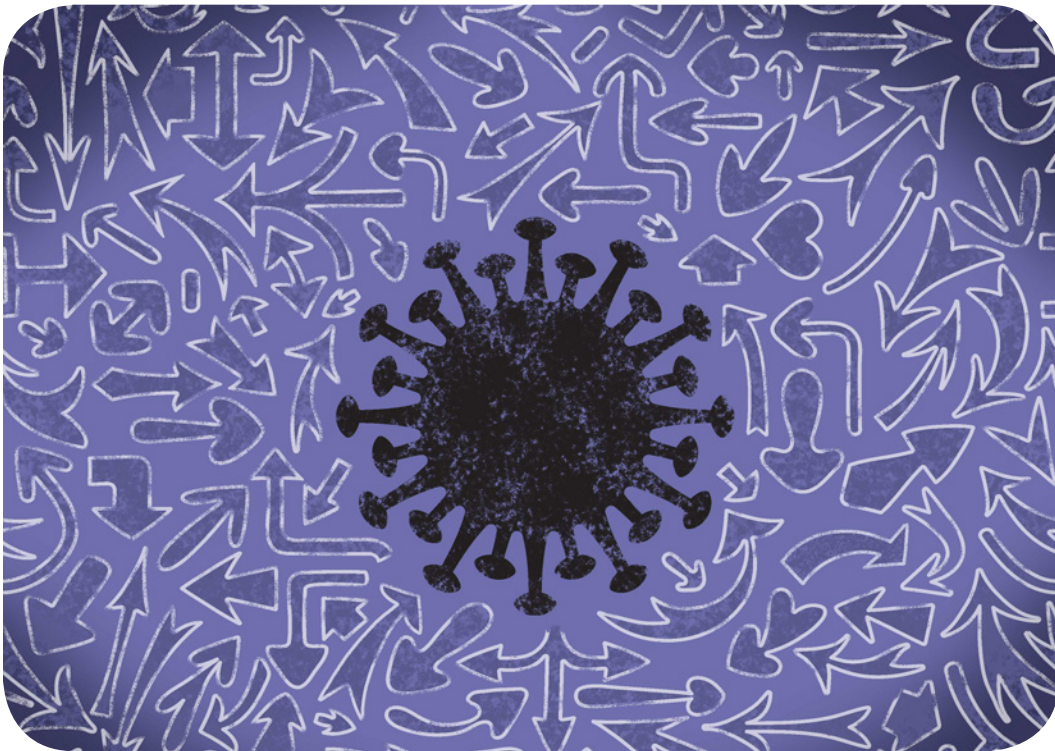


How COVID-19 Is Changing Consumer Behavior— And What To Do About It



History offers insights for adapting brand strategies to create effective customer experiences in the “new normal.”

A White Paper
by Jim Cobb



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Jim Cobb is founder and chief brand strategist for The Bloodhound Group. Over the past 35+ years he has helped companies develop more meaningful and profitable brands, serving both B2C and B2B brands across most major industry categories.

Introduction

My father grew up during the Great Depression. Consequently, he was one of the most resourceful people I have ever known. He rarely threw anything away without going through a thoughtful process of determining whether the item could be repurposed in some way. He once fashioned end tables out of a discarded oak motor crate. He also straightened the nails he removed from the crate in that process so we could use them on another construction project. I still use those “motor crate end tables” in my home today.

The word “credit” was not in my dad’s vocabulary. He saved up his cash, then made purchases. And his decisions to buy were carefully weighed against other potential uses for the money. The scarcity and uncertainty that marked the Great Depression had a life-changing, lifelong impact on his purchase behavior.

We can expect the COVID-19 crisis to have similar long-term effects on consumers. While the economic and social impact of the coronavirus pandemic is monumental, the emotional fallout will likely be even greater. Neuropsychology has shown us that the more emotionally devastating an event, the more solidly it gets locked into the memory, influencing future behavior.

A recent McKinsey & Company article summed up the emotional impact of our current circumstances: “When people are stripped of their work, they suffer losses not just of income but also of dignity, meaning and hope.”¹ Add to this the universal uncertainty about the future, concern for public health and growing cases of cabin fever, and it’s easy to see why the present consumer mindset is fragile and somewhat volatile.

We have already seen many major shifts in behavior. Sheltering in place and social distancing have forced people to change their routines, finding different ways to interact and do business.

This has inevitably affected the purchase journey. Much of the change involves acceleration of buying behaviors that were already well under way, such as use of e-commerce versus brick-and-mortar retail.

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But other changes in the business landscape are reshaping the choices available. Consumers are resorting to Netflix for entertainment in lieu of movie theaters and theme parks and have turned to teleconferencing services such as Zoom not just for business meetings but to teach, hold church services and socialize.

A look at some of the lasting shifts resulting from the Great Recession of 2007-2009 may help us gauge how the current pandemic could alter future consumer behavior. What history tells us is that we can expect some of the consumer behavioral changes we’re seeing—perhaps many—to become permanent.

How brands address these changes will influence their long-term success post-pandemic. Insights gleaned and preemptive action taken now can lead to competitive advantage later.

The Strong and the Vulnerable

“It is not the strongest species that survive, nor the most intelligent, but the ones most responsive to change.”

This quote, arguably attributed to 19th century British naturalist Charles Darwin, could very well describe the future of business in the aftermath of COVID-19. Customer-centric brands that already had systems in place to monitor customer behavior and were operating with an organization structure designed to be responsive and adaptive to change will naturally have a significant head start in developing future strategies and programs.

Forrester Research shows that during and after the Great Recession, customer experience leaders outperformed “laggard” companies by three times in terms of returns to shareholders.² Likewise, companies facing today’s crisis that are unable or unwilling to make the changes required to meet consumers’ rapidly evolving needs and expectations run the risk of being so wounded by COVID-19 they fail before the pandemic is over, or shortly thereafter.

Focusing on Customer Experience Is a Winning Strategy In Recession

Total returns to shareholders of customer experience leaders and laggards,¹ % by quarter



¹ Comparison of total returns to shareholders for publicly traded companies ranking in the top 10 or bottom 10 of Forrester's Customer Experience Performance Index in 2007-09.

Source: Forrester Customer Experience Performance Index (2007-09); press search.

Navigating the 'Structural Break'

During the Great Recession, businesses moved quickly to cut operating costs—a simple, logical and reasonably effective action to take. Most companies are doing the same thing now. But the COVID-19 crisis will likely require much more than just cutting staff and expenses. Some companies will need to rethink their entire business models.³ The reason? COVID-19 has created a structural break in the economy.

Econometrics and statistics experts define a structural break as “an unexpected shift over time in the parameters of regression models when trends and the patterns of associations among variables change.” This can lead to huge forecasting errors and unreliability of the model in general.

Those that have not closed have lost market share as consumers try e-commerce and home delivery for the first time.

A structural break can also occur within a company or industry when its business model no longer delivers predictable results. These breaks most often happen when the underlying structure of a business or industry changes so dramatically the old ways of doing business no longer work.⁴

A classic example is the struggle of newspapers to survive once the Internet began delivering news content better and faster, ultimately robbing publishers of subscriber and advertising revenues.

The aforementioned shifts in retailing from physical outlets to a viable online presence have been in progress for years, but the pandemic has put these previously incremental changes on steroids. “Stay at home” orders have forced thousands of brick-and-mortar businesses to temporarily close. Those that have not closed have lost market share as consumers try e-commerce and home delivery—of everything from meals and groceries to medications and pet food—for the first time. The new purchasing practice will become permanent for many consumers, placing traditional retailers in jeopardy.

But as bad as all that sounds, economic structural breaks can offer great market opportunities for customer-centric brands built to not only survive but thrive in the long run. Bottom line: if yours is not a customer-centric company, consider transforming your business model to become one now.

Positioning Your Brand for Doing Business Post-Pandemic

Almost all brands will be affected in one way or another by the coronavirus crisis. Less disposable income and lower category spending imply that brands will only be able to sustain sales by winning greater market share. Focusing on improving or enhancing the customer experience is a tried-and-true way to achieve this. And—spoiler alert—it's probably going to involve doing things you've never contemplated before.

Here are a few suggestions for responses you can undertake now to help strategically position your brand to capitalize on the post-pandemic new normal.

» *Offer Tangible Support and Care*

People are growing somewhat weary of “we are in this together” brand messages. Customer-centric brands came out of the gate two months ago with ads and other communications acknowledging the pain and suffering consumers were experiencing. They were the first to not only deliver messages of support but also field tangible programs demonstrating authentic empathy and care. The Ford brand, for example, was out front early on with heartfelt messaging and a specific, meaningful deal for consumers. Other brands followed shortly, but Ford achieved first-mover advantage with its quick and genuine response.

All that being said, it is not too late for a brand to demonstrate that it cares for its customers. In fact, in a recent survey of “front line” consumers—those most acutely impacted by the current crisis (nurses, first responders, teachers, seniors, college students and members of the military)—68 percent of respondents said they expect brands to donate to programs that provide direct support for medical workers. The study, which was conducted by identity marketing firm SheerID, further showed consumers want brands to provide personalized offers that have tangible value, such as free shipping. More than half of those surveyed said such support would make them shop with a brand more frequently.⁵

The key difference now is that the messaging and offers cannot appear to be just a marketing response to competitive activity. The brand behavior needs to be rooted in its purpose and core values. For example, Unilever has introduced a variation on its Dove brand “Real Beauty” campaign that pays tribute to healthcare workers. The new “Courage is Beautiful” ads feature medical personnel wearing masks.⁶

When wants shift to needs,
the speed of a brand's
response becomes critical.

» *Observe, Ask and Listen to Employees and Customers*

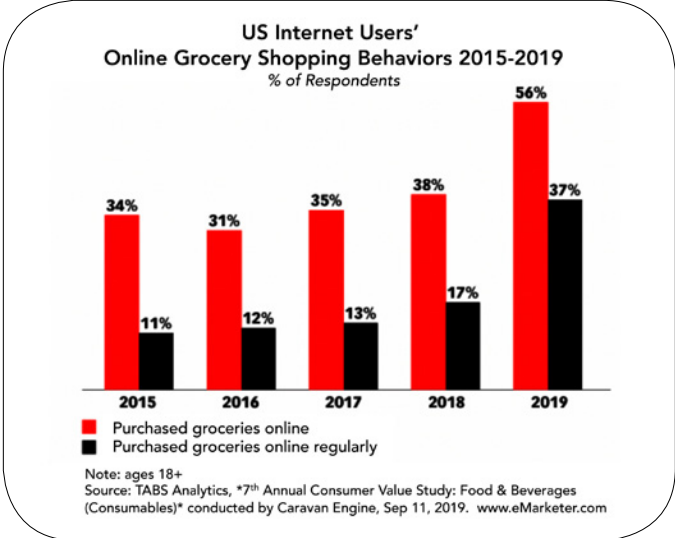
Feedback from frontline employees is more important than ever. These are the people trying to respond directly to emerging customer needs. It's important to distinguish between customer needs and wants. In the past, customer experiences may have been designed to deliver a differentiated product or service based on what the customer wanted. When wants shift to needs, the speed of a brand's response becomes much more critical. Your employees can provide real-time insights into how your brand experience may need to be modified.

Monitoring social media is another way to better understand customer needs, helping you shape more effective responses. Surveys can also be a useful feedback tool, though the current rate of change may impact the timeliness and relevance of results.

» **Deliver 'No Touch' or 'Low Touch' Experiences**

Restaurants, grocery stores and other key retailers with systems for online ordering coupled with drive-through or curbside pick-up have been able to sustain their relationships with customers during the pandemic. Brands whose models lack a technology-based customer experience touchpoint have and will continue to experience a break in customer relationships until this weakness is addressed.

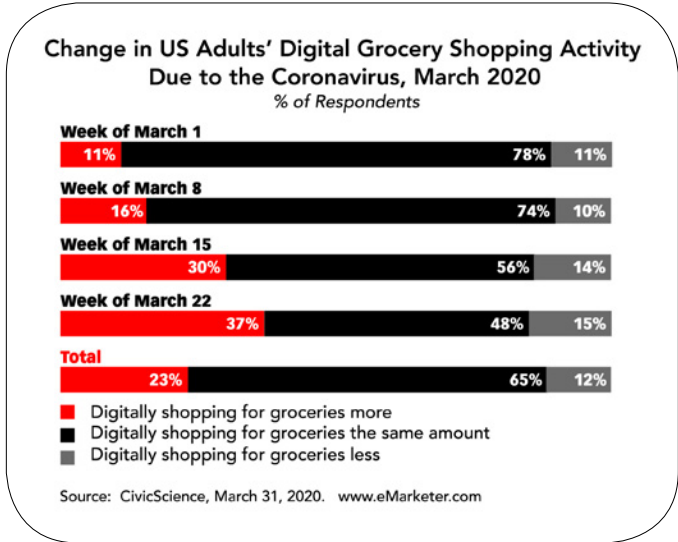
The grocery category is a good example. In 2015, 11 percent of Internet users regularly purchased groceries online. This number grew to 37 percent in 2019.⁷ As of March 31, 2020, 88 percent of Internet users had purchased groceries online.⁸ Digital purchasing has become a necessity for consumers confined to their homes. Even those who have resisted e-commerce are being forced to try it, and many will likely continue using it post-pandemic as a way to avoid public areas.



The implications for companies with antiquated websites and clunky digital offerings are clear: upgrade your online presence as quickly as possible or be prepared to accept the consequences of significantly lower revenues.

» **Redesign Physical Locations to Be Less Threatening**

Brick-and-mortar retailers are here to stay but will need to reimagine onsite operations to be safer for customers. U.S. consumer preference for contactless transactions has increased 20 percent since the advent of the pandemic.⁹ Drug stores and grocery stores have implemented a host of new practices to limit exposure of customers and employees to individuals potentially infected with the virus, including one-way store aisles, distanced checkout lanes and plexiglass shields at the cash register. Some brands are now advertising how their outlets are sanitized to protect customers.



The pandemic has forced more than 50,000 retail locations to close temporarily. Those able to reopen may well need to be converted to “dark stores” offering fulfillment only, as consumer behavior shifts to more remote and low-touch options.¹⁰

» ***Extend Your Brand Experience to the Customer's Home***

Brands with strong e-commerce platforms are benefiting from their home delivery model. Other product and service companies are quickly adopting the practice. Carvana, for example, has a retailing model predating the coronavirus crisis that allows customers to select cars online and take delivery at their homes. In February the company reported record growth, including an 88 percent jump in revenue versus 2019, representing an 82 percent increase in retail sales. A strong new alliance with Ally bank has further positioned the Carvana brand to perform well throughout the pandemic and its aftermath.¹¹

Other car retailers such as CarMax that began to offer sales and home delivery last year now see a significant, long-term change in how consumers will buy and have their cars serviced. “The consumer’s behavior has undoubtedly been changed in a lasting way,” says Jim Lyski, CarMax chief marketing officer, in an interview with *Business Insider*.¹²

Traditional auto retailers that have unsuccessfully tried or resisted an online business model are struggling now to make this shift. As the *Business Insider* article notes, “The franchise dealer model dates to the early 20th century, and although automakers have sought to displace it, they haven’t succeeded.

Almost all Americans buy and lease their new cars from a dealership, and they do it in person. Despite vast changes in the rest of the commerce world, dealers still think that a consumer is more likely to do a deal if they’re physically on-site. With that tradition now completely upended, a brave new world of car sales is taking shape.”¹³

The speed at which the pandemic has impacted operations has forced dealerships to rapidly change their business models or risk bankruptcy. “Everyone is now kind of figuring out their new operations. They can’t be 100 percent, and they know 0 percent is a path to insolvency or bankruptcy. So they’re finding a middle ground, not making the profits they’d like but mitigating the financial crisis that would occur if they did nothing,” says Karl Brauer, senior director of content and executive publisher for Cox Automotive.¹⁴

We are unlikely to see the end of traditional car dealerships; a more likely post-pandemic scenario is a wholesale move on their part to better customize the car-buying experience, including offering online sales and home delivery.

Digital experiences will continue to grow across many industry sectors. As McKinsey notes, “Companies that act quickly and innovate their delivery model to help consumers navigate the pandemic safely and effectively will establish a strong advantage.”¹⁵

» ***Look for Opportunities to Fill Emerging Customer Needs with New Innovation***

As has happened with past pandemic and other public health events, customer-centric brands will use employee and customer insights gleaned from the COVID-19 crisis, together with observed shifts in industry conduct, to develop innovative new products and services. For example, Dixie® brand disposable paper cups were first developed in the United States in 1907 by Lawrence Luellen, a Boston lawyer concerned about germs being spread by people sharing water glasses or dippers at public sources of drinking water.¹⁶ Likewise, the H1N1 flu outbreak in 2009-2010 accelerated widespread adoption of away-from-home touchless paper towel dispensers.

Many firms in the medical arena are working around the clock to develop new and better ways to stop the spread of or test for the COVID-19 virus. Among these: artificial intelligence spread monitoring, symptom-tracking solutions, chatbots for diagnosis and people-tracking with nearby infection notification, according to Adeo Ressi, CEO of the global startup accelerator The Founder Institute, in an article in CNBC Make It.¹⁷

Other innovators are focused on helping people quarantined at home. Along with the mass adoption of Zoom for conferencing, numerous other tools and solutions are being developed to address everything from home-schooling and safe food delivery to therapy and stress-coping.¹⁸

Some of these innovations were concepts already in existence whose adoption was accelerated by the sheltering in place orders. Others are pandemic-specific, but many will live beyond its end. These include remote medical

care and telemedicine, as healthcare providers embrace the benefits and efficiencies of treating patients remotely. For example, Second Medic, a telemedicine company used for second opinions in India, has recently been legalized for primary care as a result of the pandemic.

The pandemic has given rise to new necessities that can be viewed as opportunities by agile firms with strong customer insights.

Fitness technology company Smart Health Clubs is “pivoting to provide online engagement solutions to retain members through the pandemic. One option they are examining is helping gyms sell idle equipment to members and create online courses for the equipment,” according to the CNBC Make It feature.¹⁹

The pandemic has given rise to new necessities that can be viewed as opportunities by agile firms with strong customer insights. These firms are accelerating time to market for new customer experiences and releasing new ideas and innovations in their “minimum viable” state rather than waiting for perfection. This suggests that firms with a pipeline of innovations should reprioritize their launch based on emerging demands for remote, digital or home delivery solutions.²⁰

Conclusions

- » The COVID-19 crisis has created great economic and emotional strain on U.S. consumers. This heightened emotional state will create long-lasting memories of how brands did or didn't rise to the occasion to make their lives bearable during this difficult time.
- » The economic structural break brought on by the pandemic will threaten the viability of many businesses. Companies will need to redefine their business models to be more flexible and customer-centric or face extinction.
- » Customer-centric brands who listen to employees and have strong ties to their customer base may be slowed by the crisis but will likely be resilient enough to weather the storm and generate a stronger post-pandemic performance.
- » Those brands offering customer experiences focused on e-commerce, at-home delivery and other ways to help protect consumer safety and well-being will be best positioned for service expansion throughout the crisis and competitive advantage long term.

Learn More

For information about The Bloodhound Group process and how we can help guide your brand strategy in the post-pandemic marketplace, please contact:

Jim Cobb

Chief Brand Strategist

919.889.0868

jcobb@bloodhoundbranding.com

Tor Swenson

Senior Brand Strategist and Partner

919.670.8488

tswenson@bloodhoundbranding.com

Ann Wilson

Global Brand Strategist

404.217.5001

awilson@bloodhoundbranding.com

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