

Next Gen Retail

Adapting to consumer preferences

May 2024



Volume 6



Price continues to be the primary driver when choosing where to shop. However, shoppers still value quality and strongly oppose brands that engage in shrinkflation or cost-cutting to the detriment of quality.”





In an era marked by rapid technological advancements and shifting consumer behaviours, retailers need to understand and adapt to evolving shopping habits and consumer preferences to survive and thrive in a competitive marketplace.

Welcome to volume six of our Next Gen Retail series, which analyses the results of our independent research about the Irish shopper's concerns, behaviours and attitudes. This research delves into insights gathered by KPMG through a nationally represented survey conducted in April 2024.

Focusing on consumers, we explore their thoughts on various topics, from attitudes to brands' cost-cutting and sustainability to the impact of artificial intelligence (AI) and how their shopping habits and behaviours are evolving.

Despite the challenges it faces, the Irish retail sector stands strong, playing an integral role in the Irish economy and communities nationwide. It's a testament to its resilience that it directly employs over 300,000 people and supports thousands more jobs throughout the supply chain.

Rising food inflation and cost-of-living concerns have made adults increasingly price-conscious, prompting retailers to address pricing through targeted advertising campaigns, loyalty programmes, and voucher offers. In addition, retailers continue to grapple with rising labour costs, staff shortages, and increased insurance and energy costs.

As the retail landscape continues to evolve, it's crucial for Irish retailers to not just understand, but also adapt to evolving consumer preferences. This includes a shift towards online shopping, sustainability concerns, and quality expectations. This report provides practical strategies to help retailers align their approaches with these preferences. By embracing quality, sustainability, and innovation, retailers can position themselves for sustained growth and success in an ever-evolving retail landscape.

I hope you find this report useful. If you have any questions, do not hesitate to contact me.

A handwritten signature in black ink that reads "Keith Watt". The signature is stylized and written in a cursive-like font.

Keith Watt

Partner,
Head of Retail

Key findings

3 IN 5



avoid brands that engage in shrinkflation

2/3



believe retailers should focus more on customer satisfaction than cost-cutting initiatives

1/2



say price remains the main driver of choice

64%



have cut back on luxuries or non-essentials due to increasing prices

87%



continue to buy groceries in-store

2 IN 5



use credit and debit cards as their most preferred method of payment

7 IN 10



feel brands should make sustainable products more accessible for shoppers

59%



think brands should provide more information about their sustainability efforts

18%



say AI will improve their in-store experience

2 IN 5



feel they will have to trust how retailers are using AI to determine their shopping choices in the future

CHAPTER

01

Favouring quality over cost-cutting

Consumers still value quality

Shoppers strongly oppose brands engaging in cost-cutting to the detriment of quality and those engaging in shrinkflation, with over three in five (61 percent) saying they avoid brands that engage in shrinkflation (i.e., reducing the product size and either maintaining the price or increasing the price). Meanwhile, two-thirds surveyed say retailers should focus more on customer satisfaction rather than solely on cost-cutting initiatives, and around 6 in 10 (58 percent) are more inclined to shop at retailers who prioritise quality over cost-cutting.

Half would pay more for products from brands prioritising quality over cost-cutting. In contrast, less than half (47 percent) believe retailers' cost-cutting measures negatively affect the overall shopping experience and the variety of products available. People aged between 18 and 24 and 65 and older are more inclined to shop at retailers prioritising quality over cost-cutting. Younger consumers are more critical of the effects of brands' cost-cutting measures and believe retailers' cost-cutting measures are negatively impacting the variety of products available.

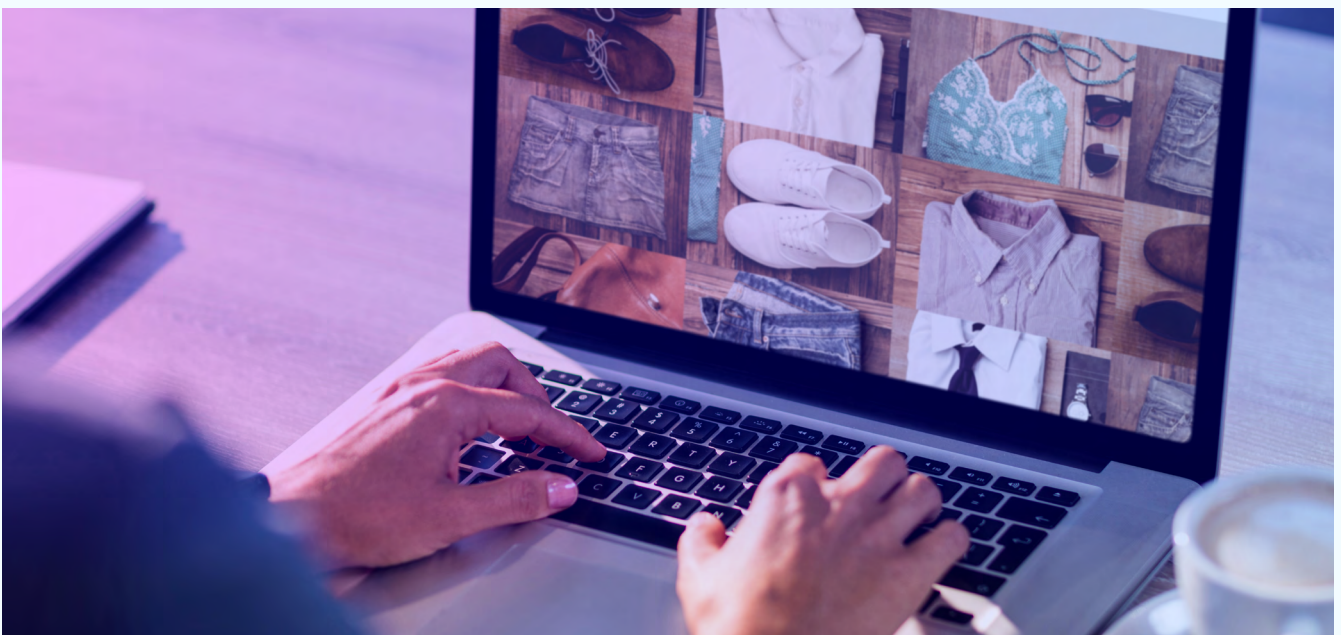
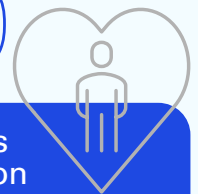
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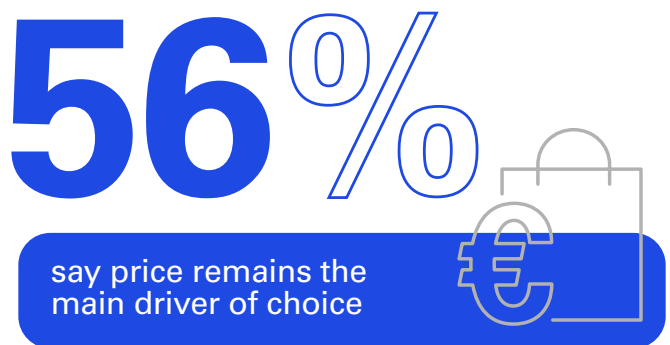


Consumers are still price sensitive

With consumer sentiment declining, our research shows that price continues to be their primary driver when choosing where to shop. Over half (56 percent) say price, followed by quality (19 percent), are their main drivers when choosing where to shop. Meanwhile, over three-quarters (76 percent) continue to be influenced by discounts when shopping, and many consumers have adopted a variety of cost-cutting strategies in an effort to combat the rising cost of living.

The impact of rising prices on consumer behaviour is evident. Nearly two-thirds have been compelled to cut back on luxuries or non-essentials (64 percent) and reduce energy at home (63 percent). Over half (58 percent) have curtailed spending on socialising/entertainment, and 53 percent are opting for more own-label products.

Older consumers are more likely to reduce energy usage at home, while females and people aged between 35 and 44 are more likely to cut back on luxuries/ non-essentials.



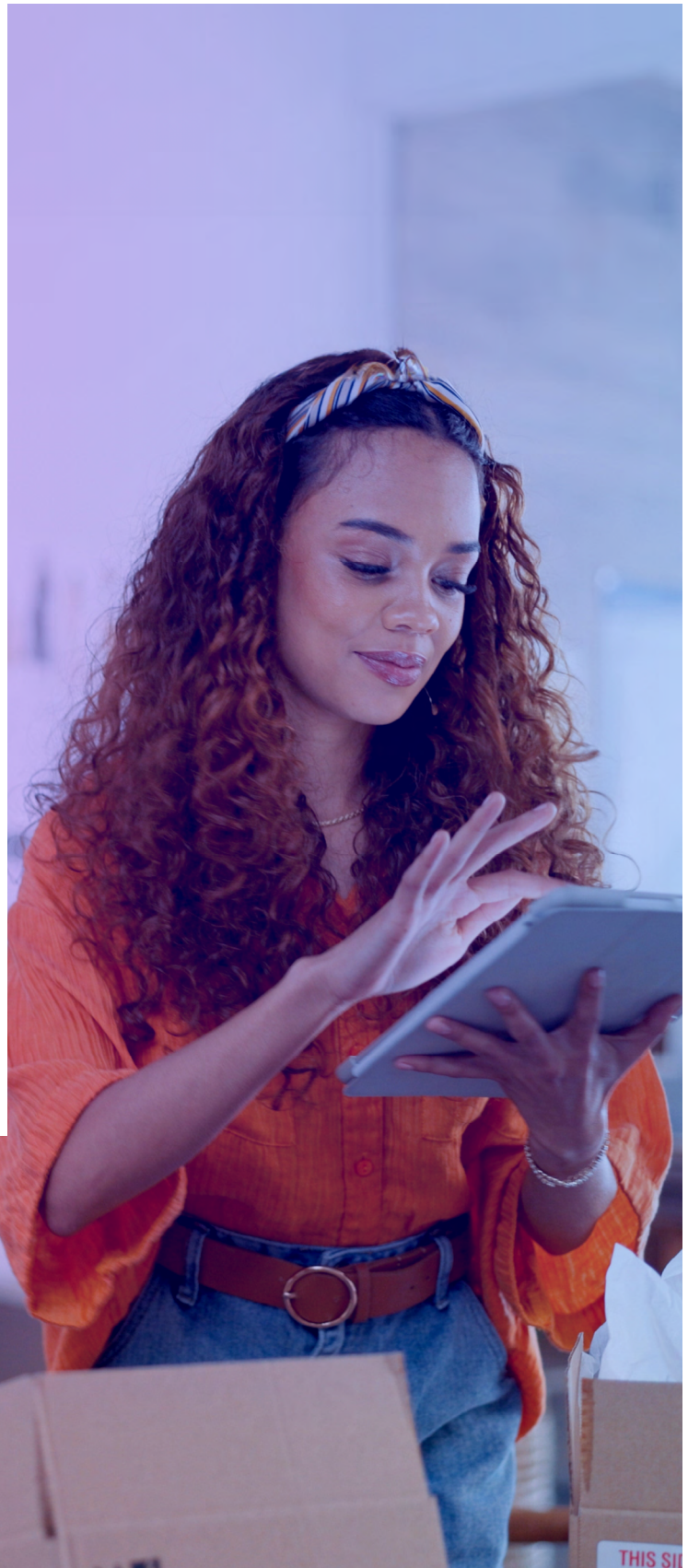
Actions for retailers to consider



There has been a significant shift in consumer mindset. While consumers are still price-sensitive, they also value and expect good customer satisfaction and quality and expect brands and retailers to consider sustainability. This presents opportunities for brands and retailers to differentiate themselves; so it will be essential that they understand and adapt to these shifting consumers to remain competitive.

Maintaining product quality is a top priority for retailers and brands. This can be achieved through investments in product innovation and quality assurance processes. However, it's equally important to communicate these changes with consumers. Retailers can build trust and resonate with consumer preferences by emphasising a commitment to quality and showcasing product improvements.

To remain competitive, retailers must balance pricing strategies with maintaining perceived value for consumers. For example, they could implement dynamic pricing strategies that offer competitive prices while maintaining profit margins or enhance the value proposition through loyalty programs and bundled offers to alleviate price sensitivity.



Adapting to consumer preferences

Shopping habits and behaviours remain unchanged

There was little change since last year in where consumers like to buy goods; the majority (87 percent) continue to buy groceries in-store, while less than a third (29 percent) buy clothes more online now than in-store. Nearly half (43 percent) still prefer to shop at large shopping centres, followed by 24 percent who prefer to shop locally, and city centres remain unchanged at 16 percent. Most still agree that shopping online will never be able to match the experience of shopping in-person and over a third (36 percent) see shopping as a social experience and take the opportunity to meet with friends and family when shopping.

Cards and cash are favoured

Our survey reveals 2 in 5 (39 percent) use credit and debit cards as their preferred method of payment, followed by 32 percent using cash, 16 percent using mobile payments like Apple/Android pay, and 1 in 10 shoppers using Revolut or similar apps.

Attitudes to online shopping remain stable

Similar to 2023, over 55s are more likely to prefer physical stores so they can see and touch products before buying them. Over half (51 percent) still believe it is generally cheaper and easier to buy products online than in a store, and less than a third (31 percent) expect to buy products online more often over the coming 12 months. Almost 7 in 10 (69 percent) like to read online product reviews from other customers before buying a product.

87%



continue to buy groceries in-store

2 IN 5



use credit and debit cards as their most preferred method of payment





Actions for retailers to consider



Despite the findings showing shopping habits and behaviours remain relatively unchanged, retailers should consider several actions to adapt to consumer preferences. They could focus on enhancing the in-store shopping experience, as most still prefer buying groceries and other goods in physical stores. For example, some retailers have rolled out autism-friendly hours and implemented several autism-friendly measures in their stores, while others have launched clothes take-back schemes and installed clothes recycling points that accept footwear, bags and some other textiles from their customers.

Given the importance of online reviews in influencing purchasing decisions, retailers should actively encourage and promote customer feedback to build trust and credibility among shoppers. By understanding and responding to consumer preferences, retailers can adapt their strategies to meet evolving needs and drive business growth.

Embracing sustainability

Sustainability is key for brands

The survey underscores consumers' growing expectations for brands to prioritise sustainability and environmental responsibility, with over two-thirds (67 percent) now expecting brands to make sustainable and circular products more accessible and affordable for consumers and offer incentives or discounts to customers for choosing eco-friendly or circular economy products. Almost 6 in 10 (59 percent) think brands should provide more information about their sustainability efforts, go beyond being sustainable, and take responsibility for reversing environmental damage. Brands that align with these values stand to become the preferred choice among environmentally conscious shoppers.

More than half (55 percent) feel brands have a more active role to play in educating consumers on the environmental impact of their purchasing choices, and thirty-seven percent prefer to shop for brands who have adopted the three R's of sustainability - Repair, Reuse, and Repurpose. Meanwhile, 3 in 10 are willing to pay a higher price for more sustainably produced goods, and only a quarter (26 percent) actively shop for brands participating in the Deposit Return Scheme.

People aged between 18-24 are more likely to be opting for brands participating in the Deposit Return Scheme and 80 percent of them think brands should make sustainable and circular products more accessible and affordable for their customers.

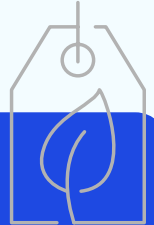
7 IN 10

feel brands should make sustainable products more accessible for shoppers



59%

think brands should provide more information about their sustainability efforts



Actions for retailers to consider



Shoppers are keen to see brands in Ireland be more vocal and proactive about sustainability. So, there is a real opportunity for brands and retailers to align with consumer values by integrating sustainability into their business practices and rewarding consumers with incentives or discounts for choosing eco-friendly options.

To help gain a competitive advantage, retailers could source sustainable materials and production methods to offer eco-friendly products to consumers, collaborate with suppliers to optimise supply chains and reduce environmental impact and educate consumers about their sustainability initiatives and reward their green purchasing behaviours.



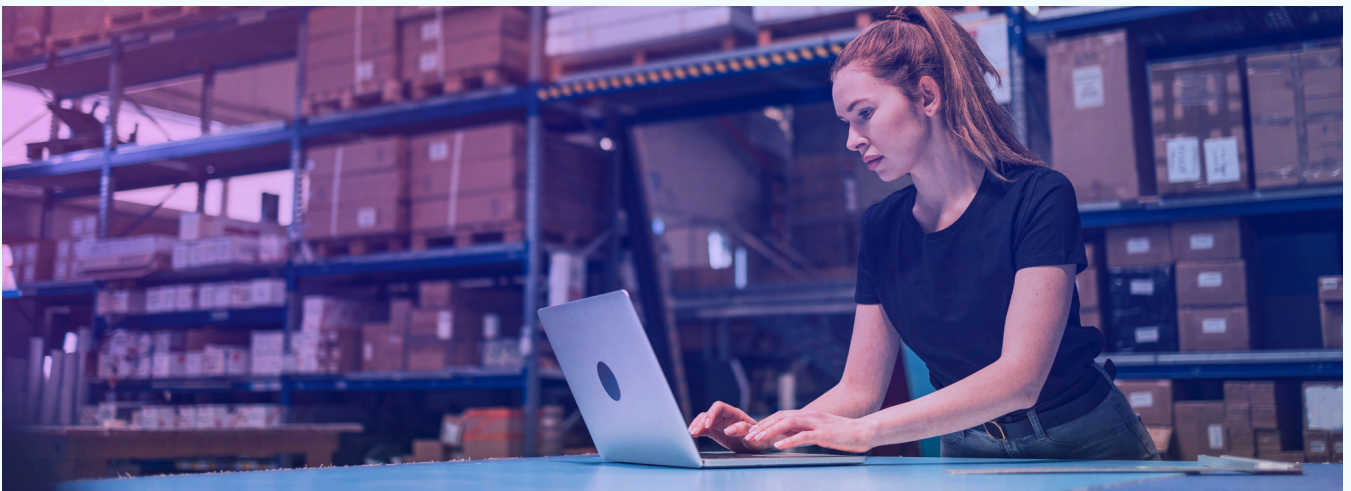
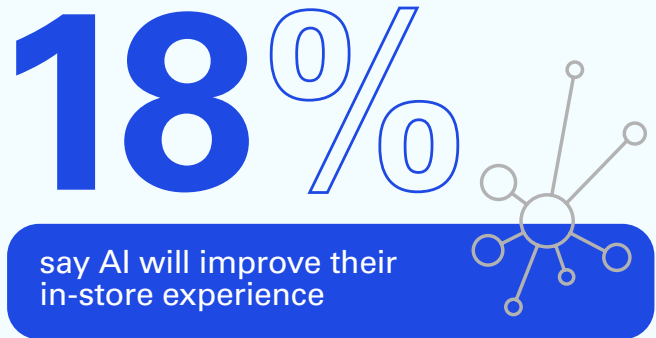
Navigating the role of AI

Role of AI is still uncertain for consumers

Irish shoppers are uncertain about the role AI has to play and what it can offer for their shopper experience, with only 18 percent saying AI will improve their in-store experience. There are cost and quality decisions retailers need to be making now to sustain growth but they will also need to contend with the volume and pace of AI tech coming on-stream and how AI will enhance both efficiencies in business and their offering to consumers.

Over two-fifths (44 percent) feel they will have to trust how retailers are using AI to determine their shopping choices in the future, and only one-third (32 percent) think AI will transform how consumers purchase products and services, and over a quarter (27 percent) say AI will improve the online shopping experience for shoppers.

Our research also found that people under 35 are notably more likely to be optimistic about the potential benefits of AI in improving both shopping online and in physical stores.



Actions for retailers to consider



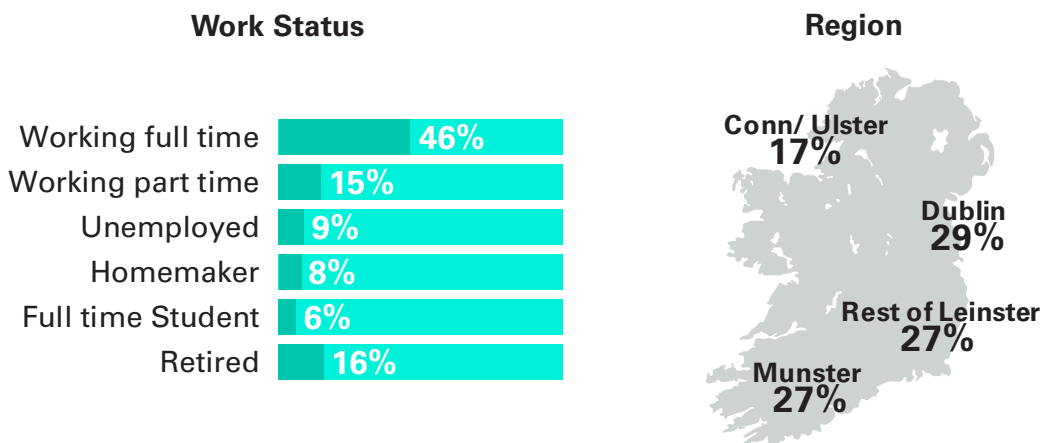
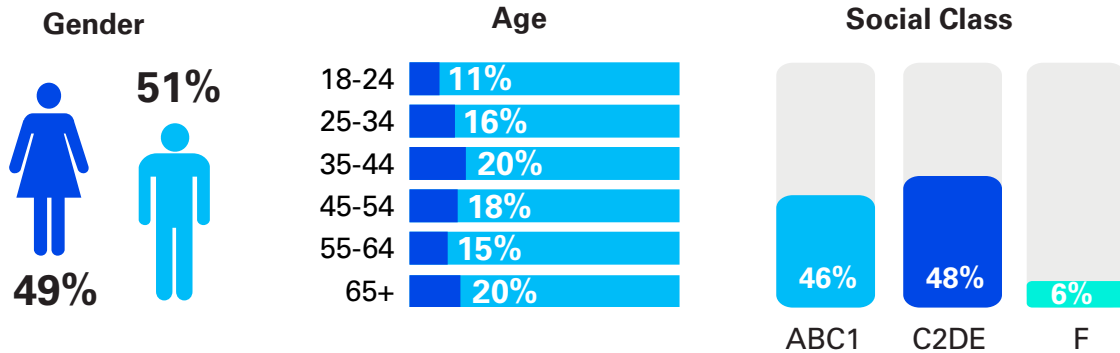
Retailers should tread carefully in implementing AI technologies, ensuring transparency and building trust with consumers regarding data usage and personalisation efforts. Prioritising transparency in AI implementations and communicating the benefits to consumers will be vital. Retailers could consider investing in AI technologies that enhance customer experiences, such as personalised recommendations and efficient inventory management. They could also offer educational resources to shoppers to demystify AI and address privacy and data security concerns.

Younger demographics show more favourable attitudes toward presenting opportunities for brands and retailers to differentiate themselves.



Methodology

KPMG’s survey of consumer retail attitudes was conducted via RED C. Quotas were set on age, gender, social class, and region to ensure a nationally representative sample of 1,000+ adults 18+. Fieldwork was carried out in April 2024; results are compared to previous waves of the retail survey carried out in December 2021, May 2022, November 2022, April 2023, and October 2023.



Get in touch

The pace of change is challenging retailers like never before. To find out more about how KPMG perspectives and fresh thinking can help you, please get in touch with Keith Watt, Head of Retail.

We’d be delighted to hear from you.



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