Four trends that retailers must watch as they deliver a unified shopping experience

The shift to online shopping during the pandemic has reinforced consumer preferences for convenience—the ability to shop anywhere at any time. Retailers must creatively combine the most valued features of online and in-store shopping to create a seamless and unified shopping experience.

If keeping bricks-and-mortar stores operational had become a struggle for retailers in recent years, then doing so in 2020 became a battle for survival. Lockdowns and social-distancing measures in some regions restricted access to stores, leaving retailers with onerous rents and staffing costs but little or no customer footfall. In addition, safety concerns kept consumers away from stores, and many retailers had to adapt quickly to increased customer traffic on online channels.

A survey in September 2020 by The Economist Intelligence Unit of over 4,000 consumers across generational cohorts in the US, Germany, the UK, Italy and Spain identifies changes to consumer spending levels and patterns that have significantly impacted the operations of both brand manufacturers and retailers. In this article, we explore the impact that the Covid-19 pandemic has had on retailers from supermarkets to mall operators—with a view to understanding the new challenges they face and their priorities post-pandemic.

About this research

This industry report is a part of The Economist Intelligence Unit's research programme "The Influential Shopper", sponsored by SAP Customer Experience. It is based on a survey of over 4,000 consumers in the US, Germany, the UK, Italy and Spain conducted in September 2020.

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GREAT EXPECTATIONS

For retailers that underestimated the importance of maintaining an online presence, the pandemic has been a rude awakening. Average monthly online expenditure reported by respondents to our survey was up by 15% in June-August 2020 compared with January-March, even though overall spending across channels (online and offline) was down by 9%. All generational cohorts increased online spending as a share of their total expenditure over the same period, with the Baby Boomers surveyed demonstrating the largest shift to online shopping, increasing their online spending share from 25% to 37%. While concerns about safety drove some of them online, it was the convenience and timesaving features of this mode of shopping that respondents to our survey valued most (see our Executive summary for further details¹).

Even several months after the start of national lockdowns across countries, our survey shows that online spending on essentials was still far above pre-pandemic levels. Average online spending on groceries and cleaning supplies was up by 78% and 49% respectively for those two categories in June-August 2020 compared with levels in January-March. This surge in spending on essentials placed immense pressure on the supply chains of large supermarkets such as Target and Walmart in the US, Tesco in the UK and Lidl in Germany. Retailers had to tap into surplus stocks sitting with brand manufacturers—from Nestlé to Unilever—to keep up with demand.² Consumers' unprecedented and rapidly evolving shopping behaviour has thus driven retailers and brand manufacturers closer, requiring continuous collaboration on demand forecasting to ensure that sufficient supplies are maintained.

The efforts of retailers have not gone unnoticed. A majority of consumers in our survey (57%) feel that retailers have responded well to pandemic-related supply disruptions. Approval is particularly high in the UK, where 64% of respondents agree that retailers have responded well, compared with 59% in the US, 56% in Spain, 55% in Germany and 48% in Italy. In terms of generational cohort, the highest rates of approval for retailers are seen among older generations: 61% of both Baby Boomers and Gen X and 59% of Millennial consumers surveyed agree that retailers have responded well, compared with only 48% of Gen Z respondents.

FIGURE 1

Online spending as a share of total expenditure and shift compared with Jan-Mar levels

▲♥ Percentage-point (pp) difference compared with Jan-Mar



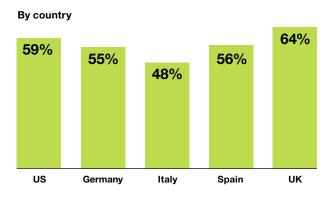
Source: Economist Intelligence Unit survey

² EIU to add link to source

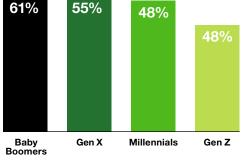
¹ The Economist Intelligence Unit, *The Influential Shopper-Executive summary*. https://eiuperspectives.economist.com/sites/default/files/eiu-sap-the-influtenial-shopper-executive.pdf

FIGURE 2

Percentage of respondents who believe retailers have responded well to pandemic-related supply disruptions



By generational cohort



Source: Economist Intelligence Unit survey

But as retailers continue to refine their operations, not just to adapt to pandemic-related changes but to prepare for the post-pandemic era too, there are four main trends to watch that emerge from our research, all of which will shape retailers' thinking on supply chain management and the shopping experience they need to offer.

The first of these trends is the propensity for consumers to continue shopping online even after restrictions ease (see Figure 1). According to our analysis, online spending as a share of total expenditure for Baby Boomers is expected to be 3 percentage points above levels in January-March 2020 once restrictions ease, while for Gen X it will be 2 points higher and for Millennials it will be up by 3 points (the online spending share for Gen Z is expected to drop by 1 percentage point over the same period). Retail executives whom we interviewed as part of our research have also observed trends that could lead to greater consumer use of online channels for shopping in the future. "People gained confidence [in online shopping]; they found their fresh foods and frozen goods arrived in perfect condition," says Ricardo Álvarez, CEO of DIA, a proximity supermarket chain in Spain. "Older generations who didn't like the internet tried it and found they could use it."

As part of the shift to online spending, retailers must watch trends in online basket sizes and frequency of purchases. Executives whom we interviewed offer varied perspectives on these issues. Some foresee the return of the "big weekly shop", whereby shoppers visit large retail stores for bulk purchases, with online channels supplying the frequent, smaller top-up purchases. Other executives interviewed cite the opportunity for bulk purchases online—such as buying the 40-kg bag of dog food—as consumers are not constrained by how much shopping they can carry home. Which trends ultimately come to dominate, and the variables such as size, location and product mix of retailers that determine these patterns, will likely emerge in the coming months.

The second trend to watch is the rise in people's expectations for faster deliveries. At the height of the surge in demand for essentials during the pandemic, consumers in many countries were forced to work around available time slots for deliveries, which were often several days after the order had been placed. But expectations of same-day or next-day deliveries have returned, according to executives whom we interviewed, with some anticipating that consumers will become more demanding, wanting delivery within an hour or so of placing the order. "[Going forward,] I think customers will plan companies' time," says Mr Alvares. To meet such expectations, maintaining inventories physically close to consumers will be essential,

"[Going forward,] I think customers will plan companies' time." Ricardo Álvarez, CEO, DIA and this will only be feasible for retailers if they use more accurate demand forecasts. "Last-mile logistics will be a big topic in the coming years, [defining] how the supply chain is organised," says Mr Álvarez.

When retailers have fallen short of maintaining sufficient inventories, consumers have turned to brand websites for direct purchases-the third trend to watch. In our survey, 51% of respondents stated that they had bought directly from brand websites when products were not available online or in physical stores (our industry report focusing on consumer packaged goods has more details). Which products consumers prefer to purchase directly from brands will matter to retailers, as it will determine their procurement and inventorymanagement strategies.

Finally, and perhaps most importantly, the extent to which consumers return to in-store shopping once restrictions ease will be a critical trend to monitor. There is no evidence that bricks-and-mortar shopping will disappear-quite the contrary, in fact. Our survey analysis shows that despite a significant shift to online channels, physical stores will remain the dominant channel for customer spending. Once restrictions are eased, online spending is expected to account for 28% of Baby Boomers' overall spend, 41% of Gen X's and 40% of Gen Z's. Only the Millennials surveyed envisage an even 50:50 spending split between online and physical stores.

As these findings indicate, customers still want to visit stores, browse products and try them out before buying them. Respondents to our survey cited the ability to bring products home straight away (57%) and the ability to assess the look and feel of a product before purchasing (37%) as the features of in-store shopping they value most.

It is this final trend that may play the greatest role in determining the trajectory of the retail sector's future strategies. As retailers craft their plans for the months ahead, they must take a holistic look at consumers' shopping preferences, bringing together the convenience of online shopping with the ability to assess the look and feel of products in-store. In the next section, we explore how retailers can achieve this aim with an omni-channel approach.

CREATING A UNIFIED SHOPPING EXPERIENCE

A unified shopping offering entails a seamless experience of shopping via both online and offline channels, blending the best of both worlds. It not only allows consumers to stay safe during the pandemic but also enables them to shop anywhere at any time, to pick up products if they need them right away, and to visit stores to assess the look and feel of a product.

Some retailers are already reaping the benefits of adopting a unified shopping approach. Take, for example, US retail giant Target. In its results for the second quarter of 2020 (ending July 31st), the company posted a 194% year-on-year rise in

FIGURE 3

Four trends for retailers to watch



Rise in consumers' expectations of faster deliveries



TREND 3

Consumers purchasing directly from brand websites, bypassing retailers



TREND 4

Extent to which consumers return to in-store shopping once restrictions ease

Source: Economist Intelligence Unit survey

digital sales, accounting for nearly half of its overall sales growth for that quarter.³ Services for sameday pick-up or delivery of online orders, meanwhile, grew by 273% year on year. Some 75% of the US population live within ten miles of a Target store, making the company's outlets convenient locations from which to pick up online orders or alternatively ensuring fast delivery times to homes.⁴ In other words, Target was able to combine its large network of bricks-and-mortar stores with a slick online experience to great effect.

The factor that underpins success with the unified shopping offering is knowing customers' shopping preferences so that retailers know where to find them and how best to engage them. In the final section, we see how retailers can use tools such as pricing and advertising to create a unified shopping experience that sets them apart from their competitors.

OPPORTUNITIES WITHIN THE OMNI-CHANNEL ECOSYSTEM

Using knowledge of customer preferences across shopping channels could allow retailers to tailor numerous operational and marketing strategies. For instance, our research reveals that Baby Boomers and Gen X seek access to deals and discounts in-store (31% of each cohort cite this, compared with 27% of Millennials and 22% of Gen Z), whereas the younger cohorts consider access to deals and discounts an important feature of online shopping (37% of Gen Z and 35% of Millennials cite this, compared with 27% of Baby Boomers). Deals on products for older cohorts could therefore be a more prominent part of in-store displays, whereas deals on products for younger cohorts may need a digital marketing strategy. Optimising strategies in this way could set retailers apart from their competitors, particularly at a time of increased price sensitivity during which many customers have found their income curtailed and their spending constrained.

The unified shopping experience also serves to create more "touchpoints" with each consumer allowing retailers to engage the same consumer on websites and apps as they search for products digitally as well as in-store. This creates an opportunity for retailers to capture a greater share of a brand's marketing spend to engage customers at each new touchpoint.

Recognising the opportunities presented—whether it is a more targeted way to attract customers or a means to monetise a new audience—could provide the necessary impetus for retailers to accelerate the move towards a unified shopping offering. Those that offer a convenient and compelling online shopping experience may be able to offset some of the direst effects of the pandemic on the retail sector. The battle for customers' hearts and minds is likely to be won by those retailers that are prepared to listen to what shoppers have to say and provide them with the experience they demand.

Access to deals and discounts is a more important feature of:



³ Target website, "Target Corporation Reports Second Quarter Earnings", August 19th 2020. https://investors.target.com/news-releases/newsrelease-details/target-corporation-reports-second-quarter-earnings

⁴ Target website. https://corporate.target.com/about

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