

The Changing Retail Landscape: A Shopper- Driven Evolution

NielsenIQ

The retail industry is undergoing a rapid transformation, driven by shifting consumer behavior, inflation concerns, and digital commerce. With changing generational spending patterns and affordability challenges, retailers and CPG brands must adapt to a new era of shopper priorities. This article explores the key forces reshaping retail in 2025, from evolving consumer expectations to AI-driven innovation and private-label disruption.

One of the most significant transformations is the shift in generational spending power. Boomers, once a dominant force in retail, are no longer contributing to category growth, while Millennials and Gen Z are reshaping the market with new shopping habits. By 2030, Millennials and younger generations will make up 67% of the U.S. population, accelerating digital-first purchasing behaviors and alternative retail formats.¹ Gen Z, in particular, is driving e-commerce expansion, with 1 in 3 ordering groceries online at least once a week.² The rise of private labels is further disrupting traditional retail dynamics, as 53% of retailers now view store brands as their primary growth driver.¹ Many consumers now view private labels as equal to or better than national brands, particularly when they align with sustainability or premium positioning.

As competition intensifies and margins tighten, retailers must rethink their strategies to stay ahead. The rise of AI-powered shopping experiences, omnichannel retailing, and value-driven assortments is redefining what it means to win in the marketplace. Understanding these trends will be essential for brands looking to navigate the complexities of the modern retail environment and build stronger connections with today's value-conscious, digitally engaged shoppers.



The Economic Reality Shaping Retail

Inflation & Affordability Concerns

Rising food prices remain the #1 concern for U.S. consumers, reshaping shopping behaviors and forcing retailers to adapt.¹ A staggering 64% of Americans plan to buy less food if prices continue to climb, reflecting a shift in purchasing priorities as households navigate financial strain.¹ The lowest-income shoppers have been disproportionately affected, accounting for 44% of total store unit losses over the past four years.³ As a result, trade-down behaviors have become more prevalent, with consumers seeking lower-cost alternatives, prioritizing promotions, and increasingly turning to discount retailers. Private-label products are gaining traction, with many shoppers finding them comparable in quality to national brands

but at a more affordable price point.

Additionally, bulk purchasing and value packs are becoming more appealing, as consumers look to stretch their budgets without compromising on essential items. Retailers must recognize these behavioral shifts and tailor their pricing, promotions, and assortment strategies accordingly to maintain engagement and loyalty.

Beyond shifting consumer behaviors, retailers themselves are grappling with rising operational costs that impact pricing strategies and profitability. Supply chain disruptions, higher transportation expenses, and ongoing labor shortages continue to create challenges, pushing brands to find cost-effective solutions. Some retailers are turning to AI-driven pricing models and inventory optimization to strike a balance between affordability and margin protection. Others are investing in strategic promotions, loyalty programs, and alternative fulfillment methods—such as click-and-collect and subscription models—to offer consumers more value without eroding profitability. Those who can adapt to these evolving economic conditions while delivering a seamless shopping experience will emerge as leaders in an increasingly competitive and price-sensitive retail environment.

Winning the customer is more complex

Growing complexity of capital investment decisions



Four major themes have emerged

Competitive landscape is changing quickly

Continued margin pressure on retailers

Changing Consumer Confidence & Spending Power

Consumer confidence took a step back in December 2024 compared to November, reflecting lingering economic uncertainty despite being higher than the previous year. Wage growth has provided some relief, but elevated unemployment rates continue to weigh on household finances, prompting more cautious spending. For 80% of shoppers, affordability remains the primary concern, reinforcing the dominance of value-driven purchasing behaviors.¹ Shoppers across income levels are adjusting their buying habits, with lower-income households prioritizing budget-friendly essentials and bulk purchases, while even higher-income consumers are reevaluating discretionary spending. This shift has led to an increased preference for retailers that strike a balance between premium offerings and practical value, ensuring that price-conscious consumers continue to engage.

Retailers must also prepare for the broader, long-term impacts of evolving employment trends and technological advancements. The rise of automation in retail—including self-checkout systems, AI-driven inventory management, and robotic fulfillment centers—is poised to transform job structures, potentially affecting consumer sentiment and overall spending power. As industries adapt, concerns around job stability may further reinforce cautious spending behaviors, making trust and transparency even more critical for brands. Retailers that acknowledge these economic shifts while offering innovative yet cost-effective shopping experiences—such as personalized promotions, flexible payment options, and loyalty incentives—will be better positioned to build strong customer relationships and long-term loyalty in an increasingly uncertain market.

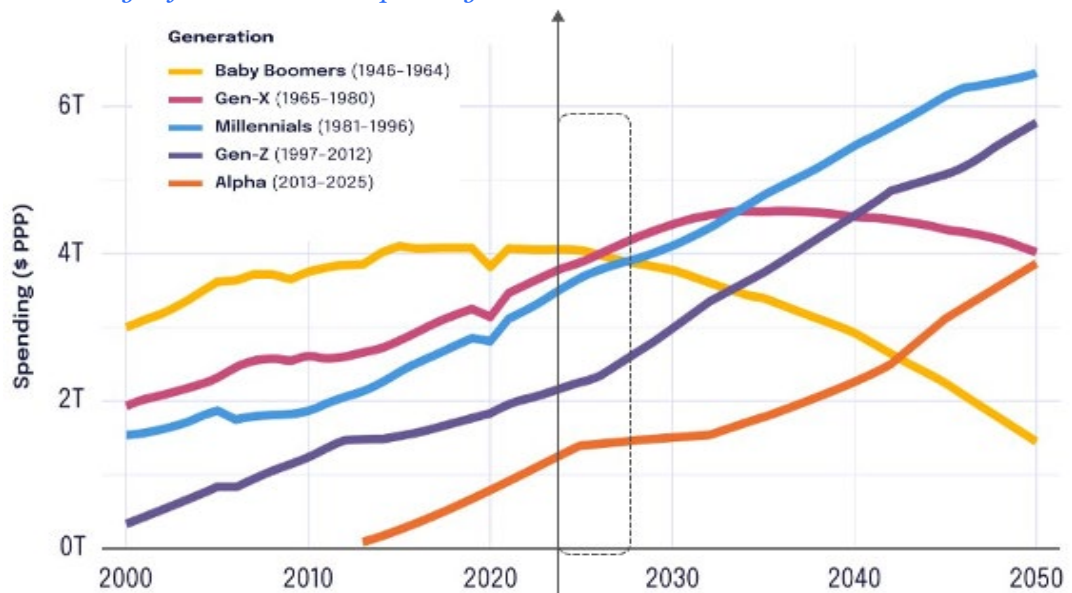


The Shifting Retail Consumer

Critical Generational Spending Shifts

Boomers are playing a smaller role in driving retail growth, while younger generations—particularly Millennials and Gen Z—are reshaping the industry with their digital-first shopping behaviors. Gen Z, now emerging as a dominant force in consumer spending, is particularly notable for its grocery habits, with 1 in 3 ordering groceries online at least weekly.² This generation prioritizes convenience and value, gravitating toward retailers that provide seamless omnichannel experiences, frictionless checkout, and rapid delivery options. Their spending decisions are also heavily influenced by social media, where influencer recommendations, viral trends, and live shopping events shape their product choices. As a result, retailers that integrate social commerce into their strategies and leverage user-generated content to drive engagement are more likely to capture this audience.

Percentage of Total Nominal Spending



Looking ahead, generational influence on the retail landscape will continue to intensify. By 2030, Millennials and younger consumers will make up 67% of the U.S. population, underscoring the importance of digital-first strategies in maintaining relevance.¹ These consumers expect highly personalized shopping experiences powered by AI, dynamic pricing models, and tailored product recommendations. Additionally, their preference for sustainability and ethical sourcing will require brands to enhance transparency and communicate their values effectively. Retailers that proactively invest in technology-driven engagement, flexible fulfillment models, and sustainability initiatives will not only meet evolving consumer expectations but also secure long-term loyalty from the next generation of shoppers.

Private Labels on the Rise

Retailers are making significant investments in private-label brands, with 53% identifying them as their primary growth driver.¹ Once viewed as budget-friendly alternatives to national brands, private labels are now evolving into premium, innovative, and value-driven options. Consumers are increasingly open to these offerings, with 40% willing to switch even if private labels come at a higher price.¹ This shift presents a major opportunity for retailers to redefine their private-label strategies, focusing not just on affordability but also on quality, exclusivity, and sustainability. By leveraging consumer trust and data-driven insights, retailers can develop store brands that offer unique product formulations, superior ingredients, and category-specific innovation that differentiates them from national competitors.

In response to changing consumer priorities, retailers are expanding private-label portfolios with organic, plant-based, and ethically sourced products that appeal to eco-conscious and health-driven shoppers. Some are also embracing premiumization by launching high-end private-label lines that rival established national brands in taste, packaging, and perceived quality. These elevated offerings provide a competitive edge by positioning private labels as aspirational choices rather than simply cost-effective alternatives. As brand loyalty becomes more fluid, the key to long-term success lies in creating compelling private-label products that deliver exceptional value beyond price—whether through exclusive flavors, sustainable packaging, or innovative functional benefits.



Retail's Digital Transformation

E-Commerce & Social Commerce Boom

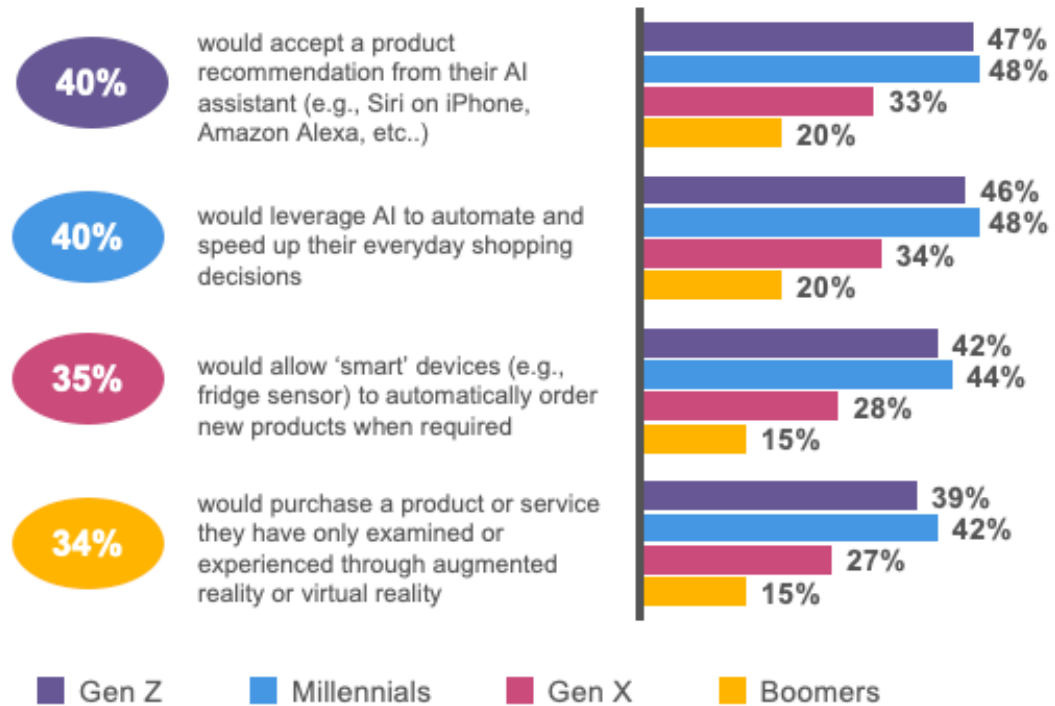
Digital shopping behaviors are rapidly evolving, with 55% of shoppers now purchasing through social media or live-stream platforms.¹ The demand for seamless omnichannel experiences is pushing retailers to expand home delivery, curbside pickup, and AI-driven customer engagement strategies. Consumers increasingly expect digital and physical channels to be fully integrated, allowing them to transition effortlessly between online browsing, in-store pickup, and personalized recommendations. This shift underscores the importance of investing in frictionless shopping experiences, from one-click checkout processes to AI-enhanced customer support. Retailers that fail to meet these expectations risk losing shoppers to competitors offering more convenience and interactivity.

To stay ahead, retailers are accelerating investments in AI-driven chatbots, predictive search capabilities, and virtual shopping assistants to improve personalization and customer engagement. Augmented reality (AR) and virtual reality (VR) are also gaining traction, offering immersive shopping experiences that allow customers to visualize products before purchasing. From virtual try-ons for clothes and eyewear, to interactive digital shelves and virtual stores, and specialty foods with interactive store layouts, these technologies are redefining how consumers engage with brands. As digital commerce continues to evolve, the brands that embrace these innovations will capture the growing segment of tech-savvy consumers who demand both convenience and engagement in their shopping journeys.

AI-Driven Shopping & Automation

AI is transforming retail at every level, reshaping how consumers shop and how businesses optimize operations. Currently, 40% of shoppers embrace AI-powered product recommendations, while 34% use AI-driven tools to automate their grocery and wellness shopping.⁴ Smart devices, such as AI-integrated refrigerators and voice assistants, are increasingly influencing purchasing behaviors by automating replenishment and offering meal-planning suggestions. These advancements signal a major shift in consumer reliance on AI to streamline their shopping experiences, making personalization and predictive technology essential for brands looking to retain customer engagement.

Consumers are more open to AI involvement in their shopping decisions, but generational variances are clear



For retailers, AI is proving to be an invaluable asset in optimizing pricing strategies, managing inventory, and predicting demand fluctuations in real time. AI-powered analytics enable businesses to respond to shifting consumer preferences faster than ever, ensuring that promotions, stock levels, and product assortments align with evolving market trends. Automated price adjustments and AI-driven merchandising strategies also enhance operational efficiency, reducing waste and maximizing profitability. As AI integration becomes more sophisticated, brands that leverage these tools effectively will gain a competitive edge by delivering hyper-personalized experiences and meeting consumer expectations with precision and speed.

The Competitive Landscape & Retail Strategy

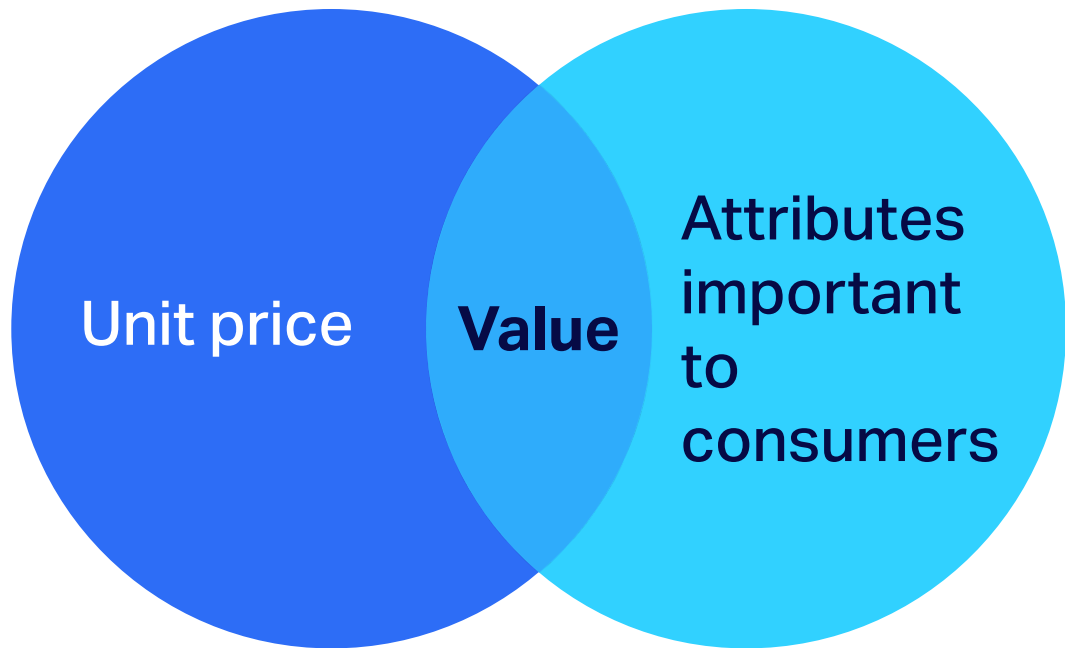
Increased Margin Pressure on Retailers

Retailers are under immense pressure to maintain profitability as competition intensifies and pricing wars continue to erode margins. Price-focused chains are attracting a broader customer base, including higher-income shoppers looking to maximize value, while discount retailers are expanding their reach beyond traditional low-income demographics. This shift has prompted mainstream retailers to rethink their pricing strategies, with many turning to private-label premiumization to differentiate themselves. As a result, retailers are balancing the need to offer budget-friendly essentials with a growing demand for high-quality, private-label alternatives that rival national brands in taste, sustainability, branding and innovation.

To stay competitive, retailers are increasingly leveraging data analytics to enhance efficiency, optimize pricing, and improve supply chain resilience. AI-driven forecasting tools are helping businesses predict demand more accurately, reducing waste and ensuring that high-demand items remain in stock without excess inventory costs. Automated pricing strategies allow retailers to adjust costs dynamically based on consumer behavior, promotional performance, and competitor pricing. In a landscape where every margin point counts, integrating technology into retail operations is no longer optional—it's essential for sustaining growth and profitability.

Evolving Definition of Value

The traditional concept of value as simply "low prices" is shifting, as consumers increasingly define value through quality, convenience, and trust in the brands they buy. Shoppers are seeking a balance between affordability and premium experiences, placing greater emphasis on product transparency, ethical sourcing, and sustainability. For many, value now extends beyond cost savings to include personalized recommendations, exclusive perks, and time-saving digital conveniences. This evolution is driving the rise of experiential retail, where immersive store layouts, digital integration, and frictionless checkout experiences become key differentiators.



Loyalty programs are playing a crucial role in retaining customers in this new value-driven landscape. AI-powered personalization, subscription-based offerings, and exclusive member benefits are helping retailers create deeper connections with shoppers. Additionally, customer service enhancements—such as AI-driven chatbots, real-time support, and proactive engagement strategies—are becoming essential components of a strong value proposition. Brands that successfully merge price competitiveness with personalization, innovation, and reliability will be best positioned to capture consumer loyalty and thrive in the evolving retail ecosystem.

The Future of Retail: Adaptability and Innovation

The retail landscape is evolving faster than ever, requiring brands and retailers to stay agile in the face of economic shifts, changing demographics, and technological advancements. Consumers are becoming more intentional with their spending, prioritizing affordability, digital convenience, and personalized experiences. Retailers that embrace these trends by investing in AI, e-commerce, and private-label innovation will be better positioned to meet the evolving demands of today's shoppers.

As generational spending power shifts and digital commerce expands, traditional retail models must be reimaged. The increasing importance of value-driven shopping and omnichannel engagement presents both challenges and opportunities. Successful brands will be those that integrate seamless digital experiences, maintain transparency in pricing and product quality, and leverage data-driven strategies to enhance customer relationships.

Looking ahead, the future of retail will be defined by adaptability and innovation. Brands that proactively respond to consumer needs—whether through AI-driven recommendations, private-label expansion, or improved omnichannel capabilities—will thrive in this rapidly changing environment. As retailers navigate this transformation, those that stay ahead of these emerging trends will shape the future of retail and establish lasting consumer trust and loyalty.

Sources

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2 - EnsembleIQ Gen Z Approach to Grocery Shopping 2024 (n=505)

3 - NIQ, Homescan Panel; Total Outlets, Total US – Households with <\$30K annual income; Total Store (all departments); Share of total Unit sales declines vs 4 years ago; 52 weeks ending December 28, 2024

4 - Mid-Year Consumer Outlook: Guide to 2025



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