



CONSUMER AND  
RETAIL GROUP



# **A Ho Hum Holidays:** How to Survive the Holiday Shopping Slump



# A Ho Hum Holidays:

## How to Survive the Holiday Shopping Slump

**Increasing inflation continues to torment the US economy**, with many predicting a recession on the way. The official inflation rate is hovering around 8%. However, day-to-day items are seeing higher increases with food prices up 12-15% and gas prices seeing increases of 40% over the course of the year. These drastic changes in non-discretionary consumer categories are affecting customers, especially as they assess their holiday budget. A consumer study by Alvarez and Marsal's Consumer and Retail Group in October revealed that 60% of consumers name increased prices as the #1 barrier to spending and 65% expect prices to rise over the next 6 months.

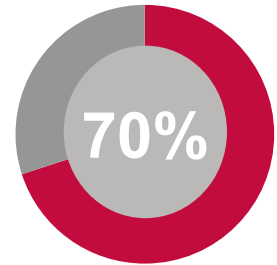
The holidays are usually a joyous time for apparel and accessories brands: holiday shopping and Black Friday and Cyber Monday frenzies cause increased digital purchases, in-store traffic, and higher spending. Especially after the past two pandemic holiday seasons, brands and retailers are ready for a comeback season. However, this year consumers are already nervous about future prices which could lead to a lackluster holiday spending.



# The Not So Cheery Holidays: Prepare for a Downturn



**Coming off one of the most successful holiday seasons in 2021, we are approaching what could be one of the most challenging and unique holiday seasons in a decade.** No one has a crystal ball; however based on current market conditions Holiday 2022 will prove to be volatile. A&M's Consumer Sentiment Survey revealed that 70% of consumers will change their spending habits this holiday season compared to last year. Brands and retailers need to act decisively to win this holiday season. There are ways in the short term to be aggressive which will lead to success.



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## The Impact on Fashion & Apparel Brands



Fashion and apparel brands are already feeling the squeeze of consumer wallets this holiday season. With a looming recession and increased prices of everyday purchases, customers are prioritizing basic needs such as groceries and rent and cutting back on gifts, especially apparel, footwear, and accessories. A&M's Consumer Sentiment Survey revealed that customers expect to decrease apparel spend by 20% and jewelry and accessories spend by 33% in the next 6 months.

Many brands are sitting on an excess amount of inventory after the over-ordering frenzy during the supply chain challenges of last year and the increased demand for luxury goods post-shutdowns. This especially leaves fashion and accessories brands vulnerable to volatility in consumer demand. Brands have pulled up many holiday promotional cadences as a result with Target launching Deal Days and Old Navy rolling out a "Sorry, Not Sorry" holiday campaign in October. Brands are fighting for consumers wallets while they are still willing to spend. However, this increase in promotions can lead to lower margins if not executed well. With sunk costs in large holiday marketing campaigns and continued high labor costs, brands could be left cash-strapped with substantial amounts of inventory post-holiday season.

# How to Survive a Downturn:

## Take action now

As brands and retailers approach what will be a volatile and challenging holiday season, they should be decisive and aggressive in decision making now. Some, like Target and Walmart, have already started to take action to reduce inventory levels, increase demand and protect the long-term P&L. Companies using the holidays to “see what happens” put themselves more at risk. Brands and retailers will need to be nimble throughout this holiday season to read and react to trends to protect their business.

**We recommend taking some or all of these actions immediately:**

### 1 At all costs cut costs



With an economic recession on the horizon, brands cannot wait to right-size their P&L. Every cost must be assessed. Optimization of SG&A and indirect spend will cut out heavy, ongoing fixed costs. Adjustment of COGs on products through a reassessment of product inputs and renegotiations with suppliers will increase margin, allowing for more promotional wiggle room. Restructuring your operations and organization today can not only manage costs but set up operations for the future. Now is a time to make dramatic, transformational decisions to prepare for the future and weather the storm of the holiday season



### 2 Inventory is not your friend this holiday season



Excess inventory will only lead to massive markdowns and a hit to margin to push through aged inventory at the end of the season. You need to read and react quickly to what already has a slow start. Cut the mediocre – do not tolerate any products less than great. Delaying reorders of basics and cancelling fashion items now will protect against any extra unnecessary inventory at the end of the year.

For styles that are in-market, take early markdowns on slow-movers. An earlier promotion at a shallower discount today can save on more expensive, deeper markdowns later in the season when the only option is to age-out styles.



## Merge old-school techniques with new-school systems to use data for better decision-making



To make informed decisions quickly, companies need advanced analytical capabilities to read and react early. Although advanced data systems usually invoke thoughts of expensive technologies, there are inexpensive apps for businesses that can be added to Excel to maximize data analysis. In addition, companies must challenge themselves to leverage rudimentary tools and data that already exist to diligently track and understand their business. They must force their teams to manage the business in an aggressive “no holds barred” manner that optimizes the opportunities. These systems, both advanced and basic, can be utilized by the organization in day-to-day decisions to identify winners and losers quickly and cut or markdown what is not working. Maximizing for automation and quick decisions today will remove steps and save money in the future.



## Get fast or lose your customer



A faster production calendar will decrease costs and push products into market faster to drive sales. Removing multiple proto-samples to a single iteration will cut both costs and production time. Being diligent on the details of the first design iteration to account for fabric and fit will reduce back and forth with suppliers. Shortening the design development process will reduce wasted working time and get products from design to shelf in as little time as possible. Challenge your teams throughout the product lifecycle chain to get faster and eliminate days in the calendar. You must get your product development decisions closer to the customer choice decisions.

## Create a seamless presentation across the omnichannel



Companies need to ask themselves the hard truth: are you seamlessly catering to a truly digital shopper? Do you have inventory available in the channels where customers are shopping? Customers want product where they are. Seamless inventory visibility through all channels will maximize options for the customers in each channel and minimize the amount of inventory necessary to service customers.

Are you presenting across mobile, digital and brick & mortar in a seamless way to your customer? On Black Friday this year, BOPIS sales were trending 20% higher than all other days this season and mobile sales were 48% of all online sales, compared to 44% in 2021<sup>1</sup>. If you do not make it easy for customers to shop where and when they want, they will go elsewhere.

## Rule #1: The Customer is Always Right Rule #2: Refer to Rule #1



Having a clear sense of who your customer is and what they want makes reading and reacting to existing trends easier. Brands and retailers must leverage data to know their customers. Once you have the data you must be experts in mining the data to understand what your customer wants from you. Knowing your customer's demographics, household income, spending patterns, and shopping behaviors can guide what products, where and at what discount. However, this is not enough...you must mine to the product pricing category and trend level. Merging all these data points and then using them to inform pricing, promotion, marketing and product decisions will lead to success.

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## Action Over Perfection

Looking forward to the holiday season it is unclear if customers will bring holiday cheer for apparel and accessories brands. With holiday sales accounting for over a quarter of sales in a year, missing the mark during this vital season can tank next year before it has even begun. Making decisive changes quickly will set you up for a better new year. Even if the action is not perfect, any action is better than nothing and can provide learnings in this rapid fight-or-fail consumer environment.

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