KPMG

Beyond COVID-19

From panic buying to mindful consumption

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Four generations of Australians who have grown up with stable and relatively continuous economic growth are experiencing a prolonged period of insecurity for the first time, together. While we have previously seen periods of uncertainty, as a nation we have not experienced such ubiquitous social and economic disruption.

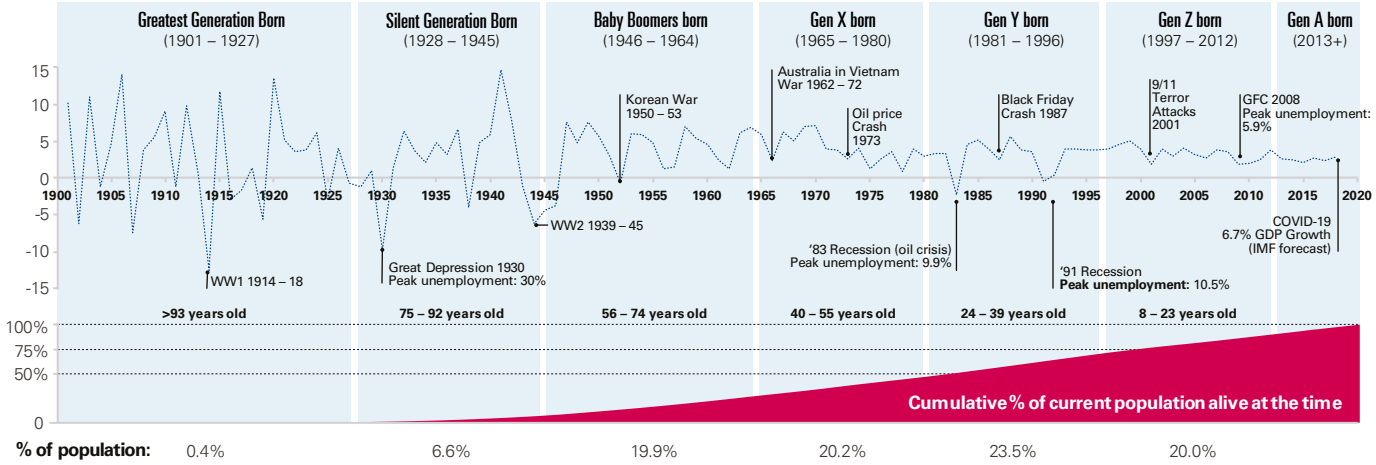
In Australia, 93 per cent of the population were born after the recession triggered by World War II, 50 per cent were born after the next deepest recession in 1983 and 38 per cent were born after the last recession in 1991.

Leading up to the current coronavirus (COVID-19) pandemic, Australia had experienced a 27-year recession-free streak. As a community, we haven't experienced an economic challenge the size of which is forecast to come.

We hope Australia's leaders can carefully navigate us through the disruption, however there is no question that the coronavirus pandemic will have a lasting impact on how we engage with brands and retail.

An event of this magnitude not experienced in a lifetime

Australian annual GDP growth % vs cumulative % of population alive today 1900 – 2020



Note: Does not account for the effect of immigration to, and emigration from Australia
Source: KPMG Analysis, Australian Bureau of Statistics, Federal Treasury, Reserve Bank of Australia, International

To shape a view on how Australian consumers will evolve and emerge from the COVID-19 experience, we have brought together insights from recent health and safety challenges in our region with insights from the Global Financial Crisis (GFC), and then considered how consumer behaviours were shifting prior to COVID-19. We have examined each of the three behavioural reactions separately as building blocks. What is unknown is how each of these aspects will interact with each other.

What we've learned is that:

— The Australian retail sector could experience a short-lived 'celebratory' spending uptick as the health crisis is controlled.

— A good outcome for the financial crisis would be a 12 month decline in consumer confidence followed by a 12 month rise, similar to Australia's experience through the GFC.

— Australia's collective experience of slowing down and spending 24 hours a day either with, or isolated from, our loved ones with concerns for our livelihoods, will likely accelerate the shift towards an era of mindful consumption.

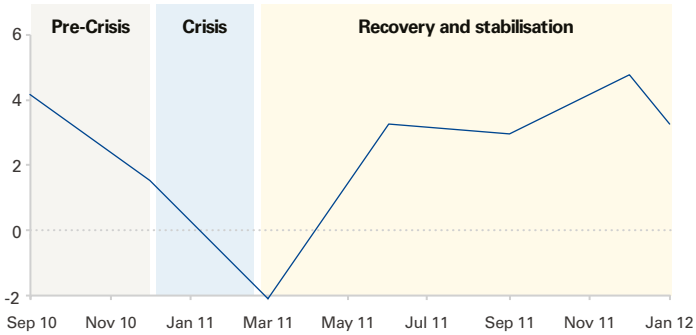
A short-lived celebration

It is difficult to predict how consumer confidence and consumption habits will recover from the coronavirus crisis in Australia, given we have no precedent.

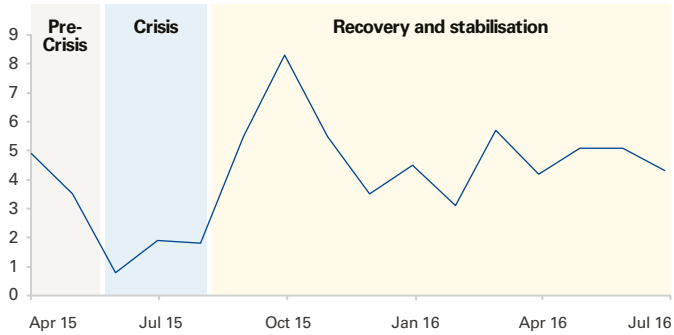
However, two recent events in our region could provide some indication of what we could expect if this were purely a health and safety crisis – the 2011 Christchurch earthquakes in New Zealand and the 2015 MERS outbreak in South Korea. Both these events had lingering aftershocks and safety fears associated with them and both required some level of shutdown. Although there are differences, we are similarly developed, democratic, wealthy and sovereign nations. What we see from examining the impact of these events on retail spending is that the recovery was swift once the health and safety risks subsided. In fact, there appears to be a period of 'catch up spending' that occurred once the communities believed the worst was behind them.

After the earthquake in Christchurch, the central business district remained closed for more than two years and 70,000 people left the city due to loss of housing, lack of services and aftershocks. Despite this, retail sales in Christchurch saw a growth spike in the following quarter and recovery thereafter – the retail industry had bounced back within two months. The city is still rebuilding almost 10 years later, but locals and retailers have learned to work around the physical disruption and continue with their lives. Retail consumption in Christchurch quickly caught up and kept pace with the rest of the New Zealand retail industry and there is little visible lingering damage to the industry.

Christchurch earthquake impact on retail growth
% retail sales growth YOY September 2010 – January 2012



South Korea MERS impact on retail growth
% retail sales growth YOY April 2015 – July 2016



Retail turnover growth

Source: Stats NZ, S.Korea government statistics

Between May and July 2015, South Korea experienced the largest MERS (Middle Eastern Respiratory Syndrome) outbreak outside the Middle East. The virus was less transmissible than COVID-19 but had fatality rates as high as 40 per cent, recorded in Saudi Arabia. The government was criticised for being slow to respond but ultimately introduced measures including quarantining high risk and infected citizens and school closures. Although widespread physical distancing measures were avoided, a significant loss of confidence heavily impacted the retail and tourism sectors.

The positive news is that once again, this health and safety crisis was followed by a steep spike in retail sales and recovery thereafter. About a month after the Prime Minister declared the end to the outbreak and approved an economic stimulus package in late July, retail sales rebounded reaching 8 per cent growth in October 2015 versus the prior year.

Studies in the US also report relatively short retail recovery timelines following health and safety crises. It took one month for retail to return to pre-crisis levels after the 9/11 terrorist attacks in 2001, and the Mandalay Bay Resort took 12-15 months to return to pre-crisis accommodation revenue after the 2017 Las Vegas shooting.

Australia's current success at containing COVID-19 therefore provides reason for cautious optimism that retail could experience a 'celebratory' spending uptick as restrictions are eased in the coming weeks and months. However the global reach of this health and safety crisis, and the scale of the precipitating financial crisis, will likely make this uptick short-lived.

A good outcome would be a two year recovery

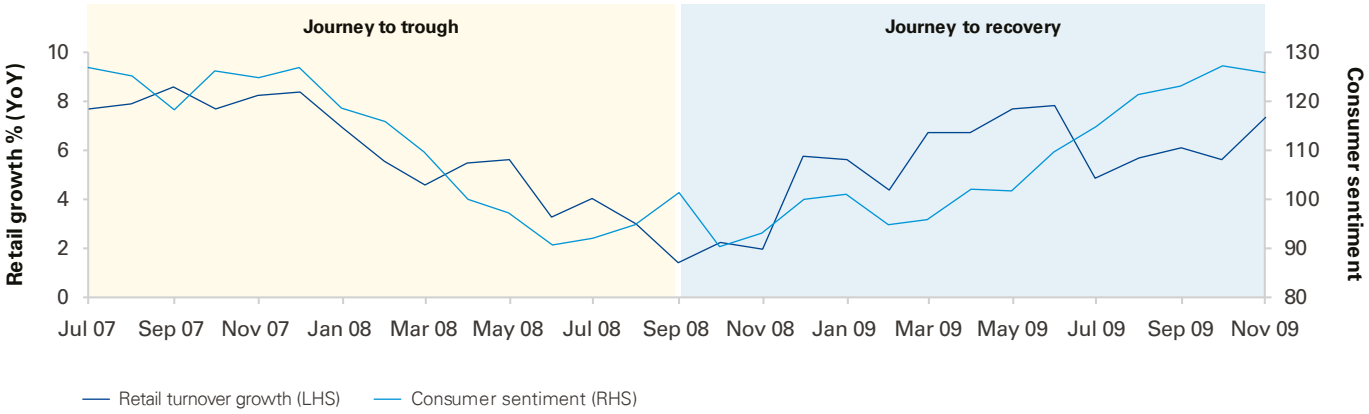
Australia had a relatively smooth experience through the GFC, avoiding a recession and making the event barely noticeable on the long term GDP growth chart.

Of course, this was not easily achieved and early economic interventions, together with strong trade with a booming Chinese economy, helped us considerably. Despite this, retail trade felt the impact due to the fall in consumer confidence as we watched the crisis play out globally. Even though Australia was performing well through the crisis, with peak unemployment contained to 5.9 per cent, consumer confidence took a slow and steady path downwards for 12 months to the trough of the crisis. Retail sales growth bottomed-out in the September quarter in 2008.

The recovery was also slower and more steady than the above examples of health and safety crises. The recovery of consumer confidence in Australia mirrored the decline, taking another 12-15 months to climb back to pre-GFC levels. Retail sales again followed but with slightly more volatility than the path downwards. It appears that it takes longer for consumers to regain confidence after a financial crisis than a health crisis – possibly because it is more difficult for the public to see progress. Health crisis recovery can be more easily measured and communicated through the numbers of cases, deaths and recoveries.

Global financial crisis impact on retail growth

% retail sales growth YoY vs consumer sentiment, Australia July 2007 – November 2009



Decreasing impact at trough

YoY selected category growth rates	Pre-GFC baseline Sep '07 vs '06	Journey to trough Sep '08 vs baseline	Journey to recovery Sep '09 vs baseline
Recreational	13.3%	-6.0% (▼19% pts)	5.4% (▼8% pts)
Restaurants	13.3%	-2.6% (▼16% pts)	13.6% (▲0% pts)
Liquor	12.8%	-2.9% (▼16% pts)	16.4% (▲4% pts)
Home goods	8.7%	-3.9% (▼13% pts)	2.0% (▼8% pts)
Apparel	5.6%	-0.9% (▼5% pts)	5.7% (▲0% pts)
Grocery	8.7%	5.6% (▼4% pts)	7.9% (▼1% pts)
Pharma & Beauty	5.6%	9.8% (▲4% pts)	8.0% (▲2% pts)

Note: According to the Reserve Bank of Australia the GFC in Australia ran from mid-2007 to early 2009
Source: KPMG Analysis, Australian Bureau of Statistics, Roy Morgan Consumer Confidence Index

Category recovery profiles differ greatly with the pattern of how consumers re-engage as their confidence builds. On the way down, the negative spending pressure from the GFC was shared across most categories with the exception of pharmacy and beauty which saw growth. All other categories experienced decline including grocery as people traded down to budget and value priced options.

However, categories climbed out of the crisis at difference speeds. Liquor sprinted out – growing faster than it did before the GFC by 3.6 percentage points, as did pharmacy and beauty which exited growing 2.4 per cent points higher. Restaurants, apparel and grocery growth reached its pre-GFC trajectories 12 months after the trough. And although recreational and home goods categories saw a significant turnaround a year after the trough, both categories took longer to recover remaining 7.9 per cent and 6.7 per cent behind pre-GFC baseline growth rates, respectively.

Given the expected scale of the COVID-19 financial crisis, the timing and trajectory of the downturn experienced in Australia through the GFC would be a good outcome – a year of retail spending decline followed by a year of recovery.

It is difficult to predict the pattern that different categories will follow due to the very different nature of this crisis. Going into this current trough, unlike the GFC, there are many categories that have experienced a surge in growth such as hardware, home office and toys and games. While others such as apparel and footwear are almost at a standstill.

What we do know is that they are unlikely to bounce back as a group, and we will see multiple speeds and shapes of recovery across the industry.

An acceleration towards mindful consumption

These challenges that we are collectively facing will likely cause many Australians to reconsider and recalibrate their values.

Our communities will have experienced or witnessed real hardship, we have all been forced to slow down and, for now, have adapted to a slower, simpler normal. As a result, we expect consumers to become more resourceful and reflect on how their grandparents and great-grandparents lived through the Depression and WWII.

Consumption will reflect an increasing awareness of safety, family, home and the experience of being time rich compared to being persistently time poor. Consumers may be less prepared to pay a premium simply to save time, and instead seek to play a greater role in creating and personalising products to save money, demonstrate values and gain a sense of achievement.

We have already seen increased enthusiasm for baking, making and do-it-yourself domestic dressing, home improvement and investments in personal well-being. There may also be a shift to near-sourcing, supporting Australian brands and a return to the smaller stores and makers in 'village'.

In essence, consumers will become more mindful about what they buy, why they are buying it, how it was made and who they are supporting through their purchase – shifting to an era of mindful consumption.

What is Mindful Consumption?

Ethical & Sustainable

A real focus on ethical and sustainability components behind brands – social cause and transparent sourcing are critical differentiators. A support of brands that bring human connection vs materialism alone.

Needs Based Consumption

Needs based assessments taking place due to economic uncertainty – do I really need this, frequency of consumption reviews, outsourced services now being self-fulfilled – DIY and beauty, fitness being replaced by apps and newly formed outdoor routines.

Simplicity & Safe Spaces

A renewed focus on simplicity – brands that are focussed on calm, practical, no fuss components to their product and service provision – dual purpose wear, nurturing and investment in ones 'safe space' – home, garden, health and wellness.

Convenience Extends Post Sale

New definitions of convenience with the rise of online consumption extending to post sales – frictionless returns and post purchase service become critical differentiators.

Finally, our young people will arguably be the most impacted by the experience of COVID-19. Generation Z will potentially regard the COVID-19 pandemic, not as an individual event, but as the capstone to a series of force majeure including the Black Summer bush fires, damaging hail storms, floods, dust storms and years of drought that have eroded our sense of security. This generation will retell their shared experiences of seeing empty shelves and feuds in the aisles of supermarkets, and the queues of people outside Centrelink.

Although there is a sense of confidence that our leaders will navigate us through the challenges ahead, the shock to our daily routines and our sense of security so far will not be easily forgotten.

As a broader community, with an economy under reset, we may be ready to listen to our young people's concerns regarding issues such as climate change and ethical sourcing and rebuild our lives in a different way.

Be prepared and responsive

So how can Australian retailers and brands reconnect with consumers following COVID-19?

- **Make the most of the 'celebratory' spending uptick** that could follow the health crisis by ensuring physical stores are 'safe spaces' and invest to differentiate the physical shopping experience from online through playfulness, brand personality and personalised service.
- **Stay closely connected to loyal customers**, develop and offer personalised virtual experiences and strategically use exclusives and promotions through loyalty programs to keep them engaged through the financial downturn. For new customer acquisition, create trial moments through pricing and promotion.
- **Do not expect that consumers will 'snap back' to their pre-COVID-19 shopping habits** even if they can return to physical stores – retaining and improving the new service models and digital 'fixes' initiated by coronavirus is critical. Ensure this focus remains not only on your own channels but also your partnerships.
- **Do not relegate investments in customer experience to the 'nice to have' pile** – it matters even more now as competition for the tightened consumer wallet will intensify. Brands that have a ruthless focus on frictionless, experience-rich physical and digital customer journeys that extend beyond the purchase will be best positioned.
- **Do not over-invest in individual product categories** and rely on past trends or insights as the demand profile coming out of the crisis is too uncertain – innovate to increase the speed and agility of merchandise buying cycles.
- **Ensure marketing and sales strategies speak to the mindful consumption** value proposition, balances educational content versus transaction based sales strategies and leverages social channels to propagate word of mouth and referrals which are now increasingly important.

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