

Marketing & Sales and Retail Practices

Holiday shopping in 2020

Consumers, longing for normalcy and eager for something to celebrate, plan to spend money during the holidays—but differently from the way they have in the past.

by Tamara Charm and Brian Ruwadi



For almost everyone, this year's holiday season will be like no other. As the world continues to battle both the COVID-19 pandemic and economic woes, consumers and businesses alike are having to make major adjustments to their holiday plans. How much shopping will people do during the holidays? Will they venture into stores? In these unsettling times, how can retailers plan ahead? In this episode of the *McKinsey on Consumer and Retail* podcast, Tamara Charm and Brian Ruwadi—coauthors of McKinsey's fourth annual holiday shopping report—tackle these questions, and more. An edited transcript of their conversation with executive editor Monica Toriello follows. Subscribe to the podcast on McKinsey.com.

Monica Toriello: Hello and thanks for joining us on this November day. There's a lot happening in the world—a lot of uncertainty—but one thing we can count on is that the holidays are not cancelled. People will find ways to celebrate the upcoming holidays, although, because of COVID-19, they might have to rethink their holiday-shopping habits and holiday traditions, and that obviously has major implications for retailers.

In this episode, we'll be discussing the highlights of McKinsey's fourth annual holiday retail report, now available on McKinsey.com. McKinsey surveyed more than 3,500 consumers in five countries—China, France, Germany, the United Kingdom, and the United States—and asked these consumers about their plans for holiday shopping. Joining us today are two of the authors of the report.

First, we have Tamara Charm, a senior expert from our Marketing & Sales Practice. Tamara is based in Boston, and in addition to her work on the holiday retail report, she's been deeply involved with the global consumer sentiment surveys that McKinsey's been conducting since the start of the COVID-19 pandemic. Also with us is Brian Ruwadi, a senior partner based in Cleveland. Brian is the global leader of Periscope by McKinsey, which is a set of advanced-analytics and software solutions that support marketing and sales. Welcome, Tamara and Brian. Let's start by each of you giving me a

short answer to this question: Have you yourselves started shopping for the holidays?

Tamara Charm: My daughter's birthday is coming up, so I've been focusing on her birthday first. But what we have started doing is thinking about where we're even spending the holidays, because it'll be very different from last year.

Brian Ruwadi: I honestly haven't even had a chance to think about the holidays and the shopping for them yet.

Monica Toriello: Same here. Let's dive right into the results of your research. Like you said, Tamara, this is an unprecedented time for all of us. For my family, the holidays will look pretty different this year as well. Some of the trends you describe in the report are fairly obvious and expected—more online shopping, people being concerned about their health and safety when they shop in stores, et cetera—but maybe each of you could talk about one or two of the findings that were more surprising or that you feel retailers aren't paying quite enough attention to.

Tamara Charm: I'll talk about one trend that I think many retailers are thinking about, but it's not obvious that it will happen, which is—unlike the three of us who have not started shopping—a good portion, about one-third of consumers, already started their holiday shopping in October, and most of them expect to finish it in November. So this is a “pulling forward” of the holiday season, even as we all totally change the way we're going to celebrate.

Brian Ruwadi: The trends that stood out to me the most were, first, there seems to be an expectation of a decline in overall spend by consumers, and tied to that is greater use of the big blockbuster events to get value—to be able to buy the things you'd like to have but not spend as much. The second trend, which we highlighted in our *Retail Reimagined* report, was this notion of loyalty shifting. A big chunk of consumers tried new brands and new retailers during the COVID-19 crisis. And we continue to see a trend toward shopping new stores

and new formats, and that's a very interesting opportunity but also a threat, depending on who you are.

A Black Friday like no other

Monica Toriello: One trend that I wasn't aware of is just how big Black Friday has become outside the United States. As you mentioned, Brian, holiday deal days are becoming more important. Your report says Black Friday is now the most popular deal day in France, Germany, and the UK. When people think of Black Friday, they normally think of hordes of people in stores, some lining up in the wee hours of the morning to make sure they get the doorbuster deals. That's not going to happen this year; that's not what consumers want, and it's not what retailers want. How should retailers think about Black Friday? How can they best take advantage of that day?

Brian Ruwadi: I think it certainly is becoming a big deal globally. In the situation that most retailers are in, where they are now having to move so much of their sales through the online channel, they're worried about the capacity to deliver products to homes—whether the third parties are going to be able to get them there and whether their own warehouses can keep up with the online demand. So one of the interesting things we've seen about Black Friday is retailers now starting to spread out these blockbuster events, so they're able to “level load” their supply chains and ship products in a way that doesn't create a massive spike that they can't fulfill.

Tamara Charm: I think we'll also see consumers participating in these events more digitally than ever. We fielded our research before a lot of the recent shutdowns in Europe, and there was already a lessening of folks wanting to go in stores—people wanted to go online. I think we'll see even more of that. Consumers are wanting to participate in these events in a modified way: either completely online or buy online and pick up in store or pick up outside the store. We'll see a lot more physical distancing and a different way of delivering so that retailers can not only meet the demand safely but also manage delivery, inventory, and their profitability.

Brian Ruwadi: The COVID-19 situation has really prompted a big increase in the focus on the online experience for shopping and the pick-up-in-store experience. And retailers have scrambled to create an environment that provides an OK—or, in some cases, a great—shopping experience. So they're now starting to think about how do we actually make this profitable? How do we take costs out of delivery or out of buy online, pick up in store, so that we can make money like we used to when we were running stores in a traditional environment?

We've seen a bunch of different reactions from retailers. In many ways, this crisis has forced some retailers that traditionally operated in one way for a very long period of time to become much more agile. We see a lot more aggressive moves than we've seen in the past.

Tamara Charm: And we've seen a lot of improvisation in how retailers are meeting this renewed and accelerated demand. Many retailers are creating what they call “dark stores,” where there aren't actually consumers coming into the store, but retailers are using the store as a warehouse to fulfill online orders or click-and-collect orders. In the luxury sector, some salespeople are using WhatsApp to take customers through the inventory and the merchandise: they have people select what they want, and they collect the items that they've bought outside the store. So, given how quickly this is all moving, improvisation and being able to meet the demand as it's coming is very, very important.

We also see M&A activity picking up as retailers and other companies identify skills and capabilities they don't have in-house. They're thinking about M&A as a way to make sure that they build their capabilities quickly.

Unpredictable demand

Brian Ruwadi: I think one of the hardest challenges for retailers during this time is the lack of predictability of what demand will be. We forecast demand will be down, but how much and

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—Tamara Charm

in which categories will it be down? How tight should you be? How aggressive should you be with promotions? As we get closer to the end of the holidays, how do you manage through the inventory? These are tough questions that folks are dealing with at the moment.

Tamara Charm: And oftentimes, getting granular insights into your particular consumer base can be very important. We’ve seen very different responses to the questions about reductions in spend. For example, US consumers with under \$50,000 in income are planning to reduce holiday spending more than higher-income consumers. We’ve seen regional differences and generational differences. The Chinese consumer is much more optimistic than any other consumer throughout the world. China is the one place where folks said that they will increase spending this holiday season overall, and that increase is happening across the income bands that we were able to survey in China. So if retailers can get closer to their particular consumer base—even geographically, to understand where demand is going to stay strong and where demand is going to change—that will be really helpful.

Monica Toriello: The heightened price sensitivity among consumers isn’t surprising, given unemployment rates and continuing uncertainty. But one statistic that stood out to me in the report was people’s willingness to spend during the holidays: “Despite 42 percent of consumers

reporting a slight or significant income reduction this year, 81 percent told us they would spend the same or more as last year on holiday deal events.” It seems that people, whether or not their incomes were affected, are longing for something to celebrate, right? So maybe they’ll scrimp and save during other times of the year, but they’ll make the holidays as normal as possible. Is that your sense, or is something else going on?

Tamara Charm: I think there’s a lot of shift toward value. So, of those people who are spending, many are really going to concentrate more of their spend on those deal events. There’s likely excitement around finding a good deal. But there’s also the economic reality that people are in reduced circumstances, and what we’ve seen throughout the COVID-19 crisis is that even those whose incomes haven’t been affected are more conscious of what they’re spending and care more about the value of what they’re spending on, given the uncertainty of the times.

Brian Ruwadi: I think there is some kind of notion of a need for normalcy and a little bit of relief from the pain that folks are going through around the world. I can’t say this for a fact, but I wouldn’t be surprised if many folks are looking forward to the holidays to have a little bit of normal life back.

Tamara Charm: We also see that consumers have been reducing so much spend out of home. We all

used to do a lot out of home: we used to travel much more than we do, we used to go to the movies or just spend other time on out-of-home activities that are just not happening right now. So, as you said, Brian, people are saving up that energy, and if there are ways to help themselves and their families during this time to feel more festive, consumers are really looking forward to that.

Monica Toriello: Tamara, earlier you mentioned “pulling demand forward.” You’re predicting that the holiday-shopping season will wind down a little bit earlier this year and that there won’t be as much last-minute shopping. Say more about why that is and what retailers should do. How can they pull demand forward?

Tamara Charm: I think one of the things that people are thinking is, “I do not want to be there during that last-minute rush. I do not want to have to rely on shipping last minute. I do not want to be in the stores when a lot of other people are in the stores.” So part of the pulling forward is thinking, “I want to be prepared. I want to find the best deals. I want to start the excitement now.” But we also see a portion of consumers saying that they will shop later and they’re looking to spread things out, because they’re thinking very much about the safety of their shopping if they do consider going into stores.

Helping in-store shoppers get in and get out—fast

Monica Toriello: Stores have already taken health and safety precautions: requiring masks, putting up protective barriers at checkout, et cetera. What other kinds of things are retailers doing—or what *should* they be doing—to make consumers feel safe in stores?

Brian Ruwadi: In our *Retail Reimagined* report earlier this year, we learned that one of the things that consumers cared about was the ability to get in and out fast. So how do you make the flow of the store conducive to a quick-and-easy shopping experience, so you can get in there, actually see the product, and get back out? Another thing we’ve

seen some retailers do is put together a value-oriented assortment or sections of the store where consumers can buy products that are a little bit cheaper but still meet their needs.

Tamara Charm: We’ve seen, throughout the pandemic, folks trying to make their in-store shopping count. We’ve seen bigger basket sizes across sectors. People are saying they want to make fewer stops in stores than they did before. People used to go from store to store to store; now they’re imagining, how can I go to one place and get everything I need? A grocer in the UK is starting to think about whether it can put picnics together so that as folks are preparing holiday meals, can everything be in one place, easy for people to access, so that they can get in the store and get out of the store with what they need?

Brian Ruwadi: It’s interesting that a lot of the shopping experience is about understanding the products—and we have just trained a whole bunch of consumers who didn’t traditionally research products online to do so, right? You now have a whole bunch of folks who know how to look up products, compare them, and look at reviews, and they can come in and be efficient with their purchases if they actually are going in the store—and then get out. It makes the online experience incredibly more important than it ever has been.

Tamara Charm: Yeah, particularly the omnichannel experience. As Brian said, people are looking online, expecting things to be coordinated when they get in the store. They expect to be able to then follow up with the retailer; they expect that the retailer knows not only what they did in the store but also what they did online.

The battle for customer loyalty

Monica Toriello: Something that’s come up not just in this conversation but in other recent podcasts is the “shock to loyalty.” During this pandemic, consumers have proved very willing to switch retail channels, switch retailers, switch brands, switch

“The best retailers are being very aggressive with their churn analytics to understand consumer behavior.”

—Brian Ruwadi

products—even abandon brands or retailers that they'd previously been very loyal to. So this holiday season, for retailers and brands, there's an element of “How do I win back customers?” Part of the answer, as you suggest, is personalization and social-media engagement. Say a bit more about that. What are some ways that retailers are doing this well? How are retailers winning back customers?

Tamara Charm: We've heard consumers say that one driver of the change in their choice of retailers is convenience. So as a retailer thinks about personalization or social media, [it should consider that] the more consumers know that the retailer will make things easy for them—it has the products they want, offered in a way that makes it easy—the more it will help them feel like that's the retailer they want to go to because the retailer will help them with more efficient shopping: “I can do everything I want in person or click and collect or maybe even shop online in a way that lets me get in and get out.”

Brian Ruwadi: I would also say that whenever we have some form of a crisis, it forces consumers to break their habits and their patterns and open the aperture for “Where can I go to find products?” And sometimes that trial results in someone realizing that there was actually a better option out there. I think the big challenge for retailers, therefore, is “How do I lock back in the customers who have turned to other retailers?” And for those retailers who have gotten trial, “How do I move customers

into the 'loyal' bucket?” The best of the retailers that I've seen out there are being very aggressive with their churn analytics to understand that consumer behavior, and targeting consumers with highly personalized propositions to bring them back in the store and then keep them as customers.

Tamara Charm: An example of something creative through social media—it's not necessarily holiday related but I do think that it could be inspiration for other retailers—is something West Elm has done, which is to work more closely with an app called Design Home. Home decorating is up overall in our homebody economy. What Design Home does is engage consumers in the design process. Many retailers are partnering with Design Home to be featured there. So it's not an in-your-face way of saying, “Come shop with me,” but it's a way of engaging consumers digitally so that there's something fun for them to do, and it allows a connection to be built even without consumers going in a store.

Value and values

Monica Toriello: I'd love to hear your thoughts on messaging, which can be very tricky for retailers at this time. Consumers want some normalcy, as you've said, but they're also stressed and anxious about everything going on in the world. Retailers have to strike the right balance in their marketing and advertising messages. Any advice on that front?

Brian Ruwadi: I think there is certainly a notion for some segments around comfort and making people feel safe and warm and fuzzy again in this very complicated world. I also think there is a notion of reward and relief—letting folks treat themselves after a very, very difficult year. I think what matters is understanding your particular customer segment and understanding what messages are going to appeal to them.

The other thing I'd add is that in our *Retail Reimagined* report, we saw for the first time that how the retailer treated its employees mattered to where folks shopped. I think there's an important point here for retailers: to make sure they're sending a message about how they're taking care of their own team. That will build a broader brand loyalty among consumers.

Tamara Charm: Consumers are very much thinking about value and values right now: value, in terms of what they're getting for their money, and also, values. As Brian said, care for employees is something that's more top of mind for consumers in the pandemic, but other values are as well—such as sustainability or eco-friendliness—for particular consumer segments, especially Gen Z and millennials.

Advice for 2021

Monica Toriello: If a retail CEO says to you, “I think we'll make it through the holidays. It's 2021 that I'm really worried about. What should I do to position my company for success not just for the holidays but through 2021? What is the most important thing for my company to do?” What would you say?

Brian Ruwadi: It depends on what sector of retail we're talking about. For almost everybody, this notion of making an exceptional omnichannel experience is absolutely critical. For the apparel

players and the luxury players, the notion of “How do I better manage inventory, markdowns, and the life cycle of product in a world with massive unpredictability, and how can I leverage advanced analytics to do that?” is becoming almost existential. So, if I were a retailer, I'd move very quickly to build those capabilities and learn how to even more effectively manage my sell-through.

Tamara Charm: It's really important for retailers right now to think about managing on at least two speeds. What's going to happen at the beginning of 2021 as we're still very affected by the pandemic? In the homebody economy, what products will people be most interested in? What are some of the shocks going to look like? How can I understand the consumer in a very granular way—geographically, income-wise, generation-wise—and what will the impact on them be as we go through the ups and downs of this pandemic? But then, also, how do I plan for postpandemic and the shifts that consumers might make then?

Brian Ruwadi: We've talked a lot about omnichannel and digital and all those things. The reality is that the investments that are needed by many retailers cost money. The other side of the coin is that retailers need to find the fuel for growth to invest in these things, so they need to be looking hard at their cost structure and taking costs out that don't matter to the consumer, so that they have the fuel to be able to plow back into all of these innovations.

Monica Toriello: Invest in the omnichannel experience, build your advanced-analytics capabilities, manage on two speeds, and take out the costs that don't matter to the consumer—excellent advice. Thank you, Tamara and Brian, for being with us today. I wish both of you, and all our listeners, a safe and joyous holiday season.

Tamara Charm is a senior expert in McKinsey's Boston office, and **Brian Ruwadi** is a senior partner in the Cleveland office. **Monica Toriello** is an executive editor in the New York office.

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