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From Cyber Monday to Black Friday: how the retail sector is navigating year-round challenges

Executive
summary

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- **Retail sales are still strong in the US and recovering in Europe, but uncertainty could derail the ongoing improvement.** In Europe, retail sales are recovering unevenly, with modest gains in countries like France and Spain (+1.6% y/y on average over Jan-Sept. 2024 and +1.4%, respectively), while Germany and Italy are recovering but more modestly. In the UK and the US, retail sales remain robust at about +2% over the same period. Wealthier consumers have been driving growth in the US as their spending grew by about +7% in 2023, almost double the growth of the poorest' households. Consumer confidence is showing a similar recovery pattern but savings rates in Europe remain high (e.g. 17.6% in France and 20% in Germany) as households still grapple with inflation and political uncertainty. The US consumer is much more optimistic. We find that retail sales in European countries are more sensitive to confidence shocks, which cause up to 18% of retail sales swings in the UK and 9%-10% in Germany, France and Italy, compared to only 7% in the US, increasing the risks for the sector in Europe. Fixing the confidence nexus in Europe will fix the demand issue for retailers. However, in the US, Trump's tariffs could cut the disposable incomes of poorer households by about -6%.

- **The pricing power party is over: Retailers' profitability is under pressure as inventories have piled up.** Retailers around the world are struggling to preserve profitability as decreasing sales in volumes and still high operational costs erode margins. In the post-Covid era, and even more so after the onset of the war in Ukraine, retailers turned to a stockpiling strategy: The global retail sector increased its inventories by eight days of turnover on average over the four years following Covid-19. This has now become a burden as slower demand growth forces retailers to offer aggressive discounts. Against this backdrop, retail is the second sector contributing to large insolvencies globally, according to our monitoring the sector on average accounted for one in every five insolvencies. In this context, retailers are mainly turning to two strategies to cope. The first is cutting prices and offering promotions to appeal to cost-sensitive consumers, particularly in essential categories like food, household items and personal care. The second is focusing on the premium and luxury segments, where wealthier consumers continue to spend, sustaining demand for high-margin goods such as luxury items and electronics.

- **Shopping online is here to stay but shopping responsibly is taking a backseat.** E-commerce has seen explosive growth, with global revenues expected to surpass USD6.5trn by 2029, though growth is slowing (CAGR of +9.5% vs. +13.5% in the previous five years).

Technology is enabling new channels such as social commerce that are gaining traction, especially among younger, digitally native Gen Z consumers, though it remains relatively nascent in the US and Europe compared to markets like China and India. On the other hand, responsible purchasing trends, such as organic food and eco-friendly products, have taken a hit due to the purchasing-power crisis. In both the US and Europe, consumers are prioritizing affordability over sustainability, leading to slower growth in these categories as spending shifts toward non-discretionary goods.

- **Looking ahead, AI and automation can create a tech dividend for retailers.** Retailers are increasingly investing in technology to optimize supply-chain management and enhance operational efficiency. Real-time data analytics, AI-driven demand forecasting and automation are being deployed to address inventory challenges and adapt to shifting consumer demand. Omnichannel strategies that blend online and in-store experiences are helping retailers expand their reach and improve customer convenience, though implementation costs and challenges remain significant. Nevertheless, it is estimated that retailers that adopted AI/ML have grown their sales in 2024 twice as fast as their competitors that have not.

Consumer blues

Retail sales reveal mixed performances across major markets. Recent retail sales data from January to September 2023 and 2024 show very different patterns across economies (see Figure 1). In France, retail sales growth rebounded from -2.2% y/y on average over the first nine months of 2023 to an average of +1.6% y/y over the same period in 2024, suggesting a recovery in consumer spending as inflationary pressures are easing. Germany, however, shows marginal improvement, moving from negative in 2023 to a sluggish +0.1% in 2024, reflecting persistent economic challenges. Spain demonstrates relatively resilient performance, with retail sales growth slightly decreasing in 2024. Though still positive, the slower growth indicates a cooling in consumer demand, possibly linked to lesser confidence. Meanwhile, Italy's retail sales, although recovering, remain in negative territory at-1.0% in 2024. The UK exhibits a similar pattern, with retail sales growth slowing from +5.6% in 2023 to a still strong +2.0% in 2024. This suggests that British consumers have continued to spend, despite ongoing inflation and still high interest rates. The US, while also decelerating, remains strong, with retail sales growth declining from +3.5% in 2023 to +2.2% in 2024, in line with the slowing but still robust US economy.

Wealthier and younger consumers are driving retail spending, especially in the US. In recent years, wealthy consumers have become one of the main drivers behind consumer spending resilience in the UK and the US in particular (see Figure 2). This trend has been particularly pronounced as wealthy households have benefited from substantial income gains, home equity and stock market investments, allowing them to increase consumption despite inflation and higher interest rates. This is quite different from pre-pandemic spending behaviors, where a broader demographic contributed more evenly to retail sales. Higher-income households have not only maintained but increased their expenditure across various retail categories, thereby offsetting the more restrained spending observed among lower-income groups. This trend shows in the robust sales figures of luxury goods and high-end services, sectors that have experienced significant growth due to the spending power of wealthier Americans. Conversely, essential goods and services, which constitute a larger portion of lower-income households' budgets, have seen comparatively modest growth. This divergence in spending patterns has contributed to a retail landscape increasingly influenced by the consumption

Figure 1: Retail sales growth (y/y%)
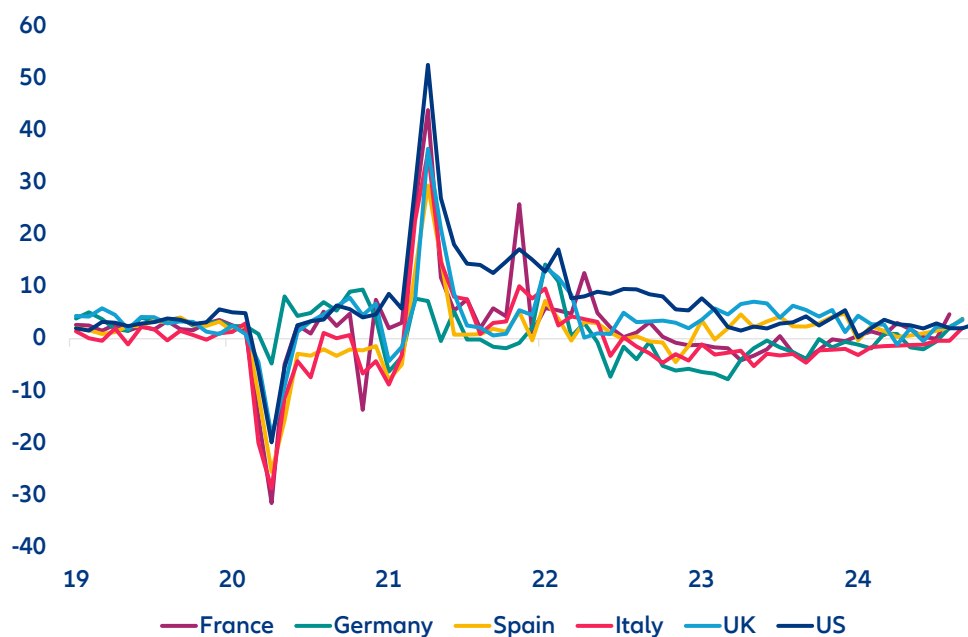
Sources: LSEG Datastream, Allianz Research

preferences of the wealthy. In the UK, the upper-middle class exhibited the strongest growth and the top 20% saw less growth than the bottom 20%. This underlines that this predominance of the wealthy is mostly a strong feature in the US. Furthermore, younger shoppers, a relatively smaller demographic group in most advanced economies, are spending more than older ones (see Figure 3). These two trends could have far-reaching consequences for the retail industry, which may need to adapt its product mix and customer experience accordingly.

Figure 2: Household consumption spending growth in 2023 by income quintile (% y/y).
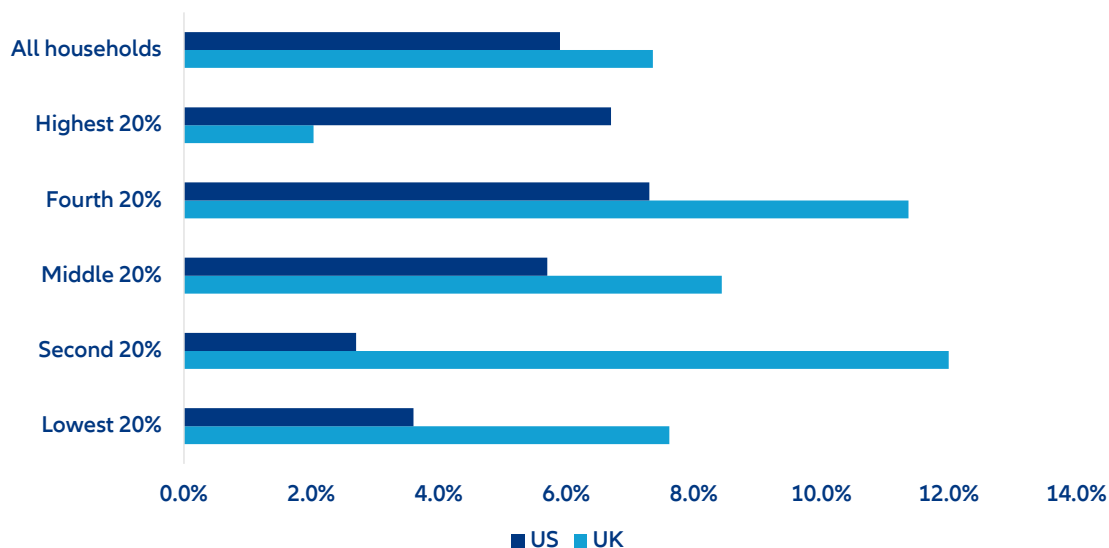
Sources: BLS, ONS, Allianz Research

Figure 3: Intention of US household to increase spending, by demographic (% of respondents).
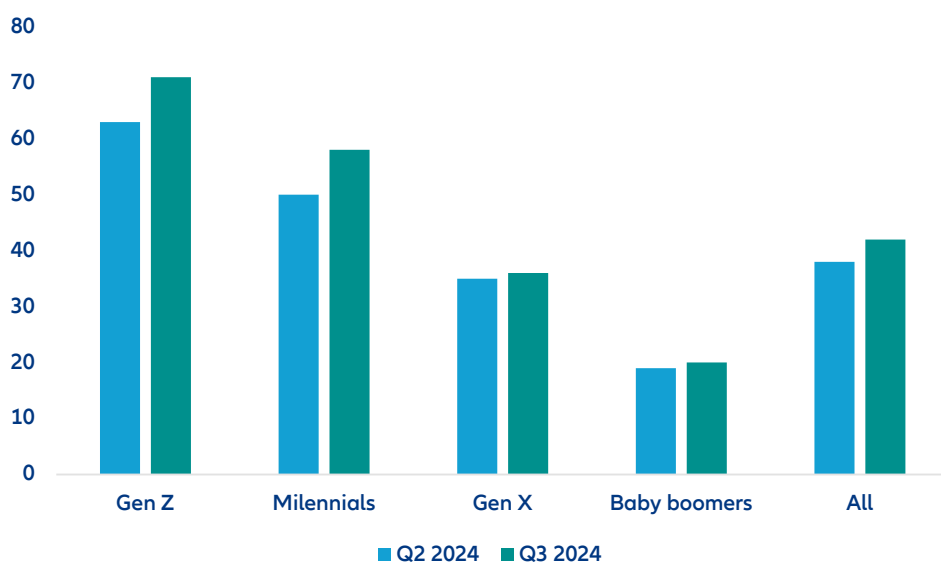

Sources: McKinsey, Allianz Research

Precautionary savings on the rise across the board. As consumer spending and especially retail sales are giving mixed signals, it is interesting to look at households' saving patterns. Savings rates across major economies have been increasing over the last couple of years. However, in Europe, savings rates remain elevated compared to pre-pandemic levels, while in the US, although increasing, saving rates remain below historical averages (see Figure 4). Germany reports the highest savings rates among key economies: 20% as of Q2 2024. Although Germany has historically seen high savings rates, the recent trend has been amplified by higher interest rates on the one hand and current economic uncertainty, driven by concerns about the recession that hit the largest European economy in 2023, and may do so again in 2024. France's households recorded a savings rate of 17.6%, which mostly reflects a cautious outlook amid lingering inflation. French households continue to save as a buffer against energy costs that remain high and might also be buckling up for the gradual tapering of government subsidies and transfers as the country is heading towards fiscal consolidation. Both Spain and Italy exhibited savings rates of about 13% as they face a similar context as the other European countries. In the US, the savings rate increased to 5% in Q2 2024, a marked improvement from recent lows, but it remains below the historical average of around 7%. This below-average rate most likely stems from the fact that poorer households, which depleted their savings from the pandemic era, have less room to make savings while higher-income households continue to splurge.

**Figure 4:** Household savings rate (% of disposable income)
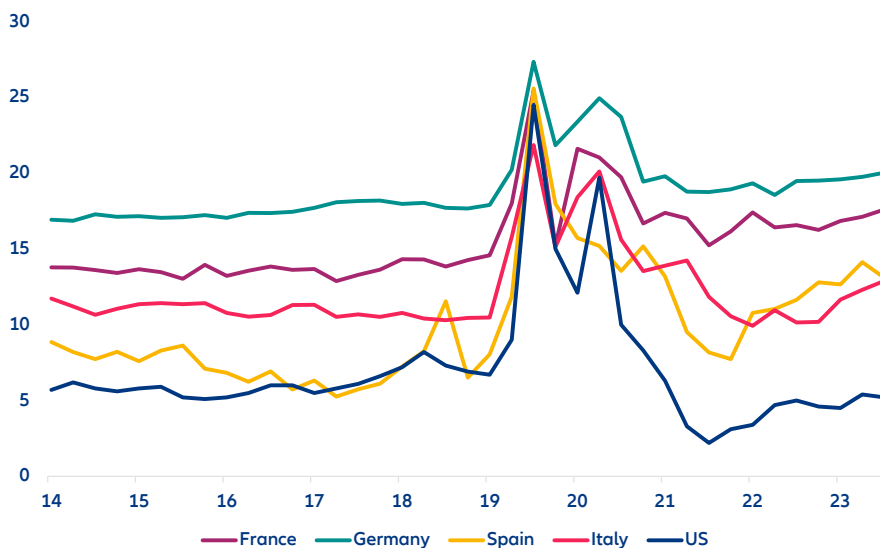
Sources: LSEG Datastream, Allianz Research

European consumer sentiment is recovering from the purchasing power crisis. Consumer confidence is one of the main factors driving these savings and spending trends, shaped and driven by divergent economic conditions – especially different inflation trends – policies, and labor market dynamics. France's October consumer confidence stood at 95; while subdued and below the threshold of 100, it has been recovering from the lows of summer 2022 when consumers were hit hard by inflation amid the fallout of the war in Ukraine. Most other major European economies exhibit the same pattern (see Figure 5). Italy recorded a confidence index of 97.4 as of October. While Germany, Spain and the UK still had negative consumer confidence balances, like the other countries, consumer confidence is on the way to recovery. Nevertheless, despite the recent easing of both inflation and interest rates, consumers remain a bit subdued, with large economic and political uncertainty in many countries, including the industrial woes of Germany, the

continued war in Ukraine, tensions in the Middle East, political instability in France and Germany and the rise of food prices. In this context, the US stands out, with its consumer confidence index of 108.2 highlighting its resilient economic environment. As inflation is cooling and interest rates have been decreasing, the strong job market and higher disposable incomes have helped maintain solid household confidence. Looking ahead, the incoming Trump administration could implement measures favorable to economic activity, but his policies could also revive inflation, which could have the opposite effect on consumer confidence.
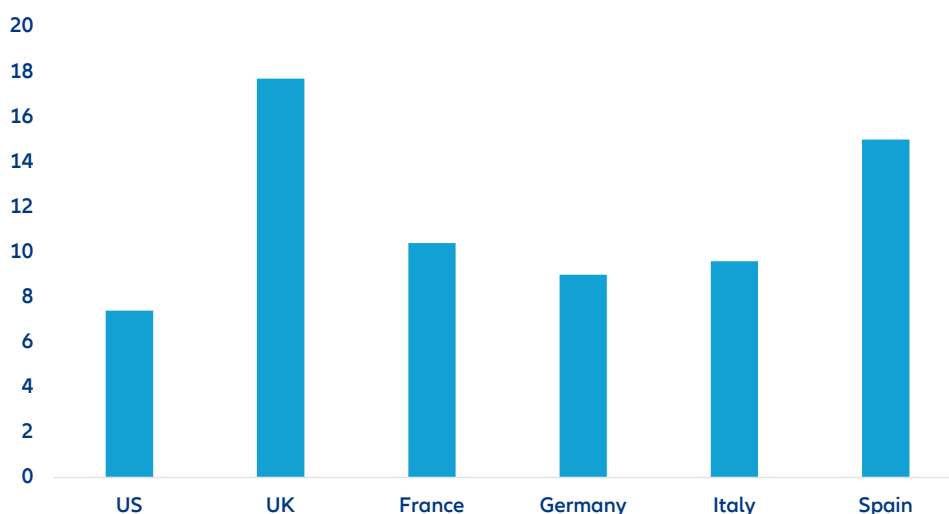
Figure 5: Consumer confidence indicators
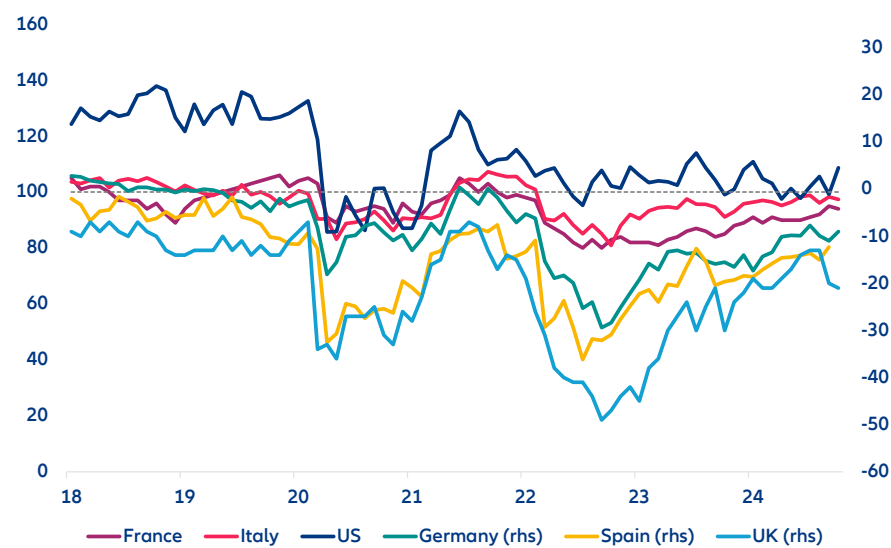
Sources: LSEG Datastream, Allianz Research

Europe is more sensitive to confidence shocks amid political uncertainty. European consumers are notably more sensitive to negative news than their American counterparts, a trend rooted in economic structures, social policies and cultural attitudes. Job markets in many European countries are less flexible than in the US, and the recent energy crisis has been more acute for European consumers. In addition, while US households frequently leverage credit to maintain spending, Europeans rely more heavily on actual income and savings, leading to quicker reductions in consumption when confidence falls. US consumers are more resilient to confidence fluctuations due to structural differences ranging from a more flexible labor market to high wealth effects, which help to buffer sentiment swings and spending. The heightened sensitivity of European consumers is reflected in sharper swings in consumer sentiment and a stronger impact of confidence shifts on spending behavior compared to the US. We find that confidence shocks explain a larger share of retail sales fluctuations in Europe (from 9% in Germany up to almost 18% in the UK). In the US, confidence shocks only account for 7% of retail sales fluctuations (see Figure 6). Against this backdrop, it is critical to stabilize consumer confidence to support growth in Europe.

But watch out for higher tariffs, which could weigh on US consumer spending, especially for the poorest households. The return of Donald Trump could kick-off a new trade war via a targeted and significant increase of tariffs for imported goods, notably from China (up to 60%). Although this will not be the first time US retailers have to cope with such a hostile trade environment – and some have already used past experience to diversify their supply chains – the US is still massively importing goods from China. In September, it reported the biggest monthly deficit (USD31bn) in two years, pushing the total deficit to USD217bn over the first nine months of the year (up +4% vs. 2023). Even though the bilateral imbalance has dramatically waned since its 2018 peak (USD418bn), and the trade war that took place during the first Trump administration, this will not mean that launching another trade spat will come without costs. China remains a major supplier of electrical & electronic machinery (14% of total US imports in 2022/31% sourced from China), machinery & mechanical appliances (15%/25%), textiles (5%/34%), toys & leisure (2%/78%), furniture (2%/42%) and plastic products (3%/30%). Higher tariffs on Chinese imports would increase prices in the US, hitting low-income households the hardest. Research from the Peterson Institute for International Economics suggests that tariffs could lead to a revenue drop of -6% (USD2600) for the bottom quintile of US households, twice as much as that expected for the top quintile (-3% /USD1200). The National Retail Federation estimated a cost range of USD360-625 per year for median American consumers for a list of six products whose the output costs is strongly exposed to China (apparel, toys, furniture, household appliances, footwear and travel goods).

Figure 6: Share of variance in retail sales explained by consumer confidence shocks[1] (%)

Sources: LSEG Datastream, Allianz Research

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1. We estimated VAR models as in Dees & Soares Brinca (2011) including consumer confidence indicators and retail sales

Figure 7: US consumers' after-tax income losses due to proposed tariffs (%).

Sources: PIIE, Allianz Research

Retailers have been adjusting to inflation and supply chain challenges

Pricing power is gone. Both manufacturing companies and retailers in the US and Europe have less pricing power as consumers and businesses increasingly resist higher prices amid slowing demand and lingering effects of the recent inflationary pressures. This shift marks a turning point for many firms that relied on price hikes during the post-pandemic period to offset rising input costs and maintain margins. Both regions are witnessing a convergence of factors – cooling economic growth, still-high interest rates, greater consumer price sensitivity and lesser confidence – that are eroding the ability of businesses to pass on costs. In the US, where inflation has moderated compared to its peak in 2022, disposable incomes remain under pressure from elevated housing, food and healthcare costs. In this context, consumers are increasingly trading down to cheaper alternatives. More and more retailers are reporting greater demand for private-label goods, a trend that highlights reduced willingness to absorb price hikes for branded products. The recent stabilization of supply chains has also curbed the pricing leverage that manufacturers enjoyed during

the supply shocks of 2021 and 2022. Europe faces even greater challenges in maintaining pricing power. Already grappling with high energy costs and food inflation, consumers have become particularly price-sensitive, as indicated by the weak retail sales growth in major economies like Germany and France. Our analysis of recent trends of retail prices and producers' prices reveals that a majority of product categories have seen producer prices increase faster than their respective retail prices (see Figures 8 and 9). This reveals the waning pricing power among manufacturers and retailers. Ultimately, the decline in pricing power reflects the broader normalization of post-pandemic economic conditions. With inflation easing and consumer demand softening, businesses across the US and Europe are entering a phase where price increases are no longer an easy lever for sustaining growth, marking a shift to more challenging operating conditions.

Figure 8: US CPI (vertical axis) vs PPI annual inflation (horizontal axis) as of October 2024 (%).

Sources: BLS, Allianz Research

Figure 9: EU CPI (vertical axis) vs PPI annual inflation (horizontal axis) as of September 2024 (%).
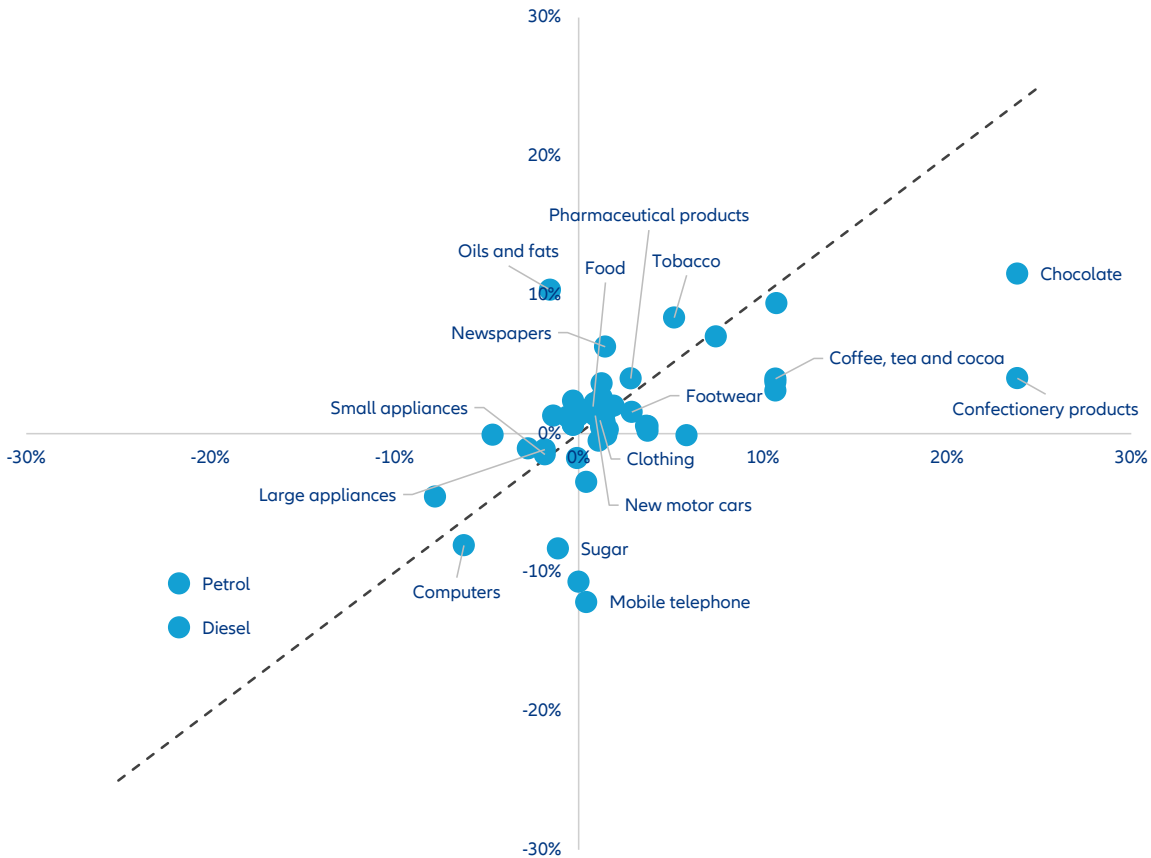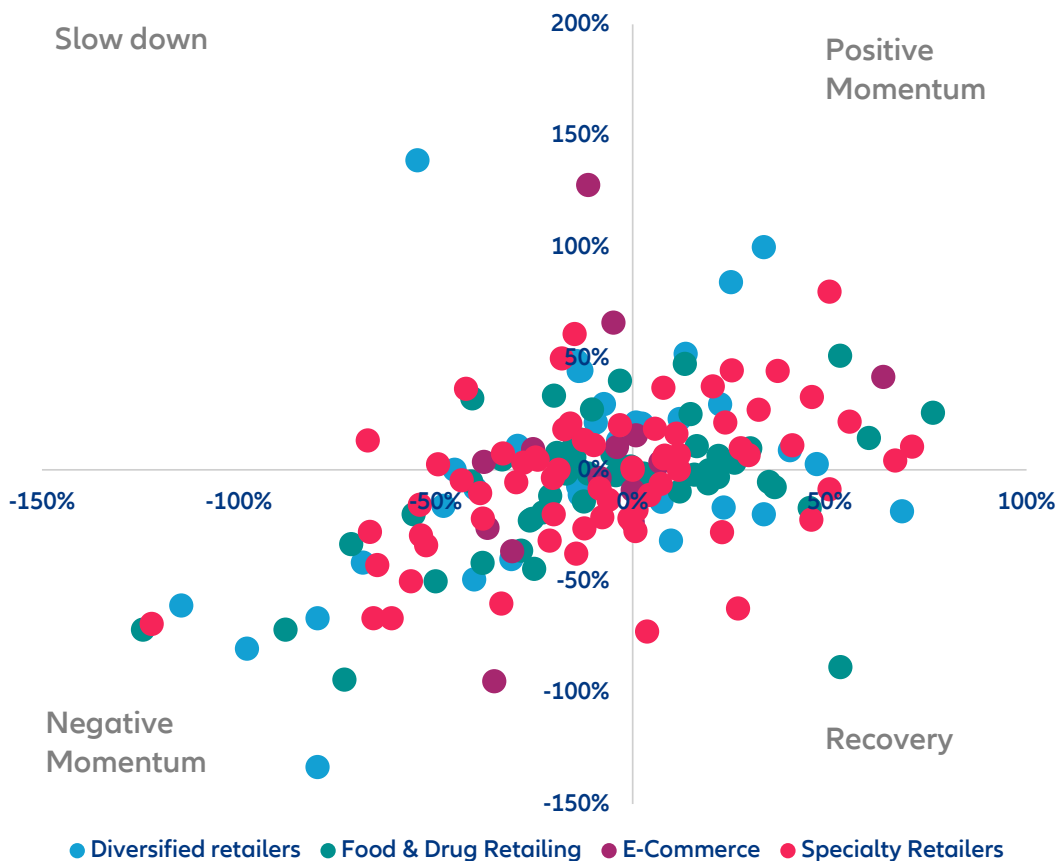

Sources: Eurostat, Allianz Research

Profitability is being put to the test. Against this backdrop of lower demand and still persistent inflation, retailers in the US and Europe have faced a notable slowdown in profitability growth during Q3 2024. While many businesses saw robust sales growth during the post-pandemic recovery and capitalized on pent-up demand, the landscape has shifted significantly in 2024, with profitability under pressure across key markets (see Figure 10). As of Q3 2024, global diversified retailer and e-commerce players managed to grow profitability by +8.5% y/y and +9.1%, respectively. Amid a lower volume of food sales, the profitability of food and drug retailers has decreased by -6.5% y/y. This comes after a year of strong growth during which rising prices compensated for declining volumes, which is now no longer the case in both the US and Europe. Specialty retailers posted flat profitability on an annual basis. Looking at short-term dynamics, on average, all segments have been posting

negative profitability growth on a q/q basis. From a firm perspective, about 60% of retailers in our sample saw q/q profitability growth decrease, while one out of two retailers still managed to maintain positive y/y growth. Labor costs have weighed heavily on profitability, especially in the US. Additionally, operational expenses such as rent, energy and logistics remain high, further straining margins. Retailers will most likely continue to find it difficult to offset these cost pressures as they contend with slowing sales and reduced pricing power.

Figure 10: Quarterly EPS growth (vertical axis) vs annual EPS growth (horizontal axis) as of Q3 2024 for retail companies(%)


Sources: Eurostat, Allianz Research

Adapting inventories to face supply-chain disruptions and soaring costs. Retailers in the US and Europe have been strategically increasing inventories to navigate the dual challenges of inflation and supply-chain disruptions. While the global retail sector held around 46 days of turnover in inventories on average over the four years prior to the pandemic, this has increased to 54 days of turnover on average over the four years following Covid-19 (see Figure 11). By frontloading purchases, businesses aim to lock in costs ahead of further price increases and mitigate risks associated with delayed shipments or shortages. This inventory buildup reflects a proactive response to the volatile conditions that have characterized global markets since the pandemic, as retailers seek to stabilize operations in a still-uncertain environment. In the US, this trend has been particularly evident in sectors such as apparel, electronics and home goods, where margins are sensitive to input price fluctuations. The easing of shipping backlogs and lower freight rates in 2023 allowed many retailers to replenish stockpiles that had been depleted during the pandemic, with the added benefit of hedging against any resurgence of inflation. However, the strategy is not without risks. Elevated inventories come with higher storage costs and the danger of overstocking if consumer demand slows. In fact, several large US retailers reported challenges with excess inventory in late 2023, forcing them to adopt aggressive discounting strategies to clear shelves. The balancing act between sufficient stock levels and avoiding overhang has become increasingly delicate. In Europe, inventory accumulation has followed a similar pattern, but with additional complexities. Retailers in the Eurozone have faced not only inflationary pressures but also persistent geopolitical risks, such as the energy crisis exacerbated by the Russia-Ukraine war. These factors have heightened concerns about supply-chain reliability, leading many businesses to prioritize securing key goods well in advance.

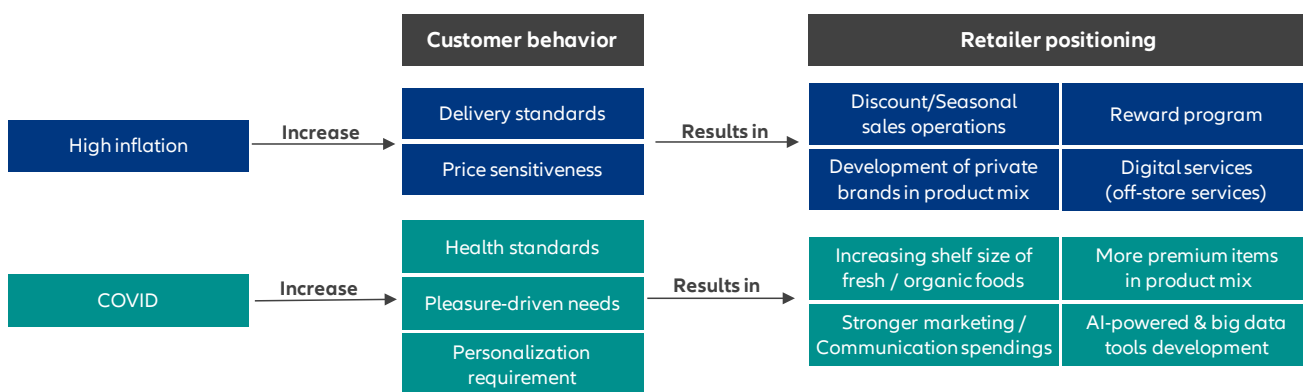**Figure 11:** Inventories in the global retail sector (in days of turnover).
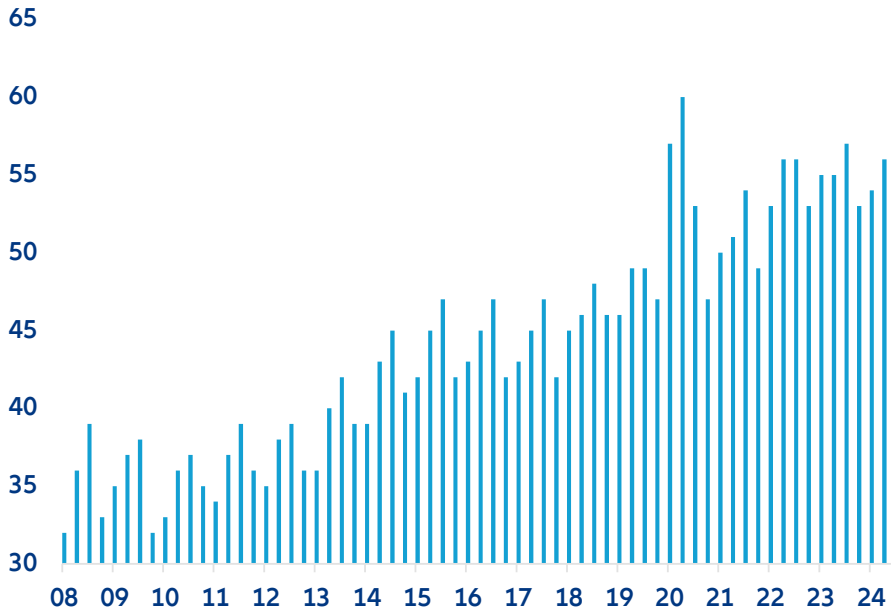
Sources: LSEG Workspace, Allianz Research

Volume vs premium: a market polarization that has intensified since Covid-19 and the high-inflation period. The widening of the wealth gap, which dramatically increased in developed economies alongside the Covid-19 pandemic and the 2022-2023 period of double-digit inflation, has reverberated on the operating strategy of retailers. Indeed, we can distinguish two business strategies (see Figure 12) that address two very different consumer categories and demographics: low vs high revenue households, and younger vs older ones. Low-revenue shoppers are particularly sensitive not only to price but also to the speediness and quality of delivery as higher energy prices force them to manage their shopping sprees more efficiently (i.e. avoiding non-necessary travel). To attract this type of customer, some large retailers have used broad and large discount policies, cutting prices to improve traffic in stores (volume-driven policy), but also developing digital services in parallel to improve customer journeys and reward programs to improve client fidelity. As part of this strategy, retailers have also increased the diversity of their product mix by developing further their private brands whose value perception has significantly increased over the past years, offering a real alternative to national brands. This has allowed them to secure high margins despite discounted prices. On the other side of the spectrum, we also see retailers that have decided to position themselves on high premium and health-oriented products as wealthier shoppers are less likely to cut spending. This social category is far more sensitive about value than price and does not hesitate to pay a premium for something that either satisfies them (pleasure effects), convinces them it is good for their health and/or makes them feel that it has been specially designed for them (personalization). To meet their increasingly high expectations and higher requirements for personalized goods/services, some retailers are exploring technological tools, and notably AI-powered platforms, learning machines and/or big data software to try to detect and better understand customer needs.

Figure 12: Two strategies to speak to two different classes of customers

Customer behavior		Retailer positioning	
High inflation → Increase →	Delivery standards / Price sensitiveness	→ Results in →	Discount/Seasonal sales operations	Reward program
			Development of private brands in product mix	Digital services (off-store services)
COVID → Increase →	Health standards / Pleasure-driven needs / Personalization requirement	→ Results in →	Increasing shelf size of fresh / organic foods	More premium items in product mix
			Stronger marketing / Communication spendings	AI-powered & big data tools development

Source: Allianz Research

The consumer is more digital, but not more responsible

Organic food and responsible products: ceiling or hit from purchasing power crisis? The organic food market and other sustainability-driven consumer trends in the US and Europe are facing significant headwinds as the ongoing purchasing power crisis reshapes spending priorities, leading many consumers to deprioritize premium-priced organic and environmentally responsible products in favor of more affordable conventional alternatives. This shift threatens the momentum of sustainability-focused consumption, which had surged in the years prior to the economic downturn. In the US, the organic food market, which had grown at double-digit rates during much of the past decade, is now decelerating (see Figure 13). High inflation has exacerbated this trend, with staples such as meat, eggs, milk and produce seeing steep price hikes. In Europe, where the organic sector has long benefited from government subsidies and strong consumer demand for sustainable goods, the picture is similarly challenging. Organic food sales in Germany,

France and Italy have slowed significantly. Beyond food, other responsible trends, such as sustainable fashion and eco-friendly home products, are also struggling to maintain their foothold. In both regions, the push for more environmentally responsible consumption is running into resistance as consumers focus on meeting immediate financial needs rather than supporting long-term sustainability goals and preferences. For instance, slow-fashion brands, which promote ethical labor practices and environmentally friendly materials, have seen diminished growth in sales as consumers turn to fast-fashion retailers for lower-cost options. The challenges for retailers and producers going forward will be to revive these segments and products once the purchasing-power crisis is finally in the rearview mirror.

**Figure 13:** Growth of organic food sales (y/y%)
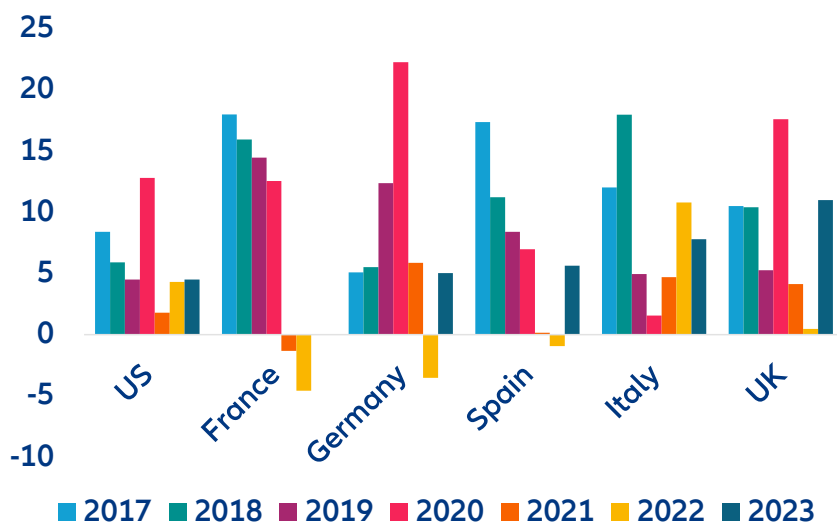
Sources: Statista, Allianz Research

E-commerce continues to grow, driven by non-discretionary products. The e-commerce market has nearly doubled in size since the onset of Covid-19 and is projected to surpass USD4trn in 2024 (see Figure 14). By 2029, it is expected to reach approximately USD6.5trn, growing by a compound annual growth rate (CAGR) of +9.5% over the next five years, though this is slower than the +13.5% CAGR of the past five years. This significant growth continues to be driven by two dominant players: China, which accounts for 36% of global e-commerce revenue, and the US, contributing 30%. This dominance is primarily attributed to high internet penetration rates, as studies consistently highlight the strong correlation between internet access and online purchasing. However, the more decisive factor is the prevalence of large pure-play e-commerce platforms in these countries, such as Alibaba and Amazon, which cater to a diverse range of customers across social, age and national demographics. In Europe, we see a similar pattern, though on a smaller scale. The UK leads the region with 19% of Europe's e-commerce revenue (3% of the global total), followed by Germany with 15% (2% globally). However, the region as a whole lags significantly, accounting for only 15% of global e-commerce revenue, a share projected to remain steady through 2029. This underperformance is larg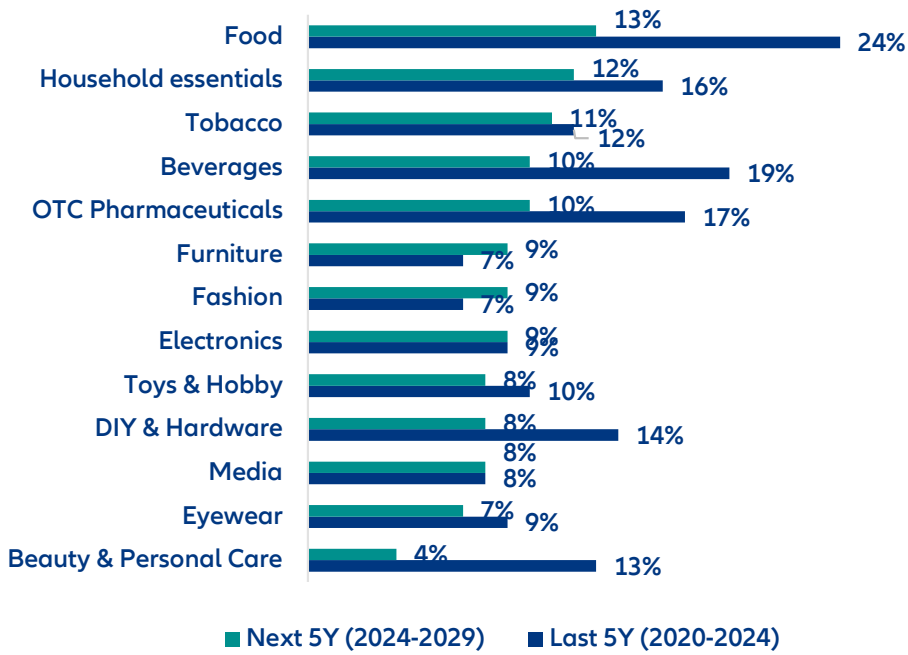ely due to the absence of major marketplaces comparable to those in China or the US and slower digital adoption, influenced by regional consumer habits. Europe's fragmented markets and varying levels of digital maturity have further hindered the region's ability to fully capitalize on the e-commerce boom. At the sector level, non-discretionary products – such as food, beverages, tobacco and household essentials – are expected to show the highest growth potential, with projected online revenue growth exceeding +10% CAGR over the next five years (see Figure 15). This surge is driven by the relatively low digital penetration of these categories today, which creates ample room for growth as e-commerce solutions for these products continue to mature. Conversely, categories such as personal care, DIY & hardware and pharmaceuticals are expected to see a substantial slowdown in revenue growth compared to the past five years, which were heavily influenced by pandemic-driven demand. Meanwhile, sectors such as electronics and media are forecast to maintain robust growth, with CAGRs of +9% and +8%, respectively. This sustained growth is likely due to the natural replacement cycle of products purchased during the pandemic, such as computers, audio equipment and other media hardware, which are nearing obsolescence.

Figure 14: Global e-commerce revenue per geographic areas (USD trn)
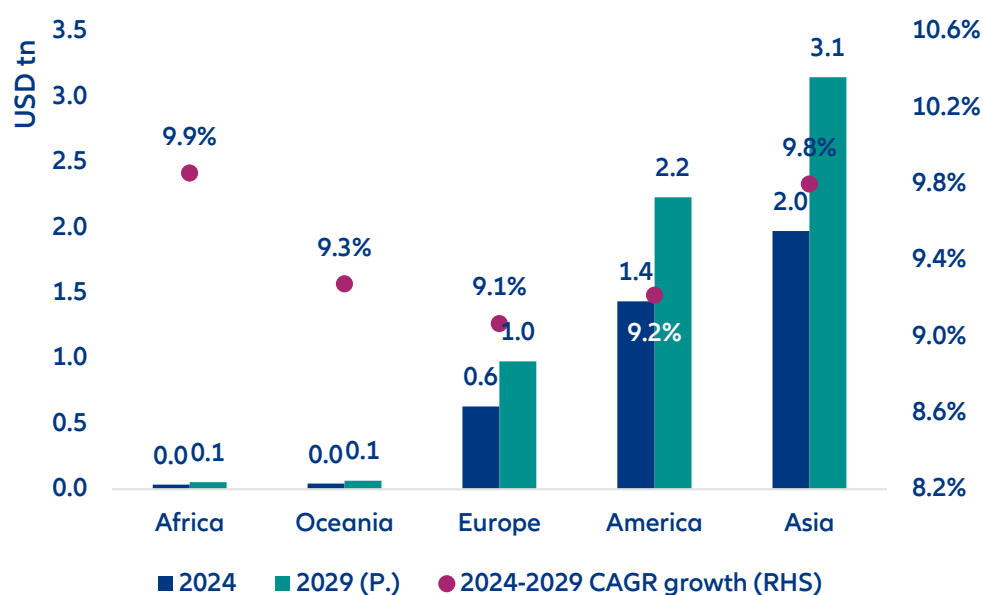
Sources: Statista, Allianz Research

Figure 15: Global e-commerce revenue growth (CAGR) per industry breakdown

	Next 5Y (2024-2029)	Last 5Y (2020-2024)
Food	13%	24%
Household essentials	12%	16%
Tobacco	11%	12%
Beverages	10%	19%
OTC Pharmaceuticals	10%	17%
Furniture	7%	9%
Fashion	7%	9%
Electronics	9%	9%
Toys & Hobby	8%	10%
DIY & Hardware	8%	14%
Media	8%	8%
Eyewear	7%	9%
Beauty & Personal Care	4%	13%

■ Next 5Y (2024-2029)　■ Last 5Y (2020-2024)

Sources: Statista, Allianz Research

Digital enables new competitors. Social media platforms are increasingly driving sales. Social revenue (i.e. the portion of online revenue generated via social platforms) has surged dramatically in recent years, particularly in markets such as China and India. In these countries, the ratio of social revenue to total e-commerce revenue has tripled between 2018 and 2023, reflecting the rapid integration of social commerce into consumers' purchasing habits (see Figure 16). While the segment remains relatively small in the US and Europe, it is steadily gaining traction, fueled by younger consumers, particularly Gen Z. This digital-native cohort spends significant time on social platforms and relies heavily on them for product discovery and brand interaction. Unlike older generations, Gen Z is less accustomed to in-store shopping and exhibits low brand loyalty, making social platforms a critical avenue for retailers to capture their attention. These platforms serve as both a marketing tool and a sales channel, enabling companies to showcase products, interact with potential customers and convert engagement into sales. For retailers, the rise of social commerce represents a complementary but distinct opportunity to enhance their digital presence and boost revenue. Social

platforms offer unique advantages, such as targeted advertising, influencer partnerships and real-time consumer engagement, which can drive brand visibility and conversions among tech-savvy audiences. However, this approach also comes with challenges, including higher marketing expenditures as businesses invest in sponsored posts, content creation and platform-specific campaigns to remain competitive. This added cost can pose risks to profit margins, particularly if the expected sales do not materialize. While the potential to capture new revenue streams is significant, the margin pressures and uncertainty associated with social commerce necessitate careful strategy and execution. Furthermore, sales through social media also allows further growth for direct-to-consumer sales and offer existing and emerging brands to serve their customers directly without having to deal with retailers at all.

**Figure 16:** Estimated share of social revenue in e-commerce
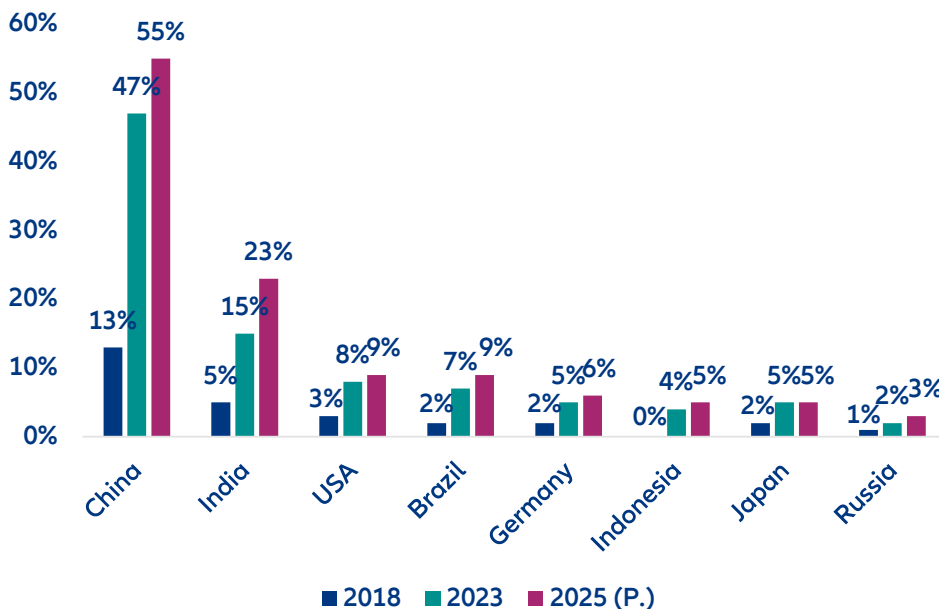
Sources: Statista, Allianz Research

There is also a tech dividend for retail

Why do consumers go online in the first place? The development of a digital offer appears to be an unofficial mandatory option for retailers to increase revenues, keep margins high and even gain market share. However, the digital shift operated or planned by a certain number of retailers is not an easy one. It entails not only designing a user-friendly platform to increase traffic, but also a deep reshaping of supply chains and inventory management to insure an efficient optimization of costs. There are three factors that push customers to shop online rather than going to stores: 1) the speediness and reliability of delivery, 2) the security and diversity of payment solutions and 3) the price competitiveness (see figure 17). The ability to have whatever we want in a short time at a lower cost and in a reliable and secure way looks to be a massive improvement for customers. Ticking all these boxes could insure a key competitive edge for a company. But loyalty comes with reliability, so for a company the main challenge is to make sure to have a dynamic supply-chain

process and an efficient stock policy to avoid shortages and ensure timely and quick delivery to customers. Developing better agility is key to success for retailers and the use of technology is often a means to achieve it. This explains rising investments in automation, big data and AI tools.

**Figure 17:** What are the top five reasons for a customer to shop online ?
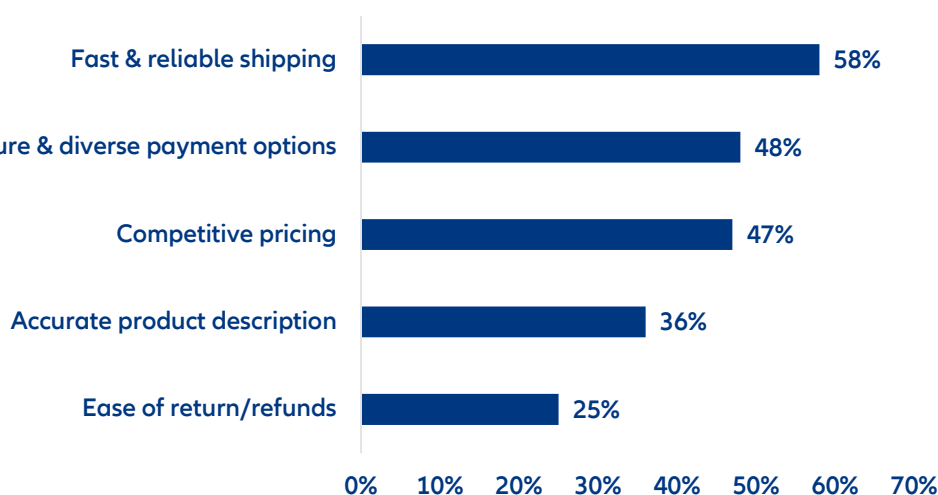
Sources: Hostinger, Allianz Research

AI Dorado: AI and machine Learning could deliver big.
The retail sector is still in the early phase of development for AI-powered solutions. Nevertheless, we are already seeing retailers increasingly turning to artificial intelligence technologies to enhance operational efficiency, improve customer engagement and boost profitability. For instance, US retailers planning to deploy AI are hoping for it to have impact across various applications. Marketing automation leads the pack, with 49% of retailers intending to leverage AI for this purpose, reflecting its critical role in personalized customer targeting and campaign optimization (see Figure 18). By analyzing customer data in real time, AI-driven marketing tools help retailers deliver tailored ads, promotions and recommendations, thereby improving conversion rates and customer retention. Virtual agents and chatbots, identified by 31% of retailers, is the second most popular AI application, emphasizing the demand for improved customer service. These tools allow retailers to provide 24/7 support, handle routine queries and reduce or free up human staff. Data analytics using AI, cited by 29% of retailers, is central to driving decision-making and operational efficiency. Advanced analytics enable businesses to predict demand, optimize inventory levels and identify emerging consumer trends. For instance, retailers can use AI to analyze historical

sales data alongside external factors such as weather or economic indicators, improving forecasting accuracy and reducing overstock or stockout scenarios. More advanced technologies, including speech/voice recognition (12%), robotics process automation (5%) and biometrics (3%), are less widely cited but hold promise for niche applications. Among the main changes that AI adopters are planning in their companies, training comes as the first response (34%) as workers need to get familiar with new tools and technologies (see Figure 19). There is also a sizeable share of respondents who do not plan anything specific as they see these tools as "plug-and-play" or because the implementation of AI has been not been strategically thought through. Overall, thanks to the potential for generating more revenues and cutting costs, it is estimated that retailers using AI and machine learning could grow sales twice as fast as those who do not use these technologies. The same dynamics can be found regarding profitability growth (see Figure 20).
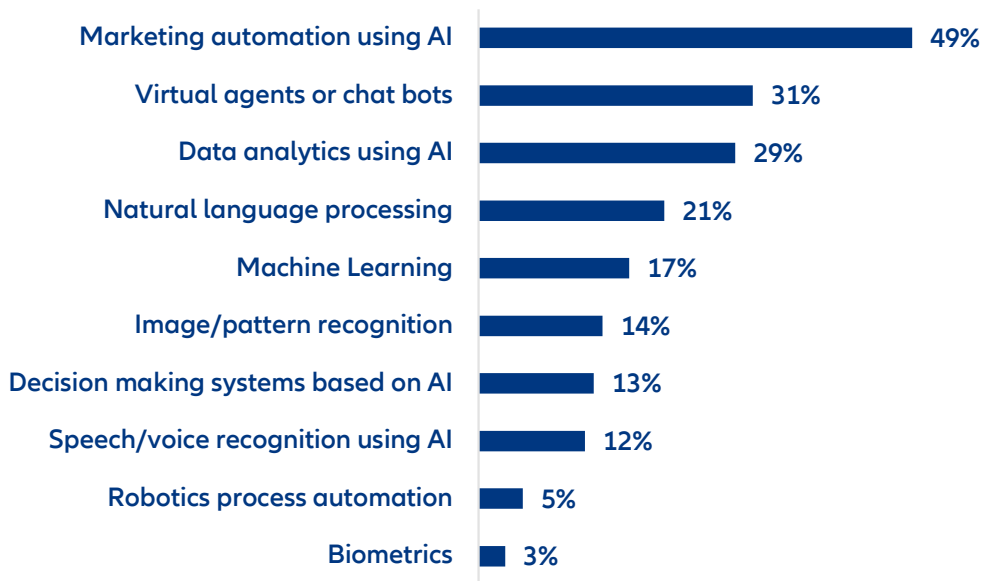
Figure 18: What kind of business decision/change will the implementation of AI tools/solutions imply among US retailers ?
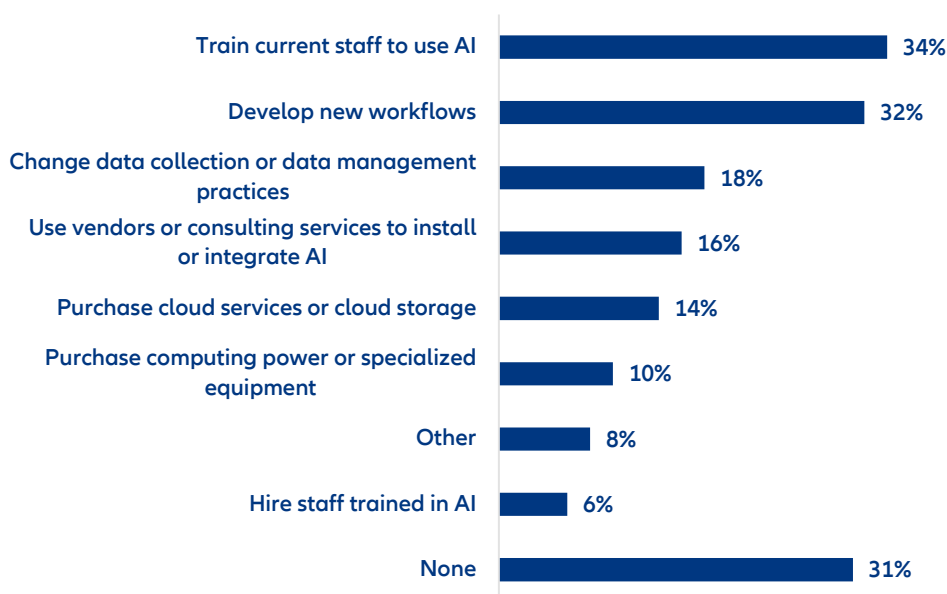
* Retailers that reported planning to use artificial intelligence to produce goods or services in the next six months.

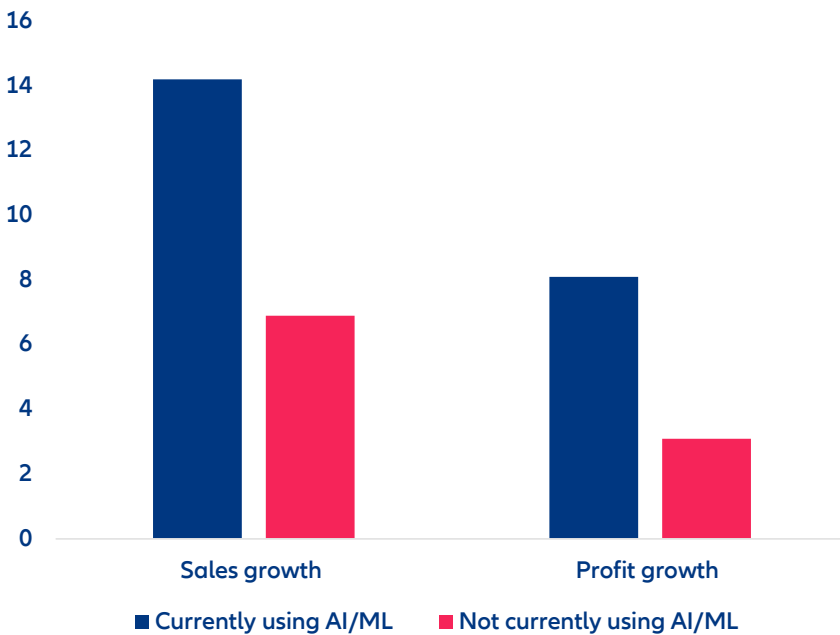Sources: Census Bureau (Business Trends & Outlook Survey), Allianz Research

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Figure 19: What kind of AI tools/solutions US retailers want to develop in the near future

AI tool/solution	%
Marketing automation using AI	49%
Virtual agents or chat bots	31%
Data analytics using AI	29%
Natural language processing	21%
Machine Learning	17%
Image/pattern recognition	14%
Decision making systems based on AI	13%
Speech/voice recognition using AI	12%
Robotics process automation	5%
Biometrics	3%

* Retailers that reported planning to use artificial intelligence to produce goods or services in the next six months.

Sources: Census Bureau (Business Trends & Outlook Survey), Allianz Research

Figure 20: Estimated growth for 2024 for retailers based on AI/ML adoption (y/y%)

	Currently using AI/ML	Not currently using AI/ML
Sales growth	14	~7
Profit growth	8	3

* Retailers that reported planning to use artificial intelligence to produce goods or services in the next six months.

Sources: Census Bureau (Business Trends & Outlook Survey), Allianz Research

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