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RETAIL

Retail sales show shift toward service industry spending, consumer goods could suffer in 2023: Deloitte

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Consumers will continue to spend more on services–like going out to eat–than on retail goods. Image credit: Deloitte

By MARYBETH CONNAUGHTON

Retailers will have to keep the consumer experience at the center of their investments if they want to continue to prosper in the year ahead, according to new research.

Consulting firm Deloitte's 2023 Retail Industry Outlook suggests that executives do expect inflation to squeeze profit margins and prevent consumers from spending. Yet, experts tapped for the research effort recommend that businesses sustain the hard-won resiliency of the last few years by staying ahead of consumers' ever-evolving needs.

"We expected inflation to be cited as the number one challenge for 2023," said Lupine Skelly, retail, wholesale and distribution research leader at Deloitte, London.

"It was top of mind, but labor issues were mentioned by 7 in 10 executives as the number one challenge heading into the new year," she said. "This was surprising because the problem has continued to linger despite many retailers trying to incorporate automation and create more flexibility and better working conditions for employees.

"As we called out in our 2022 outlook, it is not just hourly wage workers that have been problematic retailers also have to compete for top tech talent to meet the needs of their increasingly digitized platforms."

For the report, Deloitte accrued its findings by surveying a sample of 50 retail executives, 70 percent of whose companies yielded a minimum of $10 billion annually. The survey was conducted online via an independent research company between Oct. 21 and Oct. 31, 2022.

What to expect in 2023

Nearly two-thirds of executives surveyed confess to lacking confidence about consumer spending this year, and with fair reason, according to Deloitte.

A slow economy will likely affect retail sales, as forecasts show GDP growth dropping to 0.9 percent in 2023, down

from two percent in 2022. Additionally, the firm predicts a 35 percent chance of recession, equating to lower employment rates and reduced sales.

One additional concern raised by Deloitte's outlook that could cut into profits is a potential uptick in organized retail theft, which caused $61.7 billion in losses in 2019, as some retailers report the trend as having worsened during the 2022 holiday season.

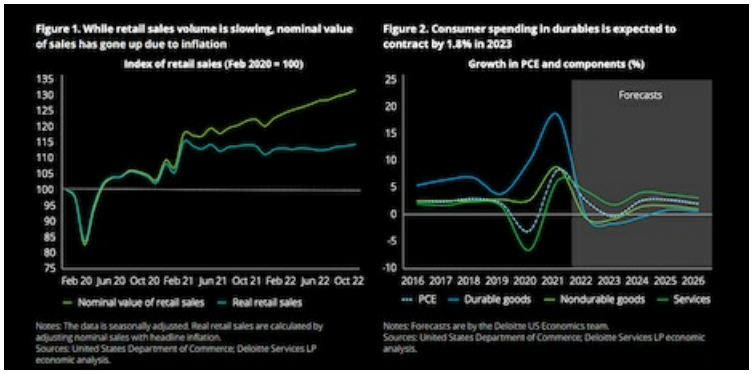

Image credit: Deloitte

Service industries will fare somewhat better as consumers remain eager to travel, dine out and attend live events as they did pre-pandemic. Consumers are even willing to dip into savings for the privilege, thus inevitably reducing the amount this group is willing to spend on retail, per the report.

Separately, 60 percent of executives also expect to be more closely scrutinized about their decisions regarding environmental, social and governmental measures.

Yet, as mentioned above, the number one challenge projected for 70 percent of executives is a shortage in labor. Despite this, consumers still expect a first-class shopping experience.

The shift, which started before but was exacerbated by the pandemic, is costing retailers more every year. Deloitte reports that the costs of customer acquisition rose by 60 percent between 2013 and 2018.

Moving from offline preferences to online platforms, Deloitte's report spells out that consumers are spending more time in digital spaces, gradually increasing use from 6.8 hours per day in 2019 to 8.1 per day in 2021. It is in those same spaces, particularly on social media, where retailers will find several options and solutions that will benefit those on either side of the transaction.

Image credit: Deloitte

Of those who use social media, 61 percent report trusting influencers at almost twice the rate at which they trust brand recommendations.

Further, the ease of shopping on social media--thanks to features such as shoppable tags with product information and in-app transactions--is playing a major role in attracting consumers.

Shopping-enabled platforms (see story) help to build customer loyalty in an environment where, as the report notes, it costs nearly seven times more to acquire a new customer than it does to retain an existing one.

Data-informed solutions

Deloitte has more advice for navigating the rough year ahead a sale saved is a save earned, according to the firm.

One way to cut down on lost revenue as a result of returns, per the report, is to implement reverse logistics within stores. Customers who visit a store to return an item will be tempted to spend the credit they receive in their

immediate environs, and could end up even further satisfied by the savings in postage.

Return bars where stores pack and send returns for their retail partners are becoming a popular option as well. They help push buyers toward stores and expand the distance that their client base covers. This can save up to 20 percent off of the cost of return processing.

Data suggests that consumers desire the perfect balance of price and convenience. Image credit: Deloitte

Furthermore, to address continued supply chain issues, retailers would be wise to invest in micro-fulfillment centers (MFCs), or smaller centers within a store or a warehouse that take care of local store pickups and online orders.

"In our analysis, we found the best-positioned retailers are focusing on embracing the changing consumer while making investments to find efficiencies in last-mile capabilities, reverse logistics, and social commerce," Ms. Skelly said.