

EVOLVING THE CONSUMER EXPERIENCE:
**Retail's recovery and the
four macrotrends shaping
its post-COVID future**

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Contents

Executive summary	2
Our perspective: New Realities: Digital; Technology; Behaviors	3
Our perspective: Four macrotrends shaping the future of retail	6
Closing thoughts	10
About the authors	11

Executive Summary

The retail industry has experienced whiplash.

The COVID-19 pandemic has caused complete upheaval of life as we know it. Debates about who and what is considered essential versus non-essential. Shopping mall and other store closures, supply chain issues, high unemployment rates, and market volatility. Retail brands that demonstrate reliability, adaptability, and empathy in this ever-changing environment will be more likely to survive, as an estimated 25,000 stores are predicted to close in 2020¹ (a record for the industry).

Perhaps more than any other segment, retail brands came into the COVID-19 crisis in a particularly difficult position. Despite a decade-long economic surge in the U.S. and across the globe, retail has been contracting. For traditional retailers heavily dependent on brick and mortar stores, we see challenges such as changing consumer habits, growth of e-commerce and direct-to-consumer brands, rising commercial rents, and tightening of the labor market. Burdened with years of struggle, retail balance sheets were not built to weather a sudden economic crisis like COVID-19.

There are hopeful signs some retailers can—and will—grow in this new reality, even as uncertainty lingers surrounding a surge in U.S. coronavirus cases. As retailers have reopened brick and mortar stores, the focus has been on operational changes to ease consumers' lingering concerns linked to the crisis. It will be critical to identify and fill the digital and operational gaps, particularly during the back to school and holiday shopping seasons.

Retail brands are now being judged on cleanliness, face mask usage, inventory management, communications regarding these new measures and standards, and whether they offer newer technologies like contactless payments, curbside pickup, or BOPIS (buy online, pick up in store) options that minimize interactions with store employees and customers.

In this paper, we explore the major ways the COVID-19 pandemic has impacted retailers, how these new realities are shaping their businesses and consumer behavior, and the four key macrorends that will define the future of retail as we know it.

> After plunging in March and April, U.S. retail sales surged

18.2% IN MAY
and

7.5% IN JUNE

Signaling some recovery in consumer confidence, although the road back will be long.

¹ <https://coresight.com/research/us-store-closures-2020-outlook-covid-19-update-prolonged-impact-set-to-drive-up-closures/>

Source: <https://www.cnn.com/2020/07/16/retail-sales-june-2020.html>



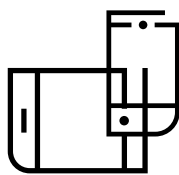
Our Perspective

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New Realities: Digital; Technology; Behaviors



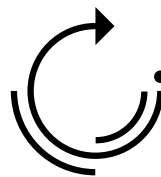
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Digital pathways:
shifts that were
already at our door



2.0

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Technology:
doubling down on
infrastructure and
enabling seamless
experiences



3.0

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Behavior changes:
the widening
gap between the
data-haves and
data-have-nots

1.0

Digital pathways: shifts that were already at our door

There was a seismic shift in digital and online experiences, already very much in motion over the last decade, the result of which has fundamentally reshaped the consumer landscape once the pandemic took effect. Accordingly, there have been winners, losers, leaners-in, and laggards.

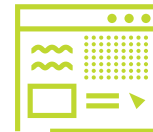
Digital, omnichannel experiences, and operational efficiencies have been critical investments for retailers for years, and those investments were significantly ramping up pre-pandemic. The sudden onset of COVID-19 exposed those that had not invested heavily enough, as well as those that didn't lean into e-commerce and digital experiences early enough. These foundations set the groundwork for business continuity and allowed those retailers that did invest in digital transformation to quickly recalibrate and capitalize on the aftermath of the shutdown.

The coronavirus pandemic not only accelerated the adoption of technology among certain segments, but in many instances became a necessity for a new segment of customers who historically didn't shop online or preferred in-store over e-commerce. As a result, many retailers were forced to quickly catch up to capitalize on customers who either began to experiment with or became reliant on shopping online while unable to leave their homes or in more remote locations. While e-commerce sales across the board have seen record increases, those rises are not enough to offset retail's overall decline since the crisis began. It's times like these that retailers need to get creative and explore ways to expand their core products and services to adapt to their loyal customer base's needs.



In 2019, **74% of retailers were planning to increase technology spending in the next 12 months**. The biggest increases in spending were planned for inventory and order management, as well as marketing automation.*

*TotalRetail's 2019 Retail Technology Report



Retail e-commerce sales have seen a record increase of **18% in 2020** accounting for **14.5% of total retail sales**.*

*eMarketer, May 2020

2.0

Technology: doubling down on infrastructure and enabling seamless experiences

In today's digital world, technology has always been integral to providing and enabling seamless experiences throughout the customer journey. In our pandemic reality, however, enabling first-class customer experiences has become fundamental. It's now coupled with the need for a concerted look at investments in technology ecosystems, enterprise integrations, logistics, fulfillment, and e-commerce to meet present demands and future needs for improved customer experiences.

Digital business professionals today are researching, planning, and implementing a wide range of omnichannel-related activities. For example,

79% of retail and brand professionals surveyed have implemented or have plans to implement "buy online, pick up in-store" (BOPIS) by the end of 2020, and an additional **10%** have plans to implement within the next three years.*

*Forrester's Q1 2020 Omnichannel Panel Survey.



A single, enterprise-level view of the customer, which requires both operational and digital efficiencies, has emerged more than ever as a business-critical element that serves as the backbone of survival for retailers. Brands that were reluctant or disinclined to invest in transformation efforts—such as leveraging BOPIS, e-commerce, other virtual channels, and partners—wound up scrambling to transform everything from their front-end experiences through to supply chains to keep up.

3.0

Behavior changes and the widening gap between the data-haves and data-have-nots

Shopping behavior has shifted dramatically since the outset of the pandemic. Channel preference wasn't the only change, however. As jobs were lost or suspended and a recession looms, consumers are beginning to shift their spending to prioritize value over some pre-pandemic purchases.

In addition to consumer behavior changes, capitalizing on customer data is fast becoming one of the most critical strategies for recovery and sustained growth. What is clear is that the chasm between data-led organizations—with the capability to collect customer data coupled with the resources, capacity, and staff to process, interpret, and glean actionable insights—and those that are not data-led has widened dramatically. Further, retailers that either began to employ at the outset of the pandemic (or already made use of) advanced analytics, predictive modeling, and personalization efforts are poised to seize larger share of wallet.



In the next 12 months, **44%** of people plan to buy second hand

and **34%** of people plan to buy off-price.

In the same period, **66%** of people plan to shop less at department stores

52% plan to shop less luxury.*

*GlobalData Covid Survey



Retailers recognize that **advanced analytics is the foundation of a strong digital strategy** and that the success of other initiatives (e.g., personalization and loyalty) rely on the strength of their data.*

*Forrester's The Top Retail Technology Investments in 2020.

Our Perspective

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Four macrorends shaping the future of retail

#1
Redefining the experience

#3
Driving the adoption of technology

#2
Delivering on personalization

#4
Committing to a higher cause

Macrorend #1: Redefining the experience

Retail brands have to pivot from driving unique in-person experiences to those that emphasize health and safety while providing virtual value-add services when and where possible.

As of mid-July, only **30%** of U.S. adults stated they'd feel comfortable going to a shopping mall, which is down from **35%** in early June.*

*Source: Morning Consult ²

Three ways this trend is playing out in the retail industry:

Establishing new health and safety standards

Retailers that are identifying extra measures to help ensure the safety of employees and customers are capitalizing on these redefined experiences in a positive way while building brand trust. Things like mobile checkout, washing previously tried-on clothes, and even operating in small groups go a long way in allaying customer concerns.

Patagonia was among the first retailers to shutter locations at the beginning of the pandemic and one of the last to reopen.

Because the safety of their employees and customers is one of their top priorities, they introduced "squad scheduling" for employees who are shipping items from stores. Teams of four to six people work together consistently; if one person gets sick, the whole team will be isolated.

Leaning into loyalty

In today's new reality, loyal customers are more important than ever. Retailers that seize the opportunity to nurture and grow one-to-one relationships are finding new ways to show appreciation through elevated offerings that reinforce experiences, exceed expectations, and provide consistency.

To thank customers for sticking with Evereve through COVID-19, they launched "The 2020 Pass" to, among other perks, give all-channel discounts throughout the year. This is coupled with new services like virtual styling sessions and subscription-based Trendsend, where members receive hand-picked curations based on their style preferences and delivered to their home.

Fostering a virtual brand community

Many retailers took advantage of the white space during restrictive measures and physical store closures to more heavily leverage their social media audiences and other channels to foster a sense of community and togetherness by promoting health, mindfulness, stress relief and the importance of self-care and human connection (even if virtual).

² <https://morningconsult.com/2020/07/20/tracking-consumer-comfort-with-dining-out-and-other-leisure-activities/>

Lululemon, known for their in-store yoga classes featuring instructors from local communities, quickly pivoted to a plethora of online classes for training, yoga, and health and wellness tools to keep their customers and non-customers alike engaged, inspired, and healthy, anywhere in the world.

Macrotrend #2: Delivering on personalization

While machine learning and predictive models play catch up due to new shopping behaviors, retail brands can still connect with customers and make the experience more relevant by providing a more personal "touch" in customer service, reacting to declared wish lists and favorites or simply recognizing local differences and preferences.

Three ways this trend is playing out in the retail industry:

Further blurring the offline and online experience with personal touches

In a pandemic, the blurring of digital and in-store experiences has in some cases taken on a whole new meaning. Where the customer is on the journey has become increasingly important when physical restrictions are in play.

Sam's Club launched its new concierge shopping service called "Shop from Your Car," available for seniors and at-risk club members. From a designated parking location, members in need can place their order from their car.

A Sam's Club associate will retrieve the items on the list and safely deliver them to their vehicle.

Leveraging declared data to understand changing behavior

There are a variety of ethical ways to capture "declared" preferences from your customers: surveys, quizzes, voting, preference centers, likes, or "save for later" are all engagement tactics that can provide valuable insights on an individual (that can be layered on to search and purchase data).

Anthropologie reached out to its highly engaged members to invite them to join their exclusive, year-long panel. As a panelist, members will help them create better shopping experiences by sharing insights through an online survey sent each month. As retailers continue to adapt to what the next normal looks like, it's important to recognize advocates' feedback and quickly remedy serious concerns.



Transparency and clarity are **key to connecting with customers**. **Listen to customers** and give them what they're asking for. **Continuously evolve and adapt** to meet their needs whether digital or in-store.

66%

of consumers say encountering content that isn't personalized would stop them from making a purchase.

Source: <http://cmo.adobe.com/articles/2018/1/adobe-2018-consumer-content-survey#gs.bt7ebb>



Data mining is the key to staying relevant. Use this time to get to know your customers better, find out what's important to them and curate **two-way conversations**.

Localization at scale

When retailers decide to take on a localization at scale strategy, they are focusing on fulfilling needs and providing solutions versus simply pushing products. Customer relationship management is the link (especially now) in engaging customers and continuing to foster a relationship and maintain loyalty on a more personal level by knowing their location, preferences, and (potentially new) shopping habits.

Target is a retailer that strives to recognize local preferences at scale throughout its stores to connect more deeply with guests. This includes general merchandise, the support of charities through Target Circle, and, most recently, offering hundreds of more localized, higher-quality fresh grocery products for online pick up (BOPIS or drive-up/curbside) to help meet the needs of their guests.

Macrotrend #3: Driving the adoption of technology

The coronavirus pandemic accelerated e-commerce, as a new segment of customers experimented with and even became reliant on the online channel while in quarantine. And more technology advancements and investments are poised to become mainstream sooner than expected.

Three ways this trend is playing out in the retail industry:

Fast-tracking contactless payments and rewards

As with most industries preparing for recovery, retail brands are fast-tracking or spotlighting their digital and contactless technologies to not only create cost efficiencies but also minimize health risks. App functionality and enhancements also got pushed to the top of the development priority list as digital customer experience has taken on a whole new level of importance.

Macy's recognized its need to quickly modernize its Star Rewards promotions and vouchers by enhancing digital wallet functionality. This not only saves expenditures on direct mail but also encourages mobile app downloads and delivers contactless technology for physical transactions in-store.

Enabling virtual chat services

The near elimination of high-touch, person-to-person interactions caused by the COVID-19 pandemic was an unforeseeable change in retail experiences for both retailers and customers alike. Recreating these face-to-face interactions while maintaining social distancing and health and safety standards is crucial to many retailers who rely on human-to-human engagement, whether high-end luxury goods, fast fashion, or home improvement brands.

Lowe's partnered with Stroom to launch a new augmented video chat service to virtually chat with customers about home repair needs. The service allows plumbers, electricians, and other home professionals to consult virtually with customers. The home improvement retailer is trying to attract more business from professionals and encourage them to join its new loyalty program.

Simplified e-commerce and app experiences

Eliminating friction in the customer experience, even in the midst of a pandemic, is still critical. As customers have spent months lining up six feet apart outside of stores, had to limit the number of items in a single purchase, or faced constantly near empty shelves for certain staples, convenient and time-saving experiences matter more now than ever.

Walmart expedited its launch of a consolidated app for grocery and general merchandise, recognizing the need to streamline and simplify its customer experience. Walmart added hundreds of thousands of new time slots for online grocery pickup; expanded notifications via app, email, and text messaging to communicate pickup and delivery status; and enabled seniors, people with underlying medical conditions, and first responders to reserve "at-risk only" time slots for pick up or delivery.

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Assess your tech stack to determine gaps. Contactless and touchless tech are here to stay. Video chat services are becoming more widely accepted. A seamless customer experience relies on quality, integrated technology platforms. **If you must cut costs, don't stop investing in technology.**



Macrotrend #4: Committing to a higher cause

Amidst the current social and economic unrest, brands need to do their best to navigate uncharted territory. Consumers are watching and listening, seeking out authentic expressions of commitment to a cause.

Three ways this trend is playing out in the retail industry:

Taking ownership and enacting change for social injustice

Brands have powerful voices. The tragic deaths of George Floyd, Breonna Taylor, and so many others whose lives were needlessly cut short due to police brutality or flagrant racism sparked a global movement of ongoing protests against social injustice and led to the resurgence and international spread of the Black Lives Matter movement. Many retailers aren't just speaking up, they're taking ownership and committing to change.

Adidas recognized they aren't doing enough. The retailer committed to investing \$120 million through 2025 towards programs that address racial disparities to ensure sustainability and long-term impact. They also committed to filling 30% of its current job openings with Black or Hispanic candidates.

Providing empathy in uncertain times

Seldom has so much uncertainty been so pervasive, consistent, and seemingly never ending. From staggering unemployment and a suffering economy to widespread social unrest in the middle of a pandemic, "uncertain" feels like an understatement. With back-to-school season in full swing, some retailers are offering to help in any way they can.

With some schools reopening and others tackling virtual classrooms, JanSport has adapted its back-to-school messaging to focus on communicating with empathy and helping bridge the gaps ahead for students, parents, and educators alike. The iconic backpack maker has been holding live sessions on Instagram with licensed therapists, covering topics ranging from FOMO (fear of missing out) to isolation to reconnecting with family, as well as depression and anxiety.

Contributing to local recovery

Some of the hardest hit businesses during the pandemic have been the small and local businesses that rely on community support in order to thrive, as well as to provide the goods and services those local communities depend on. These small businesses represent a microcosm of what retailers are facing in these difficult times and revitalizing them is vital to a larger economic recovery.

Once a local small business itself, Vans launched a partner initiative called "Foot the Bill" that allows independent, locally-owned businesses to create custom-made branded shoes. Using their Vans Custom platform, some 80 Vans partners around the globe created unique versions of classic sneakers, with proceeds going directly to the local business. >

Closing thoughts

The future is now

Retail was one of the earliest industries to suffer immediate negative impact from the COVID-19 pandemic. Although retail is still suffering, as far as industries go, it is a resilient one.

It has also been at the forefront of innovation. No other industry has single-handedly paved the way for elevated, connected, seamless experiences or large-scale enterprise-led digital transformation like retail has. Furthermore, it has enabled the proliferation of social platforms and emerging channels to become commonplace and ubiquitous, regardless of generation. And perhaps no other industry is so uniquely positioned and poised to lead the way in these most uncertain of times.

Despite all of this uncertainty, upheaval, and economic contraction, retail is stepping up to the challenge. Retailers are leading by example and inspiring change, forging new ways of connecting with their customers for the greater good, and becoming a voice for those affected around the world. Consumers are more empowered and craving more meaningful interactions, seeking a sense of shared purpose and active participation that transcends any one brand's share of wallet.

Retail is evolving, but it isn't going anywhere.



Actions speak louder than words.

As local economies continue phases of reopening while civil unrest over systemic racism continues, retail brands need to be adaptable and prepared to respond.

Remember that customers want to support brands that share their same values. If you make a commitment, make sure it's actionable so it can be impactful. Expect criticism, for speaking up or remaining silent.

About the authors



KATIE BERNDT

Katie's guiding principles include Listen Generously, Seek Clarity, and Live Life to the Fullest. She brings 17 years of marketing experience to her role as Strategy Director for ICF Next's Loyalty division. She is known for successfully leading and collaborating closely with cross-functional teams to improve the end-to-end customer journey. Katie has worked on Loyalty Strategy and CRM projects for a wide range of clients including Advance Auto Parts, American Red Cross, Amtrak, Best Buy, Citi, Commerce Bank, Discover Boating, Metropolitan Airports Commission (MAC), Radisson, Soma, Stop & Shop, The Vitamin Shoppe and Wyndham.

Prior to joining the ICF Next team, Katie spent nearly 10 years with Transamerica. She led marketing teams responsible for driving acquisition, engagement, and retention strategies for the consumer retirement division which included optimizing marketing activities for financial advisors throughout the lead funnel and beyond. Katie earned a B.B.A. degree in marketing from the University of North Dakota, in Grand Forks, and an M.B.A. degree from the University of St. Thomas, in Minneapolis. In 2018, Katie achieved a Data Marketing & Analytics (DMA) Journey Mapping Certificate. She enjoys running, biking and road tripping with her family.



DENISE HOLT

Denise Holt understands the power of human insights in driving smart strategy and business growth. With 20 years of experience in consumer loyalty, brand and creative strategy, consumer insights, human-centered design and business strategy, Denise leads ICF Next's loyalty strategy and insights discipline. As part of our company's thought leadership, she led a substantial multi-method research initiative with findings published in the final report entitled Humanizing Loyalty: A road map to establishing genuine emotional loyalty at scale. Prior to ICF Next, she ran her own strategy consulting practice, was Director of Strategy & Branding at Optum, and spent over a decade in marketing and brand planning roles within the loyalty space. Clients have included Stop & Shop, Amtrak, Advance Auto Parts, Best Buy, UnitedHealth Group, Delta Airlines, Carlson Hotels Worldwide, Visa, Hallmark and Aramark.

Denise infuses business strategy with the human element by leveraging consumer motivations and insights to create memorable brand personalities, engaging experiences and inspired behavior change. She is passionate about uncovering personal stories and insights that enable organizations to connect on a more emotional, meaningful level with their customers. Denise earned a BBA degree in Marketing from the University of Wisconsin-Madison and MBA degree from the University of St. Thomas.

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