

The Influential Shopper

Executive summary

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About this research

The Influential Shopper is a research programme led by The Economist Intelligence Unit and sponsored by SAP Customer Experience. The research examines consumer spending trends by generational cohort since the start of the Covid-19 pandemic, with a focus on online spending. It explores which generational cohorts are driving online spending and what products they are buying. Importantly, the research seeks to establish whether these groups will stick with their online shopping habits once pandemic-related restrictions ease. As part of this, the research explores what consumers value in their online and in-store shopping experiences.

For brands and retailers, these trends in online shopping will be essential for identifying opportunities to expand their market share online and for rebuilding their business strategies for post-pandemic recovery.

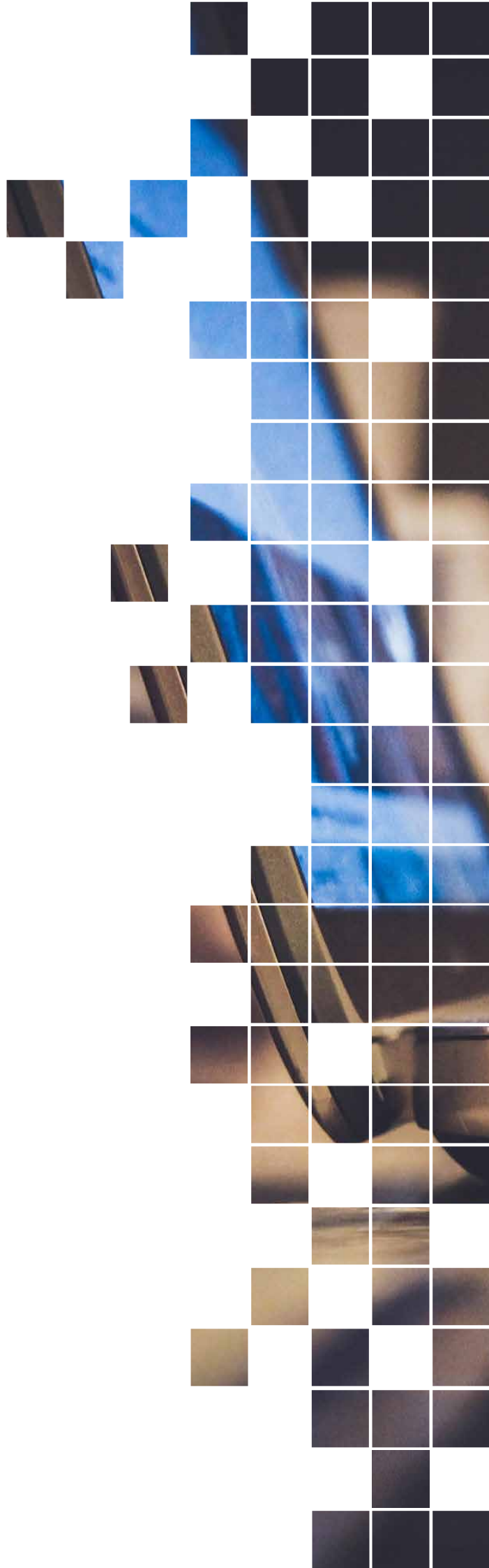
This research programme is based on a survey of over 4,000 consumers in the US (2,052), Germany (507), the UK (511), Italy (516) and Spain (518), with quotas for each generational cohort. The survey was conducted in September 2020. Respondents were from four cohorts: Baby Boomers (those born in 1946-1964), Generation X (1965-80), Millennials (1981-1996) and Generation Z (1997-2010¹). For each product category, the survey captured spending levels before and since the start of the pandemic as well as preferred shopping channels before the pandemic, during the pandemic and once restrictions ease.

This information was then modelled to calculate average spending online by generational cohort across channels and product categories. All references to expenditure in this executive summary are based on figures reported by respondents in our survey.

Quantitative insights from the survey and model were supplemented with insights from in-depth interviews with senior executives at consumer brands and retail companies as well as academics with expertise in consumer behaviour.

This executive summary presents the key findings across all five countries included in our survey and is accompanied by country deep dives and industry reports.

¹ All respondents were above 18 years of age (the youngest respondent was born in 2002).



Introduction

As the initial panic and disruption that marked the early weeks of the Covid-19 pandemic began to subside, it quickly became clear to those in retail that the sector was undergoing a profound transformation. Pandemic-related lockdowns and social-distancing measures aimed at slowing the spread of the virus meant that access to in-store shopping was severely restricted. As a result, many consumers turned to online shopping to obtain both essential and non-essential items, thus dealing traditional bricks-and-mortar shopping a deep shock.

Our research, based on survey of over 4,000 consumers conducted in September that captures spending levels and habits in January-March and June-August 2020 in the US, Germany, the UK, Italy and Spain, provides the following evidence of this shift to online shopping and uncovers trends by generational cohort:

- Although overall monthly retail expenditure in the countries surveyed declined by 9% from January-March to June-August, online spending increased by 15% on average.
- Millennials dominate online spending. In the period June-August, they reported spending 2.5, 1.5 and 1.3 times as much online as Baby Boomers, Gen X and Gen Z, respectively. In the same period, Millennial respondents also reported that 53% of their total purchases were made online.
- But it is Baby Boomers surveyed who demonstrated the biggest shift online since the start of the pandemic, increasing their online spending as a share of their total spending from 25% to 37%, followed by Gen X, who increased their share of online spending from 39% to 47%.
- During the pandemic, online shopping for essential products such as groceries and cleaning supplies has become more deeply entrenched, with average monthly expenditure increasing by 78% and 49% respectively for the two categories.
- For non-essential products typically bought in-store, such as clothing and consumer electronics, there is growing usage of online shopping, with online purchases as a share of total purchases increasing by 11 and 10 percentage points, respectively for the two.
- Once restrictions ease, new online shopping behaviours look likely to continue among younger cohorts (Millennials and Gen Z) but are less likely to persist for older cohorts (Baby Boomers and Gen X), who place a higher value on the ability to bring products home right away. Online spending as a share of total spending is expected to decrease by 9 and 6 percentage points respectively for Baby Boomers and Gen X, but by only 4 percentage points for younger cohorts.

The shift to online shopping, especially among older cohorts, presents a unique opportunity for brands and retailers to engage new online customers in ways they never could before. Understanding these trends is vital to crafting strategies for short-term resilience, medium-term recovery and long-term growth.

As brands expand their digital presence in response to increased customer familiarity and comfort with online shopping, they will need to remain agile to respond effectively to evolving consumer habits, enhance the customer experience they offer to stay competitive, and employ personalised engagement (including digital marketing) strategies to retain customers online.



Factors driving consumer expenditure

Identifying the factors driving consumer expenditure is increasingly important to brands and retailers as they adjust business strategies in response to Covid-19. The pandemic's profound impact on job security, incomes and national economic outlooks has dampened consumer confidence, which remains fragile. Low consumer confidence is a particular challenge for retailers, as it could significantly depress spending levels across a range of products in the short to medium term.

As our survey demonstrates, average monthly consumer spending² has declined by 9% in the period June-August from January-March 2020. This decline in spending by generational cohort correlates with one-third of Millennial, Gen Z and Gen X respondents reporting that they have experienced a reduction in income over the same period. For Baby Boomers this figure is lower, closer to one in four (22%).

To stem the fall in personal incomes and the decline in economic activity, governments have introduced measures to prop up struggling labour markets. In Germany, Spain and Italy, governments have launched temporary job-subsidy (or "furlough") schemes for workers. Under these schemes, the state helps companies to pay employees between 60% and 84% of their full wage while employees are temporarily suspended from work. In the US, an emergency stimulus package introduced in March saw households receive one-off direct cash payments of up to US\$1,200.

Despite the existence of these income support measures, consumers of all ages are hunkering down for an extended period of great uncertainty. Across the five countries surveyed, 25% of survey respondents do not believe that the economy will recover once the pandemic is under control. Younger cohorts are significantly more pessimistic:

FIGURE 1

Changes in average monthly expenditure across all channels (Jun-Aug 2020 vs Jan-Mar 2020)

PRODUCT CATEGORY	BABY BOOMERS	GEN X	MILLENNIALS	GEN Z
Books, toys and games	-8%	-28%	8%	9%
Cleaning supplies and personal hygiene	18%	8%	23%	22%
Consumer electronics and appliances	17%	6%	-21%	-21%
Fitness and wellness	8%	6%	-3%	8%
Food delivery	81%	13%	2%	10%
Footwear, clothing, accessories	-26%	-20%	-26%	-26%
Furniture and home decor	17%	-9%	-21%	-11%
Groceries	9%	2%	-8%	-6%
Tobacco products and alcohol	8%	-7%	10%	-18%

Source: Economist Intelligence Unit survey

² For the product categories covered in the survey.

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31% of Gen Z and 28% of Millennial respondents feel this way, compared with 20% of Gen X and 22% of Baby Boomers. Particularly worrying is that about 30% of Gen Z, Millennials and Gen X are somewhat or very unsure that they can cover essential purchases for the next six months—significantly higher than the 17% of Baby Boomers who say the same.

Forecasts from The Economist Intelligence Unit (EIU) show that the economies included in the survey will contract by between 5.3% and 12.6% this year. This risks further dampening consumer confidence and spending.

Against this dispiriting backdrop, online spending is a bright spot, offering hope of a partial reprieve for brands and retailers. Despite a decline in overall spending, average online spending reported by respondents to our survey increased by 15% in June-August compared with January-March across all countries and cohorts. It is the drivers and targets of this spending among different generational cohorts that the next section will explore.

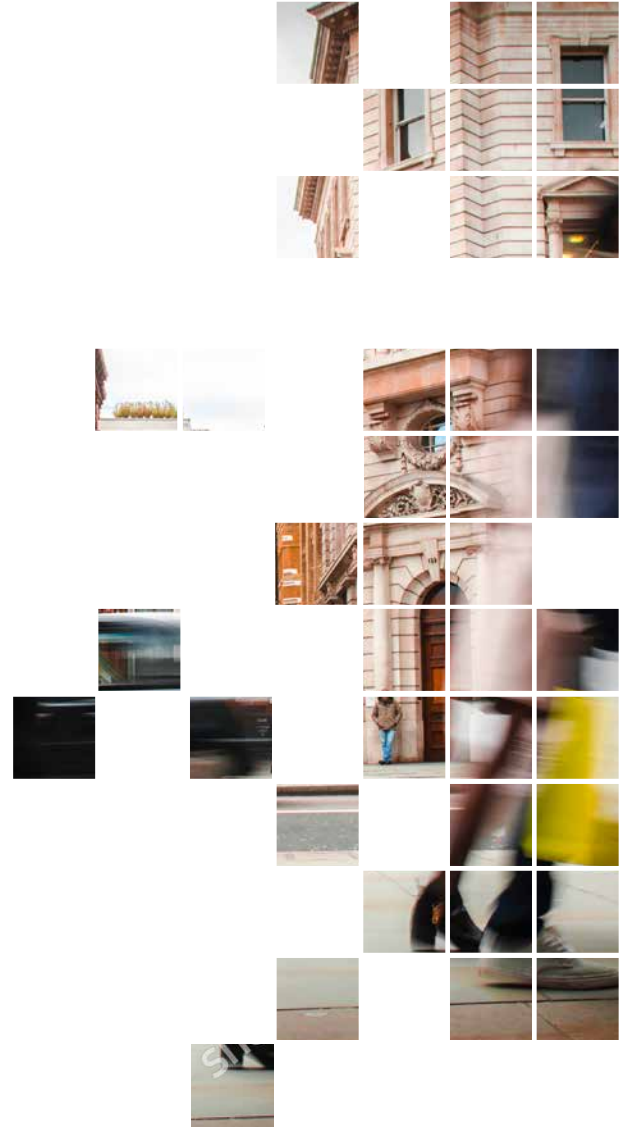
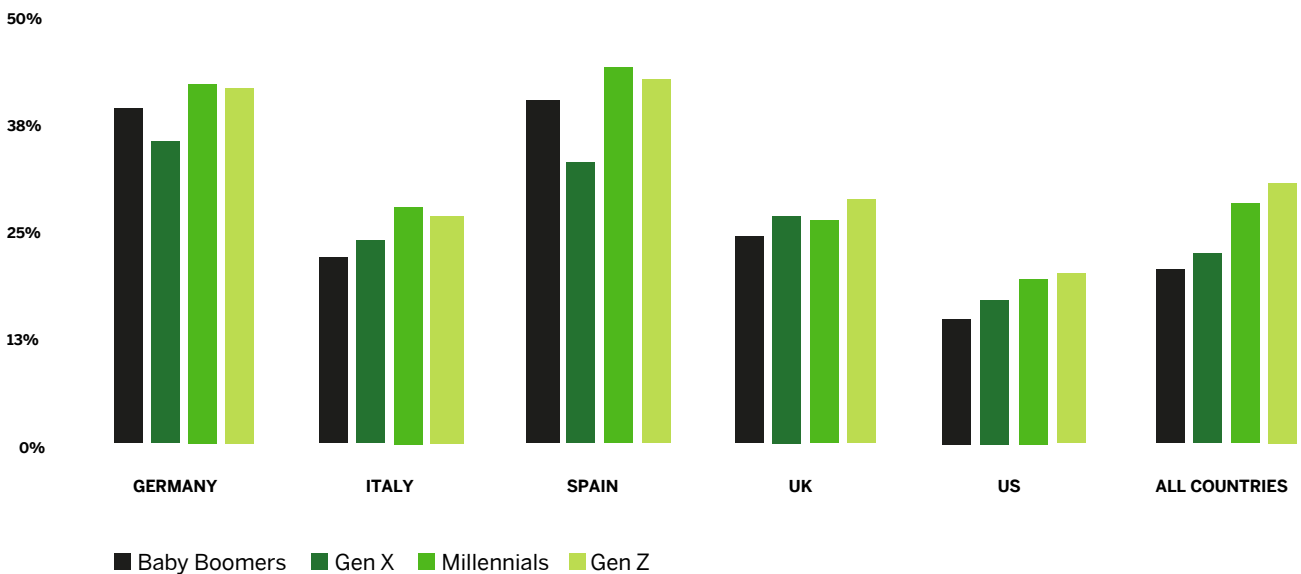


FIGURE 2

Percentage of respondents who are pessimistic about the economic outlook once the pandemic is under control



Source: Economist Intelligence Unit survey

The shift to online spending

Millennials have led the online spending charge during the pandemic. This is likely due to their experience growing up with the internet and being old enough to have been in the workplace for sufficient time to have acquired significant spending power.

On average, in June-August 2020 Millennials in our survey reported spending 2.5, 1.5 and 1.3 times as much online as Baby Boomers, Gen X and Gen Z respectively. At the same time, Millennials' online spend represented a higher share of their total expenditure, at 53%, compared with other cohorts. Gen X spend 47% of their total expenditure online, while Gen Z spend 44%; Baby Boomers lag behind, at only 37%.

However, it is this last group—the Baby Boomers—who have demonstrated the biggest shift to online spending since the start of the pandemic. Baby Boomers' online spending as a share of their total expenditure has grown by 12 percentage points

to 37%, from 25% pre-Covid. Similarly, Gen X have increased online spending as a share of total expenditure by 8 percentage points, from 39% to 47%, during the pandemic. Gen Z, on the other hand, demonstrated a smaller increase of 3 percentage points from 41% to 44%.

Across all cohorts, respondents' motivations for shopping online, which are discussed in detail below, offer clues as to whether the trends described above are likely to stick once restrictions are lifted and even, ultimately, after the pandemic ends.

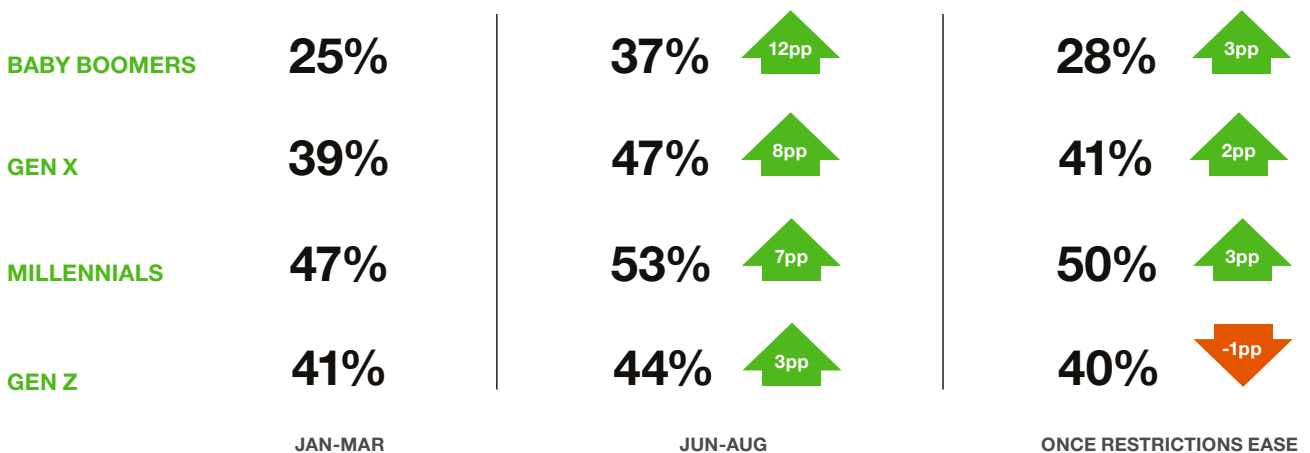
CONVENIENCE, NOT SAFETY, WILL DRIVE ONLINE SHOPPING

Concerns about safety and hygiene at physical stores have accelerated the adoption of online shopping during the pandemic. However, what is likely to keep consumers shopping online over the long term is

FIGURE 3

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

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convenience. Many consumers remain fearful of putting themselves at risk by mingling with other shoppers in-store, regardless of the safety measures that retailers are enforcing. Our survey, conducted more than six months after the start of the pandemic, shows that around one-third of respondents across all countries feel unsafe or uncomfortable shopping at physical stores. This percentage is significantly higher in the UK (at 41%) than in the US (32%), Germany (27%), Spain (23%) or Italy (21%).

In terms of generational cohort, Millennials are the most concerned (36%) about shopping in-store, followed by Gen X and Baby Boomers (both 30%), with Gen Z the least worried (24%). In addition, when respondents were asked about the features of online shopping most important to them, 44% cited avoiding crowds among the top two, further highlighting their concerns about in-store shopping.

However, convenience—the ability to shop anywhere at any time—is the number-one reason why respondents across all cohorts like shopping online (cited by 49%). This feature was cited by significantly higher shares of Baby Boomers (59%) and Gen X (51%) than of Millennials and Gen Z (at 42% each). In addition to convenience, the time-saving advantages

(cited by 42% of all respondents) appears in the top three features of online shopping for all cohorts.

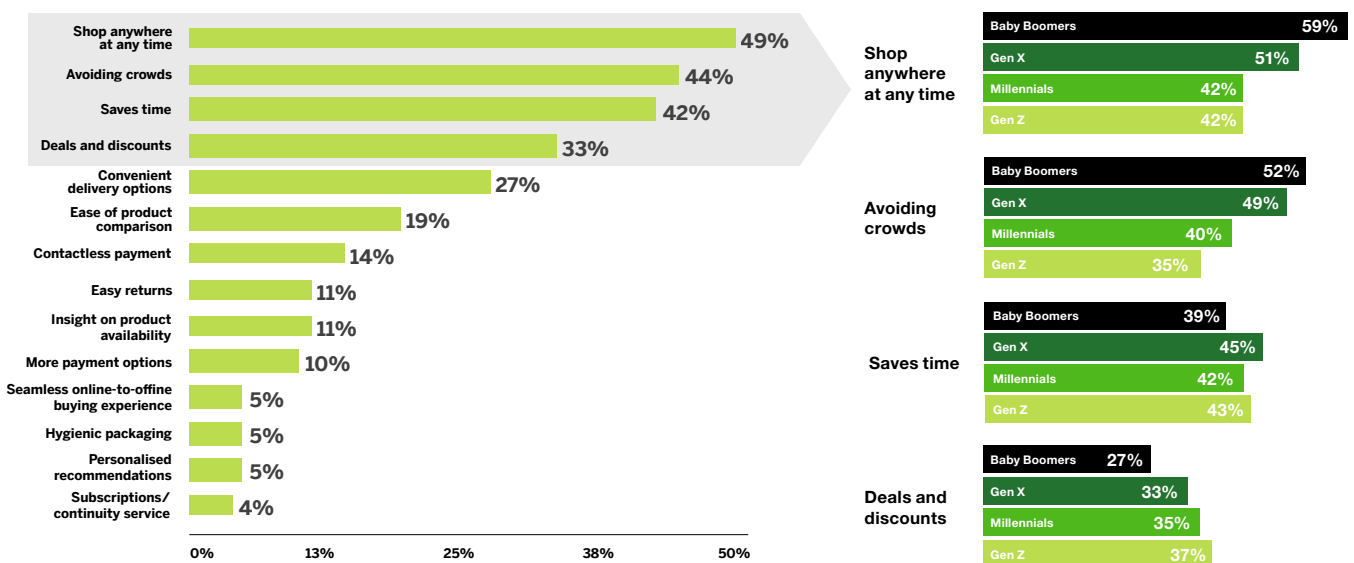
The convenience and time-saving features of online shopping are not pandemic-related—they existed before the virus emerged. It is therefore likely that these reasons for preferring online shopping will remain once restrictions ease, which could support sales of a growing range of both essential and non-essential products.

PRODUCT PREFERENCES FOR ONLINE SHOPPING

When the types of products that shoppers bought online in June-August 2020 are considered, two key trends emerge. First, online shopping for staples has become more deeply entrenched. Second, and perhaps more importantly, there is evidence of growing trust and acceptance of online shopping for non-essential or discretionary items that are more usually purchased in-store.

In terms of staples, almost all cohorts showed higher online spending on food delivery, groceries, and cleaning supplies and personal hygiene products

FIGURE 4
Features that make online shopping preferable to in-store shopping



Source: Economist Intelligence Unit survey

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during this period compared with pre-pandemic levels. Among Baby Boomers, the increases in average spending online were particularly striking: 191% for groceries, 154% in food delivery, and 90% on cleaning supplies and personal hygiene products.

In terms of non-essential or discretionary items, an analysis of online spending as a share of total expenditure offers the biggest clues on future customer propensity to buy online (see Figure 5). Overall, consumers increased their online spending share for footwear, clothing and accessories; consumer electronics and appliances; and furniture and home decor—all products for which assessing the fit, look and feel are critical. This reveals a growing trust in online shopping for products typically bought in-store.

These trends suggest that consumer brands could increase their growth post-pandemic by expanding their online sales of essential and discretionary products and by targeting different generational cohorts through digital marketing.

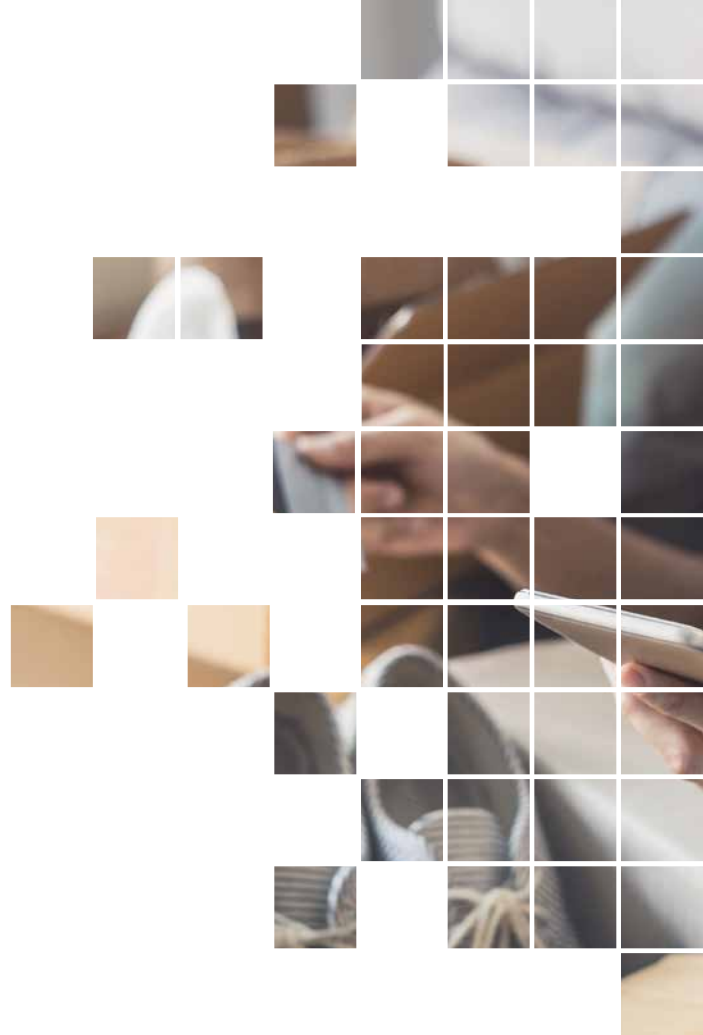


















FIGURE 5

Categories with the biggest increases in online spending share, by generational cohort (Jun-Aug compared with Jan-Mar 2020)

Percentage-point (pp) change in online expenditure as a share of total expenditure

BABY BOOMERS	GEN X	MILLENNIALS	GEN Z
 <p>Books, toys and games 23pp</p>	 <p>Footwear, clothing, accessories 15pp</p>	 <p>Consumer electronics and appliances 11pp</p>	 <p>Fitness and wellness 15pp</p>
 <p>Footwear, clothing and accessories 21pp</p>	 <p>Consumer electronics and appliances 13pp</p>	 <p>Footwear, clothing and accessories 10pp</p>	 <p>Food delivery 13pp</p>
 <p>Consumer electronics and appliances 17pp</p>	 <p>Fitness and wellness 12pp</p>	 <p>Groceries 10pp</p>	 <p>Furniture and home decor 4pp</p>
 <p>Food delivery 15pp</p>	 <p>Groceries 10pp</p>	 <p>Furniture and home decor 9pp</p>	 <p>Books, toys and games 4pp</p>

Source: Economist Intelligence Unit survey

Future spending habits

Even as restrictions ease and consumers return to bricks-and-mortar stores in greater numbers, many respondents say they will continue to buy more products online than they did before the pandemic.

“Online shopping is here to stay,” says Jonathan Myers, CEO of consumer goods company PZ Cussons. “The dramatic growth seen over the last six months may be unsustainable, of course, but it looks highly likely that people who have been forced into online shopping for the first time, who were maybe reluctant to shop this way previously, have now seen how easy and convenient it is. They are unlikely to return to previous habits.”

More than six out of ten respondents (61%) agree or strongly agree that they will maintain some of their new online shopping habits after the pandemic ends. Covid-related restrictions forced them to try or expand their online shopping. These experiences have in turn fostered greater confidence in the online shopping experience. Four out of ten respondents (40%) say they are more familiar with online shopping now than they were in January.

Once restrictions ease, the products that our survey respondents expect to continue purchasing online at above pre-Covid levels reinforce the trends observed during the pandemic. There is a deepening of online shopping for staples and a growing trust of online shopping for products typically bought in-store (see Figure 6).

However, brands may have to work slightly harder to persuade members of the older generation to keep shopping online. Based on our analysis, Baby Boomers are the group most likely to revert to previous spending habits once the pandemic is over, and consequently are the cohort in which we are likely to see the greatest decline in online spending. A smaller share of Baby Boomers (55%) agree or strongly agree that they will maintain some of their new online shopping habits after restrictions ease, compared with 66%, 61% and 60% respectively among Millennial, Gen Z and Gen X shoppers.

"The dramatic growth seen over the last six months may be unsustainable, of course, but it looks highly likely that people who have been forced into online shopping for the first time...are unlikely to return to previous habits."

Jonathan Myers, CEO, PZ Cussons

I will maintain some of my new online shopping habits even after the pandemic ends

66% Millennials

61% Gen Z

60% Gen X

55% Baby Boomers

FIGURE 6

Categories with the biggest increases in online spending share, by generational cohort (once restrictions ease compared with Jan-Mar 2020)

Percentage-point (pp) change in online expenditure as a share of total expenditure



Source: Economist Intelligence Unit survey

Furthermore, our analysis shows that Baby Boomers’ online spending as a share of total spending is expected to decline by 9 percentage points from 37% during the pandemic to 28% once restrictions ease. By contrast, online spending shares for post-pandemic are expected to decrease by 6 percentage points for Gen X and 4 percentage points for Millennials and Gen Z.

As our survey demonstrates, a number of enduring attractions of in-store shopping seem to explain these expected declines in online spending. First, and most importantly, consumers most enjoy the instant gratification provided by a new purchase that can be brought home straight away from the traditional bricks-and-mortar retail experience. When our survey asked what features make in-store shopping better than online shopping, this feature came first on the list for 57% of respondents and was the top choice for every generational cohort.

Second, but some distance behind (cited by 37% of respondents), consumers value the opportunity to assess the look and feel of a product. This suggests that an in-person appraisal of a desired item still counts a great deal for many shoppers, at least in product categories where fit, aesthetics and functionality are particularly important. Accordingly, the research shows that consumer electronics and appliances, together with footwear, clothing and accessories, are likely to see the biggest shifts back to in-store shopping once restrictions ease.

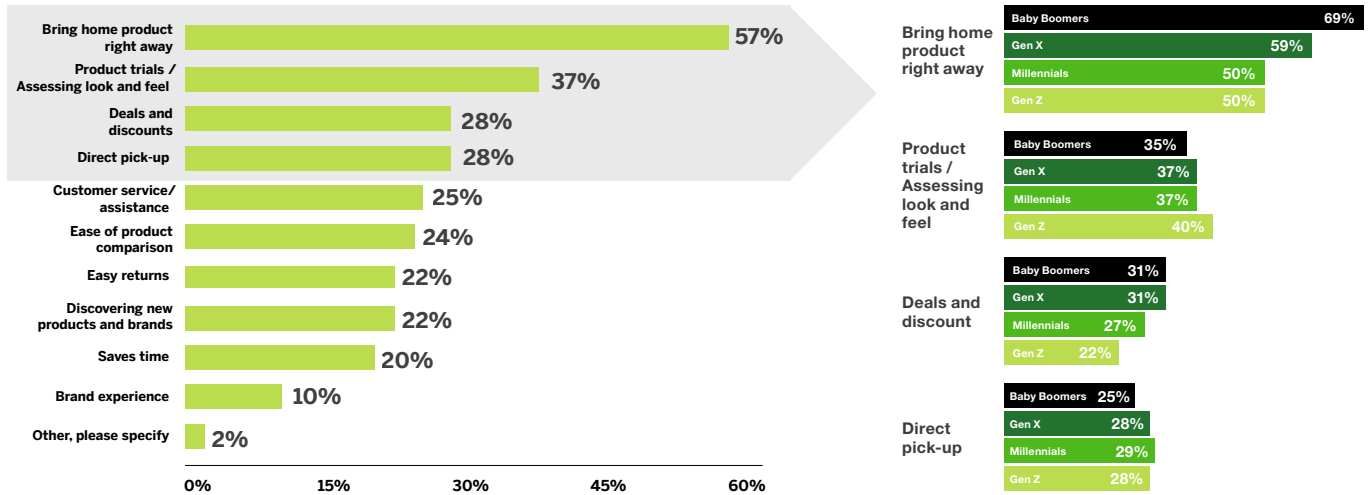
“Consumers definitely want convenience,” says Ken Kralick, global director of e-commerce at Puma, “but because we are essentially in the fashion but also sporting and performance industry, the expectation of a consumer to get the correct product often comes down to fit, performance and also usability. The ability to [provide all of that information to] a consumer online without the ability to really speak to them in person, in real time, is going to be challenging for brands for a long time to come.”



FIGURE 7

Features that make in-store shopping preferable to online shopping

Percentage of respondents



Finally, “deals and discounts” are an important feature of in-store shopping for the older generation, cited by 31% of Baby Boomers and by the same percentage of Gen X (whereas the younger cohorts believe that online shopping offers better deals and discounts). During an economic slump, with consumers cautious about future spending, this factor may be all the more important in drawing the older generation back to bricks-and-mortar stores.

Ultimately, as consumers become more familiar with purchasing on apps or websites but continue

to seek in-store experiences or kerbside pick-ups, the case for the omni-channel offering—whereby consumers buy online and pick up in-store or discover in-store and order online—will only grow stronger. “Once the [online] learning curve is behind us, I think omni-channel is really well positioned [to succeed],” says Jamil Hossain, former e-commerce director at cereal manufacturer Kellogg’s. Brands and retailers that thrive in the post-pandemic era could, through an omni-channel approach, successfully bring together the features of online and in-store shopping that consumers value most.



Retail's online path to recovery

In the absence of office workers and tourists, retail footfall remained stubbornly and precariously low this summer in the world's famous shopping districts—from London's West End to New York's Fifth Avenue. The future is still far from certain for brands and consumers alike.

"The situation is evolving so fast that I wish I had a crystal ball to be able to tell you, 'Here's how Covid-19 will impact us in early 2021 and here is our strategy', but I don't," says Rohan Pradhan, chief adviser to the CEO at Deliveroo, a food delivery app.

Overall consumer spending levels for some years to come are likely to be determined by macroeconomic factors as governments continue to experiment with massive fiscal-stimulus packages designed to prop up their economies, and by scientific advances as researchers hunt for effective therapies and a coronavirus vaccine. In other words, much of this is well beyond the control of even the biggest retailers and consumer goods companies.

But as we have seen, the pandemic has clearly helped online spending to gain a stronger hold over individual wallet share. More effective online selling, then, could offer a shorter, smoother path to recovery for companies, but only for those which succeed in giving customers a seamless experience—including through an omni-channel offering—that keeps customers coming back for more. This builds on consumers' preferences for shopping experiences that are convenient, so that they can shop anywhere, save time and find the best deals.

"The reality is that we're going to have to keep operating as we are now for some time to come: staying agile, keeping a close eye on what's changing, driving rapid innovation and staying responsive to our customers' needs," says Mr Pradhan.

For brands and retailers, identifying and meeting the needs of online customers in every generational cohort is where the best opportunities now lie; personalised targeting of marketing messages and product recommendations, ones that appeal to the

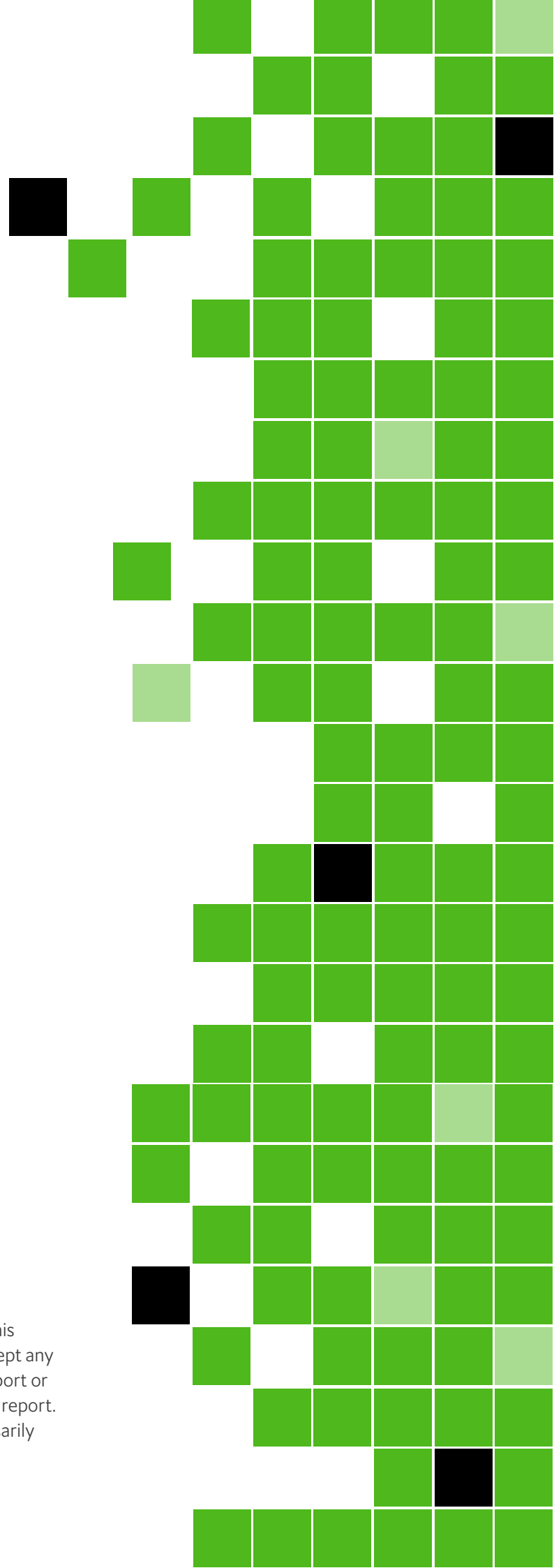
right customer at the right time, has the potential to deliver considerable rewards to those companies that get it right. This means understanding and engaging not only Millennials, who are spending the most online, but also older consumers (Baby Boomers and Gen X) who have ventured online for the first time and have considerable purchasing power.

Brands and retailers must also navigate divergent preferences among the different generational cohorts on online versus in-store shopping, such as for deals and discounts. This requires consumer-facing companies to keep an eye on rapidly evolving trends and to be agile enough to respond effectively to them.

At the heart of these efforts, there should be a sound understanding of customer preferences and habits. Even during the current crisis, there is no time to lose in deepening that understanding so that brands and retailers can build the right strategies for the future.

"The reality is that we're going to have to keep operating as we are now for some time to come: staying agile, keeping a close eye on what's changing, driving rapid innovation and staying responsive to our customers' needs."

Rohan Pradhan, chief adviser to the CEO, Deliveroo



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