



The UK  
Ecommerce  
Association

# IMRG + Clearpay

The Modern Consumer:  
how shoppers are behaving  
in a cost-of-living crisis



# Contents

Introduction	3
The impact of the cost-of-living crisis?	4
Christmas 2022	8
Future shopping trends	16
Conclusion	20
Contact us	21

### 3 The Modern Consumer

# Introduction

UK inflation remains close to a 40-year high, surpassing 10% in August and currently well above the Bank of England's (BoE) ongoing 2% target.

The rate of inflation is forecast to stay elevated in 2022 before slowing down in 2023. The BoE says it expects it to be at 2% in around two years.

Inflation has largely been pushed up by higher energy prices – with Russia's invasion of Ukraine having a significant impact on the price of gas – and increases in prices for the goods we buy from abroad. Wages are also on the rise with more job vacancies than people to fill the roles, but salaries are not keeping pace with inflation across the board.

The Conservative government's willingness to make what Prime Minister Liz Truss admitted could be unpopular fiscal decisions during its recent mini budget spooked the financial markets, contributing to financial services and mortgage lenders increasing interest rates on their products. Consumers are feeling the pinch.

Against such a backdrop, retailers are hiking what they charge for products – notably on fresh food and dairy to reflect costs incurred during production. Non-food items, meanwhile, are now pricier in light of various supply issues such as shipping cost rises.

It makes for a difficult consumer environment. While people will continue to purchase food and grocery items, the discretionary retail categories could be in for a prolonged period of turbulence as shoppers focus on only what they deem crucial spending.

The energy price cap rose again in October, adding further to a cost-of-living crisis.

IMRG data shows year-on-year online retail sales declines in 2022, with 12-month average sales down by 18.1%. Total retail sales remain subdued.

IMRG has teamed up with Clearpay to gather a picture of how consumers are facing into these headwinds and their intended shopping behaviours. From a survey of 1,001 people it is clear Christmas spending and category focus will be different to last year.

**Read on to find out consumers' intentions, budgetary tactics, and overall sentiment as we approach the Golden Quarter and look ahead to another financially squeezed calendar year. Albeit one where there is room for much optimism for retailers who are smart and flexible.**

# The impact of the cost-of-living crisis?

Due to the timing of our research, we're addressing the cost of living crisis through the prism of Christmas shopping intentions.

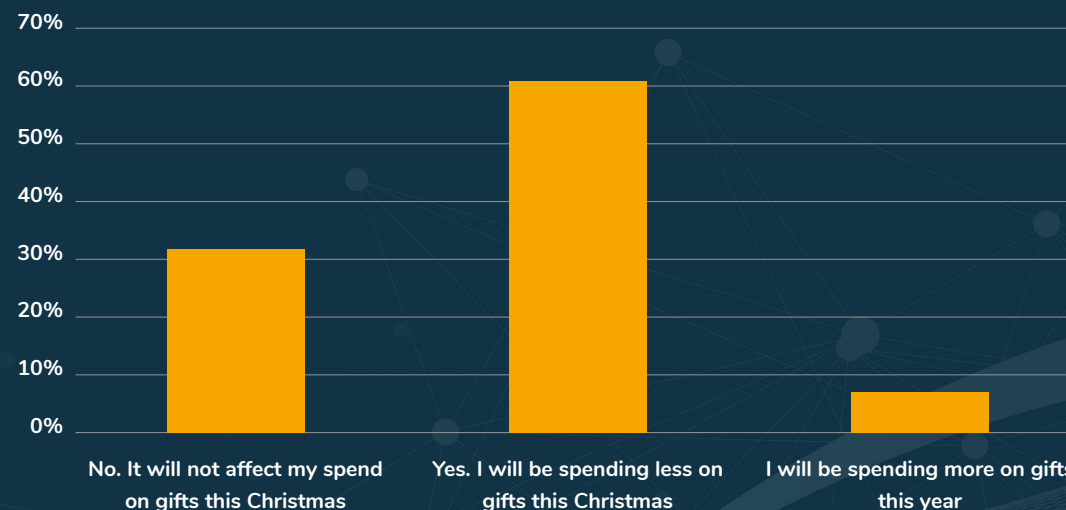
For most retail categories, a good or bad Christmas can dictate whether overall annual performance is a success or failure – so understanding consumer behaviour and taking the necessary actions is crucial for planning.

### That's a wrap for gifts...

The strain on people's finances looks set to have a material impact on Christmas gift spending in 2022.

Some 61% saying they will spend less on gifts this Christmas is a significant indicator the cost-of-living crisis is real and is set to impact discretionary spend in the months ahead.

### Has the cost of living crisis changed how much you will spend on gifts this year?

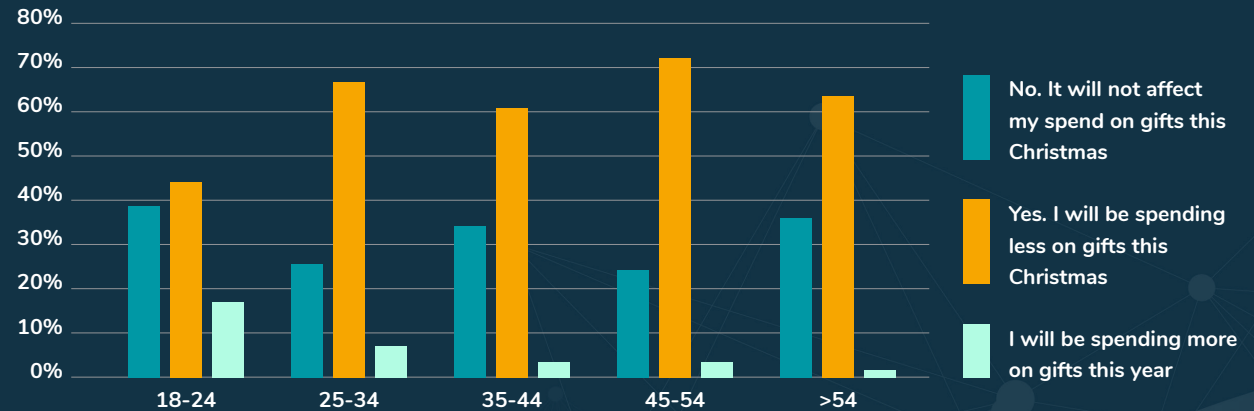


## 5 The Modern Consumer

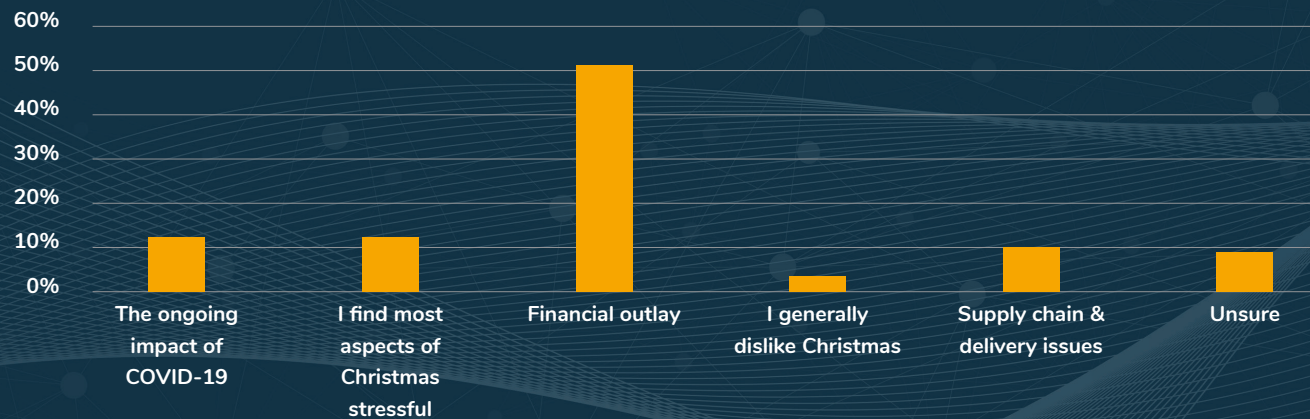
When looking at the situation by demographic, the financial squeeze is clearly impacting the gift purchasing intentions across age groups – although it is set to have the biggest impact on 45-54-year-olds, which Statista identifies as the UK group with the largest disposable income.

While Covid and supply chain uncertainties have caused consternation and concern among consumers in the last few Christmases, there is only really one thing on their minds this year, according to the below graphic. Financial outlay is the major concern for 51% of respondents – nothing else gets close in terms of consumer worries in the Christmas build-up.

### Has the cost of living crisis changed how much you will spend on gifts this year?



### What are you most concerned about this Christmas?



Consumers seemingly prepare well in advance for Christmas shopping. Some 36% of respondents said budgeting for Christmas is something they do all year round, highlighting the importance consumers place on this time of year. Although that shows signs of encouraging financial planning, the negative side for retailers during this challenging peak is consumer predictions around lack of spend.

## 6 The Modern Consumer

### The Clearpay viewpoint



Competition is likely to be fiercer than ever, so being smart with your discount strategy is key. It is not as simple as putting a discount on; retailers need to understand what is going to make them stand out. They need to:

- 1) Define what their discount objective is. Is it for customer acquisition; increasing customer loyalty; growing average order value; re-engaging lapsed customers; testing a new product in market; clearing out old inventory?
- 2) Choose the perfect promotion to fit this objective. Is it % off; BOGOF; free shipping; £ off; first-time purchase discount; or multi buy, for example?
- 3) Make it compelling. Urgency, exclusivity, and scarcity are key tactics to drive engagement. The survey data from this report shows different audiences are inspired to shop in different channels. Think about a channel by channel approach when developing your strategy.

In this current environment, consumers may be more inclined to look for a greater number of deals to bolster their traditional gift buying.

Although this year's Black Friday and its accompanying multi-week promotional period clashes with a men's football World Cup and comes just weeks after another energy price cap rise, causing uncertainty around its influence on spending, it may be the time for retailers to convince shoppers to do the lion's share of their 2022 gift purchasing.

### Which of the following statements is most applicable to you?



Indeed, a quarter of consumers told us that discounts or promotions allow them to budget more for gifts than planned. And the same percentage suggested they wait for big sales and promotions before they buy Christmas gifts.

## 7 The Modern Consumer

Black Friday and the China-influenced Singles Day, where many brands opt to ramp up discount-driven marketing campaigns, could prove to be more fertile than ever for retailers looking to capture those on the hunt for gifts ahead of the traditional Christmas shopping period.

As the table shows, 28% of consumers think you can get better value Christmas gifts online, while 26% would buy more gifts online if they didn't have to pay for shipping and delivery.

When considering what stores and brands do to get their attention, 49% of consumers said they are triggered to buy a Christmas present "because there is a sale happening" – it was the most popular answer to that question, underlining UK society's strong affection for 'a bargain'.

Changes to consumer gifting plans in light of the cost-of-living crisis means retailers will need to activate a combination of levers to help drive revenue.

Financial outlay is the overwhelming concern for consumers this Christmas, suggesting that should feed into the tone of advertising campaigns, gifting range selection, and general messaging.

Incentives such as free shipping for online orders in combination with discounts would fit the consumer environment mood in 2022. But, as ever, retailers will need to establish the right tactics that are suitable for their business and how much margin they are willing to give away in the hope of attracting new customers and retaining existing ones for when the economy improves.

### We would like to know which of the following statements is most applicable to you when it comes to online shopping?



# Christmas 2022

This is the third consecutive Christmas like no other. The two previous Christmases have been clouded by Covid-related restrictions – in 2020 there were strict lockdowns in place to halt the spread of the virus, and last year the emergence of the Omicron variant of Covid-19 influenced retail staff availability while infections generally were high.

But Christmas 2022 comes in the cloud of a cost-of-living crisis.

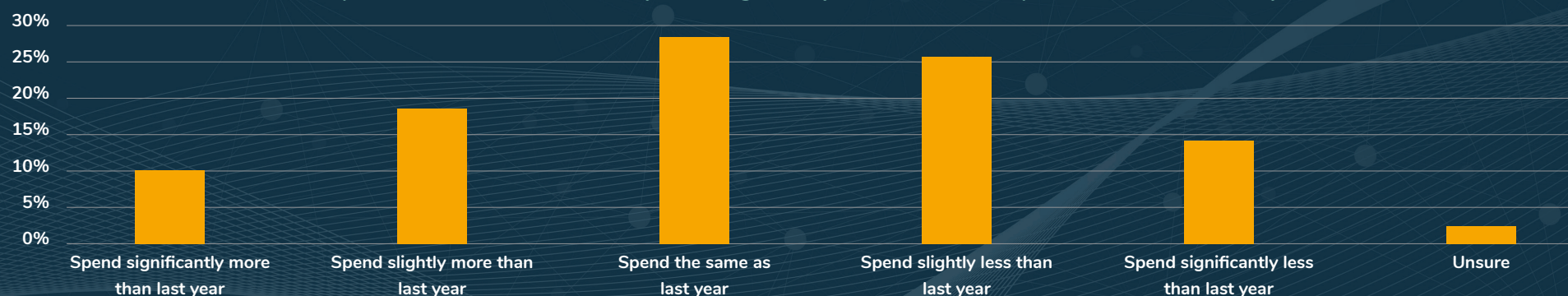
Retailers are getting used to managing ongoing disruption. Perhaps that is the 'new normal' the industry was looking to identify during the peak of the pandemic.

### Who is spending, and on what?

Despite gifting taking a hit, as we have illustrated, overall Christmas spend looks more robust.

Some 56% of consumers said they are likely to spend the same as or more than last year, while 40% indicated they think their total Christmas spend – which includes gifts, food, drink, products for entertainment, and more – is set to be down on 2021.

### How will your total Christmas spending compare with last year's Christmas spend?



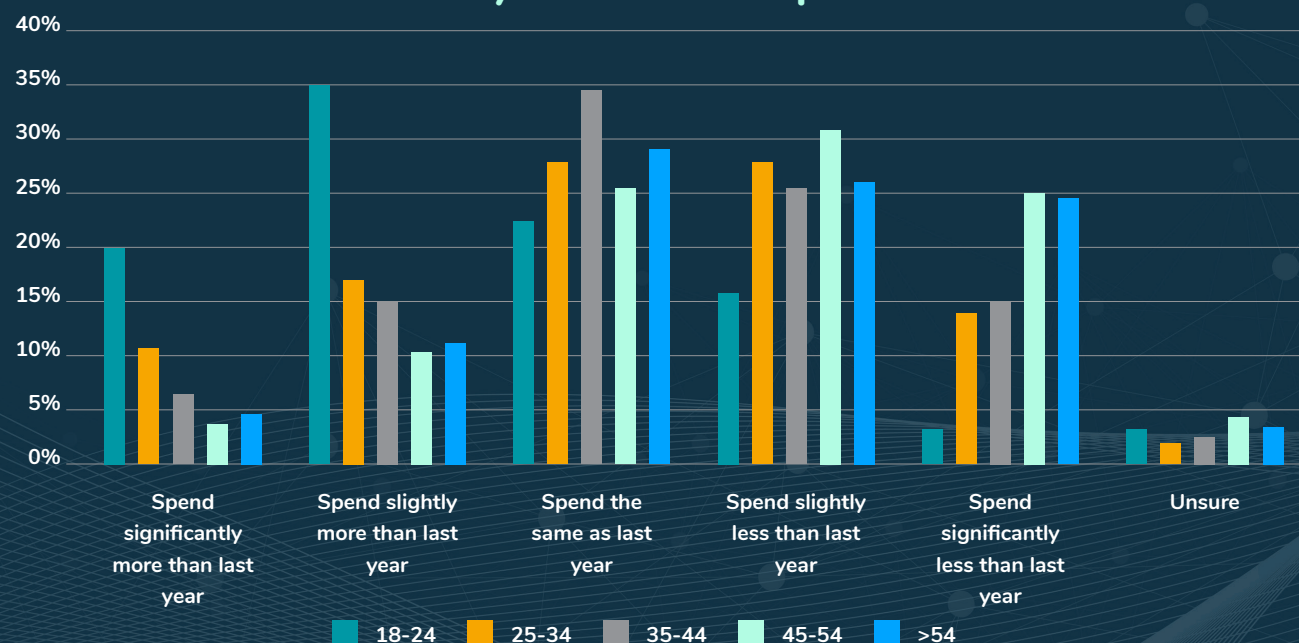


## 9 The Modern Consumer

The figures suggest there is money out there for retailers to go after. Having a thorough understanding of their typical customer becomes critical for retailers in these economic times. It is important to gauge the mood of the nation – inflation will affect everybody and many people are struggling with rising costs – but, equally, some consumers will continue to spend at typical rates.

We found Gen Z are most likely to spend significantly more or slightly more than last year at Christmas. This could be because young adults – many of whom are still living with their parents – have recently entered the workforce and cash is more free flowing compared to last year.

### How will your total Christmas spending compare with last year's Christmas spend?



There is also the post-pandemic pent-up demand factor to consider. Although inflation might negatively impact the post-Covid sales boom many commentators predicted, there will still be a set of consumers who are willing to splurge this year following two years of curtailed festivities.

Things can change quickly, but at the time of writing there is limited talk about any potential Covid lockdowns in 2022, making gift and festive goods buying easier in stores than it has been for two Christmases. The lack of health-related restrictions also means it is more likely people will plan to see friends and relatives this year than in 2020 and 2021, driving additional entertainment-related spend.

## 10 The Modern Consumer

### Categories that will cash in

Looking at the responses given to both what consumers are expecting to buy and receive as gifts this Christmas, it looks positive for the traditional festive categories of toys and games, beauty, and jewellery. But clothing and fashion, too, is set to perform better than most other sectors.

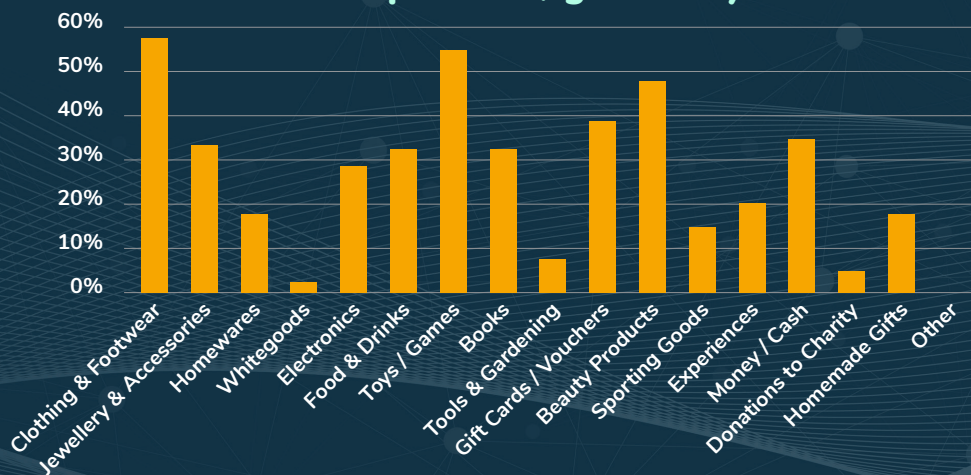
According to IMRG data, clothing, womenswear, and footwear were the only categories to experience year-on-year online sales increases in the first six months of 2022. The buoyancy of fashion more generally looks set to continue this Christmas probably supported by the fact it was a neglected area for so long in the pandemic: there is simply greater

demand for work attire, formalwear, occasionwear, and casual items than there has been for the last two festive periods because society is no longer cooped up at home sheltering from the coronavirus.

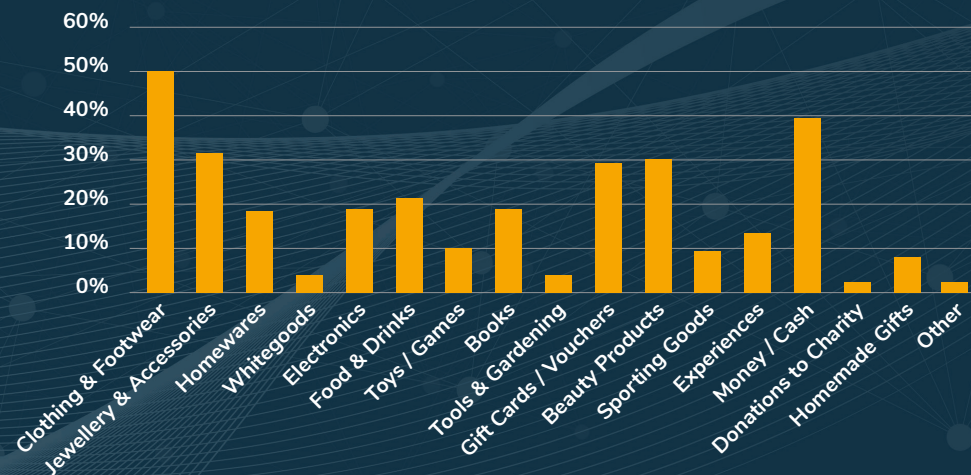
A final point to note, here, is the prevalence of money/cash in people's Christmas wish lists and gift shopping plans.

For some time now, the growing interest in leisure pursuits, the increased prevalence of hospitality premises and the coffee shop culture, and a boom in entertainment subscriptions have provided retail with more competition. Cash being so high up the potential Christmas gift list in 2022 underlines just how much retail – more so than for generations – is competing with energy and utility bills, rents and mortgages, and general living costs for share of wallet.

### Which of the following are you expecting to buy as Christmas presents / gifts this year?



### What do you hope to receive as gifts from others this Christmas?



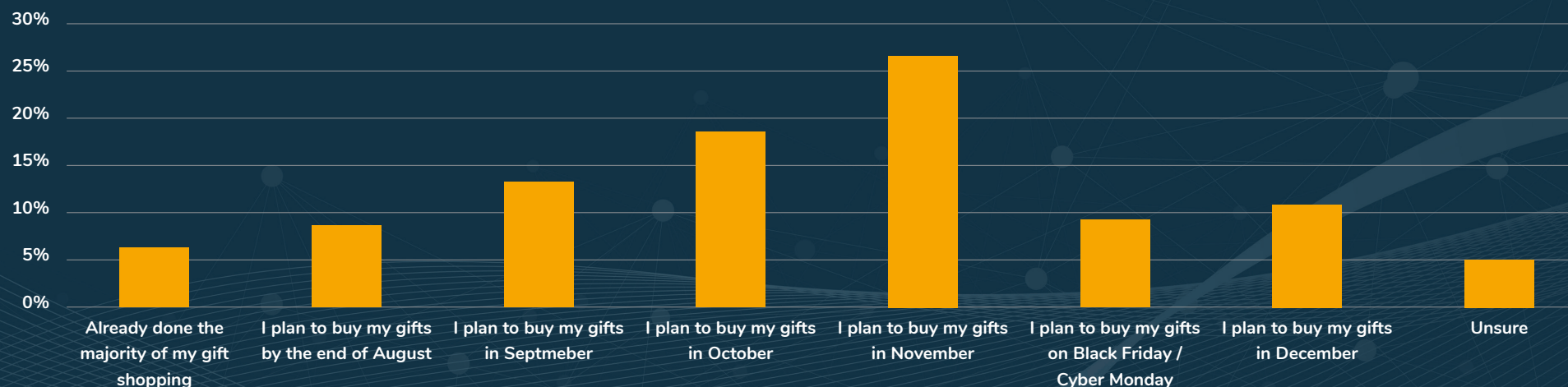
## 11 The Modern Consumer

### Planning, inspiration, and ways to pay

Christmas gets earlier each year. The clearest indicator of this phenomenon is IMRG's online retail index used to see month-on-month sales rise between November and December. Now, they go down, which highlights the pendulum shift and therefore a need for retailers to plan earlier than before.

This new survey shows 35% of consumers are expecting to do the majority of their festive shopping in October and November, suggesting that will be prime time for retailers to hone and market their festive campaigns. Based on the IMRG data from the last five years, retailers' Black Friday marketing has crept earlier in November – and into October, in some cases – and there is no reason why this will stop in 2022.

### Thinking about Christmas 2022, when do you plan to buy the majority of your presents and gifts for others?



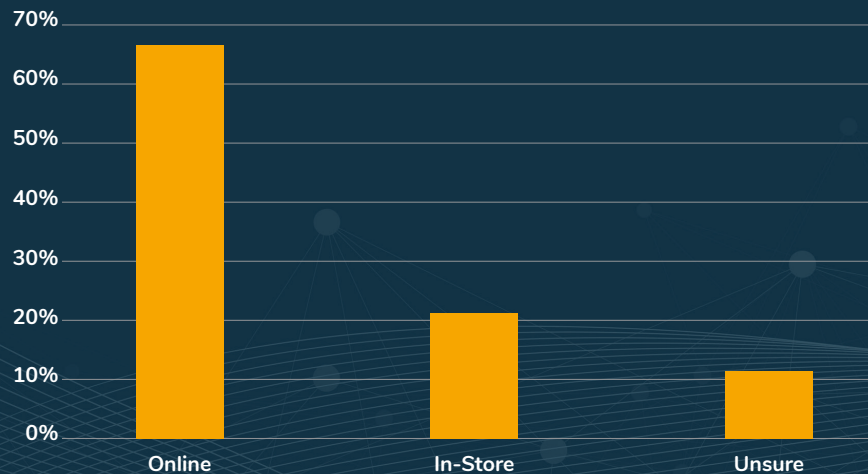
The fact only 9% of consumers say they are planning to buy the majority of their shopping on Black Friday/Cyber Monday itself is probably recognition that deals flow throughout the month. They have been trained by previous retailer activity that offers will be prevalent in early winter.

## 12 The Modern Consumer

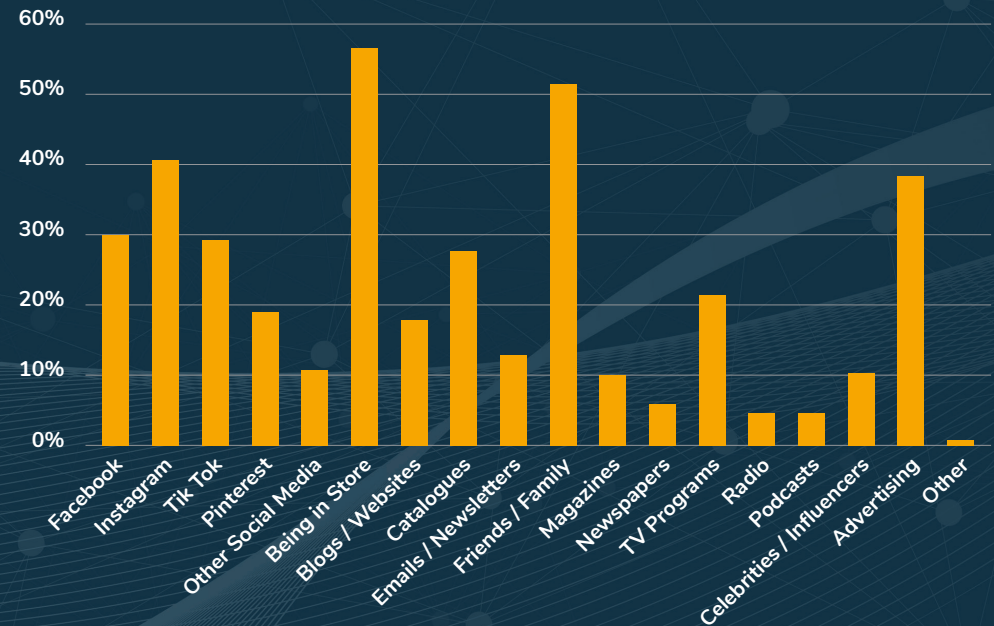
Analysing the two charts, below, in combination gives a good indication of how the modern consumer shops. Some 56% of respondents said being in-store or at a shopping centre is a source of inspiration when it comes to buying a Christmas gift (well above most other options), but 66% of shoppers expect to make the majority of their purchases online.

Bridging the gap between the physical and digital will be vital for multichannel retailers to ensure in-store inspiration is not translated into a transaction at a pureplay rival. Facebook, Instagram and Tik Tok are significant sources of inspiration for consumers, making them key purchasing behaviour levers.

### Do you expect to make the majority of your Christmas purchases...



### Which of the following are sources of inspiration when it comes to what to buy as gifts for Christmas?



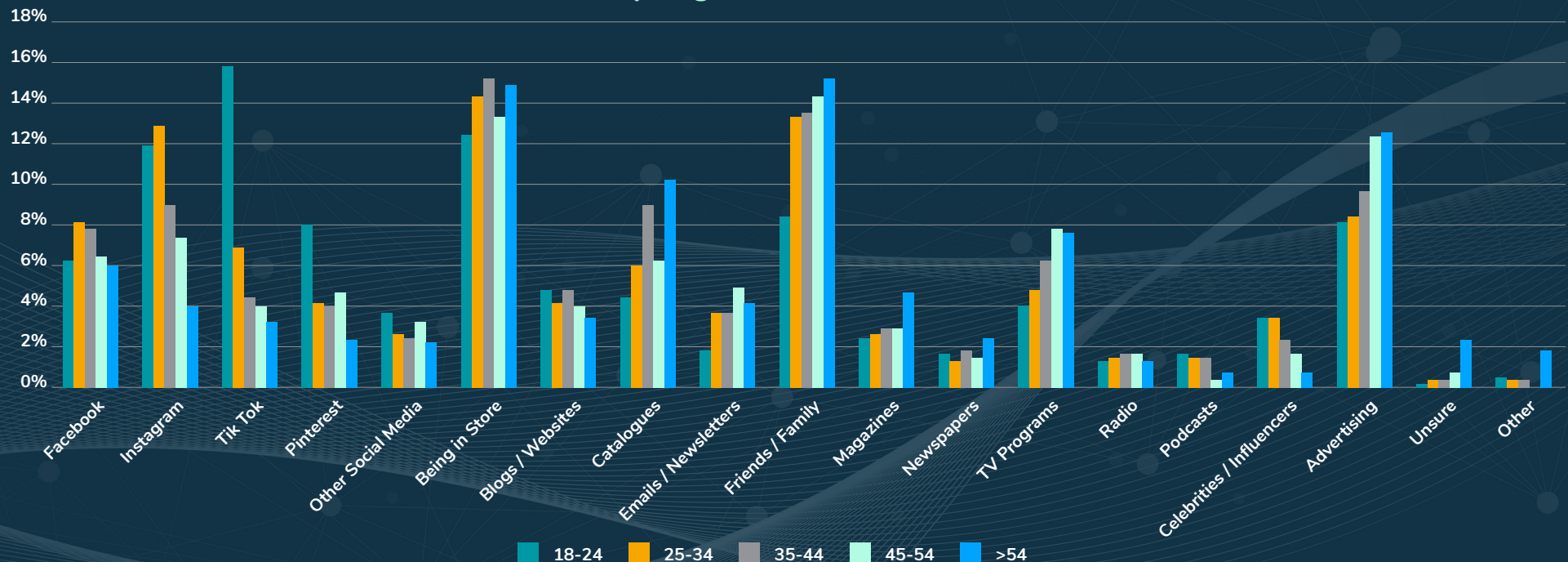
## 13 The Modern Consumer

Sources of inspiration differ by demographic, though – quite significantly, in fact.

Among 18-24-year-olds, TikTok is the leading response, showing the impact of social media on youths' buying habits. The likes of Gymshark, Zara, and Fenty Beauty are among those with large TikTok followings, which use the site to strengthen their brands. But in 2021, Marks & Spencer used TikTok as a central part of its Christmas campaign – teasing out its Christmas campaign on the channel and helping make mini celebrities of some store staff thanks to viral videos. This shows the social media site can be optimised by modern and traditional retailers and brands alike.

According to our research, shown below, the older the person the less likely they are to find TikTok an inspiration for Christmas shopping. Therefore retailers with older demographics might want to look at TikTok as a channel on which to boost customer acquisition - finding and attracting a new younger audience through this channel.

### Which of the following are sources of inspiration when it comes to what to buy as gifts for Christmas?



## 14 The Modern Consumer

In challenging economic times, the rate of borrowing generally increases. That situation is no different today, with the increase in all UK consumer credit currently rising at its fastest rate since before the pandemic.

### The Clearpay viewpoint

The cost of living crisis is likely to accelerate the close attention consumers place on budgeting, but the truth is that attitudes to payment flexibility, finances and budgeting had already been changing over the last few years. Particularly within the new generations of consumers coming through. With more apps and tools than ever before to help people structure and manage their finances, it is no surprise that consumers are becoming more financially savvy.

Appetite for payment flexibility is also prevalent with 55% of respondents indicating that they have either used or would use BNPL as a budgeting tool to manage their finances responsibly. Retailers need to be responsive and keep up with consumer demand when it comes to how they pay, and all of this is heightened at what is traditionally one of the most expensive times of year with gifts and social occasions.

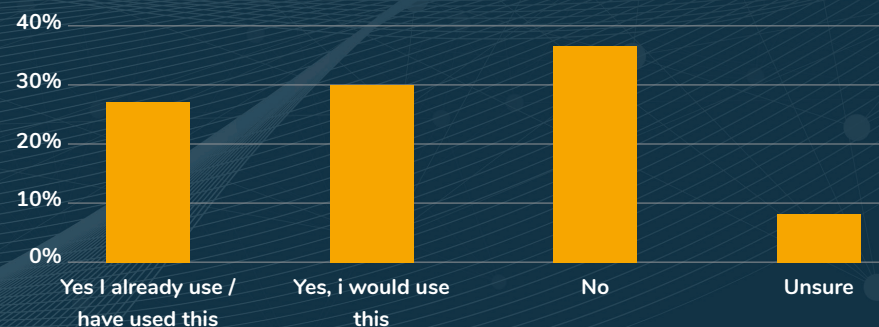
Consumers told us credit will play a significant part in their overall Christmas shopping payments, with 52% expecting to pay with credit card or buy now pay later (BNPL) services such as Clearpay. The dominant payment method (81%) is expected to be debit card or cash, but it is clear consumers are prepared to use credit to manage this festive season's expenditure.

Some 57% of consumers are already using or would consider using BNPL services to help responsibly manage Christmas repayments and budgets.

### How will you pay for Christmas presents this year?



### Would you consider using an interest free 'buy now pay later' service (like Clearpay, Klarna, or Laybuy), to help responsibly manage your Christmas repayments and budget?

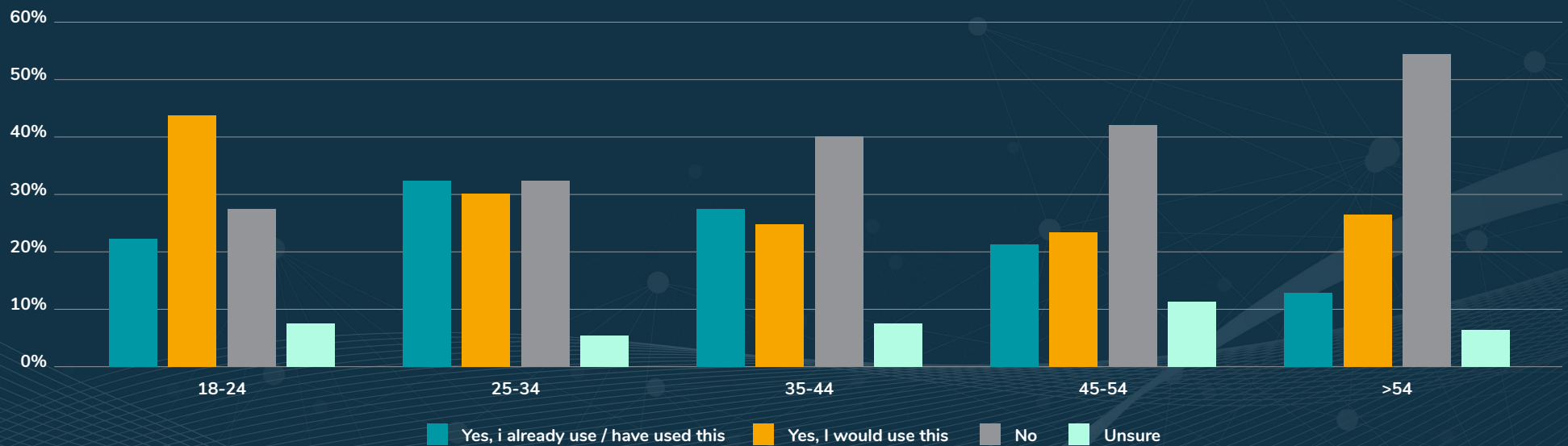


## 15 The Modern Consumer

And although younger consumers are more likely to consider BNPL as a payment method, the below table shows that there are at least a quarter of people in all age-groups questioned who would consider or are already using BNPL.

According to Statista, global BNPL transactions are predicted to increase by over \$450 billion between 2021 and 2026, following market growth of almost 400% between 2019 and 2021.

### Would you consider using an interest free 'buy now pay later' service (like Clearpay, Klarna, or Laybuy), to help responsibly manage your Christmas repayments and budget?



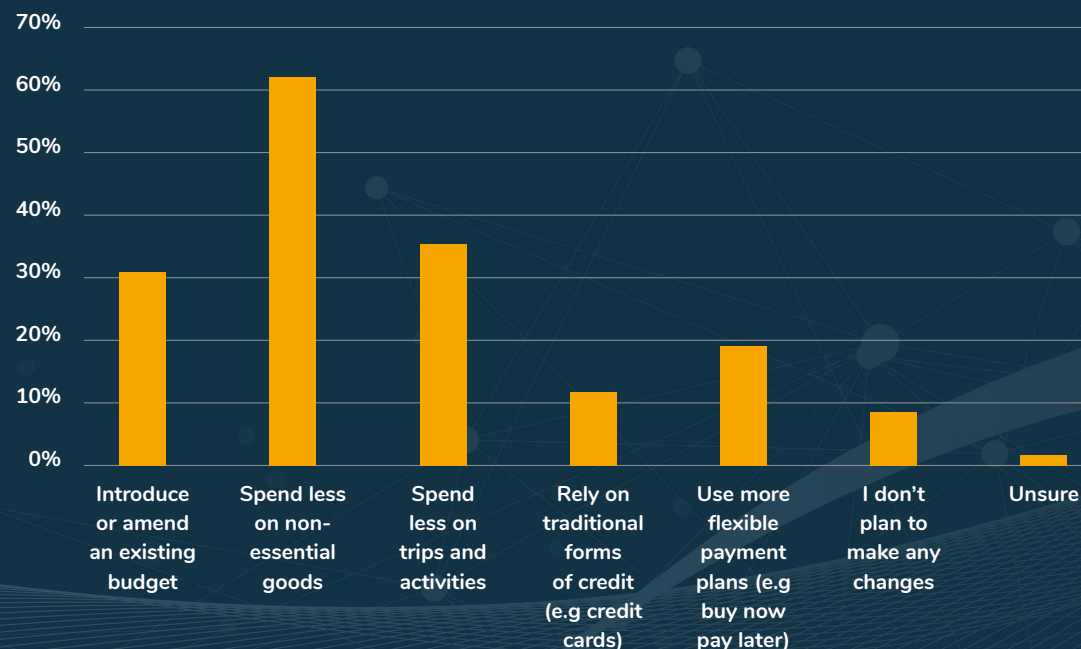
# Future shopping trends

Every year, the way consumers shop for goods and interact with retailers evolves. With inflation and interest rates set to be higher than they have been for almost 20 years in 2023, the economy and shopper affordability issues will be the key change agent.

A significant 62% said they will spend less on non-essential items to offset the financial challenges of rising inflation. However, the same percentage are planning more tactical financial management manoeuvres in the year ahead – either amending how they budget, using credit cards more, or embracing more flexible payment plans.

People are clearly thinking strategically about 2023, knowing they face a year of challenging economic obstacles when it comes to how they will spend. Retailers offering an array of options when it comes to payment type and which are empathetic to the consumer's challenging fiscal situation should be best placed to keep checkouts busy as the year draws on.

Thinking ahead to 2023, how are you planning to offset the financial challenges of rising inflation costs?





## 17 The Modern Consumer

But above all else, the number of sales and discount periods retailers offer will be the most important factor in whether a consumer chooses to shop with a brand.

There are already several mega-sales-day events on the calendar, including Black Friday, Amazon Prime Day, and Singles' Day. And judging by our survey respondents' demands, more events of this nature – or elongated versions of these existing discount periods – would be welcome.

And as the table below shows, they need to discount without quality of product diminishing.

### Which of the following statements will be most important to you when choosing a brand to shop with next year?

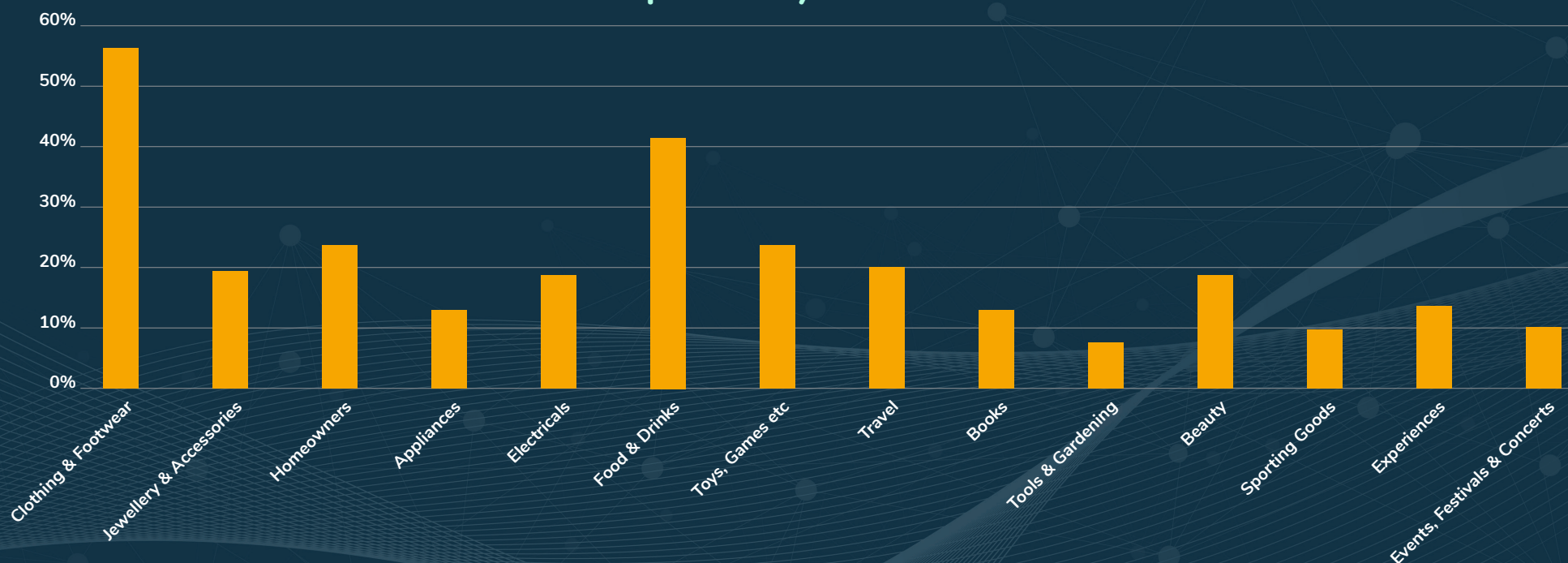


## 18 The Modern Consumer

Fashion, and food and drink are the areas where people are most likely to spend their money in 2023. Surprisingly, clothing and footwear is a more popular area for intended future spend than food – this could be a case of consumers continuing to find some treats for themselves as they turn away from sporting goods, tools and gardening equipment, and events, festivals and concerts.

Considering toys and games are the third highest category for spending intention in 2023, and combining that with the strong ranking for clothing and food, there is evidence to suggest core spending activity will be on family essentials – and treats for the kids when possible.

### Which of the following categories are you most likely to spend money on in 2023?



## 19 The Modern Consumer

Factors such as reducing the number of trips in the car and therefore keeping petrol costs to a minimum will arguably have played a part in consumers saying they would predominantly shop online in 2023 – as well as the convenience it offers consumers dealing with fiscal challenges.

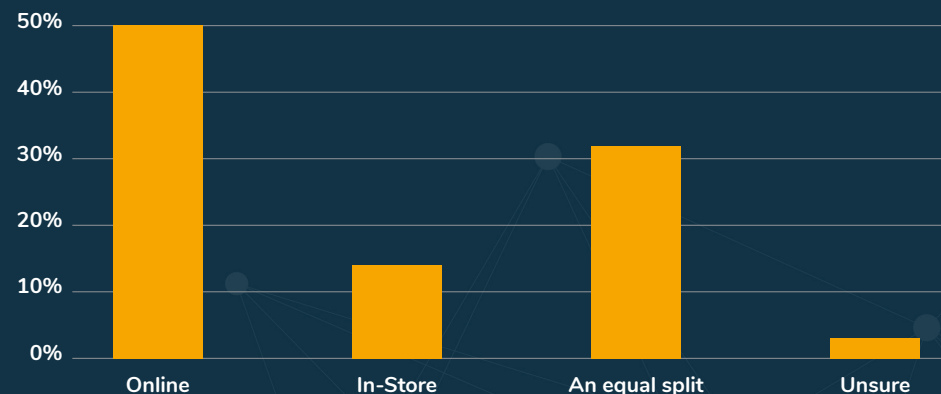
However, with 32% saying they expect to split in-store and online shopping equally, the retailers with shops need not despair. There is demand for bricks and mortar, but as other results from this survey have shown, they will need to provide inspiration and offer great deals to maintain spend.

Our final chart references a hot topic of 2022 – the record temperatures experienced in the summer which played their part in a lengthy heatwave. Many scientists have attributed the conditions to the impact of human behaviour on the planet and an example of the climate crisis.

Although just over a quarter of consumers said the extraordinary weather will have some impact on their shopping behaviour, the vast majority (73%) said it probably won't change much or is not a factor in terms of how they intend shop in 2023.

Retailers ranging from the big grocers and largest fashion chains to the DIY giants and beauty behemoths have all ramped up sustainability efforts in 2022. There's much debate about how to balance consumer affordability and business sustainability efforts – with M&S touting their 'Remarksable' range which combines both low price and eco-friendliness, and Kingfisher increasing efforts to sell products that can help reduce customers' energy bills – but in the eyes of consumers right now, price of goods trumps environmental impact in terms of purchasing decisions.

### In 2023, I am more likely to shop predominantly...



### Are the record temperatures seen in 2022 likely to make you change your shopping behaviour?



# Conclusion

It's all about the money. Financially squeezed consumers are heading towards Christmas and 2023 with financial concerns on their mind, and they are changing the way they budget, seeking discounts, and considering an array of credit – both traditional and new – options.

Younger generations are more inclined to keep spending at typical or higher levels this festive period, but the biggest spending demographics are holding back. Apart from clothing – discretionary shopping is set to be reined in.

While Christmas spending will be polarised, with a divide in consumer activity between the old and young and haves and have-nots, total spending looks set to be muted in 2023 – this makes the forthcoming peak shopping period an important one for retailer to strengthen existing customer relationships and build the foundations for new ones in the new year.

Judging by what consumers have told us, that must be done by forging strong connections between shops and online stores, testing emerging commercially-influential social channels such as TikTok, and consolidating efforts on tried and tested platforms like Instagram and Facebook.

But all retail activity in 2023 will take place within the shadow of the cost-of-living crisis.

As a result, Black Friday which quickly became Black Friday Week in the UK, which in turn morphed into Black November, might be on route to growing even further. Are we going to see a Black 2023 featuring ongoing discounting? Margin management is always key but it does seem regular sales periods will be a necessity for retailers to capture the 2023 consumer.

### Key takeaways for retailers - the Clearpay view



- 1) Despite the challenging trading conditions, there is success to be had for retailers who are adaptable, flexible and smart.
- 2) Retailers that continue to innovate and meet consumer appetite for payments flexibility and a strong discounting policy will survive and thrive.
- 3) Consumers are clearly planning ahead and budgeting for the holiday season, retailers who match this and have their plans in place are more likely to see stronger trading results.
- 4) Marketing ROI will be more important than ever as consumer spend dips. Go deep into your data to ensure you get the best bang for your buck; understand your customer base and demographics; build programmes to reach new and existing customers on the right channels; and understand a one-size-fits-all approach won't work.
- 5) Sales and discounts are clearly king when it comes to attracting customers in this environment. Have a well thought through strategy in place for this holiday season and beyond.



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