Responding to consumer trends in the new reality

COVID-19 pulse survey
November 2020

KPMG International

home.kpmg/consumersnewreality

Contents

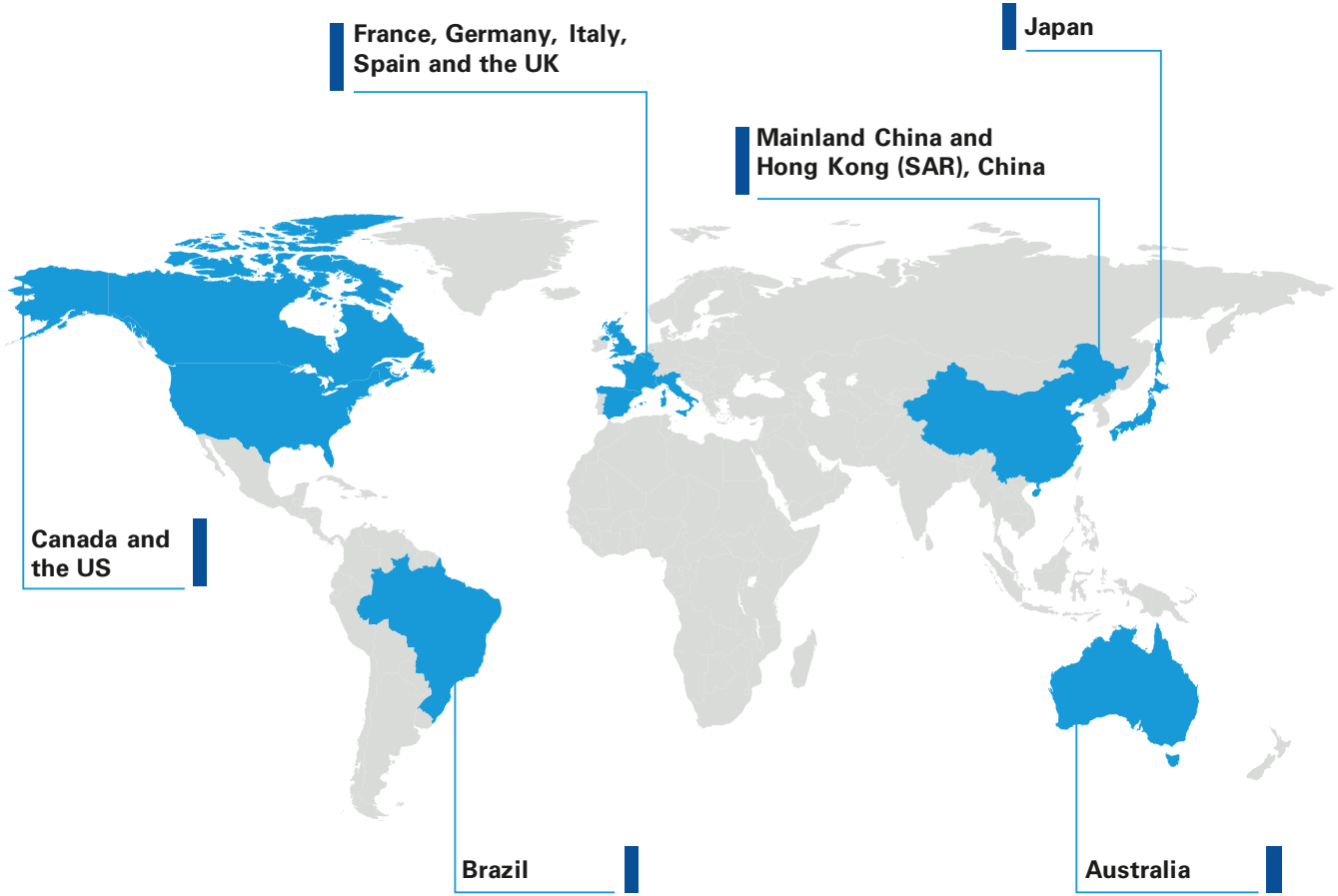
Methodology overview

KPMG sponsored a consumer pulse survey to understand the lasting impact of COVID-19 on consumers' needs, behaviours and preferences. We heard from over 75,000 consumers across 12 markets in six separate waves over four months. Each wave set out to determine how the evolution of COVID-19 is affecting consumer behavior and, in turn, what implications this will have for organisations.

This executive summary includes data from the Wave 1 to Wave 6 consumer pulse surveys, which took place between 29 May to 21 September 2020.

Please note throughout this report W1 refers to Wave 1, W6 to Wave 6, etc.

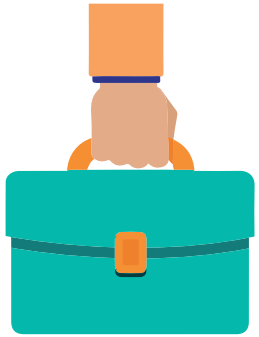
Markets covered in the survey



A generation of change has occurred in just a few months. Leaders need to navigate upheaval across many political economic, social and technological factors.

Political

- Response to future waves — restrictions
- Delays to a vaccine — late 2021 before widely available
- High levels of government and corporate debt
- Financial and economic stimulus packages
- Increases in taxation, reduction in disposable income
- Sustainable energy, use of plastics
- *Timeline for resolution extending*



Economic

- Low GDP forecasts
- Decrease in consumer spending — savings growth
- Some customers have prospered
- Consumer focus on price and value
- Investment constraints — but digital a priority
- Long-term economic scarring for several industries
- *Spending curtailed, cost scrutiny*

Social

- New values — environmental and social
- Working from home — new normal
- Rise of the community, sense of place, localisation
- Potential unemployment risk
- Awareness of personal risk, safety
- Changes in purchase priorities
- *New values-based consumer behaviours*

Technological

- Cyber security, in-home management
- Accelerated automation, e-commerce
- Move from digitising processes to customer journeys
- Supply chain risk management
- Data integration, single customer view
- Onshoring and local sourcing
- *Rapid adoption of digital*

What are the four consumer trends?

Since May, our research has seen four key trends that have impacted consumers and have ultimately changed their purchasing patterns and consumption. Consumers anticipate these changes to last longer than 12 months.

The trends across the 12 markets are economic impact, erosion of trust, rise of digital and home as the new hub. These themes highlight the pressures consumers are under, their feelings towards brands, and their changing behaviours in the new reality.

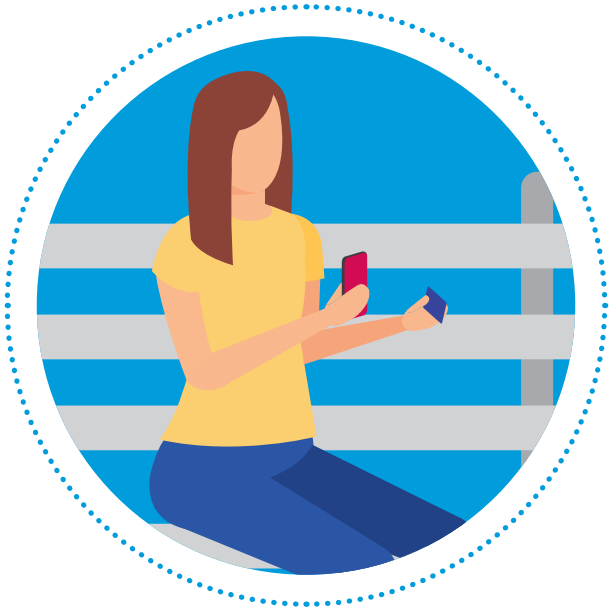
COVID-19 is forcing all sectors to reconsider their business models, their capital structure and their routes to market. There are four critical macro trends expected to shape how these considerations need to be made.

Economic impact

With catastrophe seemingly around the corner, companies rightsizing and optimising costs are expected to add to economic woes. Organisations must quickly understand the economic impact of COVID-19 on their customer base, to identify both risks and opportunities.

Rise of digital

Companies should rapidly adopt digital channels to reduce cost to serve and meet customer demand for e-commerce. They must also manage cyber risk, simplify their product offering and consider how to ensure brand differentiation, when face-to-face brand-building opportunities are reduced.



Erosion of trust

Trust in brands is eroding, with reputational risk especially precarious if corporate values do not meet those of customers. Companies must promote a sense of purpose, meeting the safety needs of customers and employees first, while also sharing their commitment to environmental and social policies.

Home is the new hub

Companies should seek to tap into the growth of the community, the demand for localisation and new 'essentials' such as homeware. They need to recognise the changing role of the home as well as flexibility on its location away from urban areas, as working from home becomes mainstream.

Four consumer trends — So what should organisations focus on now?

Know your customer

Know your **customer and their circumstances**. Understand the financial segments of risk and opportunity.

Be clear on segment messaging and what is needed to **help customers protect themselves** against financial uncertainty, risk, and personal safety.

Rethink cost of doing business

Revenue and margin are under pressure; the shift online requires investment. **Cost to serve needs to be reduced.**

However, it is not just about cost-cutting; costs need to be **removed from some areas and redeployed in others.** Where should you place your bets?

Examine business models and partnerships

Determine how **customers will interact with you in future.** What is the future role of digital and e-commerce?

Food miles and localisation are a rapidly growing concern. How should your **supply chain adapt?** What partnerships and alliances are required?

Demonstrate your purpose

The source of differentiation. **What a company stands for** over and above profit. Critical in a digital world.

What is it about your **brand** and **social and environmental purpose** that means consumers and employees should buy into you and not others?

Consumer trends are driven by self-protection

COVID-19 has affected consumer behaviour, from staying at home and avoiding public transport, to prioritising savings over spending and even moving house.

Going on holiday, however, looks to be non-negotiable for many.

Organisations must understand how their customers are feeling and behaving in order to find the specific opportunities in their sector.

One in five consumers still want to stay at home.

20% want to stay at home as much as possible

As of September, many envisioned a long-term impact on normal life.

32% think the impact will be felt for more than a year

Net spend in the next 6–12 months is expected to be down significantly.

-21% spend across all categories in the next 6–12 months vs. pre-COVID-19

Savings is the number one priority for those with disposable income.

36% prioritise savings over other types of expenditure

Public transport suffers a dramatic loss of confidence vs. pre-COVID-19.

Net confidence vs. pre-COVID-19

-37%	+25%	+9%
public transport	own car	walk/ cycle

Looking ahead to 2021, two in five are worried about their future financial security.

43% feel vulnerable, anxious or overwhelmed about their financial security in 2021

COVID-19 has been the catalyst for 13% to move home:

Proportion who have moved home as a result of COVID

4%	4%	5%
for financial reasons	due to working more from home	for my personal safety

Despite all this, many consumers do not want to give up their holidays, with planned bookings increasing over time:

Proportion planning to book holidays

45%	56%	63%
Oct–Dec 2020	Jan–June 2021	July–Dec 2021

Spending is down, savings are up

Irrespective of how secure consumers feel financially, all predict a decline in spending in the next six–12 months. And all are prioritising savings.

The predicted net drop in spending ranges from -35 percent vs. pre-COVID-19, for those who are financially overwhelmed, to -8 percent for the financially secure.

Against this backdrop, all financial segments rate value for money as their key purchase driver.

41% of customers feel either financially overwhelmed or financially vulnerable as a consequence of COVID-19, a picture which has remained consistent since May 2020.

+7% increase in savings as a priority vs. W1; savings is now the number one priority for disposable income. The new customer is thinking more about their future financial security.

-21% net predicted spend in next 6–12 months across all categories vs. pre-COVID-19, with a -34 percent drop in non-essential purchases.

63% consider value for money a key purchase driver, making it the top consideration when buying products and services.

Polarising effect and long-term risk

While predicted spend is down for all financial segments, COVID-19 has had a polarising effect on financial security:

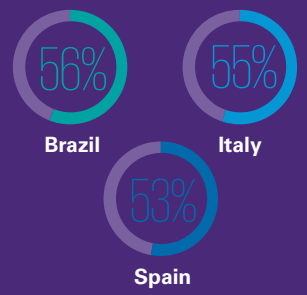
— To date, 41 percent of consumers report being worse off, while a small but notable proportion actually feel better off (14 percent).

— Indeed, for now, nearly half (45 percent) feel financially comfortable, which represents an opportunity for certain sectors.

— Organisations must segment their customers with a view to meeting the increasingly different needs of these groups.

— In the longer term, as support from governments ebbs away, it seems inevitable that more consumers will be negatively impacted.

Markets with greatest number of people financially impacted (i.e. overwhelmed and sensitive):



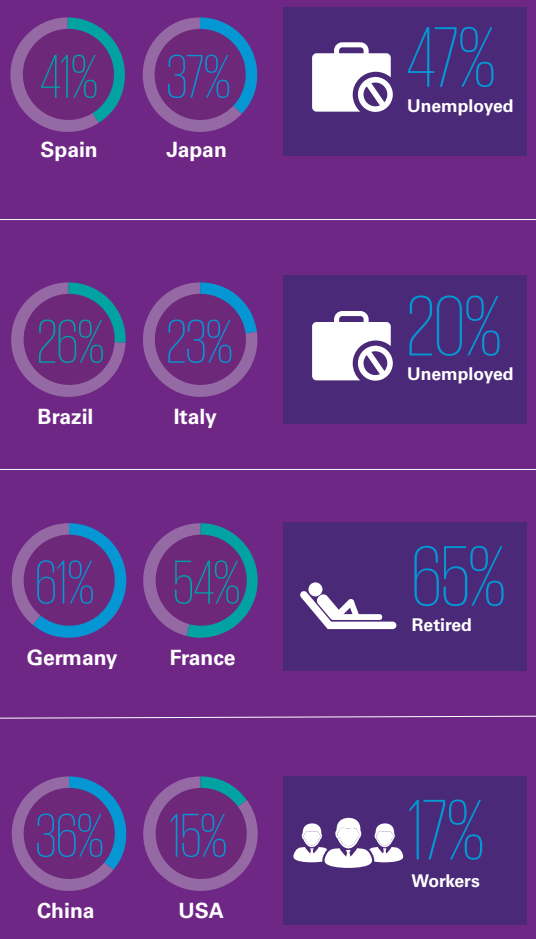
27%
Financially overwhelmed
Much worse off | Struggling to cover essentials | Overwhelmed and anxious

14%
Financially sensitive
Slightly worse off | Stopped non-essential purchases | Vulnerable

45%
Financially comfortable
Not affected financially | Kept spending as before | Calm

14%
Financially secure
Better off | Spending as before but deferred major purchases | Optimistic

Highest among:



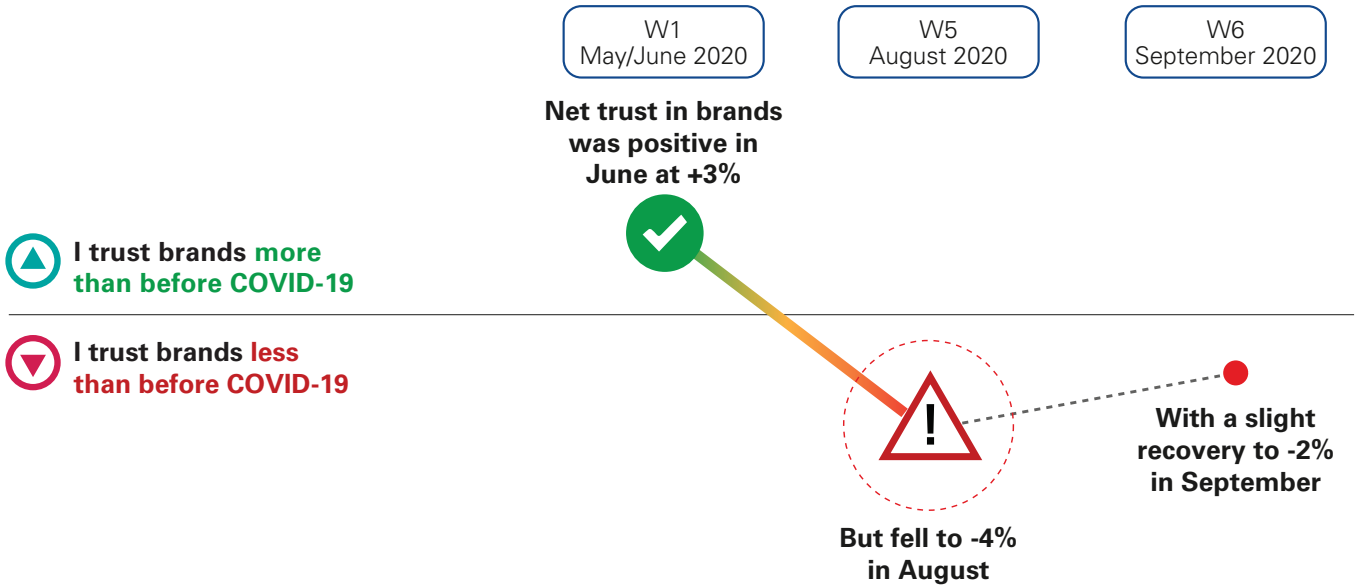
Brand trust is lower than pre-COVID-19

Concerns around personal safety brought trust to a low point in August when compared with pre-COVID-19.

Now marginally recovered at a global level, we can see significant market variation with those locations most adversely affected being France (13 percent), Italy (-11 percent) and Spain (-9 percent).

Spain and Italy have seen the steepest decline in trust since our first wave of interviews in May/June 2020.

Fewer people trust brands now than they did pre-COVID-19



Percentage showing net trust, i.e. trust more than before minus less than before. And to what extent do you trust each type of company now, compared with before the start of the COVID-19 situation?

Source: Consumers and the new reality, KPMG International, September 2020

Incremental recovery of trust seen in September

After a low point in August 2020, nearly all sectors saw consumer trust improve somewhat in September.

The insurance sector performs the best at maintaining net trust throughout COVID-19.

Travel, tourism, entertainment and leisure have suffered the most from an erosion of consumer trust, due to the nature of the interactions, the concern around personal safety and the issue of refunds in the travel sector.

But here too, tentative recovery was seen in our latest wave of research.

Net trust by sector now vs. pre-COVID-19

	W1	W5	W6	Change since W5
Grocery	8 %	-2 %	+1 %	+3%
Non-grocery	3 %	-5 %	-2%	+3%
Banking	1 %	-2 %	-2%	=
Insurance	4 %	1 %	3%	+2 %
Entertainment & leisure	n/a	**-15%**	-12%	+3%
Travel & tourism	-9 %	**-15%**	-12%	+3%

Percentage showing net trust, i.e. trust more than before minus less than before. And to what extent do you trust each type of company now, compared with before the start of the COVID-19 situation?

Source: Consumers and the new reality, KPMG International, September 2020

China and the UK saw a boost in confidence.

Both markets saw **+5%** increase in trust in September.

Recovery of trust was driven by China, where life is most likely to be getting back to normal, and also the UK, where government incentives such as Eat Out to Help Out* drove up consumer confidence over the summer.

*Source: https://www.bbc.co.uk/news business-53911505

Digital is meeting the needs of the new customer

With COVID-19 reducing in-person interactions, along with a focus on personal safety, digital channels have filled the gap for customers.

The use of digital channels has accelerated rapidly, and is set to continue, even once the COVID-19 situation has eased. Of the 43 percent of customers who previously mainly used in-person channels to contact brands for support, one in three (33 percent) have now switched to digital channels as their main channel. This is particularly prevalent for non-grocery retail (42 percent have switched to digital) and banking (40 percent have switched).

Safety aside, the ease of shopping online is the other factor driving increased uptake, especially ease of finding what you want (noted as a key reason for use of digital by 39 percent of customers).

Use of face-to-face channels to contact brands is down 20% (from 43% pre-COVID-19 to 23% now)

Digital channels have seen a rapid take-up, increasing +18% (from 26% pre-COVID-19 to 44% now)

45% of customers predict digital channels will be their main way of contacting brands in the future

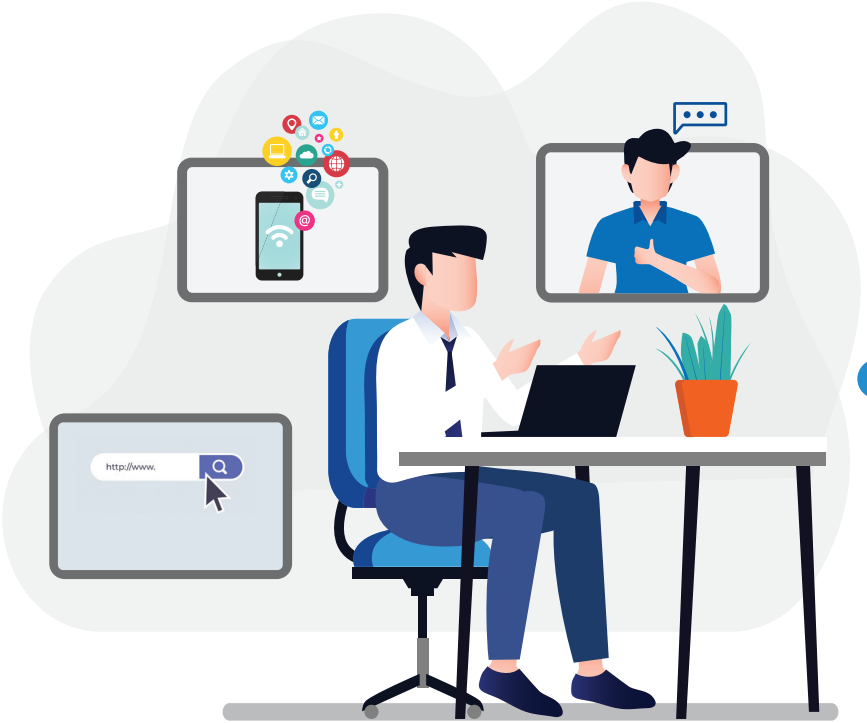
Digitally enabled contact channels (i.e. apps, social media, email and messenger apps) have increased in use (+10% overall) followed by website (+6%)

Opportunity for further digital adoption

The accelerated adoption of digital channels has varied across markets, with certain markets, e.g. Hong Kong (SAR) China, mainland China, Italy and Brazil leading the way. These markets see greatly increased use of both new channels for support (including brand/messenger apps and video calling) with many more embracing online delivery services. Considering the relative youth of these services in some markets (e.g. Italy) prior to COVID-19, these illustrate significant shifts in consumer thinking.

Markets such as Germany and France, however, claim less of a shift to digital channel use since COVID-19.

Apps and messenger apps represent the biggest opportunities in the digital space



Radically changed customer behavior

IT — Italy
+55% online delivery services

CN — China
+9 app%, +9% messenger app, +5% webchat for support

HK — Hong Kong (SAR), China
+10% website, +9% apps, +6% messenger app for support

BR — Brazil
+14% app, +10% messenger app, +9% website for support
+44% online delivery services

Slower to adapt with opportunity for further growth

DE — Germany
Apps and website slightly up (+1% and +3% respectively) but zero shift towards video call, webchat, social media for support
+24% online delivery services

FR — France
Apps and website slightly up (+2% and +1% respectively), but zero shift towards video call, social media, messenger apps for support
+24% online delivery services

New habits form as consumers remain at home

This situation presents an opportunity for customers to explore a new lifestyle, as the lines between personal and work life are blurred. To date, 37 percent of consumers claim they are working from home more than before COVID-19, and a high proportion will continue to do so in the future, especially as restrictions are reinforced. Moreover, 13 percent of consumers declare they have moved home as a consequence of this situation. This is more prevalent among those aged between 18 to 44 years old (23 percent).

As a consequence, net confidence in walking and cycling is +9 percent vs. pre-COVID-19, while confidence in using your own car is +25 percent. On the other hand, consumers trust public transport far less than before (-37 percent). Routines have changed, and the road back to 'normal' is long, if indeed there is one.

Holidays abroad lose relevance as consumers shelter, at least in the short term, closer to home. Only 14 percent are planning to book a holiday abroad between October and December 2020.

As COVID-19 continues, consumers envisage staying at home more

20% will stay at home as much as possible

Only 29% are confident to go back to entertainment and leisure venues. Safety concerns are limiting customer confidence to partake in out-of-home experiences.

37% claim to be currently working from home more now than before COVID-19, with 60 percent planning to do so more in the future — evidence of significant changes in working behaviour.

+7% increase in customers expecting to prioritise spending on eating at home in September vs. May/June, while spend on out-of-home experiences declines, especially eating out, holidays and leisure.

Customers predict they will spend less on non-essentials in future across almost all sectors, with a net spend of -34 percent vs. pre-COVID-19. On the other hand, in grocery retail spend is up, despite customers shopping less often.

Companies must respond to regionalisation trend

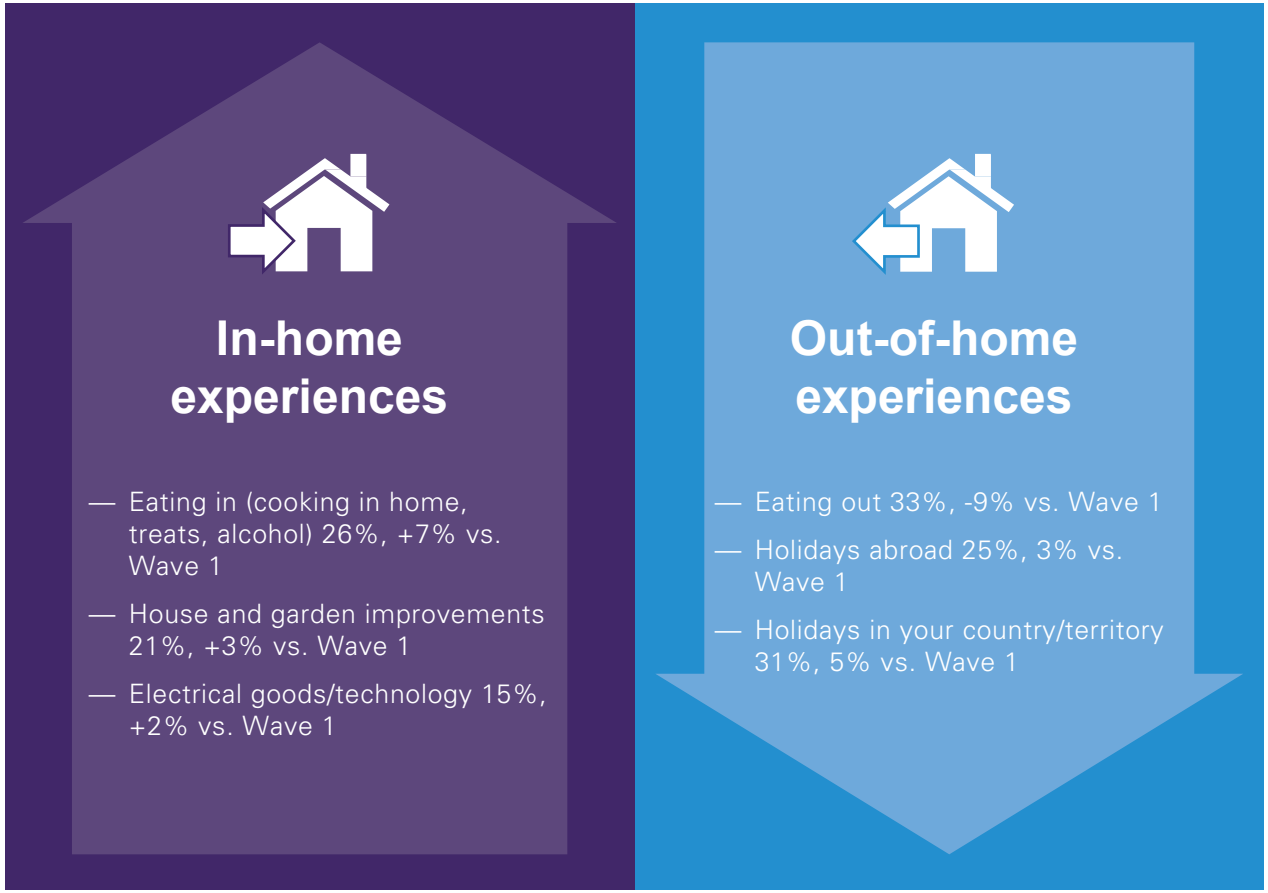
There is a move to relocate, the big winners being suburbs and villages, with consumers looking for a healthier and cheaper way of life. This is an opportunity to explore a new lifestyle away from highly populated city centres, pushing brands to reconsider where their customers are.

Consumers have adopted new habits, are now more focused on in-home experiences and investments, such as purchase of furniture, electronics and gardening. Home cooking will likely remain a priority over eating out.

Companies will need to assess this new opportunity: What are the essentials in the new home hub?

Convenience, accessibility and safety are key drivers that make local suppliers more appealing to customers. Businesses need to re-orient their strategy, supply chain and operations to take into account this de-urbanisation.

Prioritisation of spend on in-home experiences continues to grow, while out-of-home consumption is in decline



Now that restrictions are being lifted in many countries and territories, which of the following might you want to prioritise if you were able to financially?

Source: Consumers and the new reality, KPMG International, September 2020

What does this mean for businesses?

Businesses globally have been greatly impacted by COVID-19. But in our survey, we have focused on getting insights from consumers in the banking, insurance, consumer & retail and travel & leisure sectors.

In the following section, our sector professionals give their perspective on how the four key trends impact businesses in these sectors in the short and long term and how they might address these trends to find opportunities in these challenging times.

Economic impact

Banks were already undergoing cost-reduction programs to cope with reduced margins in the sector.

As a result of the current environment, banks are considering new operating models (e.g. industry utilities, managed services, etc.) as well as potential consolidation to drive efficiencies. For customers, banks continue to offer payment holidays to consumers who themselves face financial uncertainty.

One in six consumers who own a financial product (18 percent) have applied for a payment holiday in the last six months. Among this group of customers, 16 percent feel they will struggle to pay it back. Banks are therefore very concerned about the level of upcoming debt and their potential exposure.

They will need to understand the personal circumstances of customers in order to help them navigate the coming months and years. Indeed, one in five customers are already asking banks to do more to accommodate them during COVID-19.

Countries most affected by COVID-19 are seeing a drop in GDP, unemployment figures rising, banking deposits growing and consumer spending dropping. The effect of this situation is already visible growing provisions to cover future and expected losses. The main impact for banks will likely take place in the first quarter of 2021 — though recent news on vaccine development could alter this.

Francisco Uria Fernandez
Head of Financial Services in EMEA and Spain
KPMG in Spain

Erosion of trust

While there has been a net loss of trust in banks during COVID-19, trust has not been eroded as deeply as other sectors.

Indeed, many banks have taken the opportunity to support consumers and engender trust through consumer loans and payment holidays at this difficult time.

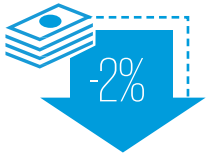
But do banks have the back-office processes in place to handle such large volumes of loans and to avoid potential fraudulent activity? Can they ensure they will treat all customers fairly?

There will be a cohort of customers in significant financial distress — what strategies do banks have in place to manage these relationships?

Long-term reputational risk could arise should either of these factors prove to be a problem.

In future however, could COVID-19 be the catalyst for open banking? And if so, could the banks be the trusted custodians of consumer data, taking the role of both financial advisor and protector?

Net trust vs. pre-COVID-19



Banks need to be fast to respond with a clear focus in quality of communication on brand values and differentiation. The increase in open banking transactions may offer an opportunity to improve trust and communication.

Chris Monaghan
Partner, Banking
KPMG in the UK

How they choose to communicate once debts need to be collected will be key to maintaining this positivity.

Judd Caplain
Global Head of Banking and Capital Markets
KPMG International

Rise of digital

As customers become more comfortable with using digital to accomplish their high-value complex transactions, banks are having to accelerate their digital investment.

Larger, established banks have benefited from the 'flight to safety' in these uncertain times with consumers looking for full-service banking both online and on mobile.

Such banks are in a relatively strong position to develop their own technology, e.g. virtual assistants or AI credit decisioning, or to simply acquire this skillset.

We can therefore expect to see consolidation in the sector and also potential competitive pressure from tech firms who have the digital capability and customer base to compete.

Banks must not only focus on digitisation, but also on differentiation. Those brands unable to do this are at risk of becoming commoditised — how will they stand out if not through their staff or in-branch experience?

Products and services need to be simplified to reduce cost. Personalisation can be delivered through the point of interaction, making better use of customer data to help predict future situations and help inform decision-making.

Banks will likely be trusted the most to keep data safe and help people make decisions. This will feel like the orchestration of your financial matters, to help navigate the economic disturbance of COVID-19 in the near term, and over time, as trusted platforms, extend to other parts of consumers lives.

Ian Pollari
Partner, National Sector Leader, Banking
KPMG Australia

Banks have to digitise in combination with economic pressures, e.g. maintain customer treatment standards, process significant volumes of lending, migrate to cloud, reduced costs and improved data use.

Chris Monaghan
Partner, Banking
KPMG in the UK

Home is the new hub

It is widely expected that the banking branch network will continue to shrink overall.

However, the reorientation of life around the home is likely to lead to a new focus on regional distribution of branches.

Convenience for customers will need to be balanced against profitability.

City centre branches will need to continue to be full service to deal with highly complex processes.

While investment in infrastructure is likely to be seen out-of-town, perhaps via pop-up branches or multi-brand outlets for lower margin transactions.

Traditionally, branches were a source of cross-selling — digital channels will need to quickly rise to the challenge to close this gap.

And with consumers sharing more data and increasing online purchasing, bank exposure to cyber threats mounts. Cyber security will therefore become an ever increasing focus for this sector.

We have seen an increase in third-party brokers as branches have been temporarily closed, as well as increased expenditure on home improvements and regional areas.

Ian Pollari
Partner, National Sector Leader, Banking
KPMG Australia

Any digital platform gives the opportunity for more fraud. Banks need to think three steps ahead. Can they show that they are winning this arms race?

Judd Caplain
Global Head of Banking and Capital Markets
KPMG International

US Bank brand

"Since the financial crisis, banks have seen a decline in trust. There is a great opportunity for banks to display a clear purpose, helping customers and the businesses they own or support to navigate in the new reality."

Tim Phelps
Global Lead Partner,
Banking and Capital Markets
KPMG in the US

Challenge

Erosion of trust

Trust in brands is eroding. Companies must regain a sense of purpose, meet the safety needs of customers and employees, while navigating the constant danger of reputational risk — especially for bank brands, who are looking to recover reputational damage seen in the financial crisis.

Stepping up to support businesses in their time of need

— The US government announced a loan relief program for small businesses (CARES act) — this brand was one of the first major U.S. banks to stand up their online portal to accept applications.

— Taking part in the program caused a massive increase in demand for loan applications, with customers seeking urgency in approvals.

— This brand deployed 1,500+ additional staff to enable 24/7 processing of loan applications.

— Processed loans protected an estimated 2.5 million jobs.

Economic impact

Consumers have responded to COVID-19 by acting to protect themselves and their families:

— prioritising savings when they have disposable income.

— investing in insurance policies, notably automotive (18 percent), home (13 percent) and life (12 percent).

— looking for usage-based insurance in line with the desire for value for money.

Interestingly, insurance purchase has been concentrated not only in those markets particularly affected financially (Brazil and Italy), but also in mainland China where confidence is higher.

Insurance relies heavily on data sharing, something insurers have not made full use of yet. This presents the potential for significant disruption in the sector.

Consumers are interested in insurance because they are looking for protection and focused on savings.

Laura Hay
Global Head of Insurance
KPMG International

The awareness of the need for health and life insurance has increased, especially in markets where public provision is more limited.

Darren Pigg
Partner, Insurance
KPMG China

Erosion of trust

Net trust vs. pre-COVID-19

Trust in the insurance sector is actually higher than pre-COVID-19. Auto and home rebates may well have played into this, as well as the psychological association with protection and empathy that consumers are searching for.

However, as time goes on and more claims are made, the issue of eligibility due to COVID-19 risks trust. Insurers will need to invest in earning consumer trust longer term.

One route is to personalise the conversation and talk in terms of long-term prevention and care, adapting the insurance 'package' to reflect an individual's circumstances and attitude to risk.

This is evident in some markets, where there is a greater emphasis on personal relationships via agents. But even here, there is a push to get to know customers better to drive growth.

Brand purpose is likely to be a significant factor in purchase decisions, especially in Asia where sector growth is expected to be highest. Could this be the era where insurance is bought, not just sold?

There is a massive opportunity — it is possible to create an insurance company that is trusted, and is digitised. The company that wins that race will likely dominate the market.

Mark Longworth
Head of UK Insurance Consulting and Global Head of Insurance Advisory
KPMG in the UK

Rise of digital

In insurance, consumer demand has forced the issue of digital transformation. But here, there is more ground to catch up, perhaps decades.

Digital has been hampered by insurers having multiple legacy platforms which are costly and time-consuming to knit together.

Large insurers have therefore been looking to fintech brands for inspiration and in some cases for acquisition.

Digitisation creates an opportunity to reduce cost by reducing reliance on agents and creating personal relationships direct with customers.

Investment in customer analytics enables everything from online prospecting to better customer segmentation to advanced techniques in data-driven underwriting.

In parallel, regulators and insurers have adapted, including reducing the need for 'wet signatures' where face-to-face contact is not possible.

All these actions open up the sector to new customer segments at a time where consumers are looking to protect themselves.

> These systems may well need to be built from scratch… even globally, very few have ever taken a legacy system to a truly digitised system.
>
> **Mark Longworth**
> Head of UK Insurance Consulting and Global Head of Insurance Advisory
> KPMG in the UK

> Progressive organisations are those that are moving forward quickly to transform. The digital transformation is inevitable. Speed and pace will separate the winners from the losers in this race.
>
> **Laura Hay**
> Global Head of Insurance
> KPMG International

Home is the new hub

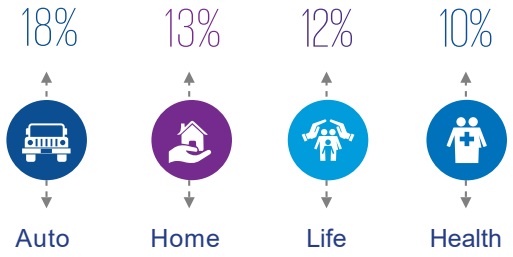
Spending more time at home has had an impact on the types of insurance that consumers are buying.

Auto, home, life and health have all seen a boost in purchasing due to changes in consumer behaviours.

Insurers and regulators have adapted quickly to enable agents to talk with customers remotely and fulfil tasks online that could previously only have been done face-to-face, e.g. medical exams for life or health insurance.

COVID-19 has forced change, which opens the door for lobbying and long-term change in channel strategy in the future.

Changing consumer behaviour has created demand for certain policy types



And for each of these types of insurance policies, which of the following have you done as a result of COVID-19?

Source: Consumers and the new reality, KPMG International, September 2020

> We may be starting to see a decrease in the average age for first-time buyers of life insurance, before their peak earning years, in response to COVID-19.
>
> **Laura Hay**
> Global Head of Insurance
> KPMG International

> A lot of organisations have moved quickly to enable agents to have conversations with customers remotely. Even regulators have responded, increasing the types of policies that can be approved without a wet signature. This is a great opportunity to permanently change industry requirements in the 'new normal'.
>
> **Darren Pigg**
> Partner, Insurance
> KPMG China

USAA

"Insurance is there in times of need. Trust is important: when things are difficult, the customer needs to know that insurance will take care of them."

Laura Hay
Global Head of Insurance
KPMG International

Challenge

Building trust in a challenging environment

Trust in the insurance sector is actually higher than pre-COVID-19. Consumers have seen in insurance the way to secure themselves from future risks, as well as an empathetic partner that will support them during difficult times.

The role of insurance companies as an strategic partner in times of crisis

— Constantly scoring high, USAA puts their customer first, especially in times of need.

— USAA's response to COVID-19 was empathetic. Driven by reduced driving and fewer accident claims, the company returned US$520 million to auto insurance policy holders, and had in plan an additional US$280 in a second premium dividend.

— It is also leading in technology developments, giving access to electronic health records, accelerating life insurance purchases, one of the first ones to do so in the USA.

"This contribution gives military aid organisations a lasting benefit. As interest-free loans are repaid, the funds can help new recipients well into the future."

Source: USAA donates $30 million to help troops and veterans impacted by coronavirus pandemic, Stripes, August 2020

https://www.stripes.com/news/us/usaa-donates-30-million-to-help-troops-and-veterans-impacted-by-coronavirus-pandemic-1.642027

Economic impact

COVID-19 has had a polarising effect on consumers' finances. Some have been directly affected, e.g. loss of earnings or employment — while others will have been less directly affected and will be building their savings. For example, 45 percent of customers still claim to be financially comfortable.

Retailers will need to better understand the needs of these groups — via segmentation driven by AI and psychometrics. Personalisation not only of communications, but also of developed products, will be key to meeting the needs of the new consumer.

Consumers are consistently looking for more competitive prices — presenting a potential challenge in markets where discounts and special offers are already prevalent, with a risk of mid-tier retailers unable to keep up.

In other markets further through COVID-19 however, such as mainland China, consumer behavior has returned to normal — with increased spending activity. Companies can benefit from preparing for the return in demand for goods and services — provided, as above, they are able to closely understand the new needs of the customer.

In the medium to long-term, it is necessary to clearly separate marketing between segments. Then working with the government as an industry group, consider what measures can be taken to encourage consumer spending for each segment.

Yuji Yamaguchi
Partner, Tax Advisory
KPMG in Japan

For those directly affected, retailers need to focus on value for money and providing products suitable for those with reduced spending power. For those less affected, brands that tap into the psychology of economic cycles/consumer confidence will be the winners.

Massimo Curcio
Associate Partner,
Consumer and Retail
KPMG in Italy

Erosion of trust

The outcomes of COVID-19 for retailers have been very unbalanced — some big winners, and a lot of losers. Some types of retail have been doing well — grocery, home goods, DIY, etc. In markets where these categories are doing well, these brands have positioned themselves positively in the narrative, being seen as supportive of consumers and their new behaviours.

Success depends more on communicating and demonstrating commitments to consumer safety, on top of just actions taken. Customers have noticed a reduction in messaging relating to safety, and are perceiving it as relaxing measures (in markets beyond the first wave of COVID-19).

Social safety is still a top-of-mind concern — non-grocery retail chains in particular have been perceived as not putting customer safety first. To convince consumers to spend, retailers need to show a clear purpose and commitment to safety — why would a consumers spend their money with you? This is especially relevant for financially vulnerable consumers, who feel even less trust for brands across sectors.

Net trust vs. pre-COVID-19

Life in China has almost returned to normal since March 2020. Considering the strong consumer trust and high e-commerce penetration, the China market now plays an even more important role to drive business growth for international brands.

Jessie Qian
Sector Head,
Consumer and Retail
KPMG China

Consumers are gravitating toward brands that are empathetic and supportive of their values. Retailers will need to go back to their purpose, identify what the customer expects of them and act accordingly.

René Vader
Global Head of
Consumer and Retail
KPMG International

Rise of digital

There will likely be a transition, accelerated by COVID-19, towards consumer commerce — where those brands able to go direct to the consumer are expected to be the winners.

The switch to delivery-focused models has been challenging owing to the changing cost of doing business — online delivery carries a lower profit margin, and retailers' ability to adapt to the new reality has been affected by their infrastructure and available capital to invest. Consider Nike vs. their competitor — each specialising in sporting goods, but different in their business models. Nike placed emphasis on delivering direct to the customer, and as such has excelled. On the other hand, other brands have focused on supplying department stores, and have performed more poorly as consumers shift away from store shopping.

With this in mind, large-scale mega-retailers are succeeding, off the back of years of investment in direct-to-consumer infrastructure.

For small to mid-scale operations, consolidation of infrastructure will likely be necessary to survive.

Clients have said that they have been fast to grow online sales via existing online services but building supply chain capability and meeting fulfillment expectations from customers has been a real challenge.

Robert Poole
Sector Head,
Consumer and Retail
KPMG Australia

Consumer Commerce is the future. Bricks and mortar will remain an important channel although we know channel agnostic and customer centric is key and the competition will be much broader than today's retail.

Paul Martin
Chair,
Global Retail Steering Group & UK Head of Retail
KPMG in the UK

Retailers must rethink their priorities for transformation — where is the best place to spend my cash, so that I can live to fight another day in 2021?

Scott Rankin
Advisory Industry Leader,
Consumer and Retail
KPMG in the US

Home is the new hub

The shift towards regionalisation has presented challenges for retailers, such as the decline in consumer use of larger department stores. However, for those brands better able to understand their customer segments, and identify the differing needs of those consumers, there is significant opportunity — provided consumer individual needs for value for money and ease of experience are met.

Brands with the ability to reach customers in or close to their own homes, and those willing to consolidate infrastructure to more easily enable this, will likely be the success stories. There is opportunity for further growth here, with consumers willing to spend more for locally sourced products.

In addition, with consumers spending more time at home, retailers will need to rapidly understand the new consumer preferences and trends for types of products — the new view of what is essential vs. non-essential.

Companies need to recognise the changing role of 'the home', as well as the new flexibility on its location away from urban areas, as working from home becomes mainstream. They should seek to tap into the growth of the community and the demand for localisation and new 'essentials,' such as home-office ware.

Linda Ellett
UK Head of Consumer Markets,
Leisure and Retail
KPMG in the UK

The centralisation of the home as a place of work, rest, and entertainment provides a two-step opportunity for retailers. Step one involves winning a consumer's trust, once accomplished, allowing for step two to unlock the offering of non-traditional product categories to consumers.

Kostya Polyakov
National Industry Leader,
Consumer and Retail
KPMG in Canada

Natura & Co

"As much as it is about companies taking action, it is also as much around communicating accomplishments. Brands which regularly and confidently talk to their customers and employees about their initiatives in response to COVID-19 have a clear opportunity to build trust in the future."

Fernando Gamboa
Consumer & Retail Lead
KPMG in Brazil

Challenge

Erosion of trust & home is the new hub

Companies must regain and keep a sense of purpose in the new reality, meeting the safety needs of customers while responding to changing behaviors towards the home.

Clear communication of activities for the benefit of the public and their own employees

— Digital School initiative, focusing on delivering digitally enabled education resources to schools, teachers and students.

— Converting production facilities to manufacture personal hygiene products.

— Providing digital solutions to employees to still enable selling activity without the risk of face-to-face contact — allowing them to work from home.

"Brazilian cosmetics group Natura & Co will temporarily convert all of its makeup and fragrances production lines in Latin America to manufacturing personal hygiene items such as hand sanitiser to help combat the spread of the coronavirus."

Source: Reuters, March 2020

https://uk.reuters.com/article/health-coronavirus-natura-co-hldg/update-1-natura-to-convert-makeup-fragrances-production-to-hygiene-items-in-coronavirus-fight-idUSL1N2BI169

Economic impact

As the effects of COVID-19 continue, businesses must look at where customers are spending now, with one in five continuing to stay at home following government regulations and recommendations. Meanwhile, the long-term effect is largely unknown. Many believe it will be shaped by permanent changes in consumer habits. For example, should commuters return to their offices but even just one day less per week, would mean a 20 percent decline in footfall affecting the fundamental premise of many business models.

Forty-one percent of consumers already feel overwhelmed or vulnerable and, as governments limit or stop their financial support, more consumers are expected to face job losses and struggle financially, affecting spending power still further.

Nonetheless, where organisations can weather the storm, those in the hospitality industry have taken comfort from the speed at which consumption picked back up when consumers were able to return. This return of demand has already been seen in markets which have experienced COVID-19 for the longest e.g. mainland China. This provides hope for the leisure and travel sectors, if businesses can adapt quickly.

In China, leisure behaviour is now back to normal. There have been lots of closures, but new concepts are now stepping up and taking the opportunity.

Li Fern Woo
Head of Internal Audit, Risk and Compliance
KPMG China

Nighttime venues are still solvent largely because of the government's stimulus… as long as these businesses are in hibernation. But how long can they do that?

Will Wright
Partner,
National Markets
KPMG in the UK

Erosion of trust

Businesses are working hard to demonstrate they are safe and acting under government guidelines, reacting quickly, with innovative solutions and adapting their operational models. However, customers are still unsure of the service they might receive and how they will be looked after, disrupting confidence in the sector.

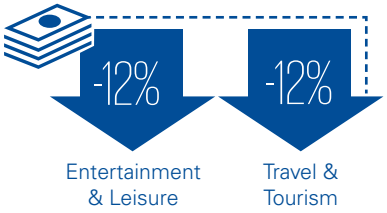
As we approach the winter season in the northern hemisphere, the future is very uncertain and many businesses will need to continue adapting their operational processes as the situation develops. Clear communications inspiring trust and providing visibly safe environments will likely be key for the industry's survival.

For the travel industry, trust has been severely affected, driven by the airlines' refund process. The system is now broken, with many strong historical brands facing reputational issues, as they try to implement changes in policies, with fully flexible and cancellable options.

Businesses oriented towards staycations and domestic travel have benefited during this difficult time, such as online house-rental agencies, as self-owned transport is becoming even more popular.

Those who are operationally flexible and adaptable will win.

Net trust vs. pre-COVID-19



Brands will need to be aware of the 'theater of cleaning' - clear communication of the measures they are taking in order to build up consumer trust and confidence.

Will Hawkley
Global Head of Travel and Leisure
KPMG International

Nobody is likely going on sale for summer next year; everybody is expected to be pushing safety and trust.

Richard Aston
Director
KPMG in the UK

Rise of digital

As with other industries, digitalisation has been accelerated as a consequence of COVID-19. This represents a challenge but also an opportunity for the leisure and travel industry.

Many leisure venues have begun to adapt their operational strategies and implement a hybrid model to be where the customer is: at home. Digital menus and delivery have been highly used in the industry, as venues offer new options to customers. For other businesses, providing an in-home experience is the new opportunity to engage with consumers: TV, social media, messaging services, video games, all on the rise. There are huge opportunities in the online entertainment space, from live performances, with online concerts, theaters and live broadcasts becoming more available, to streaming services such as Netflix or Disney Plus seeing huge demand growth.

There is also an opportunity to use digital as a marketing platform, offering consumers personalised experiences.

In the travel industry, intermediaries have enhanced their digital investment.

Connectivity, especially amongst younger generations, is becoming ubiquitous. There will be an increasing discrepancy between players able to reinforce their online presence with innovative tools such as augmented reality and other independent brands.

Régis Chemouny
Partner,
Head of Real Estate and Hotels
KPMG in France

Trends in the US toward online wagering (sports and casino games) accelerated during COVID-19. These trends could accelerate given the likelihood of additional states legalising online gaming and sports betting to fill budget gaps caused by COVID-19.

Rick Arpin
Travel and Leisure
KPMG in the US

Home is the new hub

The hospitality sector will need to reorganise around regional hubs, allowing regions to make independent decisions based on the local economy and local restrictions. While the leisure industry reinvents itself with a re-adaption of its business models into delivery and takeout a few questions remain for the travel industry:

How will business travel be affected? In many cases, business hotels will need to rely on staycations to survive. In other cases, they will need to implement innovative solutions, such as extending the use of day rooms, while office workers intend to use hotel rooms as offices. Most of the big chains now offer that.

Will staycations help the industry? As rules evolve, the industry faces challenges. Many customers are cancelling reservations as traveling is banned, or big groups are not allowed. However, 35 percent are willing to book local holidays between October and December 2020 while 37 percent plan to do so between January to June 2021. This latent appetite to travel, offers the industry a ray of light at this uncertain time.

There were 630 million trips still being taken during China's Golden Week, representing about half of the population moving around. There is a strong desire to move around and travel.

Li Fern Woo
Head of Internal Audit, Risk and Compliance
KPMG China

Many businesses are going for local, suburban sites. There is a change in the business model and companies are also now relying on delivery.

Will Hawkley
Global Head of Travel and Leisure
KPMG International

Côte Brasserie

"Quality management teams will have got straight into how to make the best of this, to restructure, to be viable in the future."

Will Wright
Partner, National Markets
KPMG in the UK

Challenge

Delivering trust and safety at home

Businesses are working hard to demonstrate they are safe and acting under government guidelines, reacting quickly, with innovative solutions and adapting their operational models.

Pivoting the restaurant to a pre-prepared meal delivery model: Côte at home

— Côte Brasserie pivoted quickly into home delivery since early April, when most chains had closed for business in the UK.

— This new model enables online ordering of fresh produce boxes with some of its most popular dishes designed to be finished in-home.

— Special emphasis on enforcing high and strict safety standards, reassuring customers that their delivery meal has been created in the most hygienic way possible, while providing a sense of dining out when staying in.

— Resulting rise of 139 places in the 2020 CEE ranking.*

"The senior management team had been thinking about getting into the retail market in premium supermarkets but it was a year long project. We've basically done a year's work in a week" said Alex Scrimgeour, Côte's chief executive.

Source: The Financial Times, April 2020
https://www.ft.com/content/30bbbc5c-67be-4215-91a9-46f93f6e4e22

**Source: Customer Experience Excellence Report 2020*

Accor

"Although COVID-19 greatly disrupted the hospitality businesses, Accor focused on connecting people, fostering local engagement and promoting well-being. From now until the full recovery of the sector, we need radical optimists to make the world a better place."

Jean-Marc Liduena
Partner, Advisory
KPMG in France

Challenge

Building trust in a stay-at-home economy

How will business travel be affected? In many cases, business hotels will need to rely on staycations to survive. In other cases, they will need to implement innovative solutions, such as extending the use of day rooms, while office workers intend to use hotel rooms as offices. Most of the big chains now offer that.

An increased domestic focus as the travel industry sees a decline in volume

— Recognising market differences gives regions more independence to make decisions based on the local economy and local restrictions.

— Implementation of day-use programs provides flexible opportunities and day hotel services for those working from home or looking for out-of-home experiences.

— These actions are a direct response to COVID-19, adapting to new customer needs.

"Accor, the European hotel group, launched what it calls the 'hotel office'; others are marketing 'daycation' or 'work from hotel' packages. Once booking a suite for the day — or hour... offers the tantalising promise of uninterrupted productivity."

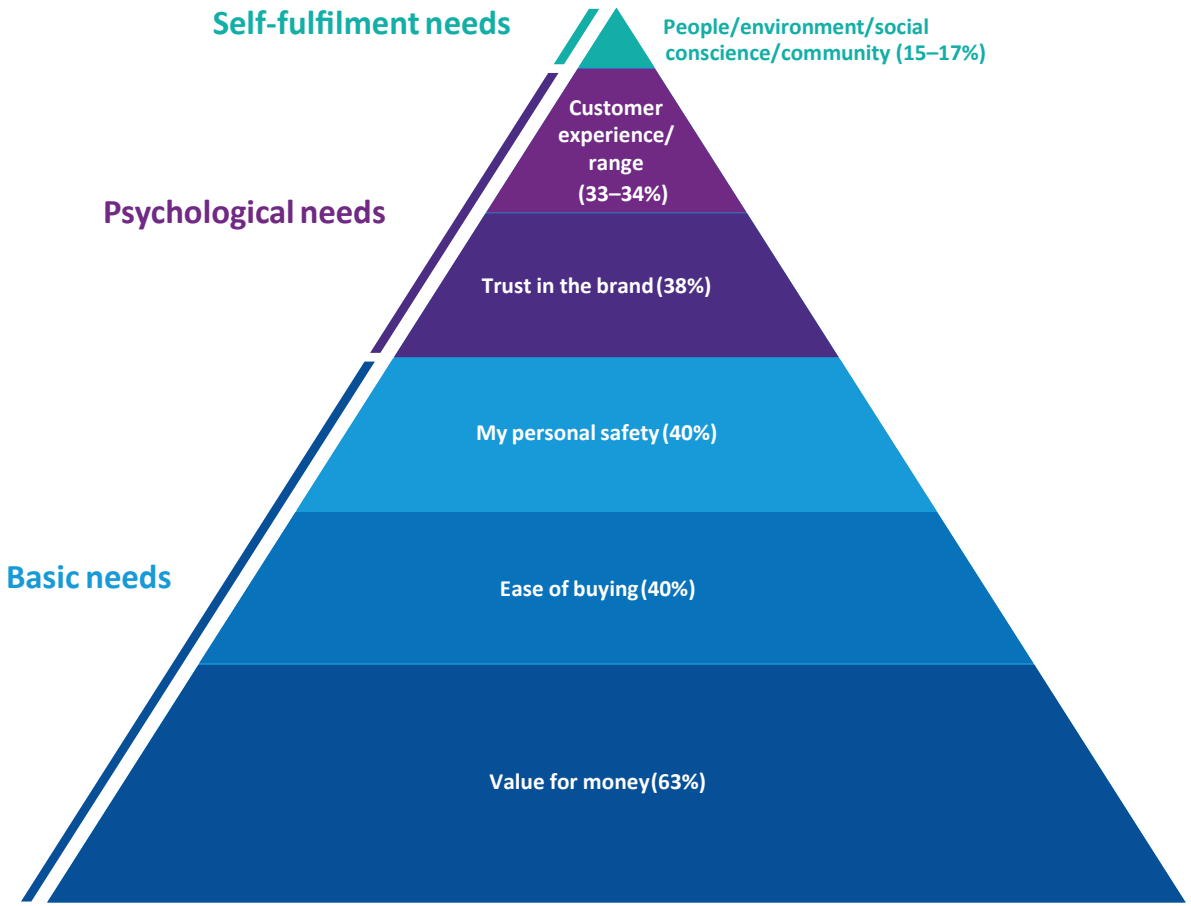
Source: Financial Times, Tired of WFH? Try 'work from hotel', September 2020
https://www.ft.com/content/8c01a47f-e46c-4514-b851-fe4320b2f435

Purchase drivers and market focus

The measures taken by companies in the individual markets to control the spread of COVID-19 has focused on ensuring the safety and health of their people and their customers. These actions have changed all aspects of daily life, including the way people make decisions on how, what and when to purchase. The top purchase drivers over the last 4 months have remained consistent in their relevant importance.

Each market approached COVID-19 slightly differently and adoption of social distancing measures varied from market to market. Coupled with social and economical differences, consumers varied. In this section, we highlight key differences in the 12 participating markets.

Value for money remains key



Percentage showing proportion of consumers who rate each as important in their decision-making.

Source: Consumers and the new reality, KPMG International, September 2020

Consumers' key purchase drivers reflect the need to protect themselves, both financially and physically.

Value for money is the most important factor for all consumers, irrespective of financial segment.

Ease of buying is strongly associated with the rise in digital purchasing, driven by the convenience of home delivery and the avoidance of face-to-face interactions.

And for those interactions which, by nature, need to be face-to-face, clear processes around personal safety are paramount to reassure and encourage loyalty.

Organisations must continue to articulate their commitment to customer safety and respond to the consumer demand for value and ease, by more deeply understanding the needs of the new customer.

Market focus

COVID-19 and each market's response to the continuing situation, are affecting consumer confidence in different ways.

Net trust in brands in **Australia** is above the global average (zero percent vs. -two percent), indicating a more optimistic outlook compared with other markets. However, Australians remain cautious, as 57 percent will stay at home as much as possible. Moreover, consumers continue to consider savings their highest priority (45 percent vs. 36 percent), the highest of all markets.

Consumers in **Canada** are the most likely to believe that the situation will last longer term with 73 percent saying it will last a year or more vs. 62 percent globally. As a result, 43 percent of consumers indicate they will avoid entertainment and leisure venues (vs. 29 percent), the highest of all markets.

Germans are starting to think the situation will last longer, with 72 percent believing it will last one year or more, and net trust falling eight percent vs. W1. However, Germany continues to be economically resilient, as 72 percent claim to be financially comfortable or secure vs. 59 globally. Germans continue to prioritise entertainment such as eating out and holidays; nonetheless, savings see a 13 percent increase in priority vs. W1.

France remains the least trusting now vs. pre-COVID-19 (-13 percent vs. -two percent). France also continues to be the only market to be spending less on groceries vs. pre-COVID-19 (-three percent vs. +nine percent).

Italy remains one of the most financially affected countries, with 55 percent financially overwhelmed or sensitive. Italians continue to be the second least trusting now vs. pre-COVID-19, after France (-12 percent vs. -two percent).

In the **UK**, we see a slight increase in numbers of consumers ready to return to their pre-COVID-19 behaviours with extra caution (+five percent vs. W1. They will likely prioritise savings, eating out and holidays abroad respectively. However, expectations toward the duration of the situation shift, as there is an increase of consumers who think this situation will last one year or more (+16 percent increase vs. W1).

AU BR CA CN DE ES FR HK IT JP UK US

In **Brazil**, many more consumers declare they will stay at home and only leave for essentials (70 percent vs. 59 percent), the highest of all markets. Brazilians are also the most financially overwhelmed and vulnerable (56 percent vs. 41 percent). Brazil will likely see the highest rise in use of digital channels post-COVID-19, especially apps and messenger apps vs. pre-COVID-19 (+19 and +15 percent respectively).

Consumers in **mainland China** are optimistic with 53 percent thinking the situation will last just three to six months (vs. 27 percent). Chinese consumers also remain exceptionally trusting now vs. pre-COVID-19 (+32 percent vs. -two percent). Consumers here, are also less concerned about savings (21 percent vs. 36 percent globally).

As **Spain** starts to face challenges again, consumers become more cautious and see the biggest decline in net trust vs. W1 (-14 percent). We see an eight percent increase in those who will avoid public spaces vs. W1, and 71 percent saying this situation will last one year or more. 41 percent of consumers are financially overwhelmed, the highest of all markets.

Hong Kong (SAR), China consumer appetite to go out remains high, with 33 percent of consumers willing to go back to entertainment venues, while eating out, holidays abroad and entertainment remain high priorities. Savings see a 10 percent increase vs. W1.

Japanese consumers continue to feel cautious about their situation. 64 percent think the situation will last one year or more, and only 16 percent are ready to go back to entertainment venues, the lowest overall. Trust falls (-one percent now) and they will likely continue to prioritise eating in and savings (+28 percent and +16 percent respectively vs. W1).

US consumers are more likely to want to stay at home (26 percent vs. 20 percent). Nevertheless, consumers remain slightly more optimistic with 30 percent thinking that COVID-19 will affect normal life for just three to six months (vs. 27 percent globally).

Consumer pulse survey details

Interviews —
Over 75,000 interviews to date
Representative sample of
~1,000 per market per wave

Dates —
Wave 1: 29 May–8 Jun
Wave 2: 12 Jun–22 Jun
Wave 3: 26 Jun–6 Jul
Wave 4: 10 Jul–20 Jul
Wave 5: 14 Aug–24 Aug
Wave 6: 11 Sept–21 Sept

Collection method —
Online questionnaire

Wave 1 to 6 —
The data in this report focuses principally on Wave 6, collected in September

Broad sector coverage:

- Respondents had to have had an interaction with the sector in the last 6 months
- Mobile/TV/broadband
- Utilities

Deep-dives into:

- Grocery retailers
- Non-grocery retailers
- Banks
- Insurance
- Travel & tourism
- Leisure & entertainment

Key topics covered:

- Purchase drivers
- Channel interaction
- Trust
- Sector focus
- Profiling
- Demographics

Tracking consumer behavior

KPMG has tracked consumer trends over six waves of interviewing between May to September 2020.

This report

This report incorporates six waves of research and is the third in the COVID-19 consumer pulse surveys, entitled *Responding to consumer trends in the new reality*.

Contacts

Linda Ellett
UK head of Consumer Markets, Leisure and Retail
KPMG in the UK
E: linda.ellett@kpmg.co.uk

Tim Knight
Partner, Customer Advisory
KPMG in the UK
E: tim.knight@kpmg.co.uk

Paul Martin
Chair Global Retail Group and UK Head of Retail KPMG in the UK
E: paul.martin@kpmg.co.uk

home.kpmg/socialmedia

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