



# Holiday Shopping Trends Report



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with the right  
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**Rapid access  
to 4,900+  
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**The convenient  
returns experience  
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## Methodology

Consumer surveys were undertaken by Retail Economics in August 2022 and include answers from a sample of more than 8,000 nationally representative consumers across the UK, USA, Canada, Australia, Germany, France, Italy and Spain.



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

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



Metapack helps the most successful online brands provide simple yet powerful delivery experiences, all over the world. Our delivery management solutions are underpinned by the largest global carrier network, so you can offer the right choice every time. Combined with solutions for delivery options at checkout, user-friendly tracking and returns, we help you make ecommerce effortless.

# Introduction

For many, 2022 has framed an uncomfortable transition of crises which has left dark clouds of uncertainty lingering over the golden quarter for the retail industry. As retailers face spiraling costs and consumers experience the tightest squeeze on discretionary income in recent memory, what will peak trading look like this year?

Hopes for 2022 included a return to more normal times. However, high inflation and increasing interest rates across markets prompted consumers to ask themselves whether now is a good time to spend. Similarly, retailers are pondering just how much additional cost can be passed onto their core customer base in order to remain profitable, or even to stay afloat.

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

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

As financial storms brew for retailers and headwinds strengthen for households, recessionary behaviors are surfacing. Consumers will reconsider familiar channels, brand loyalties will be tested, and price and value will quickly become key drivers of change.

**The golden quarter is set to be more muted, with some US\$46 billion of spending expected to be wiped off this year.**



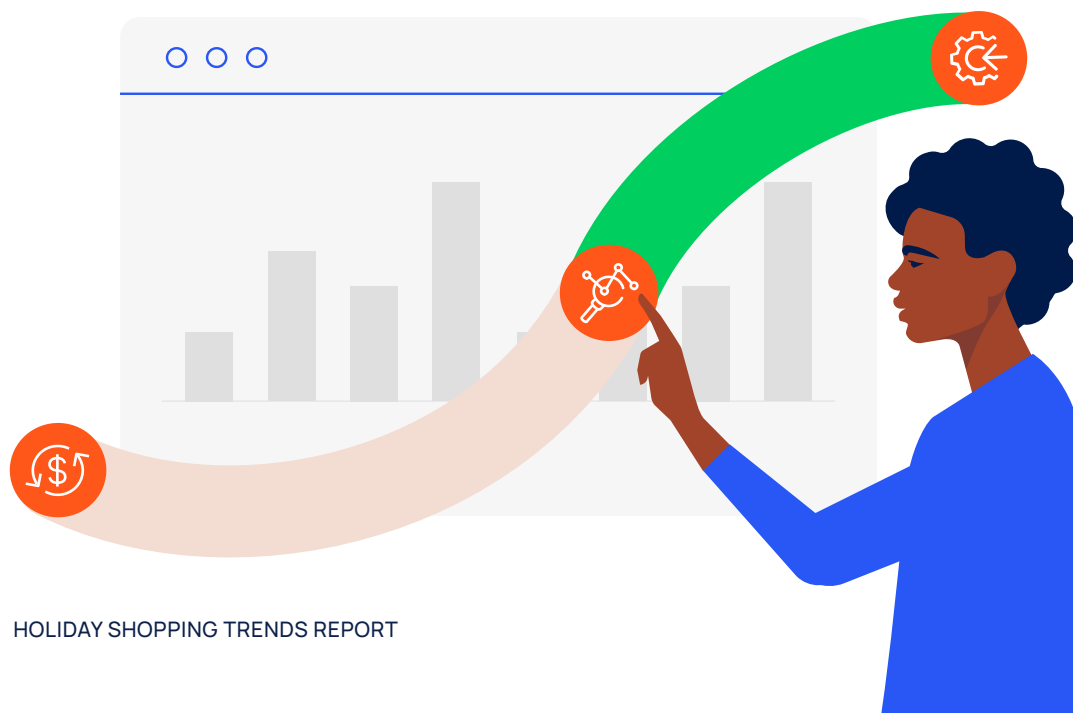
It has never been more important for retailers to understand the reprioritizations at play, and how each of their target audience groups will be impacted. This is why our research explores and identifies four types of consumers, based on attitudes towards finance as well as financial security. It shows how market characteristics play an influencing role in shaping changes in behavior, together with category-related factors.

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

### The research explores three key themes:

- 1 The big squeeze:** looks at the macroeconomic backdrop and how consumer sentiment is being impacted by the 'cost of living' crisis
- 2 The cut back landscape:** forecasts how much consumers are looking to cut back spending this year – including analysis by category, household and channel – and how this contrasts with retailer expectations
- 3 Adapting and thriving:** highlights strategies for retailers to remain relevant and profitable during a challenging fourth quarter

The insights presented here are intended to inform, and hopefully help improve, retail strategies to address current trading conditions for peak trading and beyond.

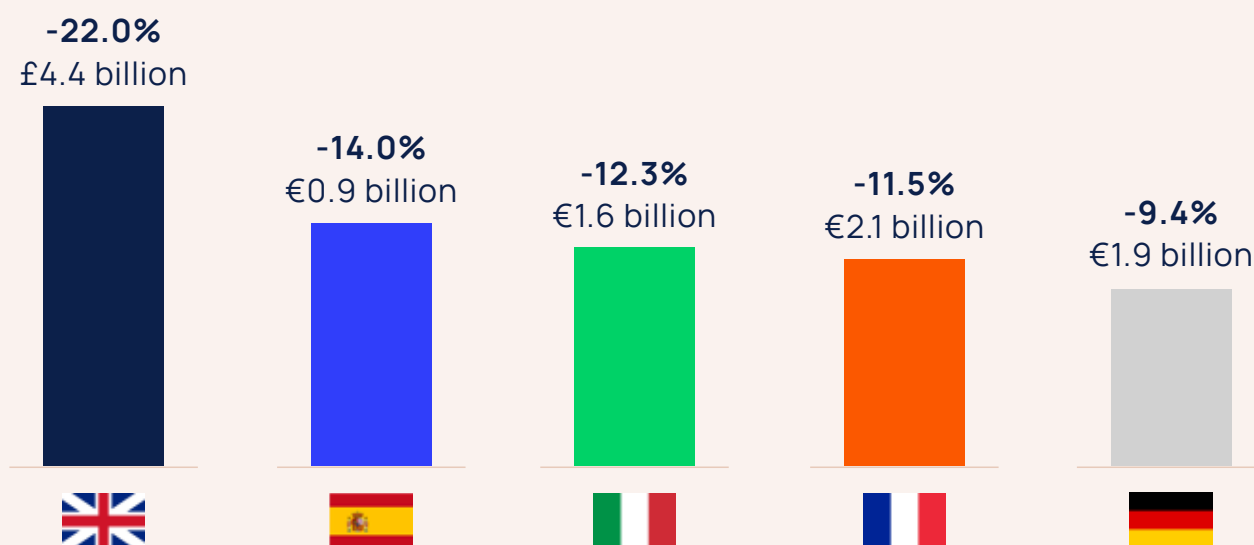


# Key stats



**\$46 bn**

of non-food spending is expected to be cut this festive season compared to the last, across all the markets analyzed.



The expected cutback by country



**Nine in 10**

businesses expect to be impacted by rising costs this peak season, while **three in five** consumers expect to cut back non-food spend.



**50%**  
of retailers

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

# Key stats



34%

of consumers are facing financial distress going into the holiday season.

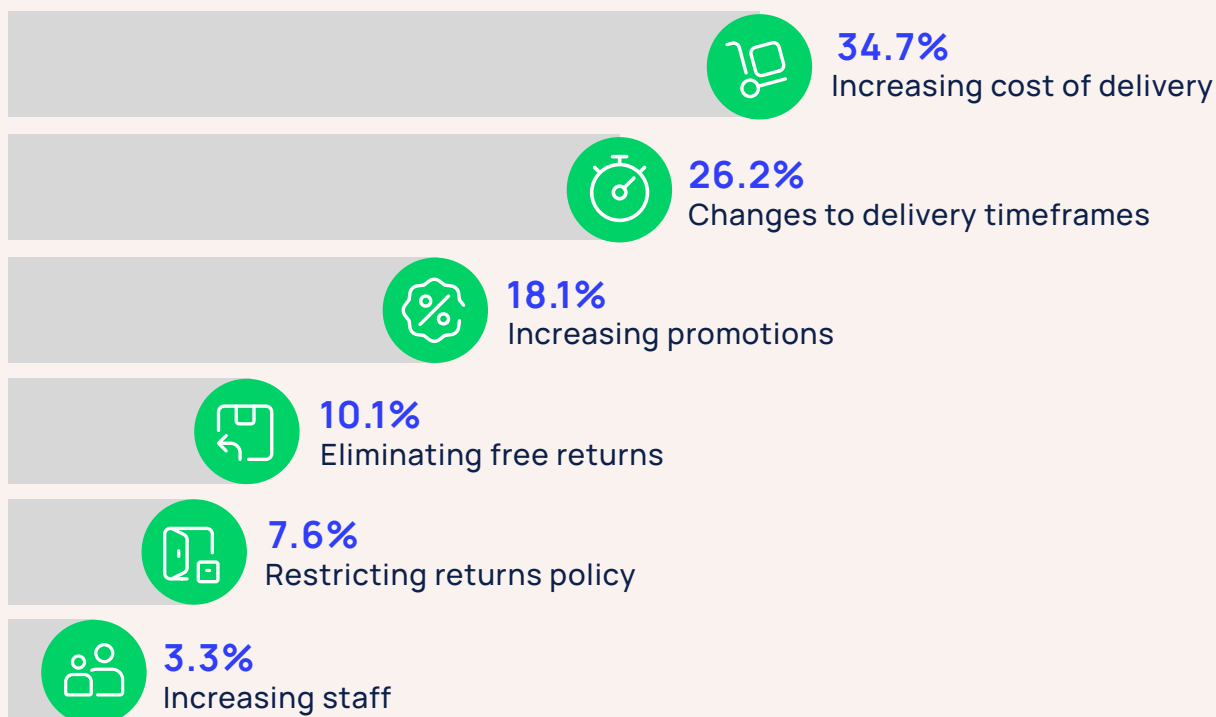


×2

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

## More than a quarter

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



The measures retailers plan to adopt to offset rising operating costs this peak season.

# The big squeeze

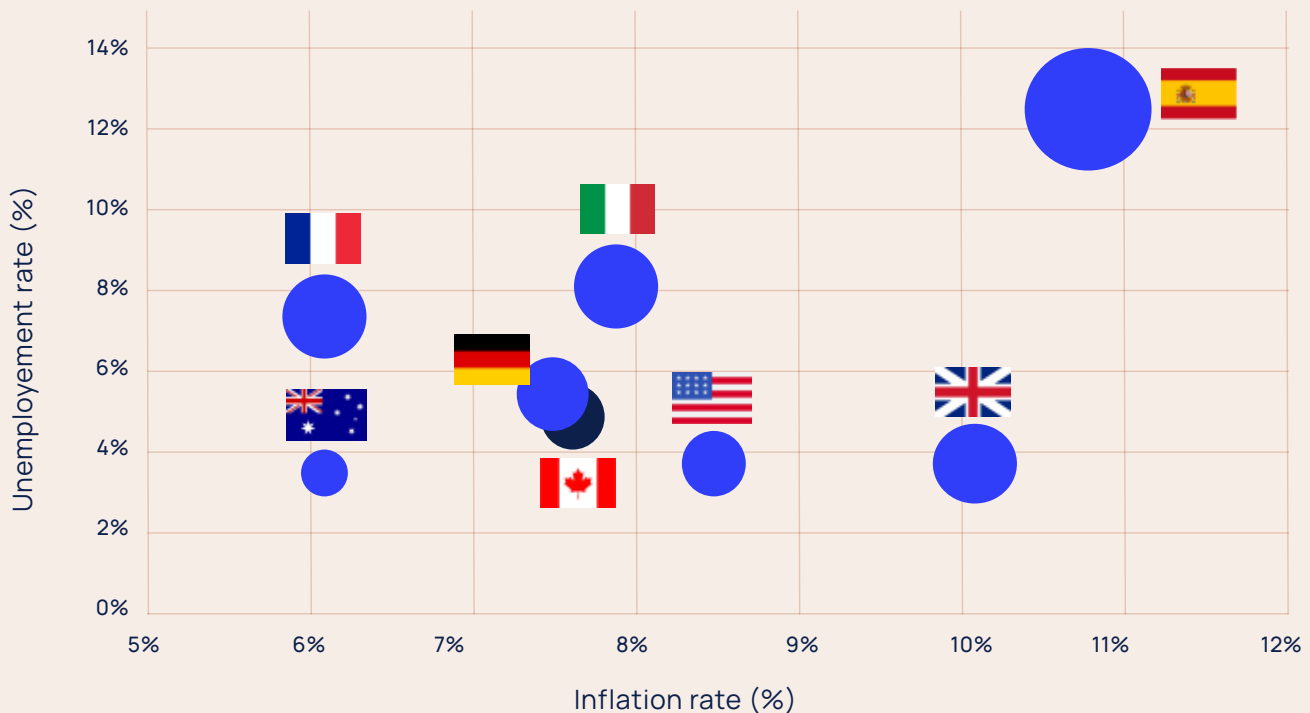
Retail industries across the world are approaching an extraordinary peak season. Inflation has surged to decade highs across key consumer markets as escalating energy, fuel and food costs continually squeeze consumer living standards.

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

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

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

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



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

Source: Retail Economics

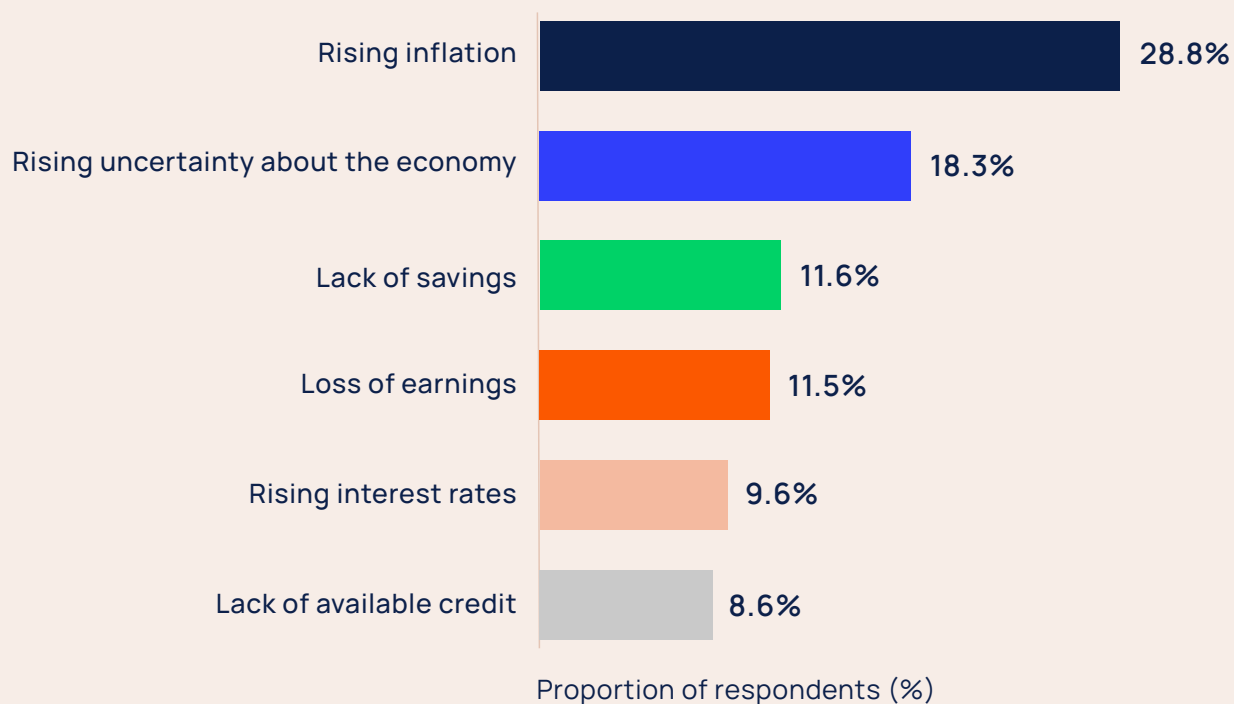


Economic hardship varies considerably by country depending on many factors such as government policy, regional market dynamics (e.g. supply of energy) and domestic interest rates. For instance, the UK has been exposed to rising wholesale gas prices, significantly impacting the price of staple goods,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

Nonetheless, inflation remains uncomfortably high across all countries analyzed, and this is harming consumer confidence. Our research shows that inflation remains the biggest concern for consumers (28.8%) across all markets, followed by uncertainty about the economy (18.3%), and lack of savings (11.6%) - all of which is likely to undermine end-of-year spending.

**Fig 2: Inflation is having the biggest impact on spending intentions over the golden quarter**

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



Source: Retail Economics

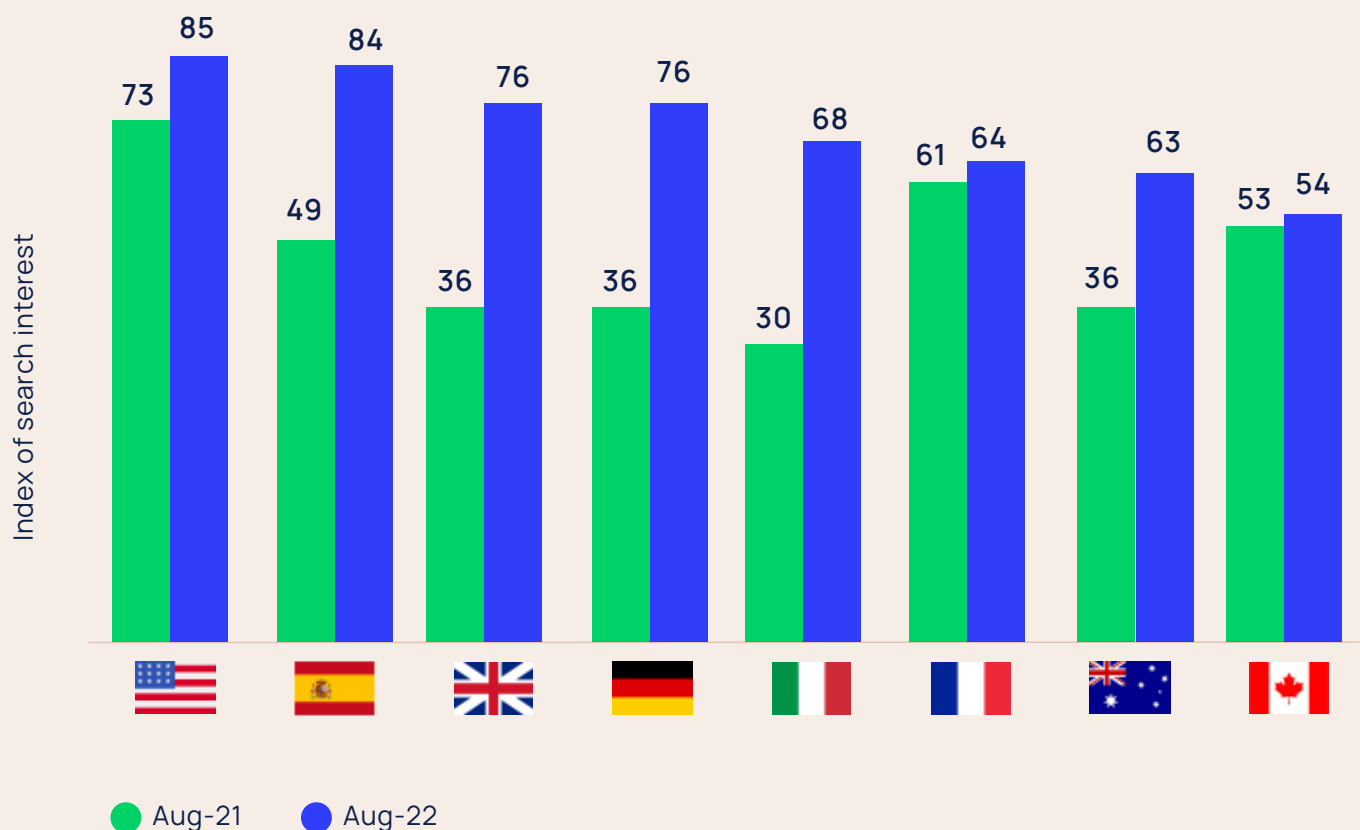
Many consumers will be forced to adopt recessionary behaviors such as trading down, cutting back spending and canceling purchases as inflation persists over the golden quarter.

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

Online searches for 'save money' have hit a five-year high

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

#### Online searches for 'save money'



Source: Google trends, Retail Economics analysis

Our research identifies four key types of consumer (Fig. 4), mapped against a quadrant which measures attitudes towards personal finances (vertical-axis) and underlying financial security (horizontal-axis).

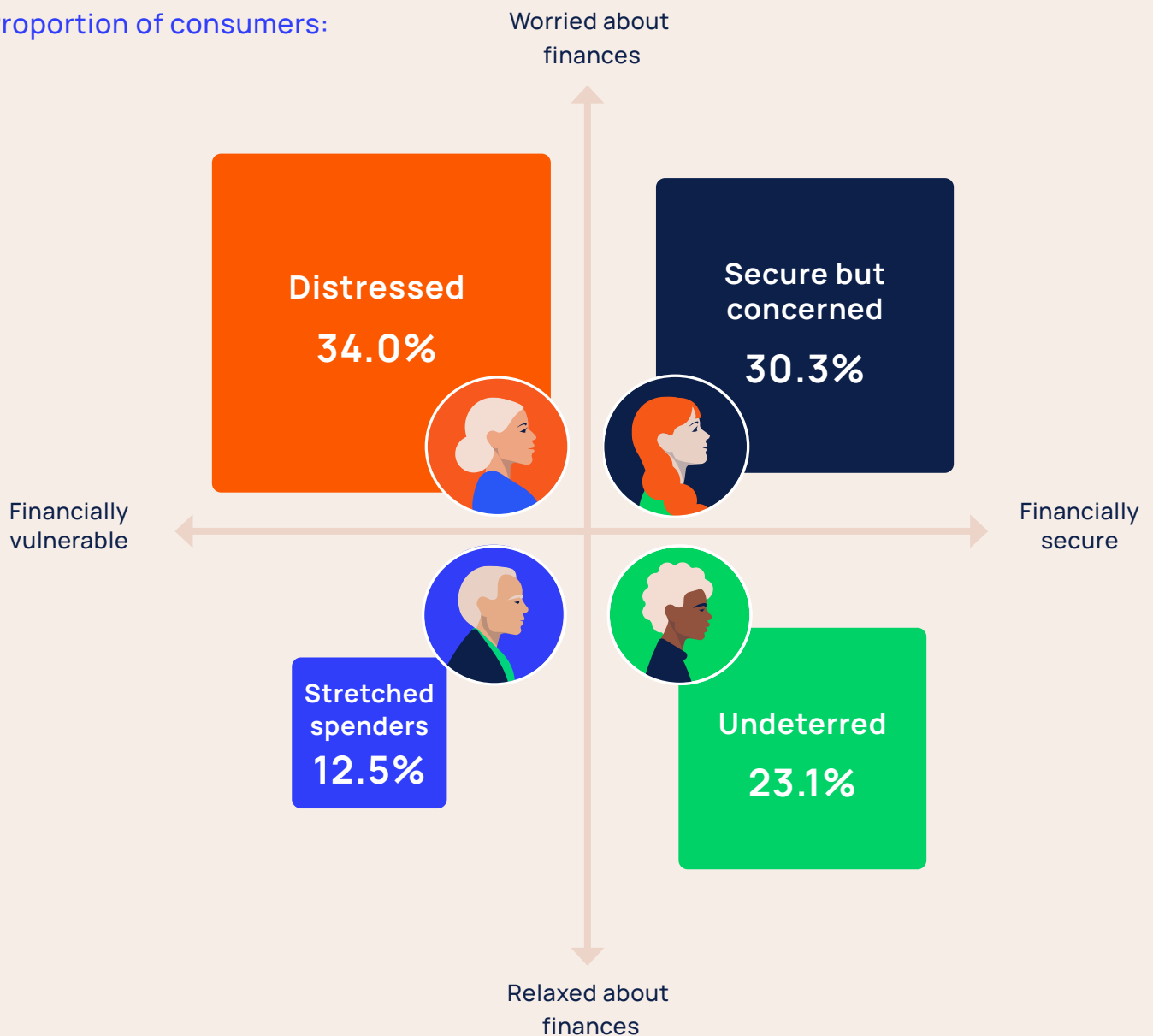
“We see [this holiday season] being slower than the past two seasons. Selling outdoor products during the pandemic was really busy. [We] have seen substantially slower sales this year so far.”

**35TH AVE SKATEBOARDS**

Source: 'Auctane Holiday Shipping survey'

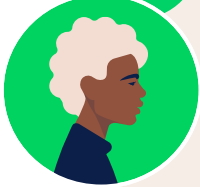
**Fig 4: A significant proportion of consumers are financially distressed as living costs rise**

Proportion of consumers:



## Cutback cohorts

23%

**'Undeterred':**

The 'cost of living' has a lesser impact on shopping behavior compared to other cohorts as they have the greatest financial freedom and are the least concerned about inflation. However, they worry about the economy, spending is at risk from a deteriorating economic outlook, and they have increased saving intentions. These consumers are typically at established points in their careers aged between 35-54 years old and skewed toward males (56%).

13%

**'Stretched spenders':**

Consumers that are attempting to maintain a resilient attitude toward spending (particularly after years of COVID-related restrictions), despite finances coming under pressure from rising living costs. Given consumers in this cohort like to spend but are on tight budgets, they are the most concerned about inflation going forward. They are typically older consumers approaching retirement, with a slight bias towards women (51%).

30%

**'Secure but concerned':**

Financially strong consumers, but their attitudes towards spending are being influenced by 'cost of living' concerns. They display risk-averse attitudes towards spending as inflation and interest rates rise, and are often savvy, looking to switch shopping channels to save money. This group represents a broad mix of ages (including 18-24 year olds) and is roughly even split between men and women.

34%

**'Distressed':**

Consumers at high risk from rising living costs; financially vulnerable with significant concerns. They are most likely to be worried about lack of earnings, savings and credit availability going into peak season and next year, and therefore most likely to cut back spending. They are also considering switching preferred shopping channels to save money. These consumers are typically middle-aged or older, facing prospects of weak earnings growth and pension funds being eroded by inflation. Just over half (54%) are women.

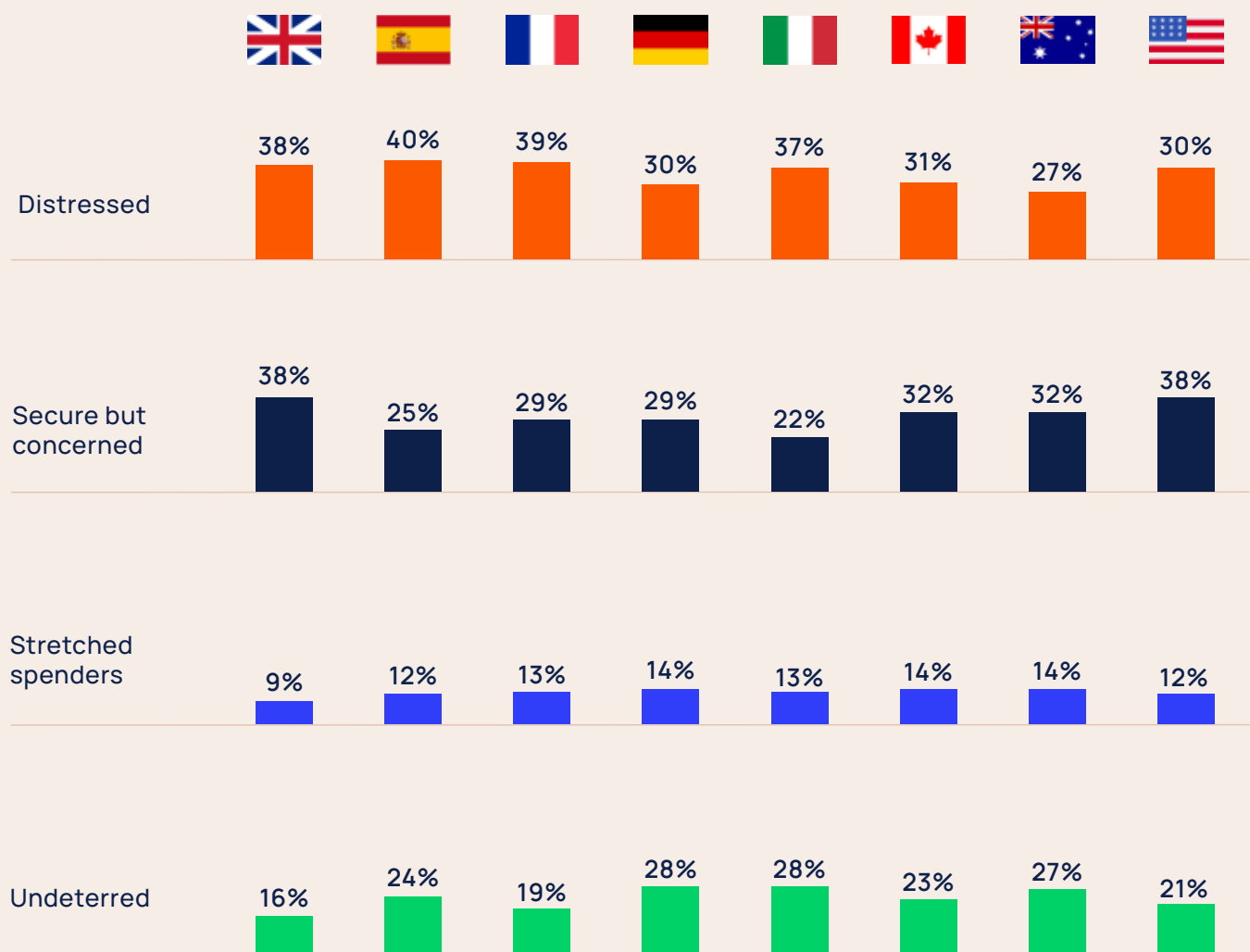
Source: Retail Economics

As expected, consumer sentiment varies by market. British and Spanish shoppers suffer the highest levels of financial distress, while German and Australian shoppers have relatively greater financial freedom.

**40% of Spanish shoppers are distressed about their finances**

**Fig 5: Perceptions around personal finances vary by market**

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



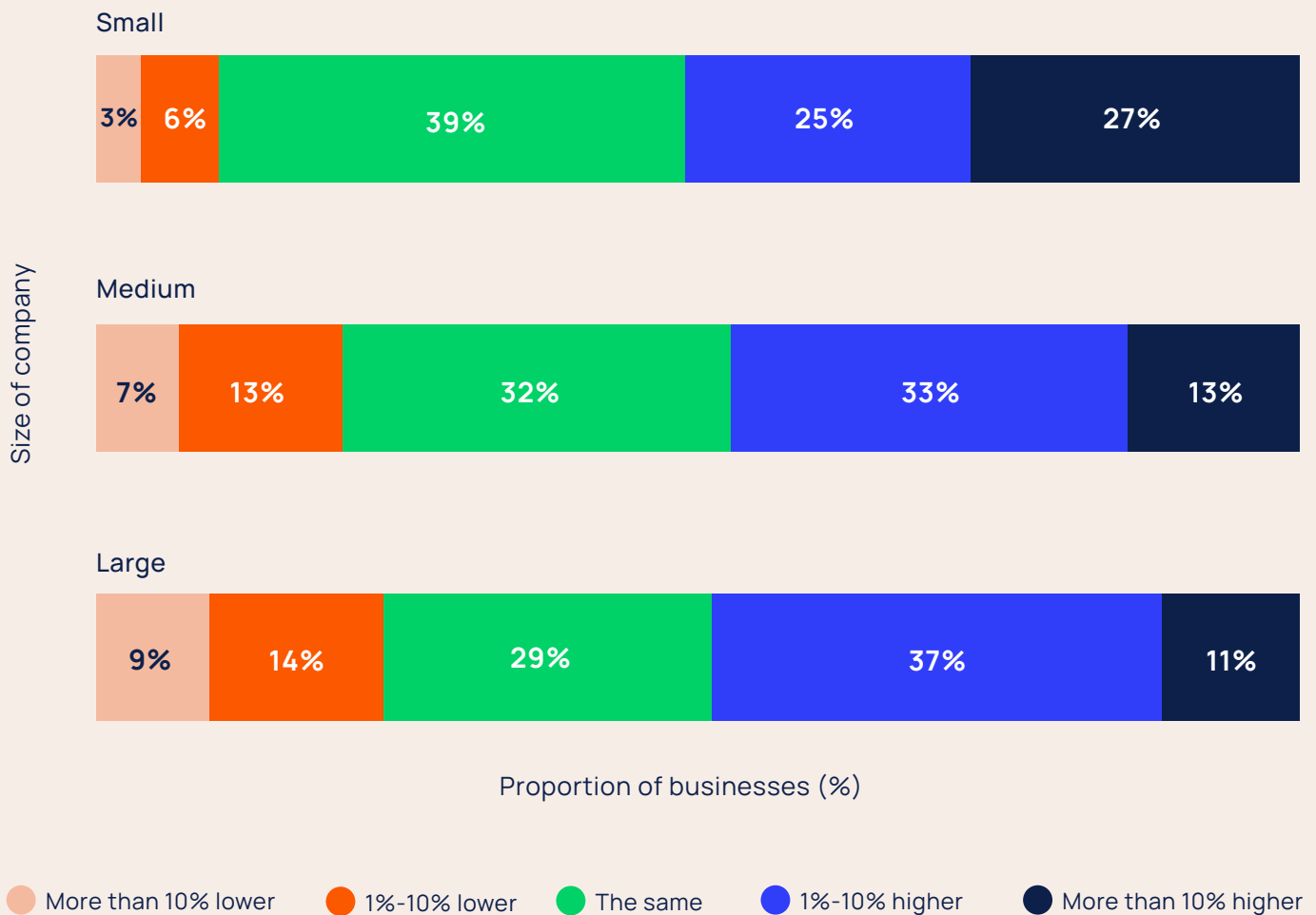
Source: Retail Economics

## Consumer sentiment versus retailers' expectations

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

**Fig 6: Firms are optimistic about a volume uplift this year**

What sort of order volumes do you expect this peak season (holiday shopping), compared to 2021 volumes?



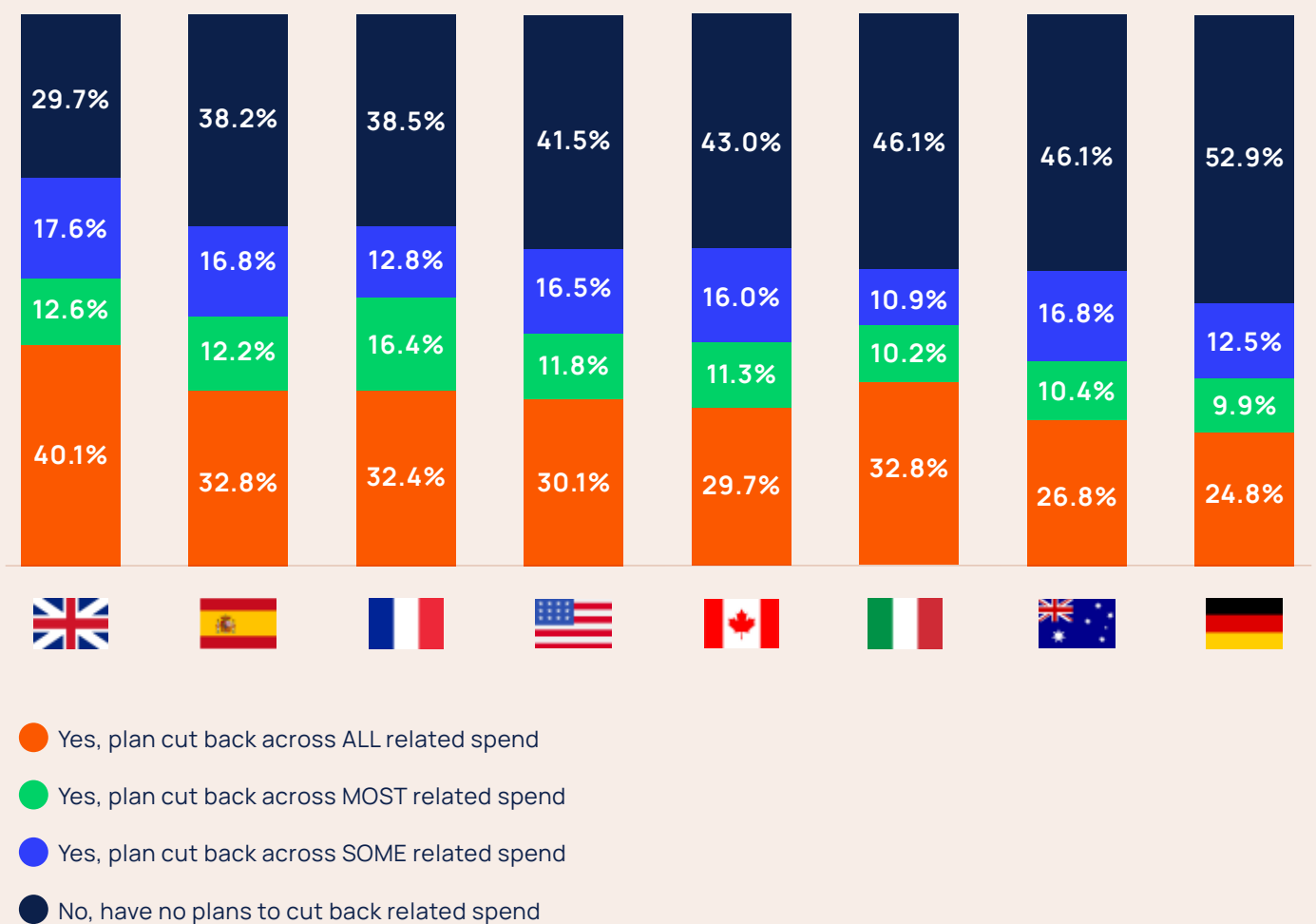
Source: Auctane, Retail Economics analysis

Interestingly, this particular finding contradicts current consumer sentiment. Well over half of shoppers expect to cut back non-food spending to some degree over Black Friday and Christmas. UK consumers expect to cut back the most over peak

trading, which is likely to lead to a sharp reduction in spending this year. Conversely, German consumers appear much more resilient than other European countries, with the United States and Canada more closely aligned to the average across all countries.

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

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

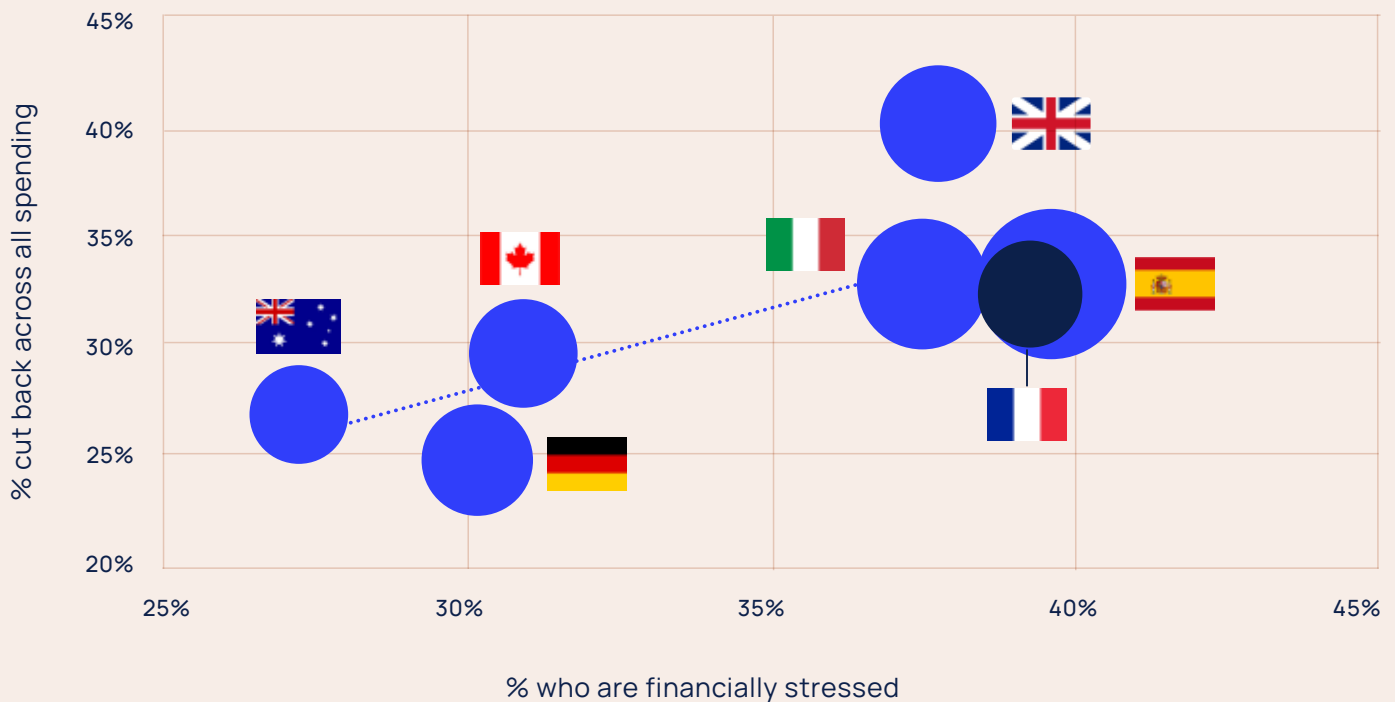


Source: Retail Economics

The research confirms that the extent to which consumers intend to cut back is correlated with the degree of economic hardship each country faces (measured by adding inflation and unemployment rates together<sup>1</sup>).

Similarly, consumers in countries facing the greatest economic hardship are more likely to be those looking to cut back their spending over peak season.

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



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

Source: Retail Economics

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



## Post-purchase experience a critical lever to winning and retaining customers

In a peak retail season marred by slower consumer spending and rising costs, retention is a crucial lever to protect investment in customer acquisition, and ensure a share of that reduced consumer spend.

Every stage of the online shopping journey is make-or-break, but none more so than post purchase, or the experience from clicking 'buy' to receiving the order. A lot can go wrong at this point: late deliveries, lost parcels, incomprehensible tracking... the list goes on.

In today's socially-networked world, the impact of experiences – both good and bad – has the potential to multiply exponentially. For example, 67.1% would be less likely to shop with a retailer after hearing someone they knew had a bad experience with them.

## Tracking - the most important factor

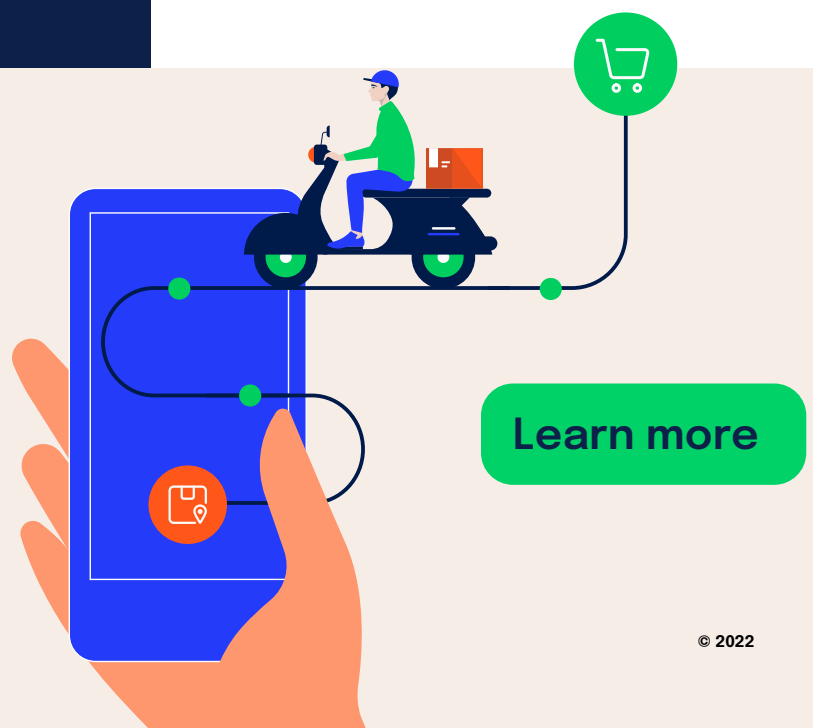
One factor looming large behind experiences both good and bad is tracking. As consumers wait for their online order to arrive, being able to follow its progress in real-time leaves them feeling informed and in control. 94.5% of shoppers say the ability to track their order is important, of which 54.7% say it's very important.

## Ongoing appetite for free returns

As soaring fuel prices translate into increased final mile costs, many retailers are considering abandoning free returns as a way to eke out cost efficiencies. However, according to our research, free returns is the number one driver of a good post-purchase experience. It is important for 93% of consumers, and very important for 60%, ranking even higher than factors like delivery speed.

## Enhance your post-purchase experience

Discover Metapack solutions to drive loyalty and optimal experience beyond the buy button.



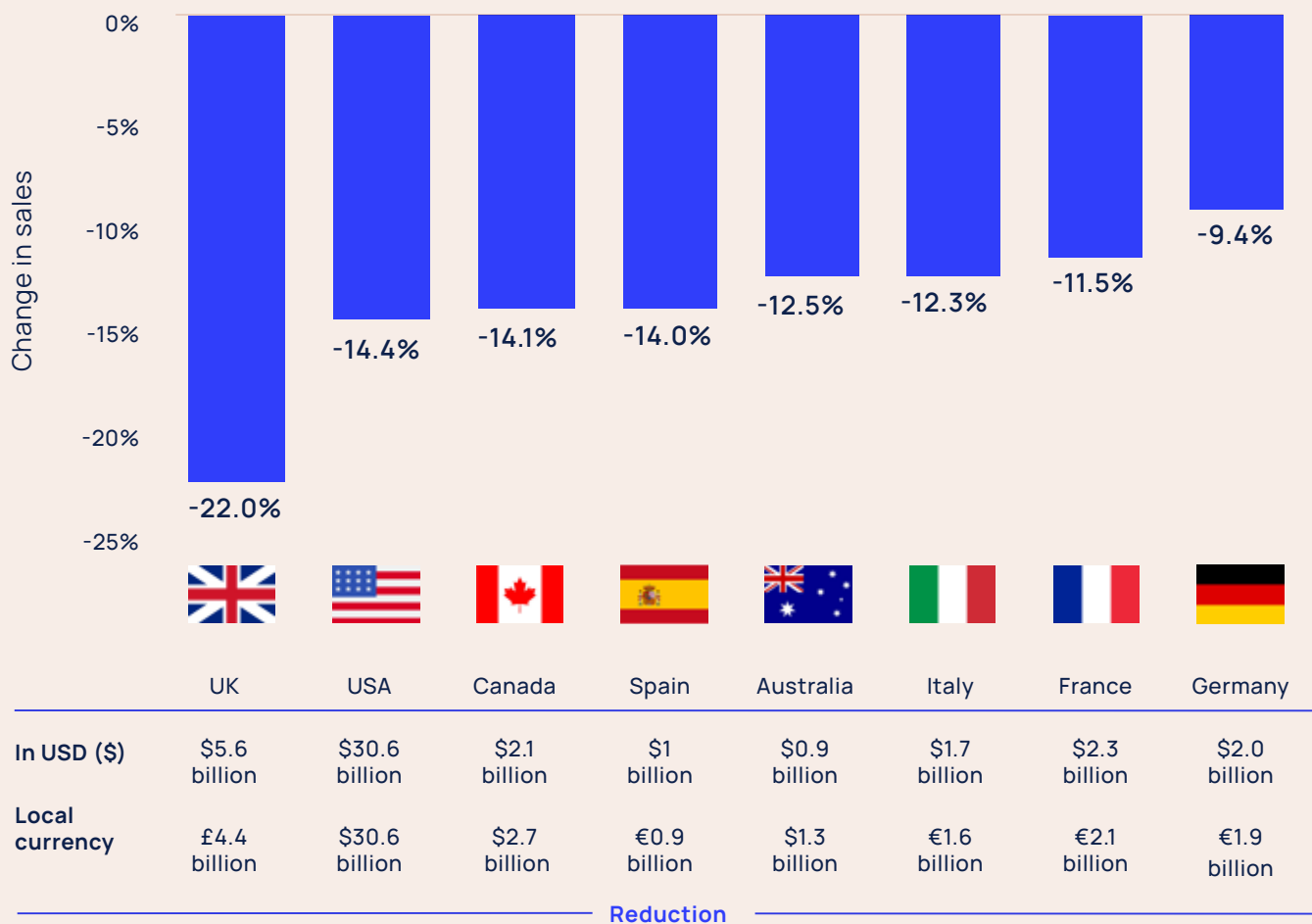
# The cutback landscape

The harsh economic backdrop cloaking the golden quarter is expected to impact peak trading this year. Households facing financial pressure will cut back on non-essentials.

For most, Christmas is likely to be a more muted affair in 2022. Non-food spending over the holiday period is expected to decline by US\$46 billion this year compared to the previous year, with consumers (across all the markets analyzed) set to cut back.

Fig 9: US\$46 billion hit to Holiday shopping this year

Expected reduction in Holiday shopping spending this year



Source: Retail Economics

This research shows that the UK is expected to face the sharpest decline in spending. Here, consumers are already facing double digit inflation, with the squeeze on personal finances expected to intensify in Q4. Consumer confidence is at a record low as recession looms, expected to hit commencing 2023, and to persist into 2024 as rising interest rates hamper growth.

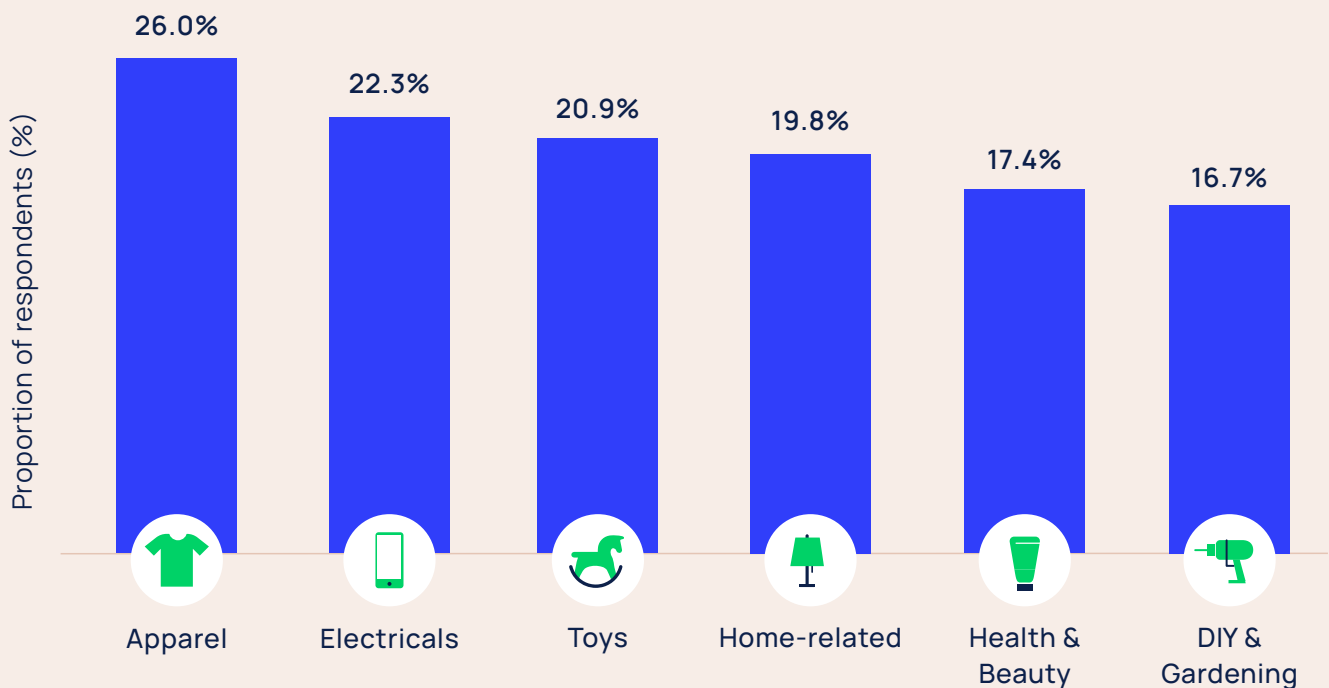
These conditions present a bitter reality for retailers to swallow. By comparison, German consumers are cutting back to a lesser extent, reflecting a stronger economic backdrop going into the final quarter of the year. The impact will vary significantly by category, channel and retailer, which is explored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

## Categories under pressure

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

Fig 10: Apparel and electricals set to be hit hard over peak season

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



Source: Retail Economics

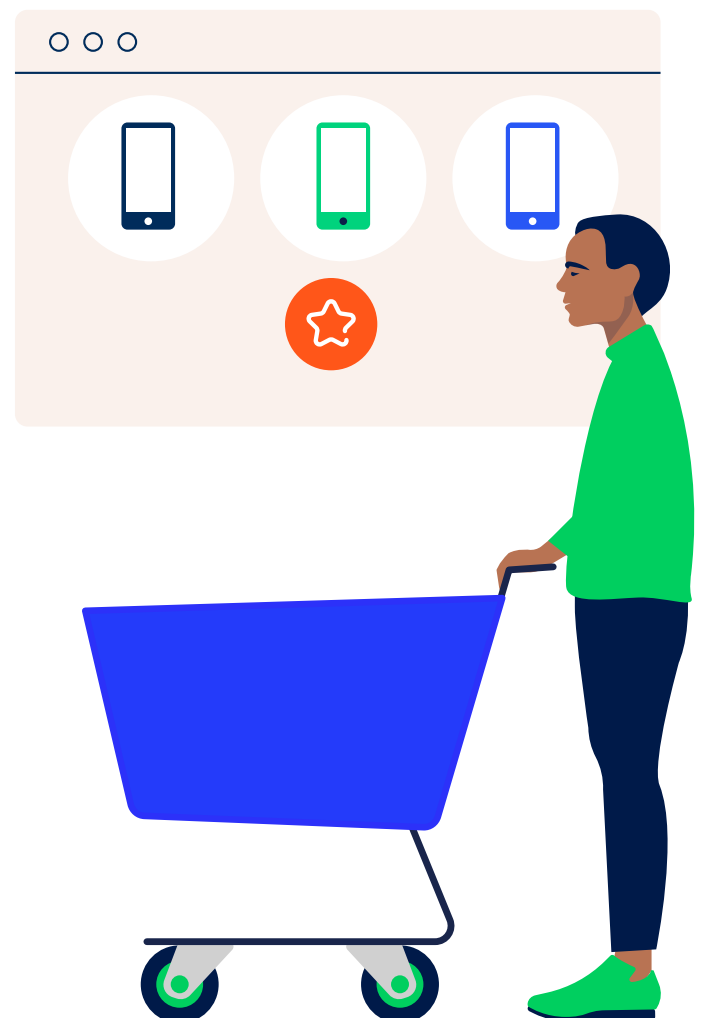
Following months of COVID-related restrictions dampening demand for new outfits, apparel retailers were crippled by lockdowns as consumers worked from home and socialized less. But lifted restrictions in 2022 meant fashion retailers enjoyed a bounce back in spending over recent months. Now, frustratingly,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

Similarly, electricals is also wired for a tough end of year. This comes despite the FIFA World Cup kicking off for the first time in its 92-year history in the winter, hosted by Qatar (21 November-18 December 2022). Traditionally, electricals outperform during such sporting events, as households look to upgrade televisions and other entertainment systems ahead of significant games – albeit to a lesser degree in the US, Canada and Australia where football is not the national sport. However, electricals benefited from a sales boom in 2020/21 as ‘stay-at-home’ consumers turned to home entertainment and renewed home office equipment during lockdowns. As the intensity of product replacement cycles fizzle, with supply chain issues dragging on, the category is likely to suffer spending cut back as shoppers ‘cut their cloth’ accordingly.

**26% of consumers plan to cut back spending on apparel**

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

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

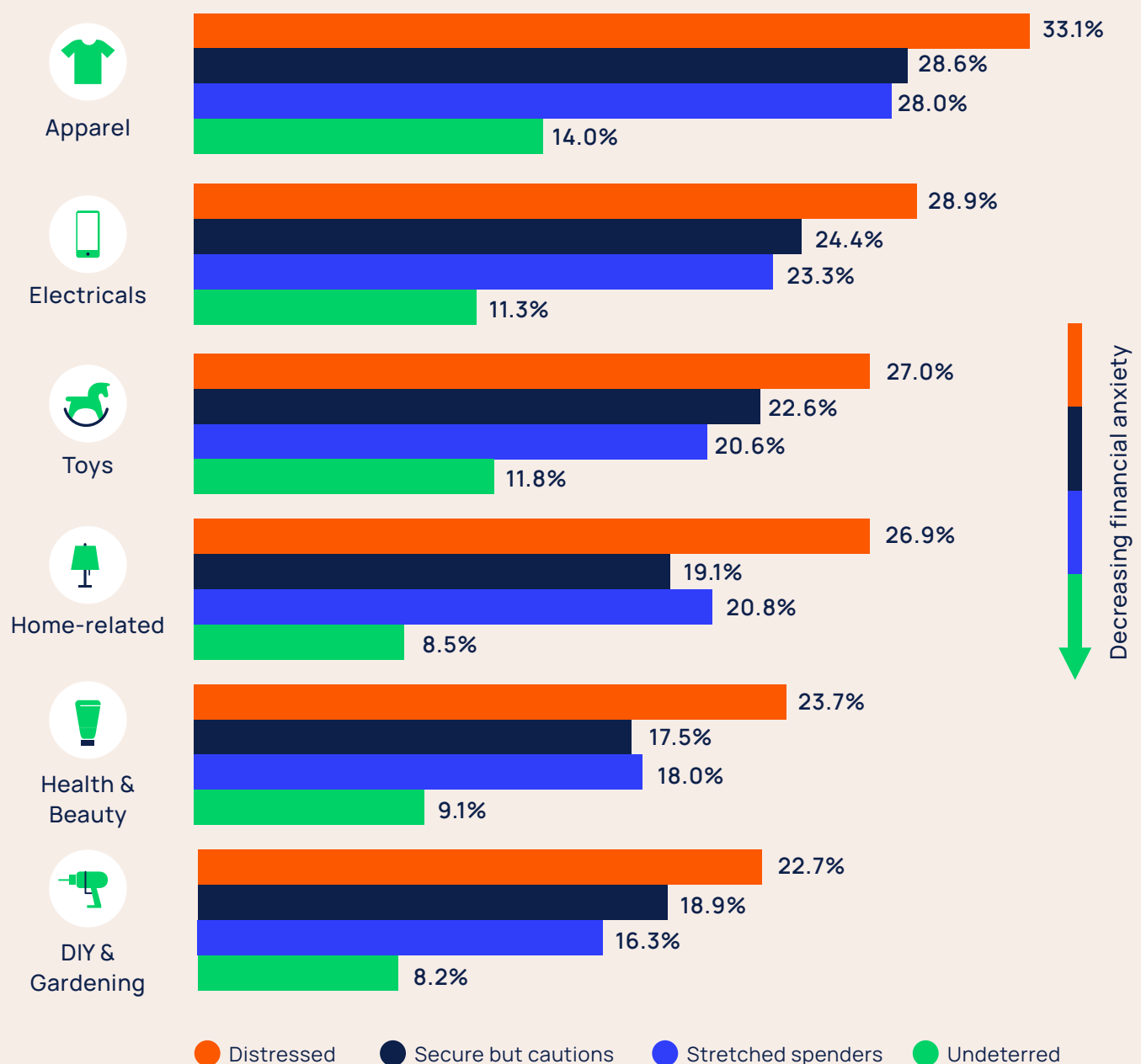


Unsurprisingly, consumers under the most financial pressure (the 'Distressed' cohort) are looking to cut back the most in Q4 2022 across non-food categories, as inflation further erodes already stricken budgets.

Worryingly, even those that have financial freedom (the 'Undeterred' cohort) are demonstrating weaker confidence, looking to reduce spending, albeit to a far lesser extent than the 'Distressed' cohort.

**Fig 11: Financial anxiety is driving intentions to reduce spend over peak**

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



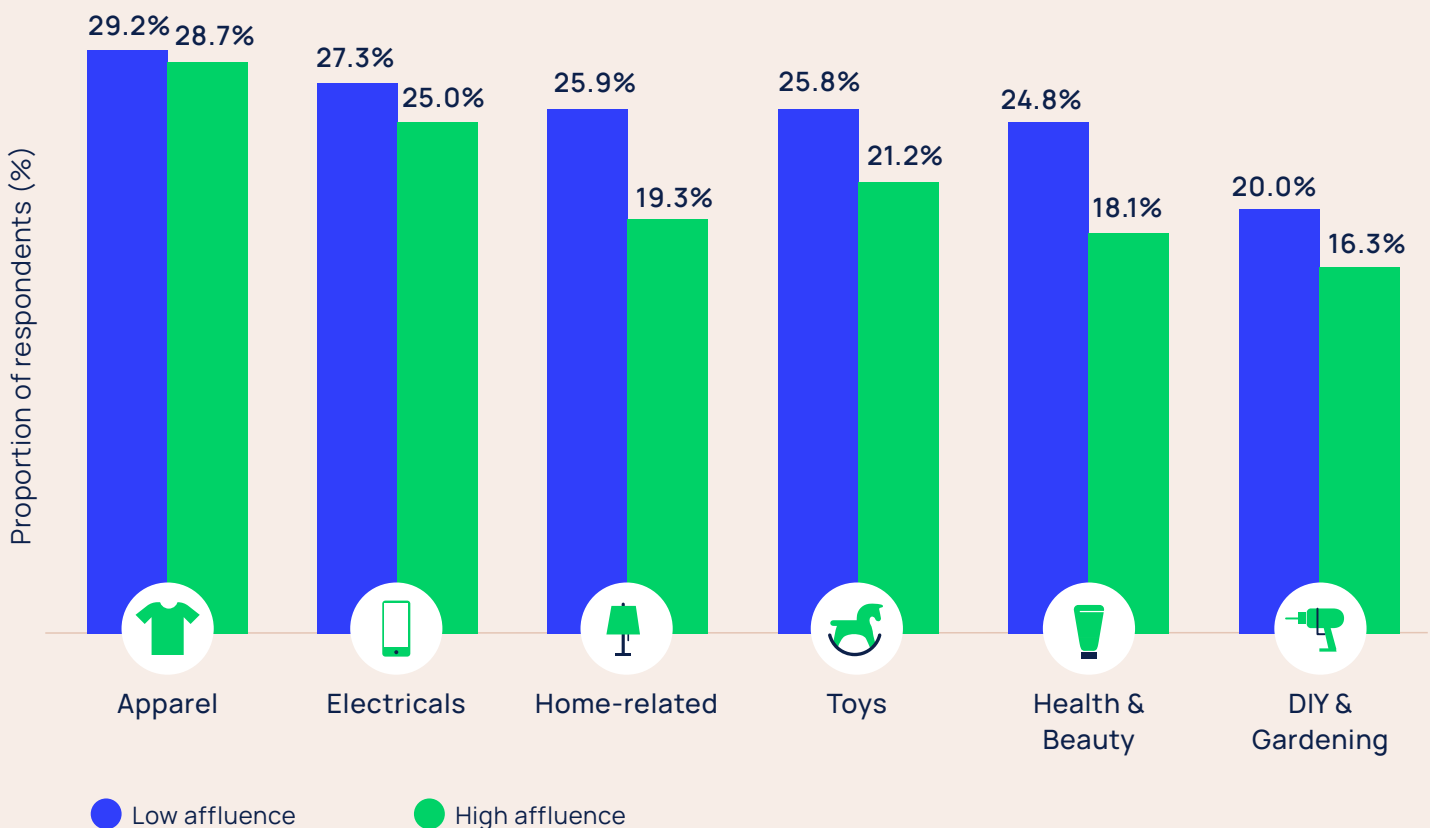
Source: Retail Economics

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

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

**Fig 12: The least affluent are having to cut back the most going into peak trading**

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



Source: Retail Economics

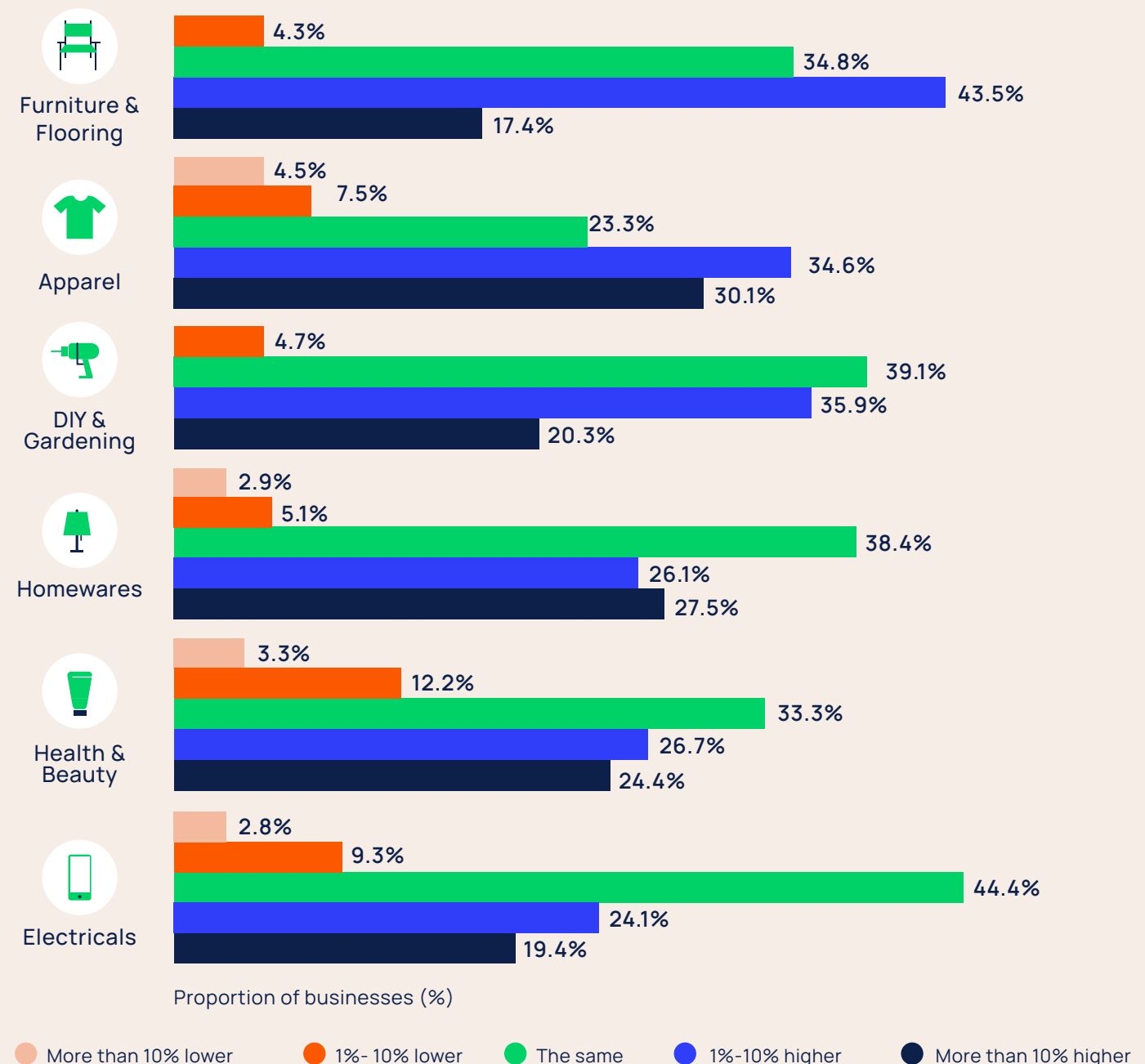
## 02 | THE CUTBACK LANDSCAPE

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

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

**Fig 13: Firms across categories expect volume increases during peak despite harsh backdrop**

What sort of order volumes do you expect this peak season (holiday shopping) compared to 2021 volumes?



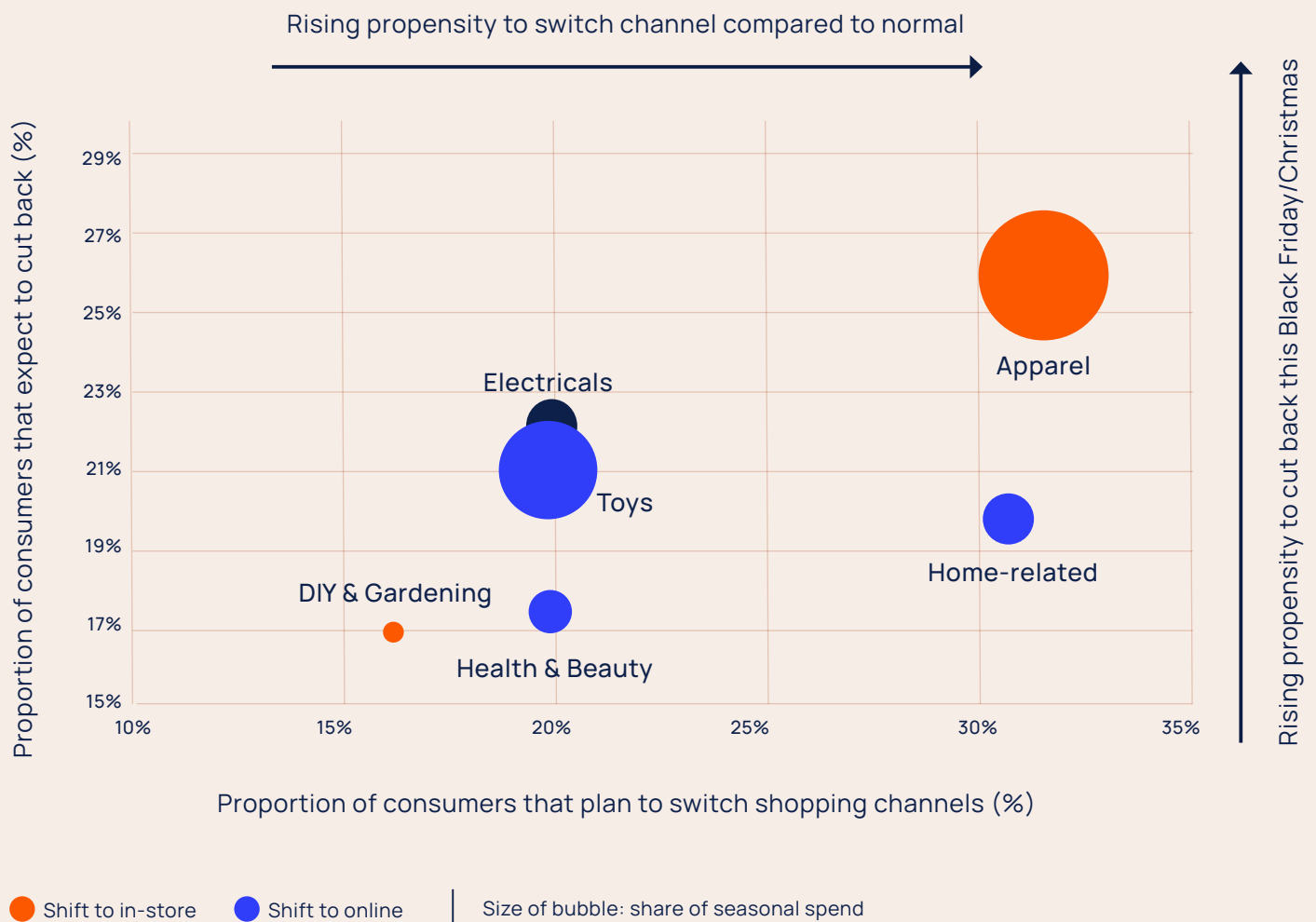
Source: Auctane, Retail Economics analysis

## Channel switch

Whether retailers realize it or not, they will have to react to changes in consumer values and behavior if they are to maximize revenues and maintain profitability. For many shoppers, gruelling economic conditions will mean becoming 'brand promiscuous' and 'channel agnostic' as they default to recessionary behaviors, scurrying around to seek out deals.

Categories exposed to increased risk of cut back will likely experience greater negative shifts in consumer behavior. Through necessity, shoppers are becoming more discerning and questioning the best channels to shop in. Put simply, consumers are intending to switch between physical and online. The exact frequency of shift will depend on category and also income group, adding another layer of complexity for retailers to understand.

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



Source: Retail Economics



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

Looking at the different consumer types, those under most financial anxiety ('Distressed', 'Secure but cautious', and 'Stretched spenders'), are almost twice as likely to switch channels

across categories compared to the 'Undeterred' over peak season.

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

There are five principal reasons why lower affluence consumers show a greater propensity to shop in-store than online during peak season:



**Disciplined spending:** As household budgets for non-essential purchases dwindle, consumers are looking for ways to support disciplined spending. A quick and simple way to manage temptation is to transact physically using only cash, avoiding alluring offers online.



**Cash flow management:** Consumers have less control of their bank balances when shopping online. Online purchases risk higher return rates and are subject to online refund time lags. Also, online can promote over-order (e.g. buying two dresses to compare colors with the intention of returning one, which may not happen!)



**Local markdowns:** Shoppers can benefit from local markdowns specific to physical stores outside of seasonal or national promotions. These include clearance of perishable goods or certain lines to allow for new merchandise.



**Increased delivery and returns costs:** Some retailers are already charging for online delivery and returns across categories previously offering free services (e.g. fast fashion where consumers look to purchase more in-store than online).



**Weaker online value proposition:** As online-related fees rise and delivery capacity suffers from reduced services, the online value proposition becomes less attractive.

Source: Retail Economics

## Holland & Barrett drives traffic in-store with 'click and collect'

European Health and Wellbeing chain Holland & Barrett has both a physical and online presence. The company looked to Metapack to help it leverage online demand to drive traffic into its physical store estate. In less than two weeks, the retailer was able to expand its 'click and collect' capabilities and add the ability to fulfill online orders from stores which is now integrated in 75 locations.

This adds considerable flexibility to the network, since stores can be activated and deactivated according to necessity. The number of stores shipping has ranged from around 20 during early December to roughly 50 now.

[Find out more](#)

Holland & Barrett



## Easily add 'out of home' delivery options to your ecommerce website

'Out of home' delivery is emerging as a great alternative for consumers, as well as the retailers that serve them.

Methods like lockers, PUDOs and in-store pickup give consumers more control over how they collect their order, and greater peace-of-mind while their package is stored securely in the meantime. It's also more sustainable: 'out of home' results in a 30% lower carbon footprint. For retailers, collection can also substantially lower shipping costs.

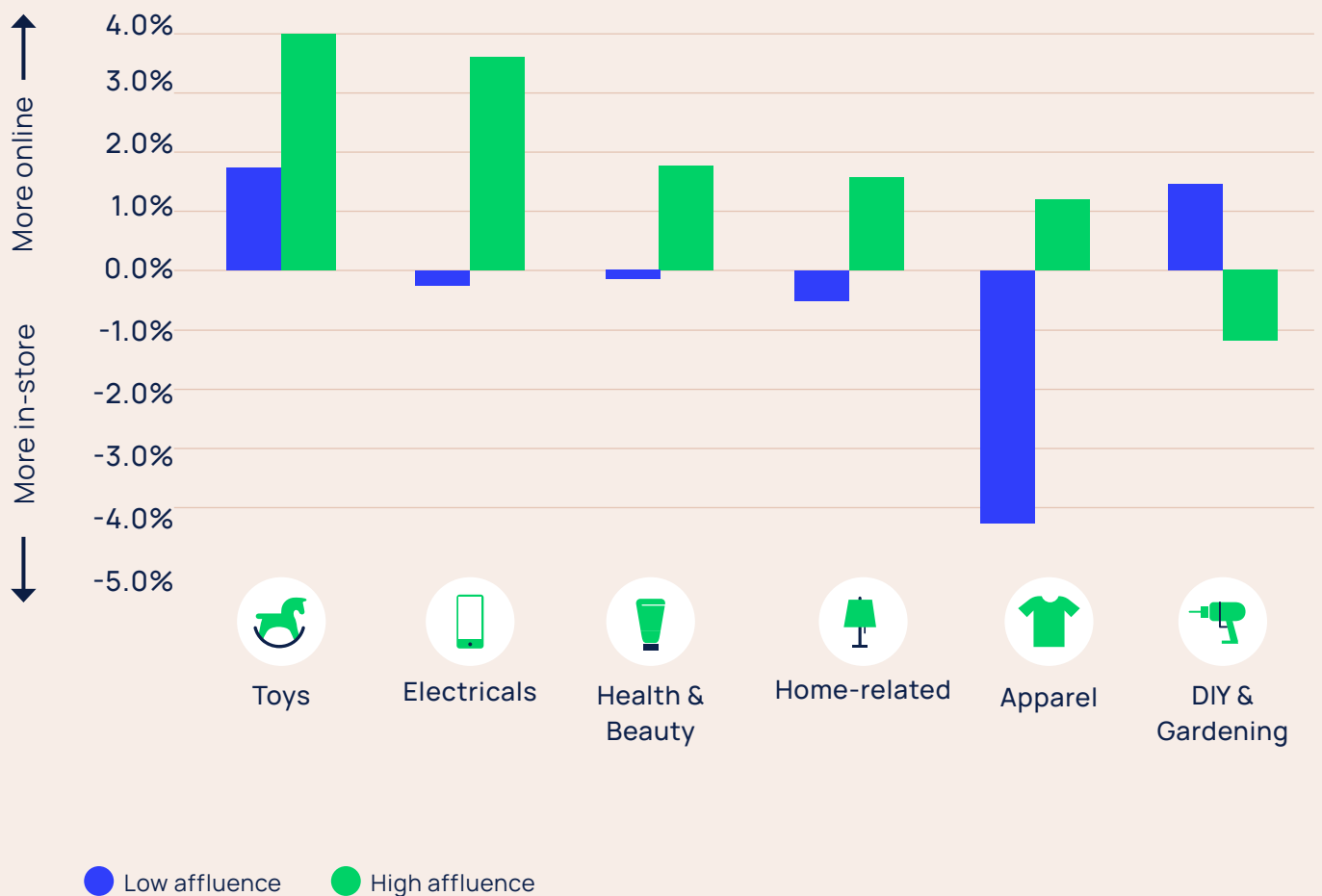
Metapack's Delivery Options API integrates seamlessly with your ecommerce platform, letting you display 'out of home' options on your website along with accurate delivery dates and charges. You can even display your store collection locations and PUDO points on a map to highlight proximity to the customer.

[Read the guide](#)



Apparel and homewares are seeing significant changes in the way consumers shop. Willingness to switch between digital and physical channels in these categories is consistent with trends seen during the pandemic. During lockdowns, shoppers switched at-scale to online for purchasing apparel and homewares. But as stores reopened, shoppers shifted back to physical locations. Having adopted these adaptive behaviors in recent years, shoppers are showing willingness to switch between channels, this time for financial reasons.

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



Source: Retail Economics

Apparel shoppers are set to shift more spending to physical stores over peak trading. Clothing and footwear retailers are facing consumers needing to trade down to value alternatives in a bid to save money. Discount apparel has lower online penetration compared to the wider category. This encourages more in-store purchases at value-orientated and supermarket stores.

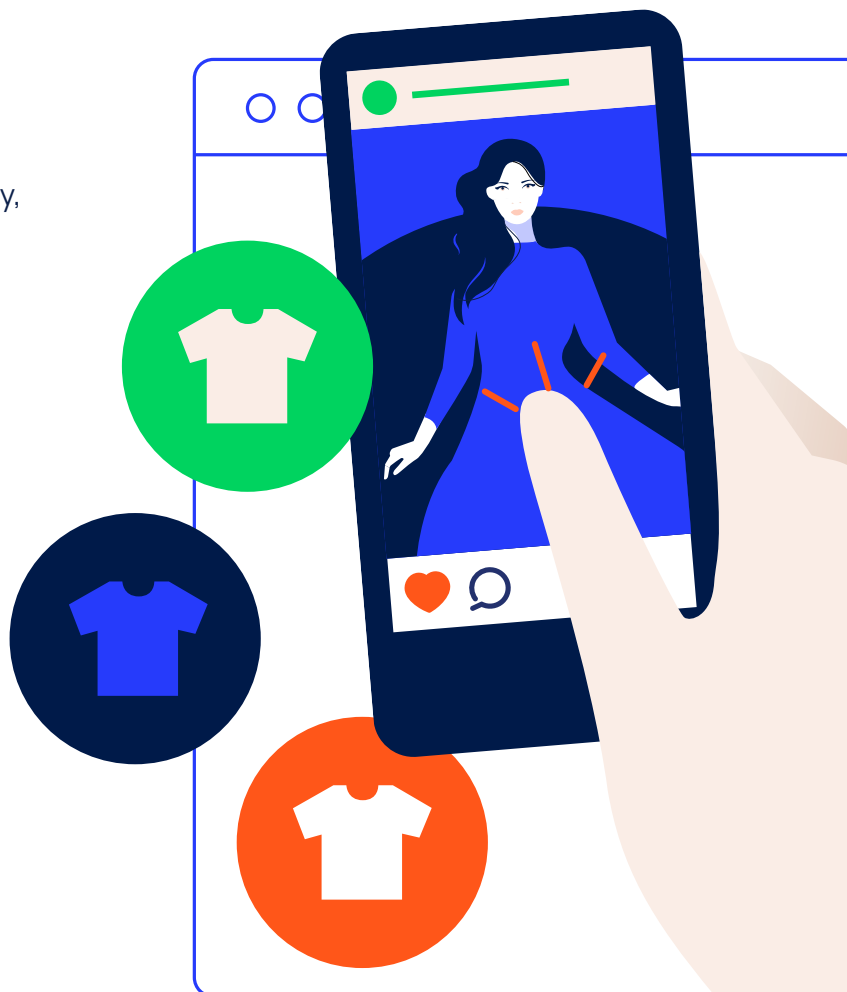
Meanwhile, fast fashion retailers operating on wafer-thin margins face escalating distribution, labor and material costs, putting intense pressure on balance sheets. This is forcing retailers to re-evaluate operating models, and even start charging for previously-free services like returns; and given high online returns rates, this presents an avoidable cost for consumers by shopping in-store. This notion is supported by the research showing the least affluent turning to physical shops over the golden quarter.

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

Other non-food categories are set to benefit from a higher proportion of online spending during peak trading. This is across planned gifting lines and price-sensitive categories including toys and electricals, where consumers are getting in on early deals for gifting.

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

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



## Harsh backdrop impacting propositions

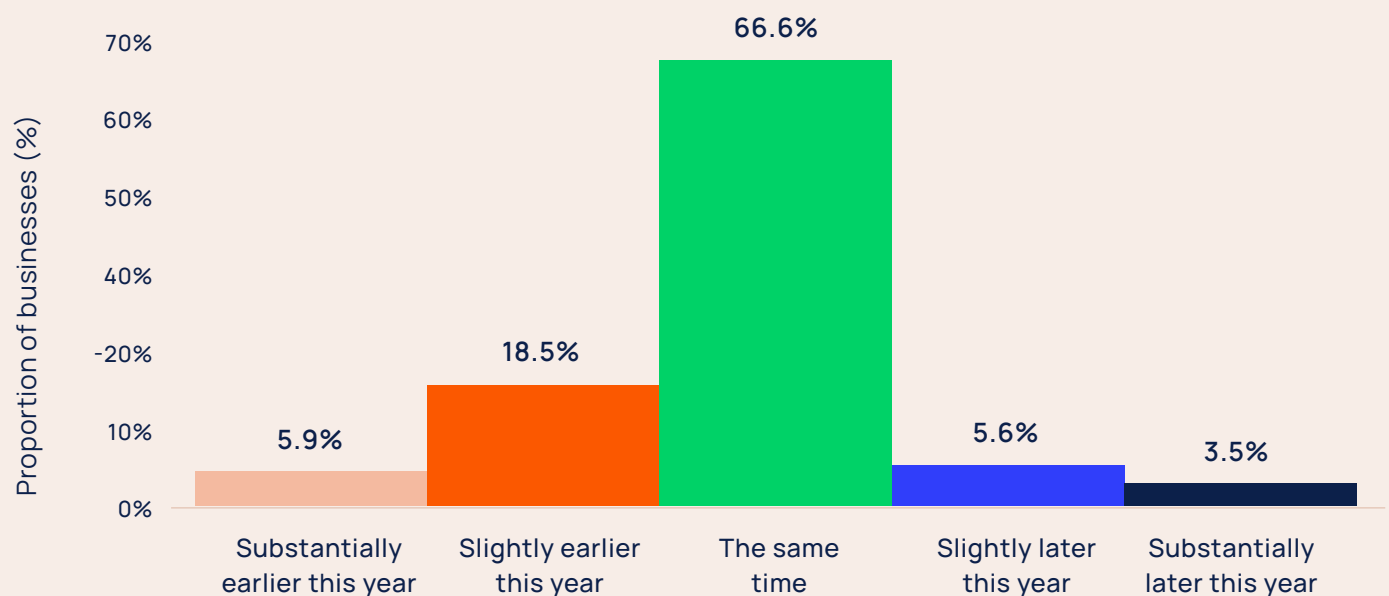
Retail brands face some particularly tough challenges this peak season (and beyond). The pincer movement of weaker consumer spending and margin pressure from rising costs will force many to take a forensic approach to evaluating the robustness of their business models.

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

Retailers typically plan for peak trading around the end of summer according to research by Auctane (a family of brands of which Metapack is a part). But a quarter (24.3%) of businesses started planning earlier for peak than last year. Less than one in 10 businesses (9.1%) are holding out on plans in light of a rapidly evolving economic backdrop, given heightened uncertainty around geopolitics, rising interest rates, and escalating inflation.

**Fig 16: Planning started earlier this year despite fast-changing economic backdrop**

How do your peak shipping (holiday season) timeframes this year, compare to your planning timeframes in 2021?



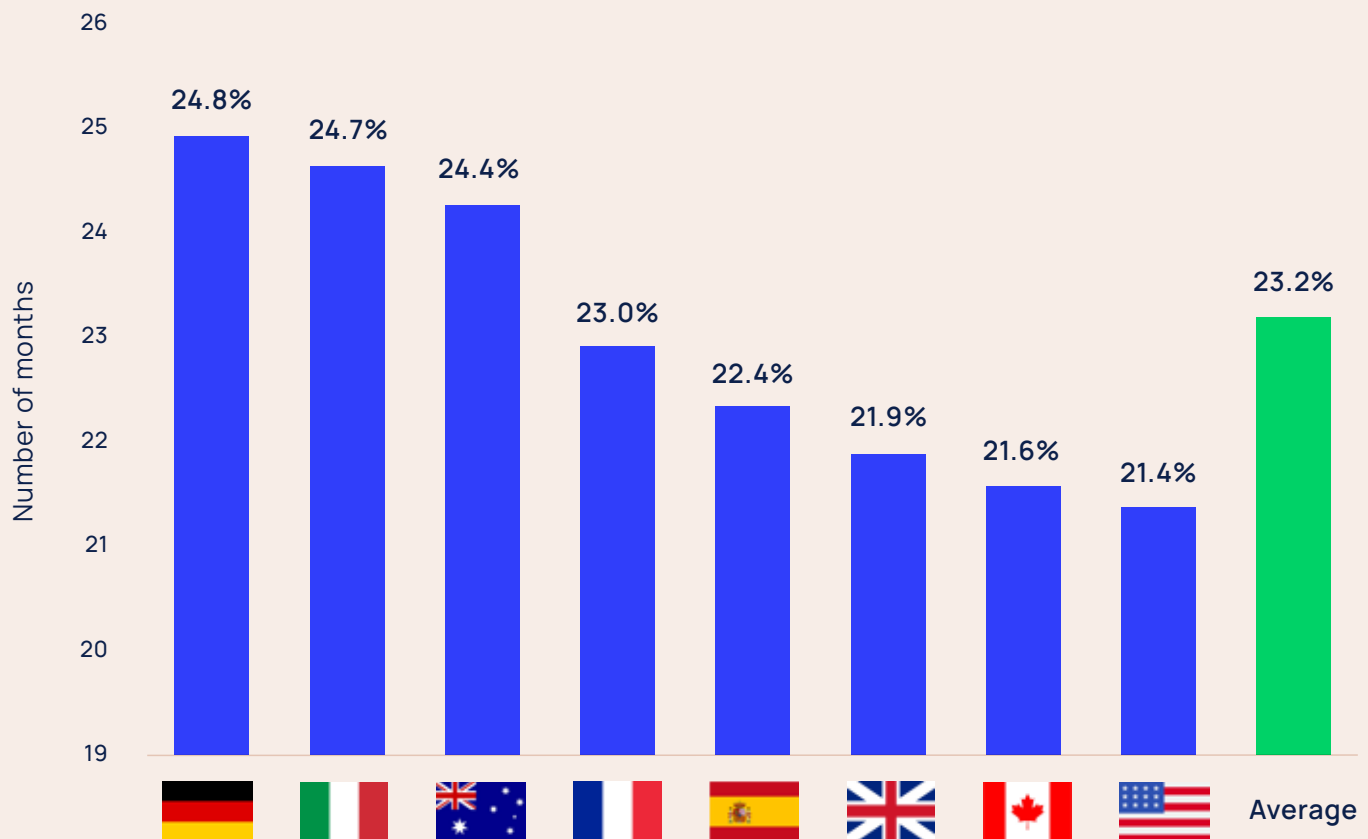
Source: Auctane, Retail Economics analysis

All factors considered, consumers are under no illusion that financial pressures will ease suddenly in the coming months. In fact, Retail Economics research shows that consumers expect the current 'cost of living' crisis to continue impacting their spending for the next two years.

Consumers expect the 'cost of living' crisis to impact their spending for 2 years

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

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



Source: Retail Economics

In response, businesses are looking at ways to drive further efficiencies, cut overheads, and find innovative ways to reduce costs such as reducing packet sizes. Inevitably, some costs are being passed on to consumers across their goods and services, particularly for those operating on thinner margins.

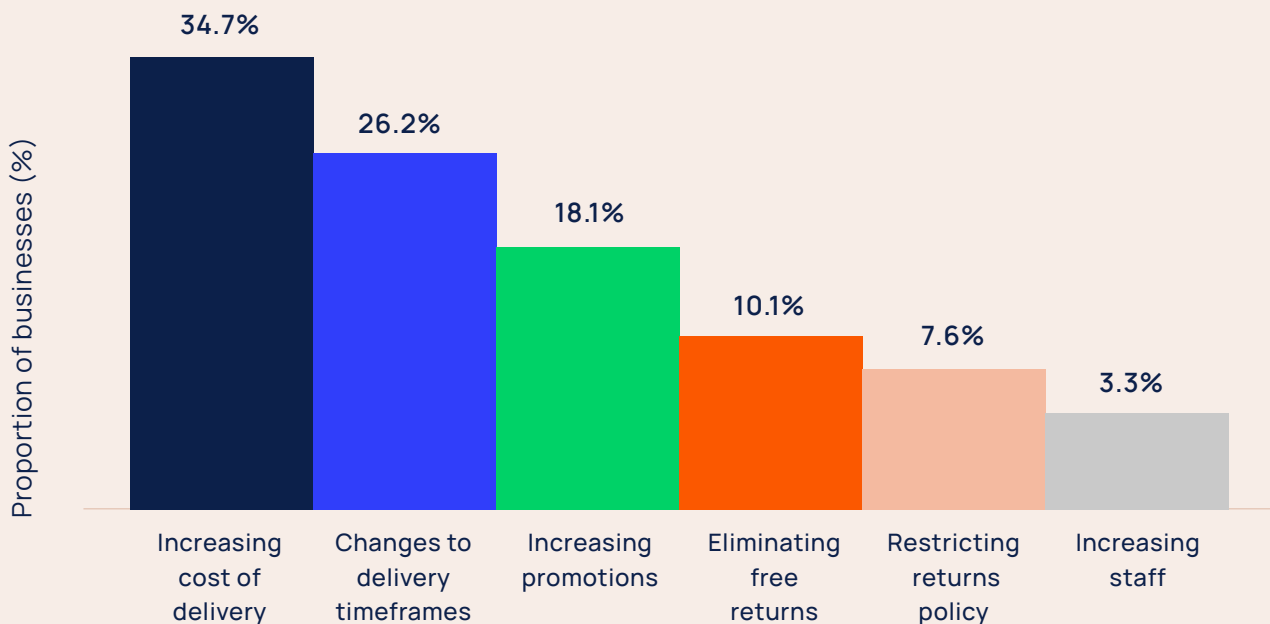
Successful businesses continually re-evaluate their propositions in response to emerging challenges. Some are already cutting back on previously free services such as delivery and returns, and now

charge for them. However, this comes at a time when consumers are demanding more value and are actively considering alternatives to stretch budgets.

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

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

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



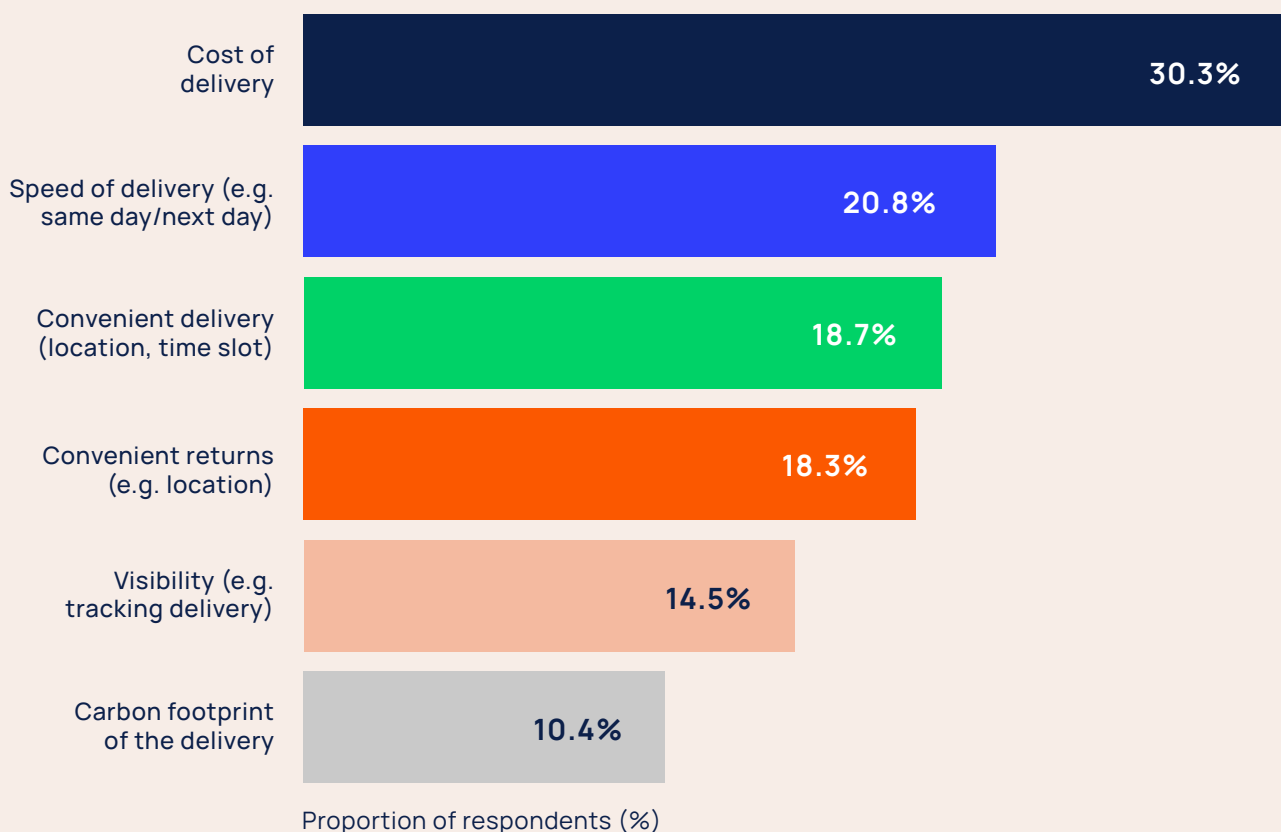
Source: Auctane, Retail Economics analysis

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



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

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



Source: Retail Economics

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



# Adapting and thriving

With peak trading conditions overcast by a myriad of harsh economic constraints, retail brands must carefully consider how to define and communicate their value proposition. Profitability needs to be safeguarded, and key strategies honed. Rising costs, ongoing supply chain disruption, and softer consumer demand necessitates smarter approaches in order to weather the storm.

Our research identifies five critical areas where retailers will need to focus on in order to successfully navigate the challenges of peak season and beyond:

## 1. Defining a strong value proposition

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

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

Recessionary behaviors, such as shopping around for deals and seeking cheaper alternatives, will become more commonplace. Here, businesses will have to put value for money at the heart of their proposition to attract custom and preserve loyalty.

**“People will spend less. Therefore we will have to launch campaigns to sell more”**

EVABLU

Source: 'Auctane Holiday Shipping survey'

### Investing in price

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

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

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

### Customer segmentation, retention and acquisition

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

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

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

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

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

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

### ROBERTS CAMERA

Source: 'Auctane Holiday Shipping survey'

## Balancing parcel delivery costs with customer expectations

The last few years have seen stellar growth in both e-commerce demand and consumer expectations of their online shopping and delivery experience. But as we approach our third peak trading season since the pandemic, this report highlights that many retailers and sellers are still trying to adapt to a continuously changing environment.

The findings show a potential gap in how consumers are planning versus retailer expectations: as we go into high-velocity holiday season, consumers indicate that they're looking to cut back to the tune of 22% - an estimated £4.4B in the UK alone. Compounded by rising costs, it's certainly looking to be a peak season that continues to require flexibility and agile innovation.

So how can retailers and e-commerce sellers use some of the lessons of the past few years to mitigate this gap? The pandemic drove significant improvements in agility in retail operations. Those who adapted - whether in procurement, IT, or logistics - fared better than those who couldn't. Retailers found that automation and technology such as integrations with providers like Metapack were crucial in helping to react in real time to spikes in sales or delivery volumes. Bespoke integration setups include automating allocation rules, and ensuring selection and choice of shipping service providers are customised to meet specific criteria such as coverage, collection times, types of goods. Using automation in this way speeds up processes, improves customer experience, and ultimately reduces costs.

amazon shipping



The report also shows over a third of retailers are planning to increase their costs of delivery, and over a quarter are planning to extend their delivery timeframes. Will we see trends for next or same-day delivery make way for slower, cheaper delivery speeds as both consumers and retailers try to cut back? As retailers look to reduce overheads as much as possible, without impacting their customer experience, many will be looking at their carrier's parcel delivery rates. These are the obvious costs to compare, but with hidden surcharges and add-ons, this isn't always as simple as comparing rate cards. There are also loss rates and claims to consider - both in terms of reliability and carrier's ability to solve problems when they occur.

Generating positive customer experiences while reducing costs will be a tightrope to walk over the coming months. Choosing a delivery partner who can support your business through these uncertain times – whether that's through year-round reliability, bespoke technology, or network flexibility during spikes – is key to working through some of the challenges ahead.

At Amazon Shipping, we're privileged to provide parcel delivery solutions to customers of all types and sizes. As we look to peak season and beyond, we're looking forward to continuing to work closely with retailers and supporting them to grow their businesses in a rapidly changing environment.



**Ines van Gennip**  
HEAD OF AMAZON SHIPPING EU

**Discover Amazon Shipping  
parcel delivery**





## 2. Redefining customer experiences

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

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

### Customer trade-offs

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

### Shifting channel mix

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

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

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

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

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



### Instant access

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

### Online delivery experience

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

**“We’re spending money and time improving our website and mobile experience so hopefully conversions will improve.”**

**KALEIDOSCOPESTOYOU.COM**

Source: 'Auctane Holiday Shipping survey'

### 3. Data, insights and personalization

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

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

#### Personalization and communication

Using data science (AI, machine learning and analytics) to mine behavioral insights for personalized marketing strategies in the run up to peak, could be the determining factor between success or failure. Battling for consumer attention nowadays is exceptionally challenging. As such, using big data to drive sophisticated marketing strategies that engage customers by serving them relevant content at the right moment, in the right channel, will be vital.

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

#### Enhancing loyalty

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

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

#### LAND RUN BRANDS

Source: 'Auctane Holiday Shipping survey'

## 4. Evolving operating models

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

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

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

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



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

**SEAFRESH**

Source: 'Auctane Holiday Shipping survey'



## 5. Flexible supply chains

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

Our research shows that many businesses started planning for peak season earlier than last year, reflecting greater uncertainty and supply chain issues.

Improved strategies are likely to involve using shorter, more flexible supply chains, better equipped to deal with supply shocks; and importantly, able to address changes in consumer values in response to external conditions (e.g. 'cost of living' crisis, geopolitics, pandemics).

In order to navigate supply chain disruptions more effectively, our research highlights the following strategies:

### **Simplification and diversification:**

Businesses should explore simplifying their supply chains, making them shorter and reducing overreliance on single countries (e.g. China +1/+2 models).

**Rethinking inventory:** Establish alternative supply sources to enable fast-tracked volume delivery capability. Adopt better, more agile inventory policies to maintain 'just-in-time' strategies with established mitigation.

**'Digital first':** Adoption of 'digital-first' supply chains has never been more pressing. Increased efficiency and predictability will help optimize product mix and range, pricing power, and reduce waste. Also, optimizing data flows (from point of sale to predictive ordering) and digital supply chain transparency, can help improve assortment, tailored merchandise for regional variations, and adapt pricing.

**Final mile:** The final stages of the supply chain have seen consumer expectations for cheap and speedy delivery become normalized. Consistently achieving these objectives will require investment towards more automated distribution centres and micro-fulfillment hubs (and potentially 'ship from store') to meet demand at scale.

## Minimizing fuel surcharges this retail peak season

The last thing retailers want to contend with right now is fuel surcharges. However, carriers and delivery services are under pressure themselves due to rising fuel prices. This cost will likely be passed down in turn to the end user. A great way to reduce the impact is by diverting shipments to delivery methods that are less reliant on traditional fuels.

For example, Homerr is a logistics network made up of private individuals and local entrepreneurs who make their homes or shops available as drop-off or pick-up points. Because Homerr uses existing routes and collection points, it can save up to 79% CO2 per parcel.

Zedify, on the other hand, is centered on parcel consolidation and fleets of large electric cargo trikes, which can carry half the volume of a small van.

**Find out more about Homerr, Zedify, and the rest of Metapack's 350+ strong carrier network, [here](#).**



## Boohoo Group fast-tracks ecommerce expansion

The Boohoo Group is one of the world's fastest growing companies. When it acquired two labels – Oasis and Warehouse – the group needed an online delivery network capable of supporting its international business.

The Boohoo Group uses Metapack's Shipping API to allocate the most intelligent and cost-effective shipping options, drawing from the world's largest library of 350+ carriers and 4,000+ delivery services. This is especially important to help Boohoo Group serve its growing international market. Because the software integrates directly with carriers, different services can be added effortlessly via a single API.

Using the Shipping API, the two newly acquired brands have direct access to an international fulfillment network of 53 carrier services. The platform is capable of allocating orders at breakneck speeds of less than 300 milliseconds.

**Learn more**

boohoo



# Conclusion

The 'cost of living' crisis, combined with pre-existing industry disruption will weigh heavily on both retail brands and consumers coming into this peak retail season. As a result, retailers effectively need to become smarter in their strategic approach, while scrutinizing operating costs to remain profitable. On the opposite side of the till, consumer behavior is rapidly shifting, primarily driven by value-seeking motivations and financial necessity.

As retailer operating costs soar and the 'cost of living' crisis bites into consumer finances, spending intentions over Black Friday and Christmas will be more muted – despite push factors like the FIFA World Cup. The overriding priority for many retailers is to maintain cash flow over what should be the most important time of the year for retail. This will involve a delicate balancing act. Deeply understanding customer cohorts, their characteristics, and how to leverage data to better communicate core promotional messages will be paramount – while simultaneously cutting costs (and potentially reevaluating services).

This research identifies four consumer types based on attitudes towards finance and financial security. Findings reveal key behavioral differences that will likely impact spending patterns for peak trading in 2022. For instance, lesser affluent shoppers show a propensity to shop more in physical locations within apparel and electricals due to money-saving objectives. The study also shows a potential mismatch between retailers' expectations for sales performances, and consumer sentiments towards spending. This is likely to dampen holiday spending across the eight international markets included in this study.

Heading into the golden quarter, further disruption is expected. Businesses will continue to grapple with multiple challenges derived from successive changes in government and monetary policy. As such, they will need to work more diligently to shore up balance sheets and to reap maximum benefits in the final quarter.

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

- (1) defining a strong value proposition;
- (2) redefining customer experiences;
- (3) data, insights and personalization;
- (4) evolving operating models; and
- (5) achieving flexible supply chains.

The most important lever, however, in winning customers through times of uncertainty, will always be a deep understanding of your target audience, and how their priorities shift in different circumstances. This will be true for the current 'cost of living' crisis, as well as future macroeconomic challenges which are bound to unfold over time.



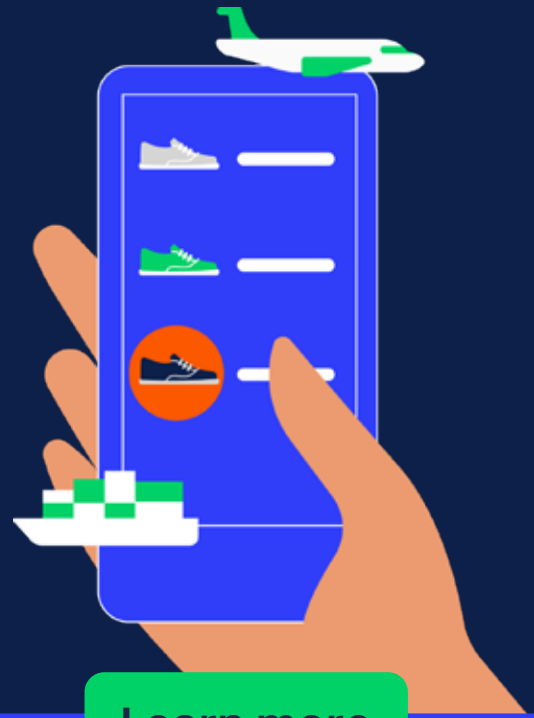
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## Delivery Manager



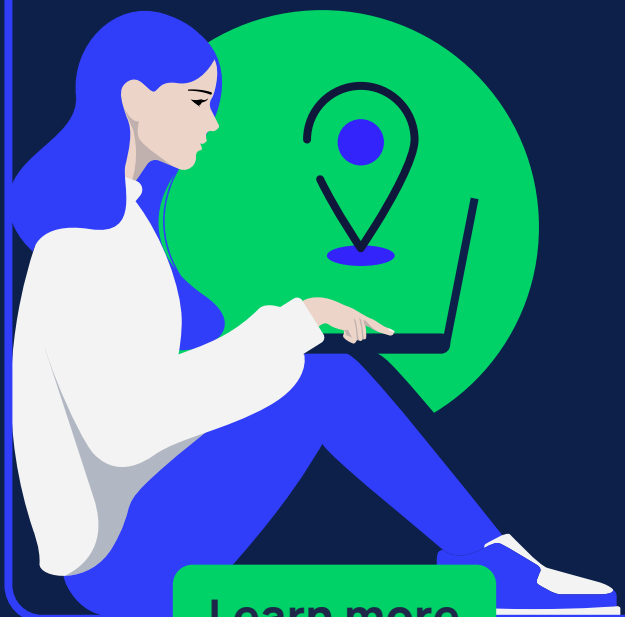
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