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# 2016 U.S. HOLIDAY PROJECTIONS

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## WHITEPAPER

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## EXECUTIVE SUMMARY

It's that time of year when frosted spindrifts breeze past windows decorated in thistle, candles flicker on large tables as ovens warm browned turkeys, sugared yams, and thick casseroles. Yes, it's a wonderful time of year, especially for merchants. Strap into your sleighs, retailers. Online and offline sales growth is forecasted to reach heights unseen since the 2011 holiday season. Consider this:

- Individually, holiday shoppers say they plan to spend an average of \$684 this year. This is up 10% (or \$65) from the previous year.
- About 85% of shoppers intend to research products online beforehand (Business Wire).
- In 2015, online shoppers in the U.S. spent a total of \$108 billion during Q4; this year, that number is expected to jump 17%, exceeding \$126 billion.

Overall, retail sales in the U.S. are projected to increase nearly 3% this year, more than double the growth in 2015. Online sales are expected to surpass 16% growth, equaling almost \$400 billion (or 8.2%) of the \$4.8 trillion retail market. By the way, fast forward to 2020 and total eCommerce sales are on track to reach \$692 billion—12% of total retail sales (eMarketer).

So what are the attributes of this growth – and what's going to be different about the 2016 holiday spending season? This analysis explores key trends that will influence this year's yuletide spending season – including a boom in mobile growth, diverse product categories, and a shrinking gap between online and offline shopping.





## NEVER-ENDING MOBILE GROWTH

No need for snail mail to the North Pole; mobile devices continue to propel eCommerce growth more than ever before. Mobile commerce sales are on pace to increase 43.2% by the end of the year. These sales will account for roughly 29% of total digital sales for 2016 (eMarketer). If you look at last year's numbers, mobile shopping accounted for more than half of U.S. commerce site traffic during the holiday season – for the very first time – and is expected to keep climbing in 2016.

And, though tablets bring in their own snowball of sales for retailers, smartphones have consistently pulled more purchases at a higher value. As many shoppers rely on their phones for product information and comparisons – 61% plan on "webrooming" this holiday season – the opportunity to make on-the-spot purchases expands. The trend is driven largely by the U.S. millennial population (79 million and counting), and has been influencing older shoppers looking to jump on the digital-savvy train. For example, during 2016's Cyber Monday, nearly 50% of customers between the ages of 18 and 34 plan to shop primarily on their smartphones, with 36% of those aged 35–44 following suit.

Last year, average order value (AOV) for smartphone-based purchases rose by 72% year over year. This year, AOV is projected to climb another 6%, reaching a market value of

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### WHAT IS WEBROOMING?

"Webrooming" refers to the consumer practice of researching products online before buying them in a physical store.

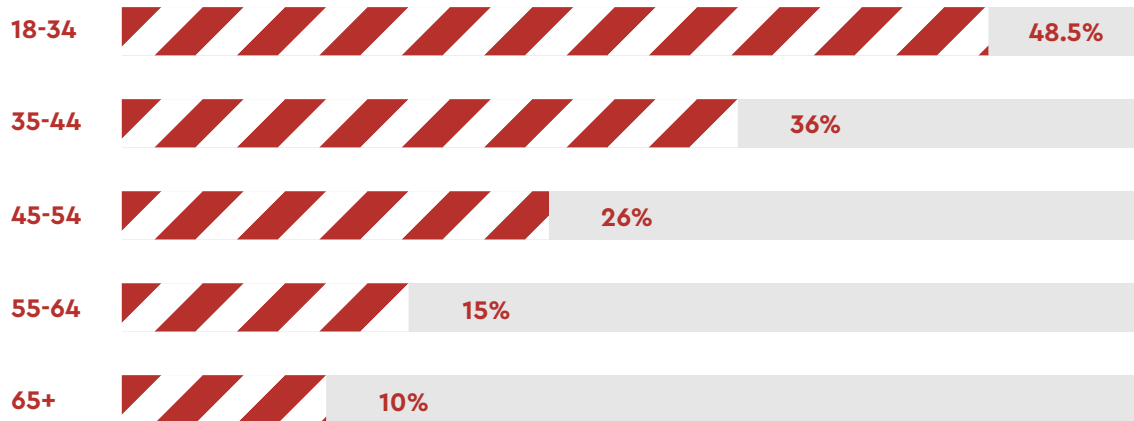
The term is often used in contrast to "showrooming," wherein shoppers first try out the products they want in a physical store before buying them online. Webrooming is the opposite – shoppers research online before buying in a physical store.

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\$67.23 billion. In fact, all retail sectors saw mobile commerce's share of digital transactions increase in every quarter of 2016 and there's no reason to believe that Q4 won't follow suit.

### US Internet Users Who Plan to Shop for Deals via Smartphone on Cyber Monday\*, by Age, Aug 2016

*% of respondents in each group*



Note: \*Nov 28, 2016

Source: RetailMeNot, "Unwrapping Holiday Insights: The 2016 Retailer Guide to Consumer Trends," Oct 11, 2016



# CHANGING PRODUCT CATEGORIES

Interestingly, 2016 has been a year of unique, experiential spending for shoppers. More money – online and offline – has been spent on tickets and events, food service, and trips, as our culture shifts inherent value from objects to experiences. Merchants take note: shoppers are looking for exciting new things to do and experience this year. The average American digital shopper plans to spend around \$440 on experience-based gifts this year (Rubicon Consumer Pulse). This includes events, vacation packages, restaurant dinners, and other entertainment options.

While beauty, clothing, and toys will still be ranked among the dominant categories shoppers hunt for, technology and electronics will likely remain at the top of the list for many. This comes as no surprise as new products take the center stage this holiday season, particularly augmented reality. Almost 33% of U.S. internet users are familiar with the technology, though only 16% have experienced it. With new apps soaring in popularity (think Pokémon Go), navigational interfaces are expected to become more successful and popular—and what better time to invest than the holidays?

The current worldwide revenue for virtual reality hardware is aiming to total \$5 billion by the end of this year; that's nothing more than a stocking stuffer compared to the \$50 billion market total projected for 2021 (Juniper Research).

For a culture that's shifting towards experiences, this immersive digital technology has become more and more accessible to retail shoppers, not to mention easier to use.

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## THE HOLOGRAMS ARE COMING

Augmented reality (AR) technology is quickly becoming mainstream. Just what is it?

AR layers computer-generated enhancements on an existing reality so that users can interact with this new "environment." Think holograms. AR apps exist and, increasingly, are used on mobile devices to blend digital components into the real world. The technology is used to display score overlays on telecasted sports games and pop out 3D emails, photos, or text messages on mobile devices.

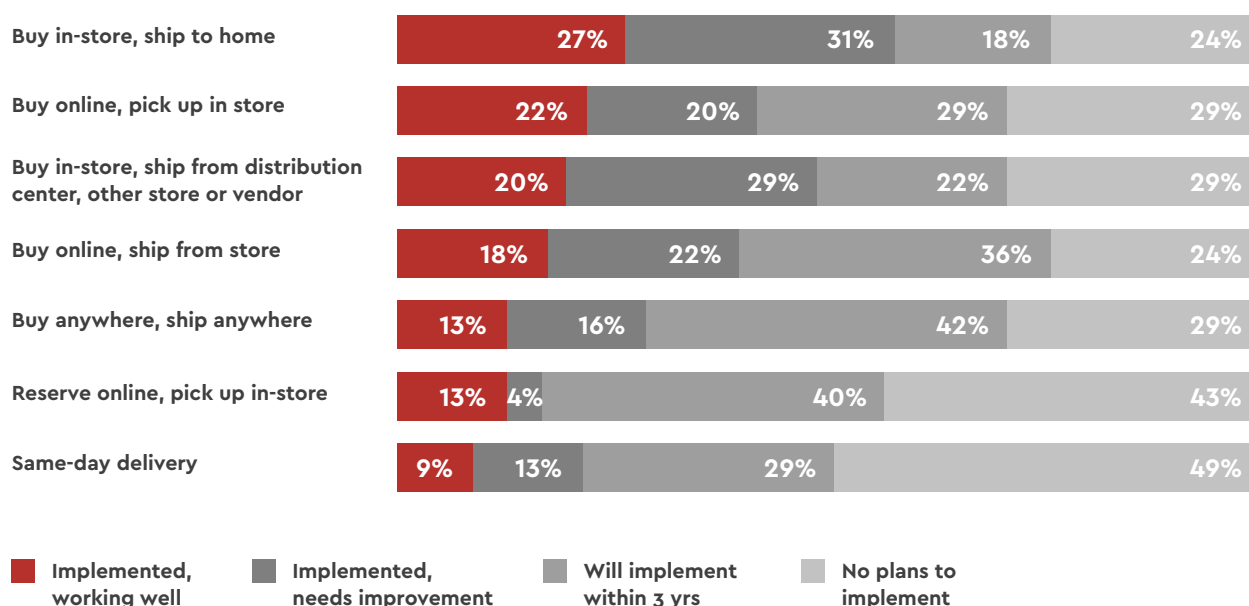
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# PHYSICAL & DIGITAL COMMERCE MAKE MERRY

Roughly 45% of shoppers use their mobile device to shop and compare in-store. During the holidays, this figure is expected to increase as physical stores see more foot traffic than the rest of the year. Retailers in North America have been improving fulfillment options all year, implementing buy online and pick up in-store, ship from store, ship between stores, and more. And as flexibility increases, so do sales.

## Implementation of Select Fulfillment Options Among Retailers in North America, April 2016

% of respondents



Source: Boston Retail Partners, "2016 Customer Experience/Unified Commerce Survey" sponsored by Aptos, Experian Marketing Services, Fujitsu, Manhattan Associates, NCR, PCMS, Radial and Enactor, June 2, 2016

With these quicker, more convenient options, eCommerce shoppers can continue buying gifts closer to the holiday knowing that their package will still arrive on time. In 2014, December 17th was the latest date that a majority of shoppers would order online; last year, the date moved to December 22nd. In 2016, some retailers expect to fulfill online orders as late as Christmas Eve.

Real-time inventory management also has improved this year, allowing local stores to accurately advertise to foot shoppers. In fact, U.S. mobile local ad spending is expected to surpass \$12 billion this year largely due to the holiday shopping surge (eMarketer). Last year, the smartphone share of retail ad spending rose from 14% in Q3 to 24% in Q4; this year is set to show similar, sharp double-digit growth. Local, direct response ads with offline calls to action drive search clicks. In Q2 of 2016, 58% of search clicks and 40% of search ad spending were attributed to mobile commerce.

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Consequentially, as these location-based advertising capabilities grow and improve, online-to-offline attribution will become clearer and more measurable. High holiday traffic enables retailers to grow their digital advertising practices and collect an influx data for the coming years – a year-over-year avalanche of presents under the tree for retail marketers and shoppers seeking tailored, omni-channel experiences.





## CONCLUSION

Retailers, start baking your Christmas Eve cookies now – this holiday season is projected to show the biggest sales growth in five years. By the end of October, 23% of internet users will be shopping for gifts online. By November, 27% of shoppers will be buying online. Consider the following tips to help maximize this year's Q4 revenue in a rapidly changing market:

- Take advantage of strong mobile traffic by deploying effective location-based mobile advertisements. Cater to webroomers while making enticing digital offers, capturing on-the-spot sales.
- Know your demographics and what they want. Most shoppers (with millennials leading the pack) are looking to splurge on experiences, though technology and electronics remain big players for shoppers.
- Be aware of and plan to incorporate the marketing benefits associated with new mediums, such as immersive digital technologies (augmented reality, location-based apps) as they become more mainstream and affordable.
- Provide a quick, omni-channel experience for your shoppers with a multitude of convenient shipping and receiving options. This will allow shoppers to keep buying closer to Christmas, maximizing your conversions.

From continued mobile growth to diversifying product categories, added with a deeper blend of offline and online channels, the 2016 holidays are ramping up to be a busy time for retailers. Shoppers are already starting to click away, filling digital shopping carts and researching gifts before the late November sales hit. Will you be ready for the season of spending?