2017 holiday retail outlook

A how-to guide for brands entering the holiday season

AllianceData CARD SERVICES EPSILON CONVERSANT LoyaltyOne

It's a whole new retail norm out there. How customers shopped and engaged with brands in previous years has shifted. Their expectations have reached new levels.

This year, one thing is clear.

With retailers earning 40% or more of their revenue during the holiday season, it's the most wonderful — and important — time of the year.

Many brands have already begun preparing for the changing future of retail, creating operational efficiencies and developing more personalized messaging for their target audiences. Alliance Data's businesses have again joined forces to provide retailers with rich insights, expert advice, and actionable recommendations for making the most of the holidays. The following pages offer a detailed look at the issues and influences affecting all brands as we head into the holiday season.

Get in sync with your customers

The advent of new technologies has enabled consumers to go from browsing to buying faster than ever before. Cross-channel experiences that focus on the customer have become table stakes. Speed and convenience now compete with price as priorities for the time-starved shopper. And at 75 million strong[1] — now the largest generation — the millennial segment in particular is changing the traditional path to purchase.

Information of all kinds is available at our fingertips, which means consumers can scrutinize and research every purchase, in real time. As competition gets tougher, brands need to uncover what their customers really need and want, beyond basic promotions, to make their holiday shopping experience a good one. By getting in lockstep with their customers, brands are more likely to get their attention — and their wallet share.

TAKE ACTION!

Turn customer interactions into memorable moments.
Especially during peak holiday times, optimize in-store and online shopping experiences. Customers should be able to quickly navigate your brand, get through checkout, and get on their way.

Think quality over quantity.
Use journey maps and data insights to identify and prioritize your customers' most enjoyable — and frustrating — experiences to inform marketing, merchandising, and operational decisions.

Maximize omnichannel effectiveness.
Amp up online efforts early in the season, then add benefits like in-store pickup, easy gifting, and other time-saving, feel-good benefits to drive last-minute impulse purchases.

Aim for frictionless experiences.
Understand which customer experiences have the biggest negative impact on shopper performance, and address those first.

Activate your front-line employees.
Your employees have a direct effect on your customers' experience. Reward them for relationship-building actions, like solving a customer's problem or recommending products.

76% of U.S. consumers expect their interactions with a brand to be easy[2]

60% of shoppers 45 and under say they look online, then buy products in store[3]

75% of online sales, excluding Amazon, were from brands with a brick-and-mortar presence[4]

Leading brands address the landscape shift head on.

LOWE'S is leveraging artificial intelligence to aid in-store wayfinding and help customers to get in, easily find what they need, and get out quickly.[5]

BEST BUY overhauled its entire customer experience to eliminate the need to shop anywhere else. They used showrooming, price-matching, and gave customers more visibility — and accessibility — to products across all channels.[6]

NUDGE REWARDS encourages employees to accomplish specific outcomes through app-based gamified challenges.[7]

Build a digital bridge to your customers

With so many devices available to the masses today, 24/7 connectivity means in-the-moment access to information, offers, advice, and service. And whether or not customers are shopping a brand online, we know they're researching it. Online may make up only 15% of total retail sales[8], but its influence runs deep.

As digital elements pervade the in-store experience, customers are increasingly able to self-service and navigate their own interaction, without sacrificing any of the experiences they expect and love. It's important for brands to develop solutions that complement, rather than distract from, customers' desired experience in every channel. Digital is the undercurrent moving retail forward — and tools that enable its use are as much a part of the holiday shopping experience as bustling crowds and twinkling lights.

TAKE ACTION!
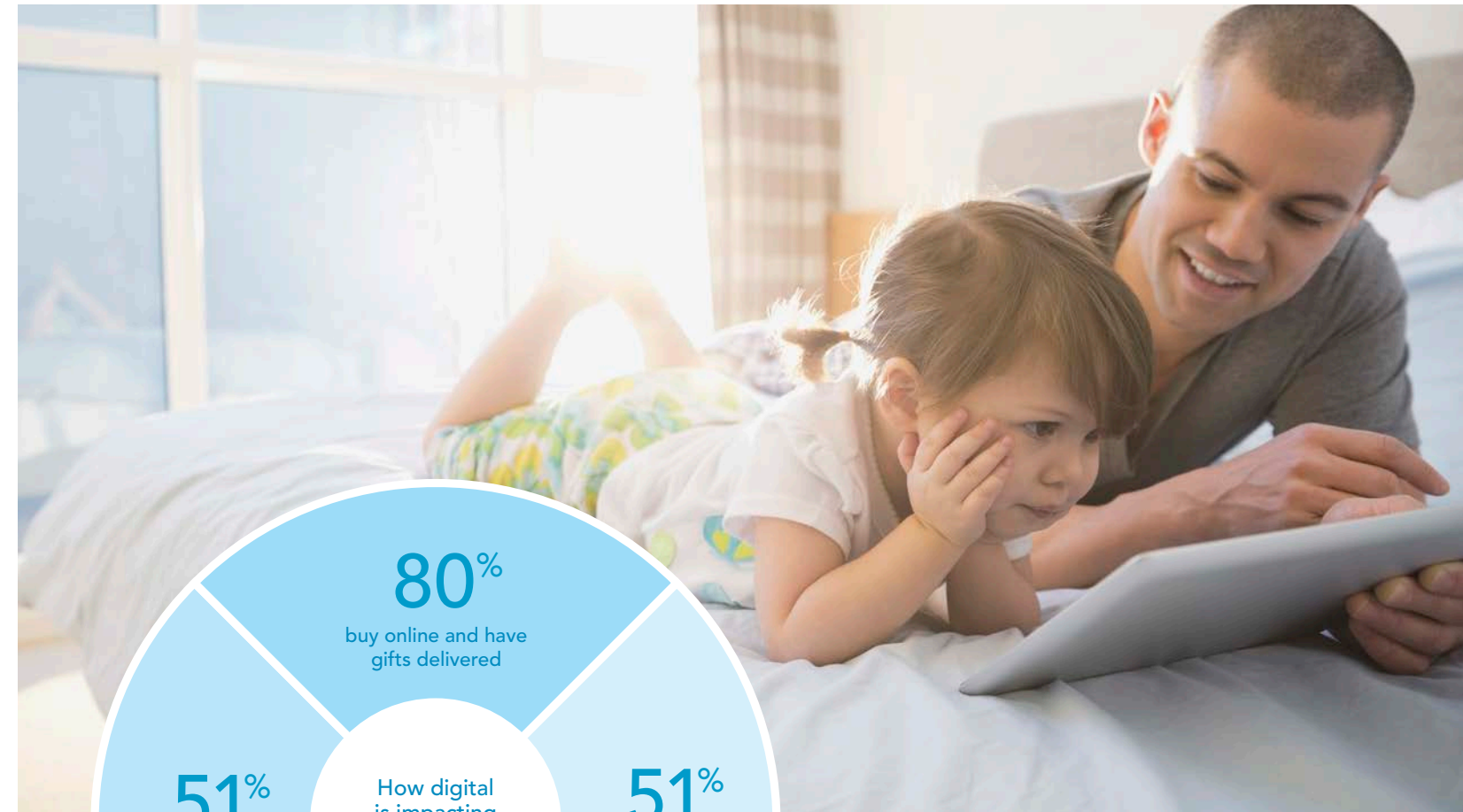
⊘ **Optimize the customer journey.**

Chatbots, machine learning, mobile apps and wallets, and other digital solutions remove barriers and encourage self-navigation, enable product discovery based on personal preferences, and make life a little easier for the customer (not to mention your associates).

⊘ **Realize the potential of your seasonal workforce.**

In-store technology and training solutions will help inform seasonal associates of key product and promotional details, so they can go beyond serving basic customer needs.

⊘ **Prioritize your digital communication channels.**

Wherever your customers go — get there first. As in-store mobile use grows, focusing on email, a mobile-optimized site, and text solutions will drive more in-the-moment engagement.

80% buy online and have gifts delivered

51% read product reviews while in store

How digital is impacting shopping behavior[3]

51% buy online and pick up in store

75% price compare products online
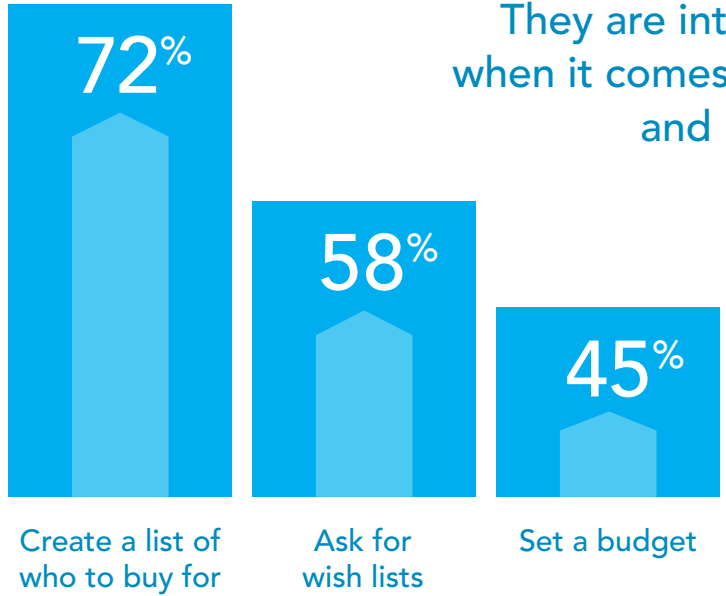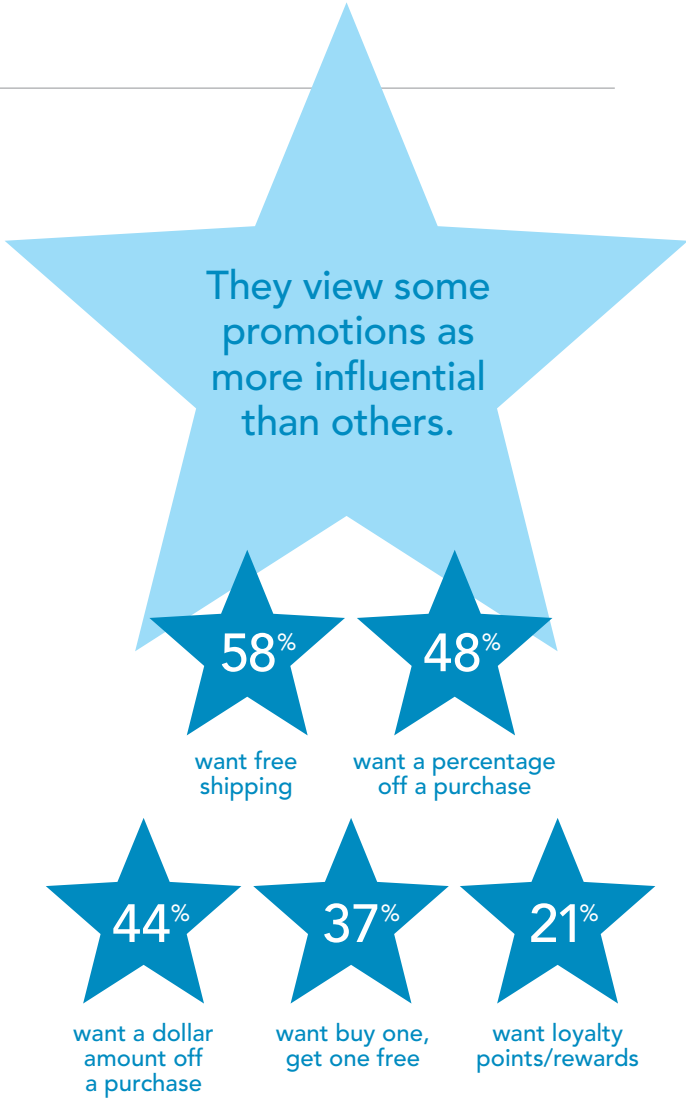
Leading brands bring digital to life.

EBAY's ShopBot goes beyond basic search requests. By asking clarifying questions and learning from each experience, it can tailor future suggestions and prompts.[9]

TAILORED BRANDS' MEN'S WEARHOUSE and **JOS. A. BANK** brands have a digital personalization solution that uses shopper insights, real-time context, and predictive analytics to provide online and mobile shoppers with a highly personalized experience.[10]

HARLEY-DAVIDSON OF NYC's artificial intelligence marketing platform uses look-alike modeling to pair potential users to products in a more intuitive way.[11]

Holiday by the numbers[3]

Consumers are influenced by more than just promotions.

84% FAMILY, FRIENDS

79% PRODUCT INFO ON A STORE'S WEBSITE

77% PRODUCT REVIEWS

75% RECEIVING A FREE SAMPLE

They have HIGH EXPECTATIONS.

54% of consumers want to check out without having to wait in line

54% want free delivery for items not available in store

33% want free returns

33% want free gift wrap

29% want free pick-up in store of their online purchases

They view some promotions as more influential than others.

58% want free shipping

48% want a percentage off a purchase

44% want a dollar amount off a purchase

37% want buy one, get one free

21% want loyalty points/rewards

They are intentional and thoughtful when it comes to holiday shopping — and most prepare ahead for the holiday season.

72% Create a list of who to buy for

58% Ask for wish lists

45% Set a budget

And they buy gift cards. A lot of gift cards.

59% of consumers will buy gift cards for a specific store

58% will buy restaurant cards

43% will buy general cards that can be used anywhere

33% will buy entertainment-related cards

Meet the demand for greater personalization

As brands continue to focus on developing more meaningful connections with their customers, customers continue to demand greater personalization. Expectations are higher than ever before, and they're influencing every customer touchpoint from advertising, promotional, and creative messages to products and services. As the customer journey becomes more individualized, gauging what moves the needle and will drive the most value over the long term becomes mission critical.

TAKE ACTION!

⊘ **Focus on the segment of one.**
Richer profile data sets can help you adapt to changing customer needs and better understand what is important to them in that moment, especially at holiday. Life stage, demographic, and location data will help inform on a deeper level.

⊘ **Un-complicate the customer experience.**
Organize your efforts around the customer's lifecycle, rather than the channel (e.g. display, email, direct mail, video), to create deeper connections with your key customers.

⊘ **Deliver 1:1 campaigns.**
Personalized digital campaigns perform at scale and provide real, tangible value to your customers. Benefits can be functional, like saving time or solving navigational needs, or emotional, like recommending items that match his or her lifestyle.

⊘ **Don't underestimate continuity of voice.**
Digital marketing allows you to keep up an ongoing conversation with your customers across their devices, rather than simply serving up the same ads over and over again.

The 1:1 connections consumers are looking for

35% of millennials aged 18-24 prefer to communicate with retailers via texting[12]

60% of younger shoppers want personalized offers though their mobile device[3]

87% of millennials aged 25-34 are very likely to shop at a retailer if they give personalized offers[13]

65% of consumers say companies, retailers, or brands send them too many irrelevant communications[13]

Leading brands put personalization to work.

THE LAND OF NOD focused its digital advertising efforts on individual consumers, using data to serve up highly personalized messaging across multiple devices.[4]

COCA-COLA partnered with Google to personalize in-store signage, based on users' browsing history, as they stand near the product in store. Real-time ads engage users based on their age, gender, and shopping preferences.[15]

ULTA BEAUTY partnered with Urban Decay to hyper-target customers familiar with the line but who hadn't used it. The campaign resulted in a 41% conversion rate into full-size purchases.[16]

Holiday through the ages

Millennials

Price and value are top influencers for this money-conscious group. But they also recognize the importance of both functional and emotional aspects of the shopping experience; both are represented in where and how they decide to shop.
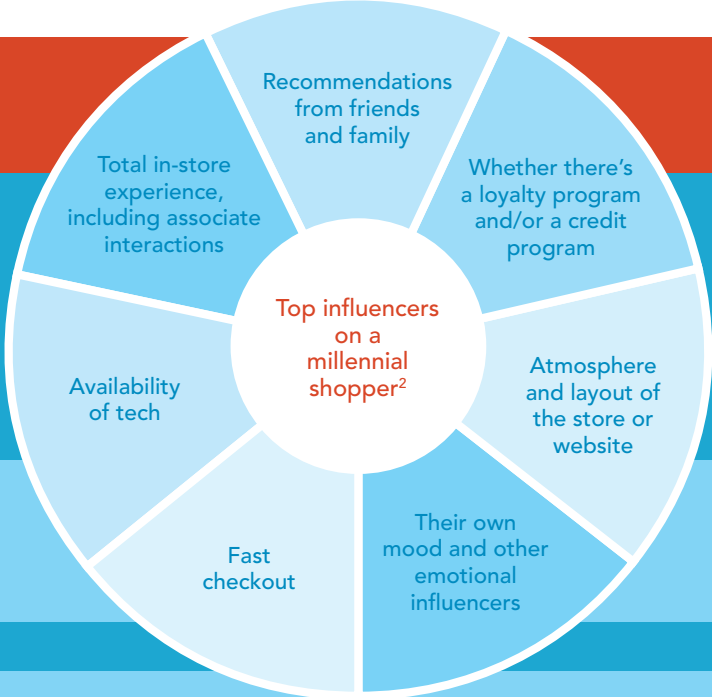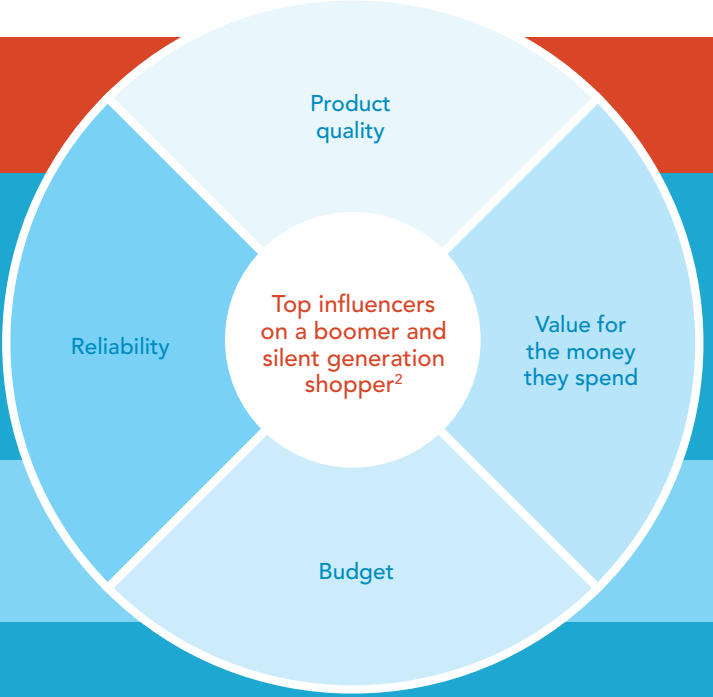
71% aged 25-34 use their smartphone to look up product information while shopping in store[12]

75% aged 25-34 are very likely to shop at a retailer if in-store technology is available[12]

Top influencers on a millennial shopper[2]
- Recommendations from friends and family
- Whether there's a loyalty program and/or a credit program
- Atmosphere and layout of the store or website
- Their own mood and other emotional influencers
- Fast checkout
- Availability of tech
- Total in-store experience, including associate interactions

Baby boomers and the silent generation

Boomers and the silent generation place a greater importance on the functional attributes offered when they're deciding which brands to shop. Both generations name similar top influencers.
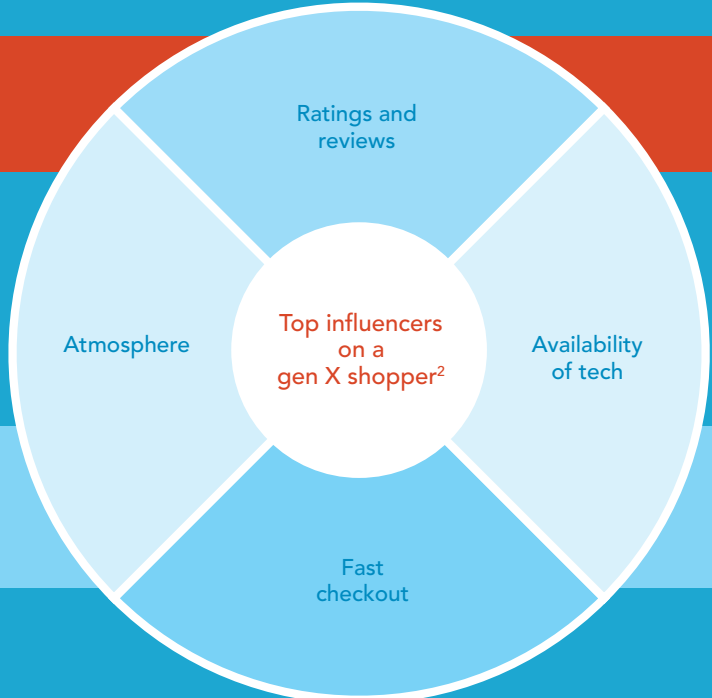
20% say they want personalized offers through their mobile device[2]

Top influencers on a boomer and silent generation shopper[2]
- Product quality
- Value for the money they spend
- Budget
- Reliability

Gen X

This on-the-go generation wants to see clear value for the money they spend — and they expect innovation that will make their busy lives easier.

40% of gen Xers say fast checkout is an important factor in their purchase decision[2]

Top influencers on a gen X shopper[2]
- Ratings and reviews
- Availability of tech
- Fast checkout
- Atmosphere

Gen Z

This pragmatic generation cares greatly about quality and value. And while they'll only contribute a small amount of their own money to this year's holiday spend, you can be sure they're heavily influencing it.

93% said they influence certain categories, like clothing, footwear, accessories, and cosmetics[17]

70% said they influence family decisions on purchases like furniture, household goods, and food and beverages[18]

Top influencers on a gen Z shopper[18]
- High-quality product
- In-stock availability
- Discounts and coupons
- Rewards programs

Connect on a deeper level

It's no secret that loyalty programs are an essential engagement driver during the holiday season. But — as is the case with most things — if the payoff isn't obvious, customers will begin to question whether it's worth it or not. Loyalty programs are no different. Customers are looking for authentic experiences, real moments, and a connection to the brands they feel embody values similar to their own.

Brands need to up the loyalty ante: 59% of shoppers use loyalty program rewards when holiday shopping[3], and retailers are seeing a 20% lift in basket size[19]. And because those customers are more likely to spend more on their next visit, each interaction is an opportunity to earn loyalty at some level. A lack of focus on acquisition during high-traffic times can have a negative impact on holiday sales and mean long-term missed opportunities.

TAKE ACTION!

⊘ Build loyalty from the start.
Train in-store associates to view every customer interaction as an opportunity to gain and solidify customer loyalty. Educate them about "first impression" moments in training materials, meetings, and other conversations to keep it top of mind.

⊘ Keep it simple.
Review your loyalty program's value proposition and positioning. Make the messaging easy to understand and relevant for your customers, and for the associates promoting it.

⊘ Put yourself in your customers' shoes.
Build your loyalty experience and value proposition around your target-customer segment. Learn which benefits — from access to experiences and rewards — they view as worthy of their effort and time.

⊘ Remove the friction.
Digital tools, designed to aide associates, can also give customers a more seamless experience by enabling easier access to information and services. Integrate app-based mobile payments, for example, to improve the shopping experience and, in turn, build loyalty.

76% of consumers belong to a loyalty/rewards program[3]

72% say a loyalty program makes them more likely to shop a specific retailer[3]

59% of consumers use loyalty program rewards when holiday shopping[3]

Customers find these the most important aspects of a loyalty program[3]

88% Earning rewards for my purchases

32% Receiving special services

14% Ability to use rewards for experiences

12% Having a mobile app to store membership info

8% Being recognized with a higher status

Leading brands use loyalty to leave an impression.

WALGREENS was the first retailer to fully integrate their loyalty program with a third-party mobile payment provider, eliminating the need to scan their loyalty card in store. Beyond payments, the app lets members refill prescriptions and rewards them for participating in healthy activities.[20]

HOLLISTER reaches young millennials and gen Zers through its Club Cali program. Members can earn rewards for activities like downloading the app, linking to social accounts, and completing a member profile. They're elevating the member experience through in-store concerts, exclusive gifts, and surprise-and-delight moments.[19]

WILLIAMS-SONOMA, INC. encourages customers to shop across all seven of their brands. With The Key, customers can earn and spend rewards faster, and the brands are maximizing their investment in the program.[21]

Cutting through the noise

Considering the sheer volume of brand communications out there, consumers are overloaded with options for where, how, and when to shop. The make-or-break approach to holiday — relying on events like Black Friday and Cyber Monday — is giving way to longer stretches of promotional periods, which means retailers can double-down and engage customers more often and in more ways. For customers, the "always open" promotional window has empowered them to demand more for less, or to hold out for the next big deal.

To cut through competitive noise and customer distractions, retailers need to re-think what sets them apart and provides value. And they'll need to leave behind old ways of assessing success, replacing promotions that drive year-over-year comps with interactions, experiences, and marketing moments that elicit action and leave a lasting impression.

TAKE ACTION!

⊘ **Strategize for the next generation of retail.**
Prior to holiday, test-and-learn scenarios can connect you to your customers (regardless of where they're shopping), help identify the appropriate media mix to maximize ROI, and inform your overall approach to high-volume holiday traffic.

⊘ **Lean in to data.**
Multichannel shoppers spend more per transaction. Use every existing data source (e.g. prescriptive indicators, channel preferences, psychographic and demographic attributes, transactional and browsing history) to get to know your customers on a deeper level.
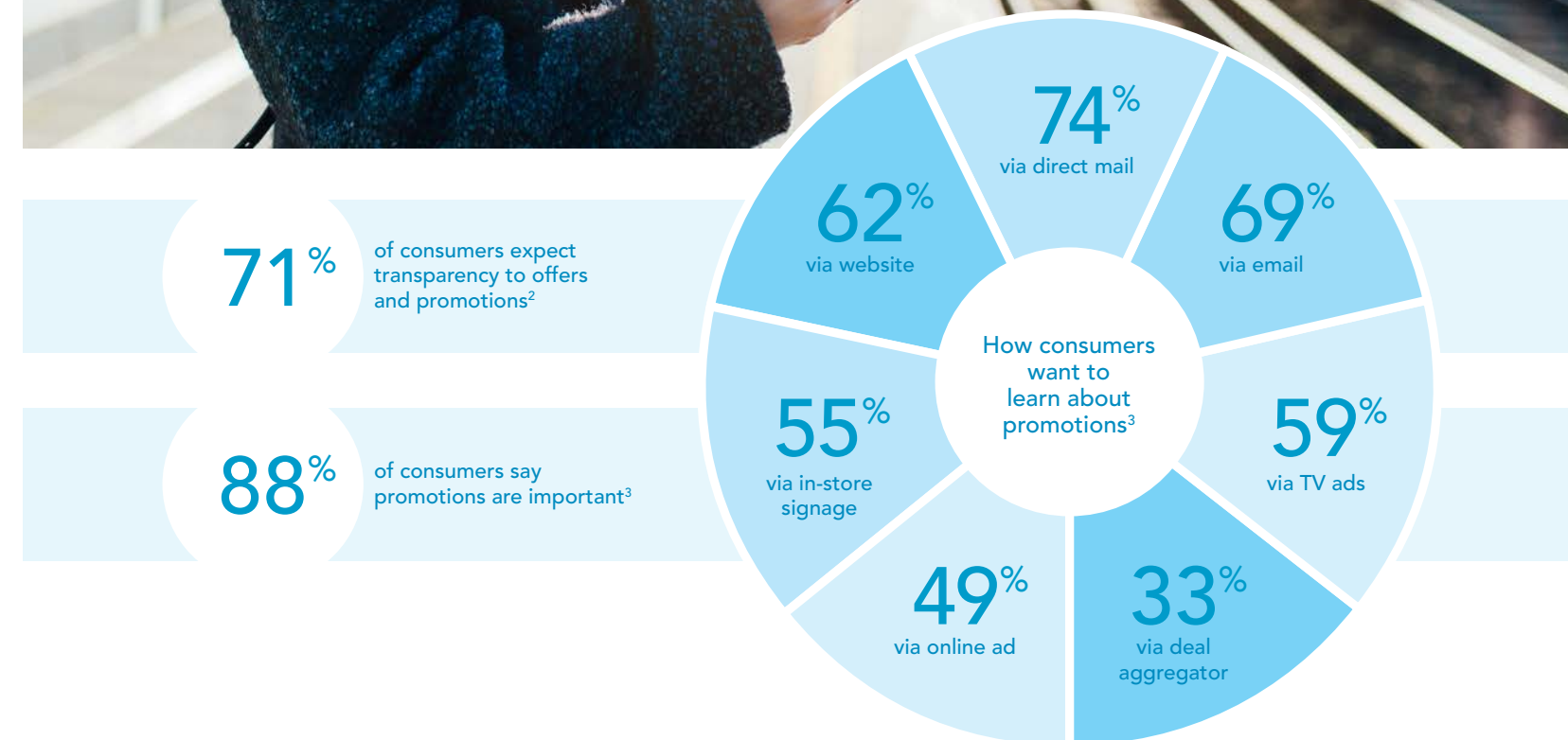
⊘ **Know what matters most.**
While 92% of consumers say an offer or promotion will influence shopping, 80% say free shipping and ratings and reviews are really important too. When in doubt about channel, go heavier in email and mail promotions.

⊘ **Avoid price wars.**
Offer price matching on items that can be purchased elsewhere to make it easy for your customers to shop your brand.

⊘ **Help your customers help themselves.**
Offer simple tools that allow them to seek out meaningful gifts, build wish lists, and shop by personality type in an effort to save time and make the most of their efforts.

71% of consumers expect transparency to offers and promotions[2]

88% of consumers say promotions are important[3]

How consumers want to learn about promotions[3]

- **74%** via direct mail
- **69%** via email
- **62%** via website
- **59%** via TV ads
- **55%** via in-store signage
- **49%** via online ad
- **33%** via deal aggregator

Leading brands create moments that matter.

ONBOARDME created an app that curates travel options into bookable holiday boards searchable by a person's mood. They're tailoring offerings by emotion, boosting engagement with VR and the Internet of Things (IoT), and creating differentiation.[22]

REVOLVE is countering brands like Asos, H&M, and Zara — known for quickly translating runway and street trends to merchandise — by using micro-influencers to create uniqueness, value, and a sense of community for their highly on-trend young shoppers.[23]

APPLE rolled out "Today at Apple" classes across all 495 stores. The free programs focus on the most-loved features of Apple products; courses range from basic to professional and cover a variety of topics from photo and video to music, coding, art, design, and more.[24]

With time, energy, and resources on the line, there's no better time to assess and reevaluate your holiday game plan. Ask yourself which tactics will give you the greatest impact. And above all, acknowledge the customer's role: she's driving this new approach to shopping and engagement.

As you enter into another make-or-break season, Alliance Data's insights and expertise can help you create an unparalleled customer experience, and brand loyalty that will last long after the holidays are gone.

References

1 http://www.pewresearch.org/fact-tank/2016/04/25/millennials-overtake-baby-boomers/

2 The Generational Perspective, Alliance Data, 2017 – US Consumers

3 Shopper's Voice Survey, Epsilon, July 2017

4 Internet Retailer and Alliance Data proprietary sources

5 http://www.businessinsider.com/home-depot-and-lowes-succeed-at-omnichannel-2017-5

6 https://retail.emarketer.com/article/where-best-buy-trying-one-up-amazon/59275425ebd400097ccd5fdf and https://www.wsj.com/articles/how-to-fight-amazon-com-best-buy-style-1479660007

7 www.nudgerewards.com

8 US Census Bureau and Alliance Data proprietary sources

9 http://digiday.com/uk/five-brands-approached-messenger-chatbots/ and http://www.retaildive.com/news/ebay-debuts-chatbot-for-facebook-messenger/428565/

10 http://www.chainstoreage.com/article/two-menswear-brands-step-digital-personalization?tp=i-H55-Q5S-3E9-59c4f-1u-1TZQ-1c-nWy-59SZI-CF¬cV&utm_campaign=Daily&utm_source=Experian&utm_medium=email&cid=12409&mid=76172993

11 http://www.stylus.com/spsnjc

12 Generational Research, LoyaltyOne, 2016 – North American Shoppers (Canada & US)

13 Consumer Sentiment Survey, LoyaltyOne, 2016 – Canada and US Shoppers

14 https://adexchanger.com/advertiser/land-nod-isnt-just-playing-around-cross-device/

15 http://www.stylus.com/mjdnbh

16 http://www.allure.com/story/ulta-loyalty-free-products and https://www.newbeauty.com/blog/dailybeauty/11019-ulta-loyalty-program-samples/

17 HRC Retail Advisory, The Emerging Generation Z Powerhouse, Fall 2016

18 NRF and IBM Institute for Business Value, Uniquely Generation Z: What brands should know about today's youngest consumers, January 2017

19 LoyaltyOne proprietary sources

20 http://www.chainstoreage.com/article/walgreens-becomes-first-retailer-integrate-loyalty-program-android-pay

21 http://multichannelmerchant.com/marketing/brands-double-down-on-rewards-experts-want-easy-meaningful/

22 http://www.stylus.com/ddrmvj

23 http://wwd.com/business-news/business-features/think-tank-taking-cues-from-the-playbook-of-digital-first-brands-10897205/

24 https://techcrunch.com/2017/05/16/apple-launches-a-new-website-for-its-expanded-set-of-educational-classes-now-open-for-sign-ups/

The Alliance Data Family of Businesses

Alliance Data's card services business is a leading provider of tailored marketing and loyalty solutions. Our branded credit programs drive more profitable relationships between our brand partners and their cardmembers. We offer private label, co-brand, and commercial products to many of the world's most recognizable brands across a multitude of channels. We uphold our Know more. Sell more.® promise by leveraging unmatched customer insights, advanced analytics, and broad-reaching innovative capabilities. It's how we deliver increased sales to our partners and build enduring loyalty to their brands. To learn more, visit KnowMoreSellMore.com and follow us on Twitter @Know_SellMore.

Epsilon is an all-encompassing global marketing innovator. We provide unrivaled data intelligence and customer insights, world-class technology, and data-driven creative, activation and execution. Epsilon's digital media arm, Conversant, is a leader in personalized digital advertising and insights delivering digital marketing with unprecedented scale, accuracy and reach. Together, we bring personalized marketing to consumers across offline and online channels, at moments of interest that help drive business growth for brands. To learn more, visit epsilon.com and follow us on Twitter @EpsilonMktg.

LoyaltyOne is a global leader in the design and implementation of coalition loyalty programs, customer analytics, and loyalty services for Fortune 1000 clients around the world. LoyaltyOne has over 20 years of history leveraging data-driven insights to develop and operate some of the world's most effective loyalty programs and customer-centric solutions. These include the AIR MILES Reward Program, North America's premier coalition loyalty program, Precima, the global retail strategy and analytics arm, LoyaltyOne Global Solutions, Netherlands-based BrandLoyalty, and a working partnership with Latin America's leading coalition program, dotz. To learn more, visit loyalty.com and follow us on Twitter @LoyaltyOne.