Five Retail Trends That Will Outlast the Pandemic

MAY 2021
Five consumer trends have become entrenched and will persist beyond the immediate effects of COVID-19

KEY CONSUMER TRENDS

- Shift of time and money to the home
- Roaring but uneven recovery
- E-commerce acceleration
- Focus on health and cleanliness
- Population shifts

Source: BCG analysis.
These trends will have an outsize impact in 2021, persisting even after the pandemic ends

**Shift of time and money to the home**
Employers will increase fully remote and hybrid ways of working
Consumers will continue to spend more time in and near the home
*Grocery and home categories* (such as DIY and furnishings) should see a sustained uplift in the short-to-medium term

**Roaring but uneven recovery**
As the economy opens up, consumers are primed to spend more
Government stimulus will continue to bolster retail spending
Low-income workers are disproportionately affected by COVID-19 and are at risk of being left behind in the recovery

**E-commerce acceleration**
The surge in e-commerce adoption will persist as customers remain channel loyal
There will be a permanent shift toward e-commerce as retailers solve supply constraints
Yet the economics of e-commerce will remain challenged due to operations and infrastructure, shipping, and price competition

**Focus on health and cleanliness**
The pandemic has permanently changed consumer spending and expectations about health and wellness; retailers should expand their offerings in these categories
The pandemic has generated an increased focus on individual mental health and well-being, further affecting consumer choices

**Population shifts**
Populations are shifting from urban cores to suburban areas, but there are early signs of a partial return
Retailers will need to reexamine footprints, customer coverage, and local store assortments
An acceleration in anchor-tenant bankruptcies has put more pressure on surrounding stores

Source: BCG analysis.
Consumers are putting a greater focus on the home as restrictions and remote work continue

~50%
Estimated share of employees working from home—up from 11% before the pandemic

~60%
Share of remote workers who say they feel more productive at home

~28%
Increase in home-related spending in 2020 vs. 2019

Emerging trends…

Consumers are spending significantly more time in and around their homes

Employers are continuing to support fully remote and hybrid ways of working

Home-related spending saw explosive growth in 2020, but consumers are starting to pull back

…and implications for retailers

Consumers will prioritize shopping online and at stores close to home, making fewer visits to traditional office areas and nearby shopping centers

Retailers will need to target new consumer needs and emerging missions, such as athleisure vs. formal wear

Most home categories will experience a sales decline in 2021 vs. 2020; however, spending will remain above prepandemic baselines

Sources: Becker Friedman Institute; Google Community Mobility reports; Willis Towers Watson; BCG analysis.
Note: These analyses are for the US market and represent only potential scenarios that are based on discrete data from one point in time. They are not intended as a prediction or forecast, and the situation changes daily.
Spending growth has focused heavily on home categories, digital services, and grocery

Rapid growth in the home category and for products and services used at home

<table>
<thead>
<tr>
<th>Category</th>
<th>Change by Category (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Home</td>
<td>28</td>
</tr>
<tr>
<td>Digital services</td>
<td>19</td>
</tr>
<tr>
<td>Grocers</td>
<td>13</td>
</tr>
<tr>
<td>Pets</td>
<td>10</td>
</tr>
<tr>
<td>Electronics</td>
<td>10</td>
</tr>
<tr>
<td>Health and beauty</td>
<td>-15</td>
</tr>
<tr>
<td>Apparel and accessories</td>
<td>-24</td>
</tr>
<tr>
<td>Travel and transportation</td>
<td>-50</td>
</tr>
</tbody>
</table>

Spending in the home category is likely to decline in 2021 versus 2020 but remain above prepandemic baselines

- Grocery will decline as consumers resume out-of-home dining; however, given more remote work and a greater focus on health, sales will remain above prepandemic levels
- Home categories will decline because some 2021 growth was pulled forward; however, sales will remain above prepandemic levels because of a significant backlog of construction and renovation work
- Apparel and accessories will face a challenging recovery as consumers spend more time at home and attend fewer events outside the home

Sources: Analysts’ reports; Earnest Research; BCG analysis.
Note: The analysis is for the US market.

1The comparison is between the first 9 months of 2020 and all 12 months of 2019.
2Includes such items as DIY and furnishings, as well as the subsectors garden and outdoor, home furnishings, home improvement, home security, home services, household goods, and storage.
We expect a roaring recovery due to pent-up demand, but it will be uneven given varying levels of disposable income among consumers

Emerging trends…

- A K-shaped recovery is emerging:
  - High-income consumers will spend more as a result of pent-up demand
  - Low-income consumers will have less disposable income and therefore be on the lookout for bargains

- Consumer confidence dropped during the pandemic while savings rose, heavily aided by unspent stimulus payouts

- Consumers are eager to exit lockdowns and enjoy experiences that were unavailable during those times

…and implications for retailers

- Retailers should ensure that they make offerings available to people of all income levels throughout the recovery

- Consumers in aggregate have stored away substantial money and appear able to spend heavily in 2021

- As lockdowns and restrictions are eased, customers will splurge on items and experiences that they felt deprived of during the pandemic

Sources: The Conference Board Consumer Confidence Index; the OECD; the University of Michigan Consumer Sentiment Index; National Retail Federation; PYMNTs.com; BCG analysis.

Note: These analyses are for the US market and represent only potential scenarios based on discrete data from one point in time. They are not intended as a prediction or forecast, and the situation changes daily.
Consumers overall are ready to spend again, with high savings rates and rising confidence

Consumers saved more during the pandemic, but many are primed to spend now

Low-income consumers will take a different path, as employment and wages remain challenged

Sources: The Conference Board Consumer Confidence Index; tracktherecovery.org; the US Bureau of Labor Statistics; BCG analysis.

Note: The analysis is for the US market.

1The University of Michigan Consumer Sentiment Index (March 2021).
2High income is defined as an annual income of at least $60,000.
3Low income is defined as an annual income of less than $27,000.
E-commerce acceleration continues, especially for grocers, club stores, and mass retail—but the economics are challenging

~29%
E-commerce growth in the 2020 holiday season despite a 5% decline in retail sales year over year

120%
Increase in online grocery orders in 2020

~26%
Estimated personal-care spending via e-commerce in 2020, compared with 15% in 2019

Emerging trends…

- E-commerce acceleration from the pandemic continues in the US market, but at 30% to 50% of its initial spike in growth
- Grocers, club stores, and mass retail have had the largest sustained levels of e-commerce, and 50% to 75% of e-commerce will continue permanently even as reopening occurs
- Retailers’ e-commerce economics remain challenged, with many looking for ways to boost margins in the online channel

…and implications for retailers

- Retailers need to take a long-term view of e-commerce profitability and make investments to meet growing demand
- Retailers need to engage supplier partners actively in online economics. It has never been easier for suppliers to go directly to the consumer
- Retailers should expect significant promotional intensity and competition as the pandemic-induced surge subsides; they should double down on owned products and brands as effective tools for building loyalty and price perception

Sources: Digital Commerce 360; Earnest Research; US Department of Commerce; BCG analysis.
Note: These analyses are for the US market and represent only potential scenarios based on discrete data from one point in time. They are not intended as a prediction or forecast, and the situation changes daily.
A significant portion of e-commerce’s new market share may be permanent

Q: Once COVID-19 cases become less of a concern, will you increase or decrease these behaviors?

<table>
<thead>
<tr>
<th>Behavior</th>
<th>Increase</th>
<th>Same</th>
<th>Decrease</th>
</tr>
</thead>
<tbody>
<tr>
<td>Online fitness</td>
<td>37</td>
<td>40</td>
<td>23</td>
</tr>
<tr>
<td>Cooking meals at home</td>
<td>33</td>
<td>57</td>
<td>10</td>
</tr>
<tr>
<td>Home improvement projects</td>
<td>28</td>
<td>65</td>
<td>7</td>
</tr>
<tr>
<td>Online grocery shopping</td>
<td>26</td>
<td>52</td>
<td>21</td>
</tr>
<tr>
<td>Online financial services</td>
<td>26</td>
<td>60</td>
<td>15</td>
</tr>
<tr>
<td>Using meal-delivery service</td>
<td>25</td>
<td>55</td>
<td>20</td>
</tr>
<tr>
<td>Curbside pickup</td>
<td>23</td>
<td>49</td>
<td>28</td>
</tr>
<tr>
<td>Banking online</td>
<td>21</td>
<td>75</td>
<td>4</td>
</tr>
</tbody>
</table>

Sources: Offers.com; BCG analysis.
Note: The survey was an online, mobile-enabled, US Census–balanced survey conducted in Q1 2021.
The consumer focus on health and cleanliness will continue, along with higher standards and their associated costs

Emerging trends…

- Consumer spending on cleaning products increased early in the pandemic and remains elevated
- Customers are prioritizing their health and shopping for a more wellness-focused lifestyle—a trend accelerated by the pandemic
- Consumers expect businesses to maintain elevated cleanliness standards for the foreseeable future

…and implications for retailers

- The pandemic shifted consumers’ focus to cleanliness products, which will remain top of mind for consumers
- Retailers should expect increased demand for personal-wellness and health products and experiences
- Recent enhancements to cleaning practices, such as the use of PPE, and their associated costs will persist

~65% Customers who will limit 1:1 contact in stores going forward
~65% Customers who expect retailers to continue COVID-19 protocols after the pandemic ends
~34% Increase in cleaning-category spending in 2020

Sources: International Council of Shopping Centers; BCG analysis.
Note: PPE = Personal protective equipment. These analyses are for the US market and represent only potential scenarios based on discrete data from one point in time. They are not intended as a prediction or forecast, and the situation changes daily.
The pandemic has permanently elevated expectations for in-store safety and cleanliness

Because consumers want to see current safety precautions maintained...

...retailers will continue to face higher costs

**Variety store chain**
Spent $96 million in the fourth quarter of 2020 on PPE and employee expenses related to the pandemic

**Home improvement store chain**
Anticipates $250 million in pandemic-related costs in 2021

**Grocery store chain**
Invested about $275 million in associate and customer safety measures during the fourth quarter of 2020 alone

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**RETAILER ACTIONS THAT CONSUMERS EXPECT TO CONTINUE AFTER THE PANDEMIC (%)**

- Face covers and PPE: 89%
- Hand-sanitizing stations: 86%
- Social-distancing measures: 80%
- Checkout barriers: 74%
- Occupancy limits: 62%

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Sources: Company press releases; Shopkick COVID-19 report (Q1 2021); BCG analysis.
Note: PPE = Personal protective equipment. The analysis is for the US market.
Population shifts in the pandemic have changed demographics and created a new customer mix for many

Emerging trends…

- +16% Disparity in rent increases between least dense and densest areas across the US¹
- +8% Disparity in home price increases between least dense and densest areas across the US¹
- ~21% Decline in US new-home starts in 2020, adding pressure to home prices

…and implications for retailers

- Previous flagship markets will be under duress for some time
- With COVID-19 restrictions in place and remote work flourishing, urban cores are experiencing a sharp decline in foot traffic and customers
- Retailers need to reevaluate their store footprints and local assortments to meet the needs of their new customer mix

Sources: VoxEU.org; BCG analysis.
Note: These analyses are for the US market and represent only potential scenarios based on discrete data from one point in time. They are not intended as a prediction or forecast, and the situation changes daily.

¹Increases as of January 31, 2021, year over year.
The pandemic has shifted housing demand from dense city centers to the suburbs

Apartment rents have hit bottom in the densest areas across major MSAs…

…while home prices in less dense areas and suburbs have risen sharply since March 2020

Sources: VoxEU.org; BCG analysis.
Note: MSAs = metropolitan statistical areas. The analysis is for the US market.
February 1, 2020 = 100. January 31, 2020 = 100.

Very high = central business district
High = top 10% of zip codes by population density
Mid = 50th–90th percentiles
Low = <50th percentiles
Our evolving view on the spending recovery categorizes subsectors in six growth-trajectory archetypes

<table>
<thead>
<tr>
<th>ARCHETYPES</th>
<th>DESCRIPTION</th>
<th>ILLUSTRATIVE POTENTIAL SECTORS(^1)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>WINNERS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Mountain</strong></td>
<td>Temporary 2020 surge due to daily consumer behavioral shifts resulting from the pandemic. Sales will normalize to a baseline above prepandemic levels, with a long-term shift back to prepandemic growth trends</td>
<td>Grocery&lt;br&gt;Pet supplies and services</td>
</tr>
<tr>
<td><strong>Forward buying</strong></td>
<td>Surge in 2020 demand due to buying earlier than usual in the pandemic, followed by a pullback in the short-to-medium term. Growth trajectory will return to prepandemic trends in the long run</td>
<td>Home improvement&lt;br&gt;Home furnishings and decor&lt;br&gt;Electronics</td>
</tr>
<tr>
<td><strong>Upshift</strong></td>
<td>Near-term pandemic-related surge that turns structural, triggered by a permanent shift in consumer behavior or other macrotrends</td>
<td>E-commerce overall&lt;br&gt;Digital fitness&lt;br&gt;Health and wellness</td>
</tr>
<tr>
<td><strong>Valley</strong></td>
<td>Temporary 2020 hit due to routine behavioral shifts as a result of the pandemic, with minimal long-term impact. Sales and growth will return to prepandemic trends in the long run</td>
<td>Beauty</td>
</tr>
<tr>
<td><strong>Pent-up demand</strong></td>
<td>Significant decline in 2020, followed by a surge of pent-up demand in the short-to-medium term. Growth trajectory will return to near-prepandemic trends in the long run</td>
<td>Leisure travel&lt;br&gt;Restaurants</td>
</tr>
<tr>
<td><strong>Downshift</strong></td>
<td>Near-term pandemic-related decline that turns structural, triggered by a permanent shift in consumer behavior or other macrotrends</td>
<td>Apparel&lt;br&gt;Traditional gyms&lt;br&gt;Business travel</td>
</tr>
</tbody>
</table>

Source: BCG analysis.

\(^1\)Subject to ongoing analysis.
Lasting consumer trends will affect the recovery timelines for each category

**Grocery**
- MOUNTAIN
- Grocery will see a slight pullback in 2021 as consumers venture out of the home for meals. Given increased remote work and the ongoing focus on health, spending will remain above prepandemic levels.

**Restaurants**
- PENT-UP DEMAND
- Restaurant sales will grow significantly in 2021 as lockdowns ease due to pent-up demand, but the category won’t return to prepandemic levels for a few years.

**DIY**
- FORWARD BUYING
- DIY will see a slight pullback in 2021 as a portion of 2020 sales occurred earlier than usual. Given a continued consumer focus on the home, spending will remain above prepandemic levels.

**Travel**
- PENT-UP DEMAND
- Leisure travel will recover significantly in 2021, but business travel will remain depressed, taking a few years to return to prepandemic levels.

**Apparel**
- DOWNSHIFT
- While apparel will begin to recover in 2021, the shift to spending more time at home will have a longer impact. This is likely to be one of the categories with a longer recovery timeline.

Source: BCG analysis.
Note: The above represents the overall structure of the category; individual retailers will control the shape of their own recovery through the actions they take now.
Retailers should take several key actions to get close to the customer, spark demand, and coordinate operations

<table>
<thead>
<tr>
<th>IMPERATIVE</th>
<th>KEY ACTIVITIES</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Quickly understand customer needs</strong></td>
<td>• Double down on analytics to understand how customer needs have changed and will continue to do so</td>
</tr>
<tr>
<td></td>
<td>• Ensure that offerings excite top customers and attract new ones</td>
</tr>
<tr>
<td><strong>Spark and accelerate demand</strong></td>
<td>• Use personalization engines to communicate and share targeted offers that cut through the digital clutter</td>
</tr>
<tr>
<td></td>
<td>• Be ready with value offerings for customers who need to trade down</td>
</tr>
<tr>
<td></td>
<td>• Coordinate the assortment and format to better meet shifting consumer needs, accounting for evolving competitor positioning by zip code</td>
</tr>
<tr>
<td><strong>Coordinate operations to support the business efficiently</strong></td>
<td>• Improve the offering and profitability of the e-commerce model</td>
</tr>
<tr>
<td></td>
<td>• Reset the cost base to support new customer needs efficiently, including in-store service model, upstream supply chain processes, and the sales and distribution network footprint</td>
</tr>
</tbody>
</table>

Source: BCG analysis.
COVID-19 Disclaimer

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