

The BCG logo is positioned in the top left corner of the image. It consists of the letters 'BCG' in a bold, white, sans-serif font. A light blue rectangular bar is placed horizontally behind the letter 'G'. The background of the entire image is a photograph of two women walking on a sidewalk, carrying several shopping bags. One woman is wearing a blue denim skirt and holding a black bag and a blue bag. The other woman is wearing a blue and white striped skirt and holding a white bag and a red bag. A large green and white striped bag is also visible on the left side of the frame.

BCG

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

These trends will have an outsized 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

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

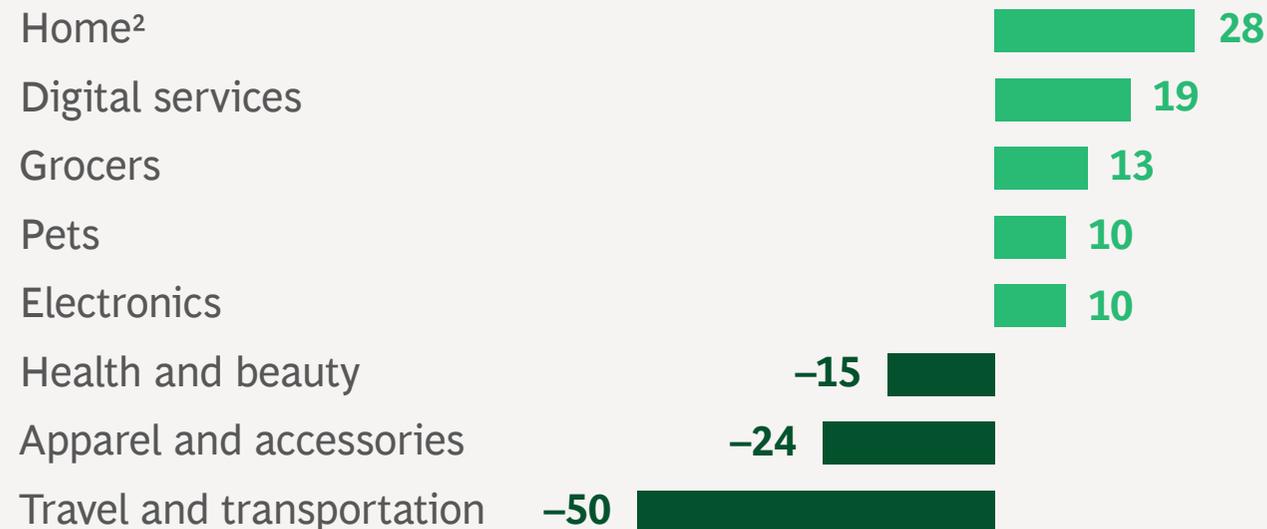


Most home categories will experience a sales decline in 2021 vs. 2020; however, spending will remain above prepandemic baselines

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

CHANGE BY CATEGORY (%)¹



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

35%

Peak US personal savings rate in April 2020

79%

People interested in leaving home more often

4.3 trillion

Estimated retail sales for 2021, with year-over-year growth expected to reach 6.5% to 8.2%

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



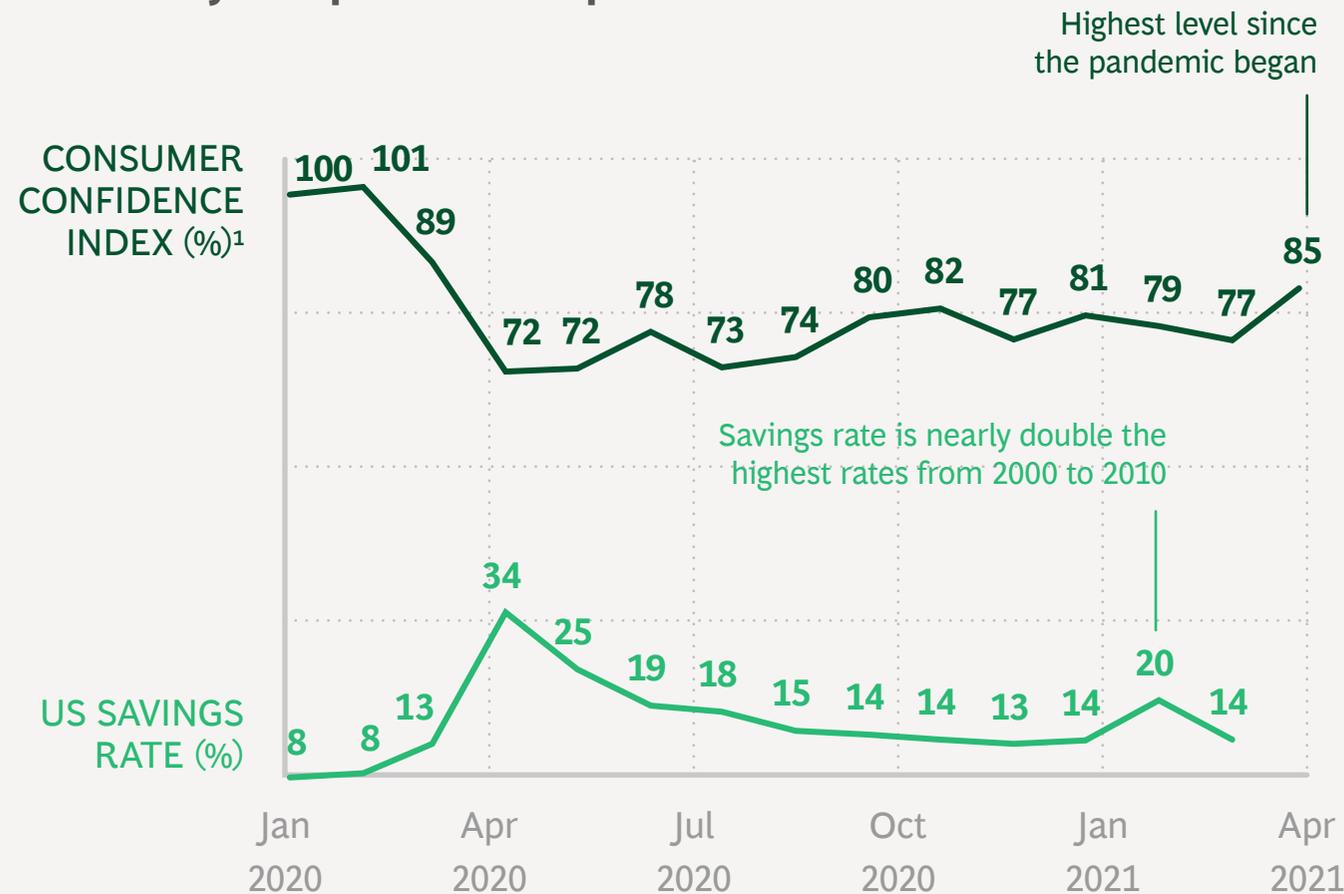
Consumers in aggregate have stored away substantial money and appear able to spend heavily in 2021



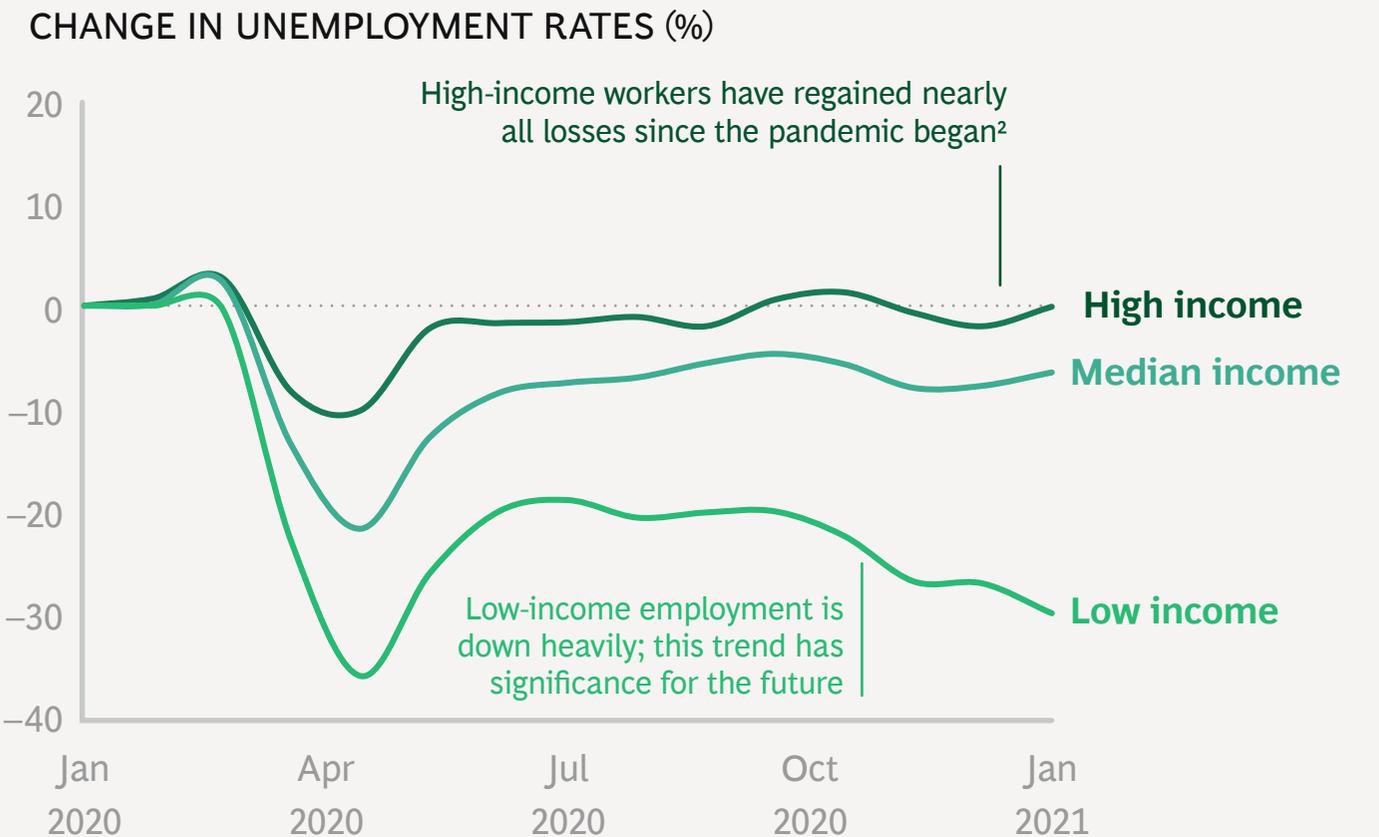
As lockdowns and restrictions are eased, customers will splurge on items and experiences that they felt deprived of during the pandemic

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



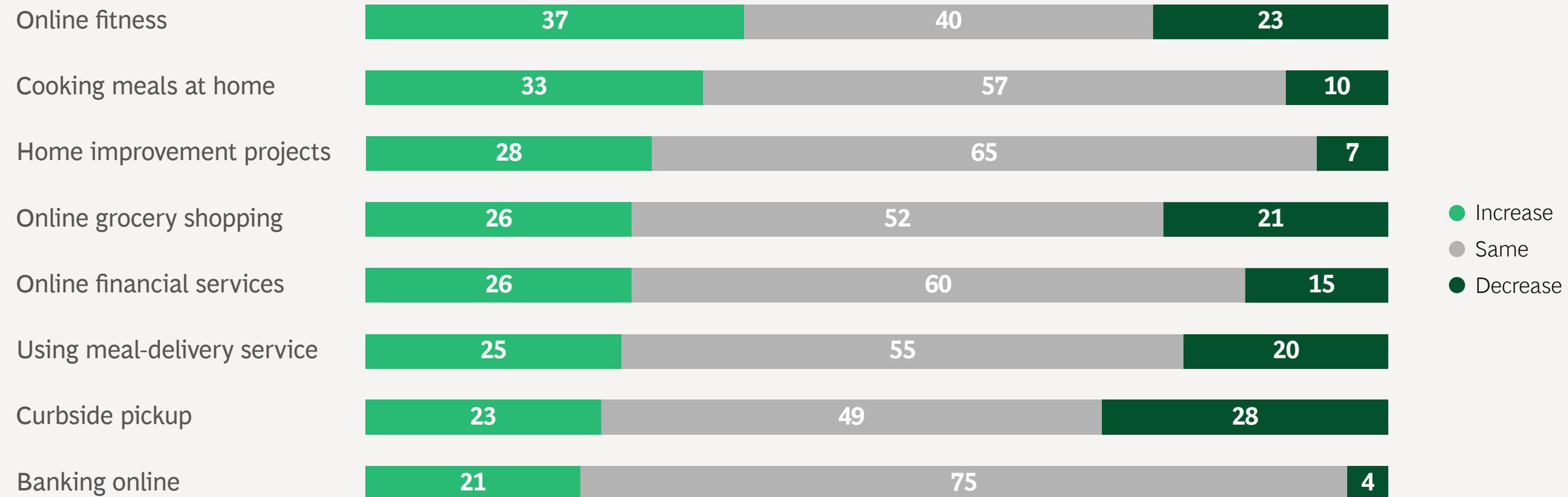
Retailers should expect significant promotional intensity and competition as the pandemic-induced surge subsides; they should double down on owned products and brands as effective tools for building loyalty and price perception

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?



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

~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

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

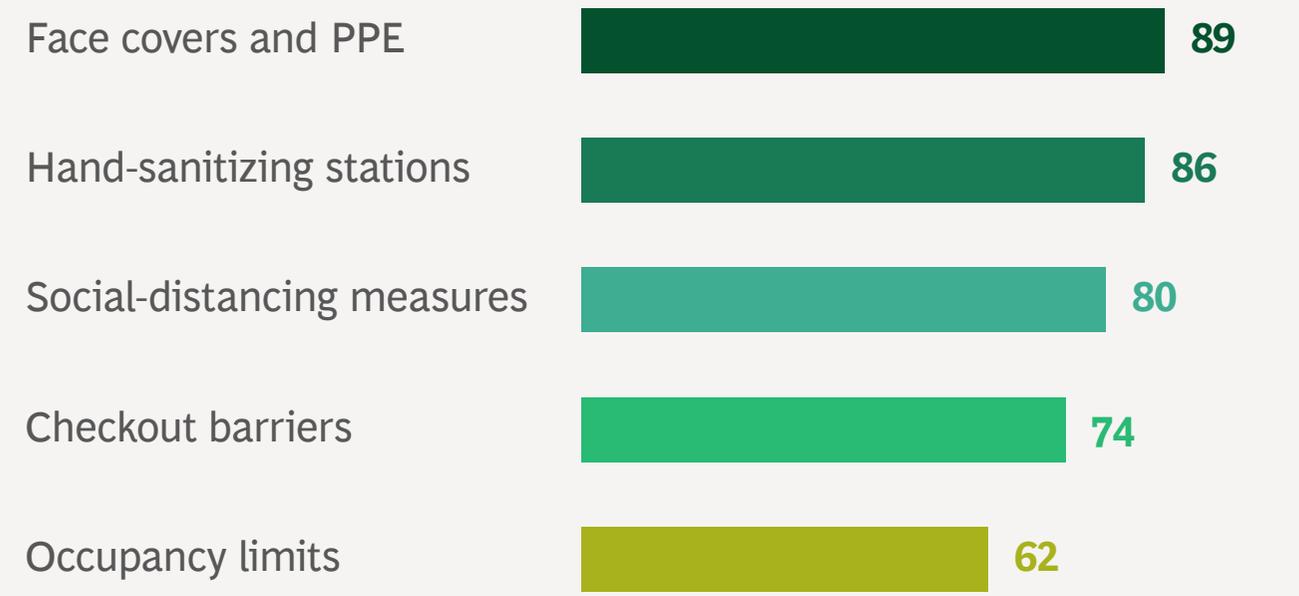
Sources: International Council of Shopping Centers; BCG analysis.

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...

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



...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

This increase of 0.2% to 1.0% in costs is likely to carry forward

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

+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

Emerging trends...



A shift in population away from the most densely populated areas



Within cities, people have moved out of denser areas and into suburban and less dense areas



New populations bring changing economic demographics to suburban areas

...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.

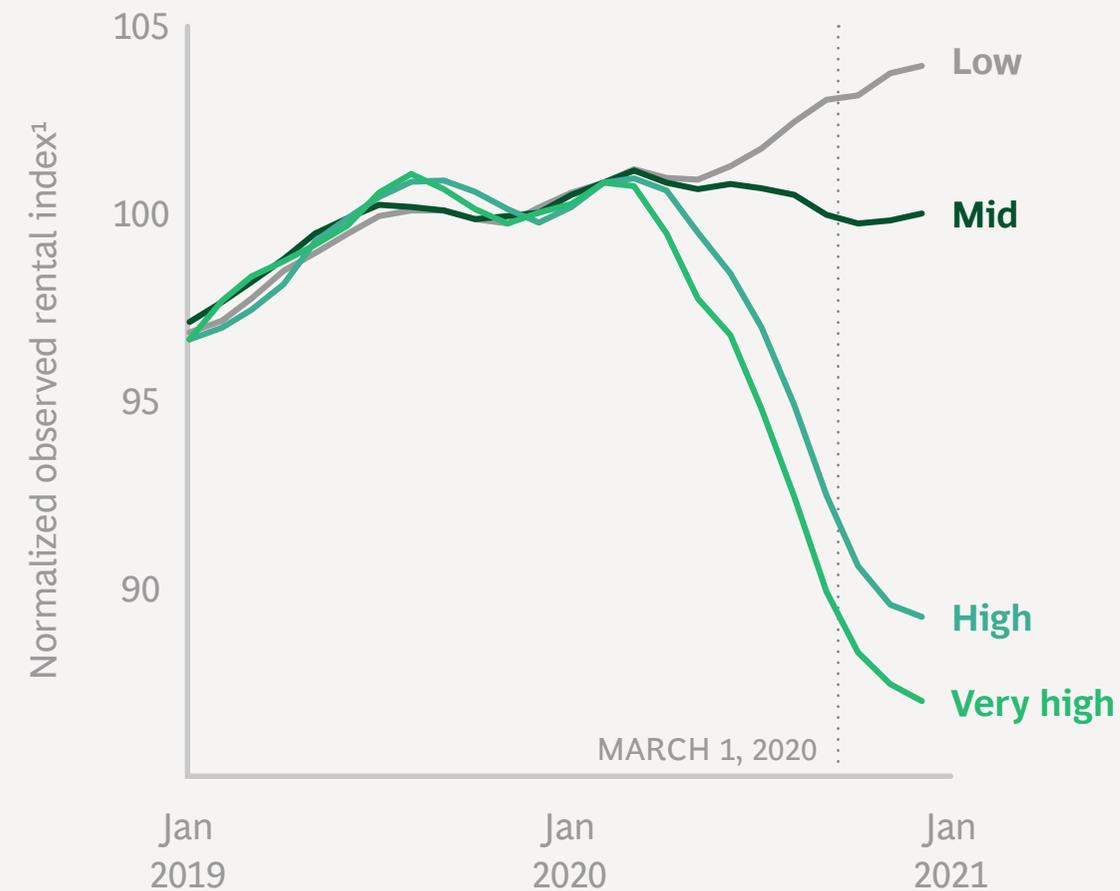
Note: These analyses are for the US market and represent only potential scenarios based on discrete data from one point in time. They are not intended as a prediction or forecast, and the situation changes daily.

¹Increases as of January 31, 2021, year over year.

The pandemic has shifted housing demand from dense city centers to the suburbs

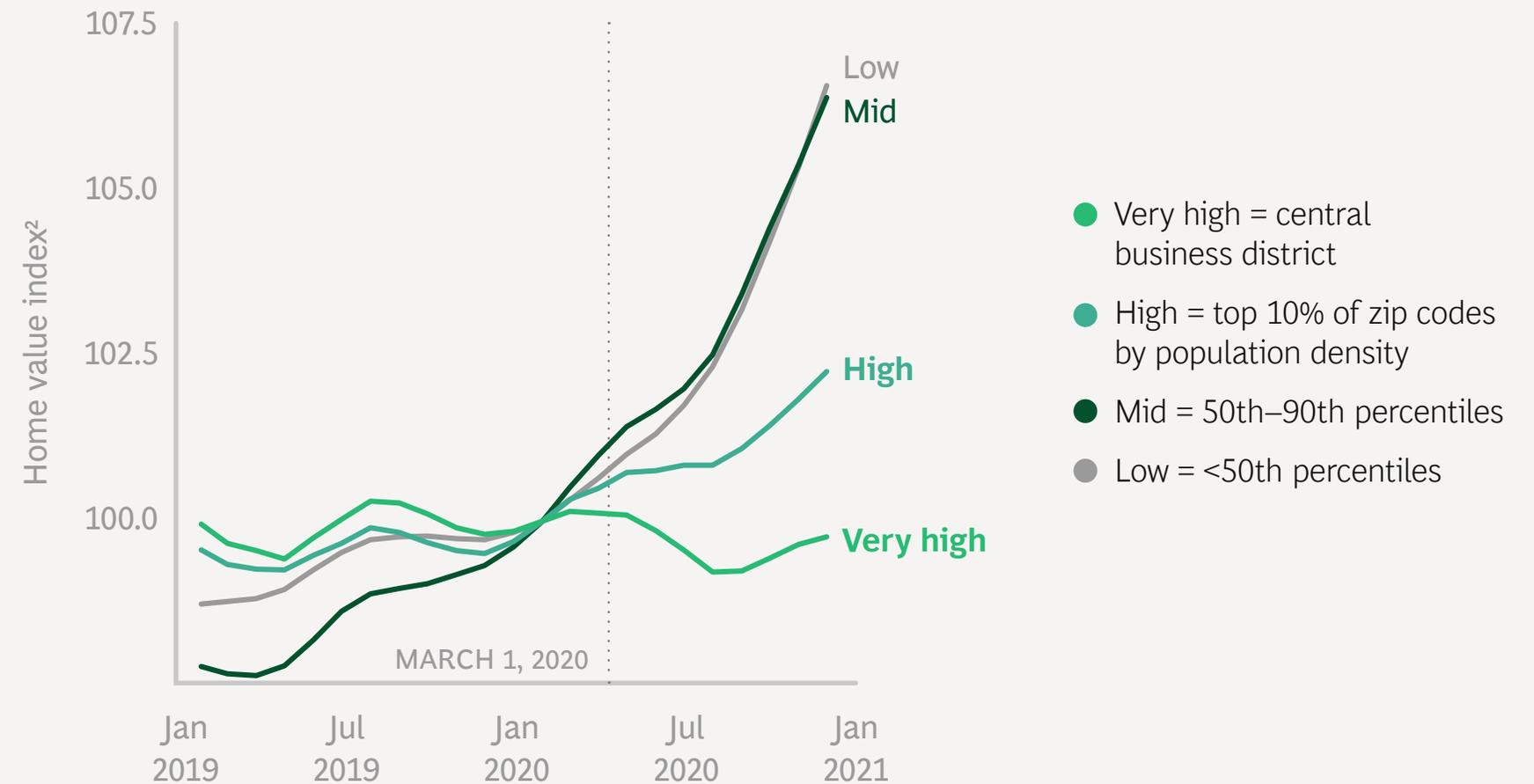
Apartment rents have hit bottom in the densest areas across major MSAs...

RENTAL INDEX FOR THE 12 LARGEST MSAS BY DENSITY GROUP



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

HOME VALUE INDEX FOR THE 12 LARGEST MSAS BY DENSITY GROUP



Sources: VoxEU.org; BCG analysis.

Note: MSAs = metropolitan statistical areas. The analysis is for the US market.

¹February 1, 2020 = 100. ²January 31, 2020 = 100.

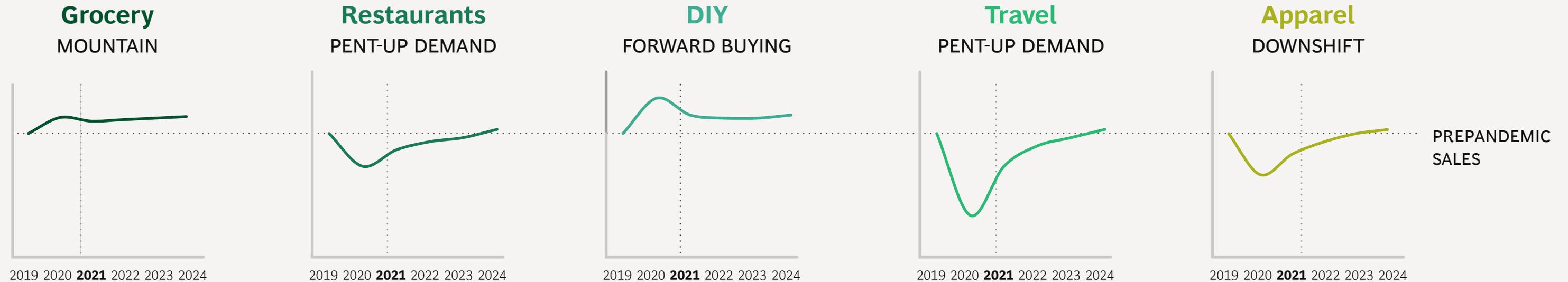
Our evolving view on the spending recovery categorizes subsectors in six growth-trajectory archetypes

	ARCHETYPES	DESCRIPTION	ILLUSTRATIVE POTENTIAL SECTORS ¹
WINNERS	Mountain	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	Grocery Pet supplies and services
	Forward buying	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	Home improvement Home furnishings and decor Electronics
	Upshift	Near-term pandemic-related surge that turns structural, triggered by a permanent shift in consumer behavior or other macro trends	E-commerce overall Digital fitness Health and wellness
LOSERS	Valley	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	Beauty
	Pent-up demand	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	Leisure travel Restaurants
	Downshift	Near-term pandemic-related decline that turns structural, triggered by a permanent shift in consumer behavior or other macro trends	Apparel Traditional gyms Business travel

Source: BCG analysis.

¹Subject to ongoing analysis.

Lasting consumer trends will affect the recovery timelines for each category



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 pre-pandemic levels.

Restaurant sales will grow significantly in 2021 as lockdowns ease due to pent-up demand, but the category won't return to pre-pandemic levels for a few years.

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 pre-pandemic levels.

Leisure travel will recover significantly in 2021, but business travel will remain depressed, taking a few years to return to pre-pandemic levels.

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

IMPERATIVE

KEY ACTIVITIES

Quickly understand customer needs

- **Double down on analytics** to understand how customer needs **have changed** and will continue to do so
- Ensure that **offerings excite top customers** and attract new ones

Spark and accelerate demand

- Use **personalization engines** to communicate and share **targeted offers** that cut through the digital clutter
- Be ready with **value offerings** for customers who need to trade down
- Coordinate the **assortment and format** to better meet shifting consumer needs, accounting for evolving competitor positioning by zip code

Coordinate operations to support the business efficiently

- Improve the offering and profitability of the **e-commerce model**
- **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**

COVID-19 Disclaimer

The situation surrounding COVID-19 is dynamic and rapidly evolving, on a daily basis. Although we have taken great care prior to producing this presentation, it represents BCG's view at a particular point in time. This presentation is not intended to constitute medical or safety advice, nor be a substitute for the same, or be seen as a formal endorsement or recommendation of a particular response. As such, you are advised to make your own assessment as to the appropriate course of action to take, using this presentation as guidance. Please carefully consider local laws and guidance in your area, particularly the most recent advice issued by your local (and national) health authorities, before making any decision.