How COVID-19 is changing consumer behavior—now and forever

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As the world begins its slow pivot from managing the COVID-19 crisis to recovery and the reopening of economies, it’s clear that the period of lockdown has had a profound impact on how people live.

The period of contagion, self-isolation, and economic uncertainty will change the way consumers behave, in some cases for years to come.

The new consumer behaviors span all areas of life, from how we work to how we shop to how we entertain ourselves. These rapid shifts have important implications for retailers and ‘consumer-packaged-goods companies.

Many of the longer-term changes in consumer behavior are still being formed, giving companies an opportunity to help shape the Next Normal.

1. COVID-19 is transforming consumer lives - we have covered a "decade in days" in adoption of digital

Three change forces—economic downturn, preference shifts, and digital acceleration

2. Behavior changes are not linear and their stickiness will depend on satisfaction of the new experiences

Ups and downs ahead of us

Stickiness = forced behavior x satisfaction

The jury is still out on value-driven behaviors

3. Future is NOW - Players should prepare

Prepare for consumption declines/trading down

Address footprint offer, and shopping experience for the new reality

Follow consumers in their new decision journeys when you market and communicate
COVID-19 is changing how consumers behave across all spheres of life

We see new behaviors emerging across 8 areas of life (eg, surge in e-commerce, changing of brand preferences, higher unemployment)

**Work**
- Rise of unemployment
- On-the-go consumption decline
- Remote working

  "20x increase in Zoom daily participants"
  
  Source: Bond Capital

**Shopping and consumption**
- Surge in e-commerce
- Preference for trusted brands
- Decline in discretionary spending, trading down
- Larger basket, reduced shopping frequency
- Shift to stores closer to home
- Polarization of sustainability

  "Personal disposable income is not expected to recover to pre-crisis level until Q2 2024 in the US"
  
  Source: McKinsey analysis in partnership with Oxford Economics, Scenario A1

**Learning**
- Spending on learning adjacencies
- Remote learning

  "25% --> ~35% of Netflix subscribers use it for educational content"
  
  Source: YouGov

**Life at home**
- Nesting at home
- Surge in online

  "Home is recast as the new coffee shop, restaurant, and entertainment center"

**Communications and information**
- In-person sampling decline
- Shift in media consumption

  "Further migration to digital"

**Play and entertainment**
- Preference for digital entertainment
- Entertainment channel shift (eg, cinema to streaming)
- Additional play time

  "Disney Plus achieved in 5 months what took 7 years for Netflix"
  
  Source: Phone Arena

**Travel and mobility**
- Reduction in tourist spend and travel retail
- Increase in domestic tourism

  "80% reduction in international travel & related tourist spend"
  
  Source: McKinsey analysis in partnership with Oxford Economics

**Health and wellbeing**
- Focus on health and hygiene
- Acceleration of organic, natural, fresh
- Fitness on demand
- E-pharmacy & e-doctor at scale

  "Monthly year-over-year growth of organic produce in the US increased by 10x in March compared with January and February"
  
  Source: Organic Produce Network
Many of the trends are accelerations of past behaviors. We have covered a “decade in days” when it comes to adoption of digital technologies.

**Online delivery**
- **10-years-in-8-weeks**
  - For increase in e-commerce deliveries
  - Online Delivery
  - 10 years in 8 weeks
  - For increase in e-commerce deliveries

**Telemedicine**
- **10x in 15 days**

**Remote working**
- **20x participants**
  - on videoconferencing in 3 months

**Remote learning**
- **250 million in 2 weeks**
  - students who went online in China

**Online entertainment**
- **7 years in 5 months**
  - Disney Plus achieved in two months what took Netflix 7 years.
Most behaviors will see a linear development trend or stick in the next normal

As countries gradually lift lockdown restrictions, 1 more phase remains before we reach the next normal

**Consumer behaviors will not follow a linear curve**

**Our hypotheses on which changes could stick or dissipate**

- **New trend**
- **Discontinuity**
- **Acceleration**
- **Unknown**

**Probably temporary**

**Decline in consumption**
- Reduction in international travel retail
- Increase in domestic tourism

**Shake-up of preferences**
- Reduction in on-the-go consumption
- Larger basket
- Preference for trusted brands
- Polarization of sustainability
- Nesting at home

**Digital acceleration**
- Preference for digital entertainment

**Enduring**

- Trading down and price sensitivity
- Reduction in discretionary spending
- Focus on health and hygiene
- Surge in e-commerce
- Fitness on demand at scale
- Entertainment-channel shift from physical to digital

**Stickiness = forced behavior [including duration] x satisfaction**
Behavior changes will reshape consumer decision journeys and companies will need to adapt fast

Retailers and consumer-packaged-goods companies that use the transition period to rethink consumer decision journeys can reshape consumer behavior

How consumers get information

Shake-up of media mix: further shift to digital
- Temporary comeback of TV
- Decline in out-of-home-advertising
- Decline in in-person engagement

Where consumers purchase

Channel mix reevaluation
- E-commerce: 17-percentage-point increase in grocery, surge in e-pharmacy
- On-the-go consumption decline
- Decrease in travel retail

Replacement of offline channels by at-home alternatives (eg, gym, cinema)

New channel-selection attributes
- Proximity to home
- Hygiene
- No queue/room in store

New shopping reality
- Decrease in satisfaction due to inconvenience of safe shopping
- Increase in basket size
- Decrease in shopping frequency
- Decrease in density of shoppers
- Decrease in tourist spending

What consumers purchase

Basket re-composition
- Grocery
- Nesting
- Health
- Discretionary spend decline
- Trading down

Format polarization
- Large and small packs
- Reduced shopping frequency

Shake-up in hierarchy of needs
- Health and hygiene rises
- Polarization of sustainability

Brand-preference evaluation
- Turning to A-brands for trust

Overall consumption: 15% US decline with recovery in 2023

Shake-up in what consumers value

Loyalty shake-up, as consumers are forced to try new things
Retailers will face challenges across multiple dimensions

### Sales
- Reinvent shopping experience: hassle-free shopping in high hygiene environment; change store layouts and proposition, reconfigure check-out, offer longer operating hours, provide omnichannel
- Right-size network to recognize 15% drop in consumption
- Leapfrog digital capabilities towards first-class e-commerce, seamless omnichannel experience; consider drive-through, click-and-collect
- Reevaluate physical-store footprint, as traffic from professionals and tourists declines and impacts travel retail and on-the-go consumption

### Marketing
- Consumers have changed where and how they engage, and marketing spending should reflect this
- Stay relevant across multiple touchpoints (brand.com, platforms, e-retailers, own stores, multibrand stores)
- Allocate resources in line with journey shifts, eg, increase digital engagement (social, influencers, D2C) away from out-of-home advertising, print, trade marketing
- Win in loyalty shifts: ensure first-class customer-relationship-management system, foster trust through communication, and provide incentives for first-time shoppers

### Assortment
- Reimagine value for money: price, private label, quality, branding, merchandising
- Capture new needs: health, safety, fresh, new ready to eat; reduce exposure to highly discretionary categories
- Adapt formats to new needs: polarization in pack size (large and single packs) and hygiene certainty
- Rethink brand mix: increase exposure to post-COVID-19 loyalty-shift winners (trusted A-brands and local brands), and simplify assortment

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