Season of reckoning

Executive summary: Retail consumers hunker down for holidays

Our Consumer Pulse report for the 2020 holiday season is very different from what we published a year ago—for obvious reasons. Since March of this year, COVID–19 has impacted nearly every dimension of U.S. life. Large numbers of Americans face reduced household income and restricted mobility. Considerable uncertainty remains about prospects for an effective vaccine, and consequently, about public health policies that affect work, schooling, social interaction—and shopping. Consumers appear to be hunkering down for a longer road to economic recovery than they anticipated earlier this year.
COVID-19 has accelerated retail trends already underway for years, compressing into months shifts that might have taken much longer under “softer” conditions. While our data indicates there is still a long-term role for in-store shopping, the migration to online continues, across nearly all retail segments. Q4 will remain digital first, and physical shopping will remain severely limited.

We’re aware of some dissonance in directional signals from the marketplace. While KPMG economic data points to modest year-over-year lift in retail spending, our Consumer Pulse data – drawn from nearly 1,000 U.S. consumers in mid-September 2020, and tightly focused on the holiday 2020 season only, suggests end-of-year spending appears to be heading downward. During the holidays, essential purchases, activity focused on the home, and gifts for close family will take household-budget priority.

Perhaps most important, our survey data shows consumer acceptance of current conditions is more than just temporary. Retailers hoping holiday habits and traditions will offer them breathing room or buy them time may be in for some unpleasant surprises. Retail customers are retiring old behaviors and forming new shopping habits, in ways that are not circumstantial but structural, and likely to continue into 2021 and beyond.

During 2020, retailers have been bombarded with news about both the sector as a whole and their own segment. We publish this year’s Holiday Consumer Pulse report—and the data behind it—to separate what we think are meaningful signals and indicators from the abundant noise in the marketplace. We’ve organized our survey findings into three sections:

— First, the larger economic considerations currently driving U.S. consumer behavior – employment, household income, and confidence about eventual economic recovery

— Second, holiday spending plans – overall estimated budgets, the relative importance of traditional holiday events, and priority relationships for holiday gift giving

— Third, experiential drivers – hybrid online-instore shopping behaviors, consumer preferences for engagement with online and in-store channels, and legacy events like Black Friday.

“In-store retailers hoping for a holiday reprieve may be disappointed. For some, this is likelier to be a season of reckoning.”

– Scott Rankin, Principal, National Advisory Leader, Consumer and Retail, KPMG US
Since COVID-19 emerged, we’ve watched what we informally call “A Tale of Two Retails” develop. Clear winners on the one hand, who through strategy and investment positioned themselves to reap the benefits of changed consumer behavior. And then others, some caught flatfooted and now scrambling to meet an omnichannel world.

In our conversations with retail leaders in both camps, there is high awareness of what has already happened, concern about continued uncertainty, and strong interest in actionable insight that will keep them viable in a still-emerging new reality. So our closing section outlines KPMG recommendations for action, focused on investment in digital infrastructure, cost management, and long-term financial resiliency. We’ve intentionally presented responses that are applicable regardless of channel, segment or market outlook. Naturally, we invite specific inquiries to discuss how they and other approaches can help your business.

We also invite your interest in discussing the larger body of research data that this report represents. In coming months, KPMG will publish additional reports that deepen our understanding of the seismic shifts underway in consumer retailing and demonstrate our commitment to help interested retail organizations navigate them.

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“*The changes we’ve seen in retail customer behavior since COVID-19 will show up even stronger this last quarter, and are here to stay. There’s no going back.*”

– Julia Wilson,
Advisory Managing Director,
Strategy, KPMG US
The economy, at large and at home: Optimism turns to acceptance

U.S. consumers foresee a longer, uncertain road to full economic recovery

U.S. consumer optimism for rapid economic recovery seems to have plateaued, as the reality of COVID-19’s extended economic impact takes its toll. Asked when they expected the U.S. economy to return to pre-COVID-19 levels, the number of survey respondents who said “more than two years” has ticked up during the year and now stands at 23 percent. During the same period, the number who said “within six months” has declined, from 17 to 14 percent.³

Negative impact on household income remains steady…

From April through September, the number of respondents who reported a negative impact on household income has remained close to the 40 percent level reported all year.⁴ Of those impacted, about half (46%) indicated less than 25 percent; while 24 percent reported a 25-50 percent drop; 17 percent showed reductions of 50 to 75 percent; and 13 percent indicated greater than 75 percent negative impact.

…while impacts on employment status become more permanent

Employers are also adjusting their expectations and plans for the new reality and rightsizing their organizations. As we enter the holiday shopping season, about one third of September respondents (31%) said their employment status had been impacted by COVID-19, a figure that has stayed relatively steady since June.⁵ What has changed is the nature of employment impact: In April, just nine percent of those surveyed said their position had been eliminated; by September, 18 percent acknowledged their job is permanently gone. In the same period, those who described a more temporary “position furloughed” declined, from 57 percent to 28 percent.

⁴ p5
⁵ p4.
Consumers are watching their personal spending, more closely...

When asked a range of questions about their personal outlook, concerns about spending habits surface. Fourteen to 18 percent “strongly agreed” with statements expressing worry about ability to meet regular monthly bills or contingency expenses; 19 percent strongly agreed they had become more mindful of their own spending habits.

Holiday spending: Smaller gift budgets, enduring traditions

Budgets for holiday gift buying will be smaller this year

Those survey respondents who participate in gift-giving reported an 18 percent reduction in planned spending this holiday season, from $627 to $515. Sixty percent indicate they plan to give to the same number of people; while 36 percent say they will give to fewer people.

Holiday budgets tighten

Consumers who engage in holiday shopping expect to spend 18 percent less this year than last:

Estimated total holiday spend, 2019 versus 2020.
**Gift-giving will be “closer to home”**

Asked who they planned to give gifts to, our survey responses point to a triaging that skews to the closest family relationships, and may reflect consequences of social distancing.⁸ Gift purchases to parents (down 2 percent), children and partners (both down 5 percent) will be the least impacted. At a next concentric circle out, siblings (down 15 percent) and their children (down 11 percent) will receive fewer gifts; further removed relationships such as coworkers (down 29 percent) and local schoolchildren (down 32 percent) will be most affected by reduced gift giving.

**Customary or traditional holiday events endure, unevenly**

A portion of holiday shopping has historically tied to seasonal family, social, religious and corporate events. Our survey shows a downward shift in planned participation rates this year, with those events emotionally “closest to home” again the most resilient.⁹ Family gatherings will be least affected, down just four percent. Respondents reported 25 percent less intention to participate in religious gatherings this holiday season, and a 50 percent reduction in planned attendance at corporate events.

**DIY gifts are a bright spot, amidst projected reductions across all holiday categories**

Our respondents indicated they planned to spend less across nearly all holiday spend categories, with reductions from 10 percent (books) to 27 percent (clothing and accessories).¹⁰ Two category anomalies were hardware, with a projected increase of 33 percent in spending, and automotive (63 percent) increase. We believe these two positive outliers may reflect an increased value placed on DIY activity.

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¹⁰ p14

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Retail Preferences: New habits, new perceptions

*Shopping is migrating to online – significantly – across all holiday spending categories*

While the shift to online shopping from in-store is not news, the speed and category-agnostic nature of the shift is noteworthy.11 Our survey responses indicate increases in online shopping from seven to 34 percent across all categories.

*Customers are changing how they shop in-store, in response to COVID-19*

Hybrid in-store shopping patterns are emerging, in response to consumer safety concerns: Asked how they engage with retailers offline, 70 percent of our consumers indicated they would purchase in-store; 36 percent said “buy online/pick up in store”; 28 percent said “curbside pickup.”12

*Consumer enthusiasm for online and in-store shopping is roughly the same*

Approximately the same number of survey respondents indicated they enjoy shopping both in-store (21 percent) and online (25 percent).13 Asked whether their online shopping replaces the in-store experience, roughly one third (30 - 37 percent) of consumers said they are “the same,” in nine of 13 retail categories. Between 36 and 49 percent said their online shopping experience was either “slightly better” or “much better” in those same retail segments.14

*…legacy holiday events like Black Friday may already be a thing of the past*

To an unusual degree, holiday spend has clustered around tentpole events like Black Friday and Cyber Monday; our survey indicated some sharp shifts away from this pattern.15 Awareness of these events remains high, with 41 percent of respondents naming Black Friday as their most important sales event during the holiday season; and 25 percent naming Cyber Monday. This perhaps-residual awareness contrasts with intended behavior: 41 percent of our respondents who usually engage in holiday shopping said “I definitely will not go” to Black Friday events; only 13 percent said “I am definitely going.”

**Consumers enjoy online and in-store shopping, almost equally**

On a scale of 1 to 10, survey respondents gave comparable responses to “how much you enjoy” in-person and online shopping.

**Black Friday: Knowing, but not going**

While consumer awareness of Black Friday as a signature sales event remains high, in-store participation is changing:

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12.p21  
13.p20  
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15.p17

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While it may be tempting to think and act tactically in preparation for a relatively short holiday shopping season, KPMG believes the changes that have emerged since COVID-19 are here to stay. Retailers will be better served by longer term strategy that acknowledges this new reality, and serves broad goals of viability in an omnichannel world, operational agility, and business financing that accounts for multiple contingencies in a still-uncertain economic recovery.

While the specifics will vary for every retail business, here are three agendas that broadly apply, and can serve as the launch point for further, company-specific discussion:

**Scale eCommerce for massive demand**

In-store retailers need to prepare for an omnichannel future and customer expectations for seamless, end-to-end shopping experiences. Websites and a respectable, market-facing platform are just the beginning. Essential digital infrastructure includes order fulfillment, delivery, customer support, product returns, and data security. To support capex outlays and secure stakeholder buy-in, companies need ROI-driven business cases which define successful outcomes, sequence priorities, and identify accelerated paths to value creation before full implementation.

**Reduce costs to minimum viable levels**

Conservation of operating capital is key, if companies are to maintain their flexibility in the face of considerable economic uncertainty. Organizations need to determine ways to extract every last dollar of excess cost possible, without structurally breaking their business models, with contingency plans in place to rapidly rehire, order fresh inventory, or expand hours should conditions suddenly improve.

**Have financing in place to continue operations in a COVID-19 second-wave scenario**

In 2020, a number of retailers found themselves on the ropes, pushed into distress situations for lack of sufficient liquidity. As part of robust risk management and resiliency planning, companies need to secure their lines-of-credit well in advance, before they are ever pushed into financial scenarios that threaten business continuity. On an ongoing basis, organizations need to closely track their recurring, 13-week cash flow, and have clear visibility about their short-term revenue outlooks.

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**Additional KPMG Consumer & Retail research reports:**

In our roles as both marketplace observer and catalyst, KPMG’s Consumer & Retail practice group publishes a regular stream of research and analysis. To read some of our previous reports, please visit us at [https://home.kpmg/us/consumerandretail](https://home.kpmg/us/consumerandretail).