

# The 2022 US Holiday Outlook by Simon-Kucher & Partners

November 2022

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## Current retail realities

Margin pressures are being squeezed on multiple fronts – an inventory glut addressed with inefficient promotions can double down on margin dilution

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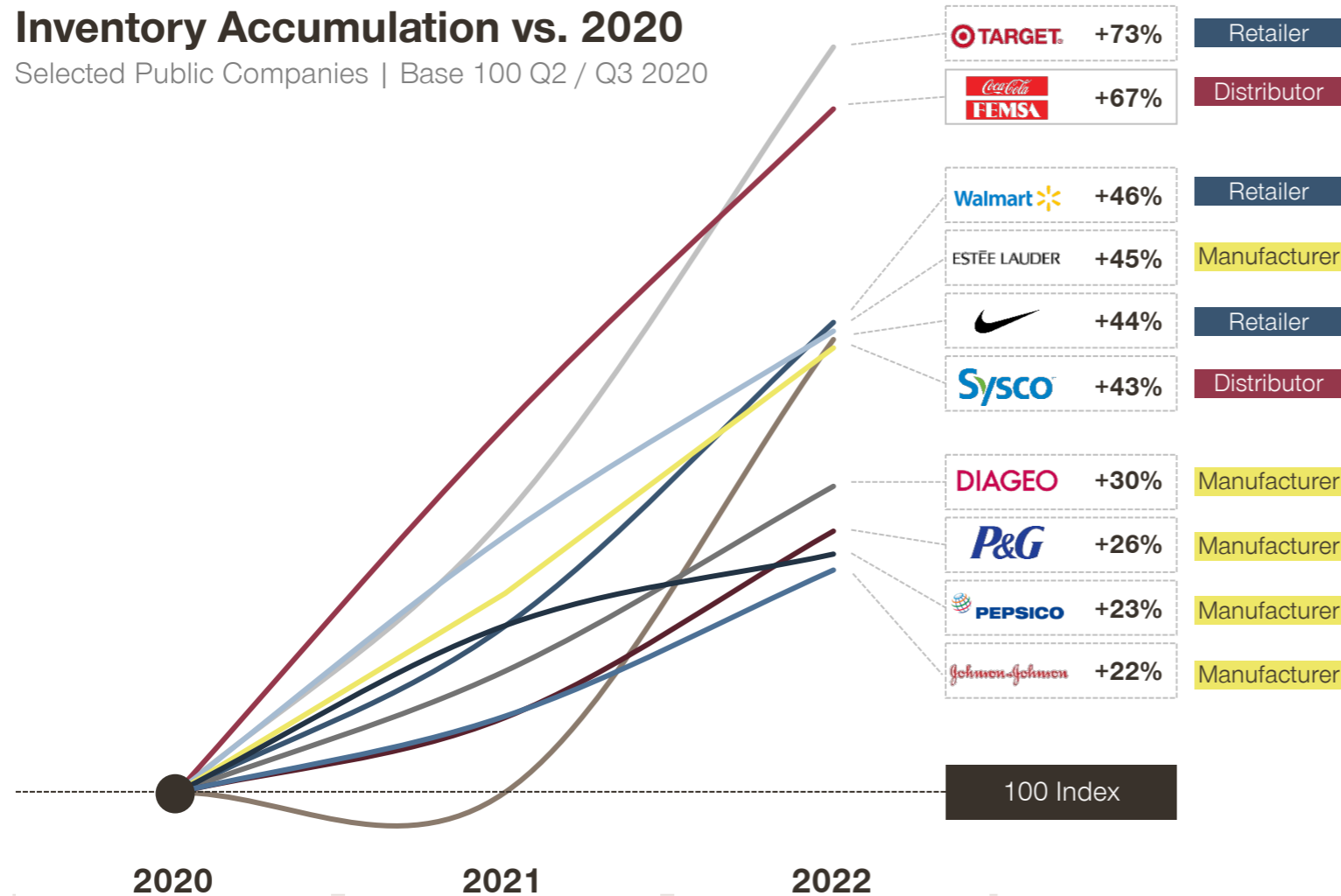
**Each side can be addressed independently, but the current inflationary environment heading into the holiday season requires holistic tactics across the board**

# Internal operations

Due to overly optimistic demand forecasting, there is an unprecedented systemic glut of inventory across consumer goods and retail

## Inventory Accumulation vs. 2020

Selected Public Companies | Base 100 Q2 / Q3 2020



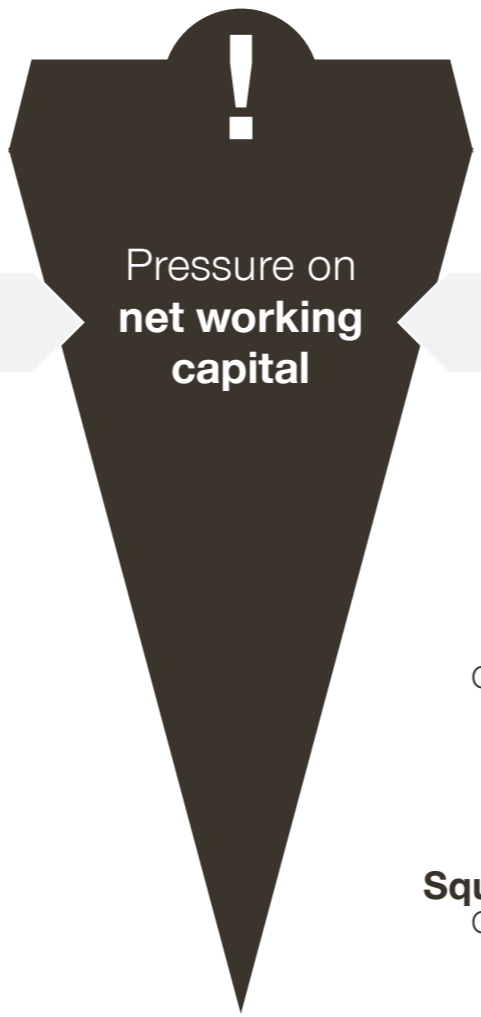
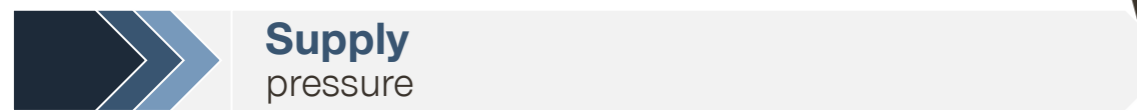
- ! Systematic issue across multiple industry verticals and all layers
- ! Cost & risk increasing, systems becoming stressed (but not distressed...yet)
- ! Challenging commercial environment with limited short-term response levers

Source: selected company earnings calls, company financial statements, macro trends.net

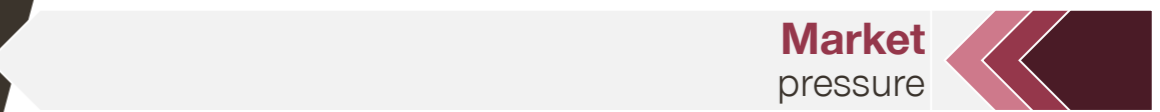
# Internal operations

This is leading to intense margin pressure and constraints as the entire chain faces rising cost of net working capital that restrict free cash flow

- ▶▶ **Volume drops below plan** (weakening demand)
- ▶▶ Plan not adjusted, **sell-in push continues**
- ▶▶ **Excess inventory accumulates**

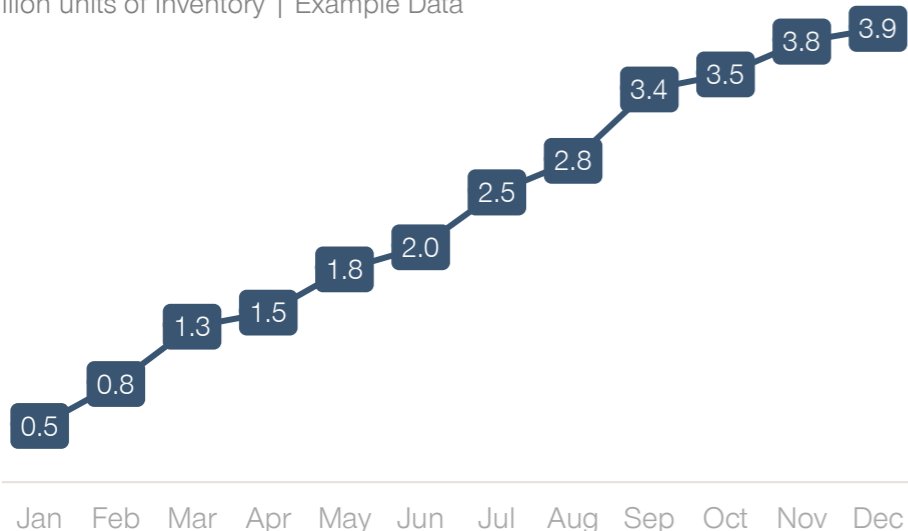


- ▶▶ **Consumers buying less and paying later**
- ▶▶ Suppliers **maintains payment terms**
- ▶▶ **Operating cycle increases**



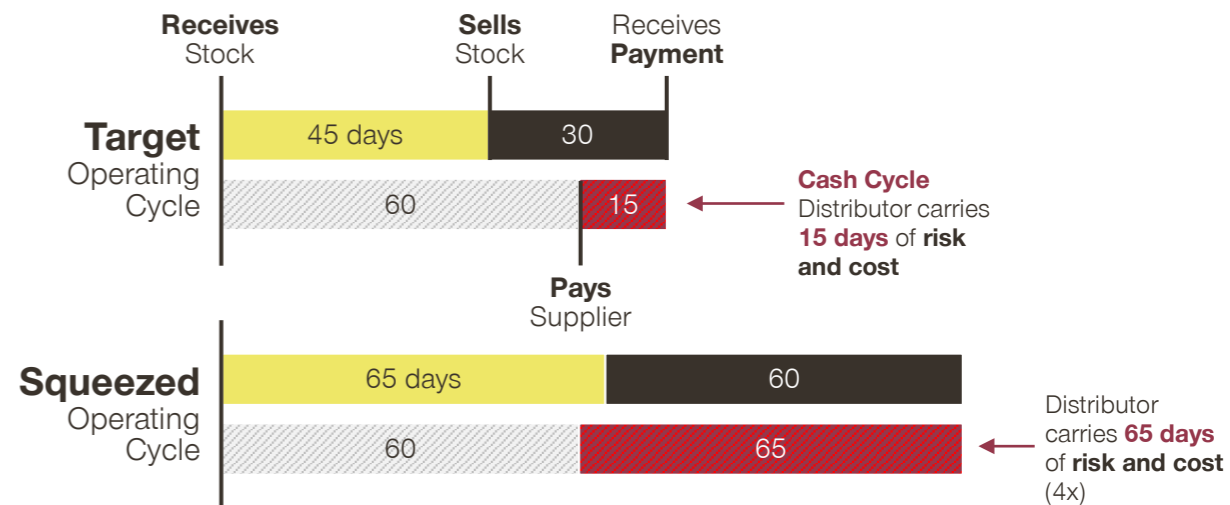
## Distributor Inventory Accumulation

Million units of Inventory | Example Data



## Distributor Operating Cycle

Days | Example Data



# Consumer facing

## Winning holiday promotions is critical to relieve this pressure – but not tailoring for recent trends can lead to even further margin dilution

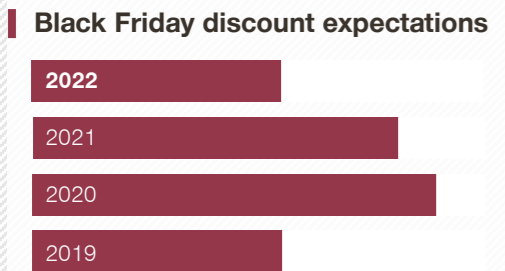
Overall trend  
(4-year)

Key insights



01

### Holiday Shopping Trends



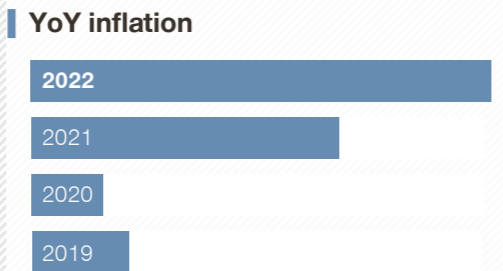
**Participation levels and discounts trends are closer to pre-pandemic**

As the pandemic is largely behind us, **consumers will participate in Black Friday similar to 2019 levels** and discount expectations are lower than in the past 2 years



02

### Effect of Inflation



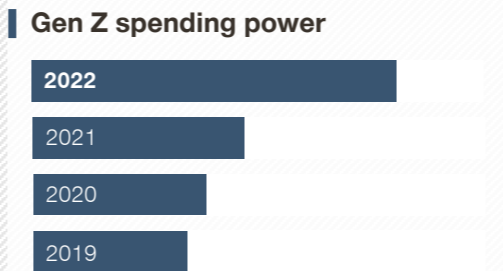
**However, inflation is tightening consumer budgets**

High inflation continues to stretch wallets, **expect reduced spending power during the upcoming holiday season.** Much of the spend will come from high-income consumers



03

### Rise of Gen Z



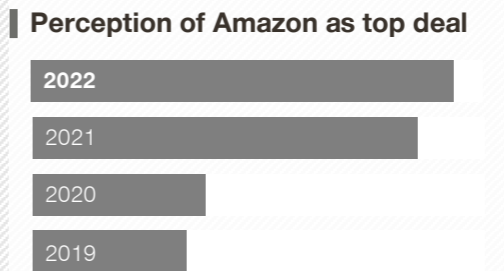
**Gen Z is leading promo participation and showing their consumer power**

**Gen Z plans to participate the most during big promo days.** They even plan to outspend Millennials in certain categories during these days



04

### Continued Ascent of Amazon Prime



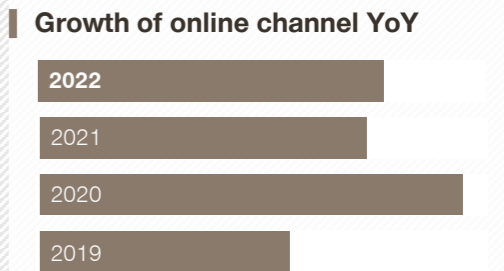
**Amazon Prime is still perceived to be 2nd best deal of the year**

Since Amazon took the silver spot last year, **expectations for Amazon Prime Day continues to grow while Cyber Monday wanes.**



05

### Balancing Online & Retail



**Omnichannel strategy remains crucial for retailers to win**

Last year the in-person bounce-back is holding as **consumers will shop online and brick-and-mortar this holiday shopping season**

Source: Simon-Kucher & Partners 2022 US Holiday Shopping Survey; Total N = 1,000



# Consumer facing

## Key initiatives can turn insight into action and result in sophisticated commercial excellence that sets the foundation for sustained success

Business Initiatives



### 01 Holiday Shopping Trends

- ✓ Promotional ROI
- ✓ Dynamic Promotions
- ✓ Personalized Promotions
- ✓ Marketing Spend & Campaign
- ✓ Demand Forecasting
- ✓ Real-time Inventory Management



### 02 Effect of Inflation

- ✓ Pricing Optimization
- ✓ Dynamic Pricing
- ✓ Assortment Mix
- ✓ Private Label Strategy
- ✓ Promotional Effectiveness
- ✓ Price-Image Assessment
- ✓ Procurement / Negotiation Strategy



### 03 Rise of Gen Z

- ✓ Brand Strategy
- ✓ Loyalty Strategy
- ✓ Digital Marketing
- ✓ Marketing Spend & Campaign
- ✓ Personalized Promotions



### 04 Continued Ascent of Amazon Prime

- ✓ Channel Management
- ✓ Marketplace Strategy
- ✓ Membership / Subscription Models
- ✓ Digital Path to Purchase
- ✓ Shipping + Fee Optimization



### 05 Balancing Online & Retail

- ✓ Omnichannel Strategy
- ✓ Delivery Model
- ✓ Customer Experience
- ✓ In-Store Salesforce Efficacy
- ✓ Digital Path to Purchase
- ✓ Store Clustering
- ✓ Shelf Space and Product Placement
- ✓ Channel Management

**Reach out to get further details on how each insight can drive incremental revenue and margin growth**

# Internal operations

## Beyond holiday promotions, a full toolkit of tactics can be taken to mitigate cash flow constraints

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 *We are here*

### Early Stage Actions

**Map exposure** on individual distributor level (excess inventories and economic cycle)

**Chart network risk profile** by aggregating to network / market level

**Define trigger points** & develop **guardrails / guidelines** to streamline response

Charter a team to **track, monitor, and manage network risk**

**Map alternative distributors** (and know where biggest risks are)

### Mid Stage Actions

**Fund demand drivers** (promo (tailored by SKU), field team tactics, key account action plans, etc.)

**Reduce volume targets** (reforecast considering current SKU level inventory in trade, strong alignment & sign-off internally)

**Sell-in pause:** taper or pause sell-in, particularly on high inventory SKUs

Temporary **trade terms relaxation** to ease working capital squeeze

**Prepare to act** - evaluate and rank alternative distributors

### Late Stage Actions

**Stock buy-back** particularly on high inventory or high age SKUs

**Trade terms complete temporary renegotiation**

**Supplier conference** – discuss action plans

**Working capital relief** in form of loan against inventory or assets

**Decisive action** - confidential exploratory discussions to gauge interest & understand model

Mitigation & Prevention

Contingency



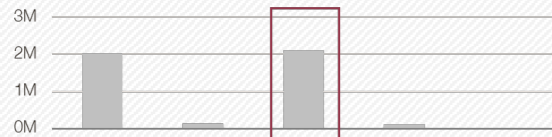


# Case study

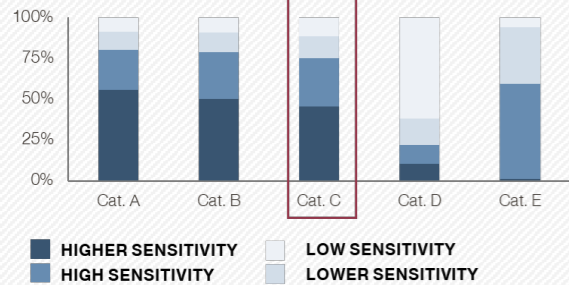
## Targeted digital marketing campaigns for clearing excess inventory can reduce offered discounts by 10-15% with steady volume

### 1 Promo sensitivity & inventory analysis

Total excess inventory per key category (units)

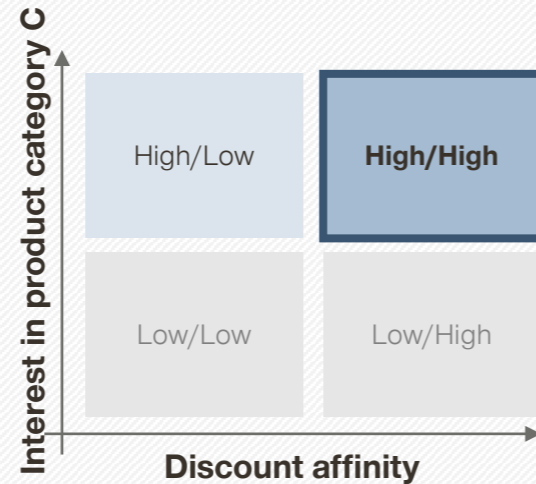


Promo sensitivity within each key category



**Prioritization** of product categories based on excess inventory & **promo sensitivity**

### 2 Consumer cluster mapping



**Consumer clusters** based on product category interest and discount affinity

### 3 Targeted digital marketing campaigns

Dear Michael,

Don't miss your limited time offer (valid for 3 days only):

**20% OFF "CATEGORY C"**  
**JUST FOR YOU!**



**Targeted digital marketing campaigns** with discounts only for relevant clusters

### Anonymized project example

#### Previous discounting:

- ⊖ %-off discount applied to high-inventory categories
- ⊖ Mass communication to all consumer clusters

#### New targeted discounting via digital marketing:

- ✓ Offer discounts only on **high inventory product categories** which also **react well to promotions**
- ✓ **Target consumer segments** with high interest in product category, and high discount affinity

**10-15% savings** in discounts offered, steady volume



# Please reach out to us with any questions

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**Thank You!**

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