2017 Holiday Outlook

In-store + online: This holiday, shoppers have it all

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pwc

Drone-delivered holiday shopping? Not quite yet!

From glossy print catalogs of holidays past to one-click shopping today, gift-giving has evolved to become almost effortless. Looking ahead, the future might well bring artificial intelligence-enabled smart home assistants who anticipate—and fulfill—a gift list based on last year's buying patterns.

But where's the fun in that—the pixie-dust sparkle of the season?

For now at least, the lure of holiday felicity continues to beckon. And retailers continue to up their game with digitally enabled stores, mobile apps, and click-and-collect options.

Long live the store!

In fact, almost 90% of consumers told us they will shop in stores this holiday; most of them will combine the best of both in-store and online shopping based on what they're buying and for whom. And also where they live.

For rural and suburban shoppers, click-and-collect shopping might well be an option, especially since some stores offer discounts, allowing customers to avoid shipping charges. Once in the store, customers often end up buying additional items.

For urban dwellers, meanwhile, delivery is often a major draw. But getting that package the final step of the way to the shopper's door has been an age-old challenge. In fact, more than 100 years ago, one company launched a fleet of tricycle couriers in central London to deliver light packages at a cost of a penny each.

Holiday shoppers have ***boundless choices***

Today's ***omnichannel*** *environment is a* ***community*** *of* ***commerce****

*for more, see page 10.

Tinsel-lined allure

Everything old is new again as today's retailers continually transform their delivery models to balance economics with customer service. Ultimately, two factors prevail:

- **Delivery density**—the average distance between each stop on a particular delivery route (urban areas are far denser, as expected)
- **Value of item delivered**—for example, the cost of shipping a fairly expensive item (such as a smartphone) is marginal; conversely, the cost of shipping an inexpensive item to a shopper's door (such as a single pair of socks) is prohibitive

The future might well bring glad tidings with drones, but for now last-mile delivery to the shopper's door continues to be unequivocally terrestrial. And for the vast majority of shoppers, the lure of holiday shopping hasn't lost its tinsel-lined allure. Which means a trip—often many trips, in fact—to the store.

Our analysis explores likely shopping behaviors over the next few months, based on what 2,395 consumers told us in a national survey, offering details about:

- Where and when they will shop
- What drives their purchasing decisions
- The types of gifts they will buy
- Holiday travel and entertainment plans

We analyze this consumer-reported data—and overlay the findings with additional PwC research and analysis—to uncover implications of use to retailers.

This year, we also conducted a separate survey of 301 young Gen Z consumers (aged 13-16) to analyze their differentiated preferences.

Demographic definitions:

- Young Gen Z, 13-16 years old
- Mature Gen Z, 17-21 years old
- Millennials, 22-35 years old
- Gen X, 36-50 years old
- Baby Boomer, 51-70 years old
- The Greatest Generation, 71+ years old

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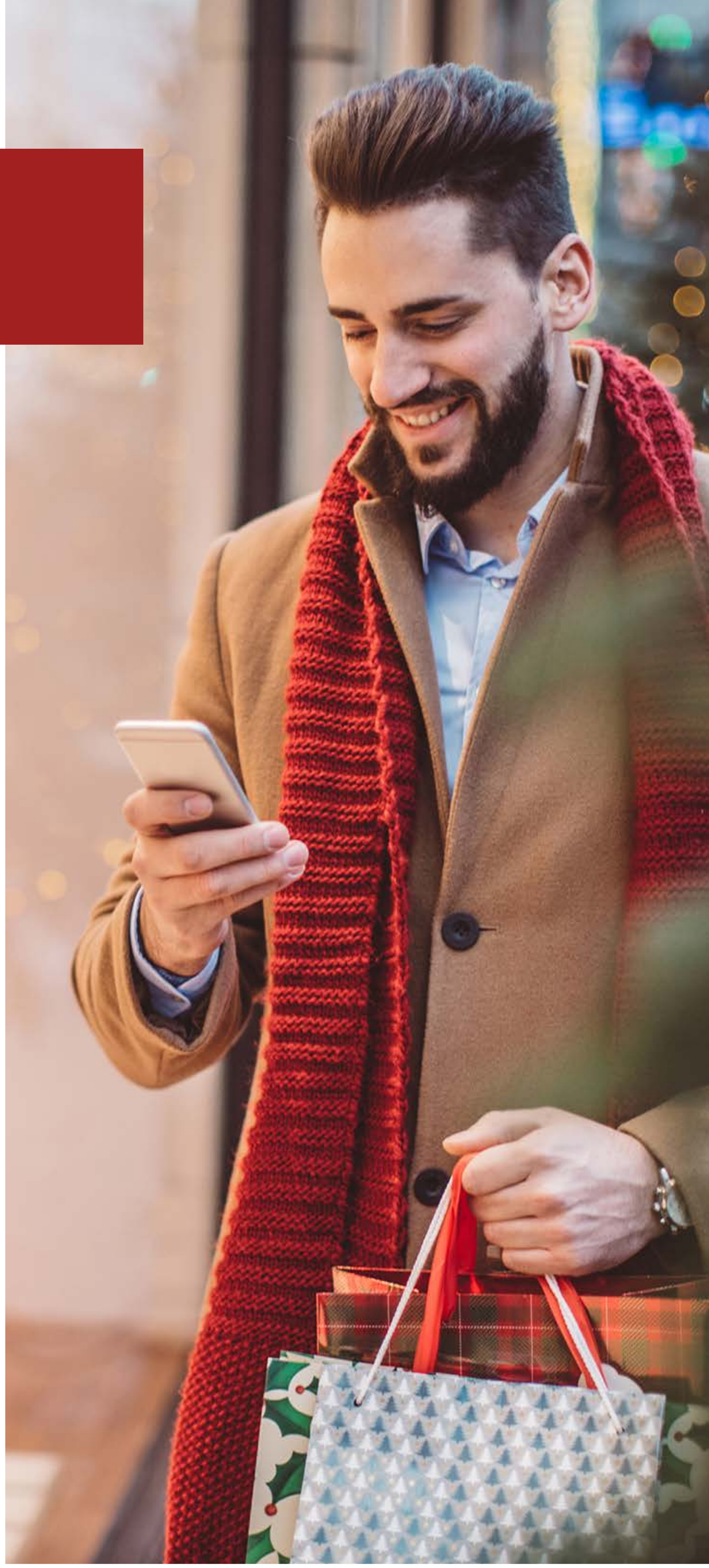
Make it easy on me

From product discovery to payment to shipping, consumers are in the driver's seat

No idea what to buy for that hard-to-shop-for aunt? Stop by the store. Already know what you want to buy for your brother? Go online. Not sure if that particular gadget is the one your DIY spouse wants? Check product reviews from avid users.

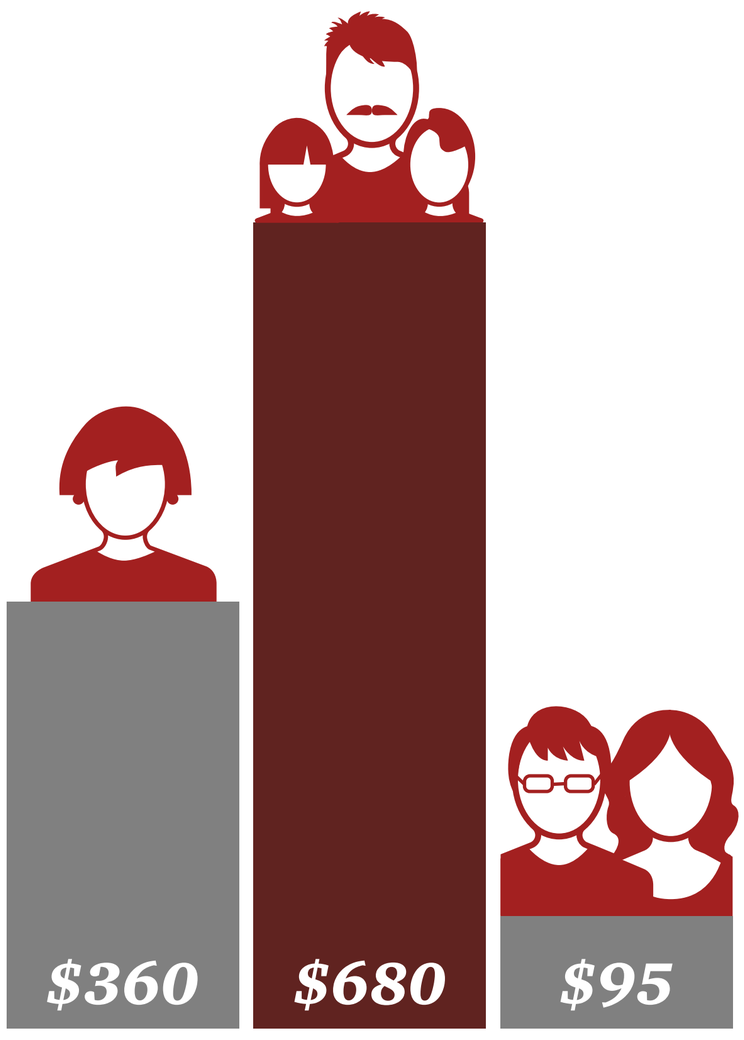
Holiday shopping is more convenient than ever before because consumers have a multitude of options. From finding just the right gift to deciding how best to get it to the recipient to what method of payment to use, the choices are endless.

The majority of consumers (83%) are primed to spend as much or more this holiday as they did last year, an average of $1,189 each. Overall, that's a 6% increase, driven mainly by high-income consumers who've seen income gains; most other consumers, while optimistic, are coping with stagnant wages.



*Consumers will spend **6% more** this holiday*

*They will spend on**



*main categories

Their budget

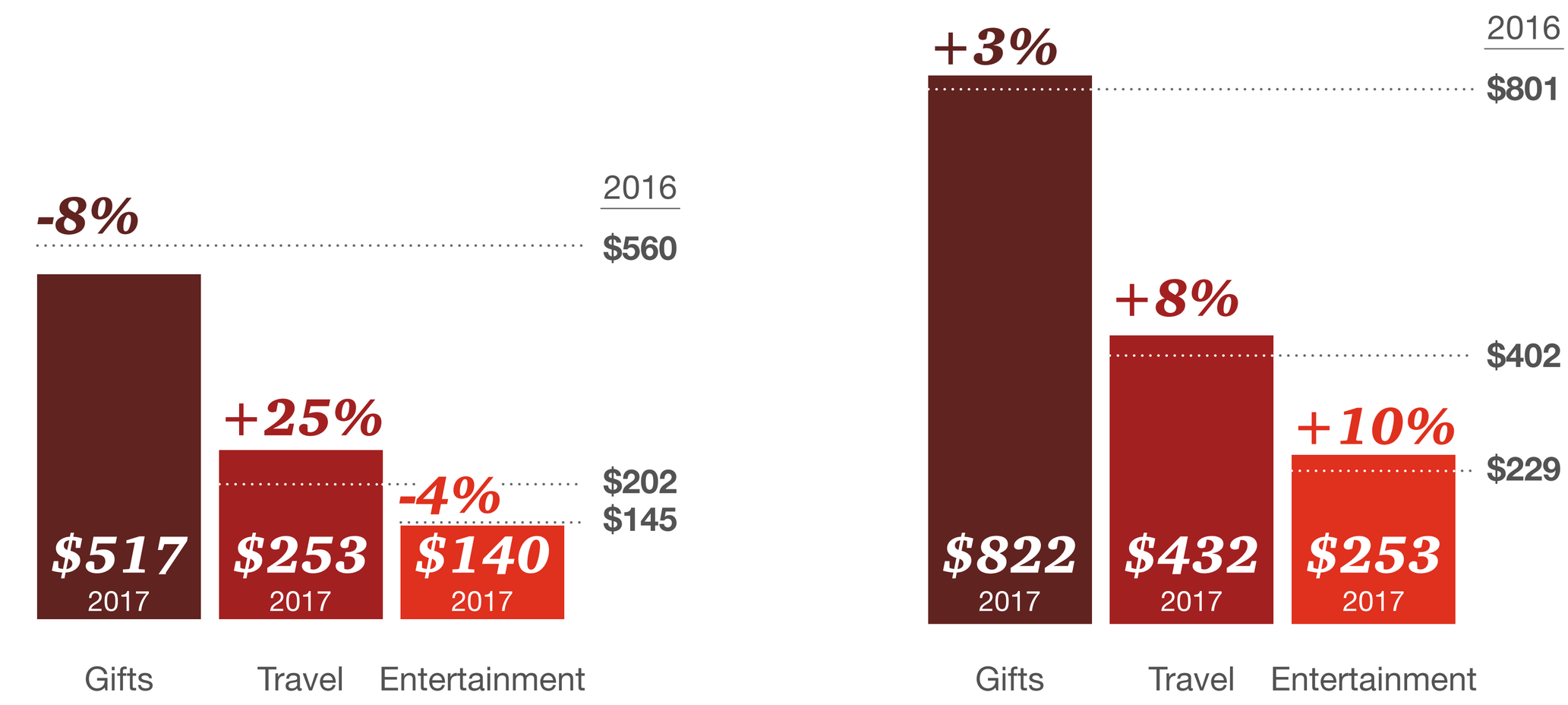
Top categories they will buy

- **57%** Apparel
- **51%** Gift cards
- **43%** Toys
- **33%** Personal electronics
- **29%** Accessories

*The **majority of consumers (83%)** are primed to spend as much or more this holiday as they did last year, an **average of $1,189 each**.*

In fact, our survey found that households with incomes less than $60,000 will decrease spending on gifts and entertainment, boosting only their travel spending. This pattern from our survey results—of high-income households driving spending—reflects broader economic trends in which high-income families have seen the largest income gains.[1] While median household income did hit a 17-year record at $59,039, rising employment, rather than wage growth, was the contributing factor.[2]

High-income consumers *will drive holiday spending*



Smart pay uptake on the increase

Almost 20% of consumers told us they will use their smartphones to pay for in-store purchases this holiday season while close to 10% will use a wearable device such as a smartwatch. Uptake for young Gen Z consumers (aged 13-16), who've grown up around smartphones and wearable devices, is higher—at close to 30% for in store smartphone payment and almost 15% via smartwatch.

Industry analysts estimate mobile payment will surge more than ***16x*** between 2012 and 2020 as consumers adapt to the increasingly prevalent technology.[3] Meanwhile, 80% of consumers support payment-technology tools such as sensor fingerprinting, facial recognition, retinal scanning and voice control; they also are open to currencies like bitcoin.[4]

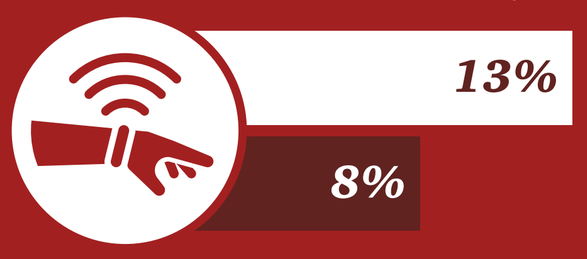
Given the right incentives—such as the ability to pre-order online and go to the front of the line for pickup—consumers are more than willing to use mobile payment. Starbucks' mobile app represents a third of all orders, up from 8% just three years ago. And mobile customers, all members of Starbucks' loyalty program, spend more than others—representing 36% of sales even though they're only 18% of Starbucks' 75-million strong customer base.[5]

Rideshare companies take this concept to the next level with a focus on check-in rather than checkout. Once the consumer hails a ride with a few taps on a mobile app, there's nothing left to do but wait. And then ride. ***Best*** of all—no fumbling around to pay at the destination.

Young Gen Z likes ***smart pay***

Use smartphone to pay in stores

Use wearable devices to pay in stores



Here a sale, there a sale

Consumers no longer have to wait until November to kick off holiday shopping. More holidays year-round—including some that are retailer-generated—mean more opportunities for discounts and promotions.

Consequently, the decline of Black Friday is hardly news at all. Especially from its glory days heralding the start of the in-store holiday shopping season.

Today, shopping online is more popular than in stores on Black Friday: 30% of consumers will do the majority of their Black Friday shopping only online. Some 30% will combine online and in-store shopping while 19% will shop only in store.

Another popular day to shop online? Thanksgiving day. About 28% of shoppers will do the majority of their shopping only online, up 10 percentage points from last year. Some 17% will shop online and in stores while 13% will shop only in stores.

Cyber Monday is also gaining speed: In 2016, Cyber Monday set a new record of $3.45 billion in online sales, a 12% increase over 2015. Meanwhile, Small Business Saturday (the day after Black Friday) offers discounts aimed at getting shoppers into local stores.

And Prime Day 2017 generated 60% more in sales than in 2016. While Amazon does not disclose actual sales figures, industry analysts estimate Prime Day 2017 sales at upwards of $1 billion; some of those purchases might well have been holiday gifts.[6] Meanwhile, other retailers, in an effort to entice eager shoppers, also offered competing price breaks.

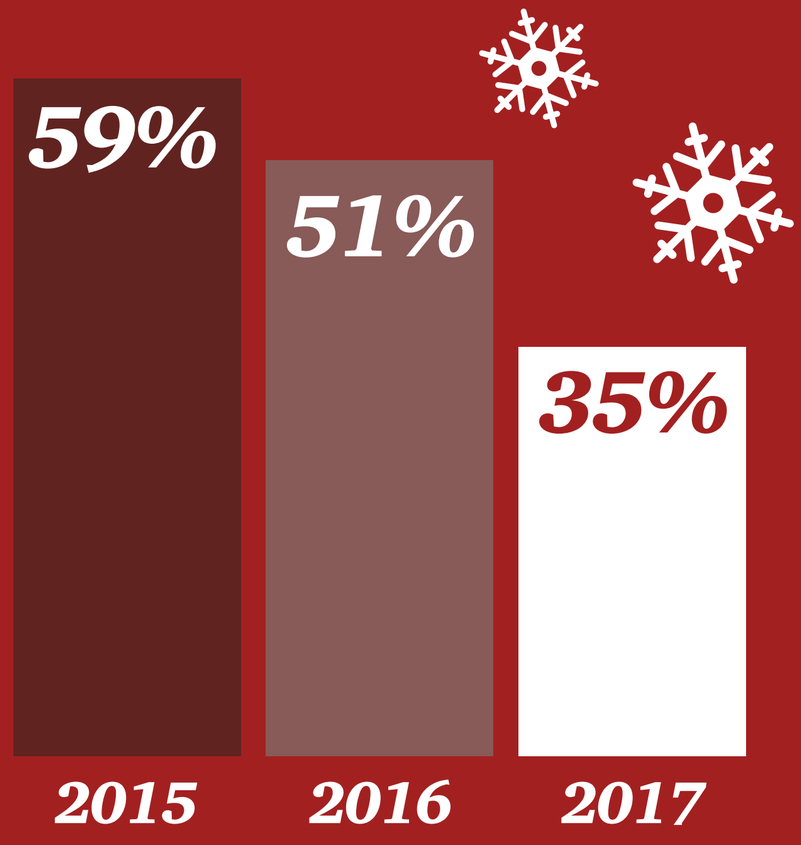
Low price always wins out

Since low price is the primary motivating factor for purchases by far—63%—lower prices mean more shoppers (62%) will have begun shopping before Black Friday Week rolls around.

Conversely, the proliferation of sales and promotions in late November and most of December also allows consumers who'd rather wait to do so. In fact, some 70% of consumers told us they will wait until after Black Friday Week to finish buying their gifts. Of those, 15% won't finish their shopping until after Christmas Day, in anticipation of after-Christmas discounts.

In 2016, meanwhile, Amazon's 35 days of deals attempted to turn every day between Black Friday and Christmas Day into another opportunity for discounts.[7] With no dearth of promotions, it's no wonder that 70% of consumers wait until after Black Friday Week to finish their holiday shopping.

Shopping on Black Friday
down 24% *since 2015*



At the holidays and all year, a community of commerce

The store morphs into a more contemporary version of its former self

Retailers understand the imperative to create a community of commerce—a welcoming environment where shoppers enjoy spending their time as much as they enjoy spending their money. In this community of commerce, store experience matters as much as products and services. Shoppers are as comfortable making themselves at home in this environment as they would be at the home of a good friend. Especially during the holidays, when shoppers have long lists to check off.

In fact, the overwhelming majority of consumers (88%) told us they will shop in stores this holiday. And 84% told us they will shop online. In today's environment they are constantly recalibrating the finely tuned—and very individualized—balance of convenience, price, speed, and variety to determine which channel works best in a purchasing decision.

In this omnichannel world, retailers continually look for ways to make shoppers feel at home. With the kind of ambiance that small targeted boutiques—both physical and digital—engender. In fact, ***more than half*** of our survey respondents told us they will shop at smaller specialty or independent retailers this holiday.

Which explains why large brands acquiring smaller ones are maintaining those brands' individual specialty identities. As Walmart did with Jet.com, Shoebuy, Moosejaw, Hayneedle, Modcloth, and Bonobos.

Deep understanding of customers

Specialty retailers characteristically foster a one-on-one relationship with customers, naturally creating a welcoming environment. Translating that spirit of warmth to a larger enterprise requires some effort, starting with a deep understanding of customers.

Little wonder then that across a range of industries from finance to professional services, PwC analysis found that retail had the highest proportion of job openings for data-driven decision-makers. And retail is in the top three industries seeking functional analysts. By 2021, employer demand for data science and analytics skills will far exceed supply.[8]

When they shop in stores, consumers want an easy-to-navigate experience. They demand the same conveniences from stores as they have come to expect online: personalized discounts, product selection, same-day delivery, and more.

Community** of commerce = **physical + digital

Our survey respondents have told us for several years now that long, slow-moving checkout lines are daunting deterrents, especially during the holidays. Increasingly, kiosks, lockers, and special pickup counters allow customers the option to dash in and out if they'd rather—a boon for time-constrained holiday shoppers.

For those who want to stay and explore, the most innovative retailers offer events that encourage participation. At Sephora, for example, customers can participate in makeovers, beauty classes, and in-store events with professional make-up artists.[9]

Stay and play

Affordable home décor outlet CB2 is adding whimsical touches to its showrooms, evoking luxury style at value price. Detroit-based Shinola, which sells watches, bikes, and leather goods, has partnered with rappers and tattoo artists for on-site events.[10]

This concept of a community of commerce combined with an easy-to-navigate experience—further amplified when consumers connect with peers on social media via photographs and reviews—clearly resonates with shoppers, especially those who view the store as a showroom; they might come to look, then buy online later. Or see a product online and go to the store to find out more.

In fact, when asked about holiday shopping, our young Gen Z consumers (aged 13-16) told us they like stores with holiday lights. And special events. And fun experiences. In other words, they want to experience that community of commerce.

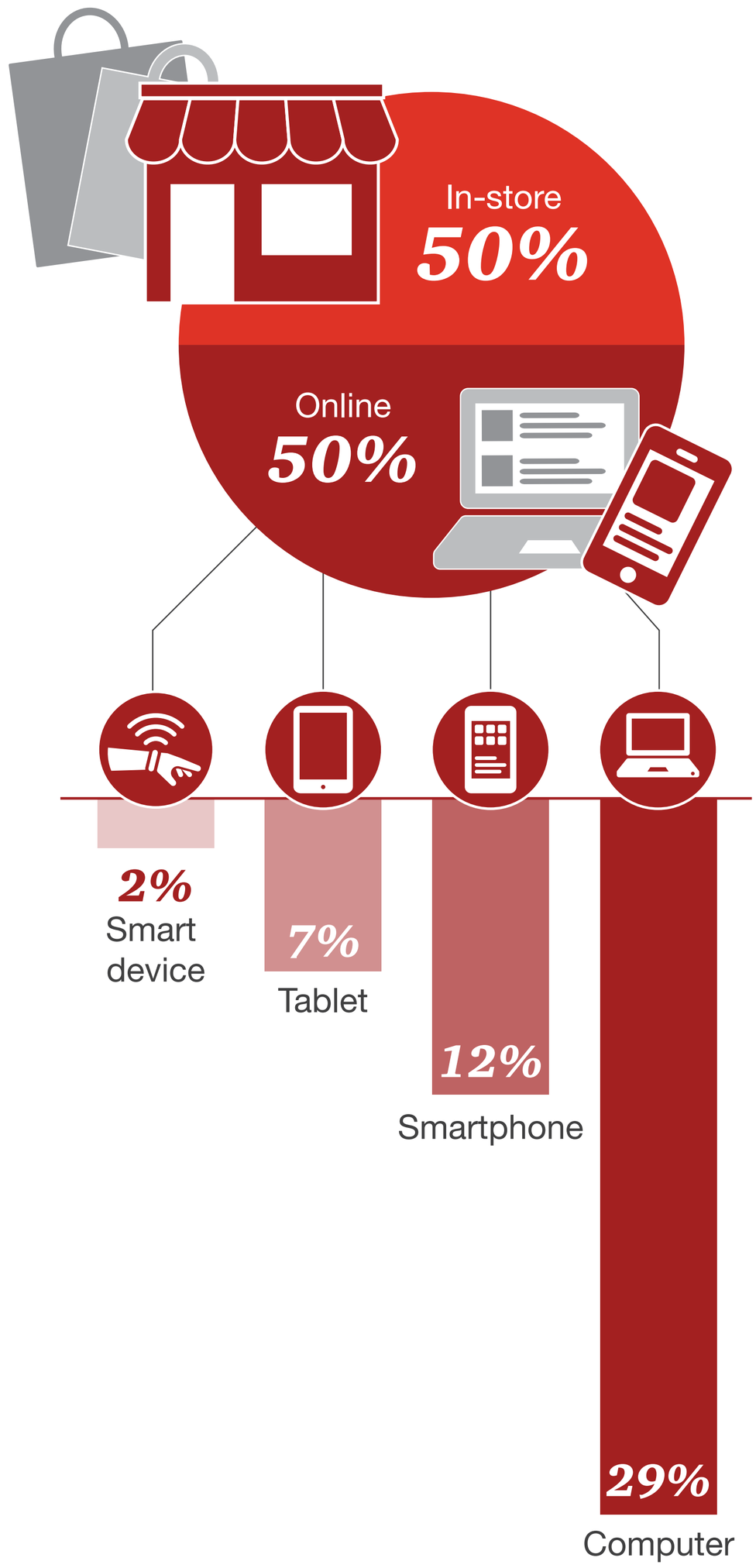
Reinforce the brand

Retailers large and small are taking note. Especially online retailers who want to foster brand identity. Why else would former online pure plays seek a physical presence if not to reinforce the brand and offer an in-person welcome? As well as to offer new connection points with already-loyal digital customers in ways that are clearly impossible online?

As the most storied online pure play retailer of all has shown this past year—first with tentative forays into the physical world and then by diving headlong into 440+ locations nationwide—we've come full circle: Amazon now offers click-and-collect options.

From physical to digital and back, retailers are reinventing themselves to better respond to customer preferences. They're streamlining their physical footprints—with smaller formats in urban population centers, for example—and bolstering their online presence. Liberated from being an inventory repository, the store can fulfill its defining role in a larger brand strategy—especially during the holiday season, when shoppers are out in full force.

Consumers will split their time ***equally****: in-store + online*



Take a load off

Retailers have been rolling out the welcome mat for significant others accompanying shoppers—shopping companions whose attention spans typically don't last past the first half hour.[11]

Especially welcome by shopping companions during the holiday season, these amenities have evolved from so-called boyfriend benches to fully stocked bars—complete with snacks—sometimes directly in the middle of the retail floor. Coffee shops and comfy chairs abound. The respite areas are fully integrated into the layout so shoppers don't find them intrusive.

Apple, meanwhile, recently announced that it would further transform its retail environment into even more welcoming indoor and outdoor gathering spaces—where customers can take classes or participate in one-on-one sessions, engage with technology, listen to local artists, or just hang out with friends.[12]

Westfield Corp, which operates malls in the US, is establishing pick-up and drop-off areas for shoppers who use ride-hailing options; in the works are partnerships with Uber to create lounges with amenities for shoppers waiting for a ride after they're done shopping.[13]

Expect these type of partnerships to become more commonplace. Imagine a hotel lobby with a variety of retail options, like an airport, for even more opportunities to buy last-minute holiday gifts.

Holiday habits uncover generational preferences

Young consumers enjoy travel; older consumers like dining out

Holiday shopping is all about family: Consumers over 35—from Gen X to Boomers to the Greatest Generation—plan to spend more than 60% of their holiday budget on family. Millennials come in at 51%.

Mature Gen Z consumers (aged 17-21), meanwhile, plan to spend almost 40% of their total holiday budget on themselves; they will spend 36% on family. Typically students and nonparents, they have the smallest overall holiday budget at $750. Regardless, they love to shop; 72% of them told us they enjoy holiday shopping.

The overwhelming majority of mature Gen Z consumers (87%) turn to social media for inspiration to find gifts. And these mostly brand-agnostic shoppers seek retailers who offer personalization. They spoil their pets with gifts at the holidays, spending a higher proportion of their holiday budgets on their pets than any other age group. And they want tangible gifts (clothes, personal electronics, and accessories) rather than travel or entertainment options.

While travel ranks high on millennials' (aged 22-35) wish lists, Gen X (aged 36-50) and Boomers (aged 51-70) are more likely to buy gifts of travel for themselves. Meanwhile, Boomers and the Greatest Generation (aged 71+) will treat themselves to dining and entertainment options far more than other age groups.

As consumers get older, they are more likely to want a gift card. When it comes to buying gift cards for others, consumers overall chose restaurant gift cards at 65%, followed by branded retailer gift cards other than Amazon at 61%, and Amazon gift cards at 41%.

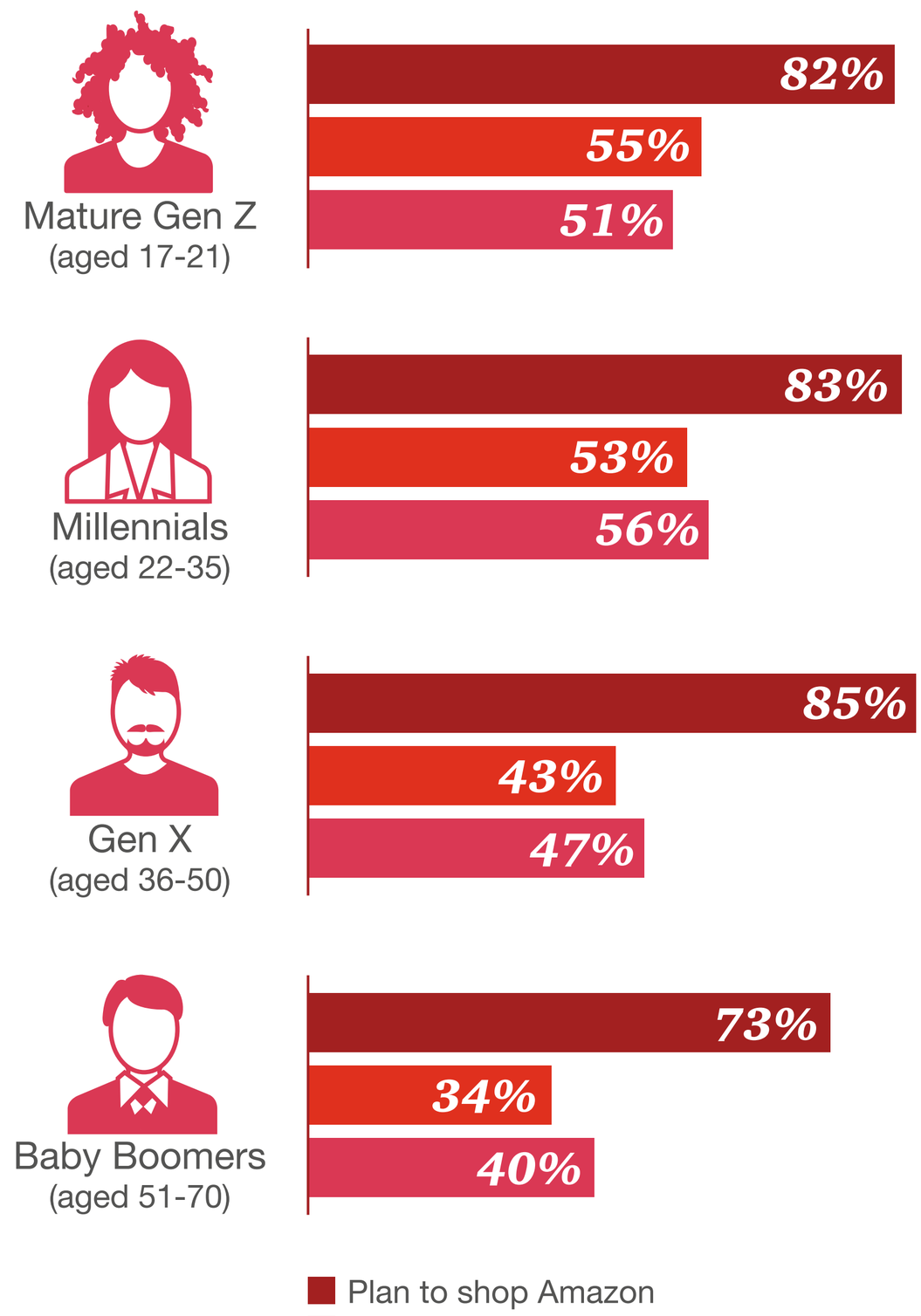
An optimistic bunch

Millennials are optimistic about the holiday season, with 86% saying they'll spend the same or more as last year. Partial to travel, they use online travel agents—web sites that consolidate a variety of options—for their hotel reservations more than other consumers (44% vs. 32%). In fact, they plan to do 55% of their holiday shopping online, more than any other age group.

They want experiences rather than tangible gifts, seek socially and environmentally responsible retailers, find inspiration via Facebook (65%), and have the highest proportion (56%) of households with Amazon Prime memberships of all age groups. Mature millennials (aged 31-35) are most likely to shop online during Thanksgiving and Black Friday.

Gen Xers, meanwhile, start shopping early: 41% will start before November. Those who travel will spend more on travel ($1,530)—mostly in the US—than other age groups. More brand loyal than younger consumers, they prefer branded hotels. They're not as influenced by social media or artisanal gifts but they are bargain hunters.

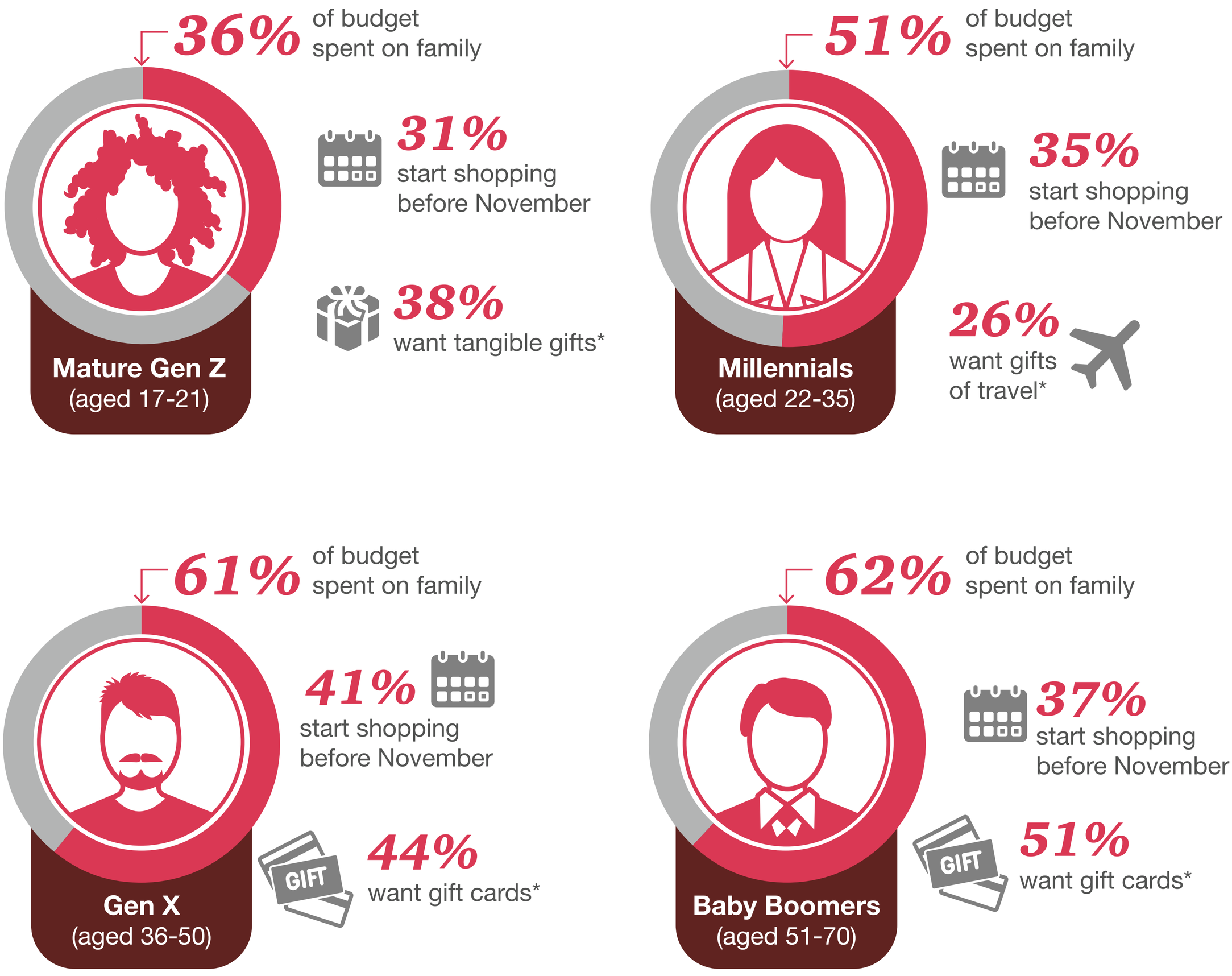
Members buy more



Boomers like gift cards, both giving and receiving. Almost half won't shop on Thanksgiving Day, likely because they're taking care of family visiting from out of town. Most (75%) will give to charity, typically monetary donations.

They will do more than half their shopping in stores (53%) and about a third via laptop or desktop (33%). Boomers are not much for social media, but when they do seek ideas from social media, Facebook dominates. Free returns are important to them. When it comes to travel, price is less important than the location of their destination.

*How will I spend my **holiday budget**?*



*Indicates most preferred type of gift they want to receive between: tangible gifts, travel and vacations, entertainment and dining, or gifts cards

Love me, love my pet

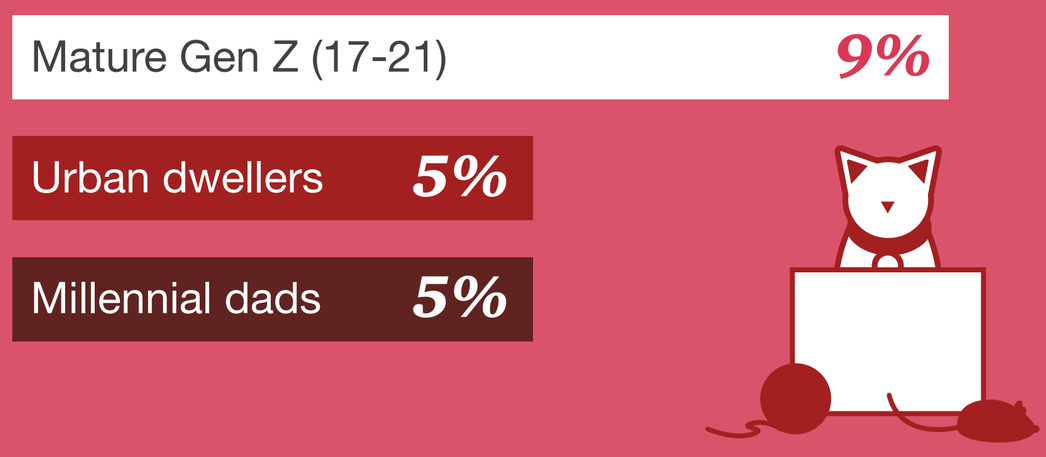
From chew toys to personalized pillows to fleece-lined snuggle beds, the holidays are a time when pet owners pamper their furry loved ones.

Mature Gen Z (aged 17-21) as well as urban dwellers in large cities will spend the most on pets this holiday at $71, followed by millennial dads at $70. Of note, mature Gen Z will spend the highest proportion—9%—of their holiday budget on pets, compared to 4% for pet owners overall.

Almost 70% of US households own a pet, fueling annual spending of $67 billion on their animals in 2016, up 11% from the previous year.[14]

How much do you ***love your pet?***

Consumers aged 17-21 will spend ***9%*** of their holiday budget on their pets



Young Gen Z consumers forge their own path

Visual social networks dominate product discovery

We conducted a separate survey this year of 301 young Gen Z consumers (aged 13-16) to analyze similarities with and differences from consumers aged 17+. And establish a baseline from which to analyze how those preferences change—or don't change—in the years ahead.

The vast majority of these young consumers choose stores (81%) as their single most preferred way to shop this holiday, almost double the next preferred option of laptop or desktop and more than ***3x*** the smartphone option. In comparison, consumers 17 and older will split their shopping equally among online and in-store options.

Meanwhile, 40% of young Gen Z will shop solely in stores. No surprise then that they will spend more time shopping in stores on Thanksgiving Day and Black Friday than shoppers over 17. Their favorite retailers stock items specifically targeted to younger teenage tastes.

Let's all go to the mall

Malls are the runaway favorite venue for this age group: 60% of them choose malls as their #1 venue for holiday shopping. In fact, malls—which offer special waiting areas for ride-hailing pick-ups—are ***3x*** as popular with this age group as other shopping centers. Outlets and downtown stores, meanwhile, hold scant appeal for these young consumers.

What appeal do stores hold for ***young Gen Z consumers?***

Here's what they told us:

- Fun experiences
- Special events
- Holiday lights
- In-store specials
- Good layout

And what's on their ***wish list*** *for a* ***better*** *in-store experience?*

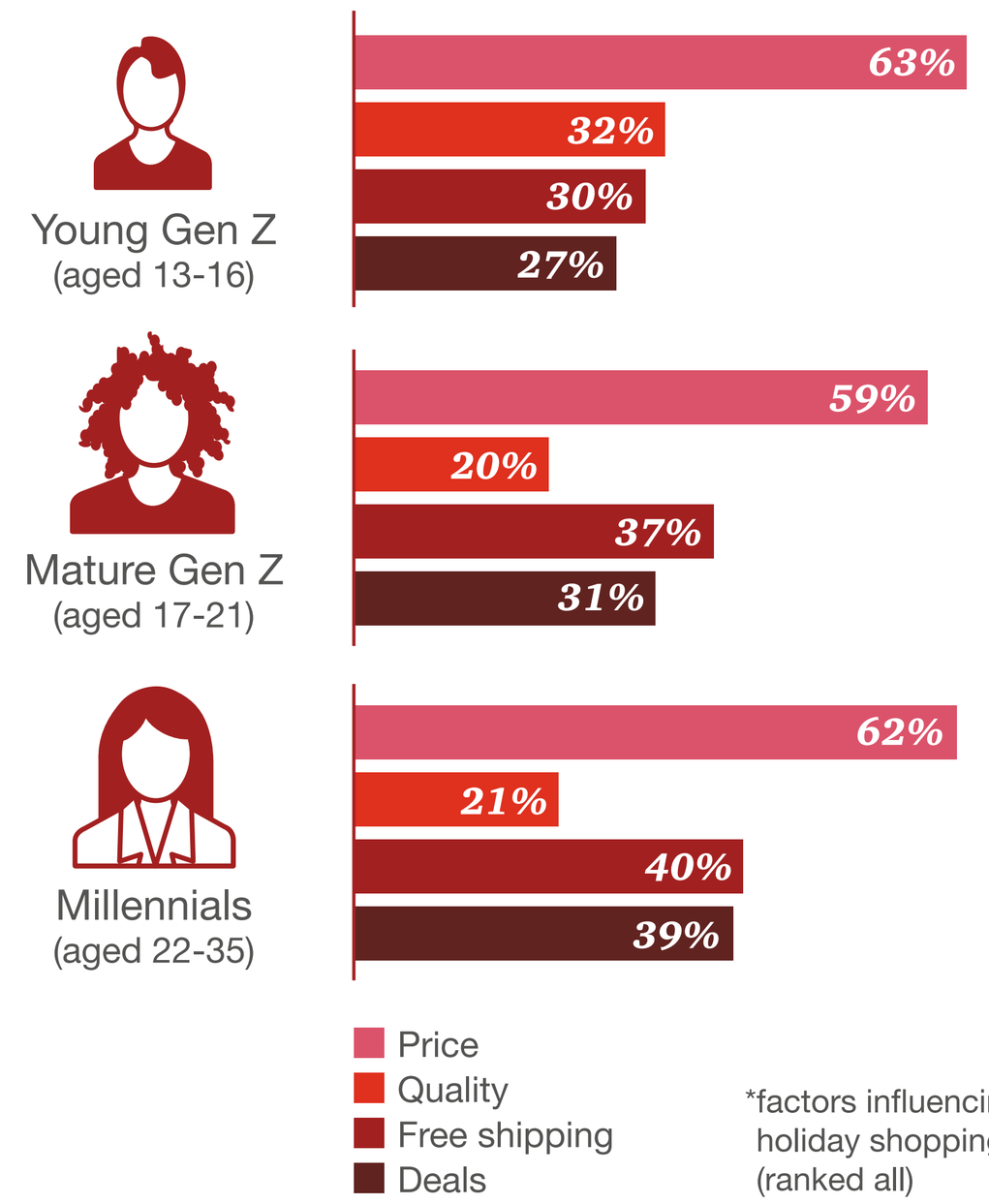
- ✓ Faster checkout
- ✓ Better deals than online
- ✓ Availability of items
- ✓ Shorter checkout lines
- ✓ Knowledgeable sales associates

Personal electronics (73%) and clothing (68%) dominate their wish lists followed by gift cards (46%), and footwear (43%). The most popular gift card: Amazon (64%).

Price is the #1 motivating factor for these young Gen Z consumers. At 63%, price far outranks quality (32%) and free shipping (30%). However, quality does matter more to them than it does to millennials and mature Gen Z consumers (aged 17-21); both older age groups care more about free shipping and discounts than young Gen Z consumers.

Low ***price*** *wins**

Young consumers like price breaks



*factors influencing holiday shopping (ranked all)

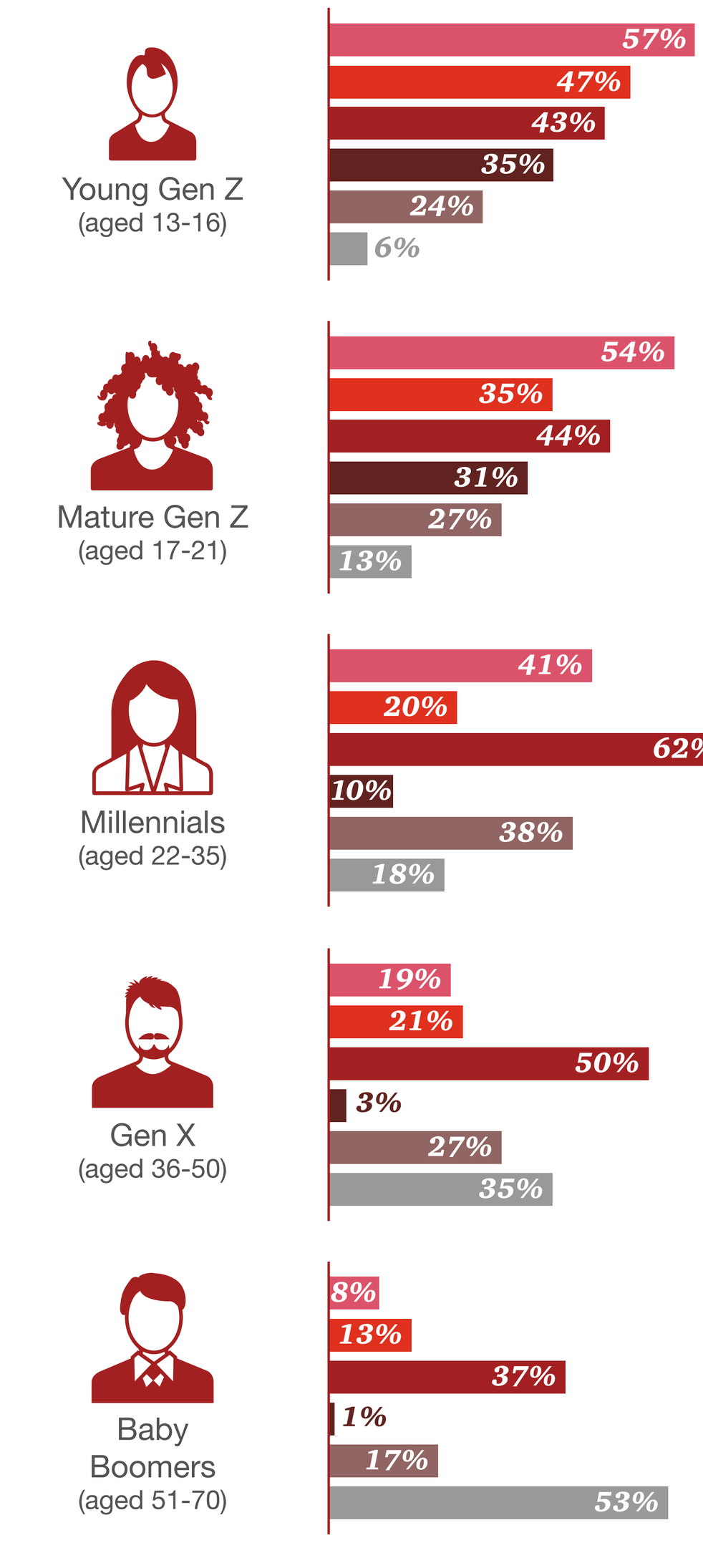
Having grown up playing with their parents' smartphones, they are more likely than other consumers—except for millennial dads—to pay for products in store via smartphone or wearable device.

These visual communicators look for gift ideas primarily on Instagram and YouTube, having grown up in an era dominated by visual communication. In contrast, consumers over 17 use Facebook far more than any other social media source.

In addition to Facebook, millennials also prefer Pinterest while Gen Z favors Snapchat. In a nod to the popularity of visual networks, Amazon recently launched a visual product feed in its mobile app. Prime Members can customize their Amazon Spark feed, check or post reviews, and buy products they like.

The collective strength of these visual and social networks dominate digital product discovery for Gen Z (75%), with traditional TV in second place (66%), followed by word of mouth (45%). In fact, consumers aged 13-16 freely concede they seek validation from their peers: 45% of them say their friends' wish lists for gifts will affect their own.

*Young Gen Z favors **visual, social** networks**



*social media platforms influential in holiday shopping (ranked 1-3)

Generous millennial dads put family first

Early tech adopters lead shopping via smart home devices

Upbeat about the economy, millennial dads (aged 22-35) will spend far more on their families (63% vs 57%) and far less on themselves (24% vs 30%) than all other consumers. Some 25% might well buy a family car this holiday if year-end price breaks are tempting enough.

The vast majority of millennial dads (94%) will spend the same or more as last year—on tangible gifts such as personal electronics (56%), traditional toys (45%), and home electronics (34%). As with consumers overall, they generally enjoy holiday buying. And they begin their shopping during Black Friday Week more than other consumers.

I like my connected home

These young dads will do most of their holiday shopping online (57%); mobile devices such as smartphones and tablets are their tools of choice (28% vs. 19% for other consumers). Early tech adopters, they are 3x more likely than all other consumers to shop via smart home technology—except for young consumers aged 13-16 who use smart home tech at the same rate as millennial dads.

Despite their preference for online shopping, however, these Facebook users (66% vs. 48% for other consumers) are more likely to buy something endorsed by an influencer they follow at a related in-store event (49%) than other consumers (31%).

Their easy familiarity with all things digital is clear to see at checkout: 49% of millennial dads will pay via smartphone, almost ***3x*** the rate of other consumers. And 27% will pay via wearable, almost ***4x*** the rate of other consumers.

As health-conscious, socially aware parents, millennial dads rank artisanal, personalized, and wellness-related gifts much higher than consumers overall do.

More than any other age group, millennial dads will buy travel-related gifts for their families (6% vs. 23%), most likely because young families often head home for family gatherings. They neither give gift cards much (20% vs. 32% for other consumers) nor like receiving them (24% vs. 44%), preferring instead to receive tangible gifts more than other age groups (35% vs. 24%).

Millennial dads are just as generous outside the home as they are with family. They rank highest in charitable donations ($266) compared to other consumers overall ($221) and are far more generous than millennial men without children ($147).

Tech-savvy millennial dads *ahead of the curve*

3x

*more likely than all other consumers to shop via smart home technology**

*except for young consumers aged 13-16 who use smart home tech at the same rate as millennial dads

Home for the holidays . . . or maybe not

Off to grandma's or a winter vacation

Consumers will spend close to 30% of their holiday budget on travel, slightly more than they did last year. In fact, those who plan to travel will spend an average of $1,216 on travel alone, bringing their overall spending on gifts, travel, and entertainment to $2,269 (vs. $1,189 in average overall spending for all consumers).

Most will visit family (50%) or take a vacation (42%) while a small portion (11%) will do both.

No surprise then that they are almost evenly split between staying with friends and family (36%) or staying at a name-brand hotel (33%).

Of those who are traveling—39% of the population—the vast majority will do so within the US (72%). And for those not heading home to family, the most popular vacation destination by far is the beach, followed by urban destinations, cruises, adventure travel, and spa trips.

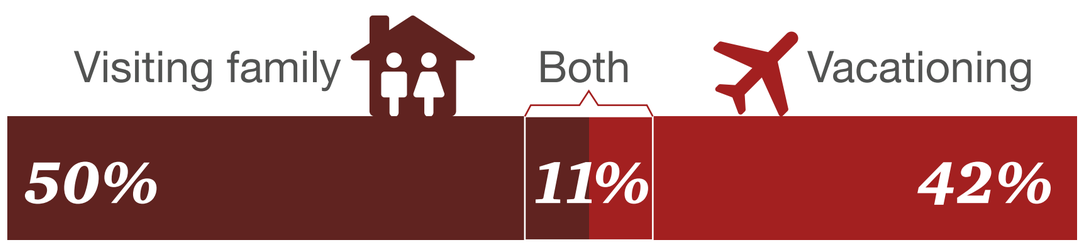
Short-term rentals like Airbnb, VRBO (vacation rental by owner), or HomeAway aren't as popular during the holidays (7%). According to PwC analysis, they are more likely to appeal to adventurous younger—often single—travelers looking for lower prices and a change of pace.[15]

Adventure travel rules

In fact, that's what our survey respondents told us: Adventure travel is popular with consumers aged 17-35, both millennials (aged 22-35) and mature Gen Z (aged 17-21). Meanwhile, mature Gen Z travelers also enjoy spa trips.

More than 40% of travelers will use hotel web sites for reservations—thus accruing loyalty points—while 35% will use online travel agents whose web sites offer discounted rates that aren't guaranteed to link to hotels' loyalty programs. Price matters, especially to young travelers under 35, with location in second place. The over-35 set, meanwhile, cares more about location than price.

*Where will I go this **holiday**?*



Note: Total will not sum to 100%, respondents selected all that applied

39% of consumers will travel

~30% of holiday budget will go toward travel

*Bon voyage with **click + swipe***

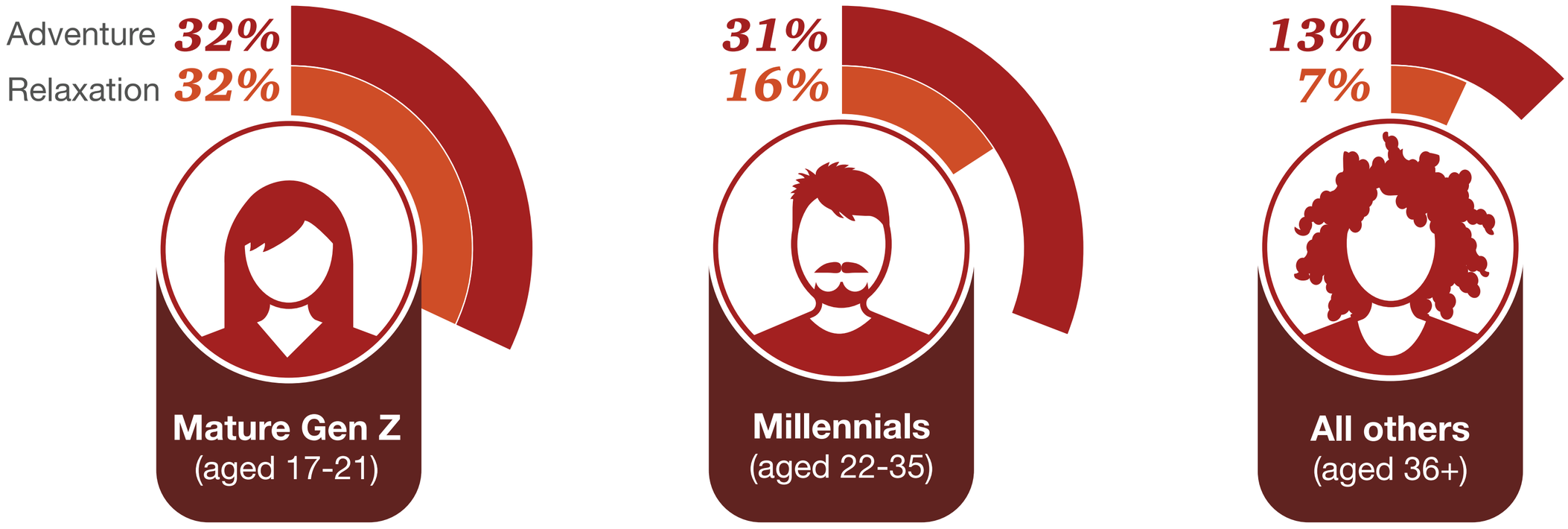
35% use online travel agents

41% use hotel websites online

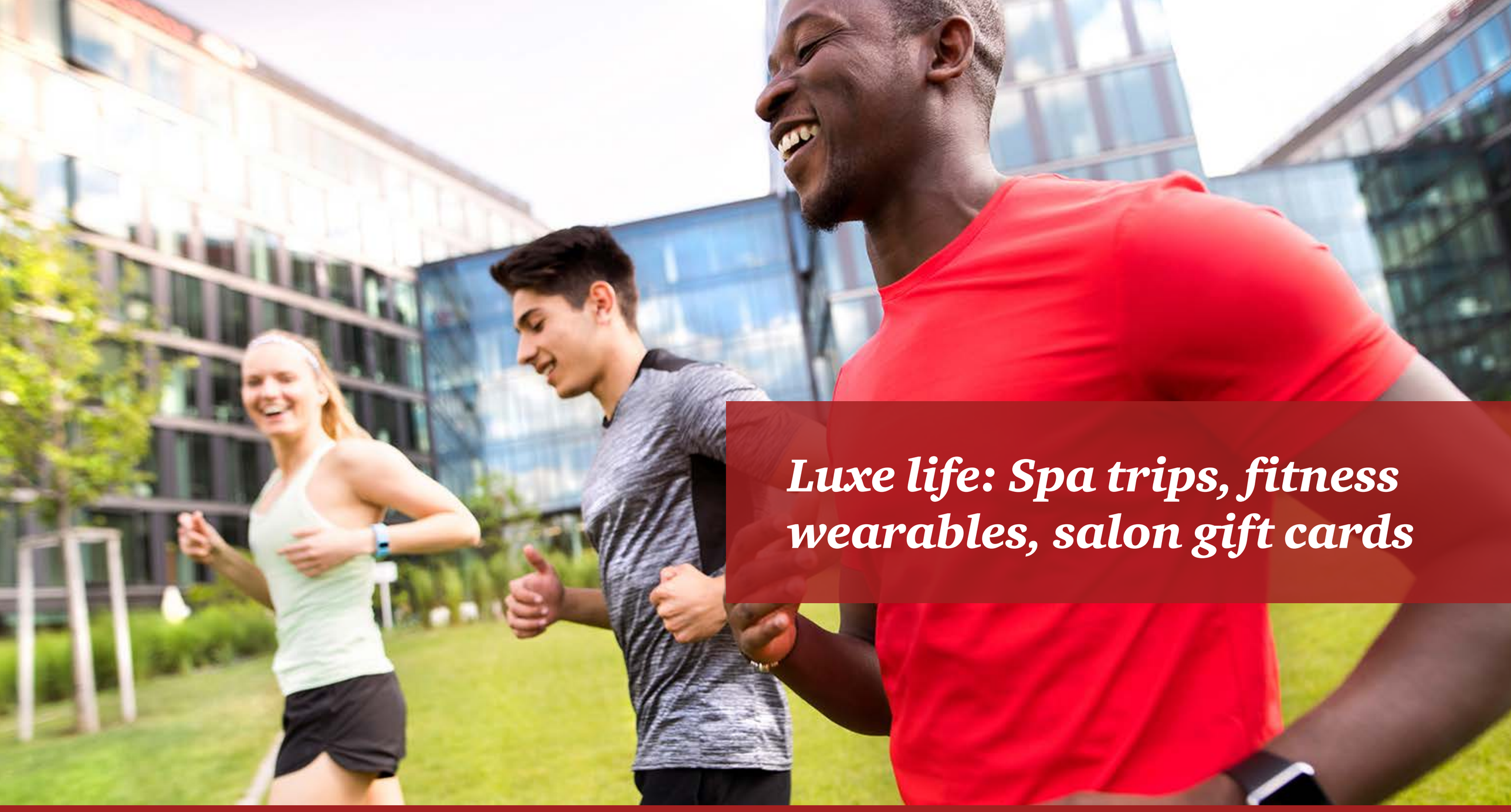
*35 and under: **Price** matters most*

*Over 35: **Location** matters most*

*Young consumers like **adventure** and **relaxation****



*respondents also had the option to select cruise, sun and sand, urban, and other



Luxe life: Spa trips, fitness wearables, salon gift cards

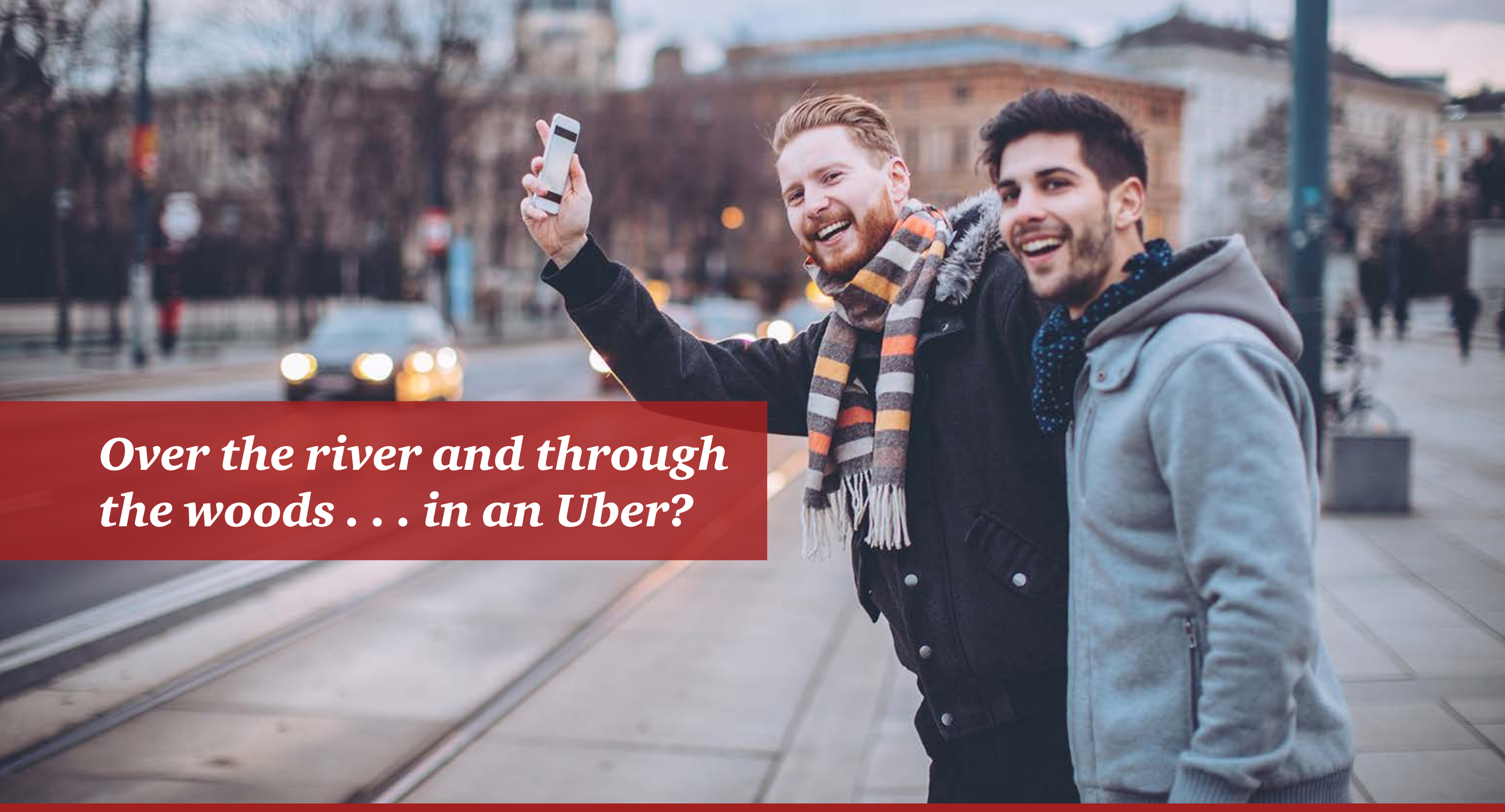
Consumers aged 35 and younger, who enjoy the luxe life and often live in urban population centers, will drive increased holiday spending on health and wellness. Their desire to pursue a healthy lifestyle by getting fit in a fun, entertaining, social environment is powering the explosive growth in boutique fitness lifestyle studios that often reach would-be customers via social media rather than traditional advertising channels.[16]

In that same spirit of wellness as lifestyle, millennials (aged 22-35) are twice as likely as older consumers to take a spa or fitness vacation this holiday while mature Gen Z consumers (aged 17-21) are more than 4x as likely. Meanwhile, core millennials (aged 26-30) and millennial moms rank spa or salon gift cards almost twice as high on their list of holiday purchases as all consumers.

And millennial dads are about twice as likely to frequent retailers who focus on health and wellness as all other consumers. PwC analysis shows fitness-related wearables are far and away the most popular type of wearable device on the market, fueled in no small part by ongoing demand from young consumers who enjoy both the efficiency of using a fitness wearable as well as the social aspect of sharing goals and competing to reach them.[17]

City dwellers give ***wellness-related*** *gifts**

*very likely to shop at retailers focused on health and wellness



Over the river and through the woods . . . in an Uber?

From shopping for gifts to parties with friends and gatherings with family, the holidays are a busy time—much of it spent on the road. In December 2016, for example, drivers racked up close to 300 billion miles, more than any other December in recorded history.[18]

More drivers on the road mean more congestion, especially during the holidays. New mobility models—such as ride-hailing and ridesharing—offer alternative options, especially in large population centers where the flexibility gained from not having to drive on congested streets and then look for parking at the destination is an enormous benefit. Not to mention the simplicity of app-based ride-hailing.

Scoot over, I'm getting in

In addition to Uber and Lyft, the two best-known services, other options in various urban locales include Via, Gett, and Curb (an app to hail cabs). PwC analysis found that some 60% of millennials have used a ride-hailing option compared to 19% of the over-50 set. And urban dwellers are more likely to use it (43%) than suburbanites (33%) or rural residents (22%).[19]

Most riders still ride alone but rideshare choices are gaining popularity as low rates attract younger riders. Preliminary independent data on road safety is also encouraging, with a reduction between 25% and 35% of alcohol-related auto accidents in New York City since the advent of ride-hailing in 2011.[20]

Looking ahead, more than 60% of the world's population will live in urban centers by 2050. To prevent the inevitable gridlock that would follow, new mobility platforms are slated to include mass transit, shuttles, and a slew of sharing options for a variety of vehicles including bicycles, scooters, and cars.

Alexa, where's my stuff?

More distribution centers closer to population centers mean fewer last-mile snags

The persistent growth in online shopping, compounded by expectations of expedited delivery, has mandated a corresponding reconfiguration of the entire distribution network. In fact, after a steady increase in uptake over the past few years, consumers now do some 50% of their holiday shopping online. Most of them take 2-day delivery for granted; some are even more impatient.

Consumers told us they will use digital channels—laptop, desktop, smartphone, tablet, smart home tech—approximately 6% more than they did last holiday season. And when offered free delivery, they prefer the same-day option by an 8-point margin over next-day.

Since holiday shopping does involve planning ahead, however—compared to a last-minute order of laundry detergent, for example—our survey respondents were somewhat divided in what they consider acceptable lead time: 50% said between three days and five days is acceptable, as long as the gift arrives in time for the occasion. However, a sizeable portion of consumers—39%—prefer two or fewer days.

Closer to you

In response, retailers have shifted their focus from behemoth distribution centers in the heartland to more nimble versions with smaller footprints close to population centers. Today, distribution centers dot the landscape of every metro market nationwide.

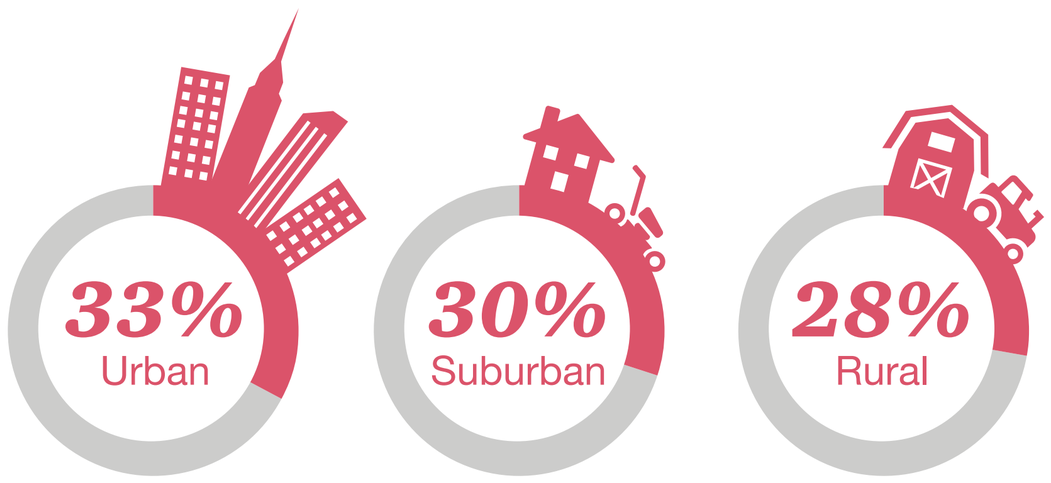
In large urban metropolitan areas, former manufacturing facilities in industrial parks are increasingly serving as distribution centers for a variety of retailers. Their proximity to major highways makes them highly desirable in an instant pick-up era with same-day delivery fast becoming more commonplace.[21] In exurban locations, meanwhile, former malls, also typically close to major highways, are making way for distribution centers after zoning changes.[22]

As more of these distribution centers spring up, the demand for workers is on the rise, despite the increasing ubiquity of robots. In fact, close to one million workers staff warehouses and distribution centers today; about 30% of that growth occurred in the past five years.[23]

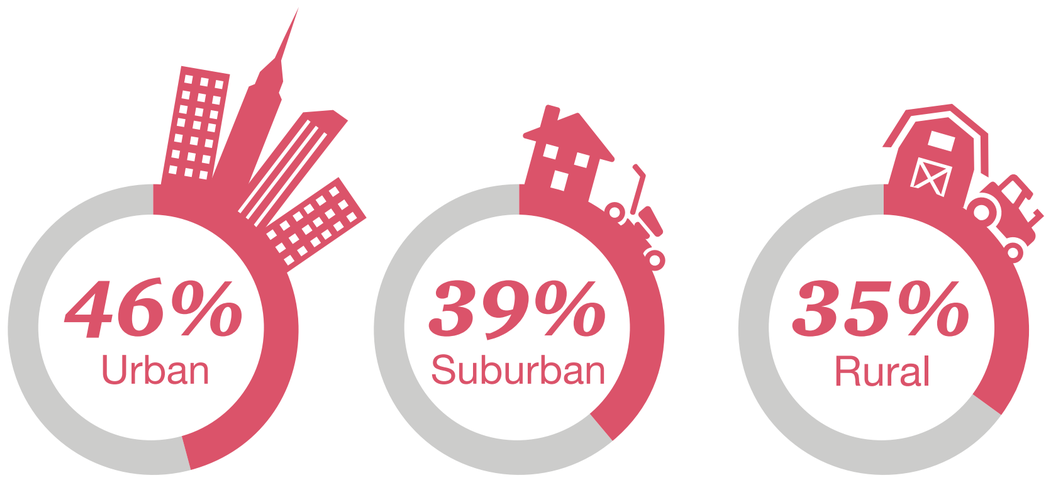
By some estimates, these jobs more than offset the loss of traditional retail jobs. As with other industries—transformed by technology such as banking with ATMs or transportation with ride-hailing apps—the initial disruption eventually stabilizes. In retail fulfillment centers, workers use technology (both software and robotics) to speed operations.[24]

*Urbanites prefer **delivery**; suburbanites like **click-and-collect** options*

% of consumers who prefer same-day delivery (if given the choice)



% of consumers who consider 2 days the standard for free delivery*



*rather than longer

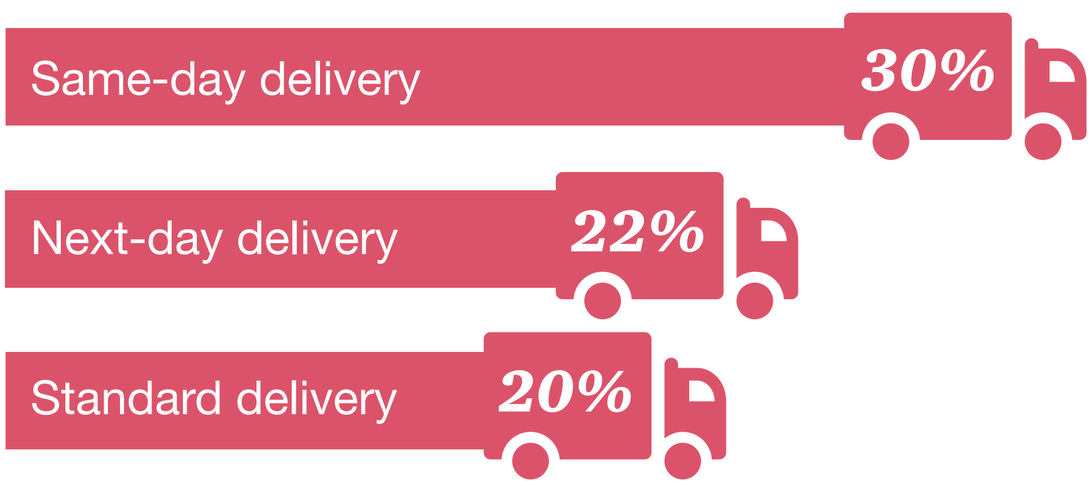
Traditional retailers are also converting retail space in their physical stores into distribution hubs to serve a variety of customer preferences, since these stores are often located close to population centers. Ultimately, retailers are juggling the economics of customer preferences, location density, and package sizes as they reconfigure their distribution networks.

Despite the experiments with crowd-sourcing delivery, consumers want the reassurance of a delivery network: 75% want to see a vehicle identified by logo or a delivery person identified by uniform, while some 50% want that logo and uniform to reflect a specific brand they know and trust.

Consumers want ***reassurance***

75%
want vehicles IDed by logo or delivery people IDed by uniform

When offered ***free delivery****, most consumers pick* ***same-day***



Goodbye traditional advertising, hello influencers

Consumers want the unvarnished truth from their peers

The widespread availability of peer reviews—in travel, dining, entertainment, shopping, and more—makes it ever easier for consumers to eschew traditional advertising in favor of peer recommendations, especially online. For consumers under age 35, who've always had easy access to peer reviews online, brand loyalty matters less than it does to older consumers.

They trust friends and family the most—and have little use for traditional advertising as a source of product information.[25] When faced with complex decisions, consumers overall said they are more likely to trust a peer than a business leader; they rank peers at the same level as academic and technical experts.[26]

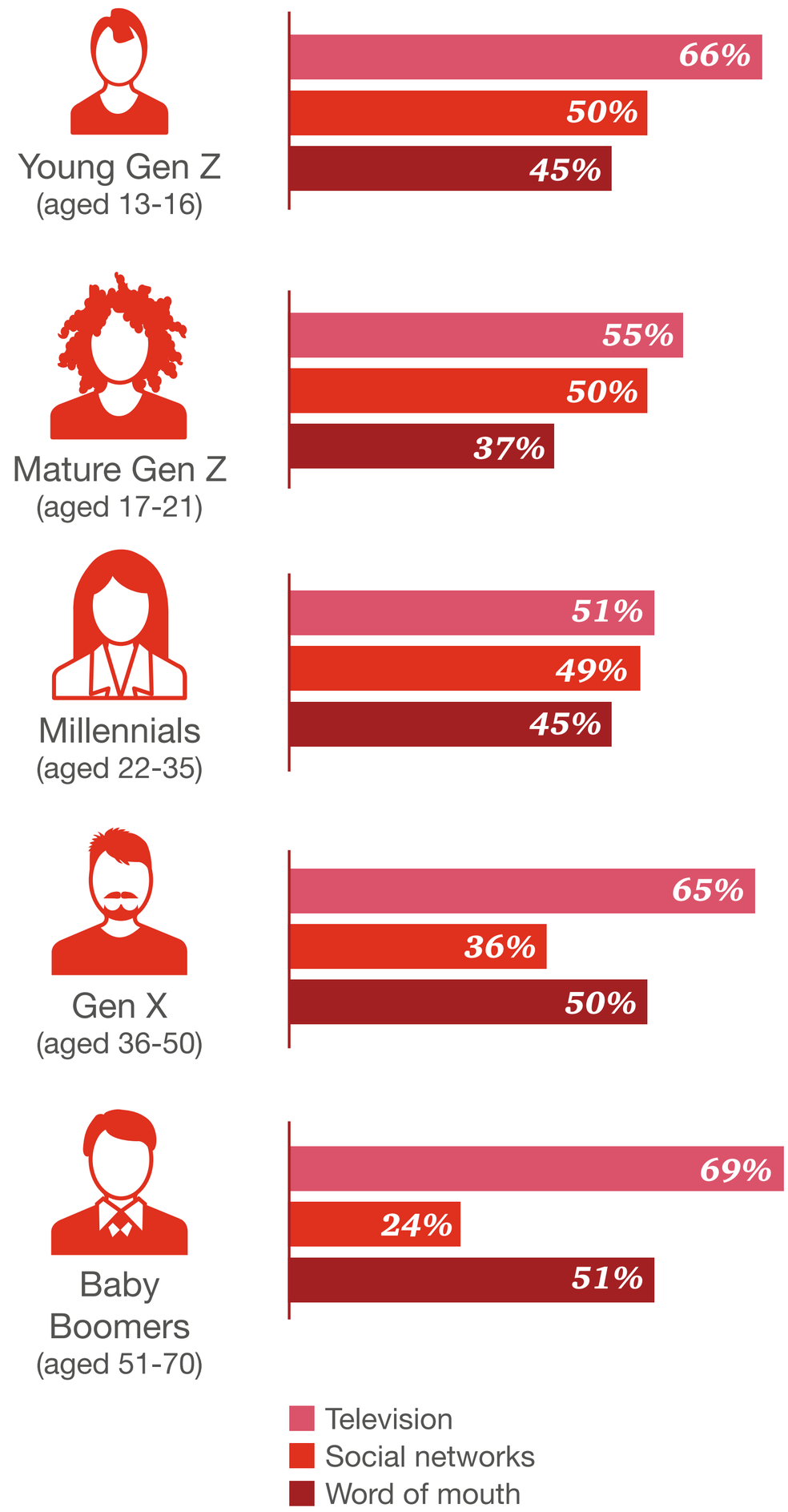
How will this help me?

Our survey respondents echo these sentiments. More savvy than in years past, thanks to the wealth of information available at their fingertips, they are looking for real insights about products; they have no patience for stories that don't speak directly to them.

When they're in a store, they are more interested in problem-solving experiences—and a salesperson who can relate to them—rather than an experience for its own sake. In fact, 70% of electronics shoppers want advice and assistance from a salesperson who knows the product well.[27]

While they do find television advertising useful in generating gift ideas (62%), their next two sources—word of mouth at 48% and social networks, excluding visual, at 36%—reflect the faith they assign to their peers.

*How do consumers learn about brands**



*ranked all

Social networks dominate

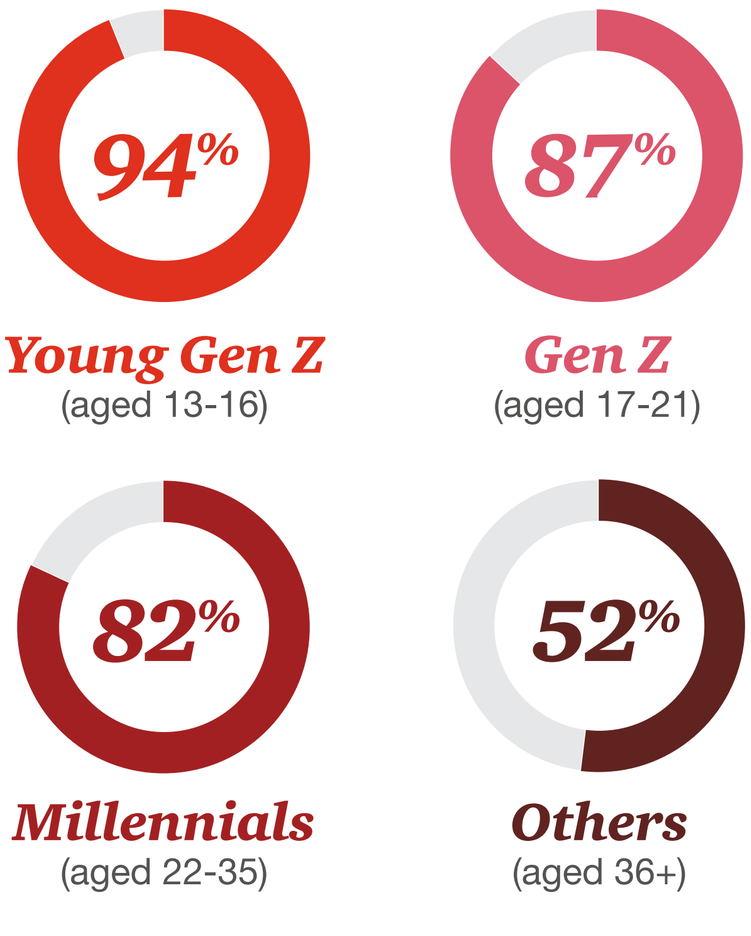
Social networks dominate peer influence, with Facebook highest at 49%; Instagram, YouTube, and Pinterest tied for second place at 29%.

Most influential social media platforms for young consumers? YouTube for 72% of young Gen Z (aged 13-16); Facebook for 65% of millennials, and Instagram for 62% of mature Gen Z (aged 17-21).

Always seeking confirmation that their trust in a brand is well-placed, consumers told us they would be far more likely to buy a product if an influencer they follow on social media links to a discount, shares a positive review, or wears or uses a product.

Savvy retailers recognize the importance of brand trust; in fact, they are prepared for negative reviews because it offers an opportunity to respond with sincerity and resolve the issue—rather than continue to remain unaware of it.

*Young consumers are prolific **social media** users**



*social media influences purchase

Through the lens of the economy

Holiday spending cannot be viewed in isolation; it only makes sense in the context of the overall economy. Consumer spending has led economic expansion for several months now, growing between 2.5% and 3% since early 2016.

And by most accounts, consumers are poised to do well going into the holiday, despite the potential fallout from recent natural disasters. Unemployment has been trending lower, staying below 5% for more than a year. Inflation remains subdued—and has even weakened in recent months as import prices have yet to move much higher amid a weaker dollar.

However, housing costs continue to rise quickly. As a result, sophisticated global investors are beginning to flock to interior cities such as Denver, Austin, and Portland, Oregon. Pension funds, family offices, and asset managers are following millennials who've been priced out of so-called gateway cities such as New York, San Francisco, and Boston.[28]

Meanwhile, rising equity and home prices are generating positive wealth effects, and low interest rates have encouraged debt-driven spending. In addition, some consumer confidence measures are now higher than their pre-recession peaks, further bolstering consumer spending.

Willingness vs. ability

However, consumers are now approaching a pivotal moment. Since early 2017, their willingness to spend has been testing the limits of their ability to pay. In fact, real consumer spending has been growing by more than 1 percentage point greater than real disposable income.

Which means households are spending a greater share of their take-home pay while saving less. Absent wage growth, consumer optimism alone may not bolster holiday spending. Wages should be accelerating as more employers struggle to find workers; so far, however, wage growth has been modest at best. Eventually households need to make more money or they will have to rein in spending.

Ultimately, whether or not consumers spend 6% more on the holidays this year—as they told us they would—depends on a constellation of factors including wage growth, commodity prices, the aftermath of recent natural disasters, and geopolitical stability.

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