



**From Digital
Sales Cheer
To Consumer
Spending
Fear**

**Holiday 2022
U.S. Digital Commerce Outlook**

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FOREWORD

While news outlets remain mired with stories of economic doomsdays, consumer spending stays steady — so what does that mean for retail this Q4? Experts expect gas prices and unemployment rates to continue improving throughout Fall. The question is whether that will free up budgets and bolster holiday spending, or if inflation and a potential recession put a damper on the 2022 holiday season.

It would be easy to blame the economy and lack of consumer confidence for any potential dips in profit this year, but according to McKinsey consumers are simply ready to spend.¹ So let's find out what the retail industry is doing to meet this moment and what they are expecting this holiday season.

In this year's holiday retail roundup, we're investigating how the perceived economic climate lines up with what retail marketers actually anticipate this year. For our holiday benchmark survey of retail and brand executives, CommerceNext partnered with The Commerce Experience Collective (CommX) to ascertain:

- 1 Our industry's expectations for online sales this upcoming holiday season.
- 2 How this year's marketing strategies are shaping up.

Sucharita Kodali, Vice President and Principal Analyst at Forrester, helped analyze the results and her findings are included throughout this report.

SUMMARY OF RESULTS

Don't we always say the holidays will be here before we know it? Well, this year, watch out, because they are coming quicker than ever before. Consumers are looking for deals earlier than any year previously and merchants, who are over-inventoried, are preparing to face stiff competition head-on utilizing promotions, email and SMS, paid search and affiliate marketing, and a mix of shipping incentives to get consumers to shop this season.

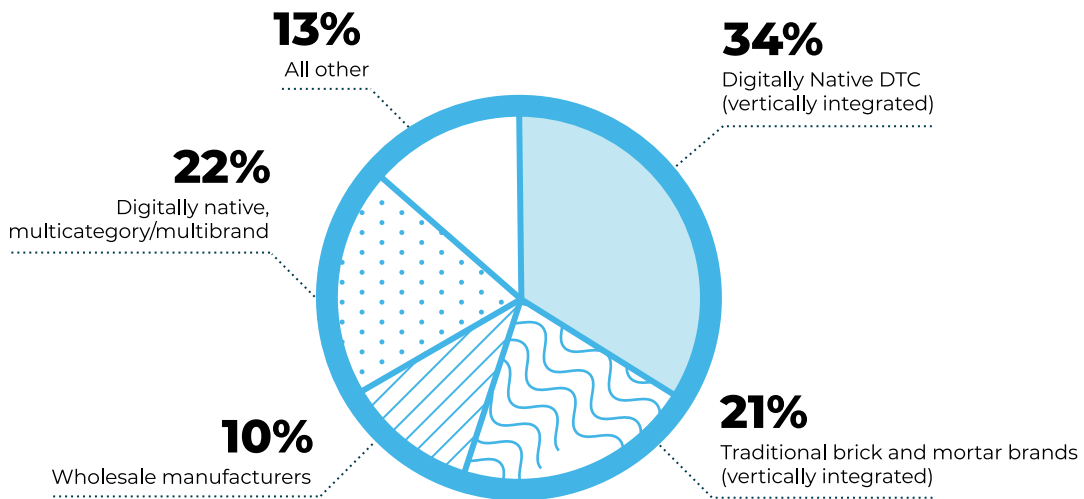
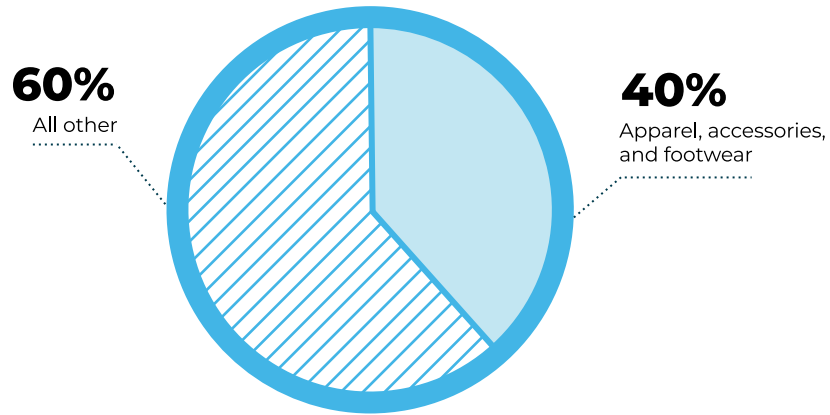
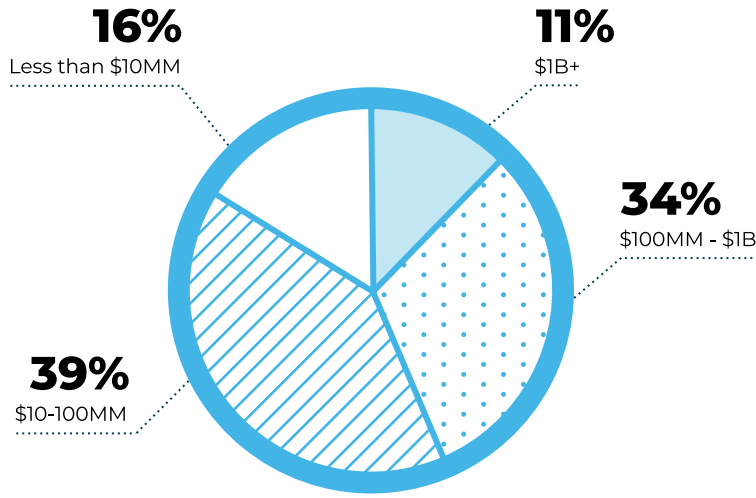
Merchant concerns have taken a U-turn from last year when supply chain and labor shortages were causing widespread panic. Now, after restoring and repairing supply chains, and staffing up our warehouses, it's inflation-spurred consumer attitudes and marketing ROI that plague merchants.

Some other key takeaways from this report are:

- Merchants expect holiday sales to outdo 2019 holiday sales, but not necessarily outdo 2021.
- Fifty-Three percent of respondents expect profit in 2022 to be lower than in 2021 due to inflation and other macro factors.
- While supply chain concerns were the top issue in 2021, consumer confidence is a bigger worry for merchants now.
- Merchants are increasing their promotional volume this year over last year.
- Paid search continues to be the top method of reaching shoppers; affiliate marketing is second behind paid search; and paid social is continuing to decline due to measurement challenges.

METHODOLOGY

The survey was fielded from August 2nd - 16th, 2022. One hundred retail and brand executives from various sized companies responded:



The Prediction Express, Loaded With Higher Sales Forecasts And Consumer Confidence Concerns

Holiday movie puns aside, this year's biggest shopping season brings cautious hope across the industry. Merchants head into Fall optimistic about holiday sales, even as they remain concerned about consumer sentiment and profits.

Sales Love, Actually

They've gone through their ups and downs, but most merchants and their sales numbers are up compared to pre-pandemic levels. Compared to 2019, 70% of merchants predict their holiday online sales will be better this year (see Chart 2 below).

Chart 1

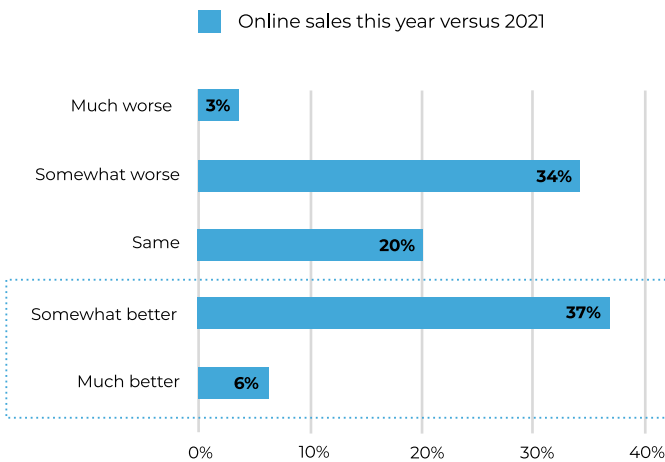


Chart 2

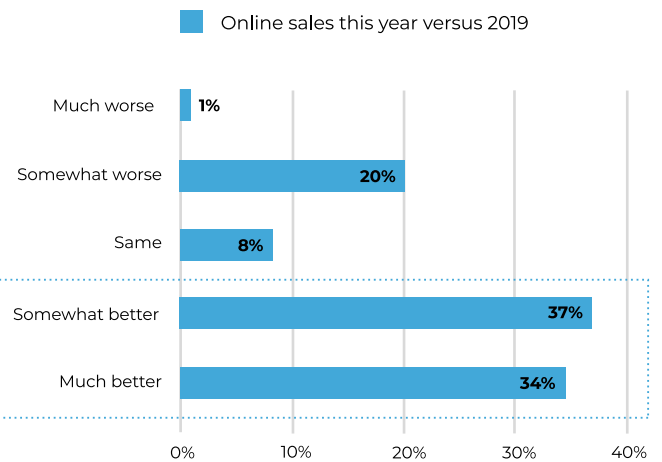
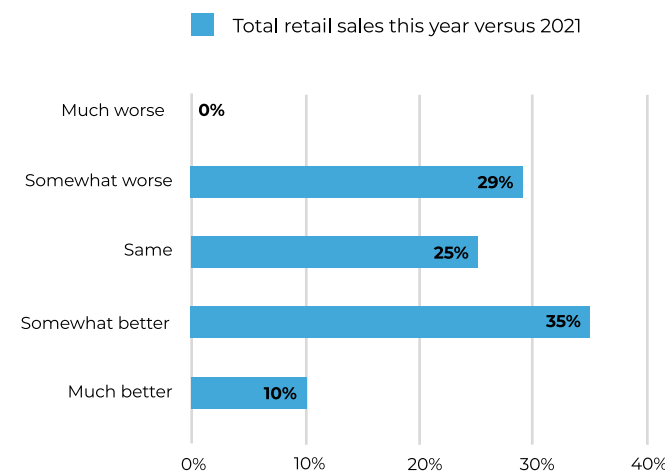


Chart 3



Source (Charts 1, 2, 3):
CommerceNext Holiday Benchmark Retail Survey 2022



When asked how total retail sales in 2022 will compare to 2021, the response is slightly less full of holiday cheer (see Charts 1 and 3 above). But, this isn't surprising. 2021 was already a record year for most — to grow sales on top of that would be a tall order. To expect to do the same or better than a record year (as 70% do) is quite a win in this inflation-riddled turbulent year.

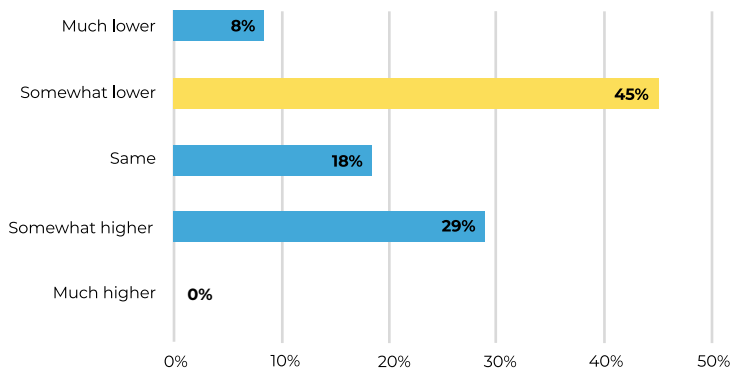
Responses on expected profits and margins appear more pessimistic (see Charts 4 and 5), but looking at the whole picture reveals perfectly sound reasoning for 53% reporting less profit.

Q: How do you expect profits to change in 2022 compared to 2021 (due to inflation, supply chain issues, promotions, etc.)?

Source:

CommerceNext Holiday Benchmark Retail Survey 2022

Chart 4

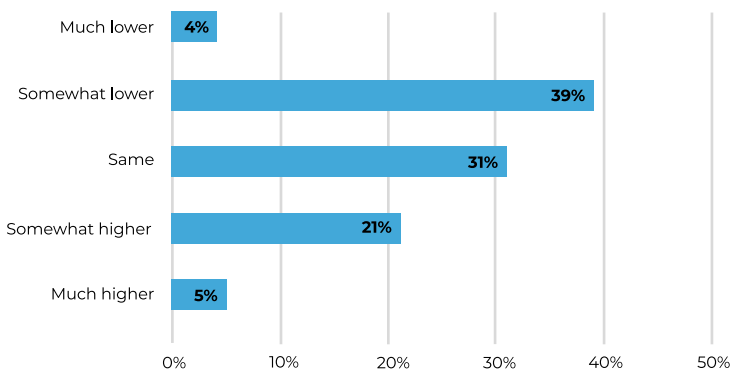


Q: How do you expect your margins to change in 2022 compared to 2021 (due to inflation, supply chain issues, promotions, etc.)?

Source:

CommerceNext Holiday Benchmark Retail Survey 2022

Chart 5



As discussed next, a new set of concerns around discounting, competition and consumer behavior means profits likely shrink. Furthermore, promotions will claim a much larger role in acquisition strategies this year compared to last year (see Section II), cutting into profits.

Kodali of Forrester sums up the situation, “Last year, the issues were about supply chain and nobody was discounting because everyone was short on inventory. This year is all about being competitive, but retailers’ COGS [costs of goods sold] are going up because of inflation and you can’t always pass that onto consumers.”

A Consumer Confidence Christmas Story

Like the famed Ralphie, doing everything in his power to get to his goal, merchants are charting how to overcome the current slump in consumer confidence and anticipated decrease in holiday buying.²

Concerns this year are completely flipped from last year. In 2021, merchants' top named concerns were: supply chain, late deliveries, and labor shortages. With major global manufacturers now projecting further easing of the supply chain in the latter half of 2022,³ merchants are focused on a new batch of anxieties: *the direction of consumer spending, marketing ROI, and meeting promotional expectations* (see Chart 6).

Q: What are your top concerns going into the holiday season?

Source: CommerceNext Holiday Benchmark Retail Survey 2022

Chart 6



Source: CommerceNext Holiday Benchmark Retail Survey 2022

Top concerns in 2021:

- 1 Supply chain issues
- 2 Late deliveries by carriers
- 3 Labor shortages
- 4 Inflation
- 5 Consumer spend levels down

Source:
<https://www.slideshare.net/CommerceNext/commercenext-holiday-survey-2021>

Falling gas prices and rising job optimism may keep consumers riding high into the holidays, but inflation, a year of declining consumer sentiment, and the looming recession are keeping merchants skeptical about profits this coming holiday season. In addition, two other factors are causing merchant concerns: 1) many merchants are over-inventoried (having expected a continuation of pandemic-fueled growth) and are now having to discount to clear out stock; and 2) privacy changes are impacting retailers' ability to target customers and generate the same marketing ROI from advertising.

Some of our merchants' predictions are certainly merrier than others, but with so many macro economic and marketing factors still at play, we're encouraged to see most believe they will maintain their 2021 gains.

In the next section, we uncover how merchants are planning to get to those gains.

Deck The Digital Halls

With Promotions, Paid Search, Emails, And Shipping Perks

What a difference a year can make strategically. Promotions are making a comeback, affiliate marketing is becoming a cornerstone of acquisition strategy, and SMS is gaining in retention marketing share while direct mail also gets more air time. And, while merchants are split on their preferred shipping incentives, we'll be watching to see which delivery promotions win the most consumers in a shopping economy free of supply chain and Covid demand surges.

Flying Early Off The Sh-Elf

Savings are coming, we know it, we know it!

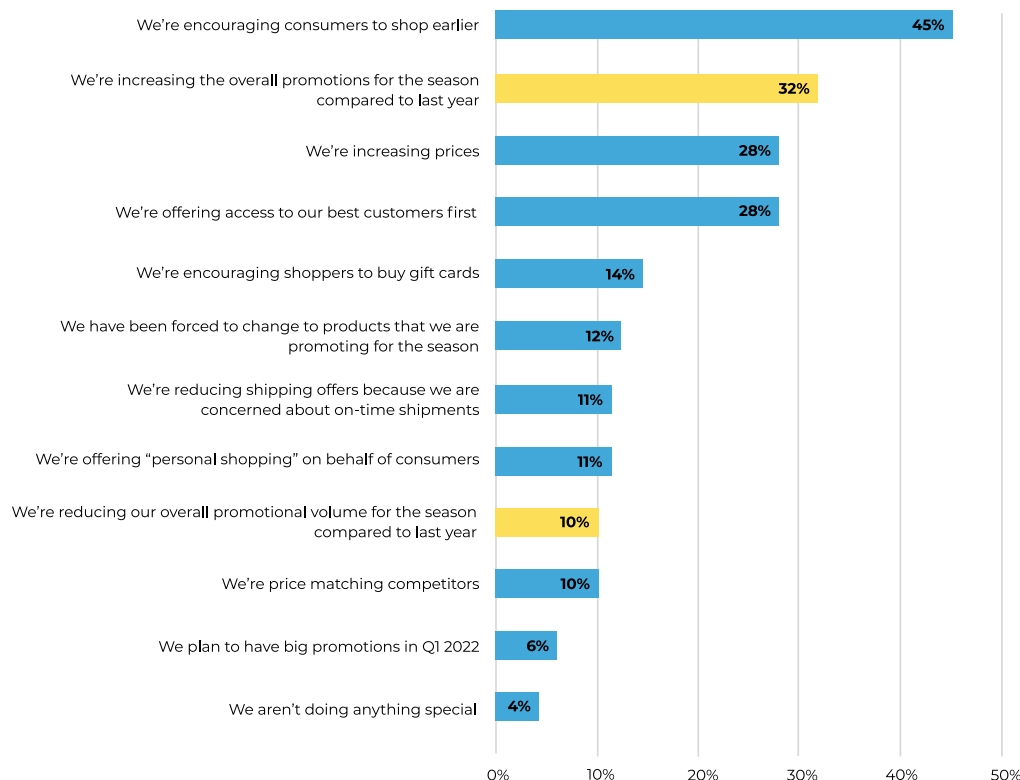
Consumers are looking for deals — early⁴ — and, this year, merchants are willing to accommodate. Topping promotions, the number one strategy this year for 45% of merchants is *encouraging consumers to shop earlier* (per Chart 7 below).

Q: Which of the following do you plan to do this holiday season, due to inflation, supply chain, shipping or any other concerns?

Source:

CommerceNext Holiday Benchmark Retail Survey 2022

Chart 7



Last year, half of consumers started shopping earlier than ever — not even holding out for the famed deals of Thanksgiving weekend and Cyber Monday — due to well-publicized supply chain issues and logistics delays.⁵ Even though we don't have the same issues in 2022, merchants are adhering to and programming around this enduring trend, as shoppers this year look for deals and try buying before inflation surges higher.⁶

And the plot thickens.⁷ Whereas in 2021, 50% of respondents reduced promotions and only 13% increased them, this year's responses flip flopped: **32% are increasing promotions** and only 10% are decreasing (per Chart 7 above). A third of merchants surveyed will expand the volume of promotions this year (see Charts 8 and 9 below), more than doubling the amount of merchants who said they would promote more in 2021.

Q: Which best describes the volume/level of your holiday promotions this year versus last year for Thanksgiving, Cyber Monday and Cyber week?

Q: Which best describes the volume/level of your holiday promotions this year versus last year for December?

Chart 8

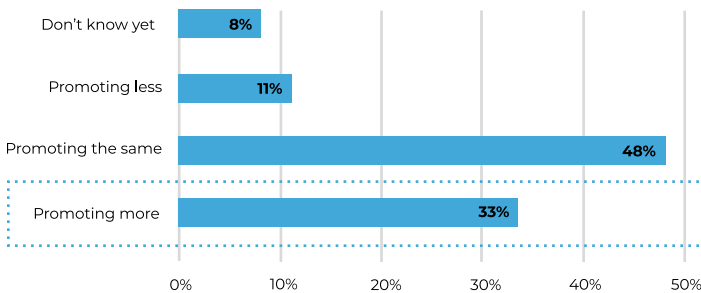
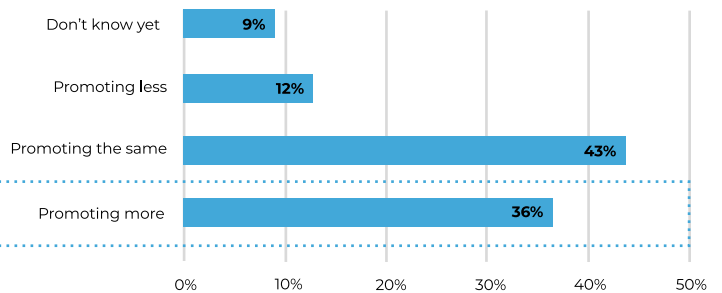


Chart 9



Source (Charts 8, 9): CommerceNext Holiday Benchmark Retail Survey 2022

Pro Holiday Promotions Tip from Mirakl

Retailers that work with third-party sellers via marketplace or dropship should make sure to involve sellers in promotions planning early to tap into the best offers and most competitive pricing, and to make sure that they are prepared to meet shipping deadlines.

How The Affiliate Stole Christmas

Most marketers' bags of acquisition goodies are still filled with traditional paid search (76% of larger companies and 68% of smaller). Yet, in a turn of events, affiliates and partnerships have risen to second most used acquisition strategy in 2022, besting paid social which has traditionally held this mantle (see Charts 10 and 11).

Q: Which 3 acquisition marketing strategies do you expect to generate the best ROI/ROAS/return for you this holiday season (select 3)?

Source (Chart 10, 11):
CommerceNext Holiday Benchmark Retail Survey 2022

Chart 10

■ \$100MM+ companies

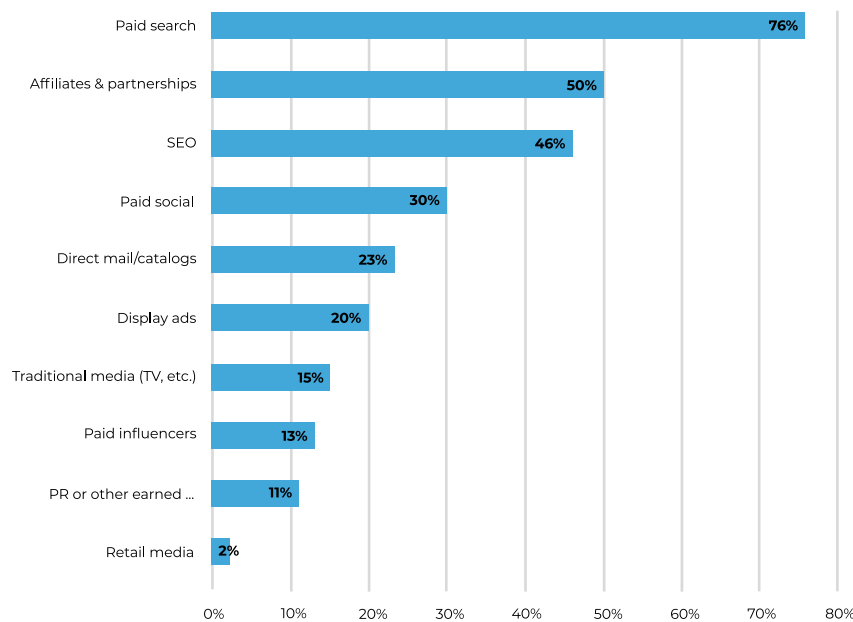
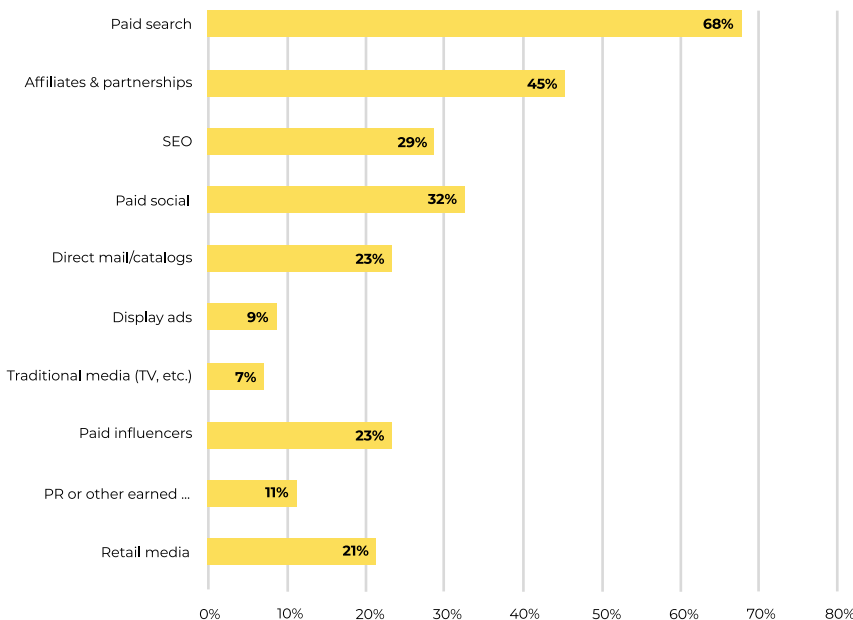


Chart 11

■ <\$100MM+ companies



According to Shopify, affiliate marketing has grown over 50% in the last 5 years⁸ — it's no surprise to see its rise on this ranking. Nor is it a mystery as to why *paid social* fell in rank. Paid social has been plagued by measurement challenges since privacy changes have limited cookie effectiveness. In a world of last touch ROAS, targeting and measuring paid social becomes more difficult. Combine this with higher pricing, and you have a channel that no longer delivers the cheap customer acquisition of years past.

In CommerceNext's annual benchmark survey⁹ of top retail executives, we learned 86% of merchants still use last touch ROAS (see Chart 12 below). Fifty-two percent of merchants use last touch ROAS exclusively, meaning they don't use incrementality testing or media mix modeling (MMM) to see the true impact of their full funnel marketing efforts. Some may use multi-touch attribution; however, this strategy doesn't work well in our new cookieless world.



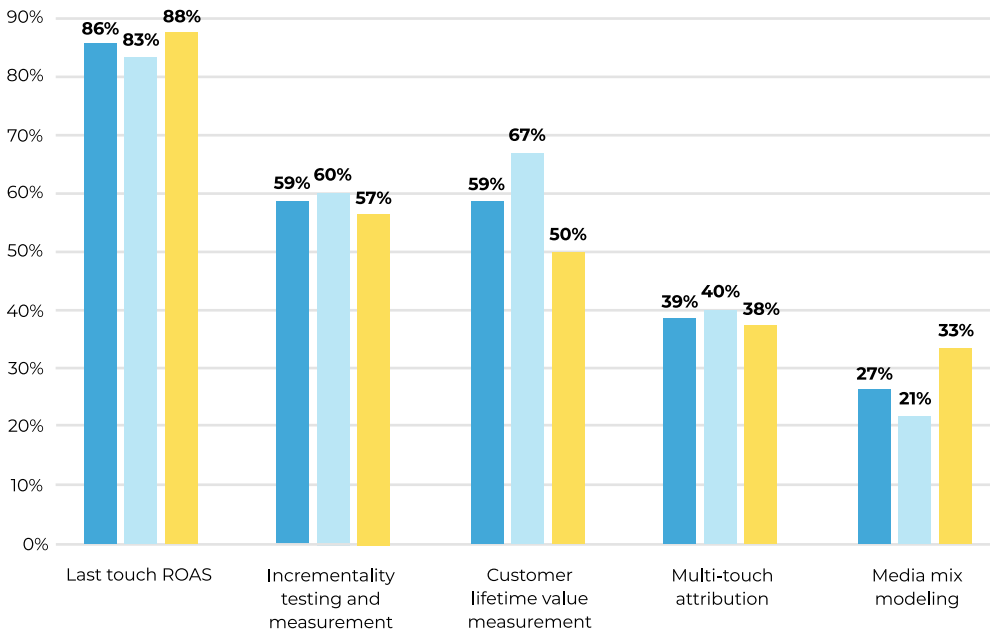
What do you use as part of your marketing measurement toolkit today?

Source:

CommerceNext Annual Benchmark Survey 2022

Chart 12

Total Digital First Retailers Incumbent Retailers



Even though so many still rely on last-click, Kodali predicted paid social would fall and is waiting for last-click to follow suit:

"It doesn't surprise me. We all knew that if you take away cookies and all you measure is last-click, you won't look as good. Nobody was looking at overall sales; retailers were only concerned with what you could track back to specific marketing spends. But, just because ROAS would decline didn't mean sales went down. This makes media mix models, or really anything more holistic, essential to measuring the effectiveness of marketing at this moment."

Pro Holiday Growth Tip from Avalara

With retailers planning to increase their promotions going into the holiday season, it's likely that they will capture the attention of new customers that live in different geographies. New customer acquisition will be critical for retailers as they look to offset the impacts of macroeconomic factors, like inflation, but will also bring with it a host of additional tax compliance considerations. As retailers make sales to customers in new cities, counties, states, or countries, they will inevitably encounter net-new tax obligations, as well as see their existing tax requirements grow. Going into the holiday season with the technology in place to handle tax requirements as they expand will ensure retailers avoid any barriers to growth and minimize compliance risk after the season is over.



It's A Wonderful Subject Line

Our retention angel remains email, but SMS continues to gain popularity. Nearly all respondents will keep relying heavily on *email marketing* for the holidays, and smaller companies even more so, per Charts 13 and 14 below.

Q: Which 3 acquisition marketing strategies do expect to drive the most sales this holiday season (select 3)?

Source (Charts 13, 14):
CommerceNext Holiday Benchmark Retail Survey 2022

Chart 13 ■ \$100MM+ companies

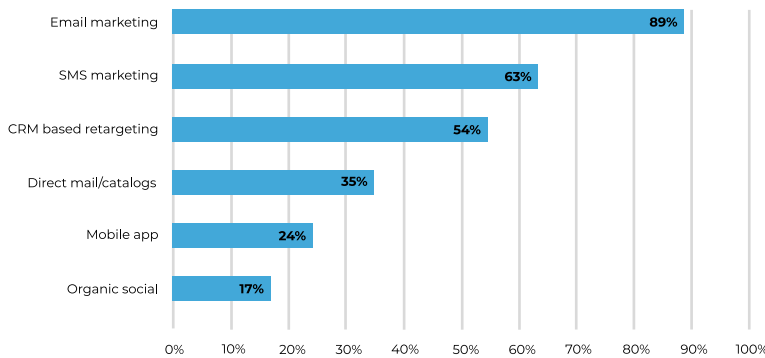
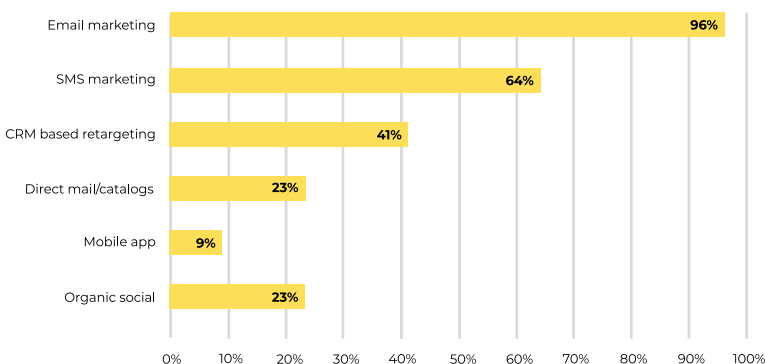


Chart 14 ■ <\$100MM+ companies



SMS marketing continues its steady gain in popularity for engagement. Nearly two thirds of merchants will rely on their SMS programs to beef up their holiday sales, up from 58% as reported in our annual benchmark survey fielded earlier in 2022.¹⁰

Brian Walker, Chief Strategy Officer at Bloomreach, describes the beauty of the current email and SMS landscape:

“The consistency of email marketing as the primary marketing channel throughout the years is pretty remarkable. This is a channel that continues to drive value for marketers, and has become even more effective with the integration of customer data that creates more personalized and relevant campaigns. Now, as customers adopt a growing number of other channels, marketers have the ability to drive even greater value with email by offering a connected experience between it and other channels. Particularly with SMS, which is often viewed through the same device as email, marketers can embrace an omnichannel strategy that seamlessly connects the buying journey, ensuring shoppers have a singular brand experience even as they shop across multiple channels.”

Pro Holiday Engagement Tip from Sinch

With the increased usage of SMS and Email we also see the wider use of mobile apps by larger enterprises to engage with customers on the channel of their choice which might be Facebook Messenger, WhatsApp, WeChat or KakaoTalk. Their use in terms of customer engagement is growing and so for the holiday season we expect mobile app use to be an increasing way customers can buy and interact with their favorite brands.¹¹

While You Were Shipping

Merchants aren't falling in love with any specific shipping offer this year.

However, the majority have already determined their standard shipping commitments, as well as their pre-Christmas cut-off dates for standard shipping:

- Fifty-six percent of respondents will require customers to purchase before December 15th to avoid expedited shipping costs (see Chart 15).
- More than a third (37%) of respondents will offer a standard shipping plan of 3 days or faster (see Chart 16).

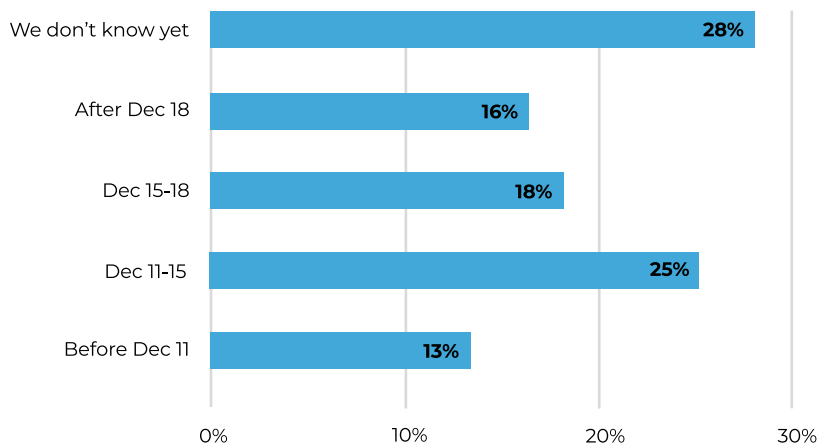


What is the last date prior to Christmas that consumers will be able to order from your site without having to pay expedited shipping fees this year?

Source:

CommerceNext Holiday Benchmark Retail Survey 2022

Chart 15

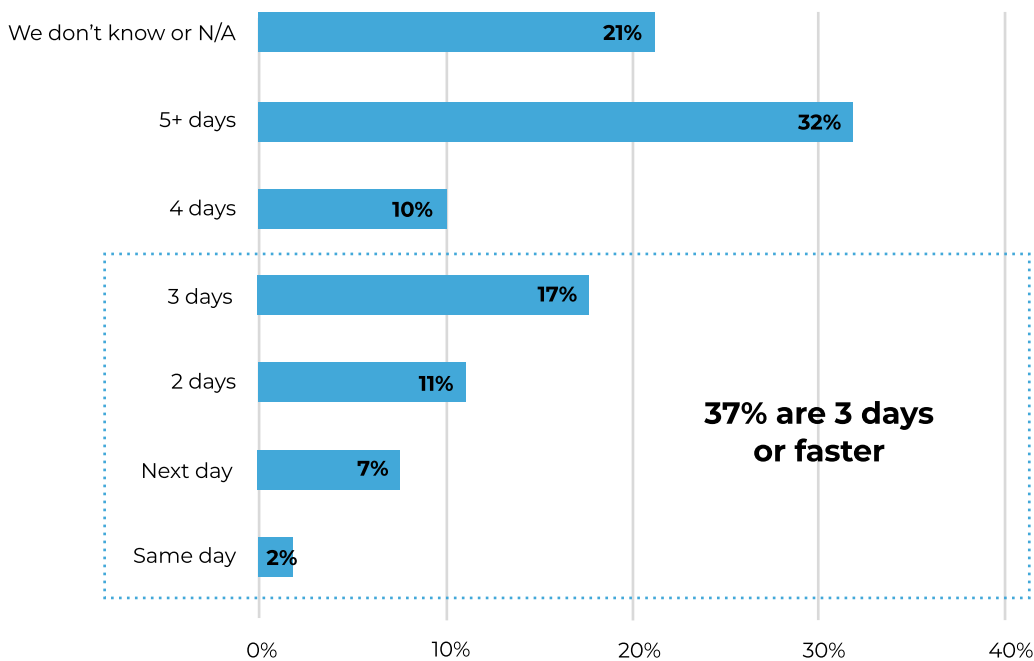


What is the standard (non-expedited) shipping commitment that you plan to offer to consumers this Holiday season?

Source:

CommerceNext Holiday Benchmark Retail Survey 2022

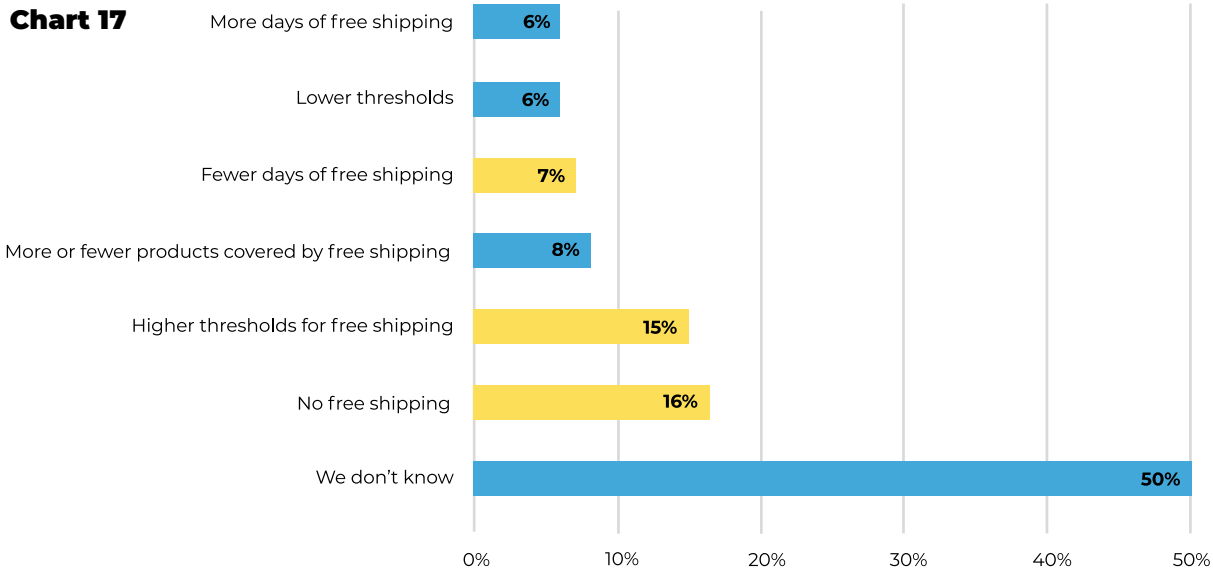
Chart 16



Understandably hesitant of committing to anything after the last two years of unexpected increased digital demand and supply chain failures, merchants have also become keenly aware that many consumers (75% according to Shopify¹²) say free shipping incentives influence their buying decisions. Yet, 16% of respondents are already drawing a hard line and saying “No” to free shipping entirely, while half haven’t yet decided as they wait to confirm inventory and other promotional offerings (see Chart 17).

Q: Do you plan to adjust your shipping and handling offers this year in any of the following ways? (select all that apply)

Source:
CommerceNext Holiday Benchmark Retail Survey 2022



Pro Holiday Shipping Tip from ShipBob

Your ability to fulfill orders that will get to your customers by Black Friday or Christmas greatly depends on the carrier relationships and mix that your fulfillment partner provides. Understand their holiday cut-off dates now, primarily the latest dates your fulfillment partner can: 1) receive goods to be ready to ship for Black Friday and for Christmas; and 2) receive orders that will be delivered to your customers by Black Friday and by Christmas.¹³



Die-Hard Marketers, Some Final Thoughts For You

In the holiday spirit of coming together, we're closing with a few of our favorite predictions and holiday tips from our community. Here is what you said would happen this holiday:

Consumers will shift back to product purchases in Q4: Consumer spending will shift from services in and travel Q2 and Q3 back to products for Holiday in Q4, but competition will be high as many brands will be over-inventoried. Many retailers are expecting wholesale partners to cut back on Fall orders which may drive more shoppers to shop brands directly.

Authentic brands will gain market share: Brands that embrace authenticity (micro-influencers to amazing customer service) and innovation (tech betas to integrated dashboards of inventory) will gain market share in this mercurial time.

Fast shipping will drive sales: Optimize for conversion by offering competitive, fast, and affordable shipping options that meet customer expectations, such as 2-day or free shipping with a minimum spend threshold that's above your average order value (AOV).

Financial pressures will accelerate adoption of marketplace & dropship: The rising cost and risk of buying & holding inventory will become untenable for retailers, who will partner with third party suppliers to optimize for both margin and profitability. Brands that use dropship and marketplace will be able to refine their assortment strategies, keeping high-margin and core categories in owned inventory, while the rest will be served by partners.¹²

Ultimately, time will tell which of these pan out, but we certainly hope that consumers will lean into holiday shopping this season and that all of you have a holly jolly holiday.



SOURCES

- ¹ <https://www.mckinsey.com/business-functions/growth-marketing-and-sales/our-insights/us-consumer-spending-and-sentiment-remains-strong-so-far>
- ² <https://www.barrons.com/articles/holiday-shopping-consumer-51656434427>
- ³ <https://www.reuters.com/technology/foxconn-predicts-more-stable-supply-chain-second-half-2022-2022-05-31/>
- ⁴ <https://www.barrons.com/articles/holiday-shopping-consumer-51656434427>
- ⁵ <https://www.forbes.com/sites/rhettpower/2022/07/10/3-ways-retailers-can-effectively-prepare-now-for-the-2022-holiday-season>
- ⁶ <https://www.nbcnews.com/data-graphics/when-people-start-holiday-shopping-is-changing-rcna6199>
- ⁷ <https://www.slideshare.net/CommerceNext/commercenext-holiday-survey-2021>
- ⁸ <https://www.shopify.com/blog/affiliate-marketing>
- ⁹ <https://commercenext.com/the-ascension-to-digital-maturity-a-benchmark-report>
- ¹⁰ <https://commercenext.com/the-ascension-to-digital-maturity-a-benchmark-report/>
- ¹¹ <https://www.sinch.com/blog/email-vs-sms-vs-whatsapp-which-conversational-channel-best-marketing/>
- ¹² <https://www.shopify.com/research/future-of-commerce>
- ¹³ <https://resources.shipbob.com/9-ways-to-not-mess-up-your-holiday-logistics>

About CommerceNext

CommerceNext is a community, event series and conference for marketers at retail and direct-to-consumer brands. In addition to the annual CommerceNext Ecommerce Growth Show and the esteemed CommerceNext Awards program, CommerceNext also produces and hosts podcasts, webinars, industry research, an executive dinner series and an online community. Inc. Magazine named CommerceNext to the Inc. 5000 list of fastest-growth private companies in 2022 and also included the CommerceNext Ecommerce Growth Show in their list of top 5 e-commerce conferences for 2019/2020.

To learn more about CommerceNext, visit commercenext.com.



About CommX

The Commerce Experience Collective (CommX) is a collection of technology providers and commerce professionals dedicated to creating a digital commerce future that connects brands and customers in meaningful ways. CommX members include: Avalara, the leader in tax automation software; Bloomreach, the world's #1 Commerce Experience Cloud; Mirakl, the leading provider of marketplace solutions; ShipBob, the leading global omni fulfillment platform; and Sinch, a global leader in cloud communications for mobile customer engagement. CommX is fueled by exclusive research and insights from CommerceNext.

For more information, visit commerceexperience.com.

The logo for CommX features the word "comm" in a bold, black sans-serif font, followed by a stylized "X" that incorporates a blue and orange arrow shape pointing right.



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