Arielle Feger

5 retail trends that will shape 2023: social commerce, retail media, and more

Article

What does 2023 have in store for retailers? The answer is a bit of a mixed bag.

Though inflation and increased costs are putting pressure on everyone from consumers to retailers, there are huge opportunities for growth if you know where to look.

And luckily for you, we do. Here are our analysts' takes on the biggest retail trends of 2023.

1. TikTok and Gen Z will shape social commerce

"Many platforms have been trying to gain a foothold in social commerce, but they haven't been able to replicate what's worked in China," said our analyst Sky Canaves during a recent webinar.

The platform that's come closest? TikTok, but that's been helped by Chinese parent ByteDance, which has been pretty successful at ramping up social commerce in China.

Next year, TikTok will add nearly 10 million social buyers, nearly two times the combined increase for Facebook, Instagram, and Pinterest.

The driving force behind this growth is Gen Z, a mobile-first demographic that hasn't yet developed fixed habits around online shopping. In a June survey, the No. 1 reason Gen Z consumers made their most recent social media purchase was because they found a product they liked.

TikTok's discovery-first approach meshes with how Gen Z approaches commerce, said Canaves. "TikTok will continue to drive product discovery through the same types of algorithms that it uses to power its personalized video content recommendations."

2. Mid-tier brands face an uphill battle

As inflation and recession concerns put a squeeze on spending, consumers are beginning to rethink how they shop and budget.

"What we're seeing now is a re-bifurcation between higher- and lower-income consumers, while the middle-income consumer is hollowing out," said our analyst Blake Droesch.

How is this playing across the retail landscape? For one, value-based and discount retailers are thriving. Walmart, Dollar General, and TJX have all had stronger-than-expected sales this year, while foot traffic in general is up at discount and dollar stores.

On the opposite end, the luxury fashion category continues to grow, outpacing total retail. Neiman Marcus Group reported that 70% of its stores saw their highest revenue in 10 years and LVMH Moet Hennessy Louis Vouiton also saw sales jump as demand increased.

Unfortunately, this leaves the middle in the lurch as its core audience either spends less or shops elsewhere to save money.

These mid-tier brands (think Macy's, Kohl's, Bed Bath & Beyond) are the most at risk heading into 2023, said Droesch. "[They're] going to have to really adapt or we're going to see them continue to suffer over the next year."

3. Retail media is the third wave of digital advertising

We forecast that retail media spending will approach $60 billion by 2024.

While the category is led by Amazon (which has more than 75% of ad revenue share), there's still opportunity for other players, said Canaves.

Though retail media started out on-site, it's moving off-site and up the funnel to formats like display, video, and connected TV (CTV).

- US retail media off-site ad revenues will grow 37.7% next year to reach $6.54 billion.
- "As the US retail media market [evolves] beyond search into upper-funnel formats, streaming TV is going to capture more of the attention and budgets of major brands. This is the holy grail for advertisers," said Canaves.
- We predict that CTV initiatives from Amazon, Walmart, and Kroger will gain momentum in 2023.

In addition, future retail media growth will pull from different ad budgets. Even though organic growth will contribute the biggest share, there's going to be a shift in dollars from trade budgets and other digital channels.

4. Return policies will make or break loyalty

"If you've been following the news over the last few months, you've probably seen a lot of headlines about the era of free returns coming to an end," said Droesch.

Like most ecommerce trends, Amazon set the standard for free returns, which every retailer has tried to mimic. As margins tighten, some like H&M or JCPenney have decided they're no longer going to eat the cost of returns.

But many large retailers are continuing to follow in Amazon's footsteps and are even introducing new options to remove friction from the returns process.

- Both Walmart and Target offer curbside returns, while Walmart+ members can schedule a returns pickup at their homes.
- Overstock and UPS are piloting a program where returns can be picked up at consumer homes without needing to be repackaged.

As the number of returns goes up (boosted by an increase in bracketing behavior), customers will look for the cheapest, easiest way to do it, said Droesch. And cost isn't the only factor; convenience will also be key in keeping consumer loyalty.

5. The cost of business weighs on retailers

It's not news that consumers want low prices and stakeholders want high profits. But never has it been harder for retailers to deliver both.

Among those struggling the most are direct-to-consumer (D2C) brands.

- These disruptors have lost their early online advantage and now, established brands account for more than 75% of US D2C sales.
- This year, established brands will grow US D2C ecommerce sales 22.6%, well ahead of the 17.5% growth projected for digitally native vertical brands (DNVBs).

But DNVBs may benefit from specialty retailers and big-box stores, which are looking to the DNVBs to stay competitive. Victoria's Secret recently purchased D2C brand Adore Me for $400 million, while Target has partnered with kitchen brand Caraway to court younger consumers.

Some brands, like Gap and Peloton, are partnering with Amazon to increase their customer bases, noted Canaves. "[Amazon] is where the customer is, and if they're searching on Amazon and a brand doesn't have a presence there, a third-party seller is going to step in and take that sale."

Ultimately, the solution is going to lie in the mix between D2C and wholesale strategies.

- DNVBs will find ways to widen their reach through increased wholesale distribution, increased scope, and an increased footprint.
- “For 2023, we expect to see a lot more innovation and experimentation in [this space], really borne by necessity,” said Canaves. “All brands and retailers have to think through how they're reaching their consumer. And diversified distribution will be increasingly important because brands need to be where their consumers are, especially now.”

This was originally featured in the Retail Daily newsletter. For more retail insights, statistics, and trends, subscribe here.