WHAT'S NEXT FOR RETAILERS: KEEP AN EYE ON EXUBERANCE

An Ipsos Point of View

By Wendy Wallner

GAME CHANGERS Ipsos

Key Takeaways:

- “Irrational exuberance” may cause many consumers to spend more.
- Pent-up demand will roll out over this summer, including trips to physical stores and restaurants.
- Mobility will increase, but not all the way to pre-COVID levels.
- E-commerce changed habits, but many retailers will not see further growth above peak COVID levels unless they performed better than others in delivering good experiences.

Remember the “dramatic” retail changes before COVID? Industry experts sure do.

Digitalization caused an omnichannel revolution. Entertainment and retail merged to become “retail-tainment.” Social media evolved into a new selling channel. Sustainable fashion created new upcycling business models. Even “handheld” foods had a moment.

Retailers could see these changes coming and were able to methodically research and plan for each. Then, the pandemic hit. The changes in consumer habits were so sudden that it seemed businesses only had one weekend to react. With no notice, 2020 became the most dramatic year in retail history.

Consumer mobility halted, creating a trickledown effect on shopping practices. The surge in e-commerce tops the list. Restaurant closures and panic buying created a spike in grocery sales. Store staff became heroes as they risked their lives to serve their customers. Financial hardship and uncertainty led to less willingness to spend on discretionary purchases and even more price shopping. Retail was divided into essential versus non-essential, and non-essential was subject to police action.

Now, as we transition to a post-vaccine world, Ipsos has been closely monitoring shifts in consumer habits and expectations to be able to anticipate what the future holds to help retailers and retail partners have confidence in choosing the right big bets.

As retailers plan for 2021 and beyond, Ipsos has been tracking several questions regarding shopping habits that are important to retailers:

- How close is the new normal?
- What changes are likely to occur?
- What COVID behaviors will stick?

> *Returning to pre-Covid shopping behaviors will not happen overnight as resuming activities continues to make consumers anxious, but evidence of pent-up demand is emerging as stores and restaurants re-open.*

Physical stores & restaurants

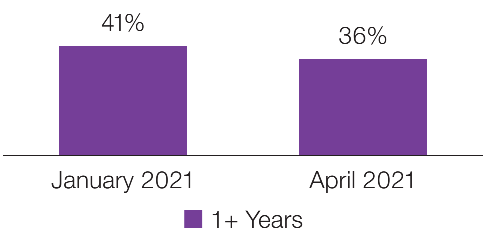
Let's start with in-person shopping and dining, the "new normal" there, the changes that have taken place—and the move towards "exuberance."

Many consumers continue to feel that shopping at physical stores is risky. E-commerce popularity remains strong. But they are just as bored as at the peak of the pandemic. Thus, demand remains pent up, waiting to be unleashed.

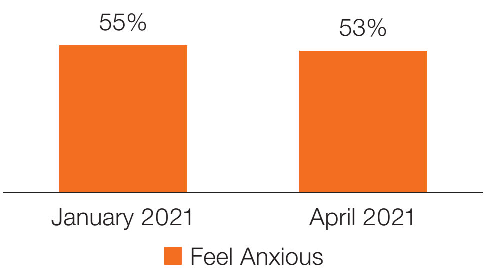
Return to Normal

Many Americans still feel like the return to normal is very far away

Return to Normalcy
(% say will take at least 1 year
before feels back to normal)



Feeling Anxious (% agree thinking
about resuming normal activities after the
pandemic makes me feel very anxious)



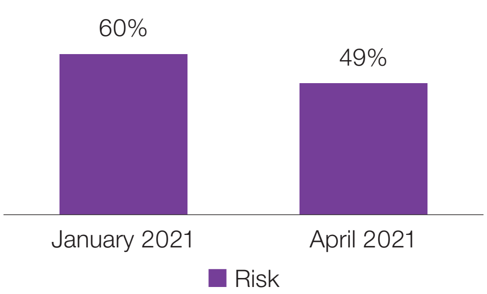
Source: Ipsos Global Covid Tracker, waves 32/38, fielded January and April 2021, among U.S. adults, n=1000 per wave

Perceived Risk

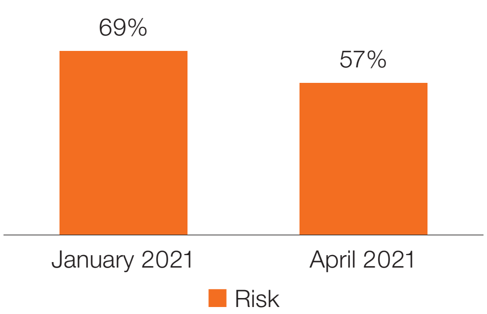
At least half of Americans still believe physical locations like restaurants and stores represent a risk

% Feel It's a Risk (April 2021)

Shopping at retail stores



Dining at restaurants

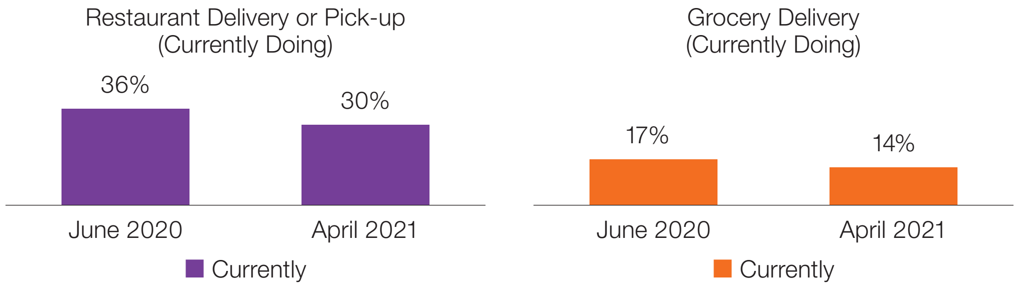


Source: Ipsos Global Covid Tracker, waves 32/38, fielded January and April 2021, among U.S. adults, n=1000 per wave

E-commerce

E-commerce delivery of groceries and meals have declined only slightly since the peak of the pandemic

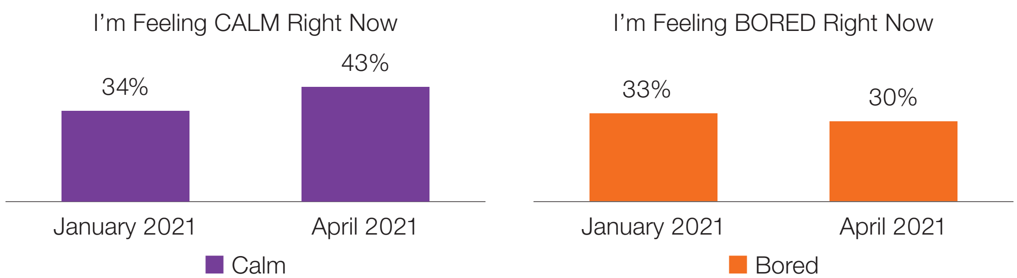
Which are you currently using or doing more now as a function of Covid-19 crisis?



Source: Ipsos Consumer Coronavirus U.S. Tracker, waves 8/27, fielded June 2020 and April 2021, among U.S. adults, n=1000 per wave

State of Mind

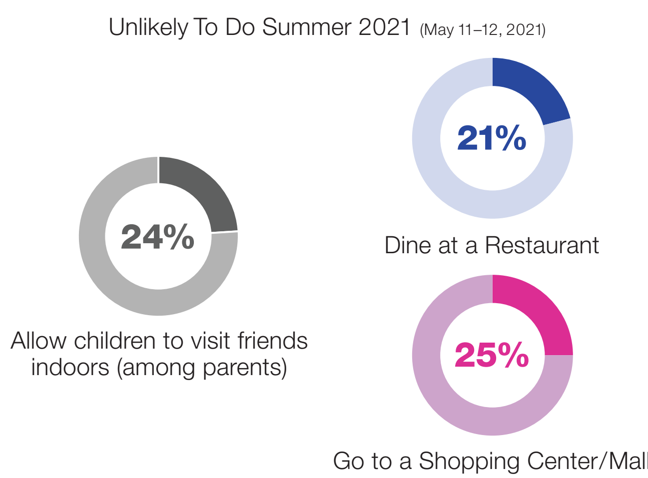
While Americans are feeling much Calmer since the start of 2021, Boredom has decreased only slightly



Source: Ipsos Global Covid Tracker, waves 32/38, fielded January and April 2021, among U.S. adults, n=1000 per wave

While most Americans greatly miss in-store shopping and in-restaurant dining, Ipsos data shows that roughly 20–25% are very reluctant to resume those activities. As a result, it will take a while to reach pre-COVID levels of dining and physical store shopping. Still, an 80% "return to normal" might not seem so bad.

While out-of-home activities are expected to increase, one-quarter of Americans are still reluctant to venture out this summer



Source: Ipsos Consumer Coronavirus U.S. Tracker, waves 8/27, fielded May 2021, among U.S. adults, n=1000 per wave

The good news is that consumer psychology has changed for many consumers, which will lead to higher spending throughout the year.

Ipsos Behavioral Scientists see an "irrational exuberance" starting to emerge. Shoppers through the pandemic have done something rarely seen—they created new reward systems for themselves. A task like making sourdough bread provided feelings of accomplishment; a completed shopping outing during a time of uncertainty felt like a success.

As we work through the pandemic, companies will see this explode into spending on indulgences and experiences. "Marketers, retailers, restaurants can feed into this by giving license to enjoy those rewards and communicate they are deserved," says Jesse Itzkowitz, head of the Ipsos Behavioral Science Center. While physical dining and shopping traffic may not return to pre-COVID levels, this exuberant spending should make up the difference.

A portion of consumers will remain in a "preventative," risk-averse mindset, with no chance of acting with exuberance. Ipsos advises marketers to understand the psychological mindset of your target consumers in order to set the right strategy.

What changes are likely to occur?

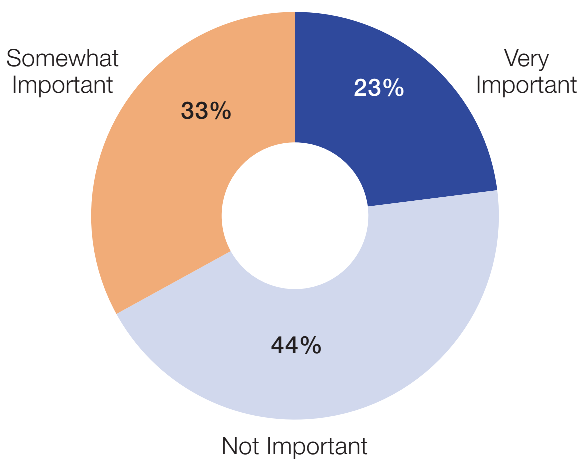
The heightened grocery shopping we saw in 2020 is subsiding, with March sales down 14% from last year, according to census data. Mall traffic is substantially up versus a year ago, according to numbers from Placer.ai. (Source: Placer.ai). Clothing sales are showing signs of life. Restaurants may have turned a corner, with census data showing March sales up 13% from February.

Ipsos data indicates that pent-up demand will be rolling out through the summer, including shopping in stores and dining at restaurants. Consumers miss shopping in physical stores and they greatly miss dining at restaurants. Besides being separated from family and friends, restaurants are what they miss most. Grocery retailers will need to adopt different strategies to hold onto gains made during Covid.

> *Increased flexibility to work from home and reluctance of some to resume activities will cause some new behaviors to persist. This will be offset by a changing psychology in which rewards are sought for sacrifices made during the pandemic leading to higher spending.*

Two-thirds of Americans want to be able to shop in store

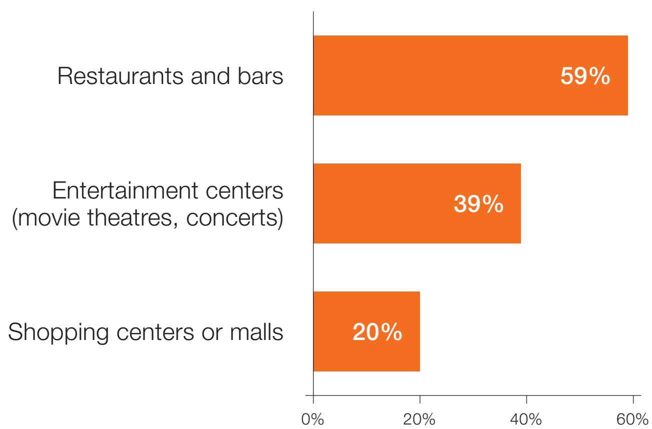
How important is it to you that you are able to "shop at a stand-alone retail store"?



Source: Ipsos Global Covid Tracker, waves 32/38, fielded April 2021, among U.S. adults, n=1000 per wave

Americans greatly miss restaurants and bars

Which of the following do you miss most right now?



Source: Ipsos Consumer Coronavirus U.S. Tracker, waves 8/27, fielded April 2021, among U.S. adults, n=1000 per wave

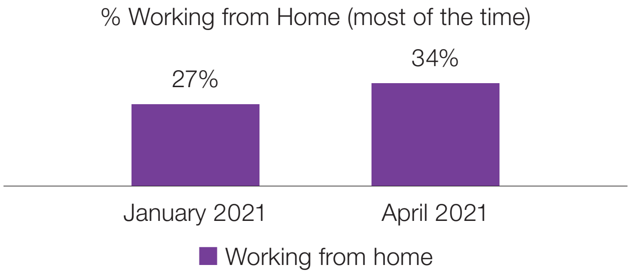
Mobility

Consumers working from home need to expend more effort to venture out compared to pre-COVID.

Sheltering at home dramatically changed shopping behaviors. As businesses and workplaces re-open, that will change, but some stickiness is expected. The major reason is that many workers are going to demand the flexibility to work from home.

Working from Home

Roughly one-third of workers are currently working from home



Source: Ipsos Global Covid Tracker, waves 32/38, fielded January and April 2021, among U.S. adults, n=1000 per wave

In a March 2021 survey, 42% of workers said that if their employer required them to return to the office full-time, they would look for another job with more flexibility.

Source: Ipsos Consumer Coronavirus U.S. Tracker, waves 8/27, fielded March 2021, among U.S. adults, n=1000 per wave

As a result, consumer mobility will increase, but not all the way back to 2019 levels. That means Americans will continue to cook at home and shop online. It means fewer in-person shopping outings, larger baskets and more stock-up trips.

Leaving home requires a special effort and a more purposeful decision. Shoppers are likely to become more selective and mindful about where to shop. It won't just be based on convenience. Convenience and specialty-oriented retailers might need to work harder than most to attract the kind of traffic they enjoyed pre-COVID.

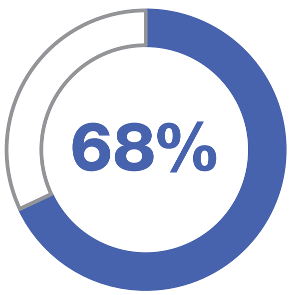
Given this, "non-essential" retailers as well as restaurants should seek to partner with essential retail. Some grocers are already providing floor space to restaurants and starting ghost kitchen service. 7-Eleven is taking it one step further, pushing into foodservice with a variety of test concepts that bring QSRs in-store. Ulta and Sephora have partnered with Kohls and Target stores to increase their accessibility. Being part of a one-stop shopping trip has become more important, and this trend should continue.

E-commerce

E-commerce has surged in popularity, but the experience for most has not been satisfying. Granted, retailers were caught off guard and operations couldn't gear up as quickly as needed, and often the supply just wasn't available. But if the experience had been better, retailers might expect e-commerce to continue to grow well beyond COVID levels.

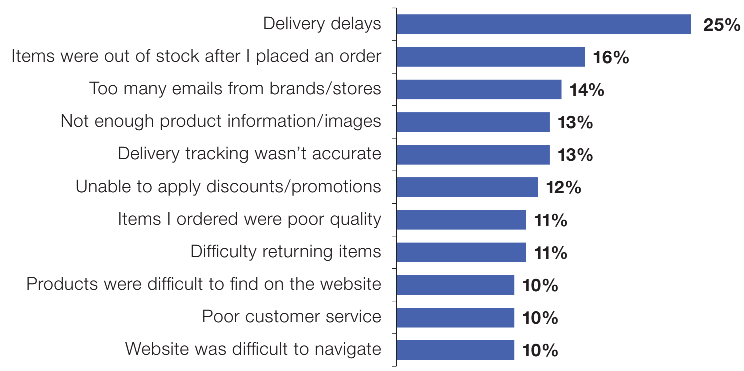
Given the relatively poor consumer experience, especially for grocery, over the next couple years it will most likely settle above 2019 pre-COVID—but not as strong as 2020. The retailers who have delivered the best e-commerce experiences (e.g., Walmart) will continue to see online gains, but others will not without substantial improvements.

E-commerce has room for improvement: Significant growing pains as retailers struggle to meet demand



Recently faced issues when shopping online

Top Issues Encountered While Shopping Online
Recent Online Shoppers



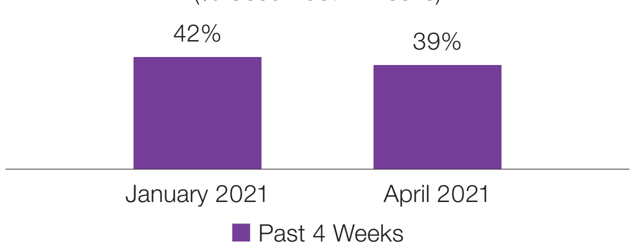
Q: Which of the following issues have you encountered when shopping with a retailer online recently? Base: Recent Online Shoppers (n=12623)

The exception is curbside pickup, which appears to be here to stay. Given that, ancillary services are expected to develop around curbside—for example, CPG companies have started adding product samples to curbside orders. Next should be restaurant partnerships—picking up your shopping order and your restaurant order in a single curbside trip.

Curbside

Roughly 40% of Americans are currently using curbside pick-up service

Curbside pick-up
(% Used Past 4 Weeks)



Source: Ipsos Global Covid Tracker, waves 32/38, fielded January and April 2021, among U.S. adults, n=1000 per wave

What's Next:

- Three- to five-year strategies can be based on today's insights if companies know where to look.
- Ipsos will provide updates as new information comes to light.
- In the meantime, understanding a target consumer's psychological mindset right now will enable future-proofed plans to be developed even under this period of drama and uncertainty.

Contact Information

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