

Consumer Packaged Goods Practice

# Understanding the ever-evolving, always- surprising consumer

With consumer behavior changing rapidly—and, often, in unexpected ways—companies must get better at anticipating and responding to new consumer needs and preferences. Our experts explain how.

*by Kari Alldredge and Anne Grimmelt*



**For many consumers** around the world, a return to normalcy feels so close, yet so far away, in light of the alarming spread of COVID-19 variants. Although it's unclear what the next 12 to 24 months will bring, what's almost certain is that consumers won't simply revert to doing exactly what they did in 2019. In this episode of the *McKinsey on Consumer and Retail* podcast, three consumer-behavior experts share their insights into how consumers' spending patterns and purchasing behaviors are changing, and what companies should do given those changes. An edited transcript of the conversation with executive editor Monica Toriello follows.

**Monica Toriello:** Over the past several weeks, people in some parts of the world have resumed their prepandemic habits. Maybe you've recently seen a movie at a theater, or flown on an airplane, or even just stopped for a cup of coffee on your way to the office for the first time in over a year. But a return to "normal" won't look the same for everyone. Today, we'll hear from three people who intensively study consumer behavior. They'll share fascinating insights into how consumers are changing and what companies should do about it.

Kari Alldredge is a McKinsey partner based in Minneapolis. Kari has been advising consumer-goods companies for more than 20 years on a variety of topics, and she leads McKinsey's work in consumer-goods growth transformation. She is an author of several articles, including a recent one on COVID-19's impact on demand and costs in the consumer-packaged-goods [CPG] industry.

Anne Grimmelt is a senior knowledge expert in McKinsey's Consumer Packaged Goods Practice. She is based in Stamford, Connecticut. Anne has been one of the driving forces behind McKinsey's consumer-sentiment survey, which was launched in 2008 and during the pandemic has expanded to 45 countries. It provides a rich fact base for how consumers are feeling about their finances and how their buying behavior is changing.

And our third guest is Anjali Lai, a senior analyst at Forrester. Anjali, who is based in New York, helps

chief marketing officers [CMOs] and other business leaders to understand the shifts in consumer behavior and consumer decision making and then to figure out what these changes mean for the future of brands and industries.

*[To comply with Forrester's Citation Policy, this transcript excludes Anjali Lai's comments. Listen to the full episode on McKinsey.com or on Apple, Google, and other podcast platforms.]*

## A 'reversal of fortune' for big brands

**Monica Toriello:** Kari, Anne, Anjali, it's great to have you here today. All three of you have been keeping your fingers on the pulse of consumers, both before and throughout the pandemic. Have there been any surprises? Are consumers doing things that you didn't expect? Or is there anything that seemed to be going one way in, say, March or April 2020 but is going in a different direction today?

**Kari Alldredge:** In 2019 or early 2020, the topic on the minds of large branded consumer-packaged-goods manufacturers was portfolio shaping: how to reimagine their portfolios, how to move away from center-of-store food products and big brands and instead engage with consumers in very different, more targeted, niche-oriented ways. The degree to which the pandemic pushed people back toward big brands in the center of the store, and toward cooking at home, has been a complete turnaround, a reversal of fortune, for large CPG companies.

Some of those changes could have been anticipated, but others are quite shocking: the notion that bread baking would become a phenomenon among millennials, or that pet ownership would skyrocket to the extent that it has, and that those same millennials would be willing to spend more than they spend on their daily Starbucks to feed their new pets.

So, many of those companies that were desperately searching for growth 18 months ago now have the opposite problem: their supply chains can't keep up. The big question for all of them is which of those

# ‘Even relatively mundane CPG companies are thinking about the end-to-end consumer journey, including consumer experience pre- and postpurchase.’

–Kari Alldredge

consumer behaviors are truly going to persist and be “sticky” coming out of this pandemic? Certainly, the dog that you adopted is likely to stay at your home. But when you go back to ordering your daily Starbucks and spending \$7 a day on a coffee, are you going to spend the same amount to feed your pet? Those are the questions that are on many company leaders’ minds.

**Anne Grimmelt:** As Kari said, we saw a complete shift. Prepandemic, the growth was in smaller, niche brands, but early in the pandemic, it was large CPG players that really gained scale because their products were available on the shelf. They were also brands that were trusted by consumers, so consumers felt good buying them. If you look at point-of-sale data from IRI or Nielsen, you see that large companies—those with more than \$2.5 billion in retail sales in the US market—picked up most of the share growth early in the pandemic, whereas smaller and midsize companies, as well as private label, were really not picking up growth.

In the second half of 2020 and in early 2021, small and midsize companies are regaining their sales growth. And we expect that private label is going to be powerful again, because if you dive into the why—why did consumers pick a new brand, and why did they pick the brands they chose?—it was about availability, it was about purpose, but it was

also about value. It was about price points. Going forward, value is going to be even more important, and private label will gain strength in the future.

## Trust as a strategic imperative

**Monica Toriello:** All three of you to some extent have written about customer loyalty: how to win it and how to retain it, particularly in an environment where people are willing to try new brands. Anne and Kari, you found that 39 percent of consumers tried new brands during the pandemic. And Anjali, in your research, you found that small brands are particularly good at earning consumers’ trust and consequently their loyalty. In a recent blog post, you wrote, “Now is the time for companies to embrace trust as a strategic imperative.” What does that mean? How should companies do that?

**Kari Alldredge:** I’m seeing two interesting things in response to the trends you just talked about, Anjali. One is the degree to which even relatively mundane CPG companies are thinking about the end-to-end consumer journey, including consumer experience pre- and postpurchase, as they try to understand how to serve their existing consumers but also look for new ways to better meet consumer needs. The notion that there is a pre- and postpurchase experience related to a can of

soda or a can of soup is a relatively novel idea, right? But, increasingly, the most forward-thinking companies are doing research across that entire journey to be able to understand the needs of consumers as they're considering the range of options that are available to them—all the way through to satisfaction with usage and even disposal of the packaging of products.

Another interesting thing I'm seeing is a recognition that marketing is a dialogue, and a recognition of the degree to which consumers now "own" or shape the narratives of many brands. This, too, was happening before the pandemic but was vastly accelerated during the pandemic. The notion that a marketer positions the brand and delivers a message and a promise to consumers is really becoming quite an antiquated one, I think, as consumers themselves—through reviews, ratings, blogs, videos, and social-media posts—shape the identity of many of these brands. Recommendations from friends and family become part of the brand's identity and are critical to shaping both loyalty and consumer trust.

**Anne Grimmelt:** Our research corroborates that. We found in our research that about 33 percent of millennial and Gen Z consumers say they choose to buy a brand from a company that has their values, versus about 12 percent of baby boomers. But every demographic group is leaning toward that.

Another finding from our research is the reasons why consumers change to a new brand. It is definitely the younger generation that more often indicates that it's because of purpose. It's because of what the company stands for, how it treats its employees, et cetera.

### **Purpose: More than just a buzzword**

**Monica Toriello:** We've been hearing a lot about purpose and values, but I also hear some skepticism in certain pockets of the corporate world as to whether an emphasis on corporate purpose actually pays off. Because there *is* an attitude-behavior gap, right? What's your response to a CEO who says, "Consumers like to say they care about purpose and values, but when they're at the point of deciding

**'We found in our research that about 33 percent of millennial and Gen Z consumers say they choose to buy a brand from a company that has their values, versus about 12 percent of baby boomers.'**

—Anne Grimmelt

to buy something, they truly only care about convenience or price or quality. Purpose is just a buzzword.”

**Kari Alldredge:** It’s necessary but not sufficient. I think there’s an increasing recognition that alignment with a consumer’s values may put you in the consideration set but won’t drive you over the line to purchase. You still have to have product superiority, whether that’s taste superiority, functional superiority, or a price-to-value equation that works for that particular consumer.

We talk a lot about the pandemic, which definitely shone a light on health in general, but there are other crises—like social justice and climate change—that have come to light over the past year and a half and that have really shaken the corporate community. These crises have helped companies understand that some of these factors are fundamental in how consumers perceive themselves and the world around them, to the point where we now actually see some change happening.

One of the things that I was struck by was the speed and seriousness with which many of the household-cleaning companies responded to the pandemic and the heroic efforts to convert production capacity to manufacture things like wipes and sanitizer. Yes, some of that was for financial gain, but I think there really was an almost wartime mentality that I saw companies get new energy from.

I think about center-of-store food manufacturers who, prepandemic, maybe viewed themselves as being a bit sleepy and not exciting in terms of attracting the best talent. Now when you hear them talk about what they do, there’s real pride in the fact that they fed America, or they kept America safe. It really changed the way they think about the importance of what they do.

## Sources of insight

**Monica Toriello:** All three of you are experts in consumer behavior. But consumers are changing fast and they’re changing constantly. Anjali, in another recent blog post, you wrote, “Rather than

expect consumers to settle into a defined postpandemic normal, CMOs should prepare for a constant evolution of consumer needs and expectations over the next 12 to 24 months.” So beyond reading the latest consumer research and analysis, what are the best ways for CMOs and CEOs to understand where consumers are and where they’re headed?

**Kari Alldredge:** One of the best sources of insights is their online channel partners and their own D2C [direct to consumer] sites. Companies should mine online data to get a quick pulse on the way consumers are thinking or feeling. They should look at ratings and reviews using advanced analytics to understand and see trends and what’s selling on sites like Kroger.com, Walmart.com, or Amazon.com. They could even develop products that they can quickly test in an online environment and then change and adjust, as opposed to thinking about mass development of a product that gets pushed out to thousands and thousands of brick-and-mortar retail stores.

Consumers don’t always know what they want, and they can’t predict how their behavior will change. So traditional consumer research—which asks consumers how likely they are to purchase something—is becoming less relevant or reliable than actual data in market. That’s why data from e-commerce sites can be so valuable.

**Anne Grimmelt:** Another very powerful way to understand consumers is by looking at what your peer companies do. You can go to industry conferences like the CAGNY [Consumer Analyst Group of New York] conference and hear a company like L’Oréal talk about how they use their D2C and their online-sales platform to see what type of color lipstick people try—not *buy*, but *try*—on their online platform. That information is critical for them to know where to innovate. What are the colors that people want and what are the products that people like to try out on the digital platform?

Similarly, I think it’s very important to keep an open mind beyond your own borders, to realize what’s happening elsewhere in the world. Going back to the

topic of purpose, for instance, it is very much alive in the US but it's also very much alive in Europe. Learning about the power of what consumers demand and how purpose is driving consumer decisions about CPG companies—and what companies in Europe are doing to meet consumer demand—can be valuable, wherever you are in the world.

**Kari Alldredge:** I think we also shouldn't underestimate the resilience of consumers and the gravitational pull of life as we knew it before the pandemic. One thing that surprised me even in the past several weeks is the degree to which behaviors have bounced back. If there's anything I've learned over the past 18 months it's that I don't have a crystal ball, or if I did, it is certainly broken—because there is no part of this last 18 months that I ever could have in a million years predicted.

At the beginning of the pandemic, one company I work with asked every board member, “When you look back, what's the one thing that will be blazingly obvious that we either should always have done or never have been doing?” And one of the things that came up was shaking hands: “We're never going to shake hands again.” But I attended

a graduation ceremony in the beginning of June—so, early into the recovery—and what was striking to me is that the dean of that school shook the hand of, and physically embraced, every single one of the thousand students who crossed that stage. And this was at an institution that had been, like most educational institutions, incredibly thoughtful and conservative about their public-health response. Literally days after restrictions were lifted, the urge to connect was so strong that it looked as if the pandemic had never happened.

People are resilient. Hundreds of years of behavior certainly have been meaningfully changed by the past 18 months, but I think a lot of the old behaviors will bounce back pretty quickly.

**Monica Toriello:** So if you could gather all the CEOs and CMOs of consumer companies in one room and leave them with one message, what would it be? What is the one thing they need to do to position themselves for success in 2021 and 2022?

**Anne Grimmelt:** My one-liner would be, “Be open to change and be agile.”

**Kari Alldredge:** I would say, “Listen; don't tell.”

**Kari Alldredge** is a partner in McKinsey's Minneapolis office, and **Anne Grimmelt** is a senior knowledge expert in the Stamford office. **Monica Toriello** is an executive editor in the New York office.

Designed by McKinsey Global Publishing  
Copyright © 2021 McKinsey & Company. All rights reserved.