



How COVID-19 is changing consumer behavior —now and forever

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As the world begins its slow pivot from managing the COVID-19 crisis to recovery and the reopening of economies, it's clear that the period of lockdown has had a profound impact on how people live.

The period of contagion, self-isolation, and economic uncertainty will change the way consumers behave, in some cases for years to come.

The new consumer behaviors span all areas of life, from how we work to how we shop to how we entertain ourselves. These rapid shifts have important implications for retailers and 'consumer-packaged-goods' companies.

Many of the longer-term changes in consumer behavior are still being formed, giving companies an opportunity to help shape the Next Normal.

1. COVID-19 is transforming consumer lives - we have covered a "decade in days" in adoption of digital

Three change forces—economic downturn, preference shifts, and digital acceleration

2. Behavior changes are not linear and their stickiness will depend on satisfaction of the new experiences

Ups and downs ahead of us

Stickiness = forced behavior x satisfaction

The jury is still out on value-driven behaviors

3. Future is NOW -Players should prepare

Prepare for consumption declines/trading down

Address footprint offer, and shopping experience for the new reality

Follow consumers in their new decision journeys when you market and communicate

COVID-19 is changing how consumers behave across all spheres of life

We see new behaviors emerging across 8 areas of life
(eg, surge in e-commerce, changing of brand preferences, higher unemployment)

Work

Rise of unemployment
On-the-go consumption decline
Remote working

"20x increase in Zoom daily participants"
Source: Bond Capital

Learning

Spending on learning
adjacencies
Remote learning

*"35% --> ~35% of Netflix
subscribers use it for
educational content"*
Source: YouGov

Communications and information

In-person sampling decline
Shift in media consumption

"Further migration to digital"

Travel and mobility

Reduction in tourist spend and travel retail
Increase in domestic tourism

*"80% reduction in international
travel & related tourist spend"*

Source: McKinsey analysis in partnership
with Oxford Economics

Shopping and consumption

Surge in e-commerce
Preference for trusted brands
Decline in discretionary spending, trading down
Larger basket, reduced shopping frequency
Shift to stores closer to home
Polarization of sustainability

*"Personal disposable income is not expected to
recover to pre-crisis level until Q2 2024 in the US"*
Source: McKinsey analysis in partnership with Oxford Economics, Scenario A1

Life at home

Nesting at home
Surge in online

*"Home is recast as the new
coffee shop, restaurant, and
entertainment center"*

Play and entertainment

Preference for digital entertainment
Entertainment channel shift
(eg, cinema to streaming)
Additional play time

*"Disney Plus achieved in 5 months
what took 7 years for Netflix"*

Source: Phone Arena

Health and wellbeing

Focus on health and hygiene
Acceleration of organic, natural, fresh
Fitness on demand
E-pharmacy & e-doctor at scale

*"Monthly year-over-year growth of organic produce in the US
increased by 10x in March compared with January and February"*

Source: Organic Produce Network





Many of the trends are accelerations of past behaviors

We have covered a “decade in days”
when it comes to adoption of digital



Online delivery
10-years-in-8-weeks

For increase in e-commerce deliveries

Online Delivery
10 years in 8 weeks
For increase in e-commerce deliveries



Telemedicine
10x in 15 days



Remote working
20x participants

on videoconferencing in 3 months



Remote learning
250 million in 2 weeks

students who went online in China

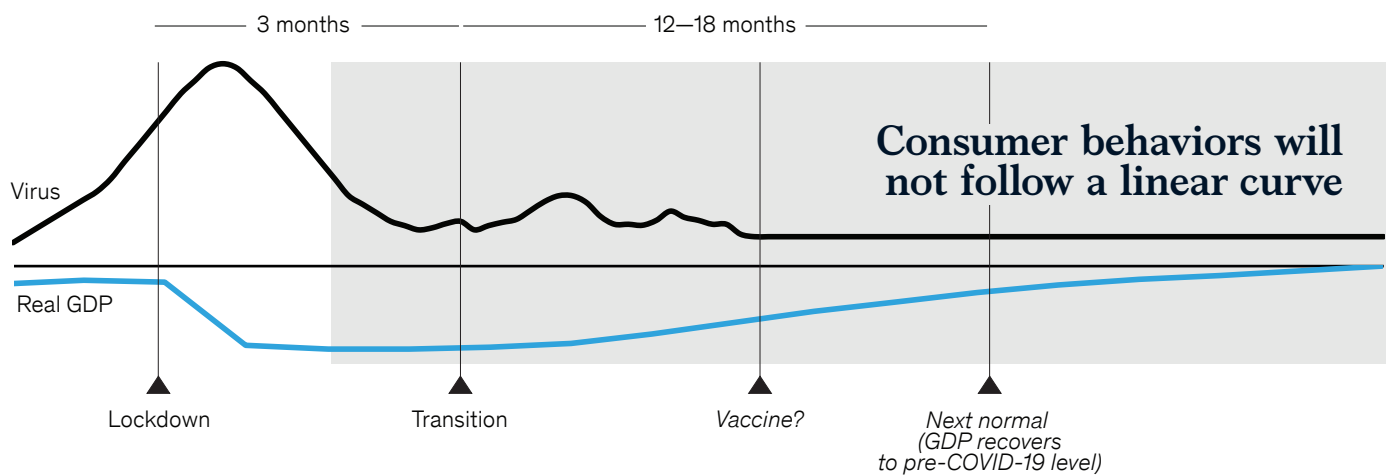


Online entertainment
7 years in 5 months

Disney Plus achieved in two months what took Netflix 7 years

Most behaviors will see a linear development trend or stick in the next normal

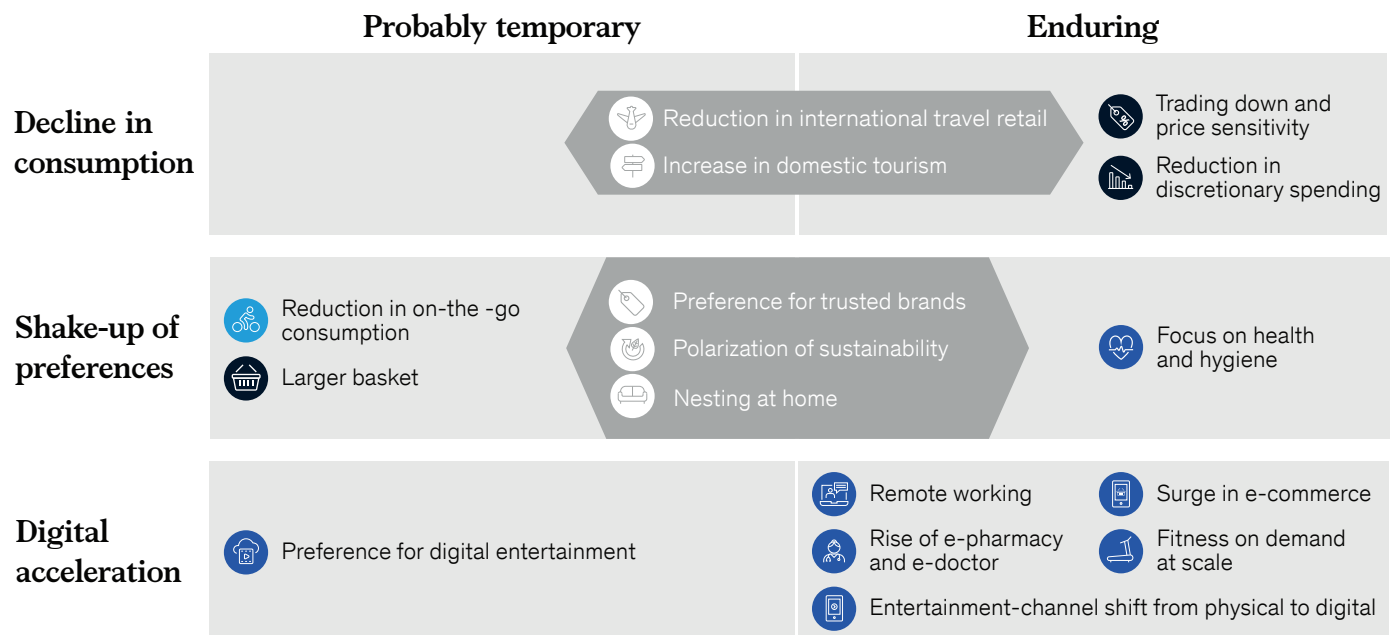
As countries gradually lift lockdown restrictions, 1 more phase remains before we reach the next normal



Stickiness = forced behavior [including duration] x satisfaction

Our hypotheses on which changes could stick or dissipate

● New trend ● Discontinuity ● Acceleration ■ Unknown



Behavior changes will reshape consumer decision journeys and companies will need to adapt fast

Retailers and consumer-packaged-goods companies that use the transition period to rethink consumer decision journeys can reshape consumer behavior

How

consumers get information

Shake-up of media mix: further shift to digital

Temporary comeback of TV
Decline in out-of-home-advertising

Decline in in-person engagement

Where

consumers purchase

Channel mix reevaluation

E-commerce: 17-percentage-point increase in grocery, surge in e-pharmacy

On-the-go consumption decline

Decrease in travel retail

Replacement of offline channels by at-home alternatives (eg, gym, cinema)

New channel-selection attributes

Proximity to home

Hygiene

No queue/room in store

New shopping reality

Decrease in satisfaction due to inconvenience of safe shopping

Increase in basket size

Decrease in shopping frequency

Decrease in density of shoppers

Decrease in tourist spending

What

consumers purchase

Overall consumption: 15% US decline with recovery in 2023

Basket re-composition

- Grocery
- Nesting
- Health
- Discretionary spend decline
- Trading down

Format polarization

Large and small packs
Reduced shopping frequency

Shake-up in hierarchy of needs

Health and hygiene rises
Polarization of sustainability

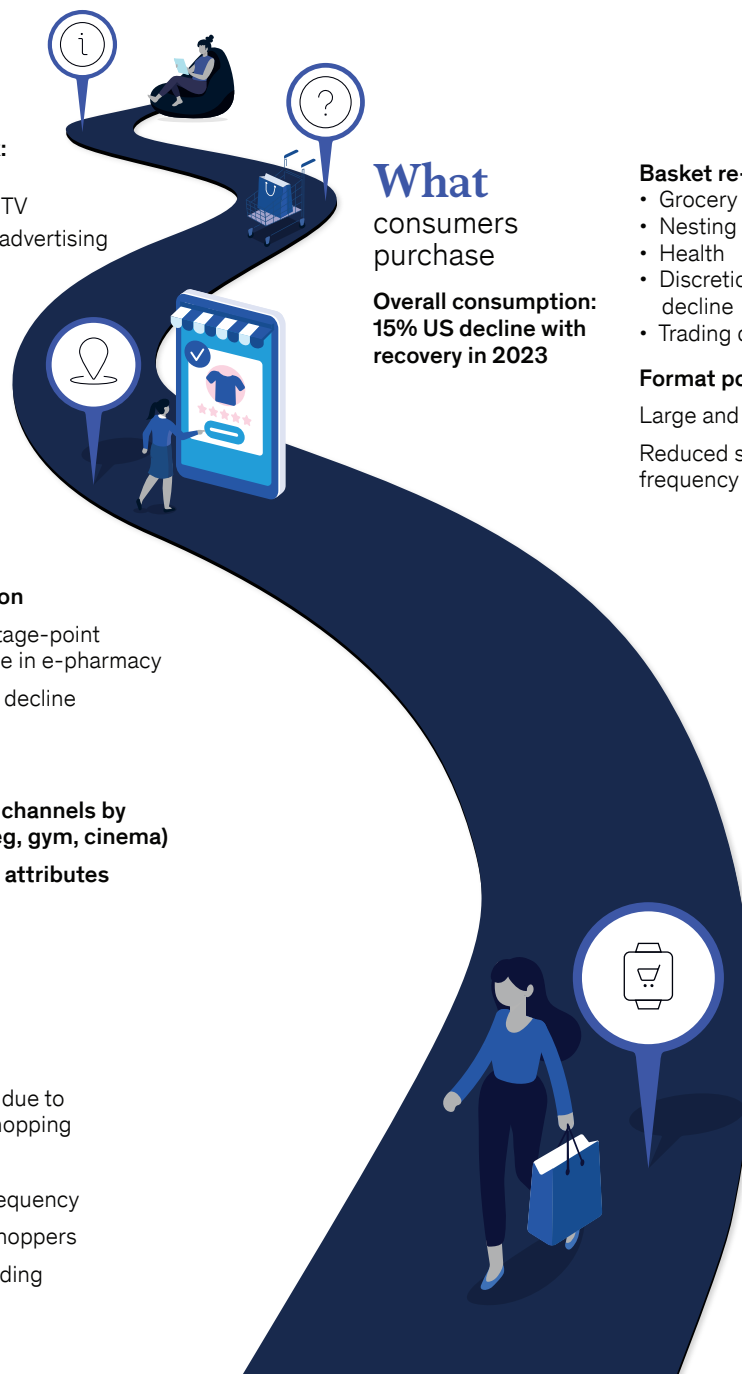
Brand-preference evaluation

Turning to A-brands for trust

How

consumers experience

Shake-up in what consumers value
Loyalty shake-up, as consumers are forced to try new things



Retailers will face challenges across multiple dimensions

Sales

- ☐ Reinvent shopping experience: hassle-free shopping in high hygiene environment; change store layouts and proposition, reconfigure check-out, offer longer operating hours, provide omnichannel
- ☐ Right-size network to recognize 15% drop in consumption
- ☐ Leapfrog digital capabilities towards first-class e-commerce, seamless omnichannel experience; consider drive-through, click-and-collect
- ☐ Reevaluate physical-store footprint, as traffic from professionals and tourists declines and impacts travel retail and on-the-go consumption

Marketing

- ☐ Consumers have changed where and how they engage, and marketing spending should reflect this
- ☐ Stay relevant across multiple touchpoints (brand.com, platforms, e-retailers, own stores, multibrand stores)
- ☐ Allocate resources in line with journey shifts, eg, increase digital engagement (social, influencers, D2C) away from out-of-home advertising, print, trade marketing
- ☐ Win in loyalty shifts: ensure first-class customer-relationship-management system, foster trust through communication, and provide incentives for first-time shoppers

Assortment

- ☐ Reimagine value for money: price, private label, quality, branding, merchandising
- ☐ Capture new needs: health, safety, fresh, new ready to eat; reduce exposure to highly discretionary categories
- ☐ Adapt formats to new needs: polarization in pack size (large and single packs) and hygiene certainty
- ☐ Rethink brand mix: increase exposure to post-COVID-19 loyalty-shift winners (trusted A-brands and local brands), and simplify assortment

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