



Alvarez & Marsal Consumer Retail Group



**CONSUMER
SENTIMENT SURVEY**

Fall 2021

U.S. CONSUMER WARY AND SHOP-SHY AS ECONOMY RE-OPENS

Alvarez & Marsal Survey of 1,500 U.S. Consumers Points to a Challenging 2022 for Retailers

2022 is going to be very challenging for retailers and CPG companies



Early Summer exuberance has faded – Survey suggests no sign of the much anticipated ‘Roaring Twenties’



Consumers have limited appetite to spend more, and the instinct to save is strong



Spending will be biased to travel and experiential purchases, funded by savings in many hard goods categories



The mix of shoppers that use physical stores is changing placing new demands on catchment specific assortment



The very significant channel changes that consumers made during the pandemic are here to stay – there will be no back to the future



In August and September 2021, Alvarez & Marsal (A&M) conducted a survey of a representative sample of 1,500 U.S. consumers to understand their sense of optimism, their desire to shop, what they were looking to buy and how they planned to use different shopping channels, especially as their behavior had been so radically altered by Covid and lockdowns. Our survey was in the field just as the Delta variant surged across the USA and we saw signs of the continuing fears and caution that have characterized the past year. Even though this latest Covid wave appears to be cresting, our survey points to the fragility of consumer confidence and the lack of enthusiasm for an all-out return to pre-pandemic shopping behaviors.



Overall consumer optimism is weak, with ~58% of respondents expecting to have the same or less money for them or their family in the next 6 months.



EXPECT THINGS TO GET BETTER/WORSE



EXPECT TO HAVE MORE/LESS MONEY

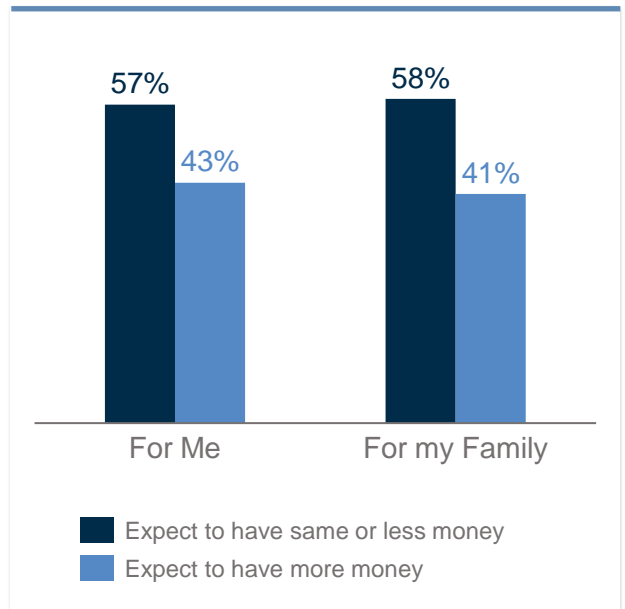
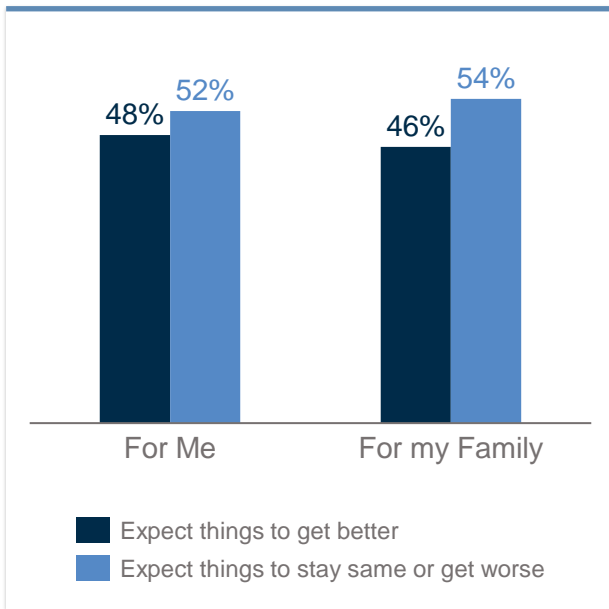


Figure 1: Survey responses exhibit no consumer exuberance

But here comes a surprise. This overall sentiment of weak optimism masks an interesting ethnicity-based skew in responses. **Non-white respondents and lower income respondents appear more optimistic than general population.** 65% of Black respondents and 55% of Hispanics expect to have more money in the next 6 months, compared to 34% of white respondents.



EXPECT TO HAVE MORE MONEY



EXPECT TO SPEND MORE/LESS MONEY

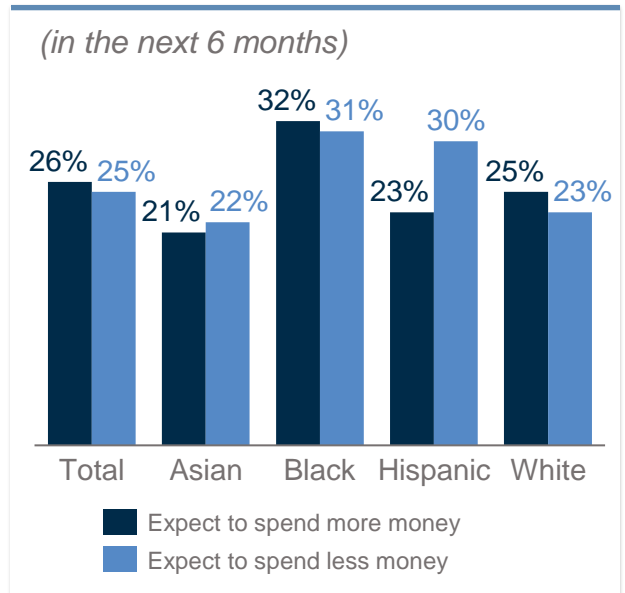
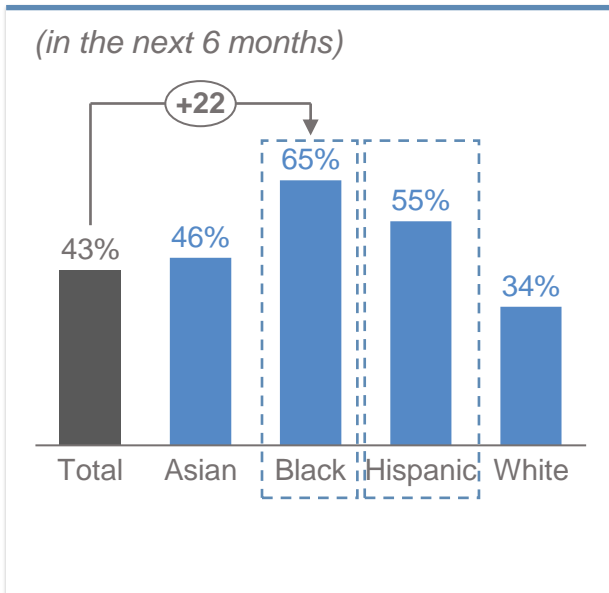


Figure 2: Responses exhibit ethnicity-based skew

Lower income (<\$15,000pa HHI) and younger (18-35yo) respondents are more likely than the general population to expect to have more money in the next 6 months.

We can also see an overlap between recipients of government support (enhanced UI, child tax credits) and optimism of outlook. It is worth thinking through the implications for retail and CPG responses to these populations and their willingness to spend.

In terms of expectations to spend more, or less, by category, the overall trend is a desire to spend less.

Only 3 of 18 categories probed showed a neutral or net positive 'spend more' response. And two of these three represent evident catch-up spending in categories missed during lockdown i.e., Wellness & Fitness and Travel/ Airlines.

The third category with a net positive spend more desire is Fresh Food and this appears to be the corollary of a desire to spend less on prepared foods and alcohol.





CATEGORY



DESIRE TO SPEND MORE (%NET)

Top 7		
Fresh Food	●	18%
Wellness & Fitness	●	5%
Airline, Travel	●	0%
Personal Care	●	-1%
Apparel	●	-7%
Entertainment, Books	●	-7%
Footwear	●	-7%
...		
Bottom 7		
Beverages	●	-12%
Dry Packaged Grocery	●	-12%
Fragrance, Cosmetics	●	-15%
Prepared Food	●	-16%
Jewelry	●	-17%
Accessories	●	-20%
Alcohol	●	-23%

Figure 3: Categories surveyed for 'desire' to spend

The desire to spend more on experiences – especially travel/ airlines skews to younger age groups, with more mature respondents seemingly sticking with their pandemic reticence in these categories.



This matches closely the heightened sense of caution we see in older demographics regarding a return to pre-pandemic behaviors and interactions.

This spending reticence is vividly demonstrated in the back-to-school season. **Fewer than 1 in 5 respondents in the studying or parenting life-stage (18-55yo) intended to spend more this season than in 2020.** What is stark here is that the intention to not spend more is extends beyond those with a less optimistic outlook on the general economy – even macro-optimists are expressing caution about spending.



BACK TO SCHOOL SPENDING

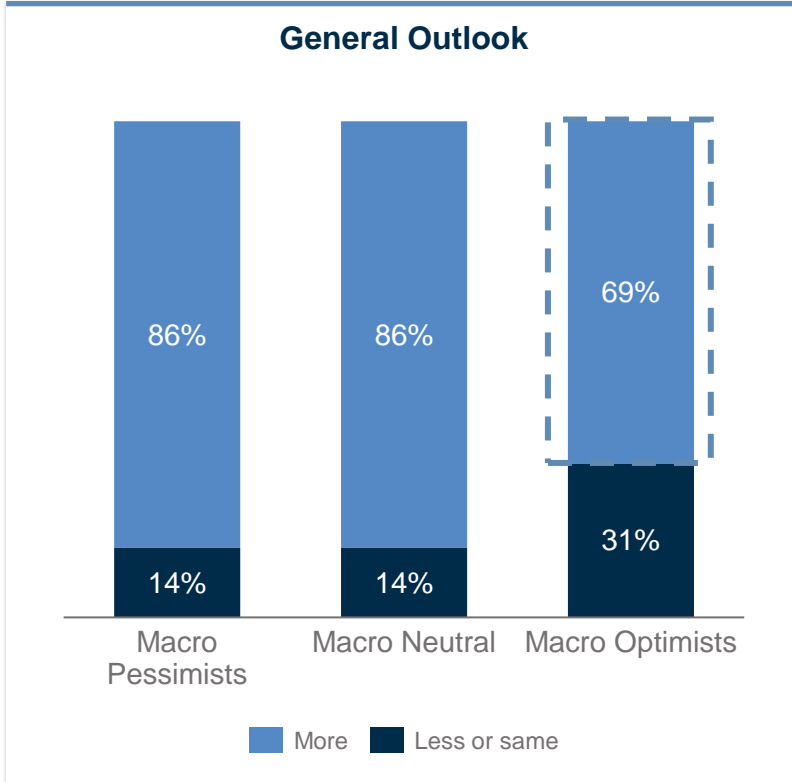


Figure 4: Majority (~69%) of macro-optimists expect to spend less or the same in back to school

This seems to suggest a retrenchment in consumer spending through the late summer. This signal appeared to be confirmed in the July U.S. Census Bureau Monthly Sales for Retail and Food Services, though more recent August data did suggest a rebound in retail sales. Even more recent, the Conference Board Consumer Optimism Survey shows a retreat, again, in consumer confidence. The only consistency in these official surveys is that the consumer is fickle and uncertain.



Whatever volatility we might see in month-on-month data, our survey points to a wary consumer who will return to shopping only with caution and in ways that can easily be blown off course by resurgent health fears.

We should note that non-white groups did over-index in intention to spend more on back-to-school season, and this is particularly evident amongst Black respondents where the over-indexing cuts across all income groups. Lower income groups, especially recipients of government support, again over-index in intention to spend more. This might be an early sign that pandemic and post-pandemic income support measures are having an effect on propensity to consume amongst recipients.

When we asked a series of questions about channel choices along the research, purchase and after-sales journey, the outcome is a glass-half-full or half-empty for owners of retail real estate and store networks.

In most categories outside of food, online channels are now as important as physical stores.



Looked at one way this is a threat to stores, their sales density and operating scale economics. Looked at another way, this tells us that stores cannot be neglected. It is true that digital channels merit much attention from retail leaders, but smart retailers should be careful not to neglect stores and pay attention to the changing use of stores – do not ignore them, re-imagine them instead.

Further detail in our survey tells an important story on the changing role of stores and the customers they serve. **Physical stores still reign supreme DURING purchase - regardless of age, income, and ethnicity.** However, as a source of information PRIOR and for AFTER sale service, **the strongest champions of store usage are older shoppers, white customers and lower income households.** The demographic champions of online shopping are younger (18-22 & 36-55), Asian customers, and higher income households.



CUSTOMER JOURNEY: PURCHASE PREFERENCE

	Prior to Purchasing			During Purchasing			After Sales		
	In Store	Online	In Store vs Online	In Store	Online	In Store vs Online	In Store	Online	In Store vs Online
Overall	39%	44%	● -5%	60%	40%	● 20%	46%	41%	● 5%
In-Store Champions									
56 to 80	47%	38%	● 9%	68%	32%	● 36%	62%	32%	● 30%
White	43%	41%	● 2%	64%	36%	● 28%	50%	39%	● 11%
\$15,000 to \$49,999	43%	40%	● 3%	61%	39%	● 22%	49%	37%	● 12%

Figure 5: Overall, in-store dominates during purchase - though certain demographics continue to be 'in-store champions' throughout the customer journey

But retailers beware, do not write-off or exclude Gen Z and wealthy customers from your stores. More than a third of these groups still use physical stores in the prior-to-purchase phase.



Smarter retailers will think hard about how to ensure these customers stay sticky to the brand and, when they go online, go to the retailer site rather than another A-Z website. This is where digital wish listing, smart tagging, digital vouchering, Insta-worthy store moments and changing room Pinterest's help keep the in-store researcher as an online purchaser.

Catchment tailoring and channel tailoring will likely need to become more acutely differentiated as these trends continue.

Our survey also reveals how the past year has accelerated channel shifts.

For example, 20% of respondents prefer online channels for their food shopping.

This is compared to a pre-pandemic industry view that 10% online penetration was the high-water mark in grocery.



DIGITAL CUSTOMER JOURNEY: FOOD SHOPPING



Figure 6: A surprisingly high number of respondents (20%) now prefer online channels, compared to a pre-pandemic industry view that 10% online penetration was the high-water mark in grocery.

A net 19% of our respondents said they intend to shop more rather than less at Amazon in the next 6 months.

Next in line is Walmart where net 9% of respondents intend to shop more rather than less in the next 6 months. The department store sector and food delivery aggregators register net negatives here, meaning respondents overall intend to shop there less over the next 6 months.

33% of respondents use Amazon's mobile shopping app weekly. Walmart, Social Commerce (e.g., Instagram) and Target make up the rest of the top 4 most prevalently used mobile apps.

A noticeable ethnic split in mobile app usage sees Hispanic consumers significantly over-indexing in mobile shopping.



MONTHLY & WEEKLY APP USAGE BY RETAILER

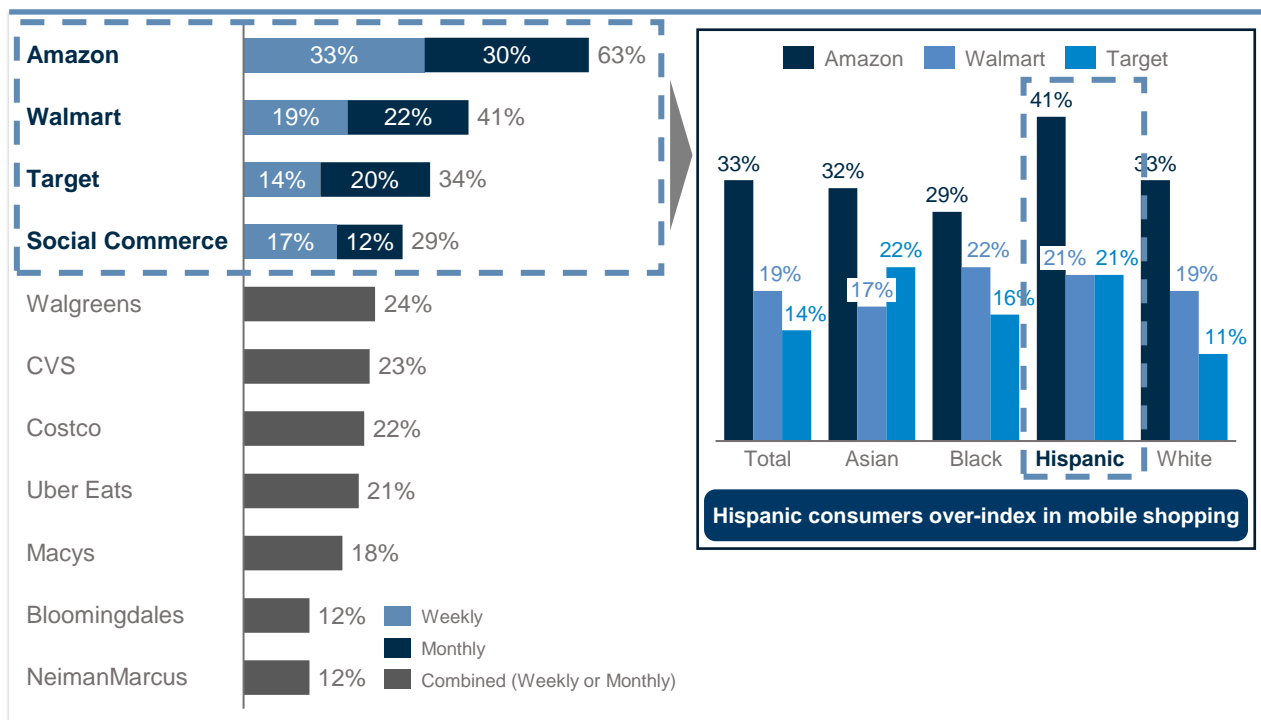


Figure 7: Mobile app usage for selection of retailers surveyed

Amazon Prime Day continues to be a significant retail event that drives customers online. In our survey 42% of respondents said they participated in Prime Day – suggesting 100m+ Americans shopped Prime Day.

It does appear that Prime Day has coat-tails for a few other retailers who sought to capitalize. In our survey ~60% of respondents who shopped Prime Day also shopped at one of Walmart.com, Target.com, BestBuy.com and Kohls.com on Prime Day.

For retailers hoping for a return to the good old days of 2019 we have a double dose of bad news. Not only is consumer spending muted but the changes in shopping behaviors - brought about by Covid and fears of social contact - are here to stay. **Fully 85% of consumers say they intend to accelerate or stick with some or all of the changed shopping behaviors they made e.g., buy online for home delivery or buy online for curbside pick-up.** Our research suggests only 15% of consumers intend to fully revert to their old patterns of shopping.

This is an across-the-board trend with little deviation across income groups, age, gender or ethnicity.

It also appears that spending reticence might be driven by factors beyond general concerns about the economic outlook.

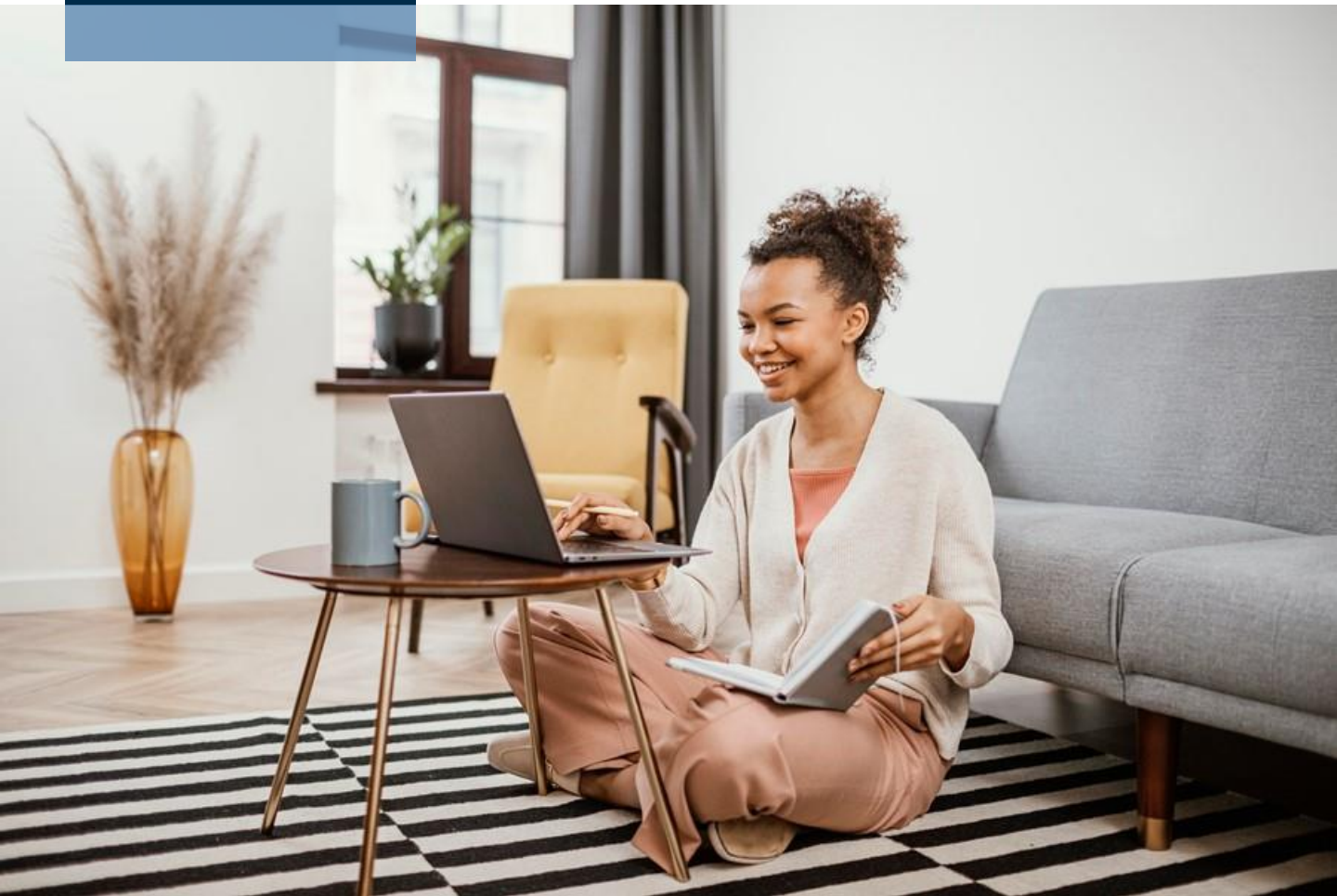
Close to half of respondents cited poor in-store experience, more than a third of respondents cited high prices, and another third said health concerns are reasons not to shop as much as they might like. It appears that the retail sector, wrestling with input inflation, labor shortages and continued health-safety requirements will suffer its own form of Long Covid.



Finally, we see signs of significant change in U.S. consumers' work pattern

41%
***of respondents
said they intend
to fully work
from home
post-pandemic.***

This is driven by a mix of changes in employer policies, ease of homeworking and recent installation of home workspace. If this change is sustained it will have significant implications for the mix of consumer spending, impacting apparel, home improvement, furniture, consumer electronics, restaurant dining and entertainment – to name just a few impacted sectors.





WORK FROM HOME INTENTIONS

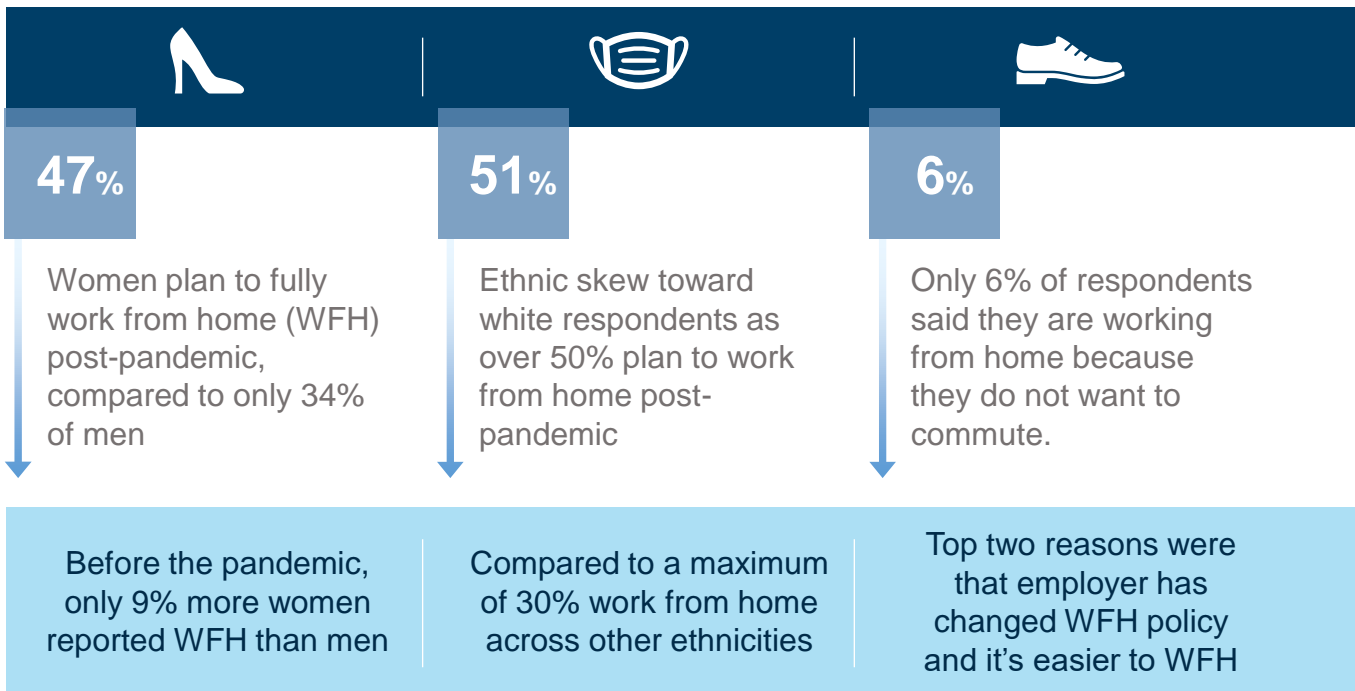
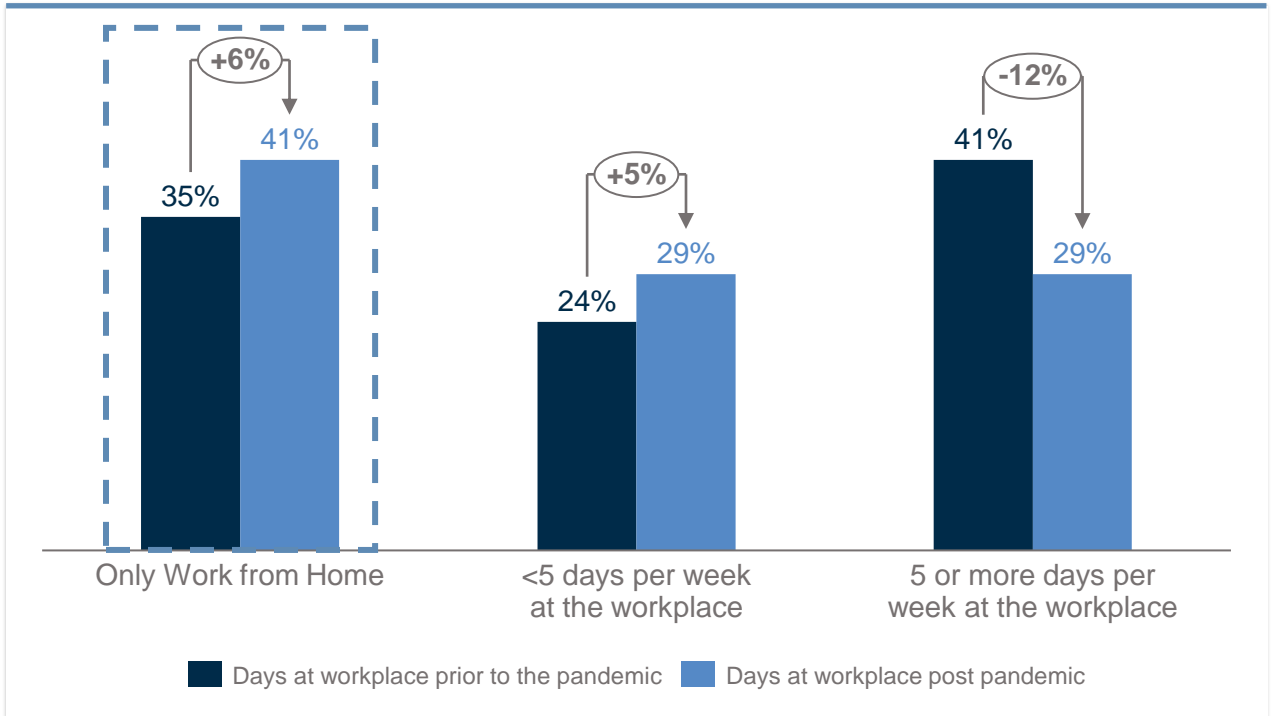


Figure 8: Workplace frequency before and 'after' pandemic

As some of us do return to the office there is some intention to change our style and look. **1 in 3 respondents intend to change either their wardrobe look, hairstyle, or make up when they return.**

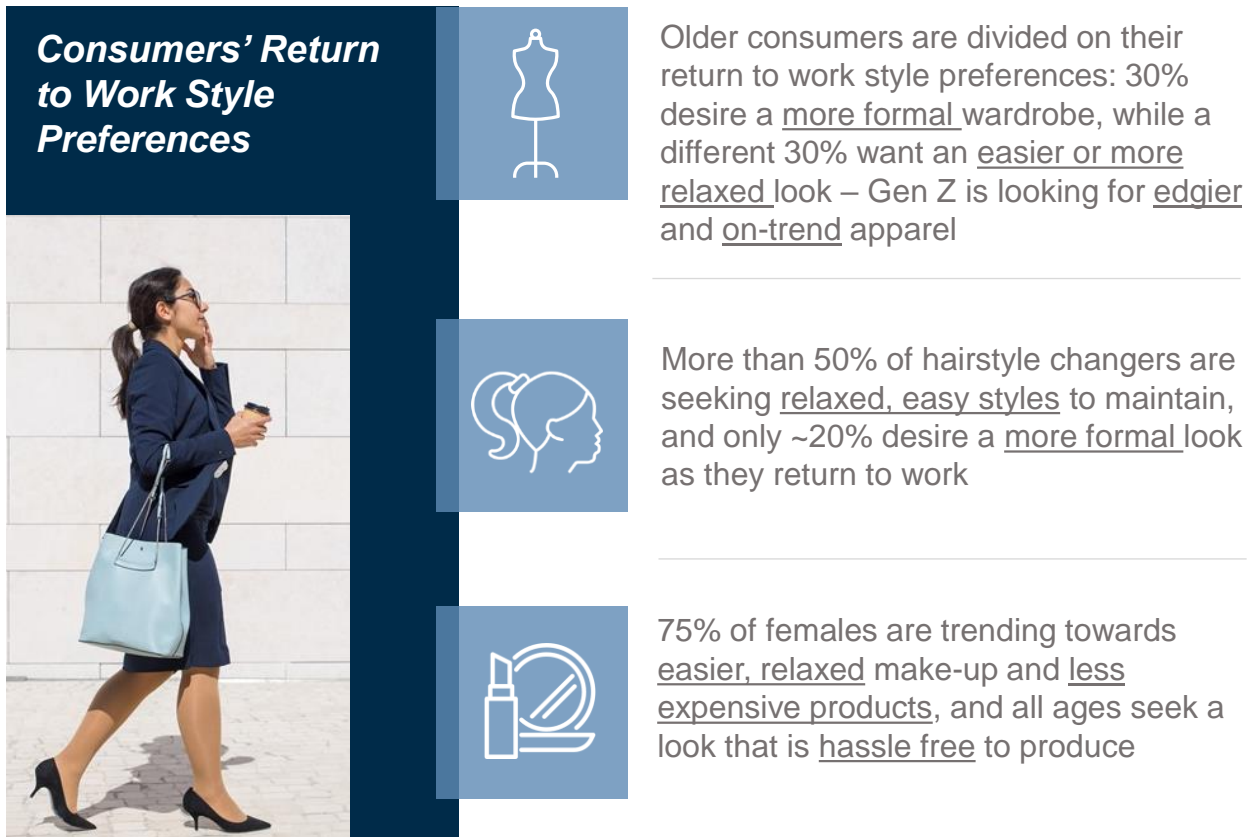
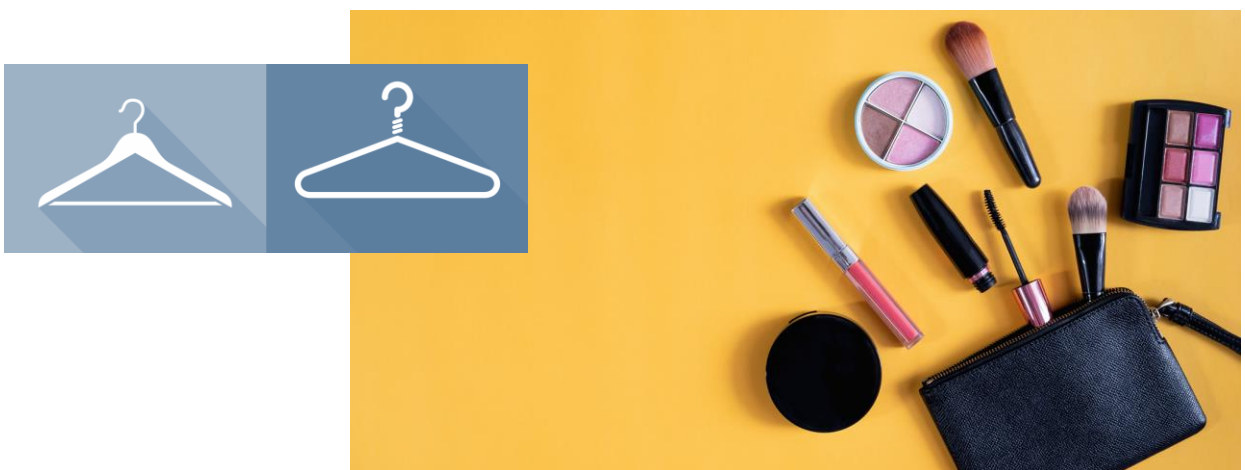


Figure 9: Consumer preferences for wardrobe, hairstyle, and make up





In all, we can see from this survey that more than a year of living unusually has altered, re-educated and dis-oriented the U.S. consumers' shopping behaviors. Smart retailers will capitalize by deepening their consumer listening, being more agile in their merchandizing and channel bets and tapping into new, unmet needs for 'safe' shopping and experiences.



METHODOLOGY

August - September 2021

1,500 respondents matching U.S. adult population according to gender, age, ethnicity, region & income

