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2023 Holiday Review

KEY TAKEAWAYS

1	2023 U.S. holiday sales rose 3.1%, driven by deep discounts.
2	Online spending (+6.3%) outpaced in-store growth (+2.2%), with Cyber5 contributing a record $38 billion.
3	Mobile Shopping surpassed desktop for the first time, accounting for 51.1% of total online shopping.
4	BNPL Usage skyrocketed, with consumers spending $16.60 billion through these services.

OVERVIEW

The 2023 holiday shopping season unfolded against a backdrop of economic challenges, including persistent inflation and high interest rates, which influenced consumer behavior and retail strategies. Despite these hurdles, consumers continued to spend, with a 3.1% increase in holiday sales (November 1 to December 24) according to data from Mastercard. Though gains were lower than Mastercard's 3.7% forecast, they also built on last year's 7.6% increase. At the same time, this holiday season was marked by an extended shopping timeline compared to previous years. Rather than being concentrated around Black Friday and Cyber Monday, consumers started their holiday shopping as early as October driven by early promotions as well as their desire to spread out their expenses in a tougher economic environment. Notably, the surge in credit card debt prompted many shoppers to opt for Buy Now Pay Later (BNPL) services for gift purchases. Younger generations in particular, gravitated towards these flexible payment plans. Moreover, the online and omnichannel shopping trend continued to gain momentum, offering consumers a blend of convenience and experience. According to Mastercard, online sales outpaced in-store sales, growing 6.3% and 2.2%, respectively. Although growth was modest, in-store sales still account for about 70% of total retail spending according to the NRF.

Mastercard SpendingPulse™
U.S. Holiday Retail Sales
November 1 – December 24, 2023 vs. 2022

	2023 vs. 2022
Total retail (ex. auto)	+3.1%
E-commerce sales	+6.3%
In-store	+2.2%
Apparel	+2.4%
Electronics	-0.4%
Grocery	+2.1%
Jewelry	-2.0%
Restaurants	+7.8%

Source: Mastercard SpendingPulse, which measures in-store and online retail sales across all forms of payment and is not adjusted for inflation

This highlights the allure of brick-and-mortar stores, as many consumers look forward to the shopping experience with their families. Moreover, exclusive in-store deals and the festive atmosphere during the holiday season contributes to the appeal of physical retail locations. Of the categories covered by Mastercard, restaurants saw the highest growth (7.8%), followed by apparel (2.4%) and grocery (2.1%). Meawhile, jewelry and electronics were down 2% and 0.4%, respectively.

NRF reported holiday sales (November 1 to December 31) grew slightly higher, at 3.8% to a record $964.40 billion, in line with its forecast of 3% to 4%. For online and non-store retail sales NRF reported growth of 8.5%. That said, the report noted that despite a slower growth rate compared with the past three years, NRF's stated 3.8% growth rate was consistent with the average annual holiday increase of 3.6% from 2010 to 2019.

ECOMMERCE INSIGHTS

Based on Adobe's online shopping data (November 1 to December 31), online sales totaled $221.10 billion this holiday season. This represents a 4.9% year-over-year increase, which aligns closely with the Company's prediction of 4.8% growth. Over half of the total (65%) can be attributed to five categories: electronics ($50.80 billion), apparel ($41.50 billion), furniture ($27.30 billion), groceries ($19.10 billion), and toys ($7.70 billion).

Breaking Online Spending this Holiday Season:

- November reached a total of $123.50 billion, marking a 6% YoY increase, driven by a strong Cyber Week, which generated $38 billion in online spend, up 7.8% YoY.
- Black Friday and Cyber Monday contributed $9.80 billion and $12.40 billion, respectively
- In December consumer spending reached $98.60 billion online, reflecting a 3.7% YoY increase, partially attributed to extended discounts after Cyber Monday.

How much consumers spent during the holiday season

Revenue dollars: 2021 vs. 2022 vs. 2023
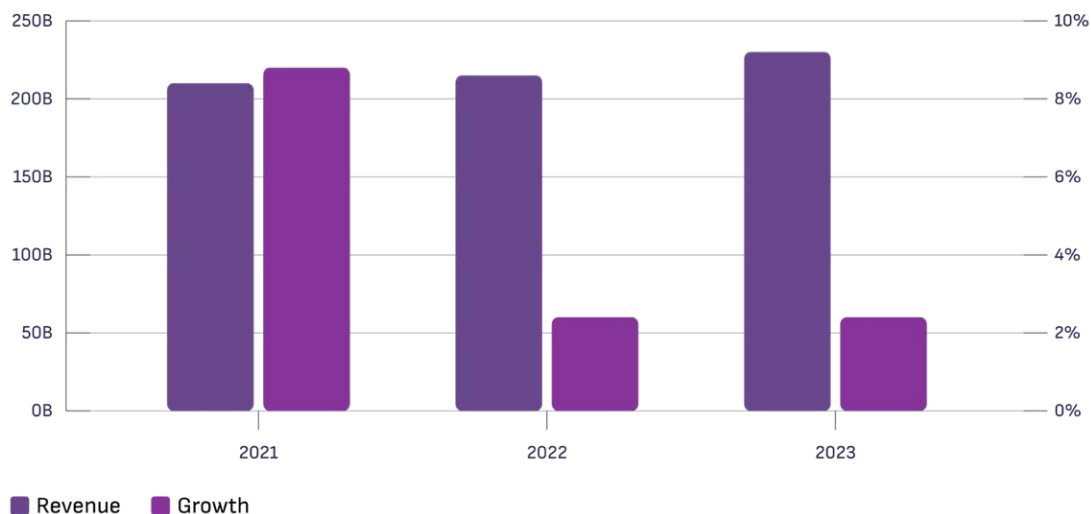
Source: Adobe Analytics

Notable Discounts Across Ecommerce Categories:

- Electronics saw discounts as deep as 31% off listed price (compared to 25% in 2022).
- Toys and apparel saw discounts of 28% (previously 34%) and 24% (previously 19%), respectively.
- Other categories experienced strong discounts as well, including computers at 24% (previously 20%), televisions at 23% (previously 17%), appliances at 18% (previously 16%), sporting goods at 18% (previously 10%), and furniture at 21% (previously 8%).
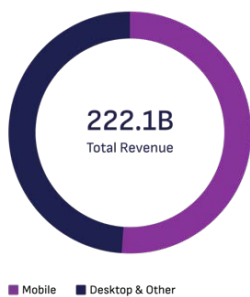
Discounts

See when the best prices showed up for top categories.
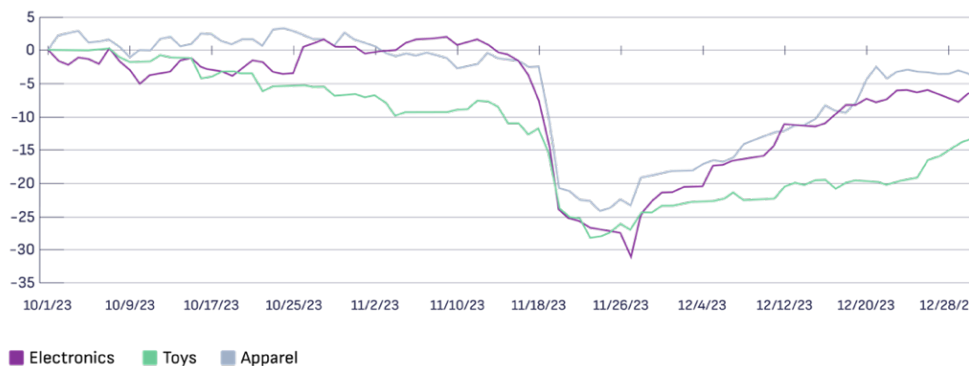
Source: Adobe Analytics

Share of revenue by device type in dollars
Nov 1st – Dec 31st, 2023

222.1B
Total Revenue

■ Mobile ■ Desktop & Other

Source: Adobe Analytics

MOBILE SHOPPING

- For the first time, mobile shopping surpassed desktop, accounting for 51.1% of all online shopping. Notably, on Christmas Day (Dec. 25), mobile shopping peaked at 63% of online sales (61% in 2022), as consumers utilized their smartphones to seize last-minute deals or redeem gift cards.

- Curbside pickup maintained its popularity as a fulfillment method with 18.4% of online orders utilizing it, compared to 21% in 2022. Notably, curbside pickup experienced its peak usage from December 22 to December 23, as anxious shoppers leveraged this service to ensure timely receipt of their gifts.

BNPL USAGE

As consumers demonstrated a strong preference for online shopping early in the shopping season, many also sought greater budget flexibility. The utilization of 'Buy Now, Pay Later' (BNPL) services reached a record high during the holiday season, contributing $16.60 billion in online spend, up 14% YoY. This amount exceeded last year's holiday season spending by $2.10 billion. November registered the highest usage for BNPL, with $9.20 billion spent online (up 17.5% YoY), and Cyber Monday emerged as the top day with $940 million spent (up 42.5% YoY).

Dollars spent through BNPL
Nov 1st – Dec 31st, 2023

16.6
billion dollars this season

Source: Adobe Analytics

HOLIDAY RETURN PREDICTIONS

According to a recent report from NRF, retailers experience an average of $145 million in merchandise returns for every $1 billion in sales. The return rate for online purchases is steeper, at 17.6%, equivalent to $247 billion, while for in-store returns (excluding online orders returned in-store), the rate is 10.02%, totaling $371 billion. Despite the holiday season being a major sales period, the report projects that the holiday return rate will only be slightly higher than the rest of the year (14.3%), with an estimated 15.4% of holiday merchandise, worth $148 billion, being returned. However, retailers are also preparing for almost $25 billion in fraudulent returns, accounting for 16.5% of total holiday returns. Meanwhile, Salesforce is predicting a slightly lower figure of $131 billion in holiday purchases returned. According to Salesforce, return rates are expected to rise as high as 20% for a few weeks after the holidays into 2024 as people return gifts.

TAKEAWAY

Despite consumer headwinds, retailers were able to drive solid holiday demand through deep discounts beginning earlier than previous years, especially in discretionary categories that were previously overlooked by consumers throughout 2023. However, the caveat being that these deep discounts will likely squeeze profit margins in 4Q. Additionally, BNPL played a major role in supporting retailers' efforts this holiday season as consumers leaned into these payment services to extend their budgets. These services typically charge retailers a fee, which is calculated as a percentage of the total sale price, which will further pressure margins.

The following table reflects sales performance for those retailers that disclosed holiday results:

2023 Holiday Comps Performance			
	2023	2022	2021
Apparel and Footwear			
Buckle	-6%	7%	18%
Citi Trends	0%	-18%	15%
Destination XL	-9%	8%	11%*
Genesco	-4%	3%	18%*
Journeys	-6%	-2%	8%*
Schuh Group	-5%	18%	28%*
Johnston & Murphy	11%	15%	53%*
Tilly's	-12%	-14%	14%
Urban Outfitters	6%	2%	14%*
Anthropologie	14%	7%	15%*
Urban Outfitters	-13%	-10%	3%*
Free People	20%	15%	47%*
Zumiez	-6%	-24%	6%
Big Box			
Costco (U.S., ex. Fuel)	8%	6%	12%
Five Below	4%	1%	8%
PriceSmart	8%	10%	10%
Other			
Kirkland's	3%	-6%	-6%
Median	0%	2%	13%
Average	-1%	-2%	13%

*Comps relative to the two-year ago period

RETAILER HOLIDAY COMMENTARY

American Eagle

American Eagle Outfitters' revenues for the fourth QTD period through December 30, 2023, was up about 8%, with namesake brand American Eagle up high single digits and Aerie up in the low teens. Based on these results, management is raising 4Q23 revenue guidance to be up low double digits, including a four point positive contribution from the 53rd week. Operating profit is now expected to be approximately $130 million, up from previous guidance of $105 to $115 million. The improved outlook is a result of record holiday sales and strong merchandise margins.

Citi Trends

Citi Trends sales for the quarter to date period ended January 06, 2024 were down 1% to $179.5 million, on weak comps of -0.3%, essentially flat, compared to the same period in FY22. The Company stated that its implied 4Q23 sales are expected to be roughly flat to up low-single digits vs. 4Q22 with comp store sales down low-single digits to flat to last year and 4Q EBITDA in the range of $9 million to $15 million, versus $12 million last year. CEO David Makuen said, "Our nearly flat comp was driven by strategic inventory investments while continuing to generate strong gross margin. Importantly, our holiday sales results represent a significant trend change to the prior quarter with an improvement in comp sales performance of approximately 600 basis points."

Costco

Costco does not report holiday sales as an individual figure; however, we can look at its November and December monthly sales reports to see how the Company performed during the holiday period. In November 2023, sales rose 5.1% while Company-wide comps (ex-fuel) increased 4.4%. Food and sundries were up mid-single digits with fresh food up high single-digits. The non-foods category increased low single-digits. The jewelry, tire, and health/ beauty aid categories led the way while sporting goods, media and office supplies underperformed. In December 2023, sales rose 9.9% while Company-wide comps (ex-fuel) advanced 8.1%. E-commerce saw a significant gain of 17.4% during the period. For the two months combined, sales increased 7.5% and comps (ex-fuel) rose 6.3%.

Destination XL

For the nine-week holiday period ended December 31, 2023, Destination XL sales and comps dropped 8% and 8.7%, respectively. Management narrowed FY23 guidance, with total sales in a range of $520 million to $525 million, down from $546 million in FY22, and an adjusted EBITDA margin of 10% to 10.5%, up from 9.9% last year. According to CEO Harvey Kanter, "Lower traffic to both the stores and our website was the primary reason for the decline in sales. Despite the challenges with traffic, we resisted the temptation to stimulate sales by becoming hyper-promotional, which we believe also resulted in softer conversion online."

Five Below

Five Below's sales for the holiday period between October 29, 2023, and January 6, 2024, increased 15.6% to $1.16 billion from $1 billion in the prior year's period. Comparable sales for the holiday period increased 3.6%. CEO Joel Anderson said, " Supported by a favorable holiday calendar, we delivered on our goals for holiday 2023. We saw broad-based strength in performance across most worlds and continued strong results from converted stores. Needs-based categories continued to outperform, as did our Seasonal offering with the value and Wow! assortment of gifts and stocking stuffers resonating with customers.

HBCx

After reporting 3Q23 comps fell 17.2%, HBCx management said it was seeing sequential improvement in comparable stores sales trends during 4Q23. However, we still expect further erosion in sales during 4Q23 (4Q22 comps fell 1.9%).

Genesco

For the nine-weeks ended December 30, 2023, Genesco's Journey's comps were down 6% while Johnston & Murphy comps were up 11%. Commenting on the holiday season, Chair and CEO Mimi Vaughn stated, "Following a positive start to the holiday season, sales decelerated in the weeks approaching Christmas, as consumer shopping trends remained choppy and peak shopping days were not enough to offset the lulls in between. This was most pronounced at Journeys, where store results were pressured despite our more promotional stance. While consumer appetite for key items remained strong, there was less interest in boots, which are a meaningful part of our winter assortment. Positively, momentum remained strong at Johnston & Murphy, helping to counter the lower-than-expected results at Journeys, and our online businesses continued to post solid gains."

Kirkland's

Kirkland's, Inc. announced comparable sales growth of 3.1% for the 2023 holiday season, which includes the first two months of 4Q23 (through December 30, 2023). This includes increases of 1.5% for November and 4.8% for December. Commenting on the results, interim CEO Ann Joyce stated, "Overall, we are pleased with our performance this holiday season as the changes in our marketing efforts and merchandise assortments resonated with our customer base. Although we remained promotional due to the persistent challenges in the broader consumer environment, our merchandise margin strongly improved year-over-year as we continued to benefit from lower freight rates and better product flow."

Lululemon

After the holidays, lululemon raised its 4Q guidance and now expects net revenue to be in the range of $3.17 billion to $3.19 billion, a 14% – 15% increase from 4Q22; previous guidance was $3.14 billion – $3.17 billion. The Company also said it now expects gross margin for 4Q23 to be in the range of 58.6% to 58.7% compared to its previous expectation of 58.3% to 58.6%. This compares to a gross margin of 55.1% in 4Q22.

Macy's

Although department sales trended largely lower this holiday season, beauty was an outlier. Macy's management commented, "We had a strong holiday season with beauty, and we've focused on securing that position as a leading beauty destination." Management also said it expects beauty promotions to normalize in 2024.

Neiman Marcus

Neiman Marcus Group reported holiday sales were down low-single digits. CEO Geoffroy van Raemdonck commented, "Early indicators suggest that our overall holiday fiscal 2024 comparable sales trend was down low-single digits to last year, while store comparable sales trends held flat to the prior year as we leaned into our relationship business model in order to drive sales despite operating in the volatile luxury retail environment. We are pleased with this holiday fiscal 2024 momentum, which shows sequential improvement from the fiscal [first-quarter] comparable sales results of negative 8%." Van Raemdonck did not provide a specific percent change or dollar amount on holiday sales, other than giving the low single digit range.

Saks

Saks.com CEO Marc Metrick commented, "We are taking a pretty measured approach to 2024. It's an election year, which is certainly distracting. I don't see the macro headwinds dissipating in the next six months."

Tilly's

Tilly's sales fell 7% during the nine-week holiday period ended December 30, 2023, driven by a 9% drop in comps, following a 14% decline last year. Brick & mortar comps fell 12%, slightly offset by e-commerce, which grew an anemic 1.6%. By category, comps for Footwear were up single-digits, Girls and Mens apparel fell single-digits, while Boys, Womens and Accessories decreased double-digit compared to the 2022 holiday period. Holiday sales were $140 million, compared to $151 million and $173 million for the two prior year periods. Based on these results, management expects 4Q23 sales in a range of roughly $169 million to $172 million, down from $180 million in 4Q22. At year-end, the Company expects to have 248 total stores, no debt and $90 million in cash and marketable securities (reflecting the normal seasonal fluctuation), compared to $129 million as of January 2, 2024.

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