



Top retail trends to watch in 2022

REPORT



TOP RETAIL TRENDS TO WATCH IN 2022



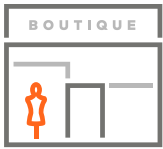
In 2021, consumers kicked off their fuzzy slippers and slipped into real shoes and face coverings as they returned to in-person shopping.

But those fuzzy slippers didn't completely go to the back of the closet. Consumers are still doing a large share of their purchasing through digital channels.¹ And much of the growth in digital commerce is expected to stick for the long term. That means the pandemic-induced shift to digital is moving to a new phase of digital innovation, especially as the line between online and in-person continues to blur.

There are several trends to watch in the coming year, including new ways people are shopping and paying and innovative strategies for how retailers are reaching consumers and providing different experiences for them. Here's what we're watching in 2022.



Commerce Evolution



Throughout 2021, retail performance has been strong, according to Mastercard *SpendingPulse*[™], which measures overall retail sales across all payment types, including cash and check. In August, for instance, online sales grew 8.1% year-over-year and 82% compared to August 2019. This momentum was particularly evident in key gifting categories, which have experienced strong year-over-year growth, including apparel (+75.2%), electronics (+12.4%) and department stores (+28.7%).

Clearly, retailers and brands spent most of the pandemic shifting or expanding their digital channels and innovating engagement. In 2022, innovation will be amplified with retailers looking at different platforms and tactics for connecting with hyper-connected and, frankly, overwhelmed consumers. Here are a few ways commerce is evolving:

Shoppers head to a different type of market

The industry is seeing brick-and-mortar stores offer their e-retail platform to third-party sellers. Walmart, which launched its online marketplace in 2009, is one such example. The company's gross merchandise value sales more than doubled in 2020, with sales hitting triple-digit growth, surpassing the company's own e-commerce business.²

This push toward online marketplaces started with pioneers like Amazon and eBay in the mid-1990s, impacting the way people shop and setting consumer expectations for speed and convenience. The accelerated growth of e-commerce in the last two years has made online marketplaces a bigger phenomenon than ever and one we expect to continue to evolve in 2022.

As retailers and brands mobilize to compete in the e-commerce space, this strength has created new opportunities for marketplaces – from smaller platforms that compete with the traditional multi-category offerings to focused marketplaces that offer curated assortment mixes.

Competition has become stiff in multi-category marketplaces, as retailers such as Kroger, have aggressively accelerated offerings to compete, including goods and services for consumer packaged goods, apparel, professional services, travel and tourism, and education. Tier-2 marketplaces, with less than \$1.5 billion in annual revenue, are also growing quickly and now represent a \$34 billion global market—54% is concentrated in North America and Europe.³ Bolstered by Covid closures and uptake of secondhand retail, Tier-2 marketplaces grew 84% globally between 2019 and 2020, up from 39% between 2018 and 2019.

82%

Online sales growth
between August 2021
and August 2019.

Aside from a rising comfort level with online shopping, consumers want the flexibility of shopping in a virtual mall environment, especially in marketplaces with a particular focus area. For example, Etsy, with its handmade and vintage items, increased its gross merchandise volume by 107% between 2019 and 2020.⁴ Consumers also want to feel valued, which is more challenging online versus in-person. However, retailers in online marketplaces are adapting some of the personal touches common in brick-and-mortar, such as sending handwritten thank-you notes and including gifts or samples with the purchase.

For small businesses, the growth in marketplaces is giving them quick access to consumers in an increasingly omnichannel and highly competitive environment where the best-performing retailers are meeting consumers where they are, at any time. We expect online marketplaces to continue this accelerated trend into 2022, particularly with the growth of Tier-2 marketplaces, along with the stabilization of retailers and brands entering this space.

84%

Growth of Tier-2 marketplaces
globally between 2019 and
2020, up from 39% between
2018 and 2019.

Changing consumers remain a constant

As Covid sent consumers running for digital channels for everything from toilet paper to art classes, it also forced retailers to pay closer attention to solving consumer challenges in new ways. The pressure on retailers intensified because of a growing willingness by shoppers to try new brands and even new categories where they've traditionally not made purchases.

In 2022, we expect the residual effects from the pandemic to stabilize, but these trends will continue to evolve as consumers adjust to the "new normal." Since 2020, consumers have shifted from dining out to dining in. Now they're starting to reemerge as they head back to work and participate in more activities outside of the home, but there won't be a total return to pre-Covid life. For example, consumers became accustomed to certain conveniences that retailers may need to continue, such as curbside pickup. But consumer demands will continue to evolve.

For retailers, this means an unprecedented need for more data and insights on changing consumer preferences and needs in 2022. Consumer insights can help retailers continue innovation in new programs and strategies that can sustain as things stabilize.

93%

of consumers said they are considering emerging payments, in addition to contactless.

90%

of in-person transactions occur at a contactless-enabled merchants.

Off the supply chain pressure

Supply chain challenges started at the beginning of 2021 and will likely spill over into 2022.

Mobility restrictions and government stimulus funds boosted consumer savings, which then created an unprecedented surge in demand in 2021 as the world economy began to recover, according to the Mastercard Economics Institute's [Economy 2022](#) report.

In the absence of available services, demand for goods spiked dramatically, in fact, faster than at any time in history. This surge in demand created operational challenges for merchants in 2021 as they struggled to manage their inventories. As a result, many pulled back on shipping schedules in 2020—which made sense at the time but ended up exacerbating the issue. Supply chains were disrupted, creating delays in supplier deliveries, labor shortages, higher input prices and order backlogs.

As the demand and flow of goods normalize, supply tensions may ease and price pressures could fade by mid-2022. A few factors will likely contribute to the normalization, including a return to experiences and consumers' unwillingness to pay higher prices on goods.

New ways to pay

Many retailers were able to respond quickly to the shift to digital in terms of their offerings. But one area that lagged for some was offering shoppers different ways to pay. Many consumers were comfortable using everything but cash to pay for their goods and services, including relying on their phones and other touchless payment methods.

A 2021 Mastercard survey across 18 worldwide markets found that the adoption of new payment technologies is rising, and consumer appetite for fresh, fast and flexible digital experiences continues to grow. In the survey, 93% of consumers said they are considering emerging payments such as biometrics, digital currencies and QR codes, in addition to contactless. Now, nearly 90% of in-person transactions globally occur at a contactless-enabled merchant.

Consumers now expect businesses to provide multiple ways to shop and pay. More than half of consumers say they would avoid businesses that do not accept electronic payments of any kind. As we move into 2022, companies that can provide multiple ways to shop and pay will be best positioned to meet these consumer expectations.

Experiential Retail

35%

Shop online

Innovation was vital during the pandemic as retailers started to think of their digital and physical stores more cohesively than distinctly separate channels. This trend brought us "phygital" innovation in how retailers engage with customers digitally and in person.

37%

Shop in-person

Nearly eight in 10 respondents to Mastercard's New Payment Index agree that they prefer to shop at stores with both an in-person and online presence.

14%

Buy online but collect
off-site location

We expect the ability to make purchases "how I want" will continue, requiring retailers to offer in-person, online and hybrid models, according to a 2021 Mastercard consumer impact study. Categories like travel and entertainment will be primarily purchased online, while restaurants and groceries will have a substantial portion of buying done in person. Consumers are equally choosing to shop either online (35%) or in-person (37%). The rest say they will shop in person but then buy online (13%) or click and collect their items at an off-site location (14%). Here are a few ways retail is becoming more experiential:

Not your grandma's home shopping

Merchandising teams at clothing brands are not only planning layouts and designs for how to present products in their physical stores but online as well. Retail livestreaming, which started to take off before the pandemic in Asian-Pacific markets, has become an extension of the in-store experience as brands host online sessions to show consumers products and their features. Livestreaming allows for in-store experiences in a digital environment as shoppers can react instantaneously to content, asking questions and clicking to buy through the livestream.

Livestreaming is also gaining traction as a way to create community in the absence of direct contact between brands and consumers. In a livestream, they can engage in a way that still drives product interest and builds on brand loyalty.

This will be a growing area for brands as they continue to go beyond the pandemic-induced shift to digital and now fully live and breathe in digital channels. Consumers not only get access to brands in a more engaging way online, which has always been a challenge, but also

the opportunity to continue the seamless purchasing experience they've come to expect when buying online or in-store. As a result, consumers will gravitate to brands that allow them to click to pay from their livestream experience. This is also particularly compelling for online-only brands and small businesses in expanding their omnichannel engagement strategy.



Interactive and on your own

Retailers will increasingly look to distribution or fulfillment centers to get goods to consumers quicker and more efficiently in 2022. The 25 largest U.S. retailers acquired about 38 million rentable square feet in new industrial space last year, up from 18.8 million square feet the previous year, according to commercial-real-estate data provider CoStar Group Inc. That is the highest total for at least the past 10 years.

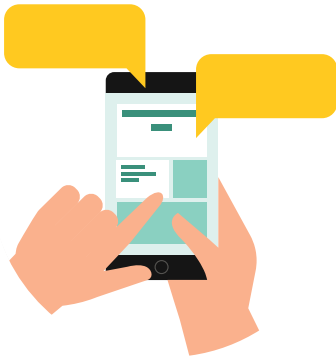
Many retailers accommodate various shoppers by operating as fulfillment centers with distribution hubs for e-commerce marketplaces. The approach offers consumers a wide variety of merchandising to meet their needs and includes the convenience of pickup to satisfy their lifestyles. Other retailers cater to leisurely shoppers by establishing experiential stores that straddle interactive showrooms and immersive commerce websites.

Retailers are also reimagining their storefronts – with self-service kiosks and unattended stores. For example, RiteAid, Dunkin' and Circle K in the US and Couche-Tard in Canada have launched concept stores in the last three years. Mastercard has worked with Circle K, Dunkin' and other large brands to establish touch-free stores that bridge the physical and digital to streamline the overall experience.

Retailers are also using Mastercard's Shop Anywhere platform to create stores that eliminate wait times at the checkout and allow shoppers to pay using secure payments. It also gives consumers access to stores outside of normal opening hours if selected by the retailer, in addition to unique and exclusive merchandise.

For example, Circle K launched at-the-pump and in-store frictionless experiences for its customers, enabling them to efficiently grab-and-go snacks and drinks at select US and Canadian locations. Delaware North, a global hospitality company operating at sports and entertainment venues, national parks, destination restaurants and resorts, airports and regional casinos, launched standalone, frictionless food and drink stores using Shop Anywhere. At a Dunkin' restaurant testing the technology, customers can approach the store environment and pick up their coffee and donuts – walking away without any face-to-face interaction.

Quick-service restaurants also use tech solutions to transform their drive-through or drive-in experiences through vehicle recognition, voice ordering and artificial intelligence. For example, consumers can receive personalized and dynamic menu offers based on several factors, including historical purchasing trends or the individual participating consumer.



Up the ante on loyalty

Consumers are flooded with digital noise by the minute, blanketed by social media, digital ads, emails and text messages.

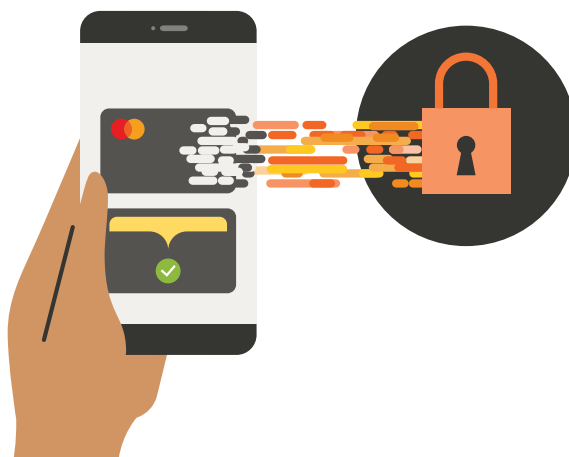
Personalizing the consumer and brand relationship has become more complicated as channels have become even more "omni" and consumers are more than willing to try new brands. But the shift to digital has also provided more ways to be innovative with loyalty programs through personalized offers, digital ads and products while balancing the push to protect consumer privacy.

This is where testing new ideas for loyalty will be essential for retailers. As consumers rely more on their mobile devices for managing everything from social interactions and finances to paying for items and monitoring their health, retailers will need to find ways to break through all that mobile noise with compelling loyalty programs.

Testing ideas for engaging consumers in novel ways and creating unique experiences for them requires leveraging multiple existing data sources to analyze interaction across multiple channels and manage consumer expectations for hyper-personalization. Retailers can use experimentation and testing tools to analyze a wide range of initiatives, from integrated payments and rewards programs to the formation of new partnerships that can help bolster loyalty programs.



Consumer Privacy Gets Real



2022 will usher in a new requirement to balance personalized experience with consumer privacy. Consumer demand for privacy is ramping up, and major technology players are responding by limiting the use of mobile device IDs and third-party cookies. As third-party cookies crumble by the end of 2023, retailers will need to find new ways to understand and engage their digital consumers effectively.

At the core, these changes to the digital advertising ecosystem mean less insight, all while the consumer expects even greater degrees of personalization. To close the widening gap, retailers are increasingly capturing and relying on first-party data to personalize content on their sites and take educated guesses about the interests and behaviors of the browsing consumer. Even then, retail marketers are bracing for a big step back in accuracy and relevance, especially at small and medium-sized retailers that have long struggled to build value in their first-party data.

Turning that step back into a step forward will require consumer consent and better analytics. Consented second- and third-party behavioral, demographic and retailer insights can go beyond first-party data to shine a light on otherwise mysterious consumers while protecting their privacy by limiting the view to data they choose to share. Moreover, these data sets can be combined and built into privacy-protected microsegments, providing the granularity for retailers to engage their customers with more relevant offers and messaging.

This data can be developed into deep transaction insights that help retailers understand how to profitably meet consumer demands across merchandising, in-store displays, marketing, promotions and pricing. By enriching CRM files with anonymized customer purchase and behavior insights, retailers can step into 2022 confident in their marketing effectiveness.

Buying with a Purpose



Environmental, social and governance (ESG) factors had long been nice-to-have strategies tucked away in a company's plan to woo customers. But in the last few years, especially with the global health crisis, companies now view ESG as a must-have priority in their list of company goals.⁵

Across the world, 85% of adults say they're willing to take personal action to combat environmental and sustainability challenges. And 62% say it's now more important that companies behave in sustainable and eco-friendly ways.⁶

For retailers, sustainability has held a spot on retail trends lists for the last few years and that focus has endured. Consumers are looking for retailers that have a position and use that position to create and deliver products in a sustainable way. For example, grocery stores in the UK are using dispensers to sell loose items such as pasta or cereal to cut down on plastic bags and packaging.⁷ One of Mastercard's sustainability initiatives is the Priceless Planet Coalition, which aims to fight climate change through the restoration of 100 million trees over five years.

Brands are also expanding their focus to social justice and inclusivity. For example, Boxed, which sells wholesale food, household and health products to consumers in bulk, has fought against the Pink Tax, which has higher import taxes for women's feminine care and "pink" products. During the pandemic, many grocery stores also had special hours for their elderly and immunocompromised shoppers who were more vulnerable to Covid-19 before vaccines became available. Mastercard has focused on inclusivity through various initiatives in financial inclusion, gender pay equity and inclusive products. For example, the True Name card allows transgender cardholders to have their preferred name on their card. Mastercard also recently introduced a specially designed card for the visually impaired.

Sustainability and inclusiveness will continue to expand and evolve as climate change and social justice issues stay on people's radar.

Conclusion

In 2022, we'll see digital commerce move into a new phase of innovation as the line between online and in-person shopping continues to blur. Retailers will focus on new ways to shop and pay and innovate how they're reaching consumers and the experiences they're offering, while respecting their desire for privacy.

To understand 2022 retail trends in more detail and to make better data-driven decisions that lead to smarter outcomes, please reach out to your Mastercard representative or one of these experts.



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Endnotes

1. Mastercard Recovery Insights: [Commerce E-volution](#) report, 2021
2. "Marketplaces Year in Review: 2020", Marketplace Pulse
3. Based on research commissioned by Mastercard in 2021; figure excludes China.
4. Based on Etsy's public earnings release; gross merchandise sales are the items sold in Etsy markets.
5. ["A question of equity: Consumer finance embraces sustainability and social justice"](#) Mastercard Data & Services report
6. ["Consumer passion for the environment grows as a result of the pandemic."](#) Mastercard, April 2021.
7. "A lot to unpack – UK supermarket trials of refill stations" Just Food, August 12, 2021.