

# Navigating the Value Shift

**A STRATEGIC OUTLOOK FOR THE  
2025 RETAIL HOLIDAY SEASON**



## EXECUTIVE SUMMARY: THE CAUTIOUS CONSUMER AND THE VALUE IMPERATIVE

The U.S. retail landscape is entering the 2025 holiday season defined by a powerful convergence of factors: sustained consumer pessimism, a softening labor market, and a deeply entrenched value-seeking mindset.

Not only is the value-seeking mindset changing how much shoppers spend on non-discretionary items, and how much they are willing to spend overall, it is demonstrably moving consumers into alternative, secondhand channels. Foot traffic to thrift stores, the ultimate form of value apparel, was up a striking 10.1% year-over-year in Q3 2025,<sup>i</sup> building on a multi-year trajectory where its growth has outpaced the broader clothing industry by a factor of four since 2019.

Analysis of Q2-2025 retail performance<sup>ii</sup> demonstrates a distinct bifurcation in consumer spending. Categories emphasizing affordability and necessity (Discount Apparel, Personal Care, and Mass/Discount Stores) delivered robust year-over-year (YOY) growth, while traditional, full-price retailers continued to struggle. This trend is directly validated by current macroeconomic data, which shows Consumer Sentiment falling further and inflation remaining stubborn.

For the 2025 holiday season, this necessitates a fundamental shift in strategy: Success will not be driven by Black Friday hype or premium positioning alone, but by a season-long, personalized value proposition that helps financially stressed consumers consolidate their budgets.

## Q2-2025 RETAIL FINANCIAL PERFORMANCE REVIEW: THE SHIFT TO VALUE

Retailers' second quarter financial results, compared to 2024,<sup>iii</sup> clearly illustrate how persistent economic pressure is redefining consumer priorities. Retail segments are falling into two distinct tiers: resilient necessity/value-driven growth and discretionary contraction.

## POSITIVE TRENDS: RESILIENCE AND VALUE DOMINANCE

Retail segments focused on everyday essentials, value, and discount pricing generally demonstrated the most robust financial health:

- **Club Stores:** The value-driven warehouse model continues to be highly appealing to the cost-conscious consumer, with Club Stores posting robust revenue growth of +6.9% YOY. This high growth is consistent with consumers prioritizing bulk purchases and maximizing value per dollar.
- **Discount Apparel and Mass and Discount Stores:** These retail segments continue to experience strong revenue growth, with Discount Apparel retailers recording a YOY increase of +6.7%. Crucially, this growth was achieved alongside an increase in Gross Profit Margin, suggesting a highly effective inventory and pricing strategy that resonates with the cost-conscious shopper.
- **Thrift/Secondhand: The Ultimate Value Trade-Down:** This value-driven strength extends even further into the secondhand market. Visits to thrift stores were up 10.1% YOY in Q3 2025,<sup>iv</sup> with the segment's long-term traffic growth since 2019 being four times that of the broader apparel industry. This is driven not only by cost-conscious consumers, but also by more affluent shoppers moving into the channel, highlighting the mainstreaming of thrifting as a core value and sustainability choice.
- **Essential Categories (Personal Care and Grocery):** Non-discretionary segments remained strong. Personal Care grew by +6.4% YOY, while Grocery Wholesale (+4.8% YOY) and Grocery (+3.4% YOY) saw solid, inflationary-driven growth, confirming that consumers are prioritizing health, hygiene, and food purchases.
- **Outliers – Jewelry and Home Furnishings:** Contrary to broader concerns about discretionary spending, Jewelry and Home Furnishings retailers posted strong YOY revenue increases. Jewelry was up 10.7% and Home Furnishings 6.7%. The growth in these segments suggest that financially insulated consumers continue to commit to large, high-value purchases, indicating a market bifurcation where the high-end consumer remains active.

## NEGATIVE TRENDS: CONTRACTION AND MARGIN PRESSURE

Segments relying on full-price sales, deep inventory, and traditional formats faced significant headwinds:

- **Department Stores:** This segment was the only one to contract, posting a YOY revenue decline of -2.5%. This trend highlights the ongoing challenge for traditional retail formats in a landscape dominated by omnichannel convenience and aggressive price competition. The Segment's Gross Margin was 41.8% in CQ2-2025, a YOY decline of 25.5 BPS.
- **Specialty Apparel (Excluding Discount):** While revenue grew moderately at +3.4% YOY, this growth was costly. The segment saw a decline in its Gross Margin Percentage (-66.9 basis points), suggesting that sales gains were achieved through aggressive, margin-eroding promotions, and markdowns. This signals that even in specialized segments, the consumer is primarily deal focused.

*The Q2 data paints a clear picture: Retailers winning are those who minimize shoppers' economic friction, either by offering everyday value or by trading down from higher-priced competitors.*

## MACROECONOMIC HEADWINDS AND CONSUMER SENTIMENT SHIFTS

The second half of 2025 confirms the financial anxiety reflected in the Q2 results. Recent economic data from show a deteriorating environment that amplifies the pressure on holiday spending.

## WORSENING CONSUMER CONFIDENCE AND PESSIMISM

Consumer sentiment has fallen significantly as the U.S. enters the holiday quarter:

- **Declining Confidence:** The University of Michigan Index of Consumer Sentiment<sup>Y</sup> plunged to 50.3 in November, a near-record low. The decline was driven by worry over the government shutdown and a sharp drop in outlook on personal finances. Pessimism was widespread. Year ahead inflation expectations edged up to 4.7%.

- **Recessionary Fear:** The Conference Board's Consumer Confidence Index fell in September to 94.2, with the Expectations Index remaining below the critical 80-point threshold since February 2025, a level that typically signals a recession ahead.<sup>vi</sup>
- **Key Drivers:** Consumer-facing economic data is bleak: Ankura's [2025 holiday consumer survey](#)<sup>vii</sup> reported a "markedly more pessimistic economic outlook than last year" among the U.S. consumer base. Key pressures cited include a cooling housing market, rising unemployment, and record-high household debt.

## INFLATIONARY AND LABOR MARKET STRAINS

Despite a Federal Reserve rate cut in September 2025 to support the "choppy labor market," inflation and job security remain top concerns.

- **Persistent Inflation:** The annual Consumer Price Index (CPI) rose 3.0% in September 2025.<sup>viii</sup> Year-ahead inflation expectations, a measure of forward-looking consumer anxiety, remained high at 4.7%<sup>ix</sup> in November. Persistently rising prices are forcing consumers to adapt their spending.
- **Labor Market Weakness:** The official government-reported unemployment rate rose to 4.3% in August 2025. However, this figure is juxtaposed by non-governmental sources (such as ADP)<sup>x</sup> reporting that private sector employment growth has slowed considerably, with unemployment beginning to climb in recent weeks. This suggests underlying instability and a potential delay in the recognition of a worsening job market. Furthermore, labor market expectations deteriorated in September, with consumers reporting lower expected earnings growth and a greater perceived likelihood of losing their jobs.

## RETAIL SALES DATA: THE SEPTEMBER PAUSE

Retail sales data from September 2025 confirms a moment of consumer pullback in anticipation of the holiday season. While Total Retail Sales (excluding auto and gas) showed a "robust" YOY increase of 5.42%, the seasonally adjusted Month-over-Month (M-o-M) data showed a decline of -0.66%.<sup>xi</sup> This monthly slowdown suggests consumers "hit the pause button" after the back-to-school season, consciously preserving their budgets for major upcoming holiday purchases.



Critically, recent research suggests that inflation is masking true purchasing power: unit demand for general merchandise fell by 2% in the five weeks ending early October, indicating that YOY revenue growth is often driven by higher prices, not increased product volume.<sup>xii</sup> Consumers are buying fewer items at higher price points.

## THE 2025 HOLIDAY OUTLOOK & PLAYBOOK

The intersection of the Q2 financial data and the October 2025 consumer/macroeconomic environment dictates a challenging yet navigable holiday outlook. The season will be defined by deep discounting, early shopping, and the prioritization of value-based gifting.

### KEY CALLOUTS FROM ANKURA'S SEPTEMBER 2025 CONSUMER SURVEY

Ankura's 2025 Holiday Survey<sup>xiii</sup> provides key foundational behavioral insights necessary for strategic planning:



1. **Inflation is the Chief Spoiler:** Persistent inflation and a high sense of economic pessimism are the primary reasons consumers are cutting back on discretionary spending to afford holiday gifts. One-third of consumers plan to cut back on other spending (e.g., dining out) to consolidate funds for the holidays.



2. **The Death of Black Friday Dominance:** Traditional Black Friday is waning, with 52% of respondents saying it is "not at all important." Retailers have accelerated this trend through earlier, season-long promotional events.



3. **High Deal Expectations are the New Baseline:** Consumers are sophisticated, and their demand for steep discounts is non-negotiable. An overwhelming 85% of shoppers expect discounts of 30% off or greater.



4. **Generational Financial Adaptation:** Younger shoppers (Gen Z/Millennials) are significantly more likely to increase their use of Buy Now, Pay Later (BNPL) services to finance purchases.



5. **Omnichannel Sophistication:** Consumers are leveraging technology and seeking highly personalized deals and seamless omnichannel experiences.

## STRATEGIC OUTLOOK AND RECOMMENDATIONS

Based on the financial and sentiment data, the 2025 holiday season will likely be characterized by modest revenue growth driven primarily by inflation, rather than unit volume, and a fierce battle for the limited, consolidated discretionary consumer dollar.

STRATEGIC IMPERATIVE	RATIONALE (CQ2 AND MACRO DATA LINK)
Move Promotions Upstream	September sales slowed M-o-M as consumers "paused" to preserve funds. Retailers must meet this early-shopping, deal-seeking behavior by launching competitive offers in late October/early November, long before Thanksgiving.
Adopt an Over 30% Discount Baseline	The 85% consumer expectation of over 30%+ deals makes this the <b>cost of entry</b> , not a competitive advantage. Strategies must manage margin dilution while delivering the expected price point through targeted, personalized offers.
Integrate Fintech (BNPL)	The rising use of BNPL, especially among younger, financially strained consumers, must be supported by frictionless in-app and in-store integration to capture sales that might otherwise be lost.
Focus on "Trading Down" Acquisition	The -2.5% decline in Department Store revenue and the strength of Discount/Mass stores demonstrate a definitive value trade-down. Winning retailers must aggressively target customers from higher-priced segments through compelling price comparisons and promotional exclusivity. The 10.1% Q3 foot traffic surge in thrift stores further emphasizes that the value floor has dropped significantly, forcing even Discount Apparel retailers to compete with free/resale channels.
Maximize Inventory Liquidity	Given the volatile economic environment (4.3% unemployment, falling sentiment), high inventory levels pose a significant risk. Retailers must focus on speed-to-market and aggressive markdown tactics to clear seasonal goods and protect working capital, avoiding the margin-crushing inventory backlogs seen in prior downturns.

## CONCLUSION

The 2025 holiday season is a test of financial agility and consumer understanding. Retailers must use data-driven insights to acknowledge the consumer's financial reality and meet them where they are: highly cautious, technologically savvy, and unwilling to compromise on price. The winners will not be the brands with the biggest marketing budgets, but those who best translate their value proposition into personalized, seamless, and deep-discount deals across a prolonged shopping period.





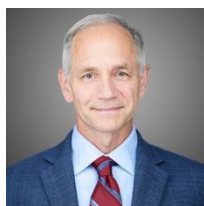
## GET IN TOUCH WITH OUR EXPERTS



### Keith Jelinek

Senior Managing Director | [keith.jelinek@ankura.com](mailto:keith.jelinek@ankura.com)

Keith Jelinek is a Senior Managing Director at Ankura based in New York. He has more than 30 years of experience leading and advising Fortune 100 companies to drive transformational improvements, with a focus on retail and consumer.



### Rick Maicki

Senior Managing Director | [rick.maicki@ankura.com](mailto:rick.maicki@ankura.com)

Rick Maicki is a Senior Managing Director at Ankura based in Chicago, focused on retail performance improvement. He has more than 25 years of business experience, with approximately 15 years of consulting experience, plus direct management roles within industry. He has extensive expertise leading and advising Fortune 100 companies, specifically retail and consumer products companies.



### Chris Ventry

Managing Director | [chris.ventry@ankura.com](mailto:chris.ventry@ankura.com)

Chris has over 25 years of experience and has sat on both sides of the desk as a P&L owner of, and an advisor to, iconic retail, digital, and media companies. Chris is a recognized leader in the digital and retail space with experience that spans from off-price to specialty to luxury markets. He has held interim/bridge leadership roles for clients, and has led multiple strategic planning, due diligence, market sizing, and operational improvement projects.



### Frank Jones

Managing Director | [frank.jones@ankura.com](mailto:frank.jones@ankura.com)

Frank Jones is a Managing Director at Ankura focused on retail performance improvement. He brings 39 years of business experience<sup>i</sup>, including 18 years in consulting<sup>ii</sup> and more than 20 years in retail leadership at Fortune 500 companies such as Kmart, Safeway, and Circuit City. Frank has deep expertise in marketing, consumer insights, and operational efficiency, advising leading retail and consumer products companies.



### Sara Bakacs

Director | [sara.bakacs@ankura.com](mailto:sara.bakacs@ankura.com)

Sara Bakacs is a Director at Ankura based in the Performance Improvement practice, focused on retail and manufacturing optimization. She has extensive experience in merchandise planning, inventory management, pricing strategy, and operational efficiency. She holds a Bachelor of Science in Marketing from Lehigh University with a minor in Probability & Statistics and a Business Analytics certification.

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