



# Consumers' Economic Anxieties Could Make for a Challenging Holiday Season for Retailers

KEY CHALLENGES FACING RETAILERS THIS HOLIDAY SEASON

## HEADWINDS

- CONSUMER DEBT
- LOAN DELINQUENCIES
- 401K HARDSHIP LOANS
- PERSONAL BANKRUPTCIES
- STUDENT LOAN REPAYMENT
- MORTGAGE RATES
- CONSUMER SENTIMENT



## TAILWINDS

- LOW UNEMPLOYMENT
- INCREASED AIR TRAVEL
- DINING OUT
- SUPPLY CHAIN
- CPI DOWN
- FUEL PRICES RECEDED
- GDP





# Seven Trends

## Retailers Should Consider to Beat the Holiday Blues

In this report, we combine recent customer survey insights with years of operational expertise to highlight crucial considerations for refining retailers' holiday sales strategy. Additionally, we take a forward look into 2024 trends.

- 1. CONSUMERS ARE INFLATION-WEARY**
- 2. EXPERIENCE MATTERS TO CONSUMERS**
- 3. CONSUMER ECONOMIC SENTIMENT IS TRENDING DOWN**
- 4. STORES STILL MATTER**
- 5. CONSUMERS NO LONGER REQUIRE SAME-DAY DELIVERY**
- 6. IMPORTANCE AND USE OF TECHNOLOGY VARIES WIDELY**
- 7. GIFT CARDS ARE STILL HOT**



Are you ready for the challenges ahead?

**Below we offer a deep dive into seven key considerations for a successful holiday season.**

Let's get right to the point – In this report, we review the valuable insights gathered from our recent customer survey, paired with the wisdom gained through years of operational experience, to identify seven key considerations as you perfect your holiday sales strategy. We will also cast a view towards 2024.

**1. CONSUMERS ARE INFLATION-WEARY**

Macro and micro economic data might be improving, but the consumer isn't "buying" it. Make sure your selection conveys value as consumers want more for less. Promote value in your holiday marketing and advertising.

**2. EXPERIENCE MATTERS TO CONSUMERS**

Appealing to multiple generations presents a challenge for retailers. Younger generations (ages 18-42) are focusing on "look and lifestyle," going out, and experience-based activity. Older generations (age 55+) are concentrating on family, renewing relationships, and weathering the financial storm. Retailers must understand their customers' needs, preferences, and concerns and tailor marketing messages and the "total experience" accordingly.

**3. CONSUMER ECONOMIC SENTIMENT IS TRENDING DOWN**

Key demographic divisions popped up this year, with Gen Z and Millennials less concerned about their wallet and the state of the economy than their parents and grandparents. Driving conversion with a cash-strapped consumer will inevitably result in greater discounting and highly visible % off sales. Secondary categories, like seasonal decorations, are not likely to match previous year purchases, so retailers should monitor sales patterns and inventories to promote and step-up clearance when needed to move product.

**4. STORES STILL MATTER**

Online shopping is incredibly significant during the holidays (18% of respondents say they will shop nearly 100% online and 35% will shop mostly online), but many shoppers, especially older generations (age 55+), will visit stores to make the best use of limited funds. Shoppers still enjoy touching the product, "treasure hunting," and interacting with "live support." So, staff up, and ensure in-store employees fulfilling digital orders do not neglect live shoppers.

**5. CONSUMERS NO LONGER REQUIRE SAME-DAY DELIVERY**

Our research finds that consumers do not require same and next day delivery as a key conversion driver. Instead, they are willing to compromise expediency for "the cheapest option" available. This is a good time to increase minimum purchase thresholds to obtain 'free' shipping.

**6. IMPORTANCE OF TECHNOLOGY VARIES WIDELY**

Younger generations are embracing established (social media) and emerging technologies (AI and AR) much more than older shoppers to enhance their experience and to improve their product search/recommendation journeys, with 35% of those aged 18-42 using AI features, while for Baby Boomers, that drops to 15%. This key difference among generations of consumers is critical to plan for in terms of marketing and communications – including in print, in-stores, mobile, and digital.

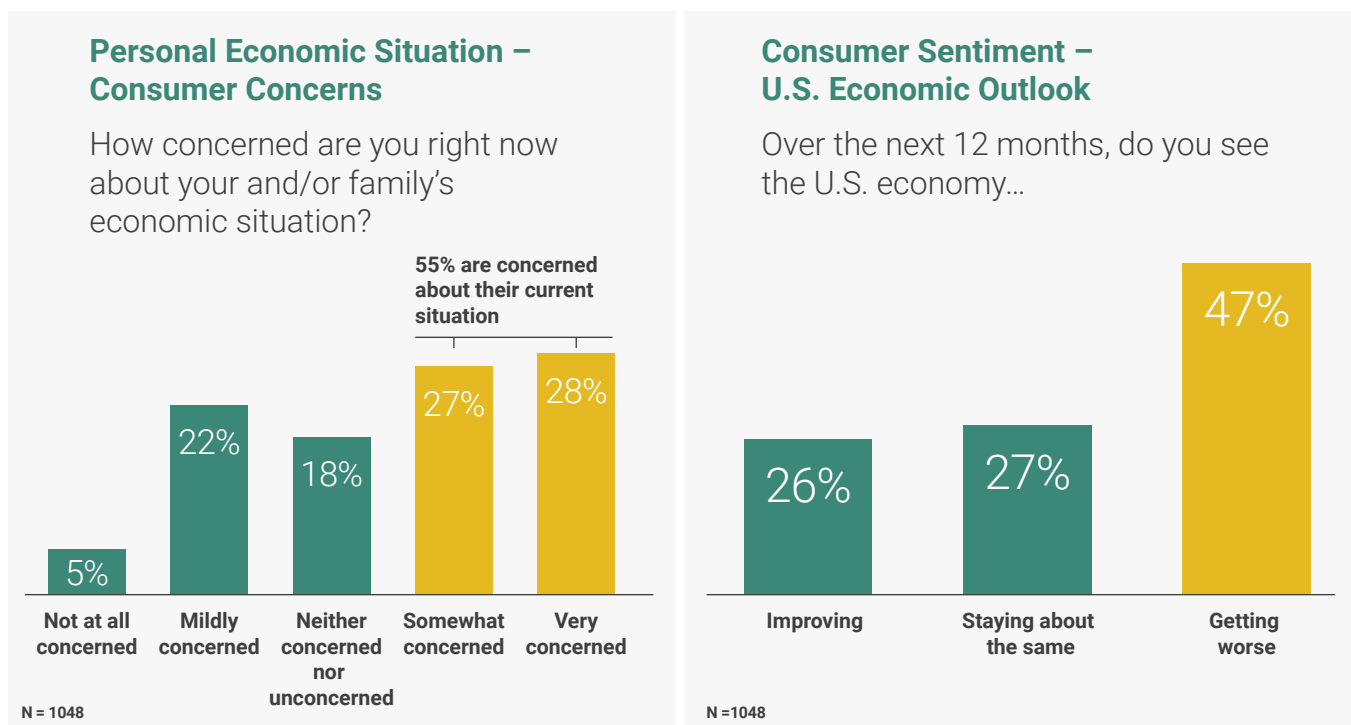
**7. GIFT CARDS ARE STILL HOT**

As was the case in 2022, gift cards will be a substantial part of 2023 holiday spending. Gift cards must be presented both online and in-store, reinforced with store associate prompts. While gift cards can shift sales away from holiday items to purchases in early 2024, these sales bring in cash early and secure a future purchase, while not depleting inventory.



The holiday shopping season perennially holds great significance for retailers, and this impact is heightened in 2023 due to shifting consumer behaviors influenced by economic dynamics and evolving preferences. There are several factors influencing consumer sentiment this holiday season. Our survey clearly indicates that inflation remains a top concern for holiday shoppers and broad U.S. economic indicators give credence to shoppers' perspectives.

The declining and cautious shopper economic sentiment was not surprising given corresponding trends reported by the University of Michigan Survey of Consumers.<sup>1</sup> The latest Consumer Expectations Index dropped considerably – more than 10% from September to October. The decline was driven primarily by ongoing concerns about inflation and, to a lesser degree, uncertainty over the implications of negative news both domestically and abroad. This paints a less-than-optimistic outlook for retailers anticipating robust holiday sales and high gross margins.



To gain deeper insights into how U.S. consumers perceive the economy and their own financial situations, as well as their holiday shopping and spending intentions for 2023, Ankura's Performance Improvement team surveyed<sup>2</sup> a representative U.S. sample of more than 1,000 consumers with plans to shop for holiday gifts in 2023.

The goal of the survey was to analyze consumer sentiment about the economy, their personal finances, and the upcoming holiday season.

The results indicate that retailers could face significant challenges in converting customers in-store and online this holiday season.

**Source**

1. The Surveys of Consumers are conducted by the Survey Research Center at the University of Michigan
2. Ankura consumer survey, U.S. sample of 1,048 respondents aged eighteen and above (October 2023)

## HOLIDAY SHOPPER OUTLOOK ON THE ECONOMY

In summary, with so much uncertainty around interest rates and inflation, the U.S. consumer is reluctant to overspend this season.

Nearly 60% feel ‘not good’ or ‘bad’ about the economy right now...

and just 17% feel ‘good’ or ‘great’. While fewer consumers this year (63% v. 68% in 2022) feel that the economy has worsened, there has been no meaningful change in the percentage of people who feel the economy has improved (19%). Lukewarm is not a good shopper mindset heading to the holidays.

And the 2024 horizon does not look any better. When asked about the U.S. economy going forward, just 26% (versus 30% LY) expect the economy to get better in the next 12 months, while 47% expect things to get worse. Attitudes about their personal economic situation do not paint a more positive picture – 26% feel better, while 46% feel worse.

Comparing shoppers’ mindset this year to 2022, as they enter the holidays 55% (same as last year) are concerned about their personal or family’s economic situation. And a sizable 25% see their personal situation getting worse.

A potential bright spot? Younger consumers (<25 years old) remain more optimistic about the economy and the future economic picture. Among older age cohorts (especially Baby Boomers) the outlook is much more pessimistic. Shoppers age 59+ are far more likely to feel badly about the economy.

## CONSUMER EXPECTATIONS FOR SPENDING AND HOLIDAY EVENTS

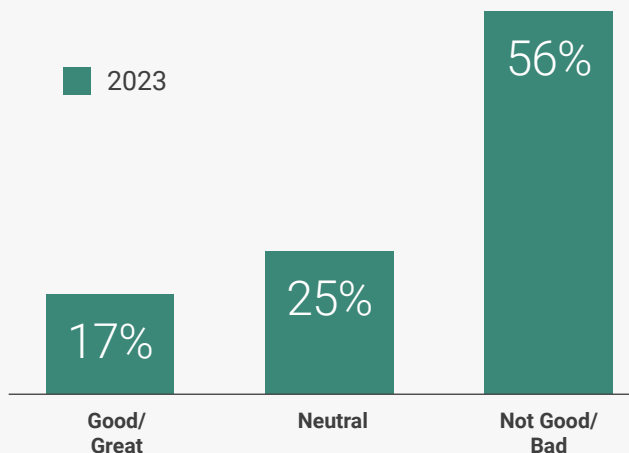
### Expected 2023 Holiday Spending

Consumers may be walking the mall in greater numbers this year... but they are less likely to be carrying a full shopping bag!

When asked about their expected spending for the holiday season shoppers indicated that overall spending is likely to decline. Among survey respondents, 31% (versus 27% in 2022) expect to spend less during the 2023 holiday than they did last year.

### U.S. Economic Outlook

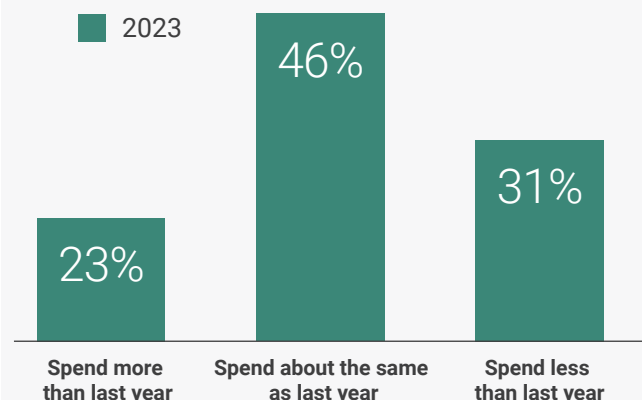
How do you feel about the U.S. Economy right now?



N = 1048

### Spending Expectations v. Last Year

For the holidays do you expect to spend more, less, or the same as last year?



N = 889



Among those expecting to spend less this year, inflation is a significant force. Even though the grocery inflation raw data might have improved, this has not translated into consumer sentiment. Food prices are a much bigger concern in 2023 than in 2022 (53% v. 43%). Personal debt is a more significant concern in 2023 as credit card payments continue their steady climb upward without any slowdown in sight.

As a result, 21% of those concerned about debt will spend less this season.

And given the timing of our survey, this is before the effect of student loan repayments hit consumers' wallets.



### Spending Less?

### No Decorated Home for the Holidays

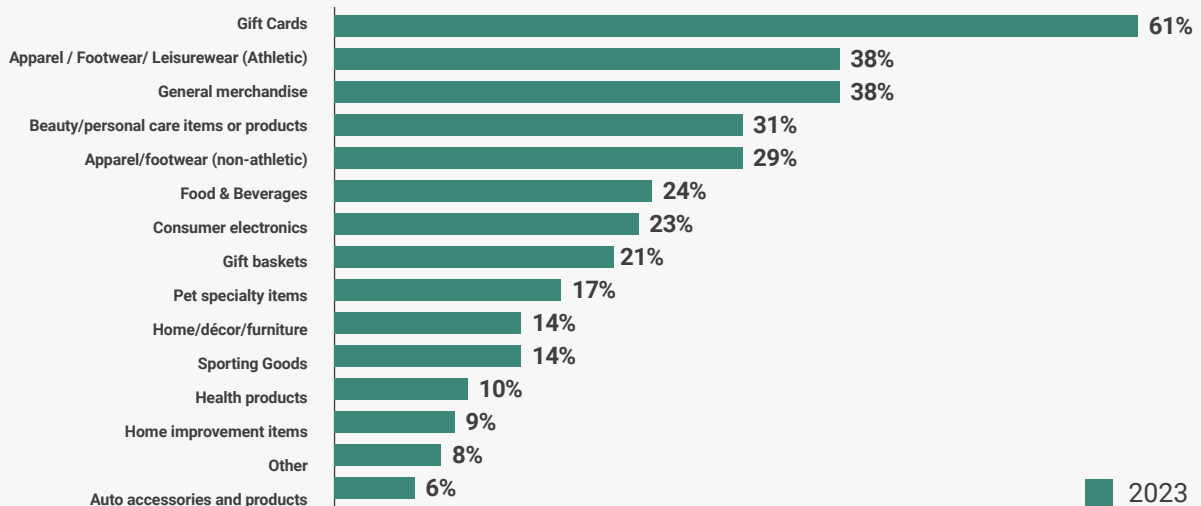
What will consumers be looking to purchase this year, and for whom will they purchase gifts? Apart from planned spending for immediate family...

respondents indicate an expected decrease in spending on others (friends and extended family) and on decorations, entertainment, and seasonal items.

Targeted gift categories noted in the survey were gift cards (61%), athletic apparel (38%), general merchandise (38%), beauty/personal care items (31%), non-athletic apparel (29%).

### Expected Product Categories to Purchase in 2023

Which types of products are you most likely to purchase for holiday gifts this year?



N = 889, multiple select, totals will exceed 100%

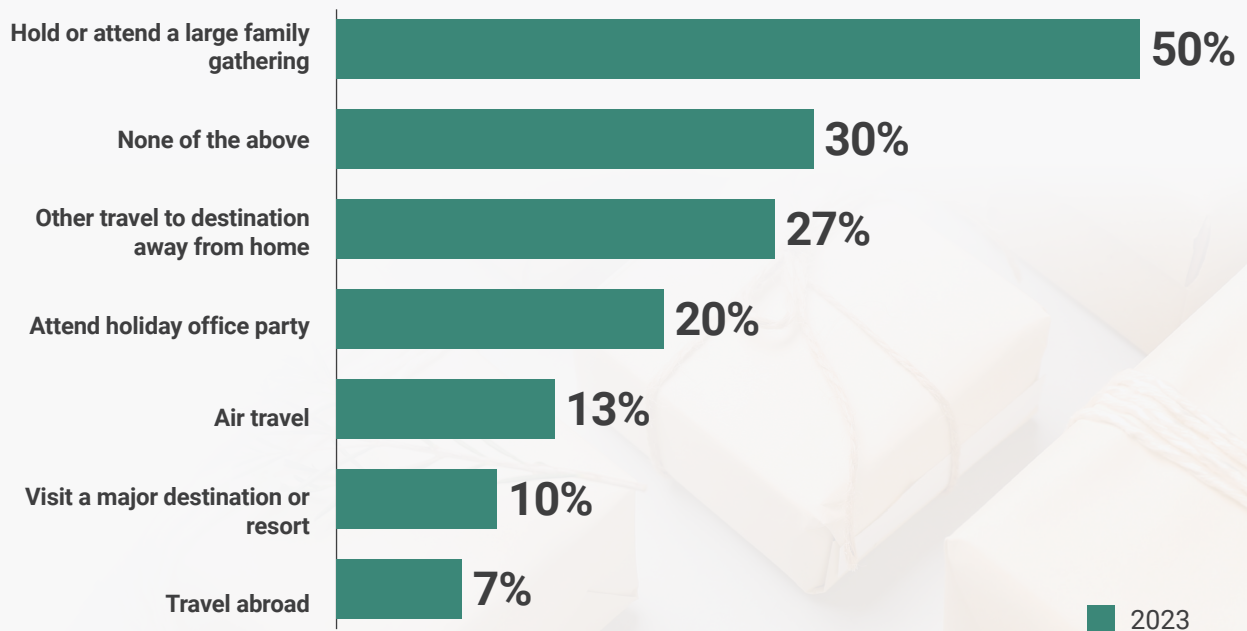
## A Continued Recovery in Being Out-and-About for Holiday 2023

Americans expect to travel more and RSVP “Yes” to events/parties this holiday season. And while the home might not be decorated with new seasonal items, 50% expect to hold or attend a large family gathering, 27% plan to travel away from home, and 13% plan to fly somewhere. There remain those who may not be celebrating, with roughly 30% stating that they will not participate in any holiday events.

Given the consistent increase in dining out seen post-COVID, it is safe to assume that eating out with family and friends will be “on the menu” this holiday season. Based on latest U.S. Census estimates<sup>3</sup>, Food Services/ Dining revenues increased 9.2% in September 2023 YoY. “Experience” continues to drive consumer spending despite a rise in the cost of food away from home evidenced by a 6% CPI increase in October 2023.<sup>4</sup>

### Expected Event Participation for Holiday 2023

During the holiday season, please indicate whether you did each of the following last year and whether you plan to do so this year



N = 889, multiple select, totals will exceed 100%

#### Source

3. U.S. Census Bureau

4. U.S. Bureau of Labor Statistics, CPI annual change

## EXPECTED TIMING FOR HOLIDAY SHOPPING

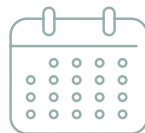
### When Will They Start to Shop?

The planned timing for starting holiday purchases has seen minimal change when compared to 2022. A significant majority (70% of respondents) stated that there will be no change in their shopping commencement this year. And only 8% plan to shop later.

This stability in planned shopping schedules suggests a degree of predictability in consumer behavior. A quarter of respondents have already initiated their holiday shopping. And it seems that wallets will shut mid-December with an overwhelming...

98% planning to buy most of their gifts (for others and themselves) well before the “power” weekend of December 22<sup>nd</sup>.

Potentially compromising retailer gross margins, early seasonal deals are expected by our respondents. Among those initiating their holiday shopping sooner, 44% expressed a keen interest in securing the best deals, while 37% were motivated by a desire to circumvent potential shipping delays. Additionally, half of respondents expressed a preference for expediting the shopping process, while 42% sought to avoid crowded stores. These reasons highlight a strategic approach by consumers, driven by a combination of cost-consciousness and convenience.



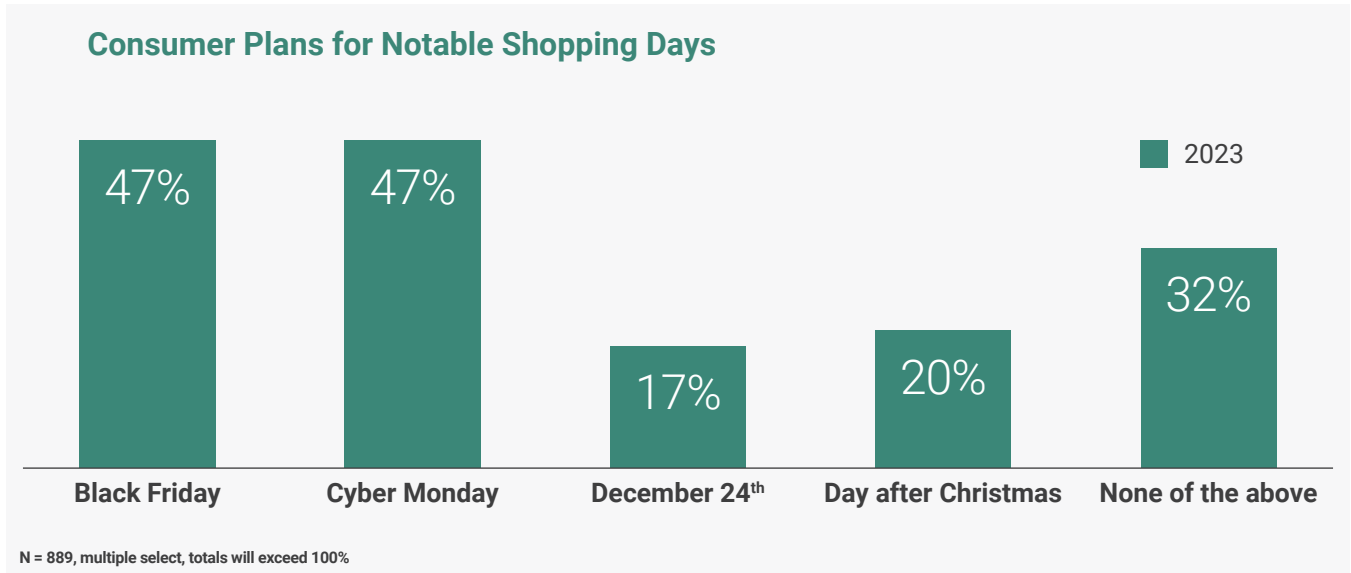
— **Bought Gifts Earlier**





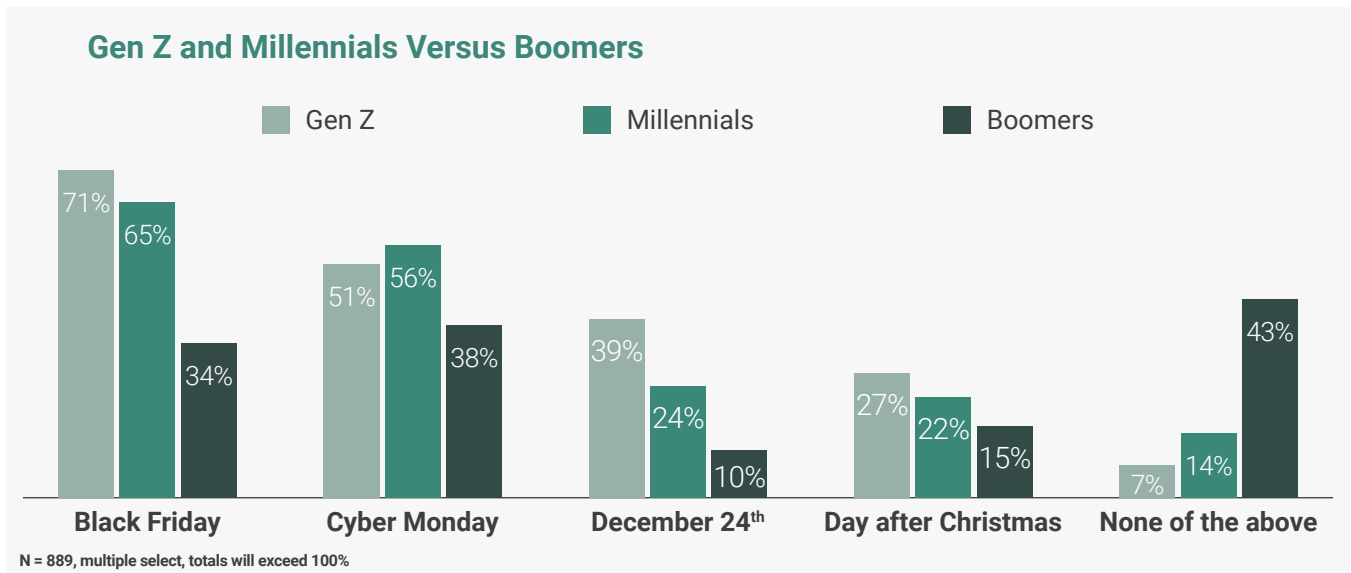
## Consumer Plans for Notable Shopping Days

Nearly half (47%) of respondents continue to embrace the Thanksgiving holiday weekend, reflecting a sustained popularity for in-store shopping and door-buster/flash sales. Similarly, 47% plan to leverage online shopping on Cyber Monday, which aligns with last year's figures. A third of respondents will avoid shopping on days like Black Friday, Christmas Eve, and December 26th.



The composition of shoppers who plan to take advantage of these key shopping events still skews heavily toward younger age groups.

Over 70% of Gen Z and Millennials state that they will shop on Black Friday, while just 50% of Baby Boomers will brave the crowds.



## HOLIDAY SHOPPING – ONLINE VS. IN-STORE

### Online Shopping Frequency Growth Is Expected to Flatline

According to our survey, the 2023 holiday season will see a level of online shopping roughly equivalent to 2022. Eighteen percent (18%) say they will shop nearly 100% online (no change YoY) and 35% (no change YoY) will shop mostly online. Just 7% plan to shop exclusively in-store in 2023.

Among respondents planning to shop online in 2023, the amount of online shopping they expect to do is about the same as last year. Consistent with trends seen over the past several years, younger shoppers are far more likely to skew online than older shoppers, who bias toward physical stores and malls for the holidays.

### Channel Preferences for Holiday Shopping

When you shop for holiday gifts this year, will you shop...



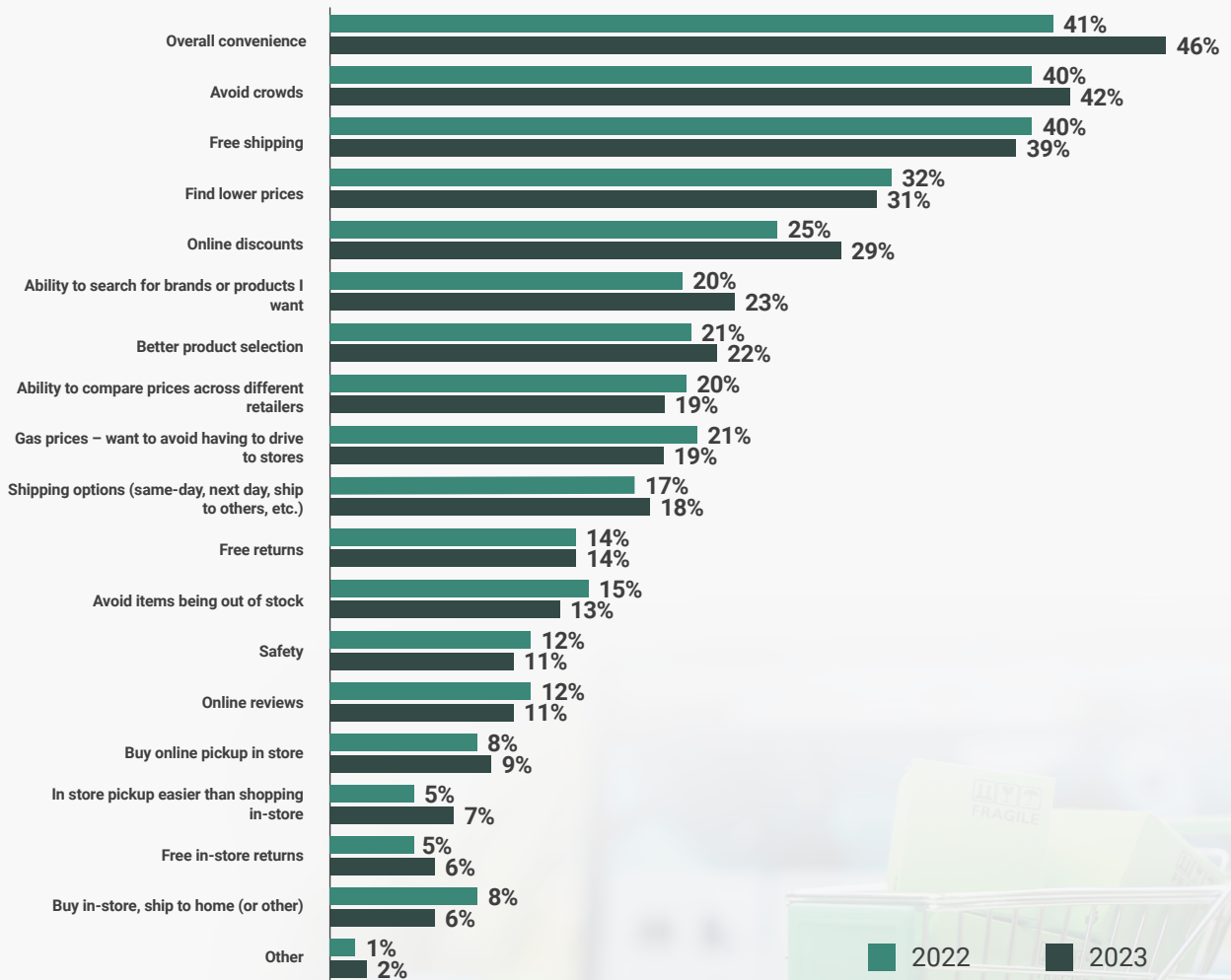
## Channel Preference Drivers

Among the top reasons to shop online this year (compared to last year), there were increases in: overall convenience (46% in 2023 v. 41% in 2022) and online discounts (29% v. 25%). The top 3 reasons to shop

online are: (1) overall convenience (46%), (2) avoid crowds (42%), and (3) free shipping (39%). Retailers, take note of this for your digital marketing strategies.

## Consumers Online – Top Reasons to Shop Online

What are the top reasons you will shop ONLINE for holiday purchases?



N = 844





Consumers may be giving retailers room to reduce fulfillment costs this year, as same-day or 1-day delivery preference falls to 3rd, after 2-day home delivery (33%) and the cheapest available option (26%). Fourteen percent (14%) say that buy online pick up in store (BOPIS) or curbside pickup is their preferred option for receiving products purchased online.

### Delivery Preference Ranked Below



2-day home delivery



Cheapest Available



Next-Day Delivery

### Shopping In-Store – Still an Attractive Option for Many Shoppers

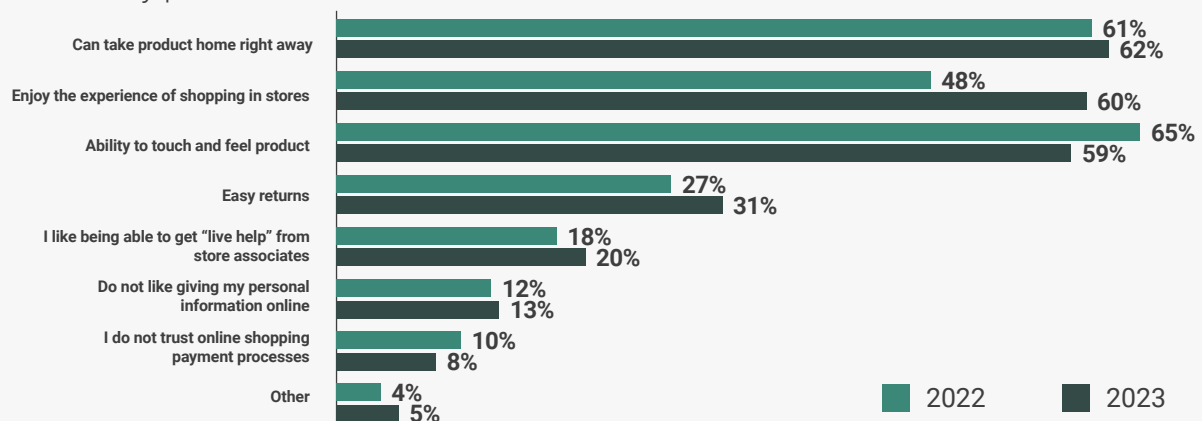
Despite the strong appeal and benefits of online shopping and even curbside pickup, many still enjoy the experience of visiting malls and physical stores. Why? Among the top reasons to shop in store, none are more significant than “the experience.” Shoppers placed greater importance this year on experience (60% in 2023 v. 48% in 2022) of shopping in physical stores. The “experience” does include multiple non-retail options like dining, movie theaters, and electronics stores.

Customers also appreciate having live help to help guide their purchase decisions - though this is hard to find these days as retailers move associates from floor help to in-store on-line fulfillment workers. Immediate gratification remains high (62%), stressing that “take my purchases home right away” is the top reason to shop in-store.

Returns are viewed by many as simpler in-store than through an online return process. Retailers need to be all hands on the sales floor to meet, greet, and convert shoppers into paying customers.

### Top Reasons to Shop Mostly In-Store

What are the top reasons you plan to shop mostly in physical stores for holiday purchases?



N = 204

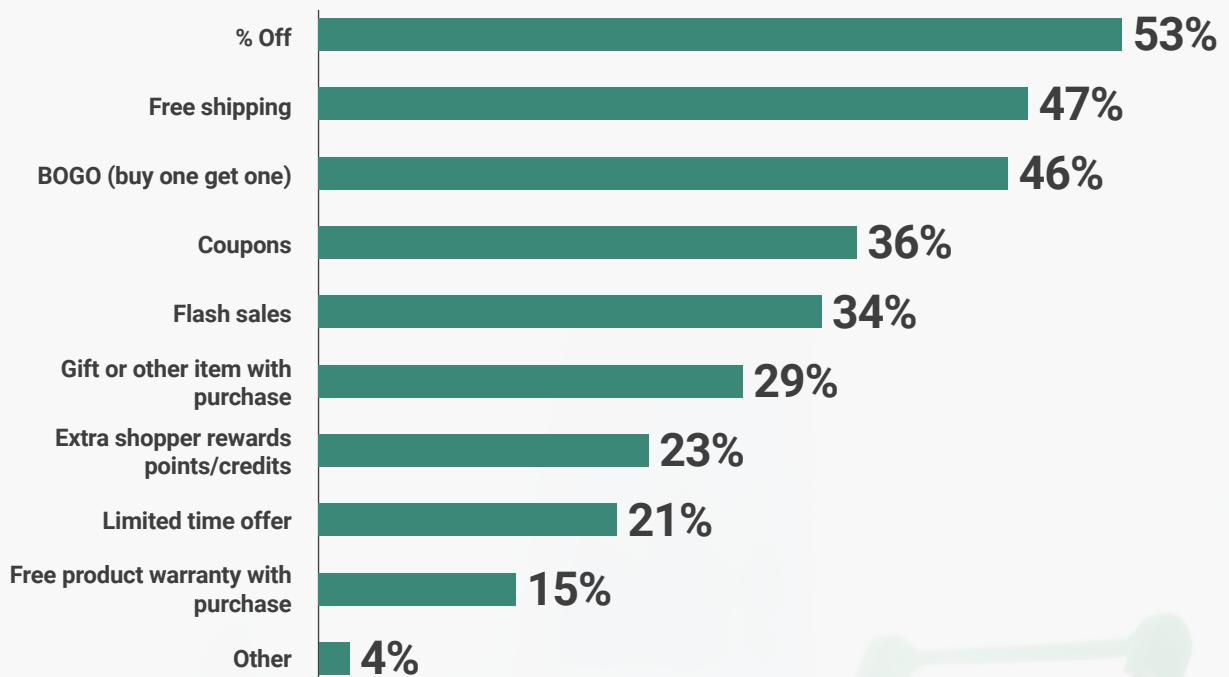
## KEY DRIVERS OF SHOPPER PURCHASE DECISIONS IN 2023

**Promotion Preferences** – Promotions continue to be a significant driver for consumers, with “% off” sales being the most attractive offer for 53% of holiday shoppers.

The top drivers other than % off sales were free shipping (47%), BOGO (46% compared to 38% LY), coupons (36%), and flash sales (34%).

### Consumer Preferred Promotions

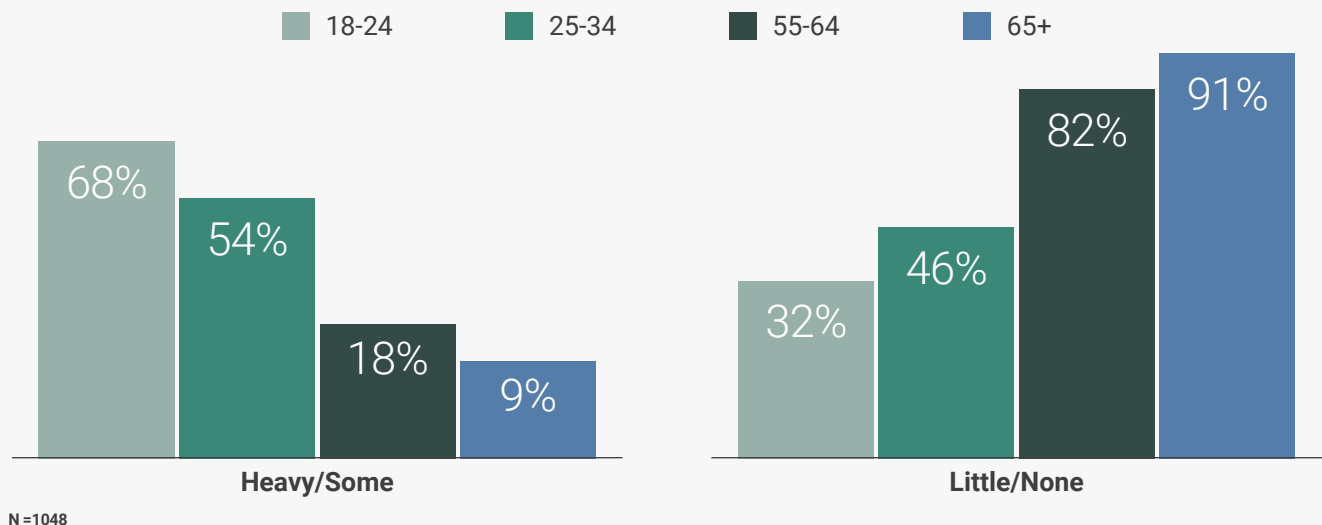
What type of holiday sale/event would prompt you to make a purchase that you may not have planned?



N=1048

## Social Media Impact on Consumer Purchases

How much will social media influence your gift purchasing decisions this year?



**Social Media** – Social media’s purchase decision impact depends on how young you are. Among shoppers aged 18-34, approximately 60% say social media has an impact on where they will shop for holiday gifts. For those aged 54+ over 75% say that social media will exert little to no influence on their shopping choices. Social media overall continues to gain strength – in 2022, 46% overall said social media had no influence. In 2023 that dropped to 40%.

**Shopper Loyalty/Rewards Programs** – Like last year, most shoppers (68%) are influenced to some degree by shopper loyalty/rewards programs when deciding where to buy holiday gifts. Twenty percent (20%) find loyalty programs to be very influential. Younger age shoppers are more likely to respond to such programs, but older respondents in the survey indicated that loyalty programs have some influence on their shopping behavior.

Nearly 60% of shoppers age 55+ report that retailer loyalty programs are influential when deciding where to purchase holiday gift items – a significant increase over 2022.



### — Innovative Incentives



**Artificial Intelligence (AI) Features Important in Shopping for Holiday Gifts in 2023** – AI is becoming increasingly popular in shopping, and there is a strong trend towards people using AI to improve their shopping experience. The most popular AI features in shopping are: (1) Online reviews and ratings analysis (47%), (2) Delivery and shipping optimization with delivery estimates (43%), and (3) Price comparison tools (39%).

As seen with the influence of social media, the importance of AI is far more significant among younger consumers. For example, for personalized shopping recommendations, 38% of those aged 18-42 use the feature now in their shopping. For Baby Boomers that drops to 15%. Other popular AI features include fraud prevention and detection, voice search via Amazon Alexa or Google Assistant, price tracking and notification, personalized shopping recommendations, visual search, and virtual assistants and chat-bots for instant support.

## AI Impact and Usage

### AI Features - Current Usage % by Age Group

AI Feature/Capability	Total	Gen Z 18 - 26	Millennials 27 - 42	Gen X 43 - 58	Baby Boomers 59 - 77	Silent Generation 78 - 95
Online reviews and ratings analysis	47%	46%	51%	48%	43%	37%
Delivery and shipping optimization that provides delivery estimates	43%	46%	46%	43%	39%	35%
Price comparison tools	39%	45%	46%	41%	28%	24%
Fraud prevention to detect and prevent fraudulent activities	34%	33%	34%	39%	30%	34%
Voice search (e.g., Amazon's Alexa or Google Assistant)	31%	35%	41%	28%	23%	15%
Price tracking that notifies shoppers when items on wish lists go on sale	29%	41%	38%	30%	16%	16%
Personalized shopping recommendations	25%	38%	32%	24%	15%	10%
Visual search to find products by uploading images or taking photos	24%	36%	29%	27%	14%	11%
Smart shopping to help create and manage shopping lists by analyzing past purchases and suggesting items that may be needed	22%	29%	26%	23%	15%	11%
Virtual assistants and chatbots for instant support, product information, and assistance with questions	22%	30%	27%	20%	15%	13%
Help in creating personalized recommendations/shopping lists based on past search and purchase behavior	20%	29%	24%	20%	13%	11%
Subscription services that suggest products based on preferences and usage patterns	19%	28%	25%	18%	12%	3%
Product customization that allows you to tailor products, such as designing clothing or personalizing items with engravings or monograms	18%	31%	20%	20%	9%	3%
Real-time assistance to provide immediate help and answer questions during the shopping process	18%	27%	22%	15%	14%	18%
Instant translation when shopping on international websites or communicating with sellers from different regions	14%	24%	23%	14%	4%	0%
Augmented reality (AR) virtually try on clothing, accessories, or other products before buying	11%	22%	15%	11%	5%	3%

## CONCLUSION

### Will the Well Run Dry?

What will drive consumers this holiday season? As we approach the holiday season, it's evident that inflation is a pressing concern, as highlighted by the responses to our survey questions regarding the state of the U.S. economy and more important, the personal economic situation and outlook of holiday shoppers.

What about the positive U.S. economic indicators? Unemployment remains low, U.S. consumers are still dining out and traveling, and Q3 GDP increased 4.9%, exceeding analysts' expectations and well above the 2.1% increase in Q2. The strong Q3 GDP increase was driven in large part by *consumer spending*. The question is, how long can shoppers maintain their current spending habits?

Americans are struggling with the effects of inflation, rising mortgage and interest rates, and for many, the resumption of student loan payments. This scenario leaves many consumers with limited resources for discretionary spending.

Heading into the holidays, several notable challenges loom on the horizon:

- Resumption of student loan repayments
- Rising number of personal bankruptcies
- Rising consumer loan delinquencies
- Tightening of real household income
- Surge in 401K hardship loan withdrawals

Despite some positive economic indicators, the overall sentiment among U.S. consumers remains cautious. These macro-economic headwinds seem poised to significantly influence consumer behavior throughout the 2023 holiday season and into 2024.



# Ankura Performance Improvement Fundamentals

We have a proven track record of executing on strategic plans to achieve sustainable performance improvement and targeted operating results aimed at maximizing EBITDA, cash flow and ultimately shareholder value.

We work side-by-side with management and other stakeholders to guide companies through periods of uncertainty and subsequently accelerate growth and value creation.

Ankura's Performance Improvement professionals leverage the deep expertise across the firm to bring the appropriate specialized resources to deliver solutions to complex problems to create optimal outcomes.

## Our Experts



**Keith Jelinek**

Senior Managing Director  
keith.jelinek@ankura.com



**Michael Casey**

Managing Director  
mike.casey@ankura.com



**Rick Maicki**

Senior Managing Director  
rick.maicki@ankura.com



**Chris Ventry**

Managing Director  
chris.ventry@ankura.com



**Tom Clarke**

Senior Managing Director  
tom.clarke@ankura.com



**Laura Wheeler**

Managing Director  
laura.wheeler@ankura.com

Ankura Consulting Group, LLC is an independent global expert services and advisory firm that delivers end-to-end solutions to manage conflict, crisis, performance, risk, strategy, and transformation. Ankura has over 2,000 professionals serving 3,000+ clients across 55 countries. Collaboration and experience drive our multidisciplinary approach to Protect, Create, and Recover Value™.

For more information, please visit: [ankura.com](https://ankura.com)