

KANTAR

Breakthrough Insights

August 2023

Retail, Shopper & Category Insights

Executive summary

Breakthrough Insights brings you Kantar's expert point of view on six key themes in commerce to help you tackle today's – and tomorrow's – most pressing decisions. This year, we are bringing you Breakthrough Insights in two separate issues, each one exploring three of our 2023 themes and supported by our proprietary data and research.

Our six retail themes this year range from the challenging macroeconomic conditions and rapidly expanding digital playground to shopper engagement with sustainable brands. Each theme was identified by our commerce analysts and economist as a key source for growth and innovation this year and beyond.



Interested in finding out more beyond this snapshot? We invite you to bring Kantar's expertise to your organization by reaching out to us at:

connect@on.kantarconsulting.com

Kantar's six retail themes for 2023

In this issue:



New macro realities

Principal Economist Doug Hermanson highlights five new macro realities facing the retail industry and how brands can be agile in times of change.



Shopper reset

Julie Craig, Vice President of Shopper Insights, explores how shoppers are expected to respond to these macro conditions amid another year of high inflation in shopper reset.

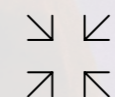


Digital playground

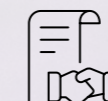
Finally, Senior Vice President David Marcotte takes us to the digital playground where he spotlights innovative tools and solutions helping brands and retailers succeed today.



Coming soon:



Managing contradictions



New social contract



Share of life

New macro realities



Kantar's 2023 retail predictions: Macro



Doug Hermanson
Principal Economist

As the economy climbs out of the distorted environment of the previous three years, we encourage all businesses and brands to shift their mindset and strategies in the face of this new macro reality. We have identified five areas that will change shape in ways that will have significant implications for retail.

Five new macro realities for 2023

- 1  **Inflation complexities**
- 2  **Spending on services**
- 3  **Cash savings and income**
- 4  **Higher interest rates**
- 5  **Government budgets**

Source: Kantar

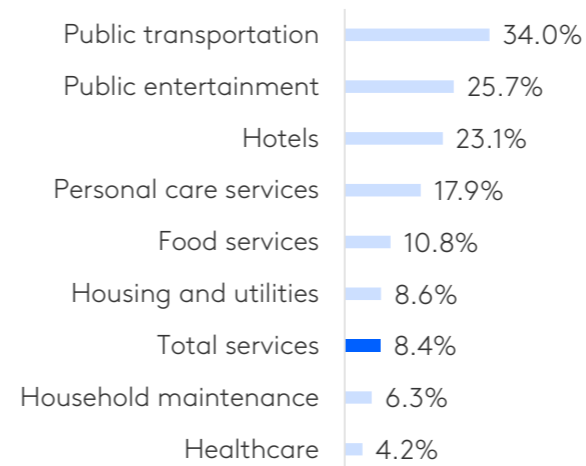
With inflation top of mind for most people, we are labeling the first new macro reality **inflation complexities**. As the inflation environment changes shape, dissecting where those changes are coming from will help brands understand the 2023 outlook. December 2022 data showed prices of manufactured goods coming down while consumables prices remained high and were rising. Those diverging trends came from several seismic shifts in the supply chain, shoppers' spending priorities, and commodity prices.

Services demand and inflation, meanwhile, persist across most categories. The shift back to pre-pandemic routines has boosted **spending on services** and reduced purchases for the home. The housing downturn has also taken

the wind out of big-ticket home goods spending. The domestic and global supply chain, while improved since 2020, is still far from normal with manufacturers still experiencing several gaps in supply. Labor costs and shortages are a continued source of tension, pushing up prices and costs that businesses often pass on to consumers.

Despite persistent inflation, shoppers are motivated to get out and spend on services. Led by travel, services spending is up 8% relative to a year ago. Even restaurants have benefited after struggling over the past few years and despite pockets of inflation impacting where households cut back on small indulgences like cafés.

Q3 2022 Nominal Spending on Services (year-to-year percentage change)



Source: Kantar, US Department of Commerce

However, even with these inflation complexities and the economic landscape constantly changing shape, households will also prioritize, potentially cut back, and maintain discipline over their spending. This brings us to the third macro reality we face this year, **cash savings and income**. With wage growth struggling to keep up with inflation and student loan repayments resuming, these and other financial stressors will mean shoppers will have less savings to fund discretionary purchases or absorb price increases in essential areas. Manufacturers and retailers should ensure they are in line with shoppers' new lifestyles built around reprioritizing their time and spending.

Higher interest rates are another macro reality that will persist and have a lagging negative effect. Higher mortgage rates have caused the housing market to slow, producing a trickle-down effect on some areas for home goods.

Fixed 30-Year Mortgage Rate



Source: Kantar, Federal Reserve Board

Adding to the interest rate effect is the potential shift in **government budgets** and spending. The US is coming out of an exceptional time of spending during the pandemic, with federal spending in 2020 and 2021 the highest since World War II. While spending fell about 8% in 2022, it's still significantly higher than it was in 2019. This, combined with the 2022 midterm election that produced a split government, may create further tensions over government shutdowns and government spending cuts — and strong headwinds for shoppers.

Looking through the lens of these five macro realities, we anticipate the economy will remain in low-demand limbo throughout 2023. Recessionary conditions may emerge that produce sharp spending cuts, loan defaults, and bankruptcies. Least likely to emerge is a severe recession that sends the economy into panic mode and threatens all areas of the economy. This time around, the savings consumers built up over the past few years, the demand for services, and much less financial leverage on businesses and consumers than in 2007 may soften a fall.

From a Slowdown to a Recession

- Very weak
Demand cools off rapidly: Costs for businesses are increasing and affordability is eroding. You are here
- Recession
Big cutbacks in spending: Loan defaults, bankruptcies, and unemployment increase at a fast and sustained pace. Potential in 2023
- Severe recession
Economy in panic mode: A potential financial crisis affects even solvent businesses and financially stable households. Unlikely severe outcome

Source: Kantar

Key takeaways

1

While inflation will ease in 2023, it will still be abnormally high partly due to the remaining gaps in the supply chain. The supply chain could smooth out later in the year as China's economy reopens, though that may send commodity prices surging again.

2

The economy will be fragile due to the high interest rate environment and the uncertainty over when inflation will ease. Retailers should emphasize their ecosystems to keep shoppers in their stores and to remain part of shoppers' consideration sets.

3

Manufacturers should sharpen their price-focused strategies and promotions, such as identifying the good-better-best lineup of products and determining how they will defend against private label penetration.



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retail
experts
to you**

Access our experts to identify where to play and how to win, sort business challenges, and understand emerging trends. Through interactive planning-focused sessions and modular workshop series, work with our knowledge leaders to meet your organization's needs and your commercial potential.

Schedule your first 15-minute consultation with a Kantar expert: [Advisory & Education \(kantar.com\)](https://www.kantar.com)

Shopper reset



Kantar's 2023 retail predictions: Shopper



Julie Craig
Vice President, Shopper Insights

The Collins Dictionary 2022 word of the year was "permacrisis," which is an apt way to describe shoppers' mental state right now. There is a sense of an extended period of unfortunate circumstances as well as aggressively shifting trends and innovation. Lockdowns, inflation, supply chain issues, and wartime mixed with a total transformation of retail with a digital focus to shape the way shoppers are moving in the 2023 retail environment. And the three themes within this permacrisis we are tracking at Kantar are affordability concerns, the power of Gen Z, and the omnichannel shift.

Three themes will shape shopping in 2023

- Affordability concerns transform the value equation
- Gen Z raises the bar for retail
- Omnichannel becomes the new normal

Source: Kantar

Affordability

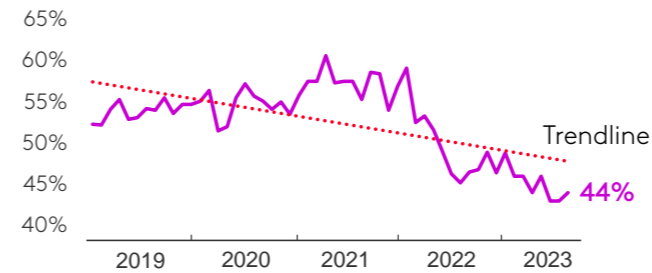
Given the pressures on household finances and economic realities, shoppers are re-evaluating what affordability really means. The value equation everyone uses when deciding to buy or subscribe to something will be transformed as the intensity shoppers place on different variables varies.

Our ShopperScope® monthly tracker enables us to look back over several years of data as we ask shoppers about their household status: how they feel about their overall health, job security, value of their investments, and ability to afford everyday essentials.

At the beginning of the pandemic, we saw a dip in shoppers' confidence in their ability to afford basic needs. When the American Rescue Plan launched and stimulus checks were received, that confidence increased a little bit. As we enter a period of inflation, supply chain constraints and other issues that make it harder for shoppers to pay their bills and afford basic necessities, shoppers' assessment of being able to cover their everyday needs dropped significantly over a brief period.

Shoppers With Positive Assessment of Ability to Afford Everyday Essentials

(share of all shoppers who assess household status as excellent/very good)



Source: ShopperScope, January 2019-June 2023

While shoppers' fundamental identity does not change, the value equation they use to evaluate different shopping decisions has some variability. If time and money go into the equation, the function of a product or service is the result. As shoppers place varying levels of intensity on the parts of the equation, the outcome of what they ultimately purchase changes. For instance, over the past year, shoppers have placed a higher degree of intensity and value on retailers that help them save money and time. The consideration of time savings as equally important as financial savings led to channels like convenience, dollar, and small-format grocery stores jumping to the forefront at the end of 2022.

Gen Z

This generation of shoppers, born between 1997 and 2004, is large with a powerful potential to change the retail landscape. Gen Z represents around 11% of all 18+ shoppers, and the assumptions about their collective character have been debunked as they show the world who they are as consumers.

Rather than being impulsive, self-absorbed, and addicted to their phones, Gen Z shoppers are thoughtful about their purchasing choices, shop with their values at heart, and are excited and motivated to have an in-store experience. They are more likely to hunt for bargains and shop with the cash they have on hand, rather than incur additional debt with credit cards.

But what truly sets this generation apart is the importance they place on environmental and social issues that will prime changes within retail. They often fit the Explorer shopper profile, being willing to take a chance on an unknown brand if its services or products align with their values.

Ethical Shopping: Environmental vs. Social

(level of importance for each aspect when shopping)

	Protects the environment		Addresses social issues	
	Gen Z	All	Gen Z	All
Extremely important	52%	36%	40%	36%
Somewhat important	43%	42%	46%	42%
Not important at all	5%	22%	14%	22%

Source: ShopperScope ESG Deep Dive, October 2022

Omnichannel

Driven by the digital transformation over the pandemic, omnichannel is becoming the new normal. Shoppers are balancing using physical and digital touchpoints to make purchase decisions and strongly believe this strategy is the best way to find good-quality, in-stock products at the lowest price.

Even in a physical retail environment, shoppers are increasing adoption of digital tools to support shopping. Over one-quarter of shoppers report increasing their use of retailer apps and websites on mobile devices while in store, and nearly one-third increased their use of contactless payment methods.

Change in Use of In-Store Retail Technology in Past Year

(among all shoppers)

26% of shoppers report shopping in stores increased in past year



Source: ShopperScope Evolving Online Landscape Deep Dive, April 2023

Key takeaways

1

Shoppers will narrow their price focus based on the economic environment. However, the holistic value of price and time savings will be prominent, so retailers should prioritize convenience and stress-free shopping.

2

Gen Z is having a real influence on the retail marketplace. Members of this generation are committed to seeing their purchases have a positive effect environmentally and socially. They want their dollar to mean something.

3

Omnichannel is the new normal. Ensure all digital and physical touchpoints build on each other to tell an overall story and bring the shopper through the journey to conversion.

Kantar's Retail Insights Conference

Dec. 13-14, 2023

Join us for two full days of insights and analysis as we reveal our retailer and shopper expectations for the coming year. This fully virtual event allows you to learn the strategies you will need to succeed with core channels and emerging growth platforms over the long term at your convenience. Don't miss your chance to be among the first to dive into the retail themes for 2024.

Get your ticket today:
[2023 Retail Insights Conference.
\(kantar.com\)](https://www.kantar.com)

Digital playground



Kantar's 2023 retail predictions: Digital accelerates into the store



David Marcotte
Senior Vice President

The National Retail Federation's annual Big Show attracts every technology vendor that enables retail — from small VC startups to global players — and this year's event was no exception. With over 35,000 attendees, 200 presentations, and more than 1,000 retail technology vendors, the event is a one-stop shop for understanding the coming year.

Major digital trends at the NRF Big Show 2023

For the first time in a decade, online was a minor topic at the show. At the forefront of the event, solution providers and speakers made it clear that the store is again the center of activity in retail. Acrelec was typical of many solution providers in showing an in-store integration of customer service and engagement, financial technology, inventory tracking, store conditions, HVAC status, and employee processes. Shoppers and employees can access the solution as a smartphone app, dedicated hand terminal, on a touch screen, and by voice recognition.

Integrating with table service units, wait-staff wearable tech, and communication devices are additional features used in QSR solutions. Since many consumers pay food service vendors in cash, the Glory management system is included to handle cash transactions in a secure box.

Leveraging digital in everyday processes

Additionally, in-store solutions dominated along with software for merchandising, employees, and store management.

InforTab from Rainus USA was a good example of a product enabling shoppers with digital engagement in stores through a broad range of interfaces, including:



High-resolution electronic shelf label (ESL) and e-paper in a range of colors



Touch- and digital-sensitive shelf moldings



Endcap digital displays



Back-office reporting using the same equipment



A full suite of supporting wireless communications



QR code integration



All shopper touchpoints integrated back to employee management and logistics systems for analytical outputs

Almost all vendors took this broad approach to enabling the whole organization in their solution space.

Machine learning and advanced analytical tools elevating engagement

AI is coming on strong to engage shoppers via digital twins, social commerce, disruptive holograms, and digital displays.

Raydiant leverages digital displays to increase product interaction, optimize the in-store shopper experience, and bolster digital connection. The platform also allows partners to build apps in the Raydiant marketplace, integrating social commerce and VR capabilities for retailers.

Technologies most likely to impact your market development plans

As we've seen at many previous Big Shows, technology advancements played an integral part at this year's Big Show. Some notable improvements include:

Robots

Several vendors showed robots that expand specialized tasks in the backroom and on the floor, including micro-fulfillment, inventory tracking, and matching product to shopper needs rapidly along with vendor input into product needs and use.

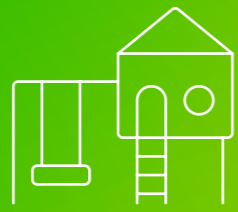
Traffic metrics in real time and shelf management optimization

Sony's partnership with Aitrios to scale its retail technology presence was one example. The system curbs loss prevention with AI-powered motion detection, tracks shopper behavior in real time, and provides shelf monitoring and planogram adherence analytics.

Sustainable packaging

Greenie manufactures durable packaging from recycled plastic pellets and provides tracking documentation about the circular economy, resonating with shoppers' sustainability concerns.

Key takeaways



1

Although online shopping remains popular, retailers are shifting their focus to physical stores for growth in 2023. After several years without major renovations or new constructions, we expect fresh solutions and digital tools for shoppers to be a key focus this year.

2

Use insights from the show to develop and strengthen solutions for retailers before implementing large-scale changes. Have a clear plan and the necessary resources in place to ensure successful partnerships.

3

Machine learning is used to manage the complex interaction between static merchandising and a variety of observational tools within stores, generating evaluation reports. New digital tools like four-color ESLs, flat-screen headers, and QR links add a layer to this process.

4

Digital tools not only facilitate communication among employees and capture video from in-store systems, but they also impact trade spend, in-market activation, and store-level merchandising. Consider whether your approach reflects these new realities.

5

Although large language models, OpenAI, and other emerging technologies generated a lot of excitement starting in March, they were barely mentioned at the show in January. The speed of public awareness is a variable that has rocked the vendor and retail conversation. While experimentation is more advanced than structural adjustments within retailers, it is important to establish a common foundation for discussions as this technology evolves.

KANTAR RETAIL IQ

Enter the insights platform that top businesses rely on to expertly navigate the retail and shopper landscape. This one-stop shop pairs illuminating analysis with trusted shopper, channel, retailer, and macroeconomic data to drive strategic planning, inform tactical execution, and provide a clear path for growth. [Learn more here.](#)

Information and follow-up:

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