

2022 HOLIDAY OUTLOOK: EXPERT PERSPECTIVES ON THE NEW 'NEXT NORMAL'



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TABLE OF CONTENTS



Together Retail has Helped Over 260,000 Orphaned and Vulnerable Children
Greg Buzek, RetailROI



2022 Holiday Readiness: Three Ways to Curate Customer Loyalty this Holiday Season
Rose Spicer, Oracle



How the Metaverse is Opening up New Opportunities for Retailers this Holiday Season
Jill Standish, Accenture Retail Industry Group



Moving Forward: Challenges in the Retail Supply Chain for the Second Half of 2022
Bertha Martinez-Cisneros, CETYS University



Retailers Must Balance Operational Excellence and Experiential This Holiday Season
Melissa Minkow, CI&T



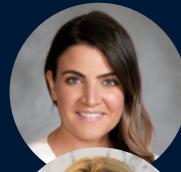
Holiday Season Tests Brand Loyalty
Tom Kaneshige, CMO Council



Curbside Pickup: The Best Omnichannel Fulfillment Option for (Most) U.S. Retailers in 2022
Bob Hoyer, Euromonitor International



Experiential Holiday Retail Has to Balance Discovery and Convenience
Jack Stratten, Insider Trends



Why Inflation Won't be the Grinch This Holiday Season
Katie Thomas and Tanya Moryoussef, Kearney Consumer Institute



This Holiday Season, Margin Preservation is More Critical Than Ever
Greg Buzek, IHL Services



Retail's Future: Digitally Driven, Live and Always Social
Matt Maher, M7 Innovations



Digital Brands Must Use Physical Stores, Pop-Ups and Events to Maximize Holiday Magic
Claire Tassin, Morning Consult



How Retailers Can Manage Inflation This Holiday Season
Hunter Williams and Corey Rochkin, Oliver Wyman



Holiday 2022: Our First True Glimpse at Post-COVID Retail
Hilding Anderson, Publicis Sapient



Attention, Brands! Social Commerce is Growing Fast
Rick Watson, RMW Commerce Consulting

All sponsorship revenue for this 2022 *Retail TouchPoints* Holiday Guide goes to RetailROI's efforts in Ukraine.

TOGETHER RETAIL HAS HELPED OVER 260,000 ORPHANED AND VULNERABLE CHILDREN

By Greg Buzek, Founder, President and Treasurer, RetailROI

For the last **13 years** the Retail Orphan Initiative, a grass-roots organization of volunteers in the retail industry, have used their skills, networks and companies to help orphaned and vulnerable children in the U.S. and around the world.

It was a chance meeting between the late Paul Singer, CIO of **SUPERVALU** and Greg Buzek, president of IHL Group, at the Oracle OpenWorld event in 2008 where the idea for RetailROI was born. RetailROI (admittedly the world's worst name for a charity) was a play on words for real return-on-investment. At the time the industry was going through great consolidation, and they discussed doing something in the industry to help kids.

Paul was a huge adoption advocate and in fact had been the person who took over from Dave Thomas of Wendy's, lobbying congress for funds for foster care and adoption support. They walked out of the meeting, met with Rose Spicer of Oracle, Marc Millstein of NextStep Retail, Jeff Roster of Gartner, Barry Wise at Epson and Cathy Putnam (Marder) from *RIS News* and the idea for RetailROI was born.

Since that time, RetailROI has given a hand up to over **260,000** orphaned and vulnerable children around the world in **27** countries. The organization has built or remodeled **19** schools, installed over **21** computer labs, provided life skills training and vocational skills.

The most impactful experiences come from the trips to see the work and impact that RetailROI has made. Where churches and schools might do mission trips where they build buildings or wells focused on evangelistic outreach, the typical RetailROI trip is a short vision trip where executives partner with feet on the street charities in the communities to learn about their needs, and then leverage our brainpower, skills and networks to help. In most cases, who we know and what we know is far more valuable than picking up a hammer.

A perfect example of this is their recent involvement with the country of Jamaica. The Parker Avery Group, through RetailROI and our in-country charity partner, started an entrepreneurship program by teaching an eight-week course via Zoom on being an entrepreneur, and six Parker Avery team members served as business coaches. They then seed-funded **six** businesses for young adults just graduating high school in an impoverished community where unemployment is beyond **50%**.

A recent trip at the end of April not only solidified the relationships with the **six** current businesses and added further input and encouragement, but it also served as a launching for the second class of entrepreneurs. The Parker Avery Team used the same skills they use to help consult with large retailers to teach kids to build a better future for themselves and their families. More details on the trip can be found [here](#).

The primary fundraising opportunity for RetailROI each year is their "SuperSaturday" analyst event, held the Saturday of the NRF show. The sponsorships from this business conference help fund the schools and projects that RetailROI invests in around the world. You can learn more or join a RetailROI trip at www.retailroi.org.





2022 HOLIDAY READINESS: THREE WAYS TO CURATE CUSTOMER LOYALTY THIS HOLIDAY SEASON

By Rose Spicer, Global Head of Retail Marketing, Oracle

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Christmas? Holidays? It's never too soon to start planning your approach to the holidays. After the pandemic's effects on consecutive holiday seasons, retailers need to prepare for the 'next normal' in holiday shopping and consumer expectations that are still changing.

Securing new customers will be important as retailers plan their holiday marketing efforts, but retaining and delighting loyal customers will truly be the key to their success.

This holiday, we'll explore three trending topics at the top of every shopper's list — inventory, execution and communication.

1. Inventory: focus on your in-stock position.

On the top of the wish list is a well-stocked shelf, whether virtual or in-store. This is easier said than done with the reality of the **supply chain** and rising fuel costs. Rewriting the **omnichannel** rules with a single enterprise-wide view of inventory, order and customer empowers associates to find customers the merchandise they seek.

High on most shoppers' lists this year are product availability and having lots of options to choose from. According to a recent **Oracle Retail study**, **52%** of U.S. respondents stated that the availability of in-stock products makes them loyal to a retailer, and this number intensifies to **84%** for Gen Z and millennials combined.

Beyond having products in stock, they also value variety. Almost half of those surveyed believe that a good variety of different products is an essential factor in brand loyalty, and variety is ranked as especially important for women, with **51%** stating that it makes them more loyal.

Retailers can go even further and make complex transactions seamless across the supply chain, with visibility across all channels and warehouse systems — starting with all the information you need for when the customer places the order. It doesn't matter which system an associate is in; they can see **inventory**, customer activity, **point of sale** and **order management** — with enterprise transparency and clarity.

2. Execution: prioritize the right shopper journeys for your best customers.

When it comes to shopper journeys, the consumer believes "the more the merrier," and they want multiple choices for delivery. However, a retailer must choose wisely and efficiently to protect its margins.

As retailers focus more on the customer journey, the lines between physical and digital brand experiences are blurred. Now, customers expect to start anywhere with their purchase and still have the same experience. Therefore, retailers must do the same, by sourcing and fulfilling from anywhere to match that shift in demand. It's all about **choreographing the omnichannel retail experience**.

The checkout process and how shoppers retrieve gifts are paramount. During the pandemic, the number of alternative retrieval methods when shopping significantly expanded, and loyalists now want and expect every option at their disposal — these changing expectations span generations. For millennials, **41%** stated that they would be receiving their purchase via curbside pickup, and **84%** of boomers will be receiving their purchases via home delivery.

For parents, convenience is critical, and more than **seven out of 10** parents stated that a seamless checkout and return experience makes them more loyal to a retailer. With competitors looking to perfect their checkout methods, it will be a deciding factor for parents this year.

This holiday season is poised to see strategic spending with rising inflation, creating an opportunity for retailers to be thoughtful in their approach. Through **stocked inventory**, transparency, and multiple retrieval options, retailers can drive sales, earn trust and **build loyalty** with shoppers this holiday season and beyond.

3. Communication: leverage your data to drive personalization.

Consumers expect transparency, clear communications and consistency in their shopping experience. Data plays a key role here. Retailers can track the complete history of a customer's experience with the brand using analytical tools alongside a range of potential customer journey permutations, showing how valuable they are now and how necessary they will be going forward. In this way, a retailer knows which customer base they should focus on — streamlining flexible services across channels to personalize the experience, segment and better target. As a result, more money per transaction and stickier loyalty drive high-value customers back for more. It's about understanding the **dimensions of loyalty**.

At the end of the day, **execution matters** most of all. Consumers want what they want when they want it, and delivered as expected.

What's Next? What Now?

As retailers gain omnichannel maturity, they must also recognize and overcome specific pain points and challenges in a broader value chain. At the top level, this is about adopting the right cloud and platform capabilities to improve processes through flexible, always-on insight and tools.

An assessment can be done in incremental steps because very few businesses can withstand the shock of wholesale change. It's important to highlight and fix the most challenging aspect of the customer journey first — even a highly mature and profitable loyalty program might not equate to a seamless customer journey, and vice versa. Platform agility is vital in helping retailers innovate better.

We gathered our ideas, tools and methods based on our extensive experience across diverse retail sectors and geographies. Our team is happy to offer you a complimentary **omnichannel capability review** with our solution experts. The review is designed to assess your business and suggest where to start based on your greatest business need.

Request a capability review or drop me a direct message at rose.spicer@oracle.com, and I can connect you with our team.



HOW THE METAVERSE IS OPENING UP NEW OPPORTUNITIES FOR RETAILERS THIS HOLIDAY SEASON

By Jill Standish, Global Lead, Accenture Retail Industry Group

As retailers plan ahead for this year's holiday season, finding new and improved ways to engage with customers, across all channels, has never been more important.

With holiday shopping starting earlier and earlier in the calendar, the peak season continues to get longer and longer. At the same time, with household budgets tightening, consumers are more likely to look to spread the cost of their holiday shopping over a lengthier period.

The challenge for retailers? How to remain front of mind among consumers over this extended holiday season. First and foremost, it increases the need to build and maintain deeper ongoing customer relationships. Attempting to reignite those connections in the run-up to the holidays, after a year of little or no engagement, simply isn't viable.

The good news? There's now a whole range of ways retailers can engage with customers while also driving new revenue opportunities.

Meet Consumers in the Metaverse

Of course, there's nothing new about engaging with consumers digitally. But the metaverse is taking online shopping to a whole new level.

While the idea of having persistent shared virtual worlds existing in tandem with the real world is still a ways off, there are already a continuum of early metaverse-like experiences that retail can explore..

It's important to recognize that this metaverse continuum also includes immersive platforms like Roblox and Web3 technologies like non-fungible tokens (NFTs). And we're already seeing brands innovating in these areas — like the **Gucci Garden** on Roblox and **Gap's** move into NFTs with the launch of its own collection of digital hoodie art.

These are fertile and emerging digital spaces for retail brands. Recent **Accenture research** revealed that around **60%** of millennials want to buy real-life products in virtual worlds. And **64%** of all consumers have purchased a virtual good or taken part in a virtual experience or service in the past year.

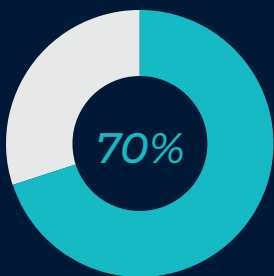


Don't Forget Stores

Let's not forget how important stores are to the holiday retail experience. That's true for consumers of all ages. Accenture's most recent [Annual Holiday Shopping Survey](#) showed, for example, that **70%** of consumers aged **18 to 24** anticipated doing the majority of their holiday shopping in-store.

It makes sense. For some categories and segments, there's simply nothing to replace being able to see and feel products for real. And of course, store shopping can also be social, physically interactive, and fun — all important parts of the overall retail experience.

The key for retailers is to blend digital and physical shopping into a seamless whole. That might mean, for example, making customer insights available to store associates in real time. Or [rethinking store layouts](#), with spaces for new retail experiences, dematerialized shopping for commodities, in-store pickups and micro-fulfillment.



of consumers aged 18 to 24 anticipated doing the majority of their holiday shopping in-store

— Accenture Annual Holiday Shopping Survey 2021

Engage Today to Reap the Rewards Tomorrow

By doubling down on customer engagement now, retailers can position themselves to drive tangible revenue benefits come the holiday season. The new and emerging forms of engagement outlined above, properly integrated with physical shopping channels, offer new ways to meet customers where they are today and where they'll be tomorrow.



MOVING FORWARD: CHALLENGES IN THE RETAIL SUPPLY CHAIN FOR THE SECOND HALF OF 2022

By Bertha Martinez-Cisneros, Coordinator of the Degree in International Logistics, CETYS University

Even though more than two years have passed since the pandemic began, the global supply chain is still struggling with disruptions. Each day a new problem seems to appear, and it seems like we are in a video game in which every time we pass a level we have to go to the next level where there are more difficult tests to face.

The big question for the retail industry seems to be the same one from last year: How do we prepare to face the challenges that the holiday season might bring? In the retail industry, providing quality customer service is one of the essential goals. The importance of meeting customer demand is of the highest importance because average customers are not going to wait around for a product or service; they will go looking for them from the competition. Missing out on Christmas sales is therefore not a realistic option for most businesses, and the pressure to find the perfect retail supply chain management solution is on for Q4.

Executives in this sector need to start planning at least **six** months ahead of the holiday season. That means right now. The factors that differentiate retail supply chain management from other types of supply chain management are the volume of product movement and the fast-moving nature of retail products. Understanding this difference can give us an idea of how fast decision making needs to occur in this industry. If we just wait to see what happens or hope that problems solve themselves, it will be too late.

The second half of 2022 presents a panorama of doubt in the face of the problems we have been experiencing. To navigate this uncertainty and prepare in advance for the holiday season, the retail industry must consider that the following global supply chain disruptions may continue:

1. The problems with the operations of ports and the lack of truck drivers could increase in the coming months due to the upsurge in operations preparing for the end of the year.
2. The cost of freight could continue to rise along with the cost of fuel worldwide, increasing inflation in the prices of retail products.
3. The problems between Russia and Ukraine could escalate, increasing the stress on global supply chains.

Fortunately, not everything is bad news. We have seen the pandemic subsiding and most economic sectors are activating now. Retailers should be looking for a promising holiday season. But in order to be ready, they need to look at the level of demand from past months, their storage capacity and their financial health to adapt their inventory policies according to delivery times and purchasing order processes. Understanding customers' behavior is crucial to avoid out-of-stocks and delays, and using data analytics is key to maintaining the satisfaction of our customers.



RETAILERS MUST BALANCE OPERATIONAL EXCELLENCE AND EXPERIENTIAL THIS HOLIDAY SEASON

By Melissa Minkow, Director, Retail Strategy, CI&T

Though many retailers' omnichannel strategies were initiated before the pandemic, the need from consumers wasn't really felt until 2020. Omnichannel retail quickly became a solution first, and a force of creative innovation second. Omnichannel strategies will certainly play a large role in keeping customers happy this holiday season, but retailers that implement the capabilities must balance operational excellence with enjoyment in order to build relationships that last beyond the last few months of the year.

As retailers hustle to stay on top of inventory needs and fulfillment timing, there will be heavy dependence on nationwide stock visibility and vendor relationships. Brands will have to be highly transparent with customers surrounding availability and arrival. Customers may be incentivized to go to warehouse locations themselves, or they may find that they are paying more for shipping from atypical origination points in order to get the item faster. Additionally, with news over the last year of some retailers acquiring fulfillment providers, other smart retailers will be willing to forgo worries of data sharing with those competitors in exchange for the ability to get customers their items on time.

Though ecommerce and mobile commerce sales will continue to grow, brick-and-mortar will still play a key role in holiday, especially when it comes to omnichannel strategy. Further digitizing the in-store side would maximize speed and convenience while empowering the customer. More retailers offering mobile checkout would mean shorter cashier lines and free up associates to focus on customer service, BOPIS and curbside.

Relatedly, leveraging apps and mobile sites to facilitate more of the curbside and BOPIS experiences would also mean shoppers are spending less time waiting for associates who are busy helping with these services. Returns, whether from gift-based purchases or not, significantly slow down associates' availability during such a crucial time, when busyness is already a given and when too much of the process depends on employees.

Shoppers' ability to use their phones in stores to aid in expediting all of these touch points would allow for more emphasis on the experiential. On the topic of experiential, given consumers' now-established affection for BOPIS, leveraging the fact that shoppers are coming into stores by rewarding them with fun, useful activations would be both festive and aligned with what winning store strategies require today to drive traffic.

Holiday 2022 is a time for retailers to make as much right as possible. Omnichannel offerings that result in customer-centric outcomes should become standards beyond the holiday season. Customer service matters a great deal, as gifting purchases can be first-impression moments as shoppers look for exactly what they know recipients will appreciate.

Operational excellence will afford staff more time and space to serve as helpful resources to consumers. Clean and creative merchandising, both online and in stores, will work well with all the aforementioned tools to keep shoppers feeling on top of their gifting, even if they end up purchasing from a crafty "guaranteed in stock and on time arrival" section of your site.



HOLIDAY SEASON TESTS BRAND LOYALTY

By Tom Kaneshige, Chief Content Officer, CMO Council

'Tis the season for spending, and marketers in retail and travel are hoping for lots of sales under the Christmas tree. Signs point to a continued return to normalcy this year, or at least partially, with in-store sales projected to increase 15% compared to the 2020 holiday season, according to the CMO Council report, [Gaining Lift From The Consumer Shift](#).

But it's not all sweetness and light.

Many of today's pandemic-weary consumers have lost their sense of loyalty to brands. Who can blame them? They've spent the last two years hunkering down in their homes, researching online and comparing prices and availability. Shopping has become an impersonal exercise done in isolation, even robotic — or rather, chatbot.

Before we get into that, though, let's have a little holiday cheer. Here are some season-greetings sales numbers from Commerce Signals, which analyzes week-by-week changes in the spending behavior of U.S. consumers based on anonymized credit and debit card payment data for some **40 million** households:

- U.S. consumer card spending increased more than **12%** in the 2021 holiday season versus 2020, driven especially by consumer travel spending, which is expected to rise some **91%**;
- Restaurant spending increased **43%**, while retail spending grew **2%**; and
- Department, clothing and home furnishing will continue to lead the growth in holiday retail sales.

"Consumers are going to be consumers. Spending shifts, but it doesn't stop," said Nick Mangiapane, CMO of Commerce Signals. "Very quickly, we've seen spending pick up in a variety of categories, such as sporting goods, food stores, furniture stores and mass discount stores like **Walmart** and **Target**."

Not every retailer, though, will revel in this rise in sales. For marketers that fail to personalize and provide the right products at the right time, they'll receive a lump of coal in their stocking — that is, brand abandonment. According to McKinsey, among **60%** of shoppers who faced out-of-stock products in the last **three** months, **70%** switched retailers or brands instead of waiting for the products to come back in stock.

"With many shoppers intending to buy early and not wait for out-of-stock items to be replenished, retailers must compete harder for customer loyalty, in addition to managing the supply chain and labor challenges spurred by the pandemic," according to the McKinsey report, [U.S. Holiday Shopping 2021: Strong Demand Meets Big Challenges](#).

With the holiday season quickly approaching, now is the time for marketers to make moves to improve customer loyalty. Shopping trends highlighted during the holidays aren't going away. Marketers can learn a lot about consumer behavior and put into action some best practices for the upcoming year by leveraging the vast amount of data at their fingertips, to build personalized offerings to capture the customers on their terms.

The CMO Council summed it up [best in its report](#): "The lessons of the COVID pandemic are many. But chief among them is the critical need for brands to be able to pivot quickly based on the changing needs and requirements of customers. Understanding where consumers are today and where they are going tomorrow, based on timely access and predictive analysis of data, will be essential to business and marketing success in the months ahead."



CURBSIDE PICKUP: THE BEST OMNICHANNEL FULFILLMENT OPTION FOR (MOST) U.S. RETAILERS IN 2022

By Bob Hoyler, Senior Consultant, Euromonitor International

Two relatively novel omnichannel fulfillment options — same-day delivery and curbside pickup — drove substantial online sales gains over the past few years and are set to command a significant share of U.S. ecommerce sales going forward.

Ecommerce sales growth is expected to decelerate dramatically this year, as the pandemic-induced online sales boom starts to wind down. Yet U.S. consumers are much more comfortable purchasing goods online today compared to just **two** years ago, and these new online shopping behaviors will remain ingrained.

Looking ahead to the holiday shopping season, retailers will therefore be forced to contend with heightened consumer demand for omnichannel fulfillment services. Companies will also be dealing with supply chain logjams, a tightening labor market, rising wages and skyrocketing energy prices, among other challenges, all of which are conspiring to drive up overhead costs.

In the short term, curbside pickup may be the best omnichannel fulfillment option for most legacy retailers because profitability is so critical at this moment in time. Retailers were not the primary beneficiaries of the surge in same-day delivery sales; rather, hyperlocal delivery players like Instacart were. Legacy retailers partnered with these third-party providers to offer delivery from their stores in order to capitalize on the ecommerce explosion without having to invest in the development of in-house delivery capabilities.

On the other hand, the rapid growth in curbside pickup provides more direct benefits to retailers. This fulfillment option has lower operating costs than delivery. Additionally, unlike same-day delivery, developing in-house curbside pickup capabilities has not been prohibitively expensive for most legacy retailers.

Curbside pickup is also the omnichannel fulfillment model that is most uniquely suited to the U.S. retail landscape. This option combines the immediacy and instant gratification of in-store shopping with the convenience of never actually having to get out a vehicle. That's why curbside pickup resonates especially strongly in the U.S. suburbs, where there is a pervasive driving culture.

These areas are only becoming more important to the U.S. retail sector as many consumers relocate from large, densely populated cities to greener pastures. Ubiquitous vehicle ownership in the suburbs allows retailers to effectively service the same number of customers with curbside pickup as same-day delivery at a fraction of the cost.

However, curbside pickup is not the end-all and be-all. Retailers should explore other omnichannel fulfillment services based on their target audience, location, capabilities and resources. For many retailers, especially those located in urban centers, offering same-day delivery service will often be a viable — and sometimes unavoidable — option.

Retailers that do offer multiple fulfillment options, however, need to aggressively promote curbside pickup. Steering more customers to use this service will help lower operating costs and increase profitability, which are critical benefits in a time of high inflation.



EXPERIENTIAL HOLIDAY RETAIL HAS TO BALANCE DISCOVERY AND CONVENIENCE

By Jack Stratten, Senior Trends Consultant, Insider Trends

Holiday shopping journeys are a potent mix of the inspirational and the mission-based. Some customers know exactly what gifts they want to buy and just want to get them in the most convenient way. Others are looking to discover the perfect gift. Most shoppers fall into both camps.

Retailers need to make sure they don't forget this when thinking about store design and experiential retail this holiday season. Whatever is happening in the store needs to serve the customer if it is to have value.

Models like **Situ Live** are a fantastic take on experiential retail for discovery. Customers can explore products in a hands-on way, get expert advice and guidance, and then buy online by scanning a QR code. This offers customers convenience, as they don't have to carry purchases with them, and makes it easier to buy surprise gifts if shopping with someone else.

Showfields, known for its lifestyle discovery spaces full of changing brands, marries discovery and convenience brilliantly through its ongoing complimentary Shop Together experience. Customers can book a reservation for their friends and family to have a guided tour around the store, get product recommendations and shop together. It's a calmer, more pleasurable shopping experience that could really resonate in the frantic holiday period.

Experiential retail can also help time-poor customers to achieve more in a single location, giving them a reason to visit and to stay longer. In-store makeover, hairdressing and manicure services are great examples of this. Café and restaurant experiences help meet basic human needs while elevating a visit to the shops into a day out.

Retailers may want to consider having regular in-store pop-ups and experiences in the months leading up to the holidays. Last year Google found that **31%** of U.S. shoppers had already started their holiday shopping by June. High cost-of-living pressures are likely to continue the trend of spreading spending out over a longer period, so an ongoing program of experiences can help tap into that.

Department store **Selfridges** does this in a fantastic way via its year-round Corner Shop space, which hosts incredible concepts and brand partnerships that attract audiences.

Retailers should also think about how to use tech to maximize the benefits of what happens in the store. For example, in-store events can be livestreamed to online audiences. The store can also function as a content studio for live commerce experiences, where staff can talk customers through different products that can be bought online and shipped to them at home.

There is a definite opportunity for experiential retail to break out of the store and come to the customer. **Enjoy** and **Toshi** already offer commerce at home experiences for electronics and fashion. **Amazon's** Treasure Trucks have also been bringing physical retail to customers for some time. This approach can also ease customer concerns around supply chains and delivery availability.

Balancing discovery and convenience can be tricky, but by investing in the right kinds of experiences retailers can create valuable holiday shopping journeys.



WHY INFLATION WON'T BE THE GRINCH THIS HOLIDAY SEASON

By Katie Thomas, Lead, and Tanya Moryoussef, Manager, Consumer Practice, Kearney Consumer Institute

Who's coming to the big holiday dinner this year? Will consumers be frugal and stressed (about the pandemic, inflation, monkeypox...) or will they feel festive and ready to celebrate?

Our money is on the latter. Even as inflation ticks up and consumers rethink the financial toll of their everyday behavior, higher gas and grocery prices are not going to keep people from having a celebratory holiday season in 2022.

Here's what that means for retailers.

Consumers are Ready to Splurge

For the past few years, we've been waiting for a release of the bottled-up consumer demand. And now, finally, we're seeing the rise of "revenge buying" and the growth of a YOLO ("you only live once") mindset. After **two** years of biding their time and living a life marked by the pandemic, consumers are ready to break out — and that will carry through to the holidays.

Those splurges may come to life in a few specific categories. For instance, vacations and trips are top of consumers' minds despite the ongoing COVID risk. A recent survey by Ipsos indicated that **30%** of Americans say that COVID-19 is "over," and further, **67%** say they will definitely or likely take a trip, up from **47%** this time last year. A weak euro shows even more promise for consumers that can afford and want to take an international vacation.

More tactically, we anticipate splurging on categories that were off the table for the past couple of few years. Makeup is returning with a vengeance since many people are no longer wearing face masks — bold lip colors and dramatic eyeshadow palettes will be hot commodities this holiday season.



Inflation Won't Deflate Holiday Spending

Splurges aside, inflation is definitely a concern among consumers. In a recent Kearney Consumer Institute survey, **31%** of consumers said inflation impacts them “very much.” But so far, consumers are focused on the price changes in categories like groceries (**88%**) and gas (**69%**). By contrast, only **2%** of consumers say they feel the biggest impact in toys, sporting goods and games. That’s good news for holiday toy makers.

And while the impacts of inflation will most likely trickle down to other categories as time goes on, we suspect holiday spending itself will be somewhat insulated from this effect. Consumers are likely to choose to save on everyday items (like dining out or ordering takeout), but they won’t slash their holiday budgets.

We also anticipate a longer holiday season, similar to 2021 when deals started ramping up in October. In order to accommodate tighter wallets, consumers will be on the lookout for deals early and often.

Hotels, Homes and Hounds Will be the Big Winners

And no holiday prediction would be complete without a shout-out to the categories to watch. We predict that categories that consumers felt they “couldn’t” access during the pandemic — like the travel and beauty mentioned above — will lead the list.

There are some enduring trends from pandemic consumer behavior, too. Home improvement updates, which spiked in 2020, are still going strong. **Home Depot** and **Lowe’s** recent earnings show that those lists of home projects lengthened as consumers continued to spend time at home.

And finally, as many workers return to the office, someone has to take care of all those pandemic puppies. That’s why we predict spending on pet care (pet sitting, dog walking, crates, and pet toys) will boom.



THIS HOLIDAY SEASON, MARGIN PRESERVATION IS MORE CRITICAL THAN EVER

By Greg Buzek, President, IHL Services

The changes that drove the massive online growth during the pandemic are here to stay, and this is a major challenge this holiday season. Gone are the government stimulus payments that propped up retail, and these digital journeys need to stand on their own. Further challenges with inflation and the decision on how much of price increases retailers can pass along to consumers only adds to the complexity.

Multiple research studies have shown that, compared to the walk-in customer, retailers that have not optimized their digital journeys lose between **three** and **15** points of margin on digital orders. And grocers that pick their own groceries for local delivery can lose up to **15** points of margin. That is a big nut to swallow when the average profit margin for grocers is traditionally **1%** to **2%**.

Recent IHL research shows that only a portion of retailers have optimized these digital journeys. While **54%** claim to have optimized the traditional ecommerce channel of shipping from a warehouse, only **27%** have optimized localized delivery, **26%** ship-from-store, and only **16%** buy online for store pickup.

And things are about to get worse as retailers face a triple witching hour. The key issues are the following:

- **Inflation and rapidly rising prices:** No surprise to anyone, this means consumers have less for discretionary purchases;
- **Tough comparisons to previous years:** Since April 2022, the year-to-year comparisons have been particularly tough, as 2021 benefitted from both reopening of physical stores and multiple rounds of stimulus that are no longer in play; and
- **Lower tax returns:** Due to the Child Tax Credit, over **59 million families** received a significant portion of their normal expected tax refunds for this year as checks last year. This means even less money in their wallets.

Consumers are continuing to shop multi-channel, but for many retailers the only channels that are profitable are the walk-in store customers and ship from warehouse. BOPIS, click-and-collect and ship-from-store all require rethinking for retailers. As well, rising returns for online products erode margins fast. Optimizing each of these areas is critical for retailers to thrive this holiday season.

The bottom line is that it has never been more important for retailers to prioritize the optimization of their digital channels. It is truly a factor of life or death for retailers. This requires digital insights and analytics on where to spend on technology, what processes provide the greatest bang for the buck, and the conviction to focus relentlessly on improving both.

The retail gravy train is hitting the brakes. The winners of this holiday season will be the retailers that can recapture these lost margins and make the entire organization profitable.



RETAIL'S FUTURE: DIGITALLY DRIVEN, LIVE AND ALWAYS SOCIAL

By Matt Maher, Founder, M7 Innovations



A hard truth for brands: the traditional consumer journey has been irreparably broken. The customer experience is no longer linear, it has collapsed into multiple touch points that span both the digital and physical worlds. To succeed, brands must find the white spaces where they can add value along these new, amorphous paths. The goal is to reduce any friction through the marketing funnel, creating a seamless experience so you never divert customers in the pursuit of your product and brand. The answer seems to be utilizing new technologies — or is it?!

More often than not, technology is a solution looking for a problem, which makes it harder to justify success if you're not sure of the pain point it's addressing. Just because something is new, flashy and will garner headlines doesn't mean it's right for your business — find the friction and then work back from there.

For instance, look at the metaverse craze with so many brands — even the government — rushing through a virtual door into a world that is barely even built. For brands, the metaverse requires a strategy and deep understanding to know if it will indeed help increase engagement, sales and brand affinity.

Start with your overall brand aesthetic. Do you give off a cartoonish, fun vibe that would fit natively into popular games like Fortnite or Roblox? Is there something futuristic or cool that would make your brand contextually relevant in metaverses like Decentraland or The Sandbox? Also, what's your brand's purpose in these spaces? I challenge brands not to look for answers in the metaverse but to pursue the right questions before stepping in.

Switching over to other technologies, brands that took risks with innovative tech like **AR** won big during the past couple of years. If you sell a physical product, AR instantly transforms over a billion smartphones into virtual storefronts. This allows users to try on and try out products and learn more information in an immersive way. Retailers should also continue establishing social commerce as another path-to-purchase to provide frictionless, rich customer experiences — from browsing and trying, to clicking and buying, all within their favorite social app.

Then there's the new **QVC** for GenZ: **Livestreaming**. Big retail players like **Nordstrom** and **Clinique**, as well as tech solutions like Firework and Bambuser, are betting big on livestream commerce. This technology democratizes your brands' equity to relevant influencers and fashion experts who can host tutorials, virtual try-on, and offer tips and tricks of the trade — all while promoting your product.

Big tech and social powerhouses like **Amazon**, Google and Instagram are already merging **livestreaming with social commerce** to create informative and entertaining experiences. But let's be honest, they'll struggle to generate the same extraordinary revenues **we're seeing out of China**. The U.S. isn't a mobile-first economy, and livestream purchasing behavior isn't intrinsic to our consumers' behaviors like it is in the East, so it'll take much longer to grow this industry and its revenues. Regardless, the future of retail is bright, digitally-driven, live and always social.



DIGITAL BRANDS MUST USE PHYSICAL STORES, POP-UPS AND EVENTS TO MAXIMIZE HOLIDAY MAGIC

By Claire Tassin, Retail and E-Commerce Analyst, Morning Consult

While it's been a strong couple of years for digital direct-to-consumer and ecommerce brands, this coming holiday season will feel a bit different, with shoppers spending more time in physical stores.

Morning Consult's Return to Normal tracking data shows that shoppers are comfortable spending time in stores again, with that comfort proving resilient against new waves of COVID-19. This doesn't just mean that foot traffic is back; it also translates to more dwell time and appetite for casual, tactile browsing and shopping.

More than **two in five** adults prefer in-store shopping to online, and such is the case even for the elusive Gen Z shopper — bonus points if the store optimizes the opportunity for capturing social content. If shoppers are no longer shying away from mall Santas, digital-first brands and retailers need to plan for in-person shopping events at existing stores and pop-ups in expansion markets to take advantage of the resurgence of in-person shopping.

But a tactile in-person experience can be a hindrance for brands with limited or nonexistent store networks. Despite advancements in online shopping tools — think fit recommendations and AR-supported try-ons — stores win on being able to offer digital-first brands access to customers who are hesitant to try new products without seeing them in person.

Brands should go beyond simply bringing inventory to new locations and find opportunities to highlight product differentiators via experiences. **Casper** set up nap pods; **Sonos** built listening rooms allowing shoppers to test their speakers in a home-like setting. On top of generating positive buzz, these brands gave customers in-depth aspirational experiences, while likely enticing them with a curated suite of products. Digital-first brands and retailers should examine current customer data as well as social and search data to identify key markets to bring products in front of new shoppers, to ensure they stay top of mind throughout the holiday season.

Beyond the practicality of seeing products in person, people — especially those in key demographics — just find shopping in person to be more enjoyable: Psychographic profiles on Morning Consult Brand Intelligence, which tracks consumer perceptions of thousands of brands, show that women, younger shoppers and urban shoppers are all more likely than the average consumer to enjoy the IRL experience.

Urban shoppers in particular are more likely to head to a store when they feel the brand shares their values. Given that most brand pop-up activity happens in urban areas, in-person experiences should prioritize demonstrating those values and build customer relationships. Suburban shoppers, conversely, are more likely to head to stores for loyalty program benefits, so exclusive events or hours devoted to loyal and existing customers at stores and pop-ups can help further existing customer relationships during a critical shopping season.



HOW RETAILERS CAN MANAGE INFLATION THIS HOLIDAY SEASON

By Hunter Williams, Partner, and Corey Rochkin, Principal, Retail and Consumer Goods and Digital Practices, Oliver Wyman

Inflation is dominating the headlines, and the attention of retailers preparing for holidays. But are retailers still fighting the last war as the economy moves into a new phase before the holidays?

It's a mistake to assume inflation will keep surging, even if most experts think it will take until 2022 or 2023 to return to recent historical norms. Retailers may have bigger problems to worry about by November or December.

There's a simple reason why: Consumers were made flush — and patient — by federal stimulus money designed to keep the COVID pandemic from causing a prolonged recession, and that firehose of cash is running dry. That could begin to cause an economic slowdown, while retailers are still assuming the big risk is the economy overheating. All that demand-creating government money wasn't matched by any short-term increase in productive capacity, helping spark what has become more than a yearlong bout with inflation.

The other big cause of inflation — and maybe the most persistent heading into peak season for ordering all those gifts we will give in December — is the collection of supply-chain disruptions first sparked by COVID that are now being refueled by new crises, whether the Ukraine war or COVID-related lockdowns in China.

Retailers can't assume consumer patience with passed-along price hikes will last as the stimulus runs dry, especially if the economy begins to slow and consumers' confidence slips along with growth. In our practice, we've found clients who think they will be able to pass along suppliers' cost indiscipline indefinitely. They won't.

Just as we expect consumers to push back against inflation by Christmas, retailers should push back on suppliers beginning before holiday orders ship.

Since retailers and suppliers have ongoing relationships, there's room for candid talks about which price increases are justified and which aren't. Retailers should ask to see the math behind cost boosts. They also have — and need to use — analytical capabilities consumers don't. Specifically, a retailer of any size should parse publicly available data and do value chain analysis to understand how suppliers arrive at price proposals, and fight for compromises if not rollbacks.

Since the price of lumber has fallen by half since January 2022, for example, retailers buying furniture (the price of which rose **15%** in the 12 months ending in April) shouldn't be shy with suppliers that want even more. Consumers need no less — and by Christmas will likely be demanding action. Cotton futures fell **10%** in May alone, with clear implications for clothing retailers. And so on.



Retailers also have options in many cases. They should solicit competing quotes from new suppliers where they can. Sure, stores will only be able to get this year's hottest doll or videogame console from that item's one supplier — but most suppliers don't have the luxury of a runaway hit or zero competition.

And stores should be keenly aware of their own competitors' pricing tactics. If Store A is delivering better pricing than Store B, Store A needs to figure out where the cost advantage is coming from. Part of that will probably be that Store A has dealt with its suppliers more effectively.

But the other part is that the more expensive store needs to get its own house in order. Since some inflation — and gross margin pressure — is inevitable, retailers have to contain the costs that they control.

The ultimate inflation-fighting tool is higher labor productivity. Look for ways to digitize more operations to do more with less. A side benefit: Higher productivity means retailers don't need to find as many workers in a tight labor market.

When prices do have to climb, the list price consumers focus on doesn't always need to rise. Instead, consider cutting back on promotions first. Good retailers measure the effectiveness of each promotion, and weed out underperformers before the holidays to deliver steadier demand and protect margins. This also protects stores' brand and pricing strategies, which will be hard to restore if inflation complacency distracts a discounter from actually discounting, for example.

With consumers' inflation-adjusted budgets tightening heading into the holidays, retailers should compete to be the most thoughtful about fighting inflation. The combination of lower income growth as stimulus money disappears and some supply chain-driven inflation will last a while, so this is an ongoing issue. Stores that manage inflation best have a chance to capture customer loyalty and market share from less-disciplined rivals.



HOLIDAY 2022: OUR FIRST TRUE GLIMPSE AT POST-COVID RETAIL

By Hilding Anderson, Head of Retail Strategy, North America, Publicis Sapient

This year's holiday season offers our first glimpse at a true post-COVID retail season. We expect it to outperform expectations with a resilient economy and consumers overcoming headwinds from inflation, high retail sales comps and continued stock market volatility.

One of the key areas to watch this holiday season is consumer behavior. New consumer behaviors that stemmed from the pandemic — particularly omnichannel shopping, curbside and ship-to-home ecommerce sales — are proving to be real and durable even as COVID restrictions have eased.

On the other hand, consumers' spending patterns have changed. We've seen a rapid rise in demand in the travel and entertainment categories and a drop in COVID-favorite categories like home goods and casual apparel. As a result, retailers like **Target** and **Walmart** saw inventories increase 30% to 50% year over year, and they've had to embrace discounting.

Retailers will need to position their business for the holiday season by continuing to invest in digital transformation enabled by experience, engineering talent and customer data. Below are the top **three** areas that retailers should focus on to make this year's holiday season a success:

- 1. Customer experience should be a top area of investment.** More consumers will shop on mobile this year and major investments in the digital store will begin bearing fruit. From in-store retail media networks and self-checkout to a new design of mobile apps that use the latest AI/ML ops and next-generation headless, microservices-based solutions, major investments in customer experience will surely pay off.
- 2. Omnichannel commerce and convenience will be critical.** No longer forced by COVID, this will be the first year that people will be able to choose where and how to shop, and we predict they will choose in favor of digital channels and convenience. Expect curbside, delivery and ecommerce to be higher than in previous years — surpassing those even during the COVID years in absolute dollar terms.
- 3. Digital profitability should be a top priority.** A recent study by Publicis Sapient and Salesforce found that **46%** of retail business leaders reported that their ecommerce operations were less profitable than their in-store business. This holiday season, profitability must be a key focus for retailers as inflation reduces the ability to defend margin. Retailers should look to strengthen profitability by investing in new digital revenue areas such as subscription programs, retail media networks and chat/text-based targeting and activation of consumers. We expect a slimmer promotional environment this year as retailers look to hold the line on margin amidst ongoing pressure.

The 2022 holiday shopping season is going to be our first window into a 'normal' retail environment since 2019, and it will reveal consumer behaviors outside of COVID influences. If retailers adapt to changing consumer behaviors and focus on our 'big three' — Customer Experience, Omnichannel Commerce and Convenience, and Digital Profitability — they will set themselves up for a strong holiday season.



ATTENTION, BRANDS! SOCIAL COMMERCE IS GROWING FAST

By Rick Watson, CEO and Founder, RMW Commerce Consulting

Social commerce — or ecommerce that takes place directly on a social media platform — may still be nascent, but it's growing fast due to exciting new channels such as augmented reality (AR), virtual reality (VR) and the metaverse opening up all the time.

Social commerce is currently a **\$45 billion** opportunity in the U.S. and is growing three times as fast as traditional ecommerce, **according to Insider Intelligence**. Compared to the entire ecommerce market, it's small — relatively speaking — and so brands should invest accordingly. With ecommerce **expected to reach \$1 trillion** in the country by the end of the year, social commerce is anticipated to come in at approximately **4.5%** of that.

Fundamentals of Social Commerce

The basics of social commerce really start with the basics of building any online business:

- A clear understanding of the audience;
- Knowing how to motivate, entertain, inform, and keep them coming back for more; and
- Posting consistently high-quality content more than once per week.

Once you have your audience coming back and interested, trust starts to grow.

The challenge? This kind of trust takes time to build. In fact, recent surveys indicate that building **trust with an audience** can take up to **two years**. While this can be discouraging for some brands, when compared with trusted relationships in life, the timeframe makes a lot of sense.

Trust is really the foundation of all ecommerce. Once your audience trusts you, they are much more likely to buy products that you recommend, reference or manufacture — and even more so for unique, limited edition products that can't readily be found on online marketplaces like **Amazon**.

As a result, **exclusivity is one of the most important pillars** of social commerce. During the holidays, this is particularly true because consumers are often under deadline and have less time to make decisions. Access to "insider product" can trigger impulse buying in an audience.



Embracing Augmented Reality, Virtual Reality, and the Metaverse

Despite early experiments, the metaverse worlds like Roblox and Minecraft are primarily brand-building rather than revenue-building opportunities for the average label. Brands like **Nike** and **LVMH** are planning projects and investing in the metaverse, but do not currently have significant sales to show for it. At this stage, smart brands are thinking about how the next generation of consumers will interact with and learn about new brands in a context that feels natural and unforced.

Augmented reality, however, probably has some of the biggest promise in the short term. Many different industries, from **home** to **beauty** and beyond, are successfully using AR today to help with purchase journeys. More hope abounds; **Apple** is planning the release of its AR glasses sometime in 2023, **according to company watchers**. History has shown that Apple tends to legitimize any market it enters, so it makes sense for ecommerce brands to pay attention.

What's Next?

While the future of social commerce is not fully known, it is growing. By 2025, social commerce will have doubled again from **\$45 billion** to over **\$80 billion**, which could even accelerate with Apple entering the AR market. Simply put, every brand needs a social commerce strategy.

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