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RESEARCH

Deloitte identifies 7 trends affecting retail, CPG in pandemic environment and beyond

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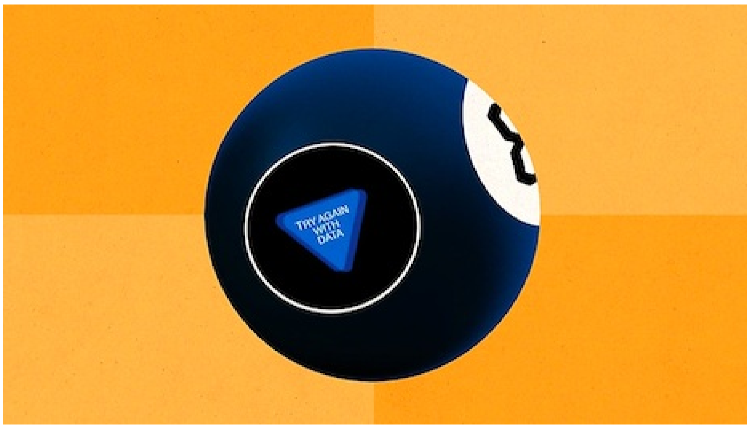

Data show where retail and CPG spending are heading as COVID-19 measures influence consumer behavior across all income groups. Image credit: Deloitte

By LUXURY DAILY NEWS SERVICE

Deloitte Consulting has identified seven trends affecting the retail and consumer products industries amid the COVID-19 pandemic and beyond that may affect aspirational luxury spending.

While Deloitte's InsightsIQ report is not specifically focused on affluent or aspirational consumers per se, its findings apply across segments as they deal with government-mandated restrictions to curb the spread of the COVID-19 coronavirus. The behavioral changes also apply across demographics and age groups, cleaving spending into essential and non-essential categories.

"As the wallet of many consumers is increasingly pressured due to the COVID-19 pandemic, retail and consumer products companies should recognize they are competing for share of wallet, not share of category," said Kasey Lobaugh, chief innovation officer for retail and distribution at Deloitte Consulting, in a statement.

Down, and not out

A key consequence of the global lockdowns is depressed spending across all sectors, especially in retail bricks-and-mortar stores.

As expected, year-over-year ecommerce growth as of April was up 68 percent, crossing 40 percent of total retail sales.

Convenience was key, as more than half of consumers said they were willing to spend more to get what they need, although it is not certain that this behavior will stick as COVID-19 measures are lifted worldwide.

That said, for now 40 percent of consumers surveyed by Deloitte said they were willing to pay the same or more for private labels. In other words, COVID-19 has accelerated the sales growth of private-label brands.

Not surprisingly, consumers have boosted spending on hygiene, sustainable products and organic sales in recent months. Income disparity is likely to play a major role in the growth of these categories, according to Deloitte.

Per Deloitte's findings:

Convenience is the new battleground. Prior to COVID-19, consumers made it clear that convenience matters and the new normal has further accelerated this trend.

According to the report, more than 50 percent of consumers report spending more on convenience to get what they need, with "convenience" increasingly being defined by contactless shopping, on-demand fulfillment and inventory availability.

As such, there has been a surge in mobile payment usage, delivery app downloads and buy-online-pick-up-in-store (BOPIS) adoption.

For many, this acceleration is driven by scarcity of other options, while others have opted for these models because they perceive them to be safer and healthier.

Commoditization and premiumization of products. According to the study, as of April 4, consumer spend across all retail categories has decreased by more than 40 percent, placing significant strain on short-term operating margins.

This trend has increased private brand sales in recent months, with price and supply chain constraints playing a key role in this growth, as well as consumers trading brand preference for brand availability amid stockouts.

It remains unclear, however, if consumers will emerge with new preferences or lower brand loyalty than observed prior to COVID-19.

Either way, income bifurcation will likely continue to play a critical role in the choices consumers make.

Digital sales grow, but achieving success remains complex. COVID-19 has accelerated digital channel growth in recent months.

By mid-April, online orders grew 130 percent year over year, with meaningful gains in categories where digital commerce penetration had been historically low, such as grocery.

Plus, with consumer mobility significantly decreased, desktop share of digital traffic has seen a significant uptick as consumers swap their phones for computers while at home.

However, it is still difficult to determine exactly how these trends will manifest in the long term as stay-at-home orders are lifted and stores re-open.

Moreover, the spike in digital orders has had significant fulfillment implications for retailers, with order picking and last-mile delivery adding to the cost and complexity of the exercise.

While consumers have demonstrated a willingness to pay for on-demand fulfillment in the short term, it remains to be seen if they will continue to offset the cost of delivery in the future.

Overall, while digital growth remains strong, the ability to profitably pursue that growth remains under tremendous and growing pressure.

Bricks and mortar changing its role. As of 2019, stores still accounted for a staggering 85 percent of retail sales. Not only that, in certain categories, the numbers of physical stores have even grown in recent years.

In fact, COVID-19 further demonstrated the importance of the physical store, with many brands and retailers experiencing significant revenue loss from the temporary closure of stores.

The dramatic shift to ecommerce has also hastened the redefined role of the physical store, and many retailers have reimagined their stores to serve as order fulfillment centers to meet digital demand and drive last-mile execution.

But, it is not yet clear whether this acceleration will be sustained by consumers maintaining digital shopping behaviors or the sector will see a normalization to pre-COVID trends as restrictions are lifted and stores reopen.

New business models have a growing impact. COVID-19 also has led to the adoption of nontraditional models in "essential" categories such as food, grocery and pharmacy, while at the same time decelerating short-term growth of new models in "non-essential" categories.

Among these non-essential categories is apparel, where, according to the report, consumer spend has seen a decline of more than 70 percent versus last year.

Past trends also reveal that economic uncertainty often results in changing consumption habits and the emergence of new models.

Retailers and consumer products companies continue to expand outside of their traditional revenue models to fast-track growth and meet changing consumer preferences.

However, depending on the impact from the pandemic, it is likely that proliferation of new models will continue, but it remains unclear which models will sustain impact in the long run.

Health and sustainability growing priorities for some. COVID-19 also has substantially altered consumer spending habits for healthy and sustainable products.

Consumers have dramatically increased spending on hygiene e.g., hand sanitizer, medicines as well as sustainable products and organic sales, but it is unclear how much of this volume increase was driven by consumer choice versus availability of options amid out-of-stock conditions.

Income disparity also is likely to continue playing a key role in the growth of health and sustainability markets, with low- and middle-income households reporting more job losses than upper income households (50 percent versus 32 percent).

This outsized economic pressure on the discretionary budgets of low- and middle-income households may further bifurcate health and sustainability spending across income levels.

Consolidation in retail and fragmentation of market share. With the closure of "non-essential" physical retail locations due to COVID-19, consumers shifted spending to select physical and ecommerce retailers that could provide essential goods and meet their convenience needs.

While it is unclear who will be the ultimate winner, the impact of COVID-19 could accelerate further retail consolidation, creating an environment where a small set of players emerges stronger at the expense of smaller or independent players.

At the same time, the pandemic has accelerated short-term fragmentation of packaged goods, either as a true signal of consumer demand or a temporary behavior driven by supply chain constraints and stockouts.

Looking ahead, economic uncertainty could have longer-term implications on fragmentation, as brands become increasingly challenged to overcome decreased consumer spend and increased operational challenges.

"As always, preparation is key," Mr. Lobaugh said.

"Rather than relying on prophecy-based predictions, retailers should embrace data-driven scenario planning, and remain vigilant in monitoring emerging trends," he said.

Please click here to access Deloitte's report, "The future is coming ... but still one day at a time."