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RETAIL

Consumer loyalty could spark 2024 retail growth: Deloitte

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Relationship-building is proving to be the key for growth. Image credit: Deloitte

By LUXURY DAILY NEWS SERVICE

While retail spending in the U.S. is predicted to maintain its momentum into the new year, economic uncertainty still holds a tight grip on the overall market, according to new findings from global consulting firm Deloitte.

The agency's "2024 U.S. Retail Industry Outlook," predicts that retail spending will increase overall, despite last year's declining numbers seen across footwear, fashion, department stores and many other categories. The consultancy has identified three pathways for retailers to protect themselves from uncertainty: leaning into loyalty programs, investing in the in-store experience and utilizing AI.

"Even if luxury retailers aren't as concerned about price-sensitive customers as other subsectors, they still could benefit from focusing on loyalty in 2024," said Lupine Skelly, retail research leader at Deloitte, Seattle.

"When we analyzed top-performing retailers during FY20202022, we found that outperformers grew profitably, ensured healthy debt loads, and prioritized loyalty," Ms. Skelly said. "Outperformers mentioned loyalty and associated elements 1.25 times more frequently in earnings calls than their underperforming peers during the same period.

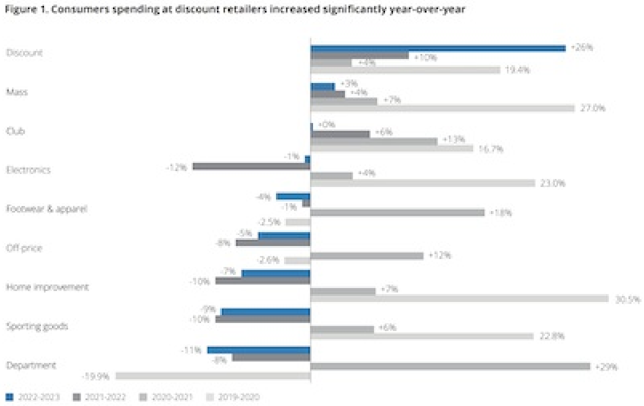
"We see three opportunities where retailers and the luxury segment could build trust and improve loyalty: lean into loyalty programs, enhance omni-experience through in-store investments and drive individual engagement at scale with trustworthy AI."

For the report, Deloitte drew upon internal data, surveys, insights from industry experts and a variety of outside sources to analyze and predict where the retail landscape could shift in 2024.

Loyal customers

In 2023, footwear and fashion retailers saw consumers spend 4 percent less year-over-year, continuing a decline that began the year before following an influx of interest post-COVID lockdowns.

Department stores are also a part of this trend but to a much greater extent. The segment fell by 11 percent in 2023, which came after an 8 percent depreciation in 2022.



Outside of discount stores and big-box outlets, most storefronts are stagnating or losing consumer spending. Image credit: Deloitte

"The US economy seems to have avoided a recession even as inflation has dropped," said Danny Bachman and Akrur Barua, U.S. economists at Deloitte, in a joint statement.

"Consumers have benefitted from rising wages due to a strong labor market and declining inflation; they have also drawn down their pandemic-era savings to fund more purchases," Mr. Bachman and Mr. Barua said. "This dip in personal savings, however, will weigh on consumer spending in 20242025; in addition, consumers face headwinds from high rents, rising house prices, and repayment of student loan debt.

"Two key trends will shape the future business environment: tighter labor markets and higher long-term interest rates."

As the overall personal luxury goods market is expected to soften in 2024 (see story), retail performance among brands will likely continue to decline as well.

Deloitte identifies consumer loyalty as a key pathway to recovery. According to a recent survey, the customer trust of those belonging to a brand's rewards program is 61 percent higher than nonmembers.

Nearly two-thirds of U.S. clientele are members of anywhere between one and five different stores. An increased dedication to these brands could fuel future spending.

Enhancing omni-channel, in-store and e-commerce experiences this year is viewed as tantamount to high-ranking retail personnel. Image credit: Deloitte

Consumers are demanding a multi-faceted approach to these loyalty initiatives, with 62 percent of respondents in a separate Deloitte survey stating that a tiered membership structure is important.

Department stores such as Selfridges (see story) and Bloomingdale's (see story) have been active in adapting to these desires.

Among retail executives, 54 percent viewed strengthening loyalty programs as the top growth opportunity for 2024.

Creating an unchanging experience is also key to building and maintaining consumer loyalty. According to a 2022 survey from global data analytics firm Merkle, three-quarters of respondents stated that they are more dedicated to brands with "consistent customer service and experiences."

Investing in standardizing the visits of each patron could prove fruitful for retail players.

Technology forward

Several of the key ways to improve in-store performance and increase shopping time are tied to new or commonplace technologies.

Offering more digital-forward options, such as shipping products from the store itself to cut down on delivery time and in-store pickup, are flagged as important pieces of this puzzle. A more traditional approach of remodeling existing storefronts could also serve to benefit both the retailer and its customers.

According to a recent report from global consulting firm Bain & Company, 75 percent of luxury consumers "display a strong appetite for" integration of new technology in boutiques (see story), AI being chief among them.

Deloitte's findings also point to the burgeoning software being a growth driver, though a risky one.

AI is a growing industry, with many scrambling to figure out how to integrate the software into their workplaces. Image credit: ThisisEngineering RAEng

"There are many applications where AI could play into the future of high-end retail, from product design and development to improving customer engagement," said Ms. Skelly.

"In our survey, half of executives were prioritizing personalized AI product recommendations in 2024," she said. "As fashion houses and high-end retailers build out these capabilities, we believe it's imperative that they keep trust at the center of their AI design.

"More than three-quarters of retail executives in our survey said using next-generation AI technologies in the next five years will strain consumer trust and heighten their concerns around privacy violations, surveillance, lack of transparency/accountability, and job displacement."

Four guidelines are given to incorporate trustworthy AI into everyday operations: train the computer in human responses, be transparent about the use of AI, ensure that the program is capable of interfacing with a customer and know exactly what the program can and cannot do, communicating such to guests.

However, the research indicates that when a client learns that a brand is using AI, their trust in the label drops by 144 percent. These figures compound on findings from global management consulting firm Kearney from July 2023 (see story).

While integrating new technologies could be fruitful in the short term, long-term consequences need to be addressed.