

Retail reimaged: The new era for customer experience

August 2020



Executive Summary

The COVID-19 pandemic is first and foremost a global humanitarian crisis that has overstretched health systems, challenged governments, and upended lives and livelihoods.

As the response and recovery to the pandemic continues, it has become clear that the crisis has also ushered in a new reality for consumers and retailers. The blow has been swift and vast, upending lives and livelihoods and upsetting economies. Some of the most dramatic effects have been to consumer behavior—how people buy, what they buy, and where they buy it.



**In a matter of 90 days,
we have vaulted forward**

10 years

**in consumer and business
digital adoption**

In a matter of 90 days, we have vaulted forward ten years in United States e-commerce penetration.¹ Immersed almost exclusively in the immediacy, convenience, availability, and safety of digital experiences for those twelve weeks, consumers reset their expectations and preferences, and forced retailers to change their trajectory, priorities, and operating model.

Yet even as an economic downturn has put increased pressure on retailers, this generation-shaping event has opened up entirely new fronts in the competition for customers. McKinsey research² has shown that in past recessions, companies that invest in and deliver superior customer experience during a downturn emerge far stronger than their peers once the economy rebounds, producing shareholder returns three times larger than average.

To help retailers prioritize these efforts, [Periscope by McKinsey](#) surveyed more than 2,500 consumers in the United States, the United Kingdom, France, and Germany to understand how consumer behavior is changing. We compiled this research both prior to and during the shutdowns, looking at what changed and what trends will likely stick in the next two months. Several core themes have become evident among consumers: a flight to online and omnichannel, a shock to loyalty, and convenience redefined with technology.

The key highlights of our findings appear in the following pages.

¹ Aamer Baig, Bryce Hall, Paul Jenkins, Eric Lamarre, and Brian McCarthy, "The COVID-19 recovery will be digital: A plan for the first 90 days," May 2020, McKinsey.com.

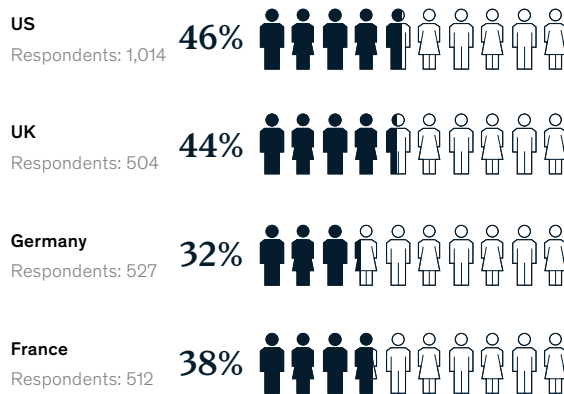
² Richard Dobbs, Tomas Karakolev, and Rishi Raj, "Preparing for the next downturn," April 2007, McKinsey.com.

An end to 'normal' shopping decisions

During the shutdown, with normal habits and routines knocked off course, consumers changed the way they made purchasing decisions. In the four countries we surveyed, 40 percent of respondents said they tried new brands or made purchases with a new retailer. This was especially prevalent in the US, where 46 percent of consumers made a switch.

40%
of respondents said they tried new brands or made purchases with a new retailer

Switching behavior



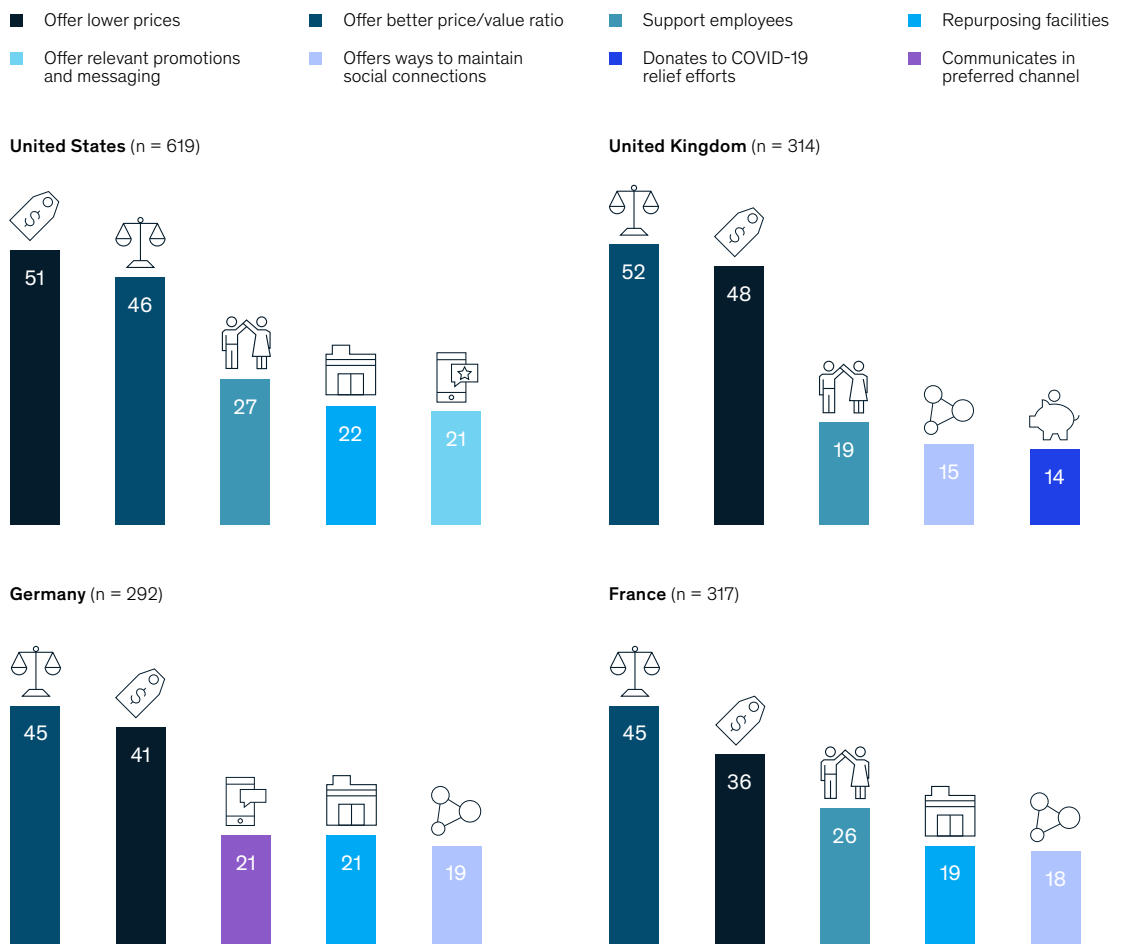
During the last 2 months, when shopping for a specific category or product, have you switched from brands or retailers where you previously shopped?

In a moment of great uncertainty, rather than sticking to familiarity and brands they had used, consumers did the opposite. This had a lot to do with competitive pricing, what was in stock, and how brands responded during this big moment. For instance, one of the biggest drivers for abandoning loyalty during the shutdown was items being out of stock. Shoppers were also drawn to brands or retailers that supported their employees during the pandemic, such as by increasing their wages, giving extra sick leave, or paying employees for lost wages. In Germany and the US, consumers also switched to brands and retailers that repurposed

their facilities to help slow the spread of the virus as well as those that led socially responsible COVID-19 initiatives. The North American apparel company Lululemon, for instance, responded to the crisis by setting up a \$2 million financial assistance fund for brand ambassadors who own a fitness studio. In the US, the Midwestern grocer Hy-Vee partnered with DoorDash to offer free grocery deliveries to senior citizens, expectant mothers, and those considered at high risk for COVID-19. We see such [purpose and branding fundamentals](#) as an increasingly important element for driving future growth.

In a moment of great uncertainty, rather than sticking to familiarity and brands they had used, consumers did the opposite.

Top 5 reasons for switching brands/retailers during shutdown, by country, % of respondents



Other answer choices included: special hours for high-risk groups. The importance of this choice remained below 20% across regions.

New e-commerce experience expectations

As expected, e-commerce spending experienced a major boost during the shutdowns even as overall spending went down. In the United States, it was up more than 30 percent from the beginning of March through mid-April, compared to the same period the previous year.³ In all four countries surveyed, we observed higher shopping activity in several categories during shutdown. Categories with the biggest uptick were apparel (in the United States and United Kingdom), children's products (United States, United Kingdom, Germany), beauty (United States), and grocery (United States).

Some pre-crisis shopping features continued to be important, such as free delivery and returns as well as fast delivery (one or two days). But a number of other attributes skyrocketed in importance during the crisis. The need for informative product descriptions and clear product images at a time when consumers couldn't see, feel, or test products in a store ranked as one of the top three factors for a

great online browsing experience in all the countries we surveyed, increasing in importance by 12 to 23 percentage points, from pre- to post-shutdown.

Quick website loading also became critical. As millions of consumers started spending so much of their lives online, they became even less tolerant of sites or apps that were slow to load or unresponsive. Post shutdown, the importance of this factor rose between ten to 15 percentage points, with United Kingdom shoppers being the least tolerant of slow sites.

As brands vie for consumer attention in increasingly competitive digital environments, it is more important than ever to build real engagement with customers and offer real value. Nike China, for example, activated its digital community by offering virtual workouts and saw an 80 percent increase in weekly active users of its app.



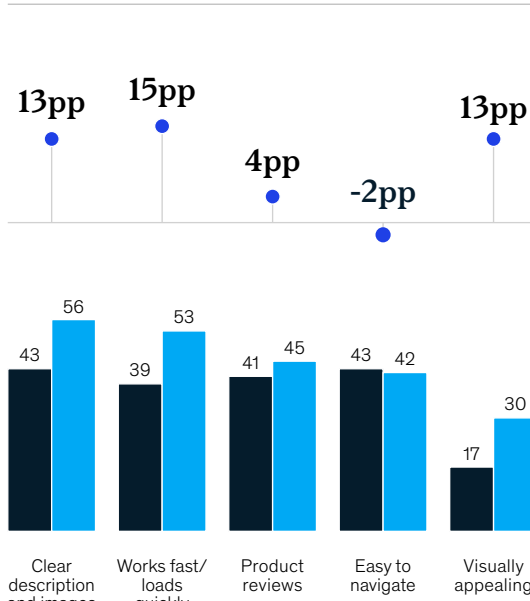
³ Market research firm Rakuten Intelligence

Great online browsing experience

● 1st run – early March 2020
● 2nd run – early June 2020

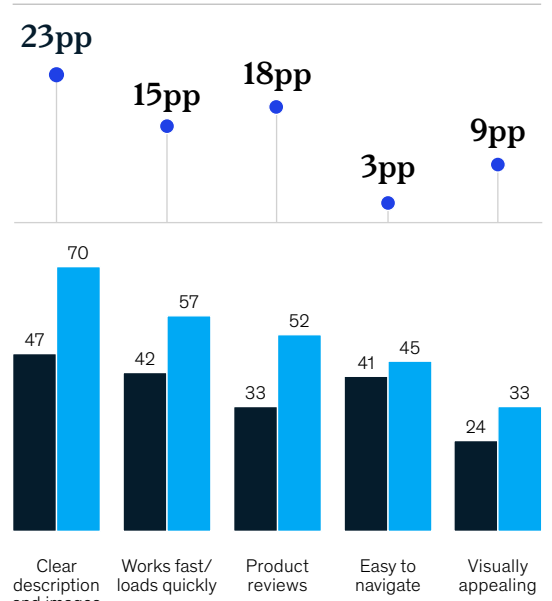
US

Respondents: 922



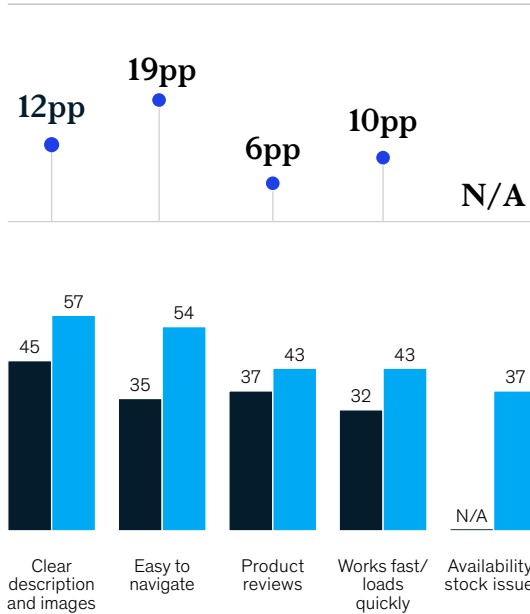
UK

Respondents: 478



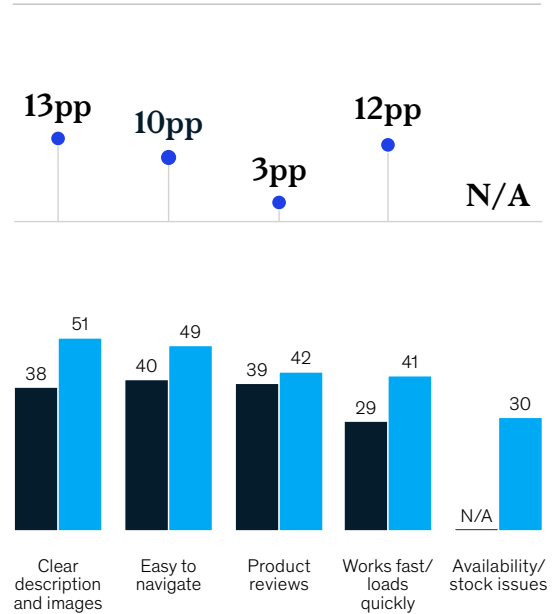
Germany

Respondents: 464



France

Respondents: 459



1st run: Think about browsing/researching products in the online stores or mobile apps in the last 3 months. In your opinion, which factors create a great online browsing experience?

2nd run: Think about browsing/researching products in the online commerce sites in the last 2 months. In your opinion, which factors create a great online browsing experience?

Other answer choices included: customer service phone/email, recognize me as returning user, product recommendations, consistent across channels, product videos, virtual sampling/testing, other. The importance of these choices remained below 20% across regions.

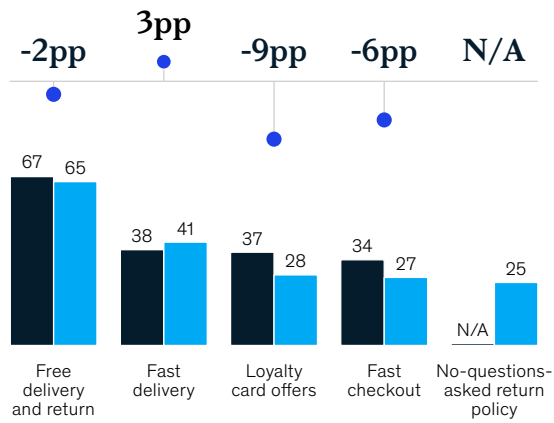
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Great online purchasing experience

● 1st run – early March 2020
● 2nd run – early June 2020

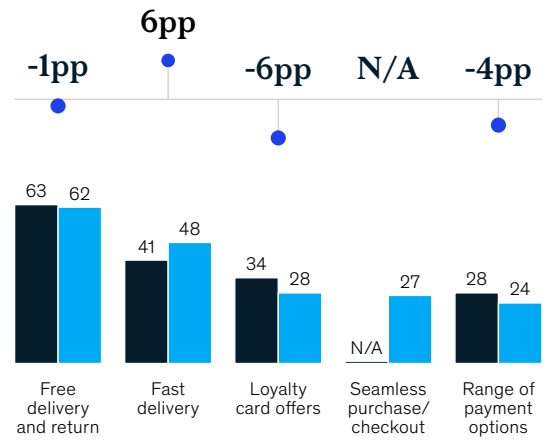
US

Respondents: 922



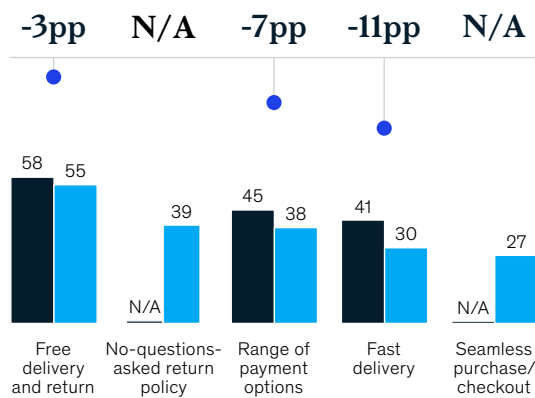
UK

Respondents: 478



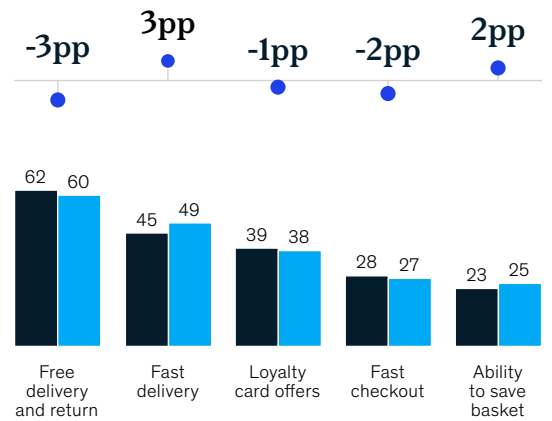
Germany

Respondents: 461



France

Respondents: 459



1st & 2nd run: Think about purchasing products in online stores or via mobile apps.
What makes a great online buying experience?

Other answer choices included: range of delivery options, contactless delivery option, subscription option that automates checkout, other. The importance of these choices remained below 25% across regions.

Percentage point change values may have +/-1pp error because of rounding

Safety and convenience critical for in-store experience

Amid the trauma and uncertainty of the COVID-19 crisis, many people have entirely new concerns about safety and hygiene. At least 50 percent of our survey respondents said they want stores to follow guidelines that will help keep shoppers and employees safe, such as the installation of plexiglass at the checkout and the use of masks and availability of hand sanitizers.

Most importantly, consumers noted the importance of **finding what they're looking for**. Organized and easy-to-navigate stores are even more appealing as many people seek to spend as little time as possible mingling with others in public spaces. The significance of this rose in every country by seven to 14 percentage points in June, as compared to March.

Also more valuable is the ability to do **self-checkout**. The appeal of this contactless means of purchasing rose between two and 12 percentage points in every country, with United Kingdom consumers registering the highest increase.

In at least one way, stores still have a leg up over online purchasing. Consumers in all four countries rated social interactions with **a helpful and knowledgeable staff** as a top-three feature for browsing and making purchases in stores. In the United States, its importance rose ten percentage points for checkout and six percentage points for browsing following the crisis.

At least

50%

of our survey respondents said they want stores to follow guidelines that will help keep both shoppers and employees safe

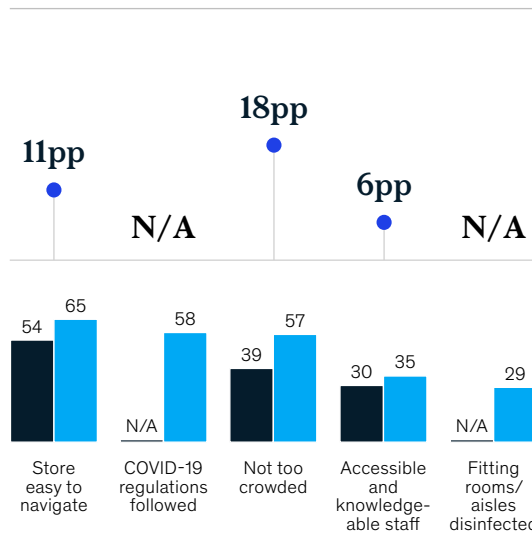


Great in-store browsing experience

● 1st run – early March 2020
● 2nd run – early June 2020

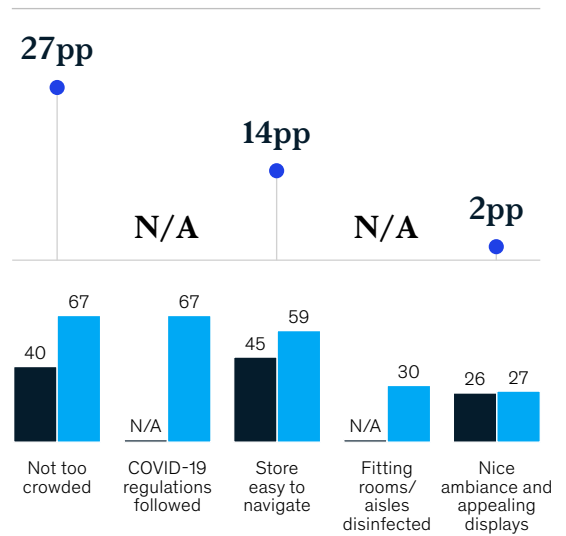
US

Respondents: 965



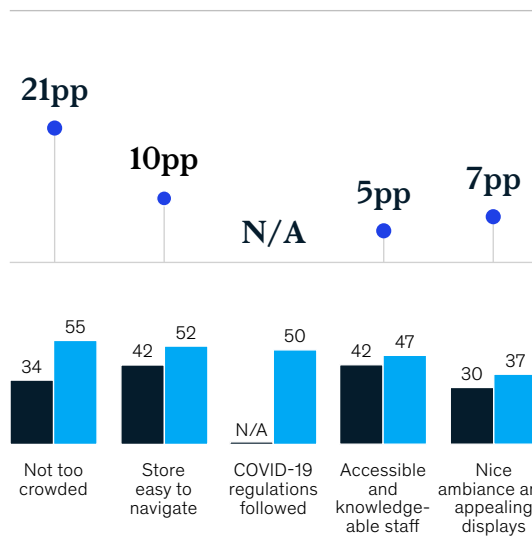
UK

Respondents: 441



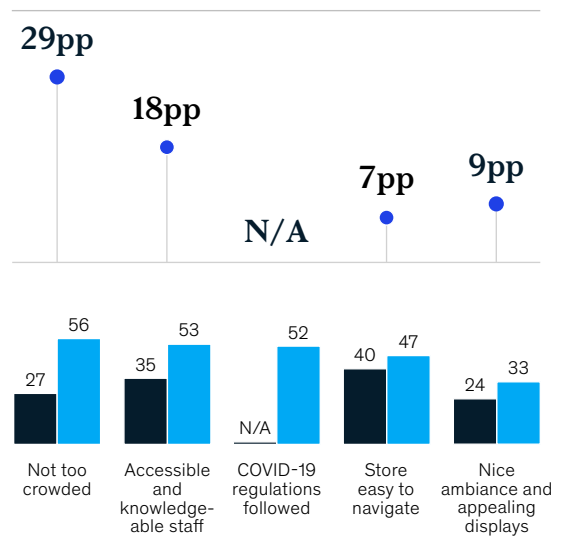
Germany

Respondents: 460



France

Respondents: 445



1st run: Think about browsing/researching products in the physical stores in the last 3 months. Which factors create a great browsing experience in-store?

2nd run: Think about browsing/researching products in the physical stores for the next 2 months. What will you look for in a great in-store experience?

Other answer choices included: tech-enabled store, other. The importance of these choices remained below 35% across regions.

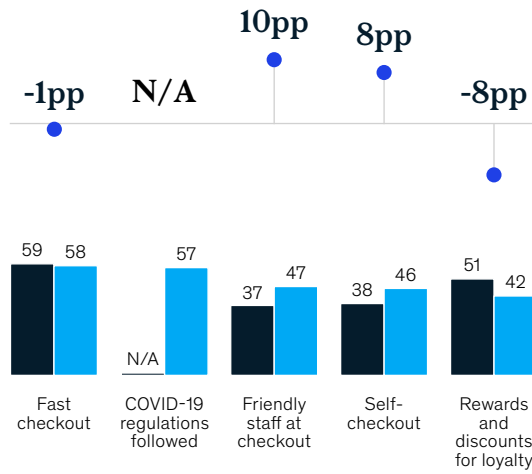
Percentage point change values may have +/-1pp error because of rounding

Great in-store purchasing experience

● 1st run – early March 2020
● 2nd run – early June 2020

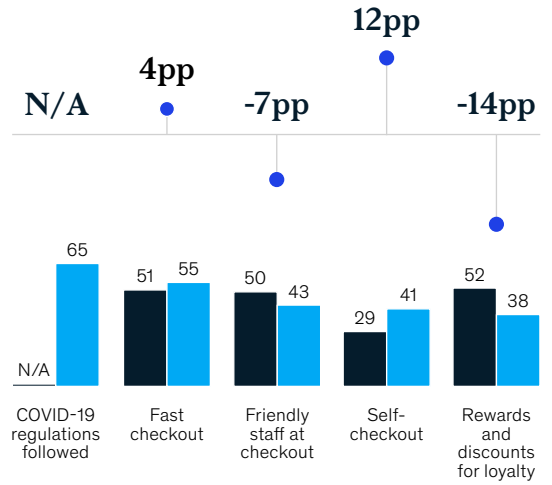
US

Respondents: 965



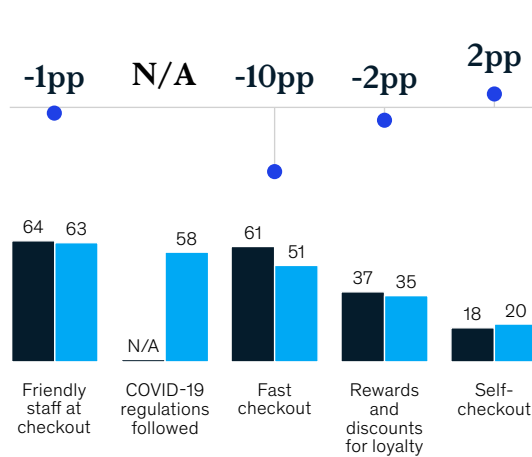
UK

Respondents: 460



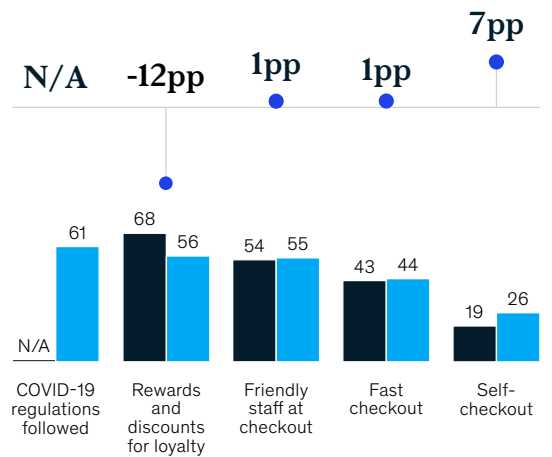
Germany

Respondents: 441



France

Respondents: 449



1st run: Now think about purchasing products in physical store. What makes a great buying experience in-store?

2nd run: Think about purchasing products in physical store. What are you looking for in your buying experience in-store?

Other answer choices included: pay with mobile, pausing cash payments, other. The importance of these choices remained below 20% across regions.

Percentage point change values may have +/-1pp error because of rounding

Limited in-store technology features available

The flight to digital and increased customer expectations in stores have created new challenges for how retailers serve their customers. To respond, retailers will need to utilize innovative in-store technologies that give shoppers a new level of convenience, a more personalized experience, and a greater integration of the offline and online environments. This integration includes technologies such as contactless payment systems, digital screens that offer in-store shoppers certain features of online shopping, and augmented reality (AR) systems for trying on clothing or testing products.

Unfortunately, many retailers have yet to progress very far on this ambition. In the first run of our survey, more than 35 percent reported zero exposure to any of the in-store technologies we asked about. Here are some of the most visible and widespread among those with any visible adoption at all:

A majority of shoppers said they haven't encountered even the most talked-about or basic in-store technologies, and more than

35%

reported zero exposure to any option

- **Mobile payments:** The ability to pay with a smartphone is the most well-known in-store technology among consumers, yet retailers are not doing a great job at encouraging customers to adopt it. Only 23 percent reported using or noticing it. Post-shutdown, consumer appetite for seeing or using this contactless form of payment in stores grew by 13 percentage points in the United States and the United Kingdom, and nine percentage points in Germany.
- **Mobile preorders:** The convenience and speed of ordering digitally and then picking up at or just outside the store took on new appeal during the shutdown. In June, attractiveness of this option increased by 13 percentage points in the United States and the United Kingdom and eight percentage points among French consumers, as compared to March.
- **Digital screen browsing.** Kiosks or apps that enable shoppers to easily browse products or categories or customize products, or that feature navigation tools to help shoppers move through the store quickly, are also among the technologies most noticed or used by shoppers.

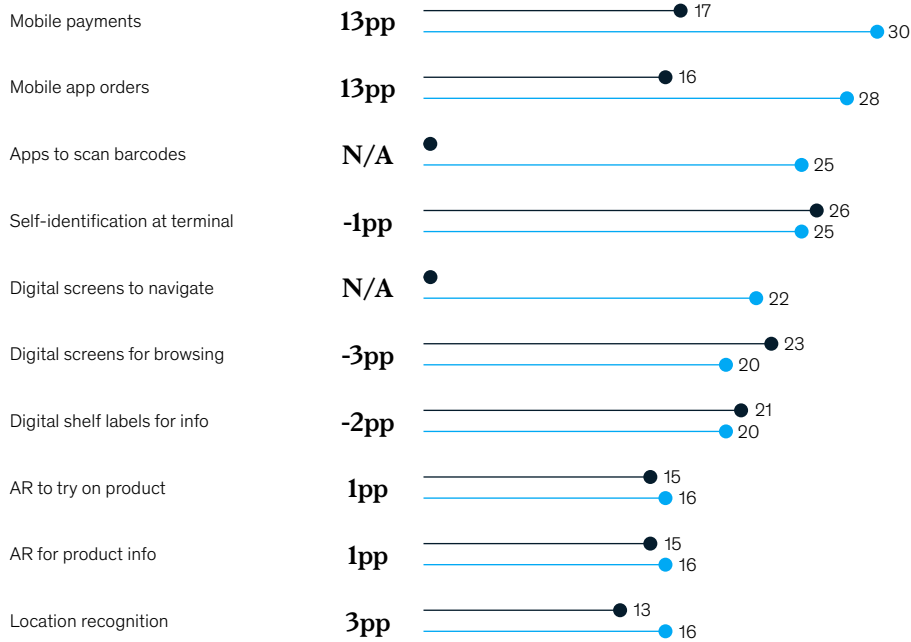
Interest in omnichannel technologies

● 1st run – early March 2020
● 2nd run – early June 2020

US

Respondents: 1,027

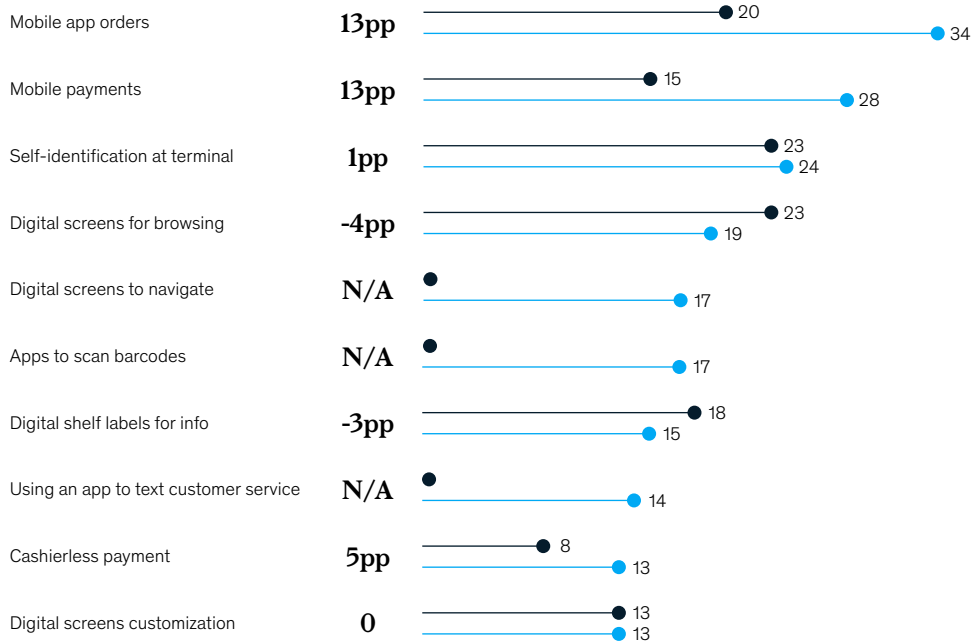
Percentage point change



UK

Respondents: 502

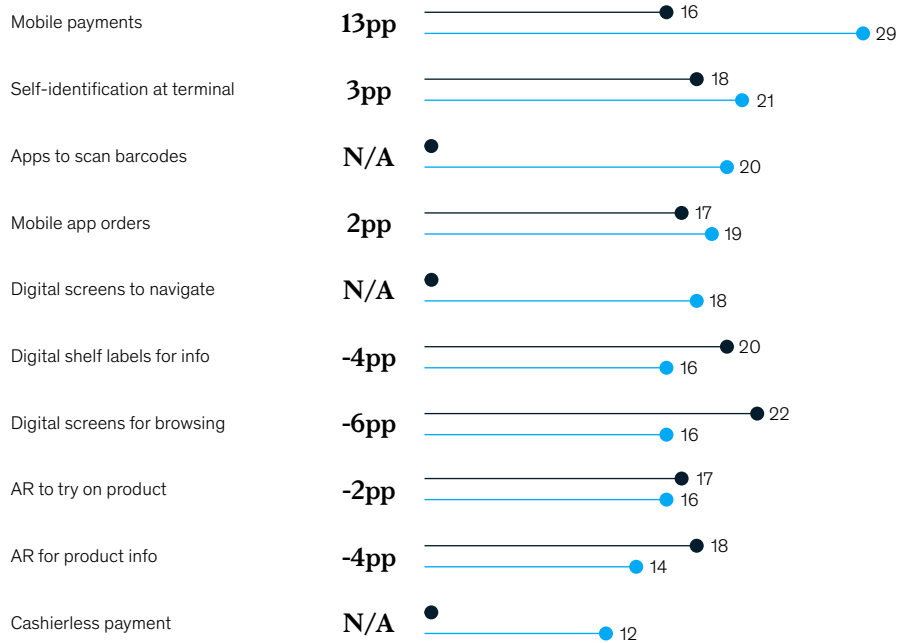
Percentage point change



Germany

Respondents: 492

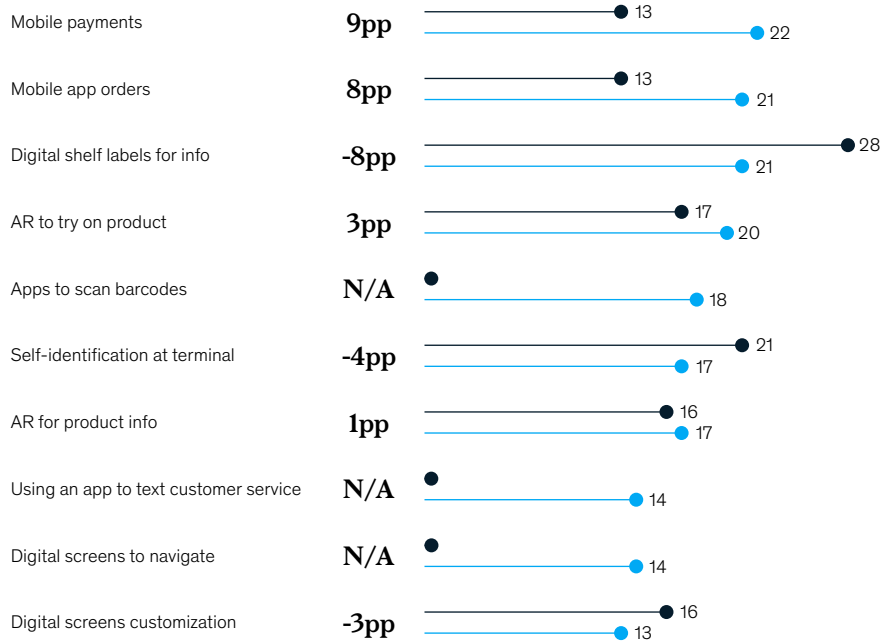
Percentage point change



France

Respondents: 492

Percentage point change



1st run: Which of these did you find most helpful? Please select up to three.

2nd run: Which of the following communication/experience at retailers would you like to see/use in the near future?

Other answer choices included: tech-enabled sales personnel, biometric sensors for authentication. The importance of these choices remained below 10% across regions.

Percentage point change values may have +/-1pp error because of rounding

While disruption and fierce competition is certainly nothing new for retailers, the pace and intensity of coronavirus-related change is unprecedented. As retail leaders plot how they will bounce

back, they also need to look beyond the immediate challenges and issues. Now is the time to engage in critical long-term planning to quickly recover revenue⁴ and accelerate future⁵ growth.



⁴ Brian Gregg, Eric Hazan, Rock Khanna, Aimee Kim, Jesko Perrey, and Dennis Spillecke, "Rapid revenue recovery: A road map for post-COVID-19 growth" May 2020, McKinsey.com.

⁵ Arun Arora, Peter Dahlström, Eric Hazan, Hamza Khan, and Rock Khanna, "Reimagining marketing in the next normal," July 2020, McKinsey.com.

Delivering on omnichannel ambitions



This is a real moment not only of changing loyalties and a shifting leaderboard, but an opportunity to really connect with consumers in new ways as they reformulate their habits and decision journeys.

In the short term, companies need a complete understanding of which new, COVID-19-era habits will stick and which won't, and for what segments. The surge in online shopping, for instance, is likely to spur a sustained increase in buy online/pickup in-store options—roughly half of consumers who used this option during the shutdown say they intend to keep using it. To prepare for this demand, retailers will need to redirect merchandise to specific stores, reallocate inventory between offline and online, or experiment with “gray” or “dark” stores that may mimic actual stores but are used mainly for fulfillment and may never see consumers directly. It is yet another omnichannel concept that has accelerated during the pandemic.⁶ For example, during the shutdown, Levi's used some of its

closed stores in the United States and the United Kingdom to fulfill online orders, helping boost delivery efficiency and prevent overcrowding in its e-commerce fulfillment centers.

A critical component for delivering a great omnichannel experience is being able to deliver hyperlocal and personalized experiences—both in store and online. This requires a deep and granular understanding of the customer and their decision journey—from zip code to zip code, and category by category—to quickly identify and predict where demand is going to surge or not. As consumers navigate new routines, retailers and brands have a unique opportunity to meet this demand with the right targeting, messaging, content, and customer promise. During the shutdown, between 12 and 21 percent of survey respondents said they switched to brands that sent them relevant messages or promotions in their preferred channel.

⁶ Manik Aryapadi, Ashutosh Dekhne, Wolfgang Fleischer, Claudia Graf, and Tim Lange, “Supply chain of the future: Key principles in building an omnichannel distribution network,” January 2020, McKinsey.com.

Rebooting loyalty online

With customers eager to try other brands and stores, this is a once-in-a-generation chance for retailers to recapture and win back customers. It's now more important than ever that digital experiences be truly “zero friction,” delivering consistently on attributes consumers care most about: free and fast delivery and returns, clear and detailed product descriptions and images, and quick page loading.

To create dynamic [loyalty programs](#), companies need to develop an underlying consumer-loyalty strategy that transcends the “earn and burn” discount programs of the past. The use of loyalty programs has been stuck around 50 percent for years. The evolution to next-generation programs is essential for boosting customer engagement. Programs that balance monetary rewards with experiential offerings designed to make consumers feel special and recognized (such as exclusive events, early access, unique discoveries) can provide real value and [appeal to a consumer's head and heart](#). To keep loyal customers engaged during a period of minimal air travel, Alaska Airlines created an email campaign for its loyal customers that offered extra miles through a “buy now, fly later” promotion.

Some brands will want to go even further and pursue partnerships with other consumer brands to develop a joint loyalty ecosystem around a unifying customer value proposition. Footwear retailer DSW, for example, partnered with grocery chain Hy-Vee to sell shoes at the grocer's extensive network of locations, giving the footwear retailer additional customers and Hy-Vee an opportunity for incremental sales. In Paris, French retailer Carrefour partnered with Uber Eats to offer grocery delivery to customers in the region.

12-21%

of survey respondents said they switched to brands that sent them relevant messages or promotions in their preferred channel

Reimagining the in-store experience

Now that most stores are open for business again, how do you make people really want to shop in them? To start, every retailer needs a clear and comprehensive plan for addressing concerns about safety and hygiene, which aren't going away anytime soon. This means enabling safe physical distancing, sanitizing surfaces and products, and communicating proactively, clearly, and empathetically. Retailers will need to strike a delicate balance between enabling the social interactions that shoppers find valuable and being responsive to heightened concerns about personal health. Widespread adoption of mobile technologies for contactless payment and quick store navigation will help in creating a more hygienic and convenient shopping experience.

Beyond the current crisis concerns, retailers should consider adopting the right technology to make stores more compelling and useful. This could mean giving sales associates digital devices and tools to enable them to better help customers find what they need, offering shoppers product recommendations on the next product to buy, or making phones and mobile apps a useful part of the shopping experience.

Such technology not only provides next-level customer experience; it also gives retailers access to valuable data that can feed into personalization algorithms or be used to optimize prices and promotions. Stores can also optimize their experience not just for consumers, but for the growing number of online order pickers, for example by featuring “fast zones” of popular online items at the front of the store. Yet this store of the future can't wait until tomorrow. Retailers should consider moving quickly to start reinventing the customer experience now.

Consumers have been wrestling with uncertainty through the COVID-19 crisis. But their expectations for their retail experience—both online and in-store—continue to be high. Retailers that can adapt quickly enough will be well positioned when the recovery comes.

About our surveys

In early March, Periscope by McKinsey fielded consumer surveys across the United States, the United Kingdom, Germany, and France with more than 2,500 consumers to understand what they value most in digital and in-store experiences, as well as among the retail technologies that tie the two together. To see the impact of COVID-19 on

consumer preferences and behavior, the survey was repeated in mid-June. The surveys were conducted online in local languages. In each country, results are sampled and weighted for a representative balance of the consuming class, based on variables including age and socioeconomic status.

About Periscope® by McKinsey

Founded in 2007, the Periscope by McKinsey platform combines world-leading intellectual property, prescriptive analytics, and cloud-based tools with expert support and training. It is a unique combination that drives revenue growth, both now and into the future. The platform offers a suite of Marketing & Sales solutions that accelerate and sustain commercial transformation for businesses. Periscope leverages its world-leading IP (especially from McKinsey but also from other partners) and best-in-class technology to enable transparency into big data, actionable insights, and new ways of working that drive lasting performance improvement and a sustainable two to seven

percent increase in return on sales (ROS). With a truly global reach, the portfolio of solutions comprises Insight Solutions, Marketing Solutions, Customer Experience Solutions, Category Solutions, Pricing Solutions, Performance Solutions, and Sales Solutions. These are complemented by ongoing client service and custom capability-building programs.

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The authors



Lars Fiedler

Brings innovative marketing solutions and strategies to companies across B2C sectors.



Eric Hazan

Brings extensive knowledge of strategic marketing and digital transformations.



Brian Ruwadi

Advises large-scale performance transformations that drives growth.



Kelly Ungerman

Drives transformations for sales and marketing organizations by finding long-term potential.

Contributors: Brian Elliott, Sajal Kohli, Kelsey Robinson, and Jamie Wilkie