prevedere

THE COVID-19 EFFECT ON HOLIDAY 2020

Prevedere U.S. Economic Update With Nielsen and Microsoft

THE COVID-19 EFFECT ON HOLIDAY 2020

Prevedere U.S. Economic Update With Nielsen and Microsoft

Data updated: September 30, 2020

This report, "The Covid-19 Effect On Holiday 2020" is part of a series presented by Prevedere, Nielsen, and Microsoft on the changing consumer as a result of COVID-19. Nicole Collida Davis, from Nielsen, details the ever-evolving U.S. consumer in this discussion. Chris Dieringer, from Microsoft, provides his perspective on the upcoming holiday season. And Thomas Kilbane, from Prevedere, gives his outlook for consumer spending, which categories are poised to do well, and sets the stage for what we can expect in 2021.

Shifting Consumer Behavior

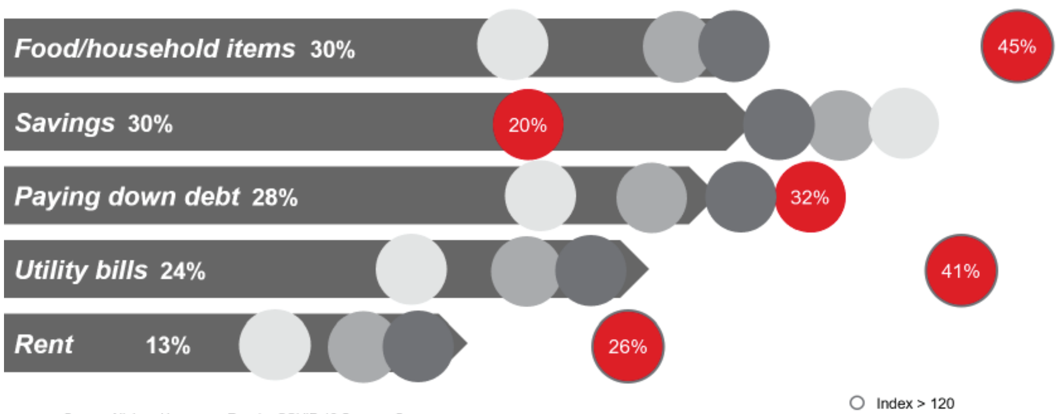
Financially constrained consumers are at a tipping point. It is critical to understand this segment heading into the 2020 holiday season. To date in 2020, 24% of American households have seen some level of financial impact due to COVID-19. Many of these households are making up Nielsen's financially constrained consumer segment. These consumers will affect the economy, potentially for years to come. In considering the pending holiday season, understanding these spending pattern shifts is crucial to any successful strategy.

This financially strained consumer segment is worth almost $200 billion in CPG buying power. It's a tremendous amount of money that will impact any strategy for the rest of the year and into 2021.

Most interesting is that these financially constrained consumers do not necessarily mean low income or lower-income households. These consumers span all income levels, all ethnicities, and all age groups. The common denominator among these consumers is just the fact that they've experienced some level of financial loss as a result of COVID-19.

These consumers' most significant financial impact was from stimulus packages that flooded the market in April, May, and June. This defined a considerable shift in behavior for this consumer group. Stimulus dollars became necessary for these households for certain vital activities, like buying food, keeping household items in stock, and paying utility bills--quite frankly, keeping the lights on in some instances for their households.

HOW STIMULUS CHECKS WERE SPENT:

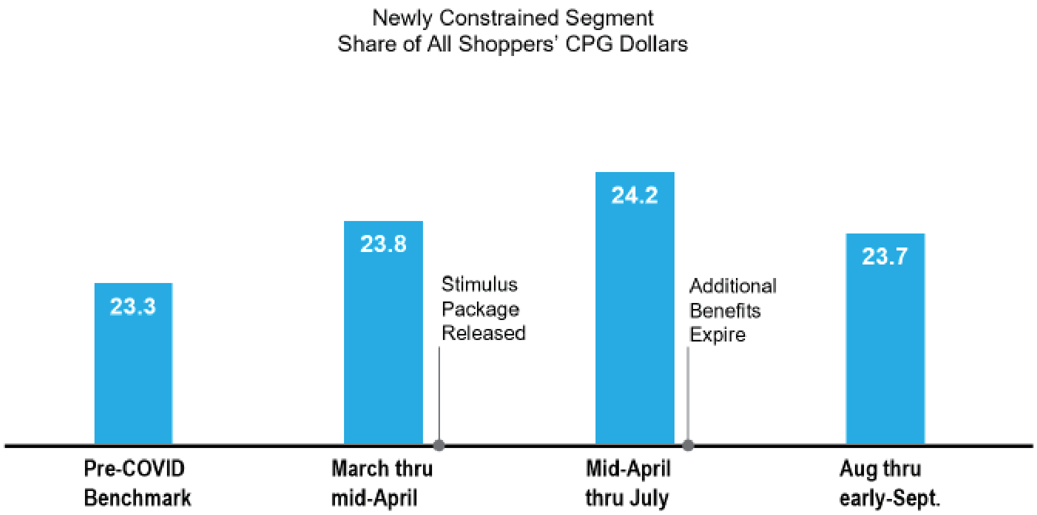


Source: Nielsen Homescan Panel – COVID-19 Summer Survey
Question: *How did you or others in your household use the stimulus check received from the Federal government? Please select all that apply.*

For many of these consumers, COVID-19 has had an incredible impact on their psyche. These consumers are stressed to the max and relied heavily on that help from the stimulus. So when thinking about targeting this segment, consider that share of mind for these consumers is strapped at best. They've got a lot on their minds in terms of just keeping their households running smoothly.

Heading into the holidays, a successful strategy will revolve around relating to these consumers differently. Understanding not only what they need, but where they are fulfilling those needs, and how to best interact with them where they are, will be critical to success.

The importance of stimulus to these consumers is brought to life when looking at their share of CPG spend. Their share shifted as COVID rose early in March, and it continued to impact behavior heading into August and early September. For newly constrained consumers, share peaked up from April through mid-July. Some of this is due to household size. We know that consumers were home more, and those with larger households continued to stockpile their purchases.



Source: Nielsen Homescan Panel, Shopper Segmentation

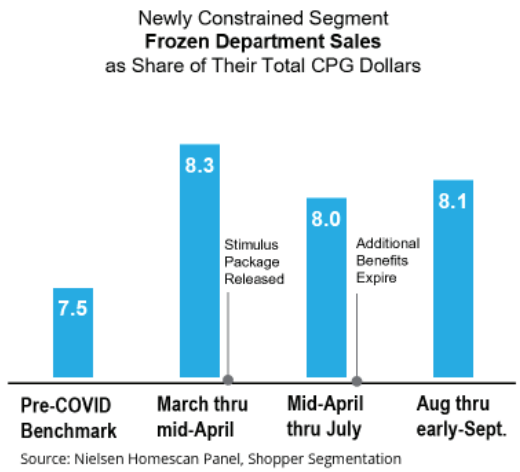
There was a dramatic jump in volume when stimulus packages were released from mid-April to early May. The constrained consumers' share of total CPG spend jumped to a high. Through the month of August and into early September, the percentage of CPG volume started to decline. It is early, but this trend will likely continue over the coming months as stimulus dollars exit these households. As these consumer needs states begin to shift due to economic concerns, there will be much fluidity regarding where they shop.

Channel Preferences Shifted With Health, Then Economic Circumstances

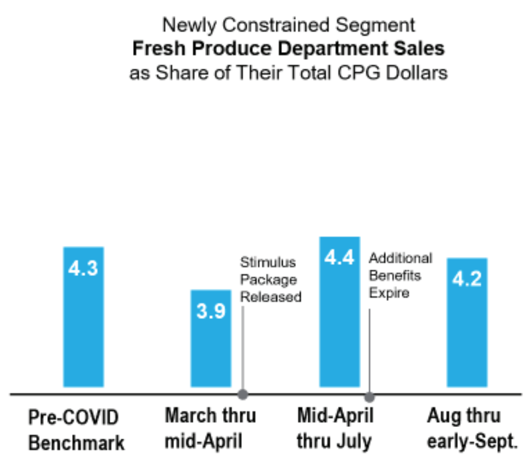
It's not essential to take away the absolute changes and trends across different channels, but more so to understand that these financially constrained consumers spend their dollars in a true omnichannel environment. This isn't a trend that's necessarily different than expected. But it is different from early in COVID when consumers were willing to pay premium prices or adjust their selection needs based on what was available, based on limited shopping opportunities, or streamlining shopping into one channel. For these households, the fluidity or diversification in where they shop to meet household needs in new and different ways.

The mass channel has been a vital channel for this consumer set. That will continue to rise through the fall and into the holidays. One of the most interesting data points is e-commerce's potential to dwindle over the months to come. Prime Day is right around the corner, as is the online holiday shopping extravaganza, and both will be telling.

As Their Financial Situation Evolves, So Too Does Their Share of Wallet



Early in COVID, the frozen department soared for these consumers. The newly constrained consumer was spending the maximum amount of their dollars in this department. As stimulus came into the market, that trend pulled back. In the most recent data, that is beginning to rise again.



In the fresh produce department, the exact opposite occurred. As stimulus dollars flooded the market, consumers were spending more in the fresh produce area. The changes may appear small when looking over an extended period. However, with this consumer segment accounting for almost $200 billion in buying power, there are tens of millions of dollars with every single tenth of a point of change.

However, Shifting To Private Label Hasn't Occurred (Yet) As Expected

One interesting point is that there hasn't yet been a shift to private label, a hallmark of the Great Recession. Early in COVID, there were many questions about private label trajectory. And the reality is, it hasn't happened, bringing it back to the idea that the financially constrained consumer is different this time around. These are households of every income, every background, every ethnicity, and age, and they are all impacted differently.

One area that there is a shift is in premiumization. Some consumers are staying in a premium segment. However, they may be trading from a very high-end premium item to a lower end premium item. This will be one of the most interesting things to watch play out, particularly in the CPG space, when planning for the holidays.

One example is as simple as turkey. Many consumers that fall into this new constrained consumer set may have been buying fresh organic turkeys or pre-made meals that were easy on them, but not as easy on their wallets. And this year, there may be a shift in something even as simple as that.

Activating On The Insights

Effective holiday planning strategies will meet financially constrained consumers in terms of channel diversification and address these consumers' concerns through deal strategy that makes sense for the targeted consumers. That doesn't mean dropping price in every instance. It means understanding your brand or your retail role to this consumer and activating on it accordingly. Attracting new buyers for brands and retailers will be a tremendous opportunity heading into the holidays due to understanding who these consumers are and what they're looking for in engagement.

The most successful thing companies can do is root themselves in the shopper and truly understand their path to purchase. It's important to understand these shifts within these newly constrained consumers and their role in your brand strategy or retail strategy playbook.

The world is way too unpredictable to have an ironclad playbook for any scenario, so using a segmentation that's as fluid as your consumer will be critical. Create your strategy, cite your plan, and execute with confidence, and you will be able to tackle this new consumer and their evolving trends over the upcoming holiday period.

Microsoft Holiday Season Insights

Companies need to consider how they look at their digital investments and put digital in the center of just about everything they do. The following three themes are based on some of the holiday insights Microsoft sees, which includes planning early, prepping physical and digital operations, and personalization.

Plan Early

The first is that consumers are starting to shop sooner. They have the opportunity to spend more and will shop based on convenience. A potential second wave of stimulus could adjust this. Companies need to look at their promotions and offers and get those in consumers' hands now. 54% of shoppers are shopping earlier this year versus last year (42%), and 32% of those are starting as early as October. As of right now, companies are preparing, planning, and providing offers out for those valuable dollars.

When it comes to convenience, 56% of consumers choose one retailer over another based on delivery options. One way to capitalize on this is to make the returns process easier, given the change in consumer behavior and the rise of e-commerce, particularly with COVID and the inability to try certain products on, touch, or feel them. Retailers shouldn't focus too much on the restock fees or consumers having to work through a help desk to complete a return. They should think about ways of drawing consumers back into stores, providing even more frictionless experiences with the opportunity to upsell.

An example is in the QSR space, as Domino's is one of the top leading companies coming out of COVID. Consumers can order a pizza through merely texting a pizza emoji to them.

Another success is Starbucks. They arguably changed how mobile order and pay have been adopted in the market, blending both digital and physical together. To put it into perspective, 25.4 million users go through Starbucks mobile pay today. Apple Pay sits around 27 million, and in a distant third, is Google Pay at 12 million. Starbucks has provided a value exchange to consumers who are willing to invest in their phone real estate on their app.

Prep Physical & Digital Operations

The rise of e-commerce has been fast and far-reaching; it touches many areas. Best Buy reported Q2 online sales shot up 242% compared to the previous year with higher traffic from browsing versus buying. In looking at the rise of e-commerce, it is interconnected and touches many different things.

When it comes to e-commerce, companies need to consider issues that come within stores such as theft or shrinkage, or fraud can also happen online.

Microsoft developed its own fraud protection system, reducing fraud-related costs by $76 million. They saw a 9% revenue lift on about a $10 billion business through implementing their fraud protection solutions.

In about 3.5 months, another large software gaming company improved its revenue by about $12 million. So not only should companies look to provide new capabilities, but also provide offers that keep both their brand and customers safe.

There was a 200% increase in mobile downloads when social distancing started, and that increased another 12% to 15% once the first stimulus checks went through. Customers will spend about two to three times more with the brand they install on their mobile app than those that don't. McDonald's saw a seven times conversion rate for any offers through their mobile with a 47% increase in tray size for relevant offers.

Companies should also focus on in-store efficiency. One of the things talked about around COVID is the reduced foot traffic in stores. The goal used to be to bring more people in stores, give them great experiences, keep them engaged with them longer to upsell, provide a strong customer to brand relationship, and see greater returns on both units and revenue. Now that's changing, with one-way lanes in grocery stores, or the amount of space companies have inside or outside the store. A concierge, bots, and other services and solutions that companies can use around this technical ecosystem is essential.

Through the explosions of "buy online pick up in-store" and other variants of the concept, the percentage of those who have done curbside or BOPIS is likely broader than 30%. Target reported in Q2 that digital comp sales were up nearly 200%, with same-store in comp sales up around 11%. However, same-day services saw more than 270% growth, and specifically things like their drive up and go, was as high as 734%.

Reducing additional shipping costs is also an incredibly important thing to consider, specifically in an area where frictionless companies have driven the free shipping and free returns component. Any opportunity you have to drive people to your store, you can cut shipping costs out. There is also the potential to upsell directly with your brand ambassador store associates.

Another thing to consider is replicating in-store experiences elsewhere. People could be out in parking lots. Depending on if you're a warmer or colder weather climate, it's interesting to think about how companies might shelter or provide comfort from that perspective.

Mobile point of sales, people in niche conversations, and upsell opportunities are critical components to ensure that customers are aware of and critical to communicate. These are great ways to allow brands to provide consumers confidence that they can show up when they want to, and an associate and/or service will be there when they need it.

Looking for new ways to fulfill orders is very important. Checkout lines always have caused friction, but a rise of companies like Grubhub's or DoorDash, have exploded in revenue. The problem here is that companies are taking a hit with potentially their fastest-growing channel by paying another service.

Providing some of that service into a company mobile app, not necessarily a full grab and go but a scan and go, is a great way to think about this. 70% of people who use it once will use it more often, so that first try is incredibly important. Once people use them, on average, they spend about 6% more than they did previously. And check out times can drop from three to four minutes down to 15 seconds. Finally, on human labor costs, typically sitting around 48% on average per transaction, can drop to 4 to 5%.

There is incredible value in changing your mobile app, and bringing customers into an ecosystem, providing a value exchange.

Personalization

Never underestimate the power of personalization. A quick definition of that is proximity, identity, and content. Proximity is taking both digital and physical footprints that you have in store, versus your digital footprint across preferences, search options, and other ways you engage with the brand digitally. Identity is to identify a specific person, so companies know who their customer is and how they are spending time. Then all of that served up to relevant content based on a platform of achievable data.

Social media is finally having quantifiable advances in the social commerce space. 28% of consumers are buying products on social media today, which is more than usual. I'm referring to purchases from social channels that have had the most significant increases of Q2 in 2020, having grown 104% across the entire ecosystem. That's important because 80% of consumers want their brand social channels to facilitate a sense of community and offer support through trying times and needs. Brands and companies have the opportunity to create these communities, drive compassion, offer empathetic messages through these social channels that consumers want.

Consumer retail spend over chatbots will reach $142 billion by 2024, rising from $2.8 billion in 2019. Virtual assistants can save time on support costs and give more capabilities around 24x7 support. They increase customer insight and build brand affinity and connection directly with the consumer and engage in ways that companies necessarily haven't been able to in the past. Typically, if A.I. can answer, "where is my order," it invariably pays for the investment in itself in that initial project.

70% of consumers will share personal data when they get a strong value exchange, meaning more significant online and security benefits and convenience.

Chipotle is a company that considers itself a technology company that happens to sell burritos. Initially, they had about 80 million unique credit card numbers tied to inline restaurant transactions, but they couldn't connect those back to customer identities. They also couldn't effectively drive customers to Chipotle rewards loyalty programs. Microsoft created a CDP, customer data platform for Chipotle to develop deeper relationships and drive customer loyalty.

That's the foundation of data with the customer profile. Companies can offer and apply all sorts of third-party syndicated data across marketing channels, such as hotels, occupancy rates, weather, and sporting events. Then, clean up the entire information management practice from that data leg to reference data analytics to drive loyalty and engagement.

Chipotle's digital sales grew 216% year-over-year during the second quarter, as the pandemic went into full swing. That's about a 70% increase in digital sales since they launched this program, and that's an increase of 65% newly enrolled rewards members that have an additional $45 of net spend per customer. On top of that, their app moved up to the top 10 on both the Apple and Android stores.

So if we look at tying and knitting many of these things together, there is no crystal ball or magic recipe that's ironclad to make this holiday successful. But there are areas where companies can put digital at the center of a strategy to capitalize on planning early, prepping physical and digital operations, and personalization.

Overall Financial Health Of The Consumer

The consumer's financial health has been harder to capture during this period of 2020 than in most periods. For analysis, one of the best things to do is to split it into competing effects. The first is a given, in that the U.S. is in a recession. However, it may not feel like that to many because of the following effects, which are somewhat unique to this particular recession.

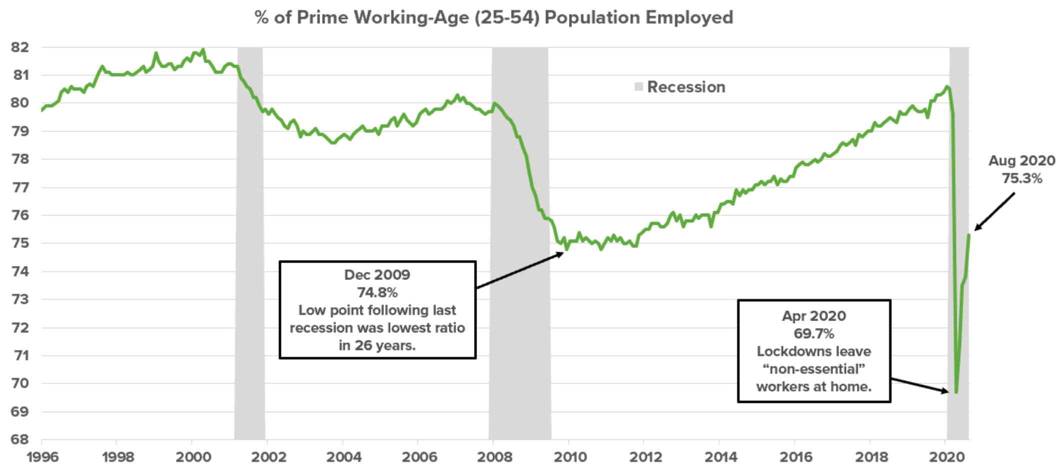
The stimulus significantly changed the picture for the consumer this year, creating competing effects. There is a recession, which is naturally going to lower consumer health and consumer spending. Simultaneously, there is a stimulus in the U.S., more extensive than those in past recessions, which is boosting spending.

The last effect that goes hand-in-hand with the health crisis is an incredible shift in consumer spending, well beyond what is normal in a recession. Beyond trading down tiers or to a private label, consumers are changing their lives. For example, they are going to the movie theater less but spending more on video streaming instead.

Understanding these three competing eff ects and separating them is going to be necessary moving forward. The critical thing is that not all of these eff ects are going to unravel at the same speed at the same time. Understanding which of these has the most decisive impact on a particular business, and what to expect going forward is critical.

Too Many People On The Sidelines

It's challenging to maintain a healthy U.S. consumer if the consumer isn't working. The unemployment rate, which spiked very high at the beginning of this crisis, has recovered since then fairly strongly, probably more strongly than many anticipated. But there are issues with using the unemployment rate and the labor market to track U.S. consumers' health.



This chart shows that about 75% of the 25 to 54-year-old population is working, above where it was in April, but also down from where we would expect it to be in a healthy economy. As a comparison point, the lowest point in the last recession is about where we are today. It took a very long time for the labor market to recover.

A couple of the things holding this number down is the need for people to provide family care or homeschooling if their children aren't in school and concerns over personal health. If these things alleviate through the recovery of the health crisis, then this rate has the potential to push up faster than we would have seen in the past.

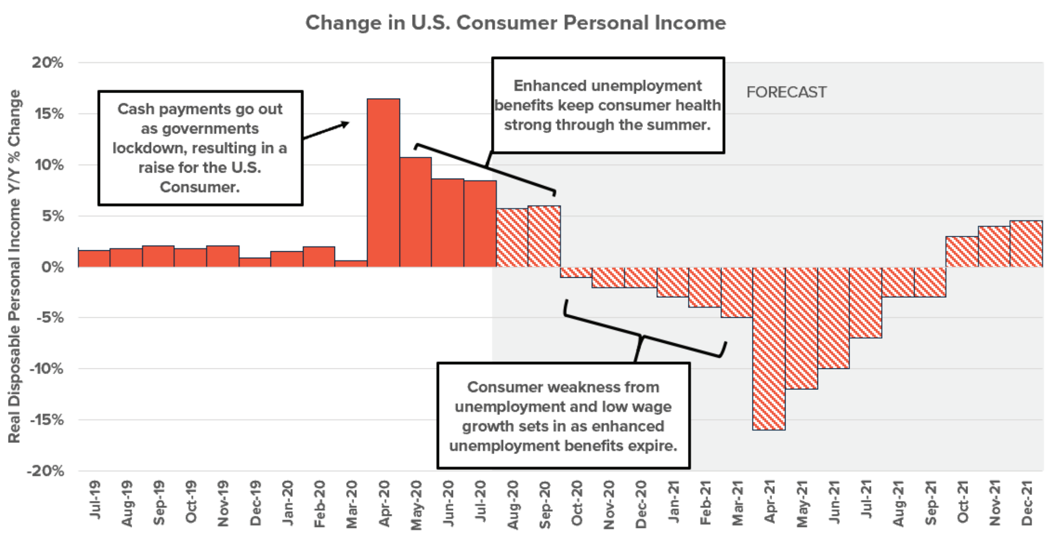
But unfortunately, there's also going to be continued downward pressure. Unlike December of 2009, when we were out of the woods regarding the recession, most employment cuts had already happened. We still see cuts happening depending on the industry, and there are many different industries and areas of the economy that have not fully cut.

It wasn't just the U.S. consumer that received stimulus. Businesses received a stimulus that tied to maintaining employment. As a lot of that expires, more cuts are inevitable, creating competing impacts on this as well.

The bottom line is that we do not expect the U.S. economy to recover quickly; it will take time.

Even if it's been hard to feel in certain areas that the consumer has been weak in 2020, it will undoubtedly be a factor heading into the holiday season.

What Recession?



Because of the stimulus, many aspects of a recession have yet to be felt by specific categories or geographies. In this chart, you can see where cash payments go out as governments lockdown, resulting in a raise for the U.S. Consumer.

Unemployment benefits are what have maintained personal income since. Data shows that those who have received enhanced benefits had raised their spending relative to when they were employed. So while they lost their employment, they increased their spending. There was a very mild extension of some of these enhanced employment benefits after the big deadline at the end of July. But even that extension is expiring now.

For a picture of what to expect going forward, consider that the stimulus is almost gone. Now companies will have to deal with the effects that consumers typically feel during a recession. How the recession impacts a company depends on its geography and what they are selling.

Consumer Spending Winners and Losers

It's challenging to maintain a healthy U.S. consumer if the consumer isn't working. The unemployment rate, which spiked very high at the beginning of this crisis, has recovered since then fairly strongly, probably more strongly than many anticipated. But there are issues with using the unemployment rate and the labor market to track U.S. consumers' health.

Consumers are switching costs due to lifestyle changes. Since they are at home more, they are spending more on things to do at home. This is evident in the data with categories, such as home and garden, games, toys, and hobbies, doing well. We expect that to continue.

We expect restaurants, bars, and travel to continue to recover, but not anywhere close to fully recovering during this holiday season when so many people are typically traveling.

Employed consumers will be saving money by deferring travel expenses or live entertainment they would typically attend around the holidays. So that leaves cash in consumers' wallets to create opportunities in the market. As colder weather hits, outdoor projects may have exhausted themselves, but new indoor ones can apply themselves. Household goods and electronics are categories that might do very well as we head into the holiday season. And there's likely still plenty of money left over for games and toys.

Overall, it's essential to realize that consumer health is likely to be weaker than previous holiday seasons, and will be the case into 2021. The stimulus has had an immense impact and increased consumer financial health, which has been a big help for many categories. Some categories have also benefitted from shifting consumer behavior and trends. While the three effects may not unravel simultaneously, we at Prevedere expect consumers to begin to adapt to a new normal throughout 2021 as the health crisis hopefully dissipates.

ABOUT THE AUTHORS

Nicole Collida Davis, Nielsen SVP, North American Consumer Intelligence

Nicole leads the North American Consumer Intelligence Sales team at Nielsen, where she is responsible for creating differentiated value in the marketplace through decomposing evolving consumer patterns. She currently stands on the front lines for Nielsen as the company showcases solutions that shape smarter markets and enable growth.

Chris Dieringer, Senior Director of Industry Solutions at Microsoft - Retail and CPG

Chris is currently leading the US Retail and CPG practice focused on following current and future trends in the industry and helping customers realize those within their digital transformation. He has experienced time with sub-segments including Consumer Electronics, Grocery, Home Improvement, Fashion/Apparel, Department Store and CPG companies.

Thomas Kilbane. Prevedere Senior Economis

Thomas works with businesses across a wide variety of industries to improve understanding of their external environment and how it impacts their performance. Previously, Thomas was an analyst for the Ohio General Assembly, as well as at multiple fi rms in the fi nancial services industry. Thomas holds a Masters' of Applied Statistics and Applied Economics from The Ohio State University and a Bachelor's degree from the Argyros School of Business and Economics at Chapman University.

Complimentary COVID-19 Economic Outlook Weekly

In the wake of the COVID-19 pandemic, it is now more important than ever to have access to trusted data and expert economic analysis to help guide strategic decision making and business planning. To meet this need, Prevedere is unveiling its Economic Outlook Weekly report, with a complimentary package focused on COVID-19.

There is no charge for access to leading indicators as they matter updated weekly.

Complimentary COVID-19 Economic Outlook Weekly includes:

- Macro view of COVID-19 global economic impact
- Key leading indicators to watch
- Regular economist presentations offered as information becomes available
- Weekly updates sent to your inbox

Click here to gain access to the COVID-19 Economic Outlook Weekly>>

Prevedere is a predictive analytics software company that delivers insights into future business outcomes based on current economic trends. Our predictive economic intelligence offerings help executives see what lies ahead for their business and solve for upcoming risks and opportunities. Prevedere's SaaS solutions apply the power of machine learning and predictive modeling to millions of indicators of global economic and consumer activity. Prevedere customers include Fortune 500 industry leaders in retail, manufacturing, and consumer packaged goods. To learn more, visit www.prevedere.com or follow @Prevedere on Twitter.

prevedere

TO LEARN MORE, VISIT:

PREVEDERE.COM