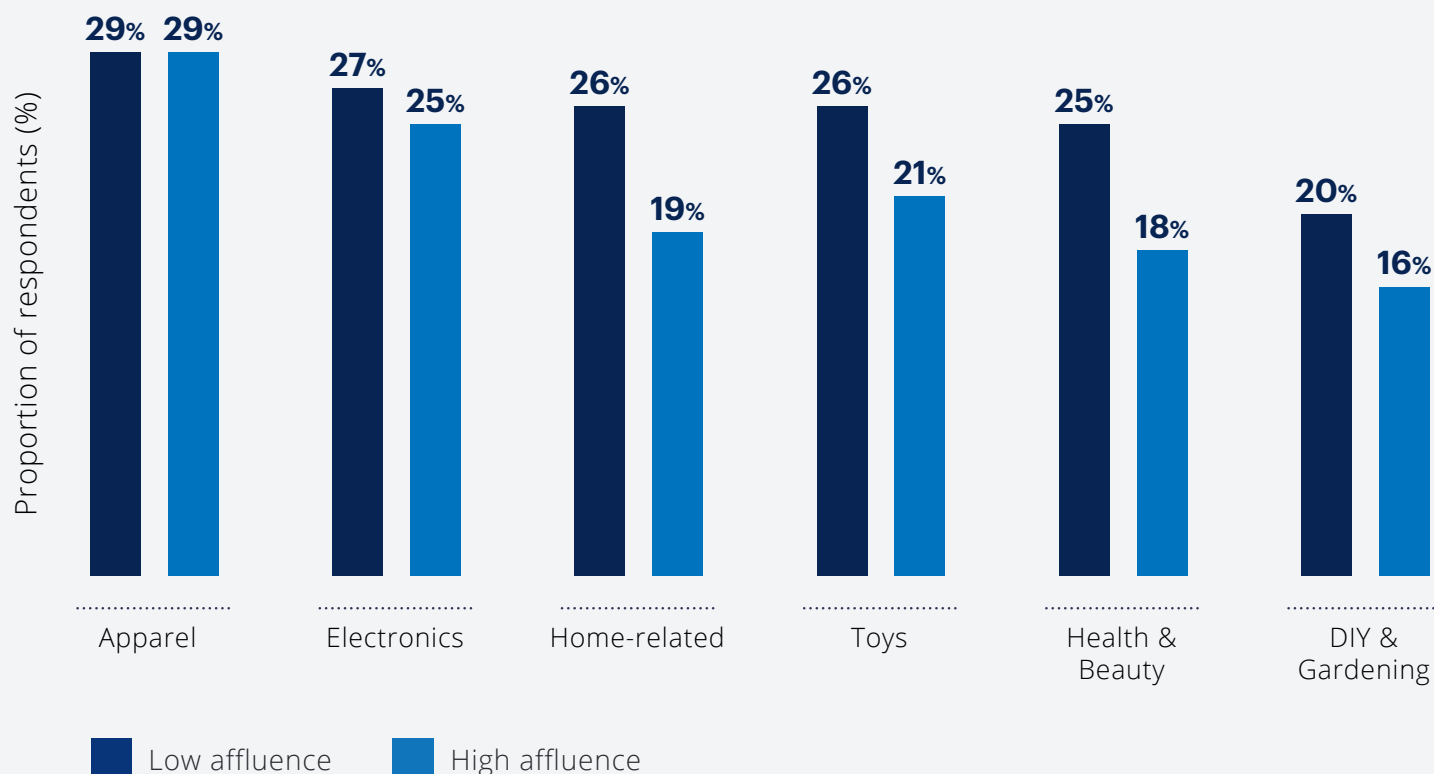
## SECTION 02: The Cutback Landscape

Among consumers looking to cut back 'most' and 'some' related spending, there are consistent cutback intentions for apparel, electronics, toys, and home categories. The data confirms that the least affluent households (under greatest intensity from rising living costs) are most likely to cut back over the holiday season. Across markets, the least affluent are more than twice as likely than the most affluent to cut back across all Black Friday and Christmas spending this year.

**Just over half** (51.5%) of consumers in the least affluent households are set to cut back across all non-food spending this holiday season, compared to **less than a quarter** (23.9%) among the most affluent households. In particular, the least affluent have a greater propensity to cut back on home-related, beauty and toys compared to more affluent individuals.

Figure 12: The least affluent are having to cut back the most going into the holiday shopping season

Thinking about your shopping in the final three months of the year (e.g. Black Friday and Christmas), which areas of retail are you looking to cut back on the most?



Source: Retail Economics

## SECTION 02: The Cutback Landscape

**“The Holidays are not as concentrated over a few big days anymore. The Black Friday/Cyber Monday craze has been spread across the entire month of November causing a more widespread uptick across many days versus just a couple larger days.”**

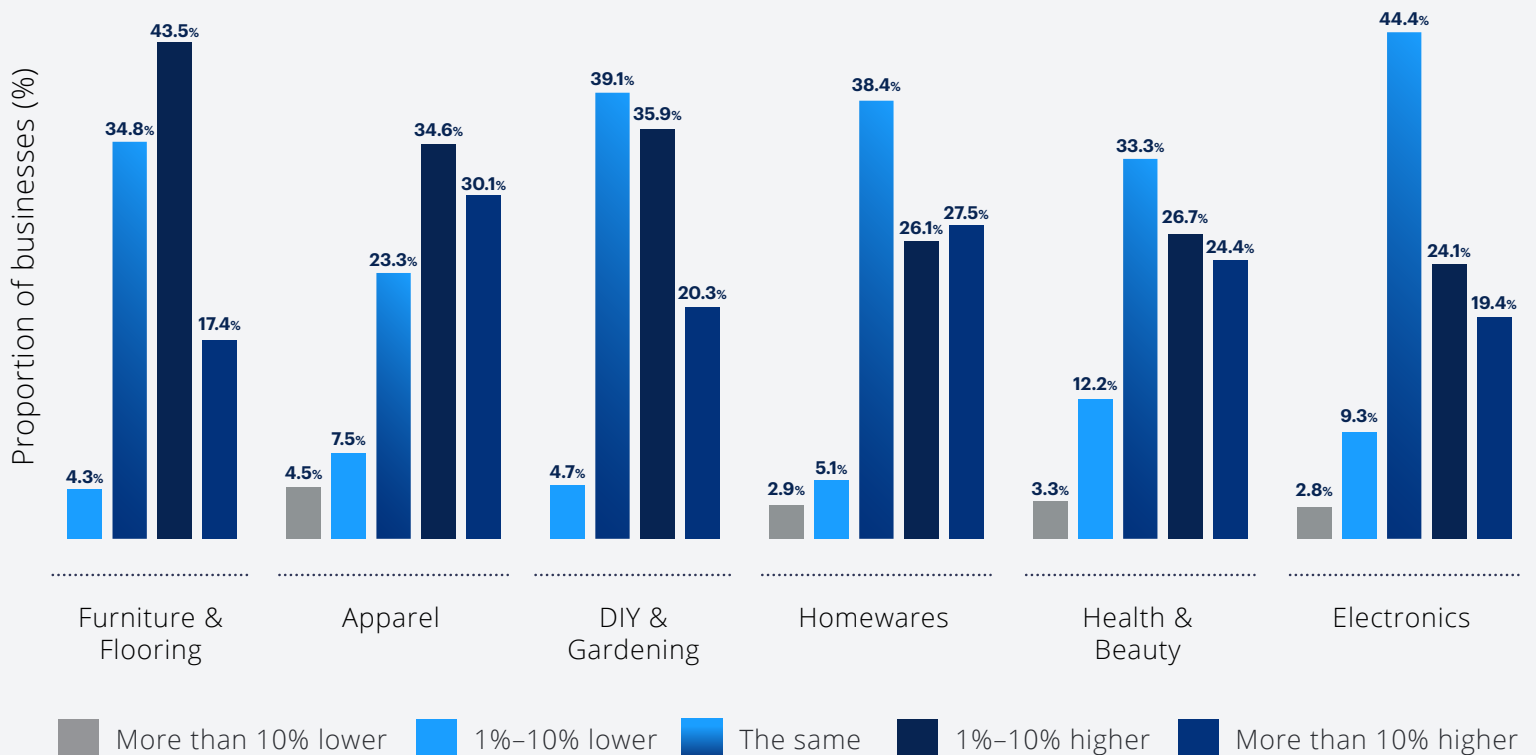
ROBERTS CAMERA  
STAMPS.COM USER

As already highlighted, consumer sentiment clashes with merchants' expectations among those surveyed. Across non-food categories, merchants are expected a net increase in the volume of trade this year compared to last year.

Furniture & Flooring merchants are most upbeat, with a net 56.5% of merchants in the category expecting an increase on last year – rather than a decrease. Electronics merchants are most pessimistic overall, but over a quarter (31.5%) still expect a degree of uplift on last year.

**Figure 13:** Merchants across categories expect volume increases during the holidays despite consumer cutbacks

**What sort of order volumes do you expect this holiday season compared to 2021 volumes?**

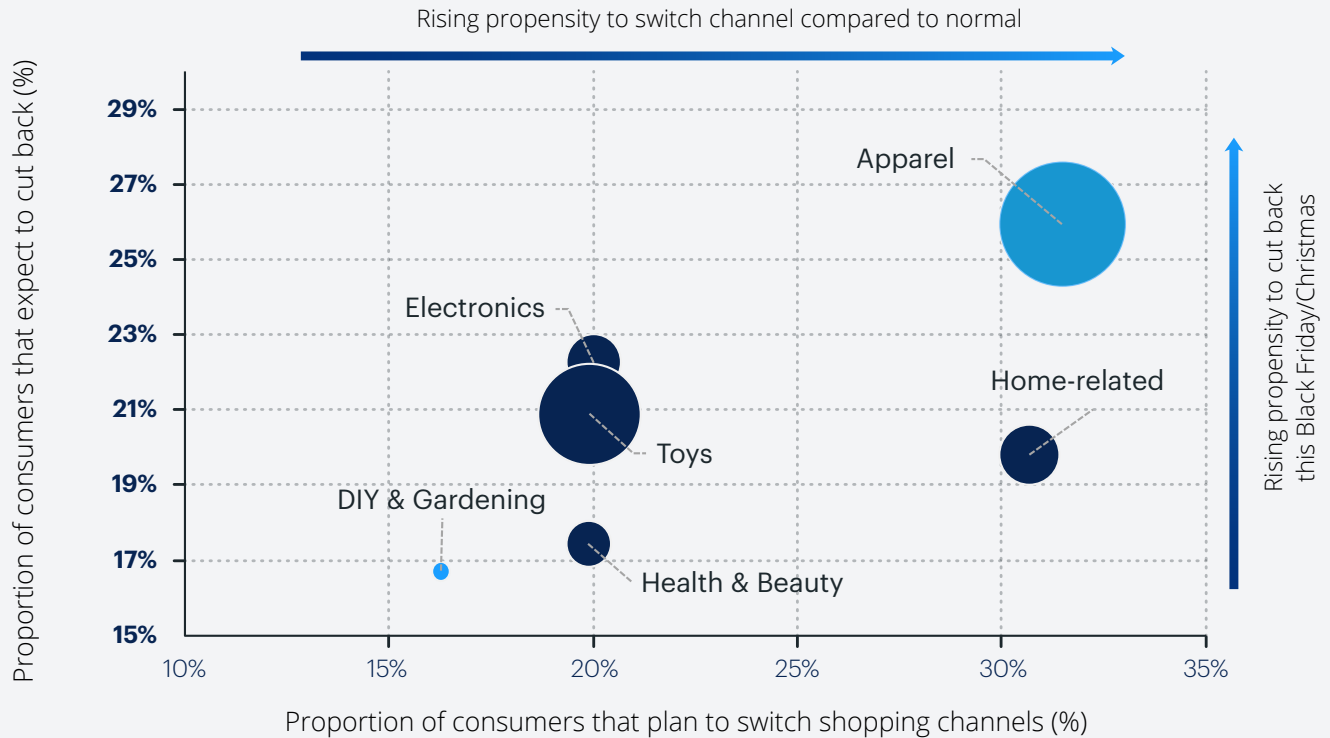


Source: Auctane, Retail Economics analysis



## SECTION 02: The Cutback Landscape

Figure 14: Categories most at risk of cut back are facing changes to ways of shopping



Size of bubble: share of seasonal spend

Color of bubble: ■ shift to in-store ■ shift to online

Source: Retail Economics

### Channel switch

Whether merchants realize it or not, they will have to react to changes in consumer values, and thus behaviors, if they are to maximize revenues and maintain profitability. For many shoppers, difficult economic conditions will mean becoming 'brand promiscuous' and 'channel agnostic' as they default to recessionary behaviors, searching for deals.

Categories exposed to increased risk of cut backs will likely experience greater negative shifts in consumer behavior. Through necessity, shoppers are becoming more discerning and questioning the best channels to shop in.

**Put simply, consumers are deciding whether to shop online or in-store this holiday season based on the products they're purchasing (retail category) and their income. This adds another layer of complexity to understanding how holiday shopping will be impacted.**

## SECTION 02: The Cutback Landscape



2x

Those under most financial anxiety are almost twice as likely to switch channels

Based on long-run trends, a general shift towards online for all categories is expected. But the pace of this trend, or even reversal in some instances, is being influenced by rising costs.

Regarding the consumer types, those under most financial anxiety ('Distressed', 'Secure but cautious', and 'Stretched spenders'), are almost twice as likely to switch channels across categories compared to the 'Undeterred' over the holiday season.

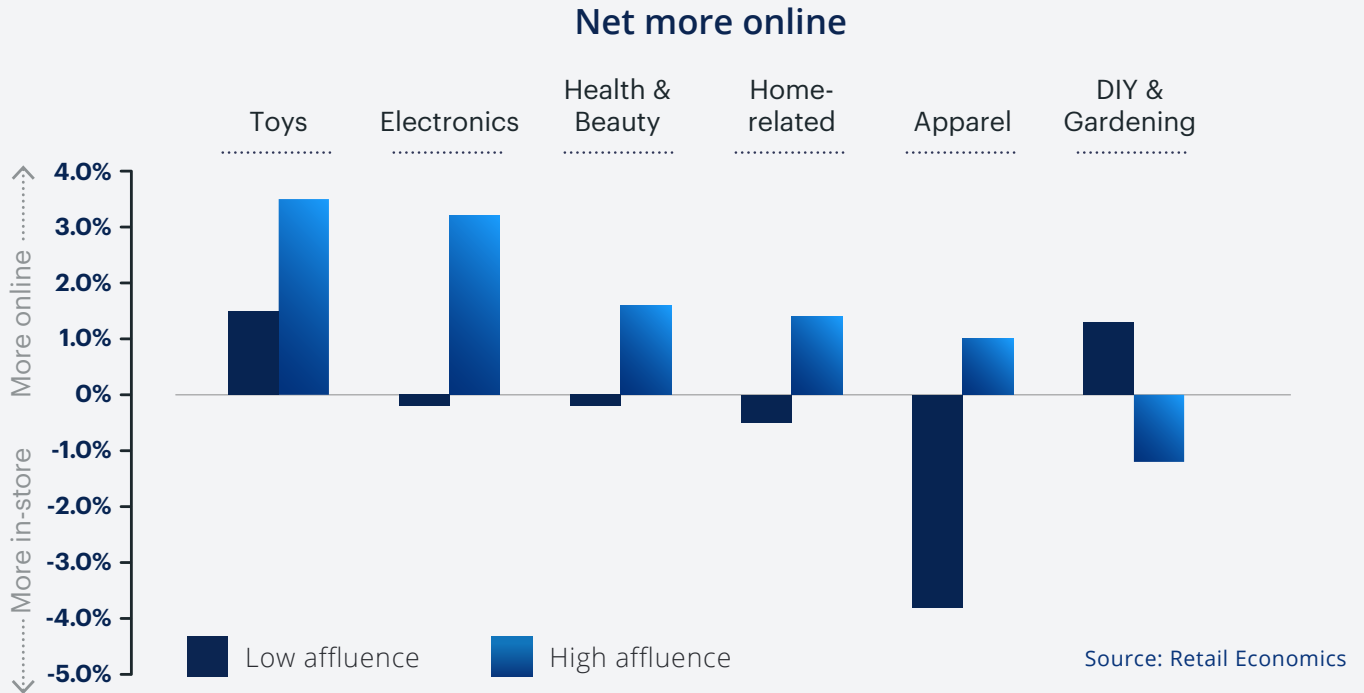
According to the research, household affluence is the key determinant for switching between shopping channels. The least affluent households are more likely to switch channels (looking to spend more in-store) compared to more affluent households; while the online shift is typically driven by more affluent consumers.

There are five principal reasons why less affluent customers show a greater propensity to shop more in-store than online during the holiday season:

1. **Disciplined spending:** As household budgets for non-essential purchases dwindle, consumers are looking for ways to support disciplined spending. A quick and simple way to manage temptation is to transact physically using only cash, avoiding alluring offers online.
2. **Cash flow management:** Consumers have less control of their bank balances when shopping online. Online purchases risk higher return rates and are subject to online refund time lags.
3. **Local markdowns:** Shoppers can benefit from local markdowns specific to physical stores outside of seasonal or national promotions. These include clearance of perishable goods or certain lines to allow for new merchandise.
4. **Increased delivery and returns costs:** Some merchants are already charging for online delivery and returns across categories previously offering free services (e.g. fast fashion where consumers look to purchase more in-store than online).
5. **Weaker online value proposition:** As online-related fees rise and delivery capacity suffers from reduced services, the online value proposition potentially becomes less attractive.

## SECTION 02: The Cutback Landscape

Figure 15: Less affluent consumers are more likely to switch to shopping in-store



Apparel shoppers are set to shift more spending to physical stores over the holiday shopping season. Clothing and footwear merchants are facing consumers who need to trade down to value alternatives to save money. Discount apparel has lower online penetration compared to the wider category. This encourages more in-store purchases at value-oriented and supermarket stores. Meanwhile, fast fashion merchants operating on paper-thin margins face escalating distribution, labor, and material costs, putting intense pressure on balance sheets. This is forcing merchants to re-evaluate operating models, and even start charging for previously-free services like returns; and given high online returns rates, this presents an avoidable cost for consumers by shopping in-store. This notion is supported by the research showing the least affluent turning to physical shops over the golden quarter.

Conversely, more affluent shoppers are looking to spend more online for apparel. This follows long-term trends for the category, due to a greater ability to absorb rising costs at a time when luxury players are also looking to drive direct-to-

consumer (DTC) operations, typically involving online. Other non-food categories are set to benefit from a higher proportion of online spending during the holiday shopping season. This is across planned gifting lines and price-sensitive categories including toys and electronics, where consumers are getting in on early deals for gifting.

With toys being a popular gifting category, products are typically brand-led and homogenous in nature. Here, shoppers often prioritize brands over specific merchants. Consequently, merchants face consumers demanding price transparency, with online providing easy access to such products at the cheapest prices (particularly as parents often obtain information about toys online).

For categories reliant on stores with lower online penetration (e.g. DIY & Gardening), digital is less able to replicate physical experiences such as feeling the quality of an artificial Christmas tree. It means that overall, consumers are less likely to be switching shopping channels for DIY & Gardening in the face of inflation.



## SECTION 02: The Cutback Landscape

### Economic uncertainty impacting propositions

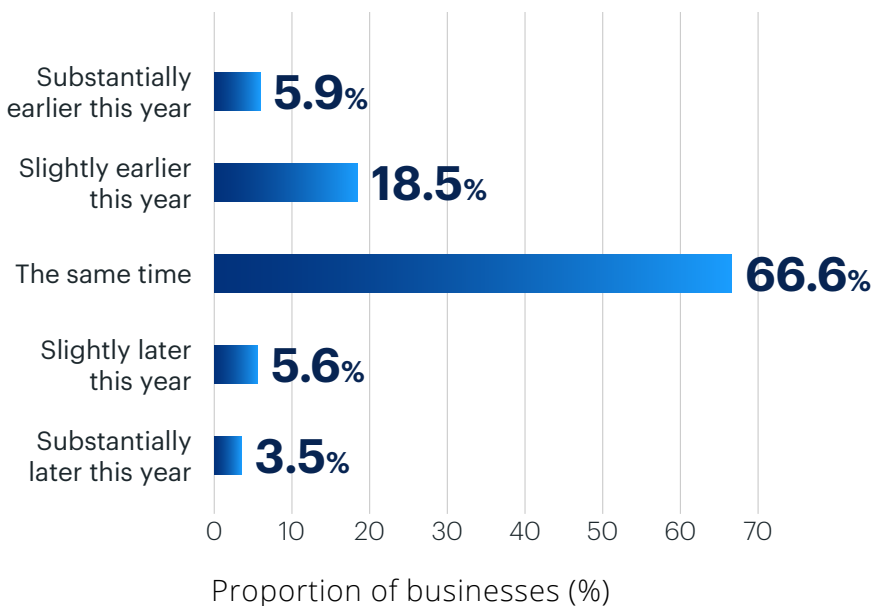
Retail brands are facing challenges this holiday season (and beyond). The combination of weaker consumer spending and margin pressure from rising costs will force many to take a forensic approach to evaluating the robustness of their business models.

However, the immediate priority will be trying to ensure a successful holiday shopping season period. This research shows that merchants have taken a much more considered approach this year as they carefully attempt to forecast demand and match this with supply.

Retailers typically plan for the holiday shopping season around the end of summer according to our research. **But a quarter** (24.3%) of businesses started planning earlier for the holidays than last year. Less than **one in 10 businesses** (9.1%) are holding out on plans in light of a rapidly evolving economic backdrop, given heightened uncertainty around geopolitics, rising interest rates, and escalating inflation

Figure 16: Planning started earlier this year despite a fast-changing economic backdrop

### How do your holiday shipping timeframes this year, compare to your planning timeframes in 2021?



Source: Auctane, Retail Economics analysis



# 24.3%

of businesses  
started planning  
earlier for the  
holidays than  
last year.

## SECTION 02: The Cutback Landscape

All factors considered, consumers are under no illusion that financial pressures will ease suddenly in the coming months. In fact, Retail Economics research shows that consumers expect inflation to impact their spending for the next two years.

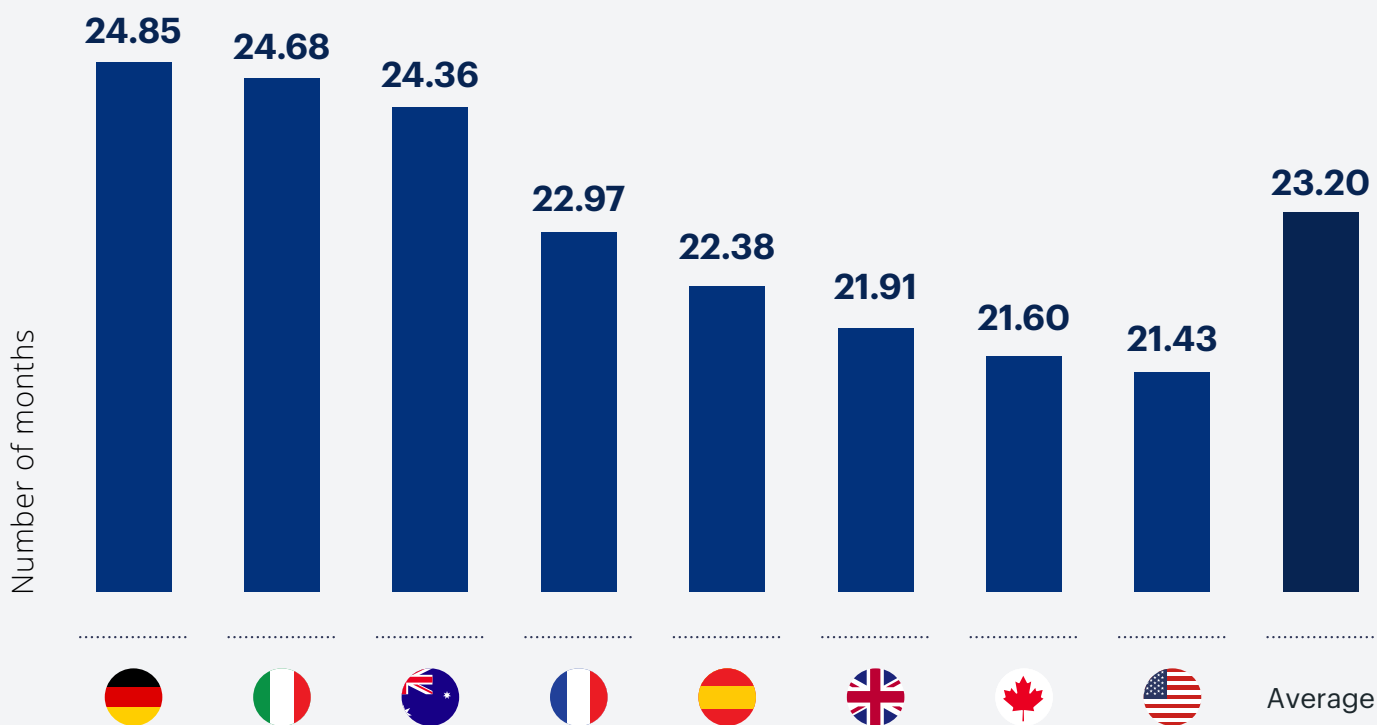
In response, businesses are looking at ways to drive further efficiencies, cut overheads, and find innovative ways to reduce costs such as reducing packet sizes.

Inevitably, some costs are being passed on to consumers across their goods and services, particularly for those operating on thinner margins.

**The average consumer expects inflation to impact their spending for nearly 2 years**

Figure 17: Cost of living expected to impact consumer spending for two years

How long do you expect the current cost-of-living crisis to impact your spending?

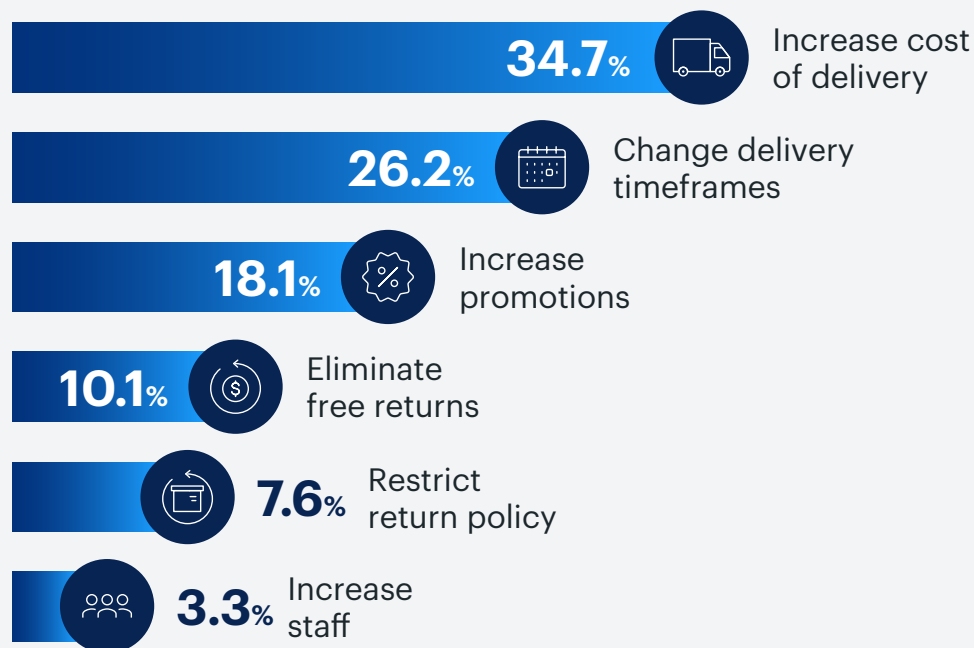


Source: Retail Economics

## SECTION 02: The Cutback Landscape

Figure 18: Businesses are increasing delivery fees and timeframes as costs rise

As a result of the current macroeconomic climate (rising costs, inflation, supply chain disruptions), which of these measures, if any, have you taken or plan to take?



Proportion of businesses (%)

Source: Auctane, Retail Economics analysis

Successful businesses continually re-evaluate their propositions in response to emerging challenges. Some are already cutting back on previously free services such as delivery and returns, and now charge for them. However, this comes at a time when consumers are demanding more value and are actively considering alternatives to stretch budgets.

Re-assessing delivery propositions will likely be a key priority for many. **Over a third** (34.7%) of businesses surveyed are responding to the current climate by increasing delivery costs, while **more than a quarter** (26.2%) are extending delivery timeframes.

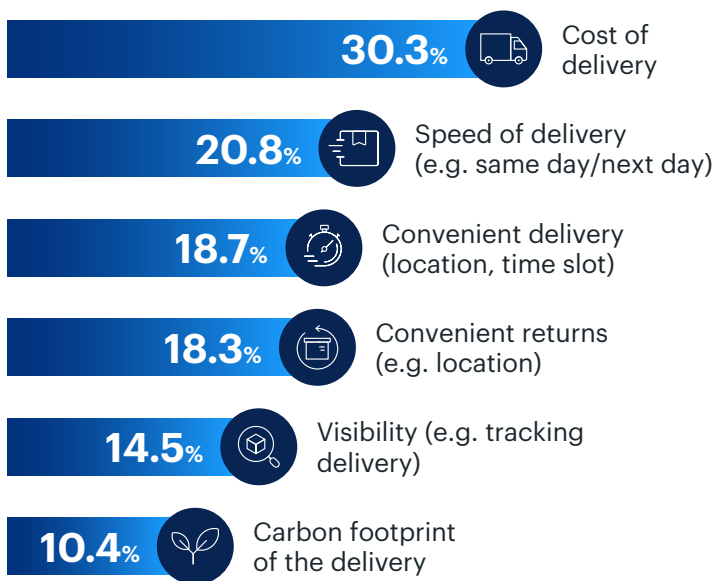


## SECTION 02: The Cutback Landscape

As a warning, merchants need to proceed cautiously when increasing delivery costs and extending timeframes. Again, this clashes with consumer expectations where the research shows that delivery speed and cost are the two most important conversion factors. Frustration can also escalate when shoppers compare services with high-performance players like Amazon.

**Figure 19:** Consumers value cost and speed of delivery when shopping online

**Thinking about when you're shopping for retail products online, which of the following features are most important when purchasing from a merchant?**



Proportion of respondents (%)

Source: Retail Economics

This concept particularly applies to existing online shoppers who are familiar with free shipping and fast fulfillment times. Notably, as delivery costs rise and fulfillment times extend, businesses run the risk of losing customers to competitors. Furthermore, merchants may also struggle to attract typically store-based shoppers online, if previously-enjoyed delivery services are tarred with newly introduced costs.



**"We've had to increase our minimum spend along with the amount spent for free shipping because of [material and transportation costs rising]. We have to restate and promote even more the quality of our products and service in order to justify the ever-increasing prices."**

SEAFRESH  
STAMPS.COM USER



# Adapting and Thriving



With this year's holiday shopping season conditions influenced by economic constraints, retail brands must carefully consider how to define and communicate their value proposition. Profitability needs to be safeguarded, and key strategies honed. Rising costs, ongoing supply chain disruption, and softer consumer demand necessitates smarter approaches in order to weather the storm.

The research identifies five critical areas where merchants will need to focus to successfully navigate the challenges of the holiday season and beyond.

## 1. Defining a strong value proposition

- Understand pricing power
- Segment customers by profitability
- Boost engagement with empathetic cost-of-living-focused communication

The emergence of a more 'cost-conscious consumer' this Black Friday and Christmas means perceptions of value will shift. Many consumers will consciously sacrifice aspects of quality, convenience, and experience for lower costs.

Recessionary behaviors, such as shopping around for deals and seeking cheaper alternatives, will become more commonplace.

**Businesses will have to put value for money at the heart of their proposition to attract customers and preserve loyalty.**

Pricing power



Profitability



Boost engagement



## SECTION 03: Adapting and Thriving

### Investing in price

Investing in lower prices will be critical. A deep understanding of pricing structure and how to combine and leverage data for targeted promotional activities will be critical over the holiday season.

In certain parts of the market, price matching and offering compelling entry-level price points will help attract customers that are under intense financial pressure. But equally important is understanding how this approach could impact demand across other product lines to limit the cannibalization of profits.

Communicating the value proposition without diluting brand values can also be challenging. Achieving a balanced tone with core customer bases, while reaching out to new customers seeking alternatives will be vital for protecting and potentially growing market share. An authentic and empathetic narrative will be essential in driving engagement across many customer groups.

### Customer segmentation, retention, and acquisition

Successful brands are using increasingly complex data-driven methods to segment their customers. In doing so, serving tailored messages at the right time, in the right channels, and on the right devices, offers sophisticated ways of reaching new and existing customers.

For example, values held by Gen Zs and Millennials can be markedly different from older generations. Younger shoppers tend to be more connected, less loyal, more informed, and channel agnostic. Using advanced segmentation methods can capture these behavioral characteristics accordingly.

More complex segmentation techniques account for consumer behavioral characteristics using multiple data points – beyond just demographics. Data classes can include: recency, frequency of purchase, average transaction values, loyalty, psychographics, social media engagement, and many other factors. These can allow for more tailored, empathetic, and ultimately, more successful communication.

However, implementing a successful retention strategy is equally as important. Retailers must promote customer loyalty, particularly across their most profitable cohorts. Offering higher margin products as suitable trade-down alternatives to premium ranges can be a useful strategy for increasing perceived value while protecting margins.

Retailers operating in multiple countries will also need to vary their value strategies by region. The squeeze on personal finances will be felt unevenly across different countries (and local regions) due to factors such as income level, regional competition, local inflation rates, digital maturity, government support, and culture.

Younger shoppers tend to be more connected, less loyal, more informed, and channel agnostic.



## SECTION 03: Adapting and Thriving

### 2. Redefining customer experiences

- Understanding customer trade-offs for lower prices
- Understanding the shifting channel mix of core customer groups
- Differentiating the online delivery service

Creating positive customer experiences in a value-driven environment will be challenging for many brands, particularly against rising costs and squeezed margins in the final quarter. Many businesses will face tough decisions over how they should redefine their Christmas and Black Friday promotions while protecting profitability and market share.

**“We are trying to make customer service, discounts, and shipping accurately and quickly our highest priorities this year.”**

LAND RUN BRANDS  
STAMPS.COM USER

### Key themes for redefining the customer experience this holiday season:



Lower  
Prices



Core Customer  
Groups



Online delivery  
Service





## SECTION 03: Adapting and Thriving



We are witnessing more in-store shopping across different customer cohorts and categories

### Customer trade-offs

As value for money becomes increasingly important over the holiday shopping season, retail brands will need to understand the extent to which consumers will be willing to make trade-offs in exchange for lower prices. For example, this may come in the form of accepting reduced convenience, quality, or overall customer experience. As merchants look to cut costs to achieve price competitiveness, deeply understanding where they should prioritize efforts will be vital if the customer experience is impacted.

### Shifting channel mix

The research shows that a material shift is expected within the shopper channel mix (across categories) and also demographics over the holiday season. Understanding how this is likely to impact digital, in-store, and multichannel sales over this period is imperative.

For merchants with a physical store presence, it will be more important than ever for them to understand how the squeeze on incomes will encourage more in-store shopping across different customer cohorts (e.g. affluence, age, region) and categories (e.g. apparel, DIY).

**Many consumers are shying away from online sales in some categories as they try to:**

- Avoid online delivery/returns costs
- Avoid inconvenient return processes with refund time lags (on stretched cashflows)
- Impose more self-control on spending (especially online)

Simultaneously, some merchants have started charging for delivery and returns, weakening the digital proposition as their input and operating costs rise. Also, businesses will be attempting to sweat their physical assets considering operational functions (e.g. click-and-collect, returns) to support omnichannel customer journeys.

### Instant access

With tighter holiday budgets, cost-conscious consumers disproportionately value immediate access to products in-store. Retailers who provide customers with visible stock availability (e.g. single inventory view) to help manage expectations around promotions and pre-ordering opportunities, will be able to leverage an advantage here.

### Online delivery experience

Consumers are much more likely to accept delivery charges if they are positioned as 'services'. Businesses can enhance the delivery experience by offering timed delivery slots (dynamic pricing), accepting returns, removing old products for disposal, and offering supplementary services, particularly over the holiday period. Delivery service revenue can be achieved if implemented efficiently and at scale, although can be category-specific.



## SECTION 03: Adapting and Thriving

### 3. Data, insights, and personalization

- Serve promotional content at the right time, in the right channel
- Winning new customers cannot come at any cost with limited budgets
- Calculate return on investment (ROI) of digital ad spend (and a high street presence) to maximize budget efficacy

Capitalising on opportunities from shifting consumer values requires advanced data analytics to convert big data into actionable insight. Data harvesting (e.g. social media 'listening' or AI-driven insights through customer data or message boards) will be critical for merchants to gain a competitive advantage in this regard.

**"We expect people to buy less this year. We'll have to run more promotions on social channels."**

URSUS MARKET SL  
STAMPS.COM USER

### What merchants are focused on this holiday season:



Promotional Content



Winning New Customers



Calculate Return on Investment





### Personalization and communication

Using data science (AI, machine learning, and analytics) to mine behavioral insights for personalized marketing strategies leading up to the holidays could be the determining factor between success or failure. Battling for consumer attention today is exceptionally challenging.

**Using big data to drive sophisticated marketing strategies that engage customers by serving them relevant content at the right moment, in the right channel, will be vital.**

Of course, winning new customers cannot come at any cost with limited budgets. A detailed understanding of the cost-attribution and revenue allocation model is necessary. This includes accurately calculating the return on investment (ROI) of digital ad spend (and a high street presence) to maximize budget efficacy. Advanced customer insight, data analytics, and artificial intelligence will also play an increasingly important role in ROI modeling to improve cross-channel attribution that informs intelligent data-led investment decisions.

### Enhancing loyalty

As more cost-conscious consumers emerge, strategies to drive consumer loyalty will become more valued and integrated into consumer behavior more generally, therefore influencing how and where consumers shop.

## SECTION 03: Adapting and Thriving

### 4. Evolving operating models

- Identify winning strategic alliances
- Consider sacrificing margin for using platforms to grow market share
- Leverage third-party investment to achieve scale

New and innovative partnerships will need to be explored, allowing businesses to secure winning strategic alliances. This could involve partnerships between pure online and store-based merchants, to aligning with logistics experts to manage online returns more efficiently.

Retailers who continually explore potential partnerships will be better placed to cope with holiday demand as they 'piggyback' off existing infrastructure. This could come in many forms, from automated warehouses to cloud computing. It enables retail brands to leverage expertise to drive down marginal costs. Partnerships with agile third-party suppliers (e.g. Amazon) and returns management companies (e.g. Clipper Logistics, DHL) will become important for many businesses to enhance online capabilities in a rapidly evolving market at this time.

Beyond the holiday season, many merchants are likely to accelerate the migration towards online aggregators and platforms.

### 5. Flexible supply chains

- Simplification and reducing over-reliance on a single country or supplier
- Establish alternative supply sources to enable fast-tracked volume delivery capability
- 'Digital-first' supply chain to increase efficiency and optimize product mix, pricing power, and reduce waste

The research shows that many businesses started planning for the holiday season ahead of last year, reflecting greater uncertainty and supply chains issues.

Improved strategies are likely to involve using shorter, more flexible supply chains, better equipped to deal with supply shocks; and importantly, able to address changes

in consumer values in response to external conditions (e.g. cost-of-living crisis, geopolitics, pandemics). In order to navigate supply chain disruptions more effectively, the research highlights the following strategies:

- **Simplification and diversification:** Businesses should explore simplifying their supply chains, making them shorter and reducing overreliance on single countries (e.g. China +1/+2 models)
- **Rethinking inventory:** Establish alternative supply sources to enable fast-tracked volume delivery capability. Adopt better, more agile inventory policies to maintain 'just-in-time' strategies with established mitigation.
- **Digital-first:** Adoption of 'digital-first' supply chains has never been more pressing. Increased efficiency and predictability will help optimize product mix and range, pricing power, and reduce waste. Also, optimizing data flows (from point of sale to predictive ordering) and digital supply chain transparency, can help improve assortment, tailor merchandise for regional variations, and adapt pricing.
- **Final mile:** The final stages of the supply chain has seen consumer expectations for cheap and speedy delivery become normalized. Consistently achieving these objectives will require investment towards more automated distribution centers and micro-fulfillment hubs (and potentially ship from store) to meet demand at scale.





# Conclusion

Inflation combined with pre-existing industry disruption weighs heavily on both retail brands and consumers. As a result, merchants need to refine their marketing strategy while scrutinizing operating costs to remain profitable heading into the holiday shopping season. On the other hand, consumer behavior is rapidly shifting, primarily driven by value-seeking motivations and financial necessity.

As merchant operating costs rise and inflation bites into consumer finances, spending intentions over Black Friday and Christmas will be more muted. The overriding priority for many merchants is to maintain cash flow over what should be the most important time of the year for retail. This will involve a delicate balancing act. Deeply understanding customer cohorts, their characteristics, and how to leverage data to better communicate core promotional messages will be paramount – while simultaneously cutting costs (and potentially changing services).

Based on this research, consumer behaviors will vary this holiday season based on personal financial security. For instance, lesser affluent shoppers show a propensity to shop more in physical locations within apparel and electronics due to money-saving objectives. This data also reveals a potential mismatch between merchants' expectations for sales performances and consumer sentiments toward spending. This is likely to dampen holiday spending across the eight international markets included in this study.

Heading into the golden quarter, further disruption is expected as governments move to slow the growth of inflation. Businesses will need to work more diligently to protect their balance sheets and get the most out of the holiday shopping season.

Since merchants plan to primarily offload these rising costs by increasing delivery fees, it makes sense to also look for ways to save on shipping. By integrating their store with a shipping software solution such as Stamps.com, merchants can access deeply discounted carrier rates, enabling them to maintain their margins while still catering to complex consumer expectations.

Stamps.com not only helps businesses save up to 88% off retail shipping rates, it also helps curb overhead costs by cutting down on the time it takes to fulfill each order through robust and customizable automation rules, batch printing capabilities, and the ability to seamlessly manage multichannel and multicarrier operations. That, plus features that enhance the customer shopping and delivery experience, such as branded tracking and returns portals, help merchants succeed this holiday season.

Although there is a level of economic uncertainty going into this golden quarter, the above takeaways reveal how merchants can continue to grow and execute winning strategies to safeguard profitability and capitalize on emerging opportunities to promote sales this holiday season and well into 2023.

Five key areas that retail brands need to focus on in the lead-up to holiday shopping (and beyond) include:

- 1 Defining a strong value proposition
- 2 Redefining customer experiences
- 3 Data, insights, and personalization
- 4 Evolving operating models
- 5 Achieving flexible supply chains







## About Stamps.com

Every day, tens of thousands of ecommerce merchants rely on Stamps.com to solve the day-to-day challenges of importing orders and processing shipments. The trusted leader in shipping software since its founding in 1996, Stamps.com helps online sellers scale their businesses and deliver exceptional customer experiences, with an intuitive online solution that allows them to efficiently ship orders -- wherever they sell and however they ship. The multi-channel and multi-carrier platform offers the most integrations of any e-commerce solution, with more than 300 partnerships with leading shopping carts, marketplaces, carriers and fulfillment services, including USPS, UPS, FedEx, Amazon, Shopify, and BigCommerce. Stamps.com is a member of the Auctane family of companies and is headquartered in El Segundo, CA. Auctane brands include ShipStation, Packlink, ShippingEasy, ShipWorks, ShipEngine, Endicia, Shipsi, GlobalPost, and Metapack, with offices in Austin, London, Madrid, Sunnyvale, Zielona Gora, Atlanta,

## About Retail Economics

Retail Economics is an independent economics research consultancy focused on the UK consumer and retail industry. We analyse the complex retail economic landscape and draw out actionable insight for our clients. Leveraging our own proprietary retail data and applying rigorous economic analysis, we transform information into points of action.

Our service provides unbiased research and analysis on the key economic and social drivers behind the UK retail sector, helping to inform critical business decisions and giving you a competitive edge through deeper insights.

