Anticipating the New Normal: Critical Changes to Plan Today

April 29, 2020

Ken Wong
Distinguished Professor of Marketing, Smith School of Business
“We are entering an evolutionary stage of retail in which big companies will get bigger, many mom-and-pop dreams will burst, chains will proliferate and flatten the idiosyncrasies of many neighbourhoods, more economic activity will flow to ecommerce and restaurants will undergo a transformation unlike anything the industry has experienced since Prohibition”

- The Pandemic Will Change American Retail Forever
(The Atlantic, April 27, 2020)
Some Qualification

- Hard to predict the future when ...
  - Inadequate Data
    - The present day is uncertain
    - Unprecedented event
    - Most recent data for Kingston is 2016 census
  - Free market economics “suspended” indefinitely
  - Comparisons to province or other CMAs only as good as similarities
    - Kingston is older (med age - 41.8 vs 41.2; % over 65 – 19.4% vs 14.9%)
    - Kingston is slightly wealthier (med income 67.5K vs 65.3K)
    - Family structure and age is a key factor in assessing consumer’s perception of “wealth”

Median After-tax Income by Family Type (2015: $000)
- Couples with children 99.8 vs 99.2
- Lone parent 49.4 vs 50.3
- Aged 15+ not in family 28.3 vs 29.4

Median After-tax Income by Age (2015: $000)
- Aged 65 and over 32 vs 27
- Aged 25-34 31.2 vs 31.8
- Aged 35-44 43.1 vs 41.8
- Aged 45-54 44.2 vs 41.7
Key Premises

1. The future will be shaped by customer experiences and businesses can either accept and service that behavior OR they can try to shape that behavior.

2. Focus on the “NEXT normal”: Every business faces three different challenges that will unfold over time and shape their ability to respond: agility and innovative thinking will be essential to make it to Stage 3
   - Stage 1: SURVIVE
   - Stage 2: REVIVE
   - Stage 3: THRIVE

3. A return to pre-COVID19 life is unlikely
   1. Coping behaviors start becoming “habits” after 3 weeks (we are in week 7)
   2. COVID19 created economic and behavioral strains that are reflected in changes in people’s actions, attitudes and priorities: survival requires “brain” and/or “brawn”
   3. There will be random acts of irrationality that shape reality (e.g. hoarding toilet paper)
Stage 1: Survive

- Stage 1 is largely about managing cash flow to keep the lights on
  - Generate inflows via forward selling, collecting receivables, curbside and home delivery
  - Delay payments or negotiate payment deferrals (esp. rent)
  - Price, availability and hygiene practices drive consumer preference
  - Human resource practices impact customer expectations and experience

- In past times of recovery, the brands cutting ad budgets the most took longest to recover (Milward Brown)

- Beyond financial and staffing moves, survivors will take advantage of the reduction in business activity to reexamine their business from the ground up
Asking the Right Questions

– How has your CUSTOMERS’ lives changed due to the pandemic?
  • What impact has this had on their attitudes and behaviors?
  • How much has the priority/attention-paid to your product category changed?
    – Volume demanded
    – Pricing
    – Availability (i.e. supply chain factors)
    – Is your product complimentary to products that will gain or lose priority?
  • How do you add-value beyond having the product or service available? (VERY IMPORTANT)

– How has your EMPLOYEES’ lives and attitudes toward YOU (their work) changed?
  • Are you doing enough “internal marketing” so staff know what to expect?
What Has Changed In 6 Weeks?

What Coping Behaviours COULD Become “Habits”?
MINDSET SHIFTS  (Source: Angus Reid)

• Feelings of concern over finances, the well-being of loved ones and access to PPE and other essentials continue to rise as Stage 1 drags on

• Lingering skepticism about health risks is diminished; concern over premature reopening of the economy is growing (albeit with some vocal critics)

• Psychological effects of isolation and stress starting to manifest itself in both rational and (seemingly) irrational behavior

• Consumer use of social media accelerated, especially in older consumers

• Frontline Staff positioned in a heroic capacity
BEHAVIORAL SHIFTS  (Source: Church and State, Angus Reid)

- Avoidance of public places due to health care guidance
- Increased prevalence of “loneliness” and other mental health conditions due to isolation: people are finding new ways to stay in touch, especially video calling
- Shifting distribution of consumption
  - Increased attention to “nesting” and DIY products as consumers learn to cope with isolation (e.g. Flour sales exceed available packaging; hair colouring sales up 50%; online adult education at near-record levels)
  - Purchase of luxury goods and discretionary products/services is down and will decline further: quality-based premium products will outdo image-based premium products (e.g. lipstick and other colour cosmetics down about 35%)
Coping Behaviour: How They Buy

Doing This
(WWithin the last 2 Weeks)

- Buying more food so that you don’t need to go to the grocery store as often: 60%
- Buy extra food for the longer term: 42%
- Buy extra hygiene products (e.g. hand sanitizer, toilet paper): 26%
- Buy healthier food (e.g. to boost your immunity): 20%
- Get someone else to go grocery shopping for me: 15%
- Buy extra single use foods (e.g. single serve yoghurt or drink boxes): 9%
- Avoided purchasing goods from countries that have been affected by Coronavirus: 8%
- Other (specify): 2%
- No - none of these: 22%

Source: Angus Reid COVID-19 Tracker
Coping Behaviour: How They Spend Their Time

<table>
<thead>
<tr>
<th>Activity</th>
<th>Doing More of This</th>
<th>Doing Less of This</th>
</tr>
</thead>
<tbody>
<tr>
<td>Video calls with people (e.g. Skype)</td>
<td>57%</td>
<td>6%</td>
</tr>
<tr>
<td>Surfing the internet</td>
<td>56%</td>
<td>+17%</td>
</tr>
<tr>
<td>On social media (e.g. Facebook, Twitter)</td>
<td>56%</td>
<td>+18%</td>
</tr>
<tr>
<td>Watching streaming TV (e.g. Netflix)</td>
<td>56%</td>
<td>+19%</td>
</tr>
<tr>
<td>Making meals/baking at home</td>
<td>51%</td>
<td>+19%</td>
</tr>
<tr>
<td>Watching cable TV</td>
<td>50%</td>
<td>+18%</td>
</tr>
<tr>
<td>Texting with people</td>
<td>45%</td>
<td>+15%</td>
</tr>
<tr>
<td>Trying new recipes</td>
<td>32%</td>
<td>+10%</td>
</tr>
<tr>
<td>Renting movies</td>
<td>26%</td>
<td>+6%</td>
</tr>
<tr>
<td>Listen to podcasts</td>
<td>25%</td>
<td></td>
</tr>
<tr>
<td>Listen to radio</td>
<td>24%</td>
<td></td>
</tr>
<tr>
<td>Use ride-hailing companies (e.g. Uber or Lyft)</td>
<td>5%</td>
<td>63%</td>
</tr>
<tr>
<td>Driving</td>
<td>6%</td>
<td>64%</td>
</tr>
<tr>
<td>Take transit</td>
<td>4%</td>
<td>74%</td>
</tr>
</tbody>
</table>

Source: Angus Reid COVID-19 Tracker
Coping Behaviour: Where They Shop

Going Out:

<table>
<thead>
<tr>
<th>Location</th>
<th>I'm fine with it</th>
<th>I would go cautiously</th>
<th>I avoid it</th>
<th>Change in “Avoid it” Since Mar 17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grocery stores</td>
<td>12%</td>
<td>75%</td>
<td>13%</td>
<td>+6%</td>
</tr>
<tr>
<td>Retail (in store) shopping</td>
<td>5%</td>
<td>32%</td>
<td>62%</td>
<td>+18%</td>
</tr>
<tr>
<td>Restaurants</td>
<td>4%</td>
<td>13%</td>
<td>83%</td>
<td>+24%</td>
</tr>
<tr>
<td>Malls</td>
<td>4%</td>
<td>12%</td>
<td>85%</td>
<td>+21%</td>
</tr>
<tr>
<td>Movie Theaters</td>
<td>3%</td>
<td>65%</td>
<td>92%</td>
<td>+12%</td>
</tr>
<tr>
<td>Airports</td>
<td>67%</td>
<td>9%</td>
<td>91%</td>
<td>+9%</td>
</tr>
</tbody>
</table>

Source: Angus Reid COVID-19 Tracker
BEHAVIORAL SHIFTS  
(Source: Church and State, Angus Reid)

• Avoidance of public places due to health care guidance

• Increased prevalence of “loneliness” and other mental health conditions due to isolation: people are finding new ways to stay in touch, especially video calling

• Shifting distribution of consumption
  – Increased attention to “nesting” and DIY products as consumers learn to cope with isolation (e.g. hair colouring sales up 50%)
  – Purchase of luxury goods and discretionary products/services is down and will decline further: quality-based premiums will outdo image-based premium products (e.g. lipstick and other colour cosmetics down about 35%)

• Consumer price AWARENESS and SENSITIVITY are up.
  – Over 16,000 cases of price gouging reported by consumers in Ontario
  – Consumers are using the internet to find reference prices
  – Income, even after non-repayment and tax free grants, will be strained as workers, especially casual and “gig-economy” workers scramble to meet rent, mortgage and credit card bills at a time of record high household debt levels
Why Price Awareness and Sensitivity Are Up

Concern about Canadian Economy

- 73% Very / Extremely Concerned
- 40% Concerned
- 4% Not very concerned
- 22% Not at all concerned

Concern about Personal Finances

- 53% Very / Extremely Concerned
- 27% Concerned
- 17% Not very concerned
- 3% Not at all concerned

Source: Angus Reid COVID-19 Tracker
Technology Shifts (Source: Chruch and State; Sparks & Honey)

- Social distancing is driving adoption of new technologies to communicate, deliver and pay for goods and services
  - Video-conferencing
  - Contactless payment
  - Contactless delivery/robotic assistance
- Media and content consumption rise sharply to maintain contact; never been easier to reach a mass of consumers
- Analytics, monitoring and modeling will play a key role in recovery
  - Will it lessen privacy concerns?
How Long to the End of “Survival” Stage: The Role of Government

Ontario’s Three Stage Plan to Reopen

Phase 1: Select workplaces and parks; hospitals return to performing all surgeries
   LIMITED CROWD SIZES (e.g. Orientation in September?)
Phase 2: Service industries, retail offices and other outdoor spaces open
   LARGER BUT STILL LIMITED CROWD SIZES (e.g. Homecoming next year?)
Phase 3: All Open EXCEPT very large crowd events (eg concerts, sports, conferences)

Potential Problem Areas for Business
  1. Limitations on capacity to serve numbers (e.g. table distances, patio capacity)
  2. Debt Obligations: need to repay some government assistance
  3. Cost of Protection: compensation, employee protection, checkout and delivery costs
  4. Consumer Perception of Prices

Silver Bullet Events
- Distribution of PPE Equipment and systems
- Access to Testing
- Access to and Comprehensiveness of Vaccine
STAGE 2: REVIVE

• Stage 2 is about winning back customers
  – Do not expect (most) customers to return to pre-COVID behaviors and attitudes
  – There will be a short-term “burst” of buying interest
    • Some products/services could not be obtained during Phase 1
    • Consumers will have pent-up demand but shopping may not be the activity most missed
    • Big question is whether they will have the resources to buy
  – “Easiest winners” are those who served (pre-COVID) higher income consumers with differentiated/uniform characteristics
<table>
<thead>
<tr>
<th>Horizon</th>
<th>Preparing for the crisis</th>
<th>Navigating the crisis</th>
<th>Coming out of the crisis</th>
<th>Managing the next normal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Safeguard lives</td>
<td>Case count</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Safeguard livelihoods</td>
<td>GDP</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regulatory measures</td>
<td>Closing down mass gatherings and food service</td>
<td>Closure of all nonessential retail; stay-at-home and distancing rules</td>
<td>Staggered easing of social distancing by risk group and reopening of retail with “safe stores”</td>
<td>Most likely full opening with risk of repeated measures if the virus recurs</td>
</tr>
<tr>
<td>Consumer shifts</td>
<td>• Pantry loading of packaged goods</td>
<td>• High demand for fresh food and ingredients, as well as continued need for hygiene</td>
<td>• Lower spending, more saving</td>
<td>Potential consumer shifts:</td>
</tr>
<tr>
<td></td>
<td>• Beginning to shift online</td>
<td>• Big shift to online grocery where available</td>
<td>• Cautious return to retail with high hygiene and distancing expectations</td>
<td>• Price sensitivity</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• E-commerce only for nongrocery</td>
<td>• Continued increase in online ordering</td>
<td>• Higher digital engagement</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>• Attention to wellness and hygiene</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>• “Nesting” at home</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>• Redefinition of purpose</td>
</tr>
</tbody>
</table>

Source: McKinsey analysis, in partnership with Oxford Economics
What Are Canadians Looking Forward To?

- Getting back to my routine: 52%
- Taking a vacation: 17%
- Dining out at restaurants or bars: 12%
- Live sporting events: 3%
- My kids returning to school: 3%
- Attending a concert: 1%
- Other: 12%
STAGE 2: BIG BATTLEGROUNDS

• **Ecommerce versus Bricks and Mortar**
  – COVID accelerated e-commerce by forcing laggards and late adopters to use it
  – Convenience of e-commerce will be experienced
  – Parcel security issue NOT experienced since self-isolating
  – Does “local” mean “expedited possession”?
  – Desire to “feel”, “touch”, “smell” likely reduced (or even seen as a “negative”)

• **Large/National versus Regional versus Smaller/Independent Firms**
  – Increased price awareness and price sensitivity favors the cost efficiencies, buying power and scale of larger players: they will have the lowest prices, appearance of “value” and capacity to *dedicate* employees to hygiene and delivery
  – Larger firms are “requesting” first access to products in short supply
  – Smaller firms must “justify” their price premium. Three common options
    • Sell items no one else can access or where demand is too small or too geographically concentrated for large firms to offer
    • Augment Product with pre- and post-sales services
    • Set the stage for Stage 3.....
STAGE 3: REVIVE

- The Distribution of Expenditures Will Change
Some audiences will be harder to reach

Social Values Of Those Currently Resistant To Advertising

**financial concern for the future**
The feeling of insecurity about one’s financial future, particularly in old age, and of being personally responsible in this area.

**aversion to complexity**
A desire to keep one’s life simple and predictable. People strong on this trend are intimidated and threatened by the changes and complexities in modern life and values. They look for stability and simplicity.

**technological anxiety**
People strong on this construct are intimidated and threatened by technological changes and express high concern regarding the ethical and moral dimensions towards which science is advancing.

**brand apathy**
Placing little importance on the brand name of a product.
Some audiences will be easier to reach

Social Values Of Those Who Are Open To More General Advertising During The Pandemic

**ADAPTABILITY TO COMPLEXITY**
Tendency to adapt easily to the uncertainties of modern life, and not to feel threatened by the changes and complexities of society today. A desire to explore this complexity as a learning experience and a source of opportunity.

**PURSUIT OF INTENSITY**
Desire to live intensely. Also, a tendency to be guided less by reason and ideology than by one’s own emotions, feelings and intuition. A need to constantly experience new sensations.

**JOY OF CONSUMPTION**
Intense gratification through the purchase of consumer goods (rather than basic necessities). Enjoying consumption for the pleasure of consumption. People who are strong on this construct are often more excited by the act of buying than by the use of the products they buy.

**ADVERTISING AS STIMULUS**
Tendency to enjoy viewing advertising for its aesthetic properties; to enjoy advertising in a wide range of venues, from magazines to television to outdoor signs and billboards.
How Will KINGSTON Respond

• Consumers, not City Council, will decide with their wallets (not votes) the kind of city Kingston will become
  – For what products/services are we willing to pay a little more to safeguard local supply, broader assortment and a local supplier of “retail therapy”

• Few local businesses have the resources to “re-educate consumers” alone: cooperation will require centralized coordination and management
  – Form marketing consortia
  – Create (and participate in) networking
  – Monitor consumer behavior
  – Use social media
  – Focus your individual effort on YOUR best customers
“We are entering an evolutionary stage of retail in which big companies will get bigger, many mom-and-pop dreams will burst, chains will proliferate and flatten the idiosyncrasies of many neighbourhoods, more economic activity will flow to ecommerce and restaurants will undergo a transformation unlike anything the industry has experienced since Prohibition”

- The Pandemic Will Change American Retail Forever
  (The Atlantic, April 27, 2020)
Kingston’s Future

It takes a community to grow a local economy