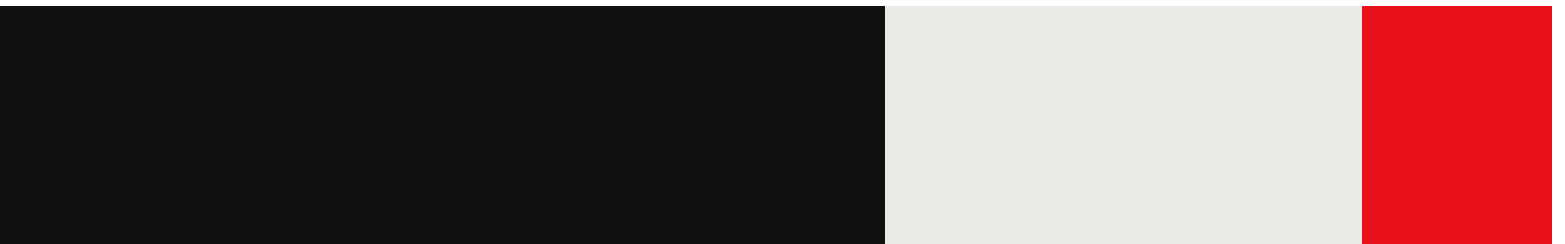


Reimagining Retail: What to look out for this holiday season, who will do well, and why

Audio



On today's podcast episode, in our "Retail Me This, Retail Me That" segment, we discuss what we are paying close attention to this holiday season, how much more the holiday season has

been pulled forward, and besides being earlier than everyone else, which holiday strategies will work? Then, for "Pop-Up Rankings," we rank one projected winner and one retailer that needs help this holiday season. Join our analyst Sara Lebow as she hosts director of Briefings Jeremy Goldman and analyst Zak Stambor.

Subscribe to the "Behind the Numbers: Reimagining Retail" podcast on [Apple Podcasts](#), [Spotify](#), [Pandora](#), [Stitcher](#), Podbean, or wherever you listen to podcasts. [Follow us on Instagram](#).



Episode Transcript:

Sara Lebow:

Insider Intelligence is the leading research firm that is committed to providing unbiased data and insights. Our trusted reports, forecasts, and benchmarks are backed by proprietary data

and a rigorous contextualization process that ensures our clients make better decisions for their businesses. Join more than a hundred thousand subscribers and learn what Insider Intelligence can do for you.

Hello, listeners. Today is Wednesday, September 6th. Welcome to Behind the Numbers: Reimagining Retail, an eMarketer Podcast. This is the show where we talk about how retail collides with every part of our lives. I'm your host, Sarah Lebow. Today's episode topic is holidays.

Before we get to that, let's meet our guests. Joining me for today's episode, we have senior director of briefings, Jeremy Goldman. Hey, Jeremy.

Jeremy Goldman:

Hey Sarah. How's it going?

Sara Lebow:

Going well. Also here with us today is senior analyst Zak Stambor. Welcome back, Zak.

Zak Stambor:

Thanks. Hey, Sarah. Hey, Jeremy.

Sara Lebow:

Now, Jeremy, you say hi to Zak and we do it in a circle.

Jeremy Goldman:

Do I have to? Zak, long time no speak.

Sara Lebow:

When's the last time you guys spoke?

Zak Stambor:

A couple hours ago.

Sara Lebow:

I talked to Zak 30 minutes ago, so take that. Okay, let's get started with free sample, our did you know segment where I share a fun fact tidbit or question. Today's tidbit is the person credited with coming up with the idea of dressing as Santa for Christmas was named James Edgar. Supposedly he got the idea in 1890 in Brockton, Massachusetts. He also dressed as George Washington, a cricket player, a sea captain, and a clown, although I saw a picture of him dressed as a clown and honestly I think he could have been doing more. You might call him something of a mascot entrepreneur. Do you guys know about James Edgar?

Zak Stambor:

No. And I find it surprising it was just in the 1890s.

Sara Lebow:

Yeah, so Santa was around before that. There's a lot of interesting history of Santa. This is a Wikipedia deep dive worth getting into. But yeah, the Santa department store thing? Really recent.

Jeremy Goldman:

I want to know the first person who dressed up as Krampus.

Sara Lebow:

Which one is he?

Jeremy Goldman:

Isn't he the one who puts the coal in the stockings or he eats the children or something like that?

Sara Lebow:

I always assumed it was Santa's job to do the coal. It seems inefficient to have a different guy do it.

Zak Stambor:

I was just thinking of the same thing.

Jeremy Goldman:

Offshoring.

Sara Lebow:

Well, Santa has already offshored. Santa is not US labor. Okay, now it's time for our next segment, retail me this, retail me that, where we discuss an interesting retail topic. It's our first episode of September, so obviously we're talking holidays. Our colleague Andrew Lipsman wrote in a February report that holiday 2022 growth sets the stage for a solid, but unspectacular holiday 2023. I'd say that Andrew's prediction from back in February will probably ring true. We predict holiday retail sales will grow by about 5% this year, up slightly from 4% last year. What else are we looking at this holiday season?

Zak Stambor:

I actually think that growth is pretty decent. It would be the sixth-fastest growth in the past 15 years, which is not nothing, particularly coming after the massive growth of the pandemic years. So I think while it may not be the sexiest number, put into context it's pretty remarkable. If you compare it to 2019, it's like 33% higher, so that's pretty strong.

Jeremy Goldman:

Yeah. I think that from a historical standard perspective, I think Zak's definitely right. The only thing that I would add, of course, is that inflation has been slowing, but it was still pretty high, let's say for the entirety of 2023 by the time we get to the holidays. So you have to think a little bit about how much of that growth is "real" and how much is manufactured through inflation, and the answer is probably a bit more than the typical year.

Sara Lebow:

Yeah, but that's something that's hard to compare against really any year, so I definitely agree with you, but it's something that might be an issue any year. I do think that 5% feels lower than it really is because we're working against all of the excitement of the 2021 holiday season when people were spending, especially online, like crazy. We're definitely still feeling a slowdown, but if we block that out, then yeah, 5% feels decent.

Jeremy Goldman:

By the way, the other thing that I think is probably worth mentioning, Zak, I think the total number is, what is it? 4.5% for the year?

Sara Lebow:

Yeah, yeah. 5% rounded up.

Jeremy Goldman:

Right. So it's interesting to me that we still have retail e-commerce going up in the US this holiday season by 11.3%. So to echo Zak's point before, that's not that insignificant, and 2022 e-commerce was just 6%. So when you look at it that way, that's definitely a lot of favorable signs.

Zak Stambor:

I'm so glad you brought that up, because the e-commerce growth, while strong in comparison to then, is relatively slow compared to over that 15-year spectrum. I looked into it, I think it would be the 12th-fastest growth. So e-commerce is slowing relatively speaking compared to historical standards.

Sara Lebow:

E-commerce slowing isn't necessarily what I would expect, and the reason for that is because of everything Amazon is doing to push holiday sales and to push them sooner. So do you know if our e-commerce forecast, that's just November and December, right?

Zak Stambor:

That's right.

Sara Lebow:

So we're not including all of the e-commerce growth that's being pushed a bit earlier in October when Amazon is having these new early-access Prime Day type events.

Zak Stambor:

That's very true. And also, the other piece that I think is really important to take note of is when e-commerce was growing at these huge rates, it was still a very tiny share of overall retail sales. Now I think it's almost 20%, and so it's all relative. The fact that it is growing and making up that large share of overall retail sales, it's really notable.

Jeremy Goldman:

That's why I think October is going to be really interesting to watch, particularly this year. We all know that holiday has been in October for a while, but there's going to be a larger percentage of overall sales that happen in October with everything moving up. I think the other key thing, just to point out with our forecast, our forecast excludes a few things such as travel and event tickets, and there is a lot more data that post-pandemic, people appreciate the idea of experiences and spending money on experiences more and more. It's easier to book those things online. It's a smaller percentage of all retail e-commerce sales, and we exclude that from our holiday forecasts, so then when you add all that stuff in, does that make it even bigger?

Sara Lebow:

Yeah. It's hard to compare a lot of these holiday numbers because some forecasts look at all of Q4, some forecasts look at November and December, and what we think of as the holiday season is completely shifting, what we think about as holiday spend is shifting. So it's awesome that we have this data. Our forecasters are great. But it's a little apples to oranges when we look at other data and think about the overarching trend of the holiday season,

Zak Stambor:

It is top. When you look at the full spectrum of holiday forecasts, it's like apples to oranges to cantaloupe to cherries or something. And so you do really need to look at the fine details of what they're measuring, how they're measuring it to understand what it is that the data is saying.

Sara Lebow:

So I do think from a retailer perspective, it makes sense to think of all of Q4 as the holiday season, considering Primes events in October. We're talking about this in September. Holidays "start" in October if you're going by my judgment. Someone else might disagree. Do you think that the holiday seasons are just going to keep getting earlier? At what point does this stop?

Jeremy Goldman:

I will say, rather than have a really great answer for you, like it's stopping on October 3rd, and that's the answer. It's that why is it happening? And the answer is basically everybody wants to capture these sales sooner rather than later when they're a little bit more confident in their ability to select the right mix. Consumer trends are changing so quickly, so if you order

something because you think you can sell it, you want to sell it faster. And we saw this a few years ago where every retailer was trying to open Thanksgiving night at a certain time versus Thanksgiving the whole day, and there was a certain point where people revolted and said, no, this is a little too early. But it behooves retailers to keep selling earlier and earlier until we see that type of market reaction and pushback because if you just have somebody like me who says, I'm just going to shop on October 15th, I'm not going to boycott the store, they're incentivized to push it as early as possible, but eventually there will be some pushback from the market, it's just a question of when exactly that happens.

Sara Lebow:

There's always the risk that you buy the it toy. We talked about toys last week. You buy that it toy in October and the it toy changes at the speed of social media by December.

Zak Stambor:

Very true.

Sara Lebow:

Okay, so knowing that retailers feel the need to be earlier than everyone else, what other holiday strategies beyond just getting in the door as early as possible are going to work this year?

Zak Stambor:

I think the most basic one and obvious one but one very much worth saying is just discounting, and discounting is always one of the key tried and true strategies of the holiday season, but as we're seeing consumers pull back in discretionary spending, you have to give them a reason to spend. And with Amazon having their big sale in October and many others following, there's going to be a push to the bottom, and so if you want to get people to [inaudible], you have to give them that reason to do so.

Jeremy Goldman:

That's a really good point, what Zak was just talking about. I'd like to actually extend that to something he mentioned earlier about these different windows. Forecasting on Adobe, for instance, includes a little bit into January because of returns. And returns are actually a really big deal within the retail space, particularly because they can be an upsell opportunity. So

smart retailers figure out ways to get people back into the store. You actually want to get people into your physical retail location rather than having you send a product back because if you just return, you process a return, you're not going through an e-commerce storefront, per se.

But if you go into the physical store and you have an extra promotion or an extra incentive to come back in January, there are some retailers that will give somebody a gift card that's only good when they come back in January. But in short, you have to make sure that you're taking advantage of the return season and make sure that you treat the holidays as a marathon and that 26.2 mile, I don't do marathons, but the end of the marathon is basically let's say January 15th. It's not December 31st.

Sara Lebow:

Sure. We can have Sky back to talk marathons. We did an Amazon episode a couple of months ago now at this point where I had Andrew and Max on and we talked about potential new Amazon retail holidays. One of the things that we didn't talk about there but we did talk about in prepping for that episode was the potential for a return-centric event. And that's definitely an opportunity for a brick and mortar retailer that Amazon doesn't have, where you can use returns as an event to get people back into stores that you're not going to see with Amazon that doesn't have as much brick and mortar opportunity.

Zak Stambor:

Yes. It makes perfect sense to prop up an event to propel sales into the first quarter. I think it's a great idea.

Sara Lebow:

The downfall there, of course, is that in the first quarter, you're going to see your fourth quarter numbers soften a little bit as those returns come in. I guess those are first quarter numbers at that point, so if you've already gotten the fourth quarter numbers down, then you can just drop them up with those deals. Any final thoughts on holiday strategies that we're going to see in action this year?

Zak Stambor:

Yeah, definitely. Thinking about how people pay. We've seen a huge surge in the number of people paying with buy now pay later. Over Prime Day, I think BNPL transactions are up like

20%, which is just a clear sign that consumers are looking to credit to finance their purchases, and I think we'll undoubtedly see that trend continuing throughout the holidays.

Sara Lebow:

Yeah, Susie, David Morris, and I did an episode a year and a half ago where we talked about buy now pay later, and one of our through lines was the BNPL bubble will eventually burst. There were a lot more ideas in that episode than just that, but that's something that we have not been correct on. Buy now pay later is definitely propelling holiday spend this year.

Zak Stambor:

Absolutely.

Jeremy Goldman:

It's also, yeah, just in terms of the total amount of value that's being pushed through there, it's interesting because that's up almost 20%, 19.7% according to our forecasts for 2023, but it's also a big deal because it has now achieved the distinction of making up 1% of total retail sales. It hit that mark or will hit that mark this year. So it's here, it's here to stay, and by 2027, it should be one and a half percent of all retail sales.

Sara Lebow:

That's a great point. Thanks for bringing that data, Jeremy. Let's keep on moving. Now it's time for pop-up rankings, where we take a look at specific examples and we rank them. Today, Zak and Jeremy will take a look at this year's holiday season, which is still a couple of months away, and predict one potential winner and one retailer that may need help this holiday season. Let's start off with our winners. So Jeremy, who do you have as a potential winner this holiday season?

Jeremy Goldman:

So I'm saying that Ulta will be actually a pretty interesting one to look at. I think one thing that people forget about is that people often buy gifts, obviously, but they also buy things for themselves. I think if you're looking at Ulta versus, let's say Sephora, particularly because people are still feeling the effects of inflation even though inflation has slowed, what that means is that if you're deciding between the two, you might go to the place that is more likely to have things at various price points that you can take advantage of. So essentially, I'm not

expecting affordable luxury to win out as much as the same way as more accessible luxury, and Ulta typifies that. They're also doing relatively well and performing well throughout the year, so I don't see any real reason why that would not continue. They had a slight decrease in their average transaction value last quarter, but apart from that, they had a really strong quarter.

Sara Lebow:

Health and beauty is a huge potential growth category for e-commerce. Do you know how Ulta performs there?

Jeremy Goldman:

Pretty well. The short answer is that there are some products that they offer that don't work that well with e-commerce. Generally speaking, e-commerce is a great opportunity within beauty from a replenishment standpoint. There are also some things that Ulta does such as services that don't translate at all to e-comm, so you have to keep that under consideration, but basically pretty well, but with room to grow.

Sara Lebow:

Yeah, I guess I can't e-commerce get a full face of makeup until AR tech gets even better.

Jeremy Goldman:

Which they're working on. Yep.

Sara Lebow:

AR tech that can come directly to my face. Okay. Zak, why don't you tell us another potential winner for this year's holiday season?

Zak Stambor:

Yeah. Abercrombie is one that I definitely think is poised to win this holiday season, and it isn't just me who thinks it, they think it. They just raised their full year outlook after reporting really strong results in Q2. It's really remarkable what they're doing given that they're operating in a category that's tough. Apparel sales for the first seven months of the year are up, I think 0.9%, but Abercrombie continues to grow because they really know who their target customers are, millennials, Gen Z, what they want, and that's allowing them to expand into new categories in

ways that are very brand aligned and it's working for them. So I think that will just continue into the fourth quarter.

Sara Lebow:

Yeah. I saw Abercrombie's CMO speak a while back at an event. Actually, Jeremy, I think you might've been sitting next to me at that event. Yeah, so Jeremy and I saw Abercrombie's CMO speak at an event a few months back. I was really impressed. This is a brand that's been around forever, used to have one completely different legacy identity, and then when I was growing up, had this expensive, exclusive, ableist size exclusive identity that really did not age well and has against all odds turned it around completely, understands TikTok well, understands their core audience well, and has once again become a cool brand. If you asked me 10 years ago if that was possible, I would've said absolutely not.

Zak Stambor:

Totally agree, and it's really impressive.

Sara Lebow:

Okay. Jeremy, let's move on to our retailers who need a little bit more work this holiday season. Jeremy, who's someone who might be a laggard this season?

Jeremy Goldman:

So I would say Best Buy, and to parallel what Zak was saying before, Best Buy believes that it doesn't believe in itself, at least from holiday perspective, but generally for the whole year. If you look at our forecast, we were expecting them to be down from an e-commerce standpoint 7% year over year, and that's generally not great, because we talked about how the market is growing overall from an e-comm standpoint. And part of the challenge that they have is that consumer tastes are changing very quickly, so they're often left with inventory that doesn't meet the moment, if you will. But also on top of that, you have a challenge that you want to get people into the store. I think that they have an opportunity to be a real experiential spot where you can see something that's going to be very high ticket that you can bring home.

And the problem is A, at that high level, they have been executed in terms of getting people in the store and creating those experiences. And then at the, let's say, the more accessible level of technology, you can buy that at Target, you can buy it at Walmart. You just have a lot of

other competitors who are a little bit more nimble in terms of digital transformation and particularly their e-commerce initiatives. So Best Buy, they were expecting it to be soft. The question is how soft will it be? But they're expecting holiday to be down just like with the whole year.

Sara Lebow:

How does that compare with consumer electronics on the whole?

Zak Stambor:

Consumer electronics for the first seven months of the year are down 2.1%.

Jeremy Goldman:

What I have, hold up, since I cover a lot of ad spending tied to the sales of these products. There's been a lot of pullback. 1.9% growth in digital ad spending for consumer electronics. And there are a number of different reasons that people postulate why, but part of the reason is just it's harder and harder every year to get people to upgrade their devices. What they've spent money on is lasting longer and just to convince people, but you really need this new thing is a bit more of an uphill battle. So it's just generally not a great category to be in. But when you're in a troubled category and you don't have much of a strategy to outperform the category, that's another problem.

Sara Lebow:

Someone should tell my devices that they're supposed to be lasting longer. Yeah, that's a great point, and it's interesting you bring up ad spend, because Best Buy has a retail media network that they have been trying to push, and so ad spend will also take its toll on Best Buy. All right, Zak, why don't you finish this off with our final retailer that needs a little bit more work this holiday season?

Zak Stambor:

Yeah. Nordstrom Rack is the one that I want to point to, and I think it's really an interesting case because off price is doing really well. Companies like TJX are just crushing, but Nordstrom Rack is struggling and it's a real indication of how execution matters. Their mix of brands isn't really that inspiring or exciting, and the prices really aren't as competitive as TJX, for example, and so if you want to get people into the stores, you have to give them a reason

to, just like Best Buy and they just aren't doing that that well, and I don't expect them to turn that around in time for the fourth quarter.

Sara Lebow:

Yeah. If the Union Square Nordstrom Rack wants to get me into the store, they need to make the consumer experience much better. It's a big space, a lot of stuff, reasonable prices, so challenging to be in here.

Zak Stambor:

Yeah, it's so tough to navigate the store and it's not a fun hunting challenge. It's just a frustrating one.

Sara Lebow:

Yeah. So you need me, I will not be at the Union Square at Nordstrom Rack. Jeremy, are you familiar with that Nordstrom Rack?

Jeremy Goldman:

Yes, and I definitely agree with that assessment. I mean, there's other ones, too, that I've been in where I think you do have to transform the experience into something that's ultimately fun. We all know discounters where you feel like you're basically enjoying that hunt and it's part of the experience, and then there are ones where it's just like, eh, I'll go to Auntie Anne's Pretzels next door.

Sara Lebow:

Yeah, definitely agree. Well, that is all we have time for today. Thank you listeners for joining us for a very early holiday episode. And thank you, Zak.

Zak Stambor:

Yeah, thanks for having me.

Sara Lebow:

Thanks for being here, Jeremy.

Jeremy Goldman:

Thank you. And next year, this episode will be even earlier.

Sara Lebow:

Please give us a rating and review wherever you listen to podcasts and follow us on Instagram at [behindthenumbers_podcast](#). Thank you to Victoria, who edits this podcast and makes every day a holiday. We'll be back next Wednesday with another episode of Reimagining Retail, an eMarketer Podcast. And tomorrow, join guest host Stephanie Taglianetti for an episode of The Behind the Numbers Daily.