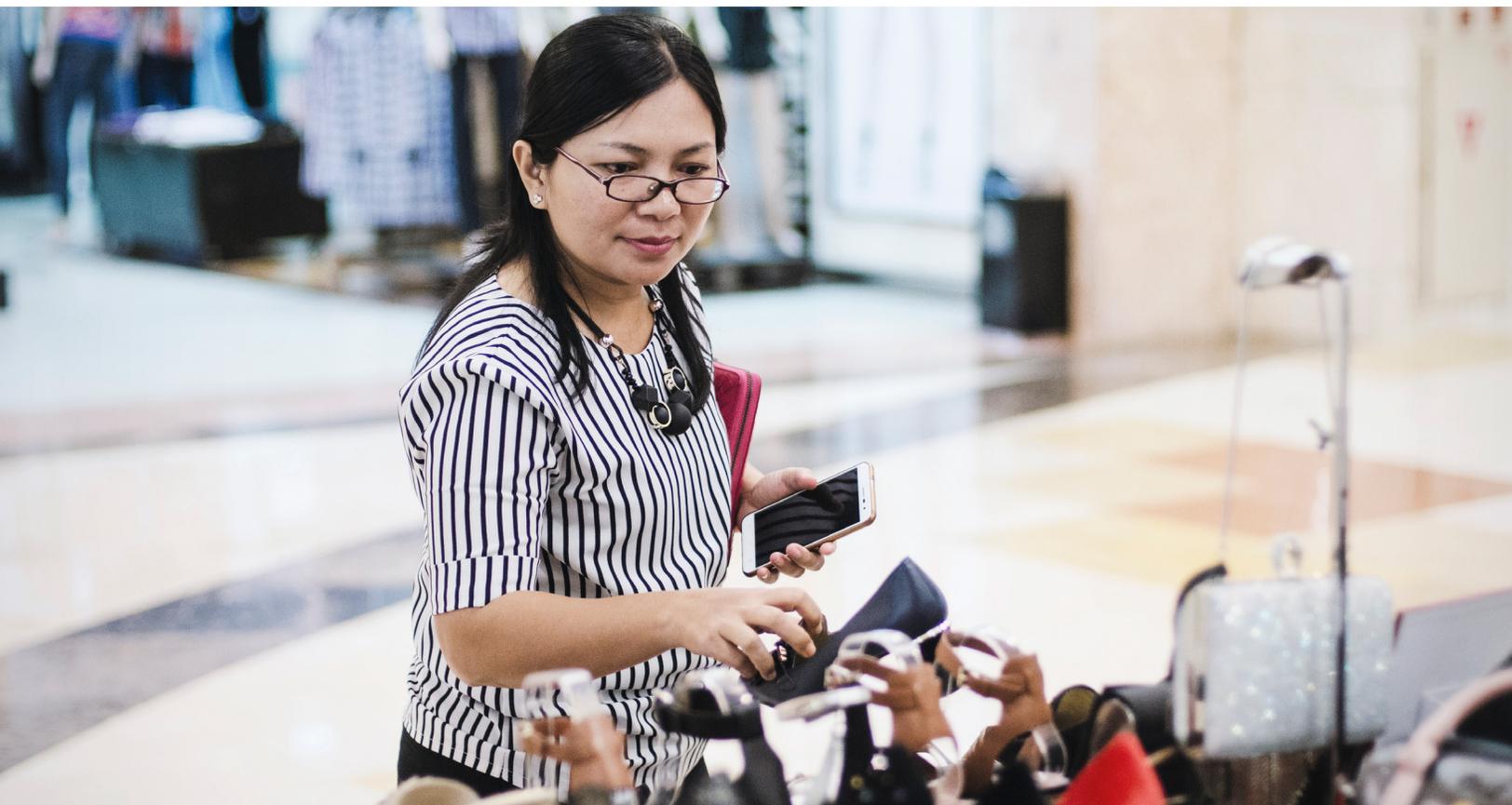


Retail Practice

An early view of post-COVID-19 discretionary spending in Asia

A survey of consumers in China, India, and Indonesia shows how the COVID-19 outbreak has affected their plans for discretionary spending—and which shifts could be part of the next normal.

by Stephanie Chan, Mahima Chugh, Felix Poh, and Simon Wintels



Discretionary spending in some retail categories plummeted by as much as 90 percent at the peak of COVID-19 lockdown efforts aimed at easing the spread of the virus.¹ Given that discretionary spending comprises roughly one-fifth to one-fourth of many countries' GDP, we sought to understand how consumers in the most populous countries in Asia—China, India, and Indonesia—are thinking about such expenditures, as portions of these economies begin to reopen. Between April 28 and May 10, 2020, we surveyed more than 3,600 consumers across 91 cities about their pre- and midpandemic purchases and postpandemic plans in a broad range of categories, including apparel, personal electronics, domestic appliances, and vehicles.²

At the time the survey was conducted, these countries were in different stages of the pandemic's progression and economic reopening. Yet the survey findings point to shifts seen across them, which could remain in place long after the public-health crisis ends. These shifts will require retailers to make strategic changes—and in some cases, accelerate the changes they have already made in response to the crisis.

Key insights

Overall, the survey results suggest there is cautious optimism in the surveyed countries. Yet while about two-thirds of respondents in India and Indonesia expected to recover income or savings lost during the lockdown by the end of the year, many respondents in each of the three countries surveyed are planning to delay or forego bigger-ticket purchases, seeking to find better value, and strengthening their desire to purchase from brands they trust. At the same time, some are grappling with guilt about spending in more conspicuous categories. Meanwhile, responses show an accelerating intent to use digital channels while visiting physical stores to experience products.

1. Ticket size matters

Respondents were more likely to indicate plans to indefinitely postpone or cancel purchases for bigger-ticket items such as jewelry, vehicles, and home construction or renovation than for smaller ones. Fifty percent of Chinese respondents and 61 percent of Indonesian respondents who, before the outbreak, planned to buy cars said that they will forego those purchases this year, and 59 percent in China and 39 percent in Indonesia said the same about planned jewelry purchases. By comparison, just 13 percent of Chinese respondents and 7 percent of those in Indonesia said they are delaying or canceling plans to purchase skincare items.

Notably, Indian respondents were less likely than those elsewhere to say that they would forego their purchases at this point—a sentiment that could change should economic conditions decline.

2. Value polarization

As with the 2008 global financial crisis, the survey results suggest that the outbreak may affect consumers' thinking about price and quality, with increased price sensitivity and more careful consideration of nonessential spending. However, our research illustrates how multifaceted the concept of value truly is.

First, the findings show that many consumers expect to reduce spending this year. Among respondents in China and India planning to complete purchases in a variety of categories later this year, roughly one in three stated that they intend to spend less than originally planned. However, respondents made a distinction between price and value. Among Chinese respondents planning to shop for small domestic appliances, for instance, the share citing “multipurpose” as one of the top three attributes or factors they consider when making purchasing decisions increased by ten percentage points compared with before the outbreak. That share is four times larger than the share who said low prices were a top consideration.

¹ Xin Huang, Dymfke Kuijpers, Lavonda Li, Sha Sha, and Chenan Xia, “How Chinese consumers are changing shopping habits in response to COVID-19,” May 2020, McKinsey.com.

² We only surveyed respondents about the categories in which they said they were considering making purchases before the pandemic began.

Survey responses show an accelerating intent to use digital channels while visiting physical stores to experience products.

Yet the findings also suggest that for a subset of consumers, loosening lockdown restrictions could lead to a surge in spending. Among Indonesian apparel shoppers, for example, higher-spending respondents (who said they typically spend about \$200 or more per month on clothing) had a 40 percent net intent to spend more in the future than they did before the outbreak,³ compared with 4 percent among those who said they typically spend about \$10 to \$50 per month. We see similar findings for skincare, where those who spend upward of \$350 per year on skincare were roughly twice as likely as respondents who spend less to say that they planned to increase spending in the future.

3. Preference for trusted brands

Across countries and segments, respondents commonly cited “trusted brand” as a top consideration in their purchasing decisions, along with purchases being a good value for the money. Among respondents, market-leading brands retained significantly higher conversion rates—60 percent to 70 percent—than did other brands.

Even among those planning to spend less than initially intended on a purchase, up to 60 to 80 percent in each country said that their preference is to stay with their intended brand—albeit by actively looking for a discount or promotion, or by switching to a cheaper product within the brand. This brand loyalty seems to be especially true for categories such as consumer durables. For example, 78 percent of Indonesians planning to spend less on their mobile-phone purchases want

to stay with their preferred brand, compared with 45 percent of apparel shoppers.

4. Uneasiness and guilt

Amidst the uncertainty of the continuing global crisis, our survey findings suggest there might be a feeling of guilt associated with discretionary spending, even among those who can afford it—particularly for some more conspicuous categories. Although respondents consistently cited uncertainty over the crisis’s impact on their income as the top reason for planning to trade down or forego purchases, one-third of Chinese mobile-phone shoppers cited feelings of guilt as their reason for doing so. Similarly, one in five Indian consumers who planned to trade down or forego purchases of large domestic appliances said their main reason was that it didn’t feel right to spend, given the current social context. It remains to be seen whether this sentiment will change in the coming months.

5. Digital shopping accelerated, but physical stores retain appeal

The COVID-19 crisis has naturally shifted consumers toward digital shopping and engagement channels. Yet the findings show uneven rates of acceleration across various types of online channels. Responses suggest that multicategory online marketplaces could be poised to gain the most momentum in the coming months, with the largest increase in net usage intent of any channels tested in the survey. But significantly larger shares of respondents in India and Indonesia said they expect to increase their use of their preferred platforms after the

³ We calculated net intent by subtracting the percent of respondents who intend to spend less following the outbreak from the share of respondents who intend to spend more.

COVID-19 pandemic than said the same about other online platforms.

At the same time, respondents also expressed the desire to return to physical stores—particularly to shop for apparel in Indonesia, and mobile phones and small and large domestic appliances in India. In India, we see a higher stated intent to visit exclusive-brand stores than multibrand stores.

Implications for businesses

Thriving in the post-COVID-19 future will ultimately require changes in how companies in these sectors think about staying relevant to consumers while managing increased operational complexity as well as potential delays in the rebound of demand and customer traffic. Combined with sales migration toward online channels and the renewed focus on value, these changes could contribute to margin compression. Moreover, there are certain behaviors that are likely to shift fundamentally, requiring reconsideration of the consumer proposition and companies' go-to-market strategy and operating model. Based on our research, there are five actions that companies can take now to prepare for the next normal.

1. Don't just reopen: Rethink your store

Companies have already invested significant time and effort to enforce new safety protocols and operating procedures as lockdowns ease. However, online acceleration will require a fundamental reevaluation of the role that stores still play for consumers in the next normal and how to ensure a delightful experience. Survey

responses show that shoppers appreciate the “touch and feel experience” of physical stores. As stores enable product interaction while also generating traffic for e-commerce sales, the traditional way of looking at individual-store profit-and-loss statements might need to change. Also, it is important to consider how this role can be accomplished with a simplified and more flexible store operation.⁴

This entails reimagining end-to-end consumer engagement on digital channels and seamlessly linking online and offline experiences to radically accelerate in-store omnichannel integration. Companies that are both digital and offline, rather than one or the other, will be better positioned in the days ahead—especially if they can use both to create a mutually reinforcing customer ecosystem.

2. Earn and maintain consumers' trust

The survey results indicate a “flight to safety” toward trusted brands, potentially accentuated by an environment of uncertainty and inability to test or experience products before buying them. Moreover, with the COVID-19 crisis affecting incomes and savings, respondents seem to be more cautious in their brand choices. Companies with high brand scores can further grow their presence and business by communicating reliability and instilling further trust in the brand. For new and niche players, communicating reasons to trust, and ensuring a “first-time right” product experience, could become more important than ever.

Survey responses show that shoppers appreciate the ‘touch and feel experience’ of physical stores.

⁴ Praveen Adhi, Andrew Davis, Jai Jayakumar, and Sarah Touse, “Reimagining stores for retail's next normal,” April 2020, McKinsey.com.

3. Radiate value

As shoppers look to purchase items that meet their criteria for value, it will be paramount for businesses to be able to immediately communicate to visitors to an online channel or store how their products fulfill these criteria. This entails rethinking which “star products” to highlight, as well as reconsidering overall product assortment and promotional calendars to effectively lower the customer hurdle by highlighting relevant products and offers, and by offering accessible entry price points. As we saw earlier, however, the concept of “value” can differ significantly by segment. Hence, executing this well requires a strong understanding of customer segmentation that enables a personalized approach.

Finally, as consumers search for the best deals—and retailers face overstock from lockdowns—companies can benefit from being nimble amid a heightened promotional environment. Doing so may require adopting a rapid “test and learn” approach so they can quickly pivot to determine the most compelling offers for various customer segments.

4. Follow the consumer

In our research, we saw consumers interacting with multiple channels and touchpoints, such as official brand websites, social commerce, online platforms, exclusive-brand stores, and multibrand stores. As consumers use more channels, it is important for companies to ensure that their experiences at each touchpoint are consistent, generate delight, and further enhance companies’ understanding of consumers. This requires brands and companies to not only be open to shifting their marketing messages but also investing in analytics capabilities and reallocating financial and talent resources as needed.

5. Communicate purpose

In previous consumer-research efforts,⁵ we have seen that customers and employees appreciate brands that exhibit a social purpose and communicate honestly about how the crisis has affected their service levels and overall business. As companies prepare for what comes next, they may need to rethink and adjust their marketing tone and message to reflect consumers’ new reality, given the social context and consumption guilt that could affect some purchases.

⁵ Arne Gast, Pablo Illanes, Nina Probst, Bill Schaninger, and Bruce Simpson, “Purpose: Shifting from why to how,” *McKinsey Quarterly*, April 2020, McKinsey.com.

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