



# Christmas **yet to come:**

How **Retail Analytics** can drive sales and brand loyalty during the cost of living crisis and beyond



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By **Andrew Fowkes**, Global Retail Practice, SAS

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# Foreword

By **Andrew Fowkes**, Global Retail Practice, SAS



The cost of living crisis has cast a shadow over Christmas 2022, leaving retailers wondering whether they'll be able to sell the stock they bought months ago, and whether their margins could possibly be squeezed even more. Some are pinning their hopes on a successful golden quarter to recoup losses from earlier in the year, or simply to survive into the New Year.

What's clear is that retailers can't depend on strategies of Christmas past, nor wait until the tills stop ringing on Christmas Eve to understand performance. Covid and the current economic climate have created so much uncertainty that there are now few reliable data points, and this could hamper good decision-making during these crucial months.

We know that many households are facing new financial pressures this year - but how much will it impact their Christmas spending, and how can retailers weather the storm?

To find out, we commissioned a study of just over 1,500 consumers in the UK and another 1,500 in the Republic of Ireland, the results of which are published in this report.

The findings provide an overview of sentiment - helping to spark creative ideas and drive new strategies, as Peter Lavers, an expert in B2C and B2B Customer Experience discusses on page 12.

Successful strategies are underpinned by real-time analytics that provide a complete view of who your customers are, and their path to purchase. As we'll see on page 16, this removes the guesswork and creates opportunities to continually personalise your offering, refining pricing and promotions based on how people are behaving right now. Analytics are also becoming more impactful thanks to the growing digital footprint consumers create.

Retail, along with other sectors, might have experienced more uncertainty than usual over the past two-and-a-half years. However, advanced analytics - driven by **machine learning** (ML) and **artificial intelligence** (AI) - are changing our understanding of consumer behaviour, enabling faster and smarter decision-making in the near and long-term.





# Introduction: Bleak mid-winter trading

It's the most anticipated time of the year for retailers - but many have been bracing themselves for a challenging Christmas season ahead.

Amid what has been described as the worst cost of living crisis in a generation, our research suggests that consumers are preparing to drastically pare back their spending this year.

While some will be exercising caution as inflation continues to put pressure on household budgets, others will barely be able to afford food and heating, let alone luxuries. Consumer champion Martin Lewis has once again urged people not to buy 'unnecessary' gifts this season<sup>1</sup> - wise words for people struggling financially though not what retailers need to hear.

This year's John Lewis advert also appears to have captured the mood of the nation for its focus, not on Christmas treats but a pledge to support children in care.<sup>2</sup>

While Covid brought economic uncertainty and subdued celebrations, it didn't impact spending in the same way the current crisis might.

Official figures show that retail sales volumes in 2020 and 2021 were higher than pre-pandemic levels (by 3% and 2% respectively)<sup>3</sup> - perhaps because restrictions made other activities such as travel and socialising impossible. Many were also able to make savings during lockdown<sup>4</sup> and there was support, like the furlough scheme, for people unable to work.

Now retailers are having to compete for a smaller wallet share with other sectors such as leisure and hospitality.

<sup>1</sup> [www.moneysavingexpert.com/news/2022/11/martin-lewis-christmas-gifts-help-or-hindrance](https://www.moneysavingexpert.com/news/2022/11/martin-lewis-christmas-gifts-help-or-hindrance)

<sup>2</sup> [www.independent.co.uk/life-style/christmas/john-lewis-christmas-advert-2022-b2222297.html](https://www.independent.co.uk/life-style/christmas/john-lewis-christmas-advert-2022-b2222297.html)

<sup>3</sup> [www.ons.gov.uk/peoplepopulationandcommunity/healthandsocialcare/healthandwellbeing/articles/coronavirusspendinghabitsandsocialisingplansoverchristmasuk/january2022](https://www.ons.gov.uk/peoplepopulationandcommunity/healthandsocialcare/healthandwellbeing/articles/coronavirusspendinghabitsandsocialisingplansoverchristmasuk/january2022)

<sup>4</sup> [www.theguardian.com/money/2021/jun/30/covid-savings-britain-built-up-second-highest-level-on-record-in-early-2021](https://www.theguardian.com/money/2021/jun/30/covid-savings-britain-built-up-second-highest-level-on-record-in-early-2021)

In scenes reminiscent of the 2008 financial crash, we've seen a number of well-known brands slide into administration or collapse, notably Made.com. Even the online giant Amazon warned that sales would fall \$15bn short of predictions.<sup>5</sup>

Of course, there have been economic downturns and high inflation in the past - but after two Christmas periods where Covid dominated, and a radical shift in shopper behaviour in the digital age, retailers don't have enough reliable data, historic or recent, to inform their strategies.

Without this insight, there's a risk that key retail activities - buying stock, marketing, merchandising, pricing, promotions and events like Black Friday - will fail to deliver the hoped-for returns during this critical period. More than ever, they need to strike the right balance between having the most sought-after items available, and avoiding being left with excess stock and costly returns in January.

The cost of living crisis isn't the only challenge retailers are contending with. Like many sectors that rely on low-wage workers, they're

experiencing staffing shortages<sup>6</sup> that could make it difficult to deliver a high standard of service over Christmas.

Another challenge is sustainability - during the season of mass consumption, how do they ensure that people aren't put off by the excess? Furthermore, in the current climate, will cash-strapped shoppers pay more for sustainable products, or will low pricing win out?

It would be easy to assume all shoppers are in the same boat but there are still segments for whom the cost of living crisis is no barrier to an indulgent Christmas. Retailers need to identify as many people in this category as possible, as well as what items they plan to purchase, when and how.

The stark choices facing many consumers this Christmas were evident in our survey. We wanted to find out exactly where they plan to spend their money, their priorities and constraints, how they might be financing their spending, what channels they will use and whether they're planning to make the most of deals and events like Black Friday. All of which can inform retailers on how to prepare.

<sup>5</sup> [www.retail-week.com/fashion/analysis-what-are-retailers-doing-to-avoid-a-nightmare-before-christmas/7042619.article?authent=1](https://www.retail-week.com/fashion/analysis-what-are-retailers-doing-to-avoid-a-nightmare-before-christmas/7042619.article?authent=1)

<sup>6</sup> [www.thegrocer.co.uk/supermarkets/retail-workers-overworked-and-underappreciated-amid-industry-wide-labour-shortages/673075.article](https://www.thegrocer.co.uk/supermarkets/retail-workers-overworked-and-underappreciated-amid-industry-wide-labour-shortages/673075.article)



# Part 1: Survey findings

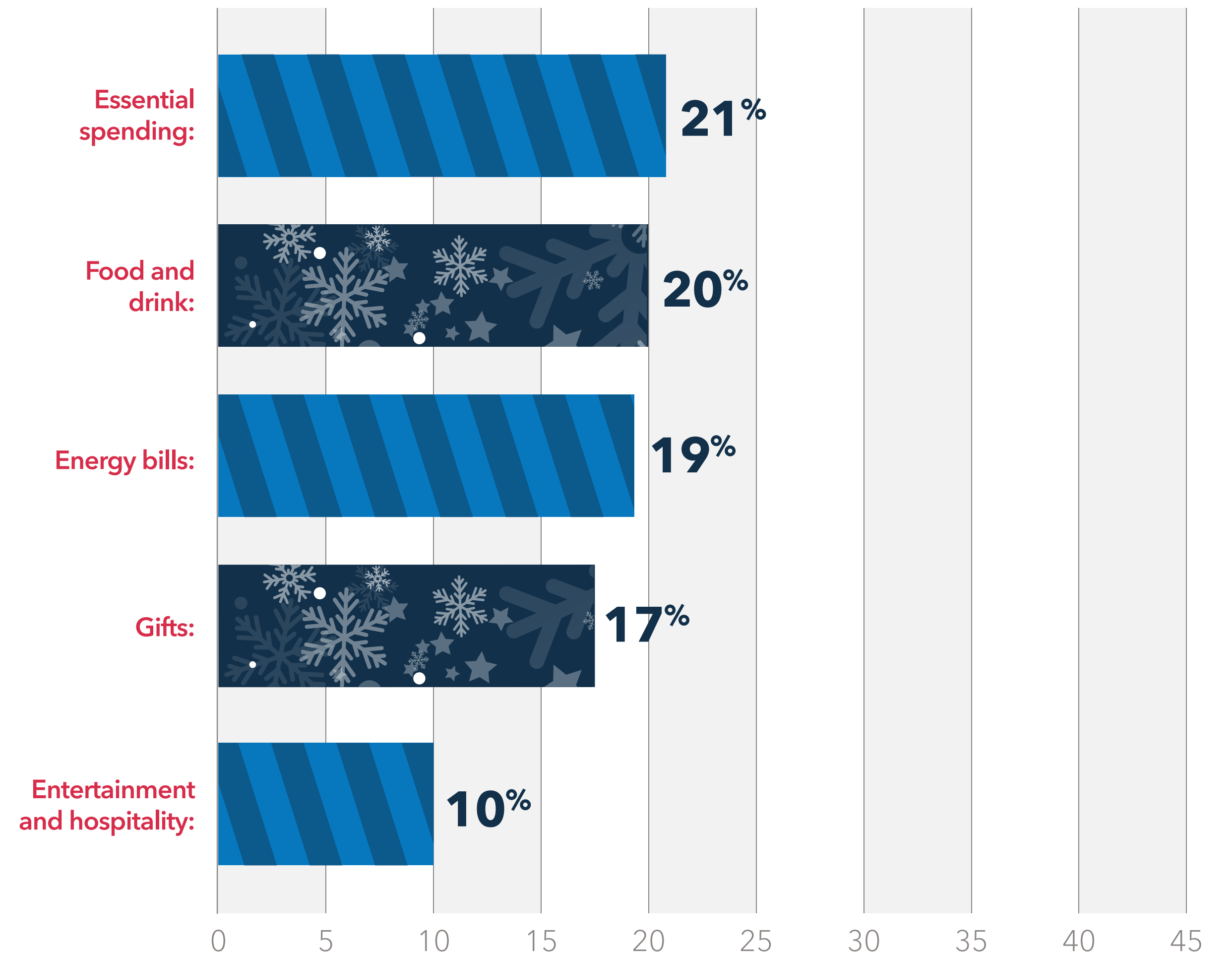
Unsurprisingly, our survey found that 95% of respondents say they're more cost conscious than last year and are planning to spend less overall, as energy and other household essentials take precedence over gifts and socialising. Just under half (49%) said they were reining in their spending a bit but 39% planned drastic reductions.



## INSIGHT:

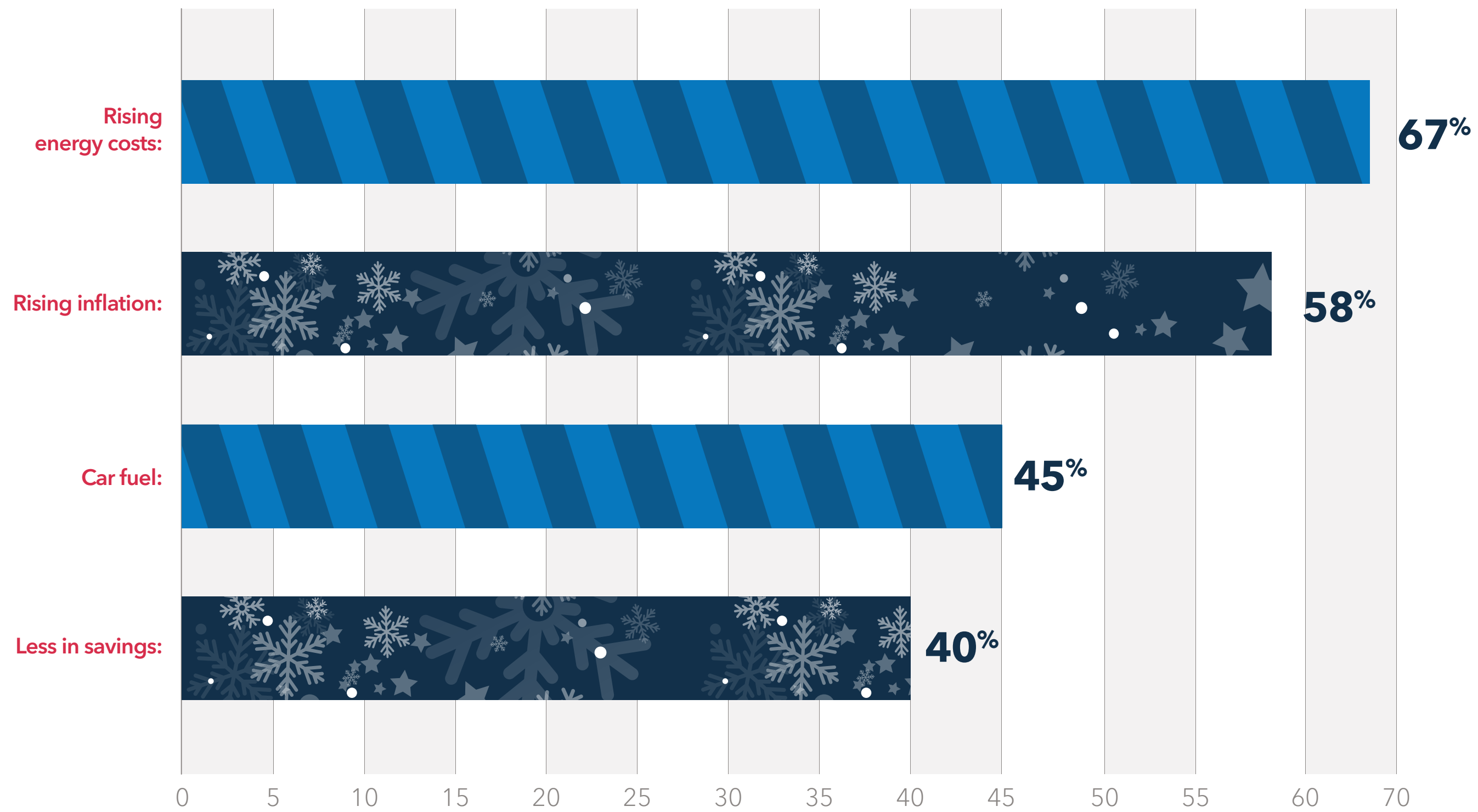
As both interest rates and inflation rise, consumers are prioritising essential spending - such as mortgage repayments - over gifts and entertainment this Christmas. Energy bills account for a high proportion of their wages too. But it's not all bad news for retailers. Despite expectations around Covid being much diminished this year, people are only planning to spend 10% of their budget on socialising. The fact that they're planning to fork out double on food and drink suggests they'll be entertaining at home instead of going out to save money.

**Figure 1:** Where will people spend their wages in the run up to Christmas?



**Figure 2:** What's to blame?

UK & IRELAND



**INSIGHT:**

It's clear that inflation – which rose to over 11% in the UK in October<sup>7</sup> and 9.2% in Ireland<sup>8</sup> – is eating into both household budgets and savings. Simply put, consumers don't have the disposable income available to spend on non-essentials. This will be of little comfort to retailers and other businesses along the supply chain, who're being hit by high production and transport costs, wages and energy bills.

<sup>7</sup> www.reuters.com/world/uk/uk-consumer-price-inflation-hits-111-october-2022-11-16

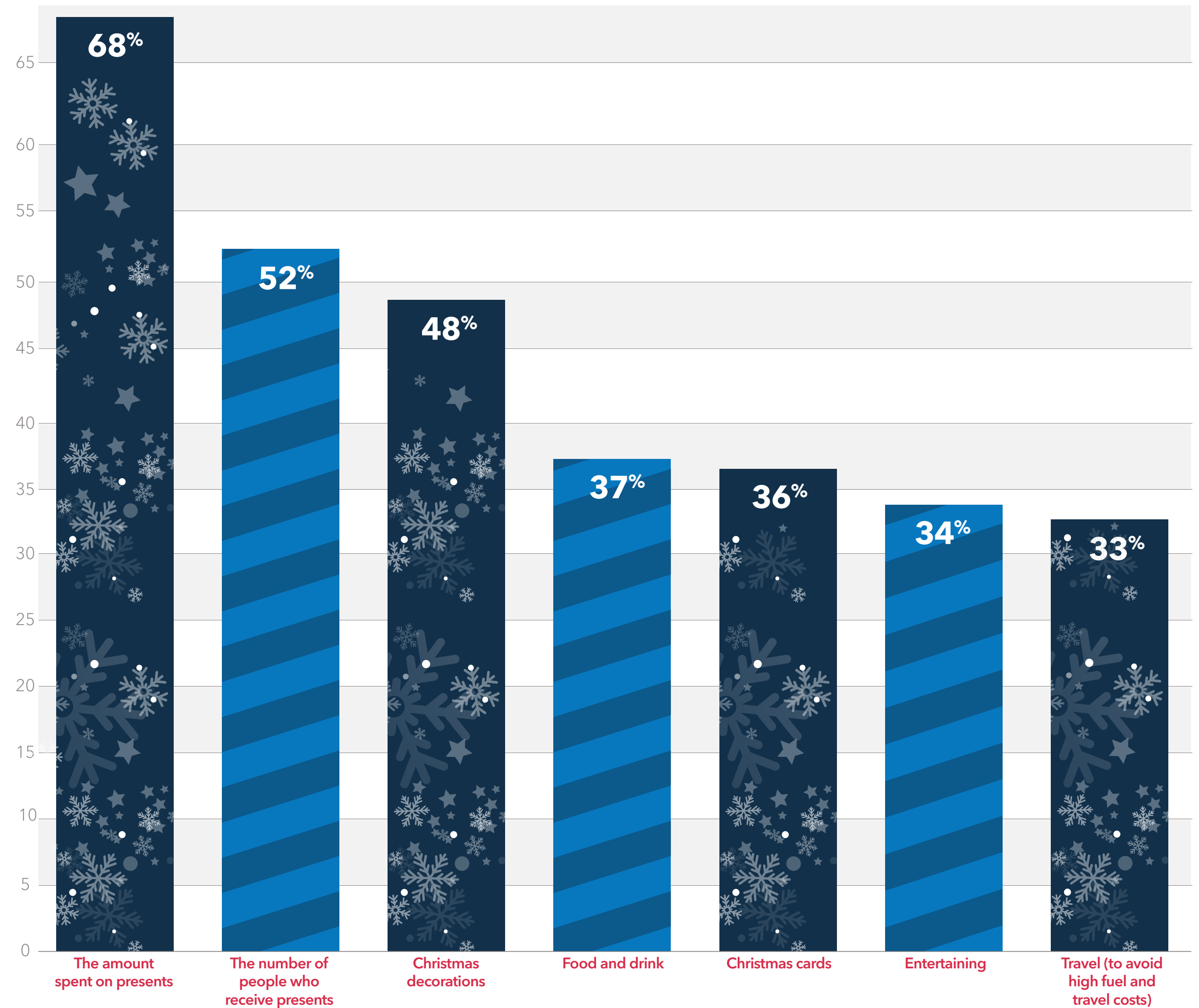
<sup>8</sup> www.rte.ie/news/business/2022/1110/1335287-cso-inflation-figures



## INSIGHT:

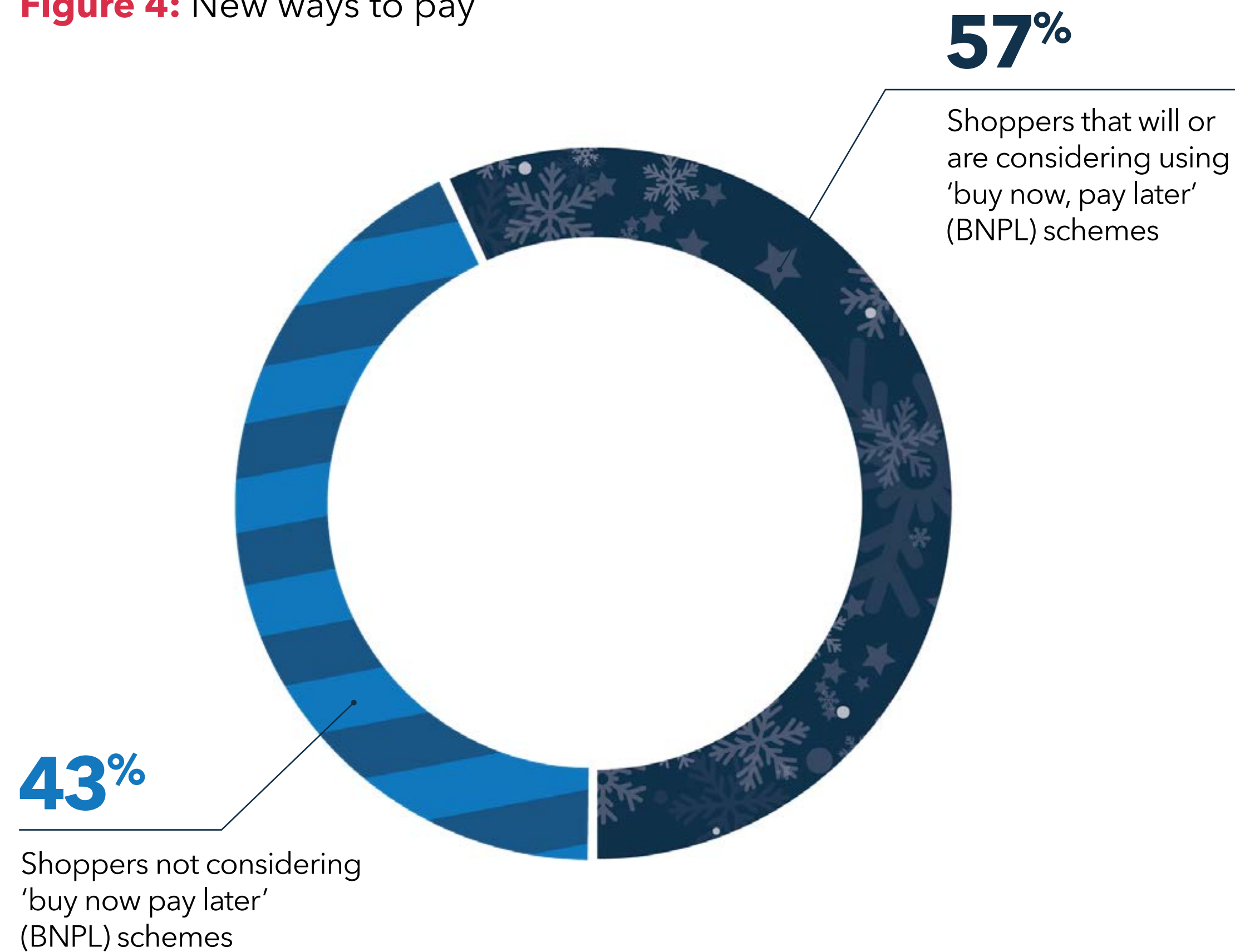
People are planning a leaner Christmas, reducing their spending in almost every area. Covid kept many people away from loved ones for two years but now the cost of living crisis is threatening to do the same, since around a third are cutting back on entertainment and another third are avoiding travel. However, 14% of shoppers plan to carry on as usual this year rather than cutting back or taking advantage of deals - the question is how do retailers capture this valuable segment?

**Figure 3:** Cutting back on...





**Figure 4:** New ways to pay

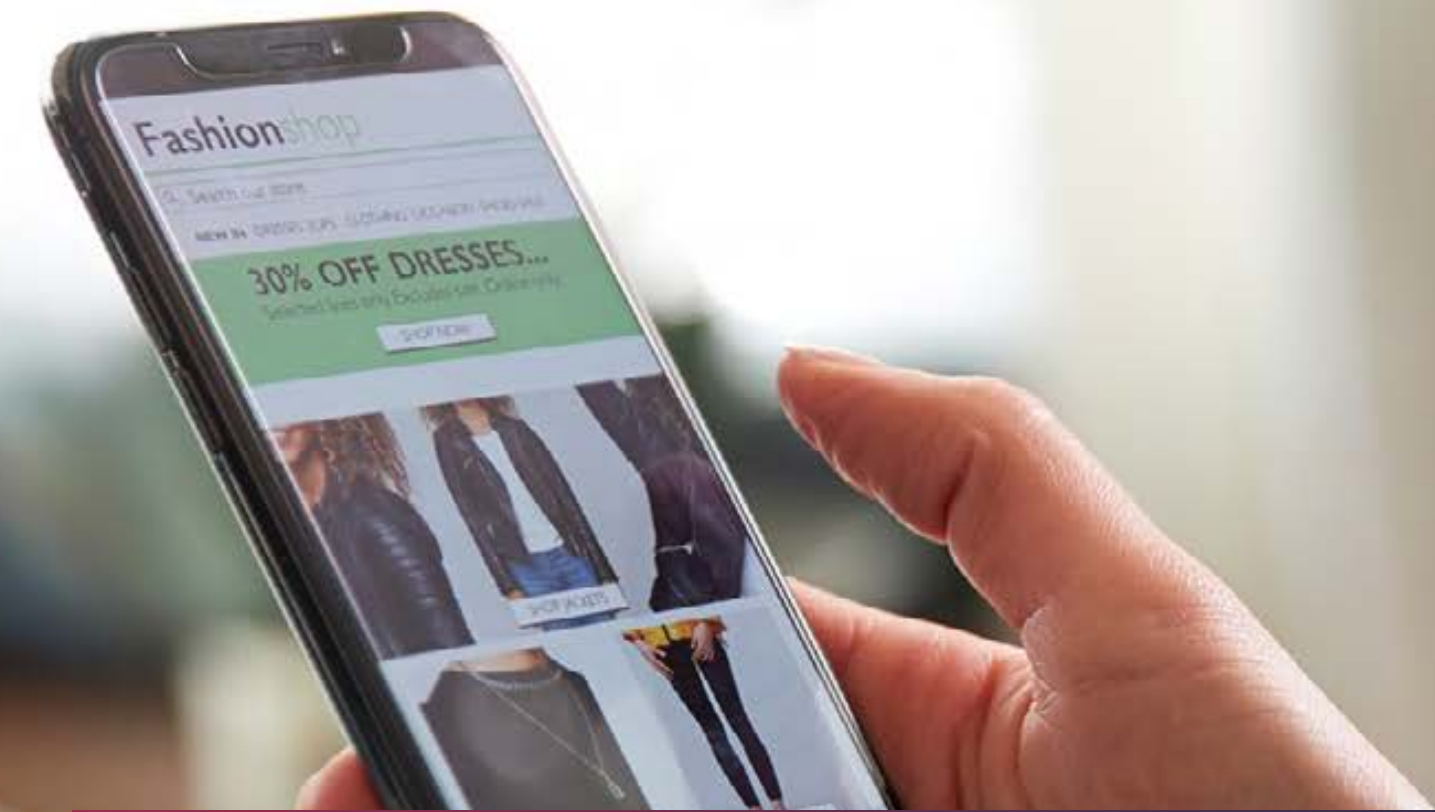


**57%**

Shoppers that will or are considering using 'buy now, pay later' (BNPL) schemes

**43%**

Shoppers not considering 'buy now pay later' (BNPL) schemes



## INSIGHT:

For consumers who still want to make it a memorable Christmas, BNPL schemes can be a helpful way to spread the cost if budgets are tight - and over half of our respondents will or might use them. Retailers too can drive spending, especially on big ticket items, with a fast and convenient payment option. But it's worth noting that some BNPL providers charge higher fees compared to debit/credit card firms, potentially squeezing margins even further.



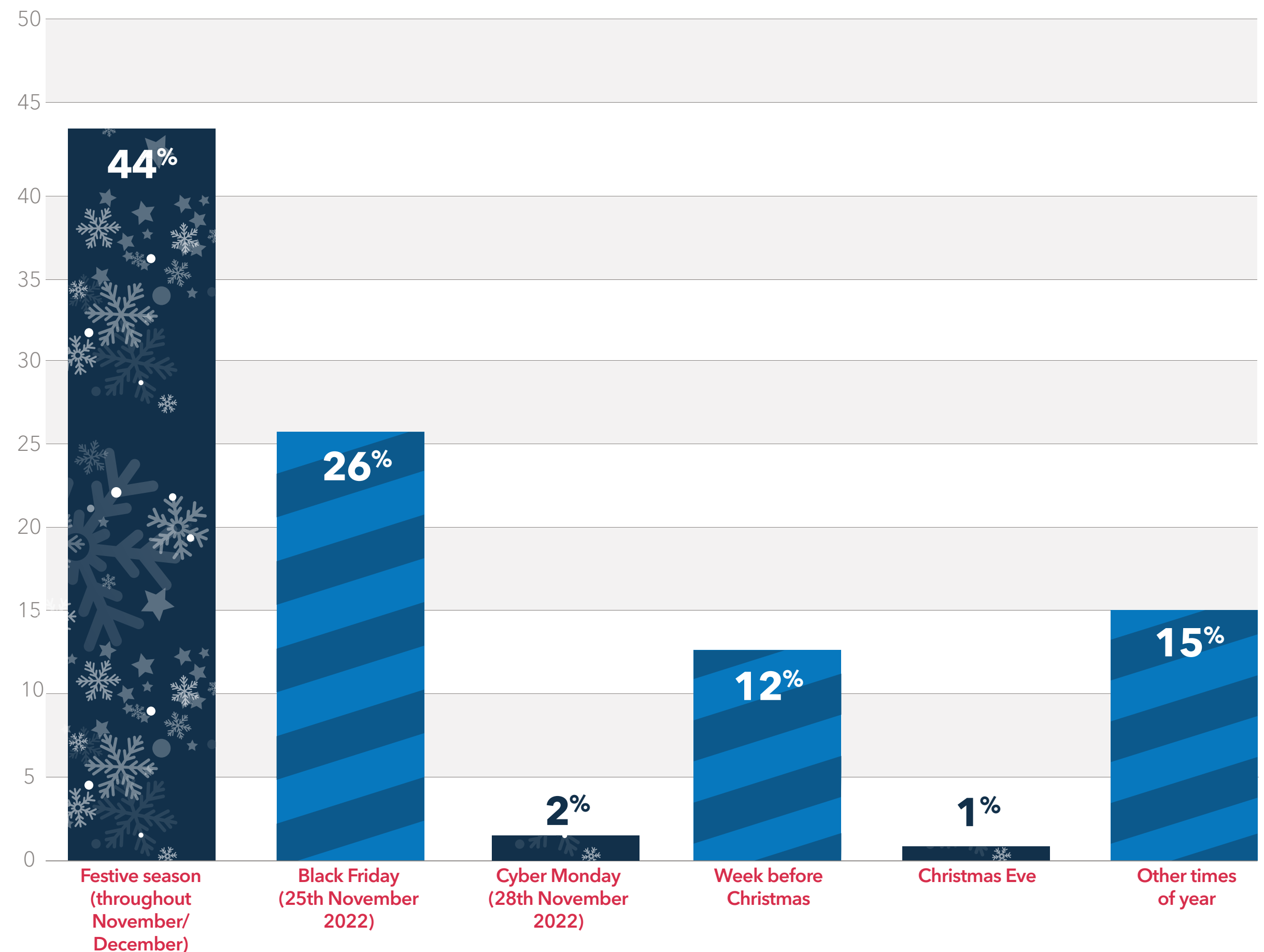
## INSIGHT:

Segmenting customers according to their buying behaviour is critical for effective retail planning, especially in such an unpredictable trading environment.

Our survey shows that while many people shop throughout the festive period, a quarter said they would take advantage of Black Friday though few seem to be excited about Cyber Monday. Some 13% are leaving it until the last minute, with 1% waiting until Christmas Eve. This underlines the importance of being able to dynamically tailor offers, pricing and incentives to relevant audiences to drive purchases at the moment they're ready to buy.

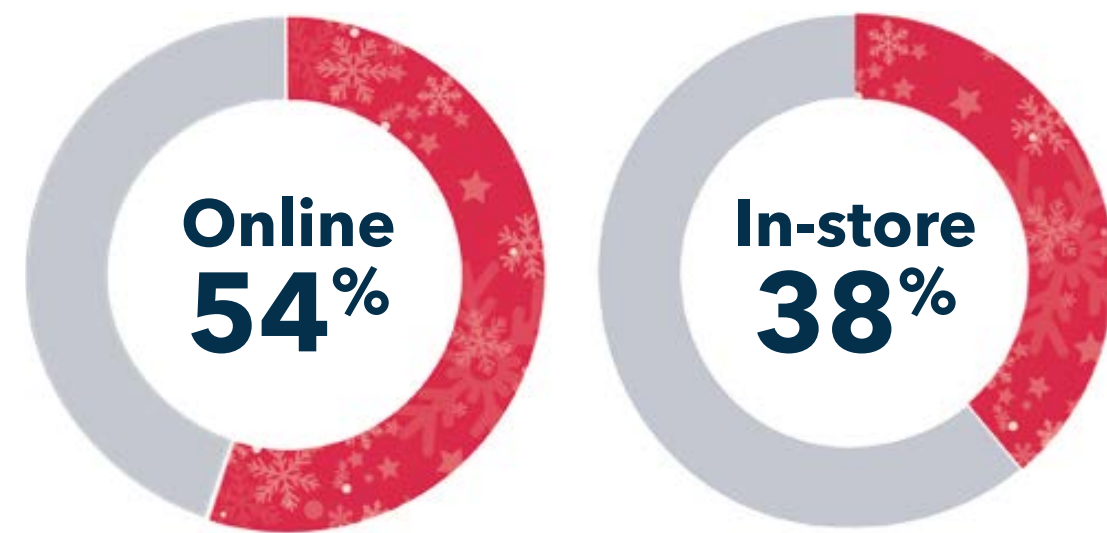
When asked about how their shopping habits might change compared to previous years, 59% said they were planning ahead, possibly to spread the cost, while 49% would look for more Black Friday deals. A further 13% are waiting until Christmas Eve to find early-discounted items. These findings also demonstrate how individual shopping behaviours can easily change from one year to the next, underlining the importance of using up-to-date data and being able to make decisions in real-time in some cases as customers are browsing.

**Figure 5:** Timing is everything: when do people typically buy presents?

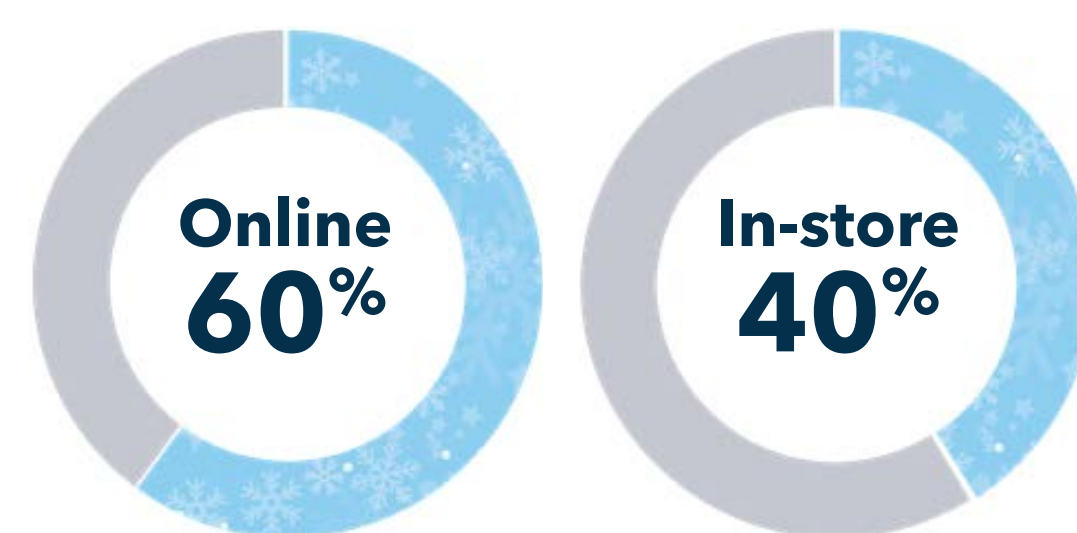


**Figure 6:** Online leads the way in most categories

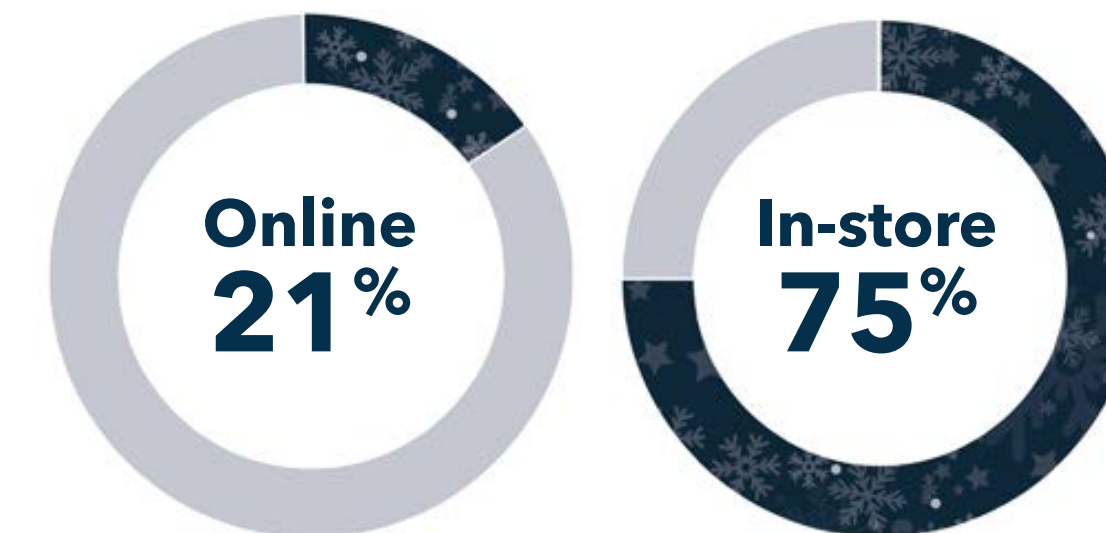
**Christmas presents**



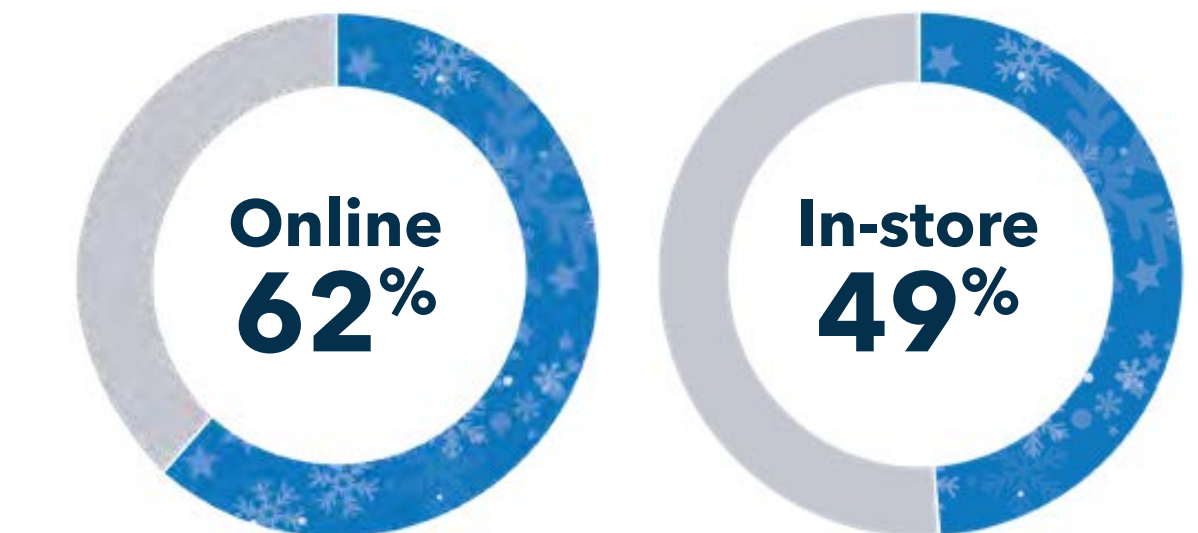
**Consumer electronics**



**Food and drink**



**Clothing**



**INSIGHT:**

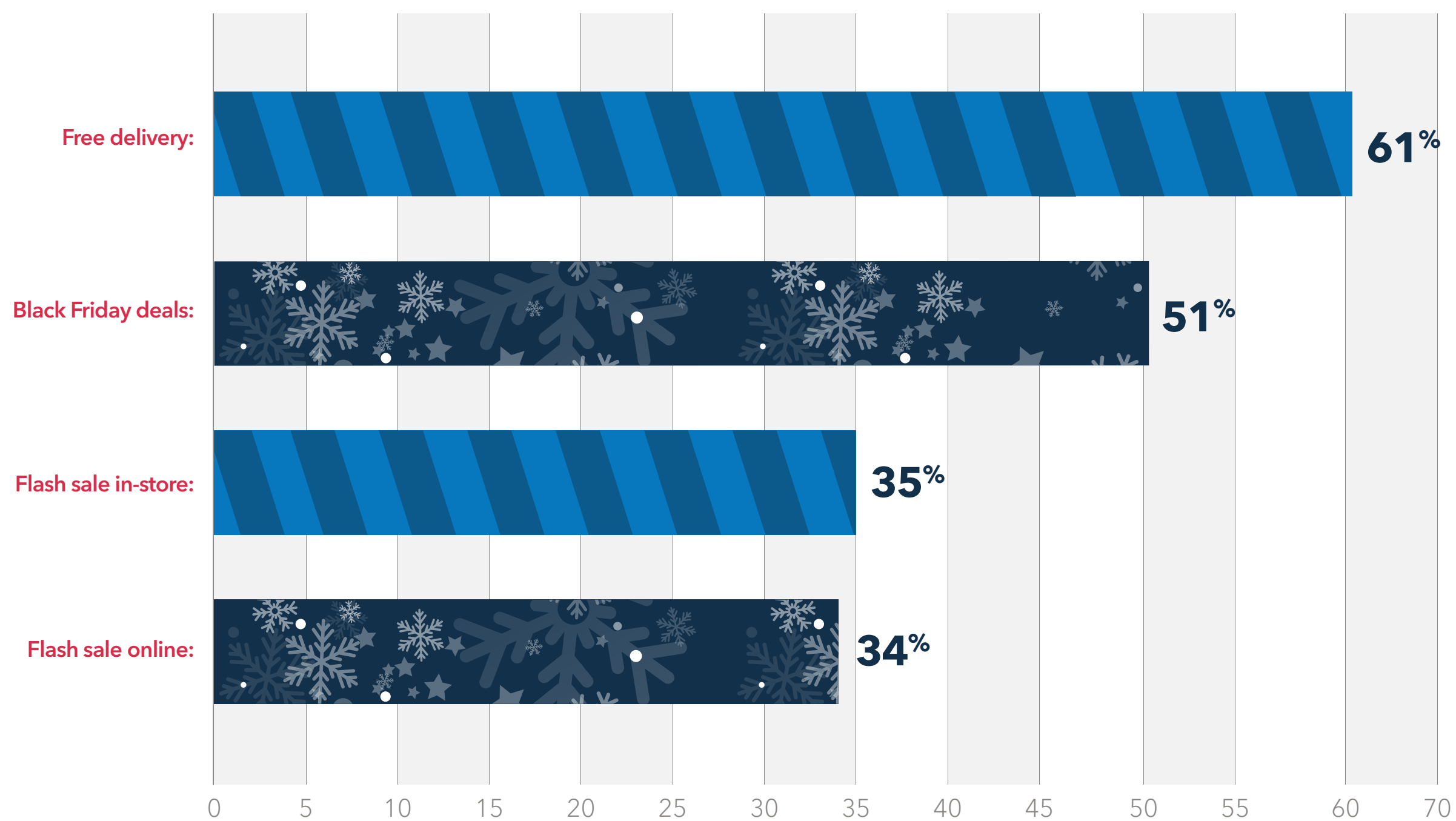
Official figures show that while the overall proportion of online sales has dropped since a peak during the pandemic, they still accounted for more than a quarter in October 2022.<sup>9</sup>

However, our study suggests that in some key retail categories, online is winning out. This can give online-only and omni-channel retailers an advantage, not just in terms of sales but also because the digital footprint consumers leave can yield more insights compared to in-store activity alone.

At the same time, we found the majority of shoppers prefer to buy food and drink in-store rather than online. This is good news for supermarkets who struggle to make a profit on home deliveries - and there are still opportunities for them to use analytics from loyalty cards and footfall.

<sup>9</sup> <https://www.ons.gov.uk/businessindustryandtrade/retailindustry/timeseries/j4mc/drsi>

**Figure 7:** Getting the online experience right: what incentivises purchases?



## INSIGHT:

Unsurprisingly, low-pricing is a priority for shoppers this Christmas - they want deals and free delivery far more than even good customer experience (17%). Similarly, 68% would be put off making a purchase if the shipping costs were too high, and 61% by bad product reviews. Online might be the preferred option in many categories but our study showed how important it is to get the experience right when consumers have limited amounts to spend. No retailer wants to deal with expensive returns in the current inflationary climate.

Loyalty is a constant challenge in the digital age - if an item was out of stock on one website 61% say they'd simply look elsewhere.

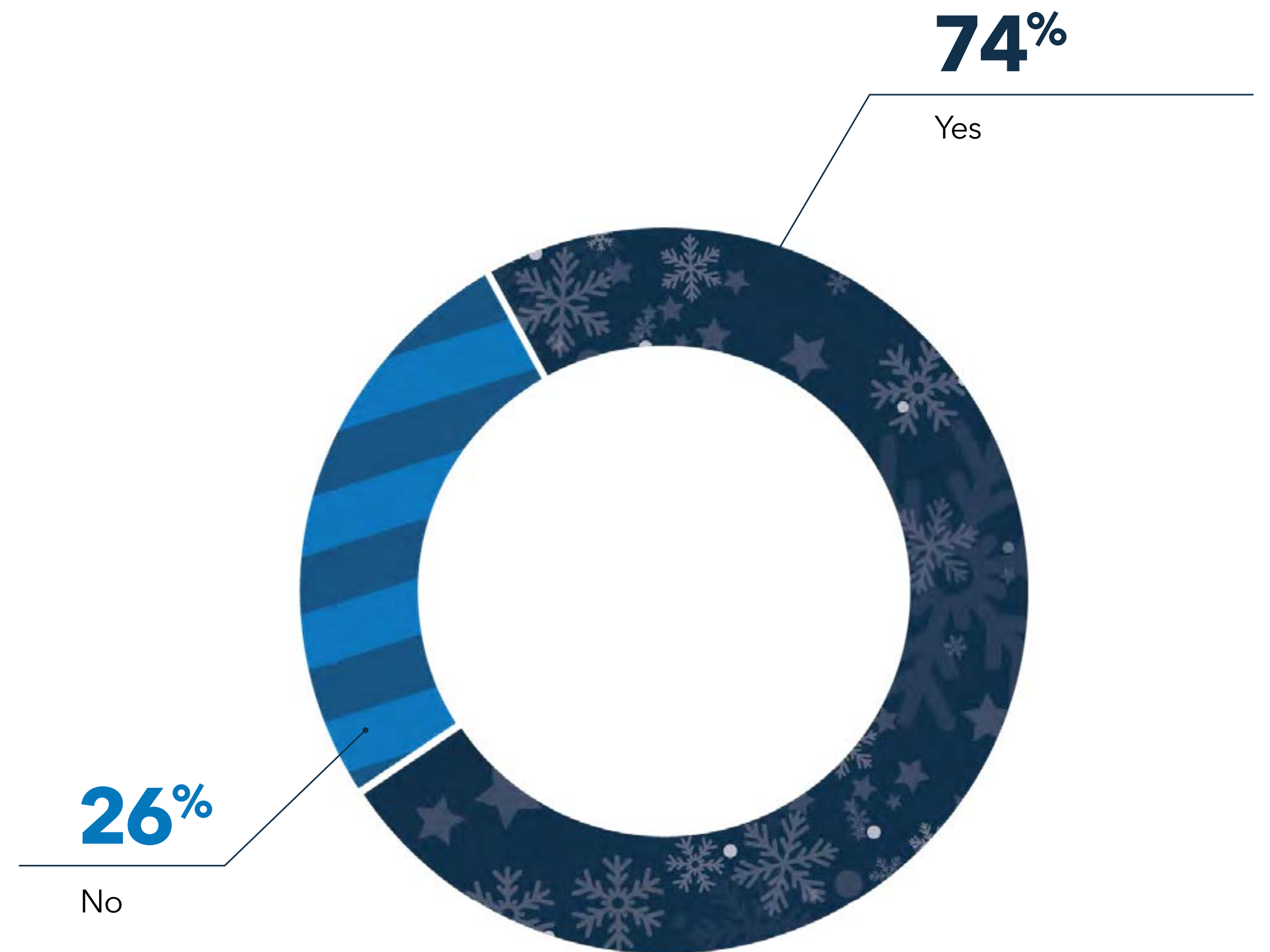
Returns are a headache for retailers at the best of times - and over half are likely to return a gift they don't like. What's interesting is that a high proportion - around two-thirds - plan to buy gift cards. This can help to reduce the risk of returns and also provide a cash flow boost at this time of year.



## INSIGHT:

Pricing is a key driver for consumers but a significant majority (three-quarters) say they will take sustainability into account. Whether or not this means they're happy to pay more for something that's sustainable remains to be seen, but retailers should be aware of rising consumer awareness of this issue. Longer-term, it may mean retailers have to rethink their supply chains so they stock a higher proportion of sustainable goods.

**Figure 8:** Is sustainability a factor when choosing a Christmas gift?



# Part 2: 'Retailers will need to be insight-led and creative if they want a share of Christmas spending'

**Peter Lavers** is co-founder and director of **Customer Attuned**, and is an expert in Customer Experience and Customer Management. Here, he discusses why retailers should use real-time analytics and AI to make the most of dynamic and unexpected opportunities.



When budgets are tight, households have no choice but to rein in their spending - and discretionary spending is an obvious area where consumers can cut back. Even if Christmas isn't exactly cancelled, the study certainly showed that most people are exercising caution.

Against this backdrop, following the same old retail strategies won't cut it. New players in the market are able to be far more efficient, in everything from

purchasing to delivery, because they don't have the legacy systems and processes that the established retailers have. This allows them to be far more agile in responding to situations like the one we're in now.

There's no question that every retailer today needs to be able to understand, adapt and predict consumer behaviour using real-time data analysis. With these insights, you can segment customers more accurately, and develop promotion and merchandising strategies that drive sales and maximise margins.





## **New opportunities**

The survey confirmed many of our suspicions about how consumers are likely to behave in the run-up to Christmas but the reality is more complex and dynamic – even the World Cup is a factor.

The economy is under stress but it hasn't collapsed – and 12% of UK&I shoppers are planning to spend the same or more this year. Insights like this are crucial because, while low pricing can incentivise those who're reluctant to spend, it also puts retailers at risk of giving away margin unnecessarily to those who're willing to buy at full price.

With the most up-to-date insights, retailers can also get more from events like Black Friday and Cyber Monday – so rather than just slashing prices, they could introduce dynamic pricing, or allow people

to bid on items. Have they also used these events to recognise and reward staff who go the extra mile despite being under considerable pressure, namely, driving commitment and loyalty in the midst of the current recruitment challenges?

Retailers should certainly be working their loyalty scheme as hard as possible, and use the data to challenge conventional wisdom. This rich source of data is an advantage that the established retailers have over their newer rivals.

## Sustainable shopping

We've become used to seeing shelves piled high with novelty Christmas gifts, made from and packaged in single-use plastic, that nobody wants or needs. Some of these end up broken or in charity shop bags before the festive season is even over.

This kind of excess seems out of kilter with consumer sentiment today. Not only are people cutting back financially, they're also increasingly concerned about sustainability. Indeed, the study showed that almost three-quarters will consider not buying something that isn't sustainable.

Knowing this might prompt retailers to move away from 'stack it high, sell it cheap' tactics in favour of more considered shopping, with a focus on better-quality and longer-lasting products. This should reduce the likelihood of costly returns too - but a switch to quality over volumes must be matched by a high standard of customer service. When times are tough, customers need to feel they're getting value-for-money and their loyalty is appreciated.

We can't ignore the current trend for second-hand shopping or 'thrifting' either, driven largely by Gen-Z.<sup>10</sup>

It may be the opposite of what high street retailers have traditionally offered yet it's still possible to capitalise on the trend.

One option could be to organise a 'swap shop' for unwanted gifts to draw people into a store and off-set the cost of returns. It also creates an opportunity to sell them products they actually want, either during the event or on a return visit.

Let's not forget that some people will have been given Christmas spending money or vouchers, and be in a stronger financial position than they are in December. The survey showed that two-thirds are planning to buy gift vouchers this year - so it could be good news for retailers if they're used to clear leftover Christmas stock in the January sales.

<sup>10</sup> [www.businessinsider.com/gen-z-driving-online-resale-secondhand-clothes-thrifting-poshmark-depop-2021-4?r=US&IR=T](https://www.businessinsider.com/gen-z-driving-online-resale-secondhand-clothes-thrifting-poshmark-depop-2021-4?r=US&IR=T)







## **What do you stand for?**

We know from experience, and the findings of the study, that consumers are fundamentally looking for value - whether that be on price, service, convenience or sustainability. The question retailers need to ask is, 'how do we augment our basic proposition with service or offers that will differentiate us and attract people's carefully-spent cash?'. Only data-driven insights can help to do this in a meaningful way.

Both online and bricks-and-mortar retailers will need to be more insight-led and creative to capture their share of decreasing spend in a climate full of uncertainty.

The survey has produced some interesting talking points to spark new ideas and steer the behavioural science/economics teams - with your own analytics providing the evidence you need to make good decisions.

# Part 3: Not just for Christmas: how can next-gen analytics help create certainty in an uncertain world?

No retailer can say with absolute confidence how consumers will behave, at Christmas or any other time of year.

The past two years have rocked the sector but operating in the omni-channel world means there are more real-time data points for retailers to use.

Every interaction - including browsing behaviour, purchases, the value of purchases, average orders, customer service enquiries - all provide valuable insights. The problem is, they're often siloed and difficult to access in real-time. In the fast-paced retail sector, this could be the difference between a perfectly-timed offer or message, and one that fails to land.

Retail analytics, personalisation and automation are nothing new in retail - but they're now being transformed by the application of artificial intelligence (AI), machine learning (ML) and other advanced technologies.

It doesn't matter whether your data is stored in legacy systems or in the cloud, online or offline. All of it can be integrated in a single **cloud-based environment**, where it is easier to build and maintain customer profiles, and map their journey to purchase.

Techniques like hyperautomation allow you to accurately identify new trends as they emerge, and drive demand with relevant offers by rapidly making sense of the deluge of data from online interactions, video, phone calls, chatbots, point-of-sale systems.

It also enables you to build a highly-accurate 360-view of customers, so you can anticipate demand and forecast returns with greater precision. These insights extend right through the supply chain too, vastly improving inventory management and helping to cut costs and reduce environmental waste - which aligns with what most consumers today are looking for.

With these capabilities in place, you can understand every interaction - and optimise both operational efficiency and customer experience. As you collect more data, and fine-tune AI models, you'll gain deeper and richer insights that enable you to respond to changes in the marketplace as they happen, including shifts in customer behaviour and attitudes, and make the most of new opportunities in a challenging market.





# Conclusion

## The retail landscape and consumer behaviour have changed dramatically since the last major financial crash of 2008/09.

Digitalisation has created a fragmented market, with people no longer simply visiting their local high street or retail store – now they regularly buy online, and can take advantage of numerous payment and delivery/collection models. Retail analytics, powered by AI, have come on in leaps and bounds too, paving the way for better decision-making in this complex environment.

Forward-thinking retailers are building these capabilities into their business models, putting them on track to achieve personalisation at scale and take market share from their competitors.

Loyalty is hard-won in the digital age, especially as people have limited time, patience and concentration. Consumers can compare prices at the touch of a button, and as our study demonstrates, many have no qualms about going elsewhere if a product is unavailable.

But loyalty is achievable to those who use their data to drive strategies and ‘next best actions’.

Christmas is a chance for retailers to shine – and by tailoring your offer to the needs of customers at an individual level, it’s more likely the brand will stick in their memory long after the cost of living crisis has subsided.

### About this survey

This research of 1,500 UK-based and 1,500 ROI-based respondents was commissioned by SAS and conducted by Perspectus Global during October 2022.



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