

WHAT MATTERS TO TODAY'S CONSUMER

2022 consumer behavior tracker for the
Consumer Products and Retail industries

EXECUTIVE SUMMARY

The behaviors of today's consumers have shifted dramatically over the past 18 months and their expectations have evolved in parallel. As our research suggests, many of these changes will prove permanent. The consumer of today is shopping across multiple channels; she has returned to in-store shopping but also plans to continue shopping online, a channel she has grown accustomed to during the pandemic. She has also come to expect fast, easy delivery and fulfillment, whether she is shopping on- or offline. She continues to be very concerned with the ethical status of the products she buys – as well as the companies from which she buys them — and wants to be assured that these products are both healthy to consume and sustainable to produce. She also does not expect sustainable products to necessarily come at a premium. She is open to ordering directly from the brands she favors and sharing her data with them, especially if this will result in her receiving a better buying experience.

These trends and behaviors are more pronounced for certain consumer segments. For example, our research reveals that Generation Z (18–24 years of age) shoppers are more willing to pay a premium for products espousing clean, natural, and sustainable attributes. Shoppers with children in their households value fast delivery more than do shoppers without children. A greater share of Boomers (57–75) have already returned to in-store shopping today than have Millennials (25–40) and Gen Z.

For brands and retailers, the implications of these evolving consumer trends infiltrate all aspects of their businesses, from strategy to product development, digital, analytics, operations, and marketing. To capitalize on the opportunities offered by these evolving trends, we highlight four key focus areas for brands and retailers. An omnichannel strategy that incorporates the physical store, ecommerce, direct-to-consumer, and online marketplaces (such as Amazon, Alibaba) is essential to meet today's consumer in all the venues at which she shops. Being ready and able to collect the data that today's shopper is willing to share and extracting value from that data to allow better directed marketing and more carefully designed and tailored products and services is paramount. Given the importance of delivery and fulfillment to today's consumer, re-positioning these aspects within the business model, and transforming them from a cost center to a growth driver, is critical to future business success. Going forward, there will be a growing mainstream demand for sustainable products. While a certain demographic of shopper may accept a higher price for the time being, it will be imperative that these products can be sold at a more attractive price point in the future.

INTRODUCTION

Consumer behavior can change rapidly. Taking the obvious example of the COVID-19 pandemic, the way in which people buy and use goods and services has been disrupted on a global scale. Lockdowns, social-distancing measures, and serious safety concerns, while restricting our everyday lives and movement, have given rise to massive growth in ecommerce and striking changes in consumption patterns. As the world slowly emerges from the shadow of the pandemic, many of these trends will remain embedded for the long term, shaped and reinforced by the new expectations of consumers.

This report is the first installment in what will be an annual research series designed to report on and measure the dynamic trends and evolving consumer behaviors, year on year. While the specific topics we investigate each year will inevitably be dictated by changing market conditions and consumer trends, we will have core measures that we will apply annually, including the impact of the COVID-19 pandemic on consumer preferences for in-store versus online shopping.

In this first report of our new annual series, we explore the topic of product versus services. Specifically, we want to investigate how central and significant the product and its characteristics are to the customer's buying decision and how much importance consumers place on the services they are offered and the customer experience they receive when deciding which products to purchase and which retailers to patronize. Additionally, we explore consumer trends related to delivery and fulfillment and direct-to-consumer models, including buying directly from brands.

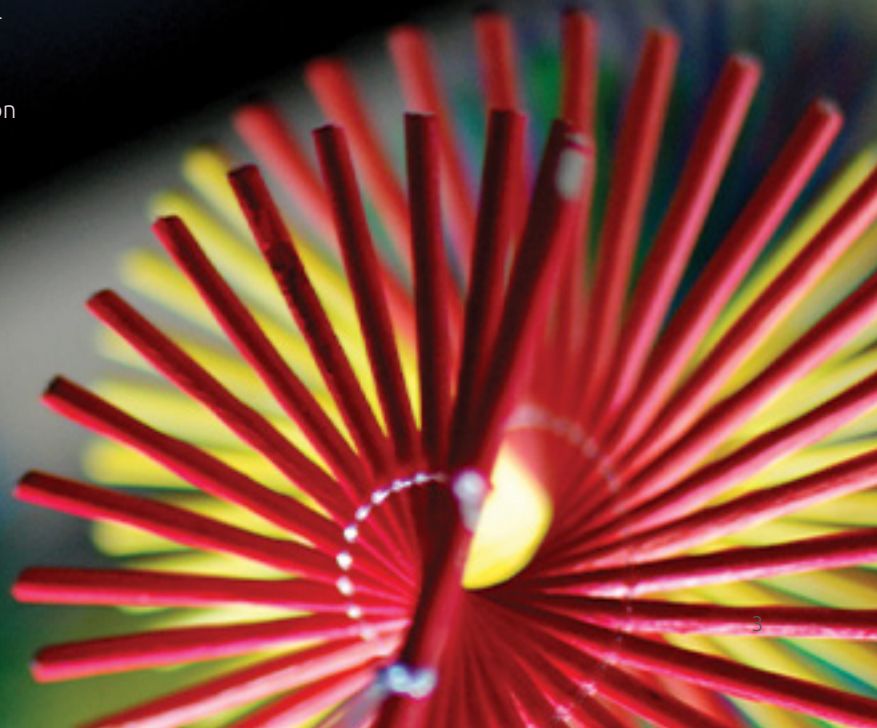
To address these questions and topics, we surveyed over 10,000 consumers over the age of 18 in 10 countries: Australia, Canada, France, Germany, Italy, Netherlands, Spain, Sweden, the UK, and the US. To qualify for inclusion in the survey, consumers must have made a purchase of groceries, household and toiletries products, and/or health and beauty products in the preceding six months.

Our questions explored shopper preferences and views surrounding the attributes they look for both in the products and in the retailers themselves. We were also keen to capture their views on broader trends, such as willingness to pay for delivery services and to order directly from brands as opposed to retailers. For more details on the survey sample, please refer to the Appendix.

In this report, we identify four key trends based on our current and previous consumer-research studies that consumer-product firms, retailers, and grocers must monitor constantly in order to drive operational resilience and strengthen customer engagement:

1. Consumers are returning to in-store shopping but ecommerce remains strong
2. For certain retail categories (e.g., grocery and health and beauty), efficient delivery, and fulfillment services are more important than in-store experience.
3. Shoppers are happy to order direct from brands.
4. Consumers' top priorities are healthy, sustainable living – and making purchases that reflect this.

We conclude by specifying four key actions for brands and retailers that want to capitalize on these evolving consumer trends.



1

CONSUMERS RETURN TO IN-STORE SHOPPING BUT ECOMMERCE REMAINS STRONG

As the pandemic was taking hold in April 2020, we compared levels of consumers' interaction with physical stores and online channels. In our latest research, we see an acceleration in interactions with physical stores as consumers return to traditional channels. However, we also see a stabilization, rather than a dropping off, of interactions with online channels.

Consumer preference for in-store shopping surpasses pre-pandemic levels

In November 2020, 34% of consumers said they maintained significant interactions with physical stores, jumping to 67% in November 2021 as lockdowns eased, internal and external borders opened up, and vaccination uptake increased. A majority (72%) of consumers expect to resume significant interactions with physical stores in the longer term after the pandemic subsides. This markedly exceeds the level (60%) of consumers who maintained regular interactions with physical stores before the pandemic (see Figure 1). Douglas McMillon, president and CEO of Walmart, believes shoppers missed the store experience during the pandemic: *"When the pandemic allowed it, people came back to stores. I think they like stores and they want to have that [in-store] experience. They enjoy seeing merchandise, being around each other. And that's why omnichannel makes so much sense."*¹



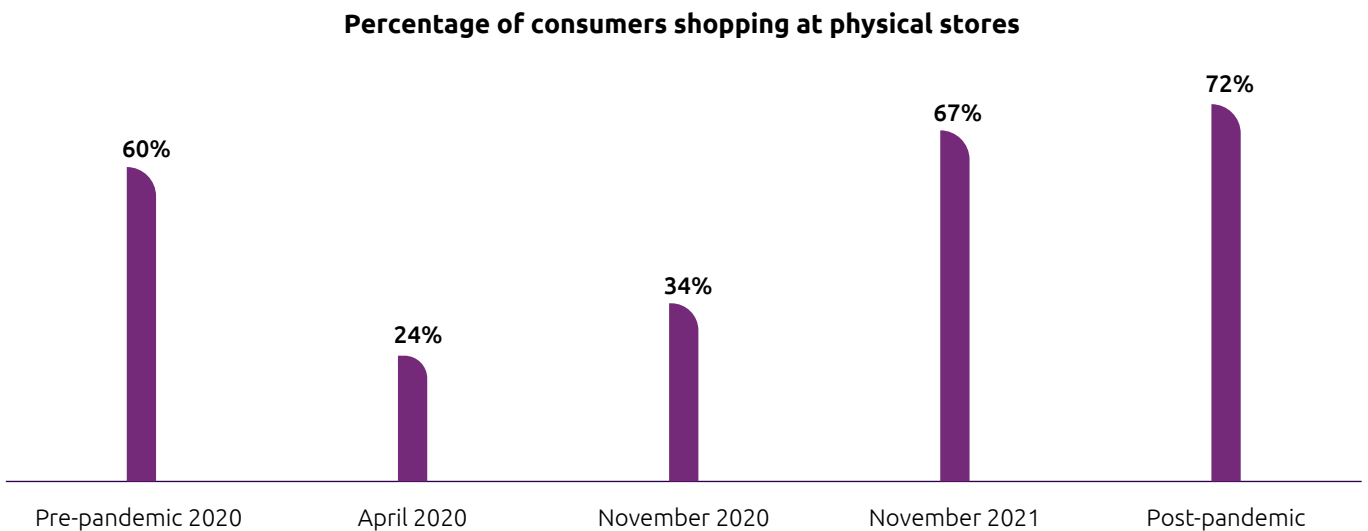
Preference for in-store shopping increases with age. For example:

- 53% of Gen Z – those aged 18–24 in our survey – say their level of in-store interactions is high today, compared to 73% of Boomers (57–75 years old).
- In the longer term, 76% of Boomers expect their in-store interactions to be high versus 66% of Gen Z shoppers.

The distinction between online and in-store is less clear today than in previous decades, with shoppers moving easily between the two and, increasingly, expecting a comparable

level of service and experience. Our research shows that, post-pandemic, 22% of shoppers expect to have a high level of interactions with click-and-collect orders (i.e., ordering online and picking up in-store or curbside), indicating an enduring desire to interact with physical stores, albeit perhaps not in the traditional manner favored by Boomers (i.e., walking around a physical space, viewing, trying on, and selecting by sight). Unsurprisingly, perhaps, this trend is highest for Millennials (33%) and lowest for Boomers (11%). McMillion adds: *“The step change that occurred [with pick-up] will stay and grow steadily from there. That’s what we’re seeing here [at Walmart].”*²

► **Figure 1. Consumers expect their interactions with physical stores to surpass pre-pandemic level**



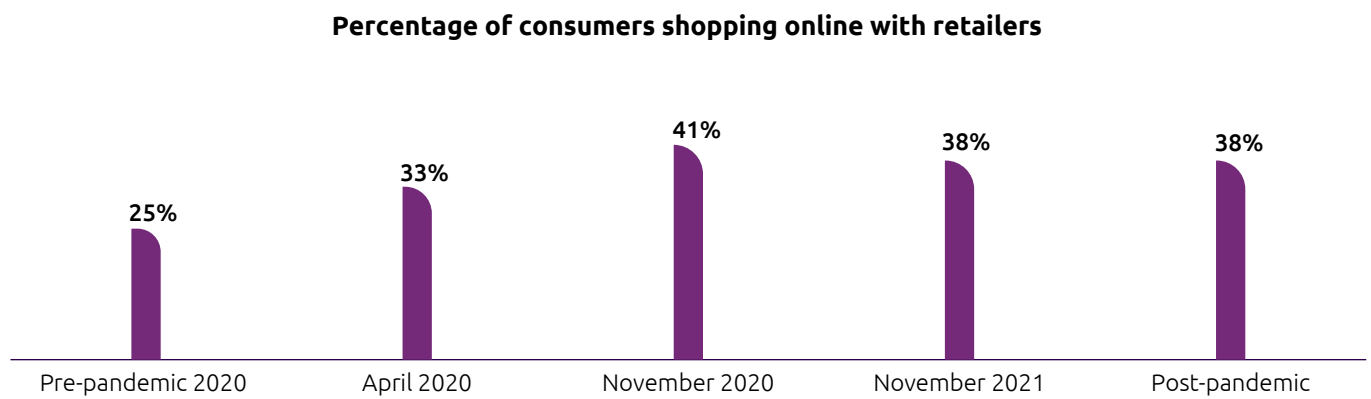
Source: Capgemini Research Institute, consumer demand survey, October-November 2021, N=10,179 consumers; Capgemini Research Institute, The great consumer reset: COVID-19 and the consumer products and retail consumer, November 2020.

Consumer preference for online shopping stabilizes

The world has witnessed a surge in online commerce, driven by economic uncertainty, enforced lockdowns, and requisite social distancing. In the US, total e-commerce sales for 2020 increased by 32.4% on 2019 and accounted for 14% of total sales, up from 11% in 2019.³ This ecommerce growth has continued in 2021, with a 6.6% increase in the third quarter of 2021 compared to the third quarter of 2020.⁴

In our research published in April 2020, 33% of consumers said they had significant interactions with retailers' online channels, jumping to 41% by year-end 2020, and stabilizing at 38% in November 2021. In the longer term, consumers are expected to maintain this level of online interactions, with 38% of consumers saying they expect to have significant interactions with online channels post-pandemic (see Figure 2).

► Figure 2. Consumer preference for online shopping has stabilized in 2021

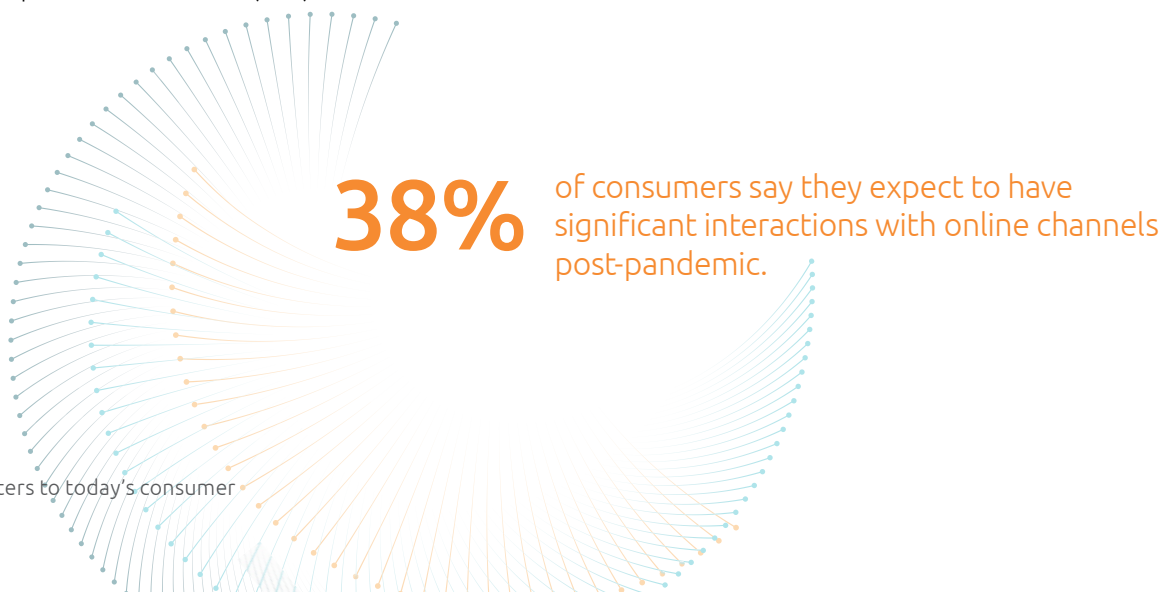


Source: Capgemini Research Institute, consumer demand survey, October-November 2021, N=10,179 consumers; Capgemini Research Institute, The great consumer reset: COVID-19 and the consumer products and retail consumer, November 2020.

In the longer term, post-pandemic:

- Shoppers with children in their households reveal a stronger preference for online interactions (49%) than do shoppers without children (33%).
- Millennial shoppers – those aged 25-40 – have the strongest preference for online interactions (51%) among the generational demographics; Boomer shoppers have only a limited preference for online (24%).

These high levels of both in-store and online interactions, even compared with pre-pandemic times, indicate that consumers are splitting their purchases across the two channels. In our survey, 57% of grocery shoppers say they go to the store to purchase the bulk of their groceries and supplement this with small online orders, as required. Alternately, they might be purchasing shelf-stable groceries or large, bulky household items online and shopping in person for fresh produce.



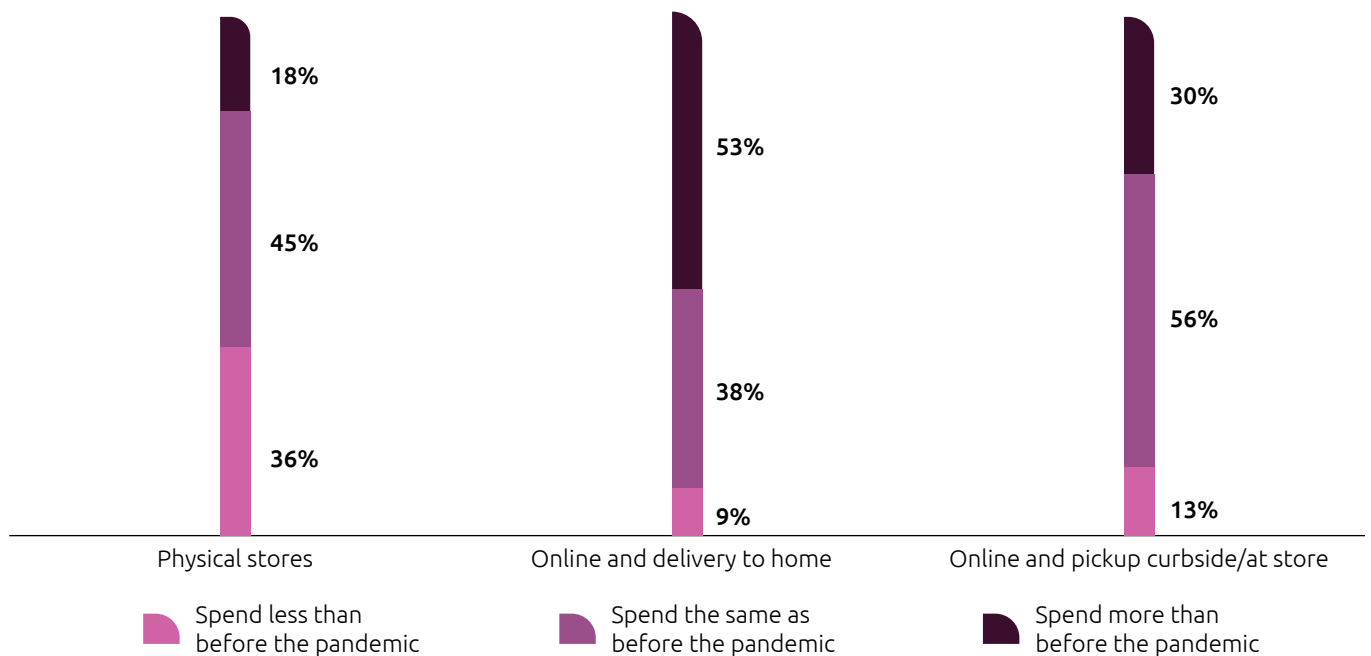
A large share of consumers are spending more online

We asked consumers how their current spending on groceries in an average week compares to pre-pandemic. Over half of grocery shoppers (53%) in our survey say they

are spending more on groceries online with home delivery and approximately one third are spending more online with pickup at store than before the pandemic. Eighteen percent of grocery shoppers say the same for in-store shopping (see Figure 3).

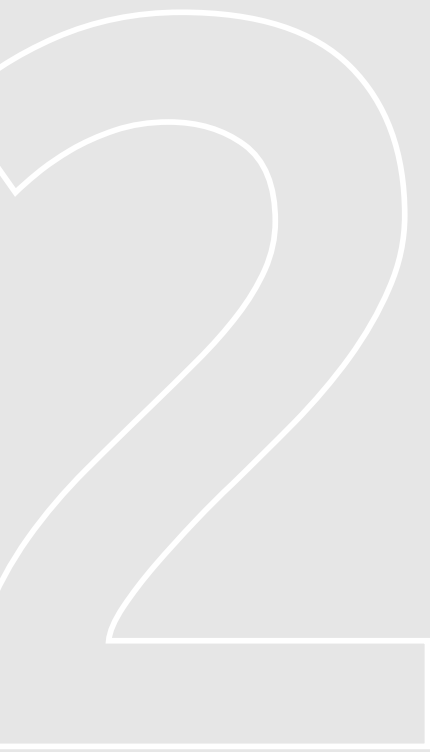
► Figure 3. Many grocery shoppers are spending more online today than pre-pandemic

Percentage of grocery shoppers spending more, the same, or less than before the pandemic by channel



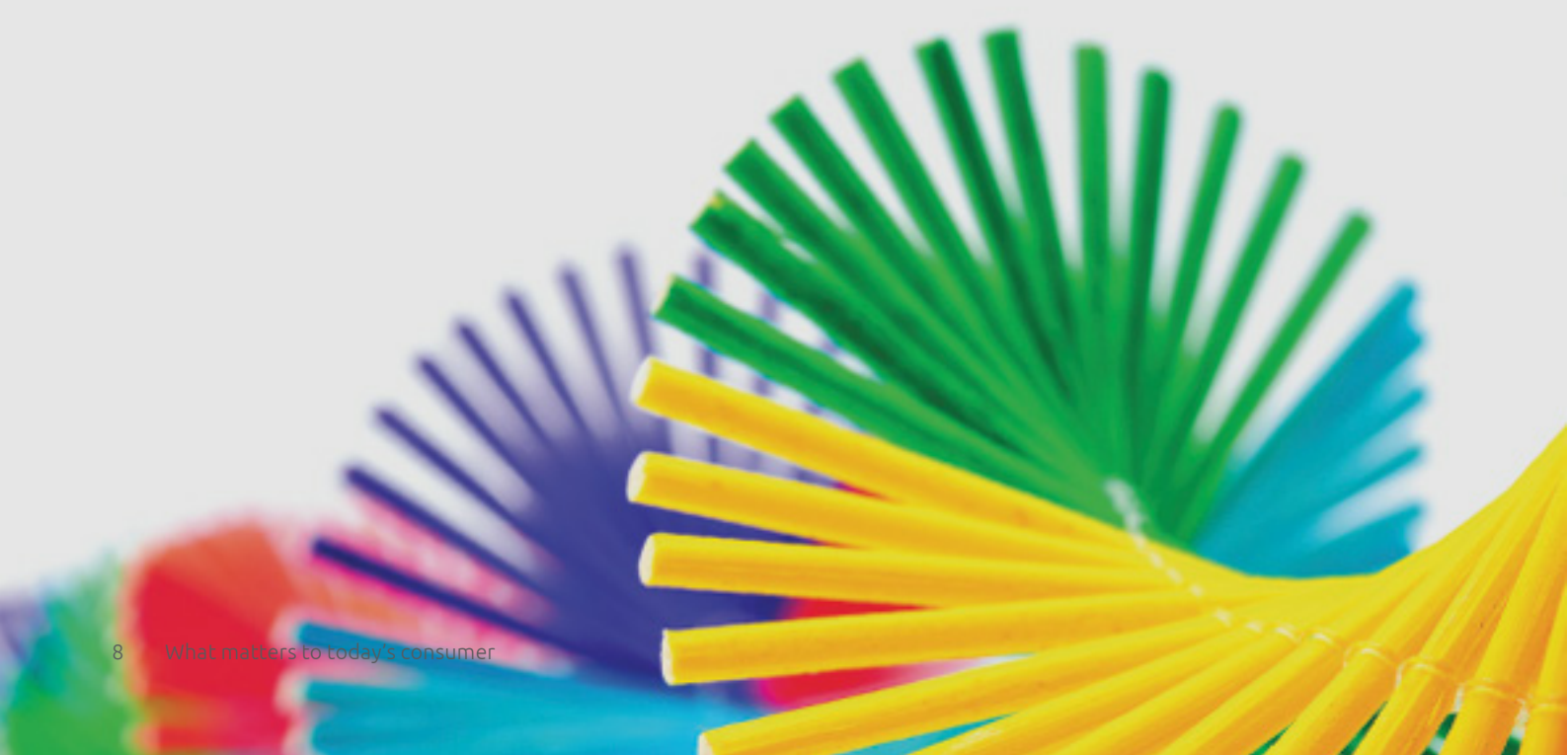
Source: Capgemini Research Institute, consumer demand follow-up survey, November 2021, N=979 consumers.



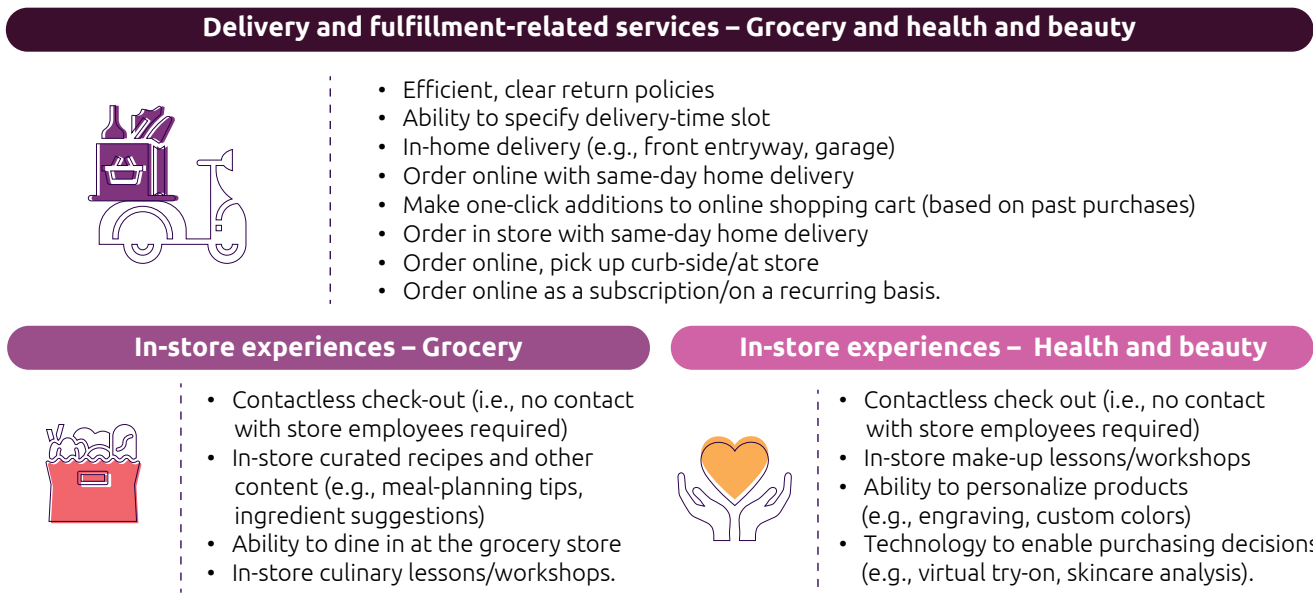


DELIVERY AND FULFILLMENT SERVICES GAIN IMPORTANCE

We gauged the importance of specific attributes related to delivery and fulfillment and in-store experiences with respondents shopping for groceries and health and beauty products (see Figure 4). We found that both grocery and health and beauty shoppers place more importance on delivery and fulfillment-related services than in-store experiences. It is important to note that we did not test for certain in-store services that consumers have come to expect as standard (for example, clean, sanitary stores; adequate staffing and stocking of stores; or well-managed customer-payment facilities).



► **Figure 4. Service attributes tested among grocery and health and beauty shoppers**



Source: Capgemini Research Institute analysis.

Grocery shoppers place greater importance on delivery and fulfillment

As the line between online and offline shopping increasingly blurs, shoppers expect faster delivery and a wider range of delivery options, irrespective of channel of purchase, as standard elements of the shopper experience. Our data shows that consumers put a higher value on these delivery-related aspects when compared to in-store experience factors. Target, a US-based food and merchandise retailer, is a leading player in same-day services. Third-quarter sales through these services expanded by nearly 400% or \$2bn over the past two years and same-day services propelled their digital growth in Q3 2021.⁵ Moreover, sales through Drive Up, Target’s free contactless drive-up collection service, have expanded by more than 100% (about \$1.4bn) in the third quarter of 2021 alone.⁶

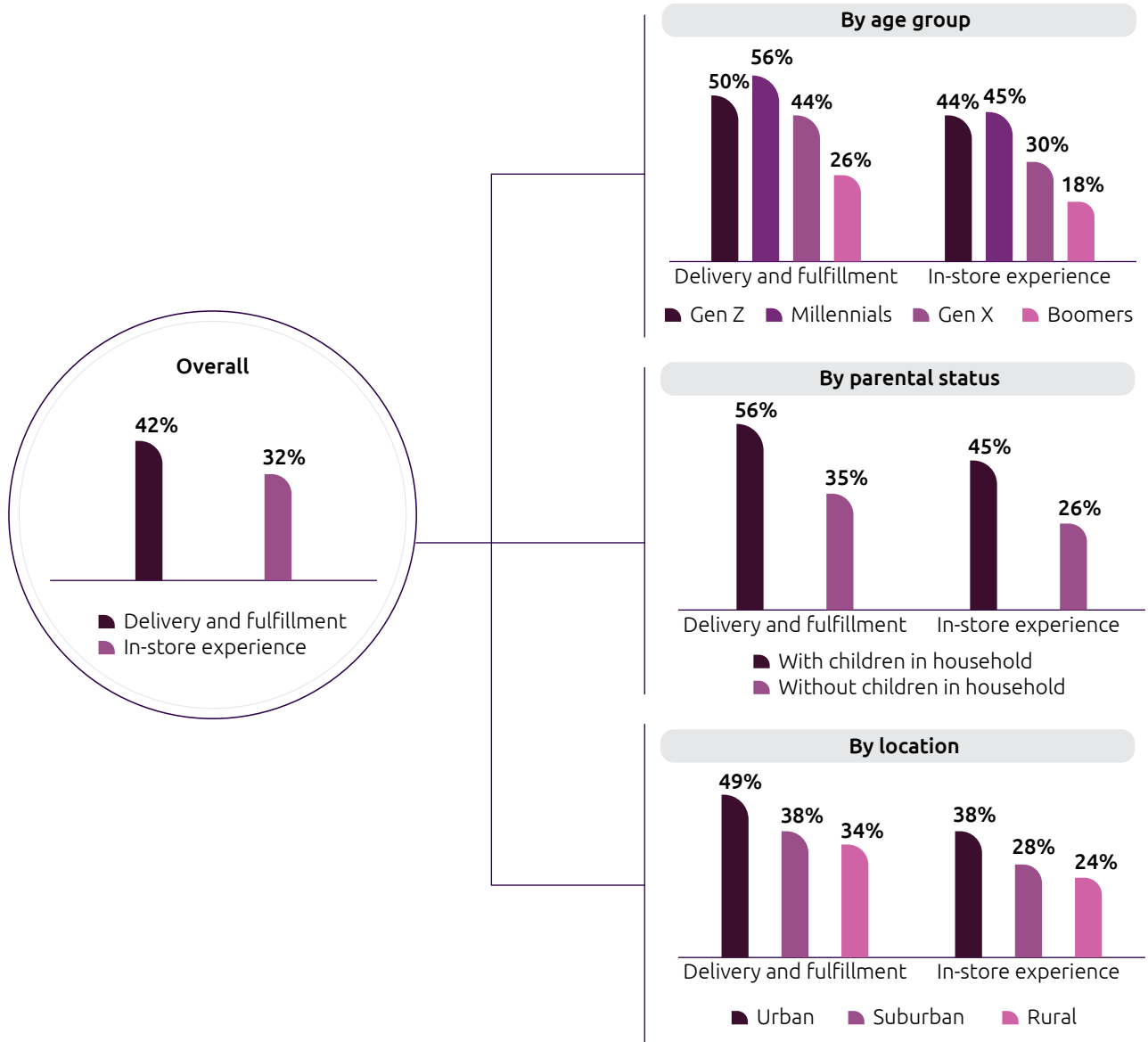
Forty-two percent of shoppers say that delivery and fulfillment are the most important service attributes when shopping for groceries. Nearly a third of grocery shoppers said the same for in-store experiences (see Figure 5). This trend of placing more importance on delivery and fulfillment is consistent across age groups, whether or not shoppers have children in their households and whether they live in an urban, suburban, or rural area.

Key differences by grocery shopper segment are:

- Both delivery and fulfillment and in-store experiences are most important to Millennials (56% and 45%, respectively) and least important to Boomers (26% and 18%).
- Shoppers with children in their households place greater importance on both delivery and fulfillment and in-store experiences than do their counterparts.
- Urban shoppers place greater importance on both delivery and fulfillment and in-store experiences than do suburban and rural shoppers.

► Figure 5. Grocery shoppers across age groups, parental status, and location place greater importance on delivery and fulfillment-related services than in-store experiences

Percentage of shoppers who say services related to delivery and fulfillment and the in-store experience are important when shopping for groceries



Source: Capgemini Research Institute, consumer demand survey, October-November 2021, N=10,179 consumers; N=6,829 grocery shoppers.

*The percentages represent the average attributed importance of the seven delivery and fulfillment-related services and four in-store experiences listed in Figure 4.

Health and beauty shoppers value in-store experiences more than grocery shoppers

When it comes to health and beauty products, the difference in importance between delivery and fulfillment-related services and in-store experiences is smaller than for groceries. Overall, 43% of all health and beauty shoppers say that delivery and fulfillment are the most important service attributes. Thirty-seven percent of health and beauty shoppers say the same for in-store experiences (see Figure 6). Health and beauty shoppers follow similar trends as grocery shoppers:

- Services of either type are most important to Millennials (tied with Gen Z for in-store experience) and least important to Boomers.
- They are also more important to shoppers with children in their households and to shoppers living in urban areas.

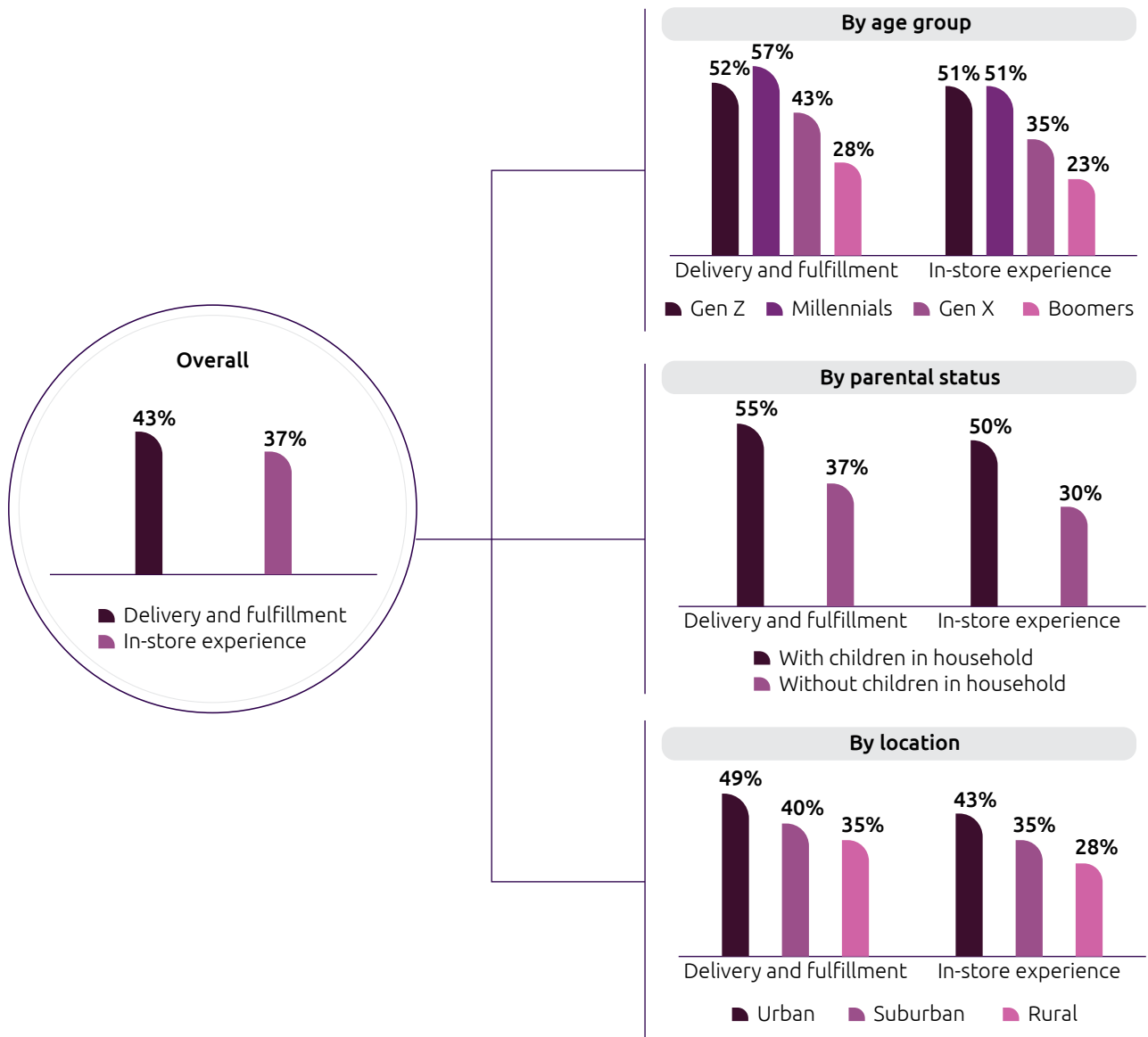
- Interestingly, more Gen Z shoppers care about in-store experiences at health and beauty stores than grocery stores (51% versus 44%, respectively).

Sephora, the French personal care and beauty retailer, has been a leader in heightening the in-store experience, from innovation such as digital try-on experiences to walk-in beauty studios. It has also implemented a program that turns out highly trained associates who avoid the traditional hard-sell technique and, instead work with individual customers to personalize products to their individual needs.⁷ Alison Hahn, senior vice president of makeup and fragrance at Sephora, comments: *"I think the role of any bricks-and-mortar location is not just to offer the products, but to give the customer more reasons to walk in the store our beauty advisors are the lifeblood of what goes on in a store: they are the faces of the retailer and they are who the clients see every day."*⁸



► **Figure 6. Health and beauty shoppers across age groups, parental status, and location place greater importance on delivery and fulfillment-related services than in-store experiences**

Percentage of shoppers who say services related to delivery and fulfillment and the in-store experience are important when shopping for health and beauty products



Source: Capgemini Research Institute, consumer demand survey, October-November 2021, N=10,179 consumers; N=6,742 health and beauty shoppers.

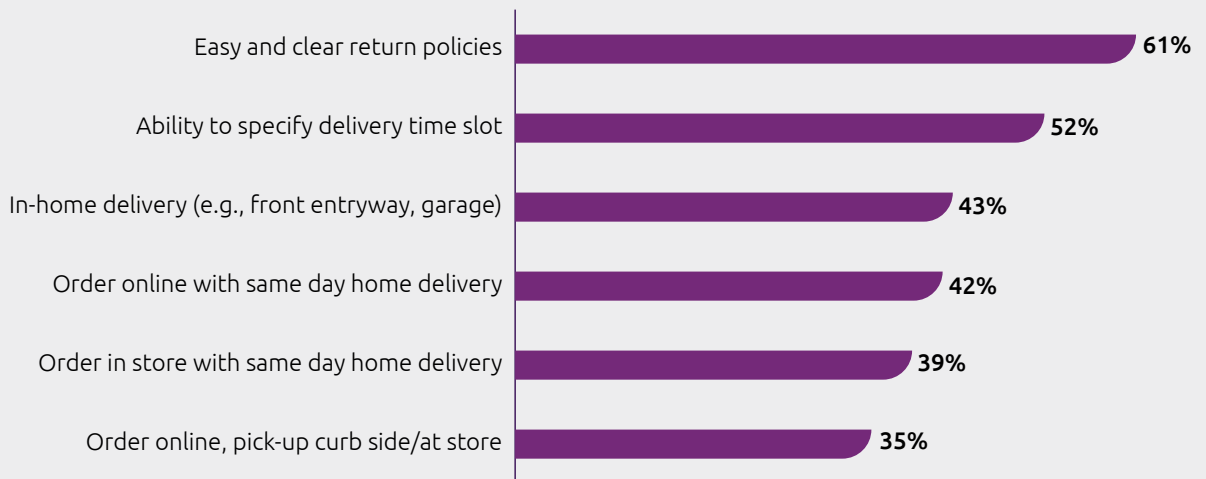
*The percentages represent the average attributed importance of the seven delivery and fulfillment-related services and four in-store experiences listed in Figure 4.

Grocery shoppers' value easy return policies and flexible delivery

We asked grocery shoppers which delivery attributes they value most. While all shoppers place importance on having multiple delivery options, a higher share of grocery shoppers consider flexibility in delivery (52%) and clear and easy return policies (61%) to be important factors (see Figure 7).

► **Figure 7. Over half of grocery shoppers deem easy and clear return policies and ability to specify a delivery time important**

Percentage of grocery shoppers that say the below service attributes are important to them when shopping for groceries



Source: Capgemini Research Institute, consumer demand survey, October–November 2021, N=6,829 grocery consumers.

The facility for returning a product, for whatever reason, constitutes a significant element of the shopper experience. Across retail segments in the US, returns accounted for over \$428 billion in 2020.⁹ Grocery shoppers expect return policies to be clear and the process itself to be easy for them. Flexibility in securing a delivery-time slot is a major driver for shoppers, too. Owing to the perishable and temperature-sensitive nature of groceries, this option becomes even more important for the segment when compared to products less affected by time considerations and their immediate environment, such as health and beauty.

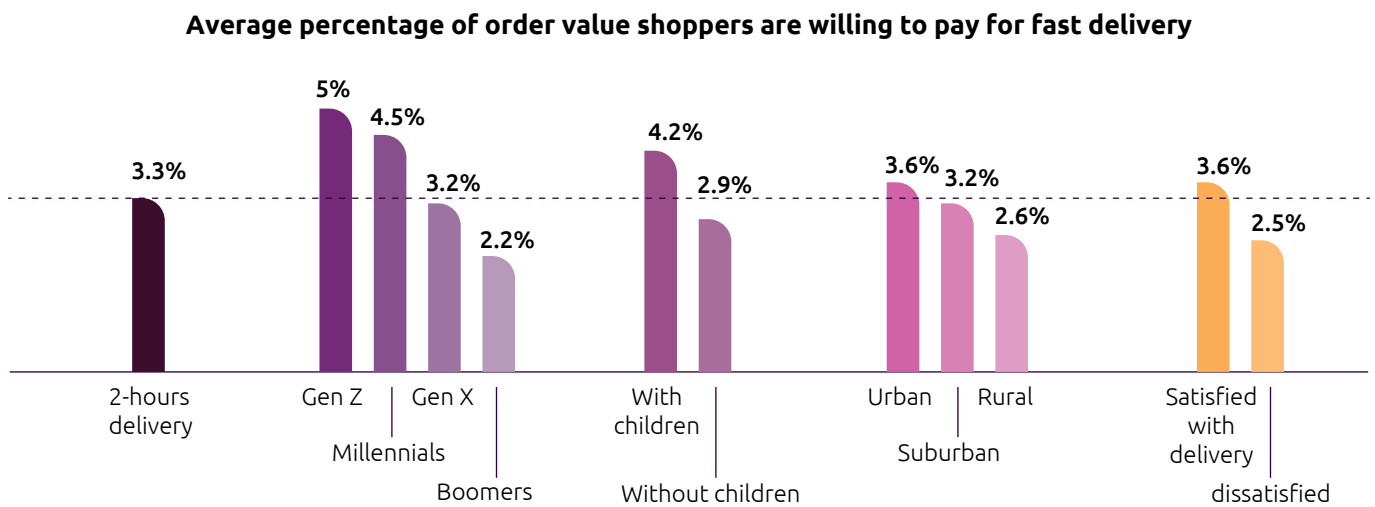
Many shopper segments are willing to pay a premium for certain delivery services

Shoppers were asked what percentage of their order value they would be willing to pay for certain delivery speeds and services, assuming an average order size of \$30. Across all shoppers, 3.3% is the average they would be willing to pay for two-hour delivery, down from an average of 4.6% among all consumers in our 2019 research.¹⁰ Two-hour delivery might have been revolutionary two years ago but, today, consumers expect it as a standard aspect of the customer experience. (see Figure 8).

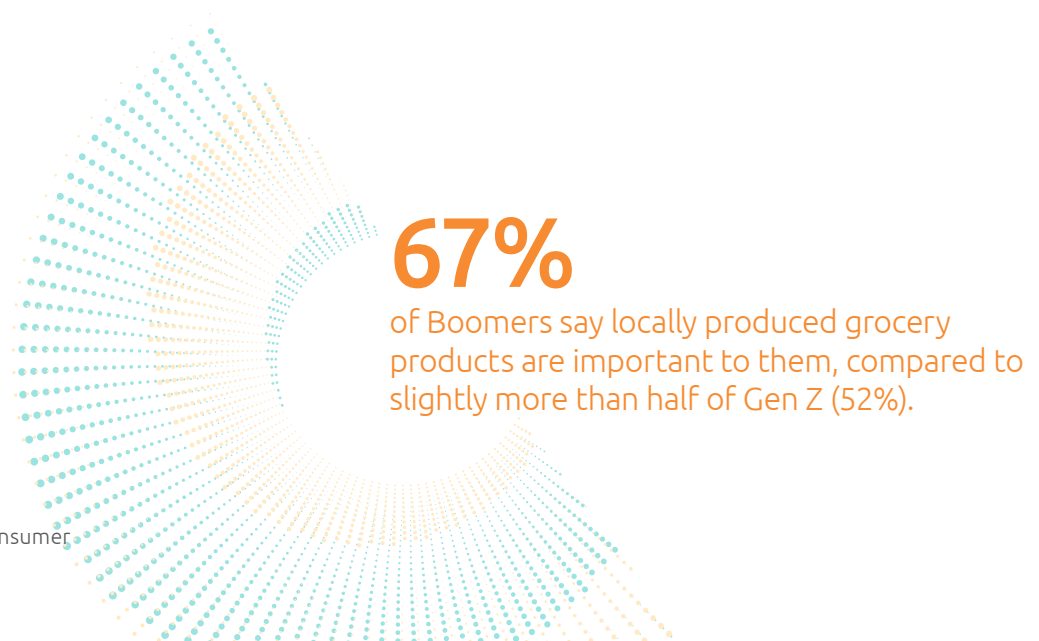
- Willingness to pay for fast delivery decreases with age – for example, Gen Z shoppers are willing to pay 5.0% on average for two-hour delivery versus 2.2% among Boomer shoppers.

- Shoppers with children in their households are more willing to pay – for example, shoppers with children are willing to pay on average 4.2% of their order value for two-hour delivery compared to 2.9% for shoppers without children.
- Urban shoppers are more willing to pay – for example, shoppers living in urban areas are willing to pay 3.6% on average for two-hour delivery compared to 2.6% among rural shoppers.
- Shoppers who are satisfied with existing delivery options provided for the products they buy regularly are more willing to pay than those who say they are dissatisfied – for example, 3.6% average for two-hour delivery among satisfied shoppers versus 2.5% among dissatisfied shoppers.

► Figure 8. Shopper willingness to pay for fast delivery, across demographics



Source: Capgemini Research Institute, consumer demand survey, October-November 2021, N=7,685 consumers.

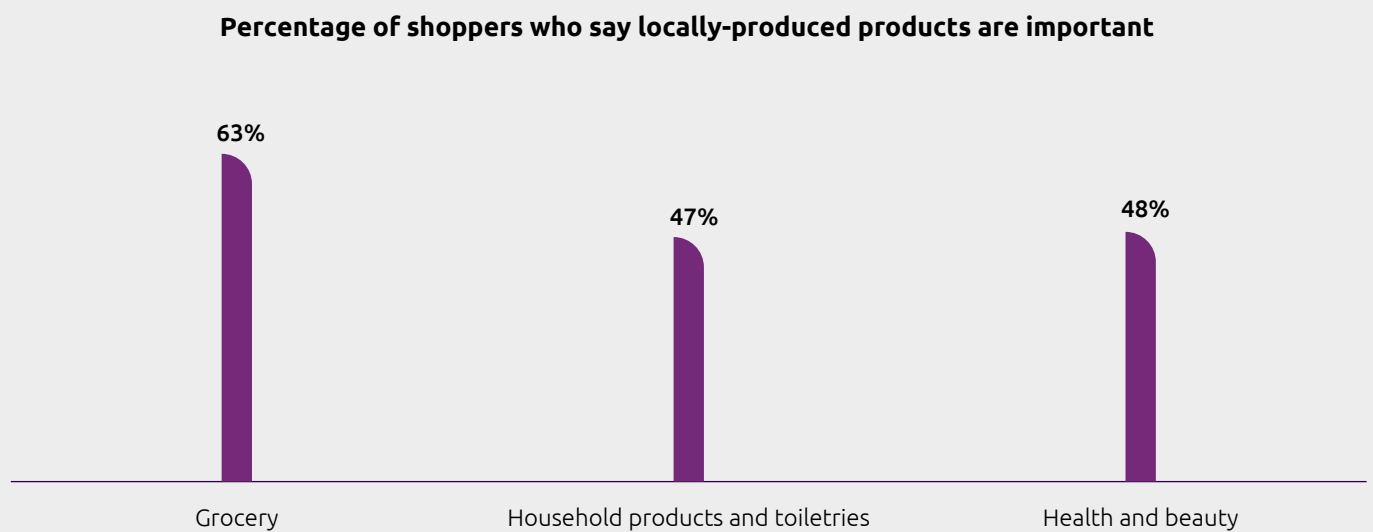


Preference for locally produced goods remains strong

The pandemic has fractured supply chains around the world. The global production value chain has moved from being just in time to having long waiting lines for even the most basic necessities, impacting everything from cereal to cars. While the world limps towards the “new normal,” challenges abound. Organizations face roadblocks to procuring raw materials at the specified manufacturing facility for production more than a year after the pandemic began.¹¹ The bullwhip effect of a damaged supply chain getting back on its feet has led to an unprecedented rise in shipping charges and congestion at ports, leading to further delays. By one estimate, a typical pre-pandemic container transport cost of \$2,000 between Shanghai and Los Angeles skyrocketed to as much as \$25,000 in early 2021.¹²

Our survey data on shopper preference for locally produced goods reflects this dynamic. In our November 2020 research, 63% of consumers agreed that, once the pandemic was over, they would give priority to products from local stores over online marketplaces.¹³ Our current research reiterates this sentiment. Across all three product categories explored in the survey, approximately half of consumers favor locally produced or manufactured products (see Figure 9). In 2020, French retailer Carrefour launched its “zero kilometre” commitment, which established partnerships with small producers within the vicinity of its stores, securing access to the freshest fruit and vegetables and allowing close contact between supplier and receiver.¹⁴

► Figure 9. Importance of locally produced goods across product segments



Source: Capgemini Research Institute, consumer demand survey, October-November 2021, N=6,829 grocery shoppers; N=6,713 household and toiletry shoppers; N=6,742 health and beauty shoppers.

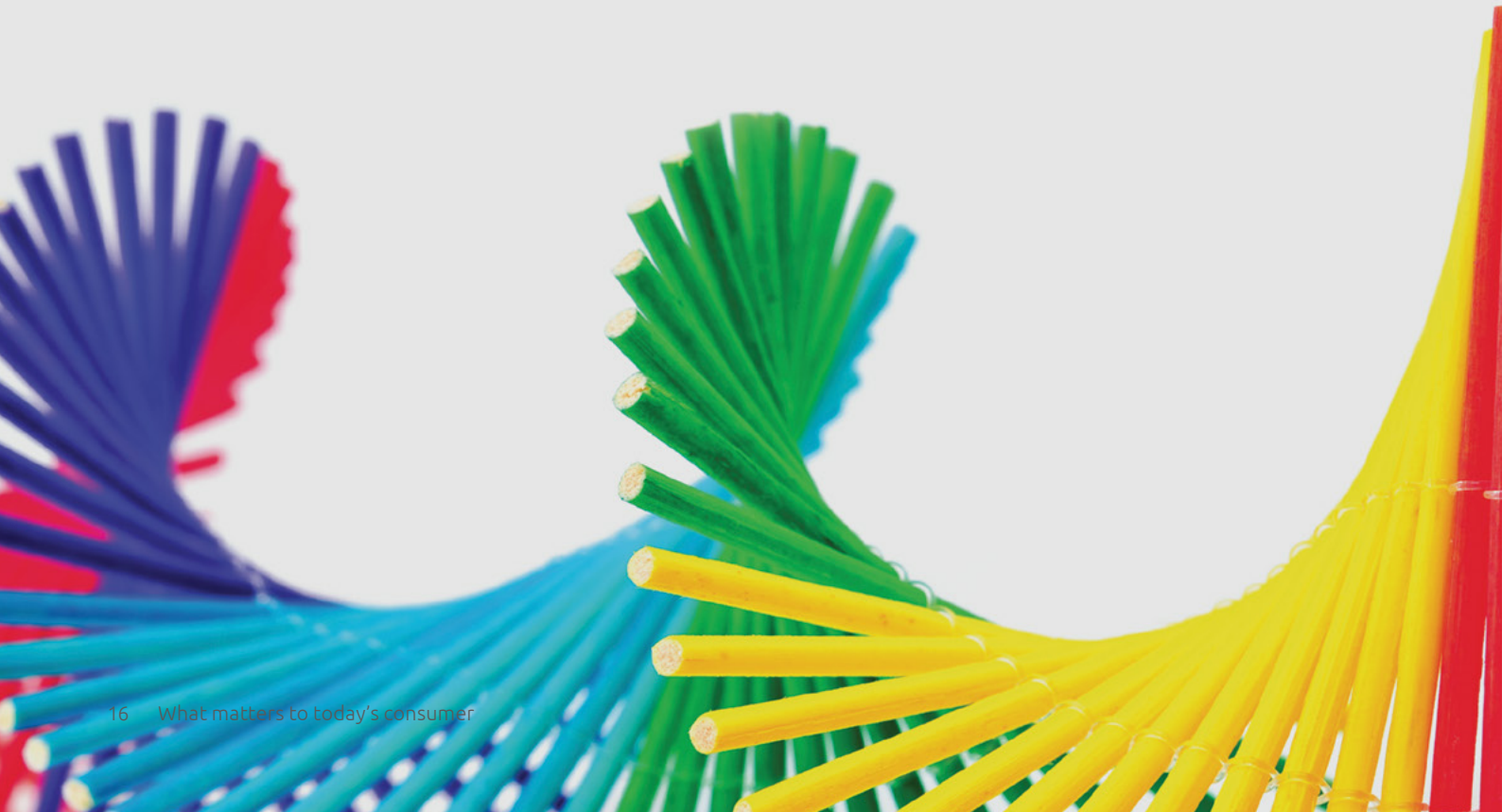
The importance of locally produced grocery products by country is much higher than average in Italy (78%) and Australia (72%). Ben Lazzaro, chief executive of the Australian Made Campaign, a not-for-profit company which administers the ‘Australian Made, Australian Grown’ status, comments: *“We all are more mindful about what happens when we buy local products; the fact that they create jobs, pump money into the local economy, and that we have access to some of the highest-quality products made to the highest safety standards in the world.”*¹⁵

Preference for locally produced groceries increases with age. Two-thirds or 67% of Boomers say locally produced grocery products are important to them, compared to slightly more than half of Gen Z (52%).



SHOPPERS ARE HAPPY TO ORDER DIRECT FROM BRANDS

In the US, direct-to-consumer (D2C) ecommerce sales are expected to reach \$151 billion in 2022, up 16.9% from 2021.¹⁶ While D2C purchases are only expected to account for 2.5% of total retail sales in 2022, brands selling D2C are disrupting the traditional retail model by providing a different type of consumer experience.¹⁷ To gauge the penetration of this new sales model, we asked whether shoppers had ordered directly from brands in the past six months (for example, whether they had ordered from brands such as Gillette, Tide, Olay, and L'Oréal, as opposed to shopping at a retailer such as Target and Walmart). We included both orders made on a one-time and/or a subscription/recurring basis.

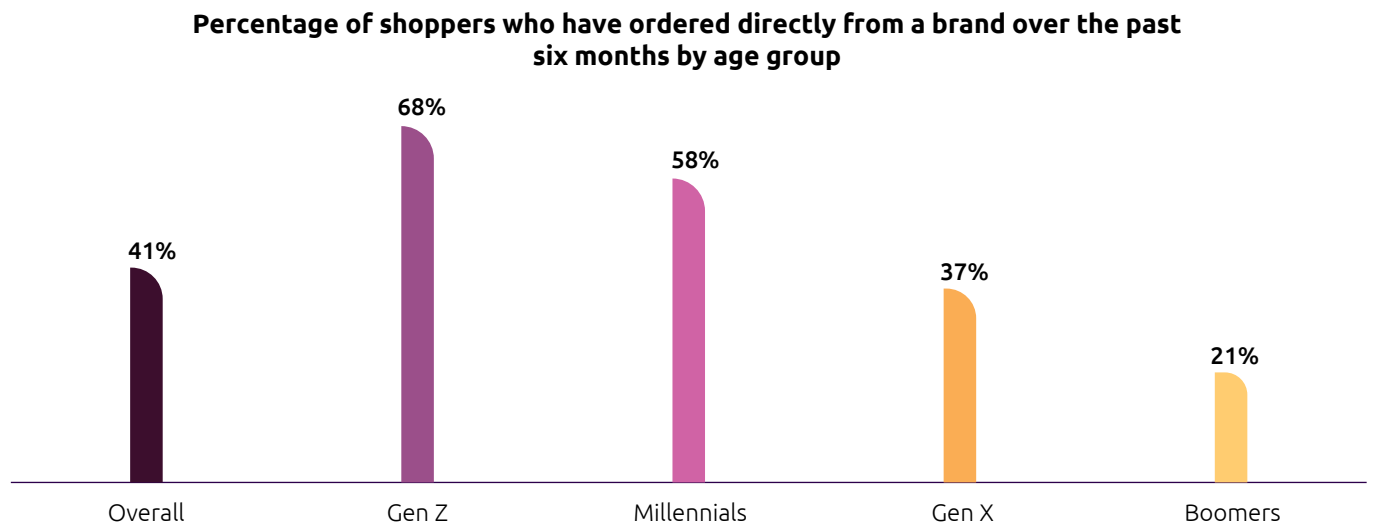


Nearly half of shoppers have ordered directly from brands, rather than retailers

Nearly half (41%) of shoppers in our survey have ordered products directly from brands in the past six months, either on a one-time or subscription basis. Of these 41% of shoppers in 2021, 12% say they have ordered on a recurring or subscription basis from brands. An even higher percentage of shoppers (52%) say they are open to buying directly from brands in the future. Gen Z shoppers, followed by Millennials

are the most likely to have ordered direct from brands. Boomers are the least likely to have done so (see Figure 10). In May 2020, PepsiCo launched two direct-to-consumer websites: snack.com and pantryshop.com, to deliver food and beverage products and meet increased demand amid the pandemic.¹⁸ In the third quarter of 2020, PepsiCo reported that its online sales nearly doubled – largely due to its D2C sales.¹⁹

► Figure 10. Shoppers across all age groups are ordering directly from brands



Source: Capgemini Research Institute, consumer demand survey, October-November 2021, N=10,179 consumers; N=1,014 Gen Z shoppers; N=2,911 Millennial shoppers; N=2,804 Gen X shoppers; N=3,450 Boomer shoppers.

- By household, shoppers living with children are more likely to have purchased from brands (58%) than those without children in their households (33%). To underline this fact, 19% of shoppers with children say they have ordered on a subscription basis versus only 8% of their counterparts.
- By location, urban shoppers are more likely to have purchased directly from brands (49%) compared to suburban (36%) and rural (30%) shoppers.

Many shoppers believe they receive a better customer experience when buying direct from brand

Of those shoppers who have ordered directly from brands, 60% say they get a better buying experience than when buying in-store and 59% say they get access to brand-loyalty programs (see Figure 11). For example, US confectioner Mars’s direct-to-consumer website for its M&Ms brand features engaging content, product personalization, and a clearly marketed loyalty program sign-up feature. The company capitalizes on its strong social-media following to drive shoppers to the website.²⁰

► **Figure 11. Buying direct from brands offers a better shopping experience**

Percentage of shoppers that agree with the statement: "I will purchase products from brands directly instead of buying from retailers because..."



Source: Capgemini Research Institute, consumer demand survey, October-November 2021, N=4,154 consumers who have ordered products directly from brands and not from retailers in the last six months.



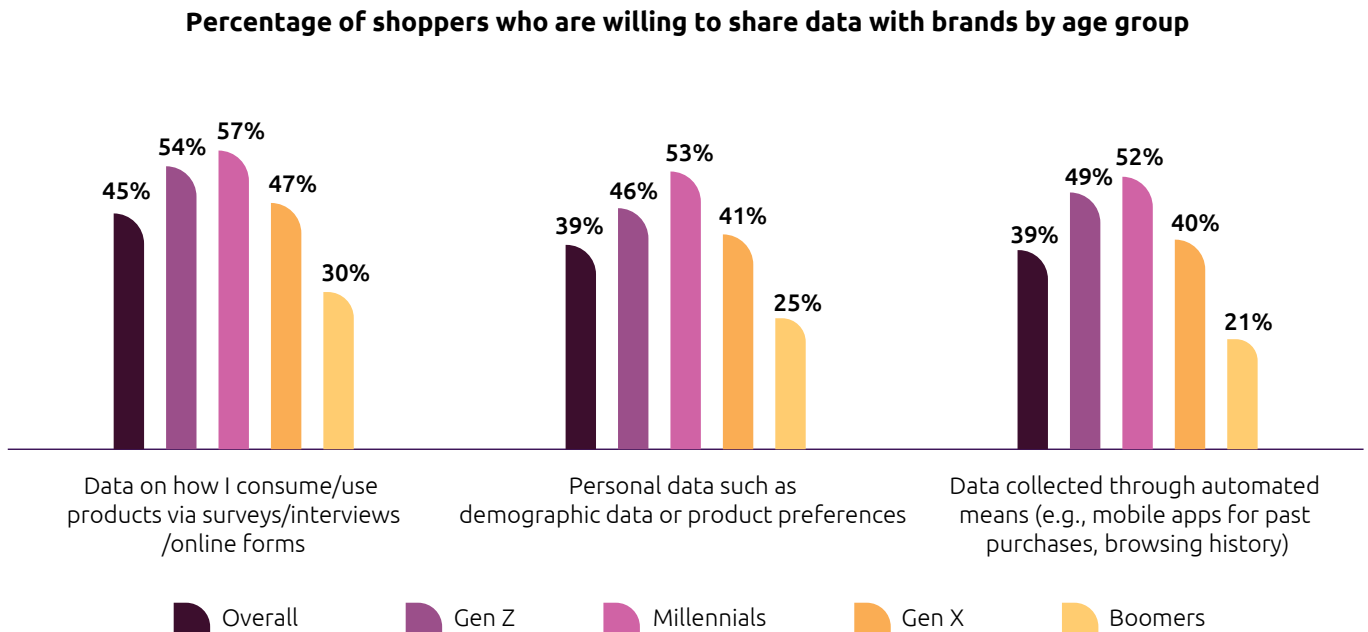
Shoppers are more willing to share consumption data than personal data

Our recent research on data mastery found that only a minority of consumer products and retail (CPR) organizations have a strong foundation in data-powered decision making.²¹ While CPR companies must make the effort to advance their data-sharing infrastructures and data behaviors, consumers are willing to share their data with brands. Nearly half (45%) of all shoppers say they are willing to share data with brands on how they consume or use products via surveys, interviews, and/or online forms. Over one third of all shoppers (39%) in

our survey say they are willing to share personal data, such as demographic data or product preferences, with brands. Millennials are the age group most willing to share their data with brands and Boomers are the least willing (see Figure 12).

When combined with existing datasets, this customer data can be very valuable to brands and retailers. As Brigitte King, chief digital officer of Colgate-Palmolive, says: *“There are many areas to apply analytics. Some center on deriving net new insights – where you overlay behavioral and intentional data that was never combined before, to see completely new opportunities for engagement and growth – reimagining the use of data to reinvigorate product development, or services and experiences for consumers.”*²²

► Figure 12. Millennial shoppers are the most open to sharing data with brands



Source: Capgemini Research Institute, consumer demand survey, October-November 2021, N=10,179 consumers; N=1,014 Gen Z shoppers; N=2,911 Millennial shoppers; N=2,804 Gen X shoppers; N=3,450 Boomer shoppers.

The willingness to share data with brands is even higher than average among shoppers who purchased on a subscription basis in the last six months:

- 63% of subscription shoppers are willing to share personal data.
- 65% are willing to share data collected through automated means.

- 65% are willing to share consumption data via surveys, interviews, or online forms.

Over half (54%) of all shoppers say that offers, deals, and/or discounts would make it more likely for them to share data directly with brands. Sixty percent of Gen X agreed but only 48% of Boomers did so.



Online shoppers are turning to marketplaces

In our survey, we asked those shoppers who have purchased the majority of their grocery, health and beauty and/or household and toiletry products online over the last six months whether they'd ordered products from an online marketplace, rather than from an individual retailer (for example, ordering from a website that sells products from different brands, such as Amazon, Alibaba, or Etsy, as opposed to shopping at a dedicated retailer or brand outlet such as Target, Walmart, Nike, etc.) The vast majority (74%) of these primarily online shoppers have ordered products directly from an online marketplace in the past six months, on either a one-time or subscription basis.

By age group, 88% of online Gen Z shoppers and 81% of Millennials have ordered grocery, health and beauty, and/or household and toiletry products from an online marketplace. Among Boomers, 60% say the same (see Figure 13).

► Figure 13. Online marketplaces are gaining in popularity



Source: Capgemini Research Institute, consumer demand survey, October-November 2021, N=997 primarily online shoppers; N=114 Gen Z shoppers; N=382 Millennial shoppers; N=261 Gen X shoppers; N=240 Boomer shoppers.

4

CONSUMERS' TOP PRIORITY IS HEALTHY, SUSTAINABLE LIVING – AND THEY ARE MAKING PURCHASES THAT REFLECT THIS

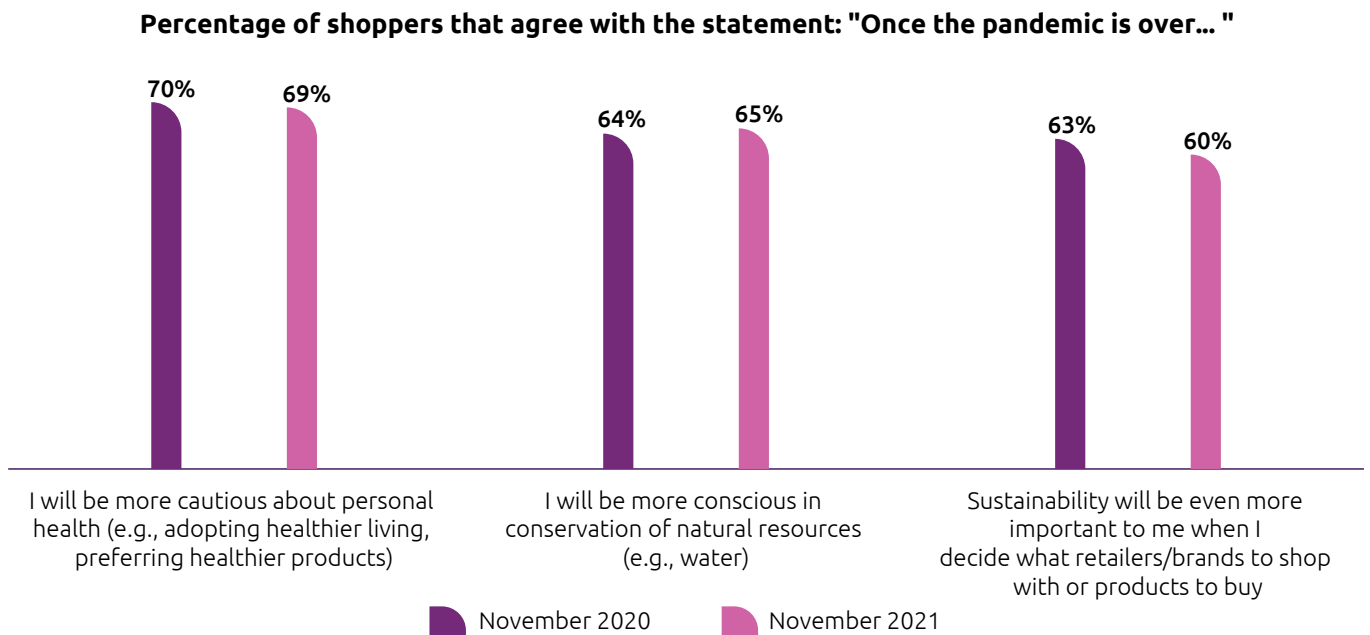
Growing concern about environmental challenges and the need to conserve natural resources – as well as greater stakeholder expectations around societal issues – have brought sustainability into the mainstream. In our research on sustainability in the CPR sector, we found that nearly 80% of consumers want to contribute to the fight to save the planet for future generations.²³ The COVID-19 pandemic has also altered consumer perspectives on their own health. In our July 2020 research on consumer health behaviors, we found that nearly 50% of consumers are worried about the state of their physical health, up from a third before the pandemic.²⁴ Pia Heidenmark Cook, chief sustainability officer at Ingka Group, echoes this sentiment: *“COVID has accelerated a lot of people’s thinking on health and well-being. This is not only for themselves and their families and communities, but also for the planet. People have started to realize how things are interconnected and how vulnerable we are.”*²⁵

Health and sustainability are top priorities for most consumers

In November 2020, 70% of consumers agreed that post-pandemic, they will be more careful in terms of maintaining and protecting their personal health; one year later, this number has remained stable, with 69% of all shoppers agreeing in our November 2021 research.

Similarly, the percentage of shoppers that say they will be more conscious of natural resources and that sustainability will be more important to them when deciding which retailers and brands to shop with remained steady between November 2020 and November 2021 (see Figure 14). Today's consumers engage more readily with brands and retailers that they perceive to be sustainable and genuinely committed to green practices. Our previous research found that almost half (48%) of consumers say that they share an emotional connection with products or organizations that demonstrate these qualities.²⁶

► Figure 14. Shoppers are concerned about health, conservation and sustainability



Source: Caggemini Research Institute, consumer demand survey, October-November 2021, N=10,179 consumers; Caggemini Research Institute, "The great consumer reset: COVID-19 and the consumer products and retail consumer," November 2020.

These sentiments differ by shopper demographic. For example:

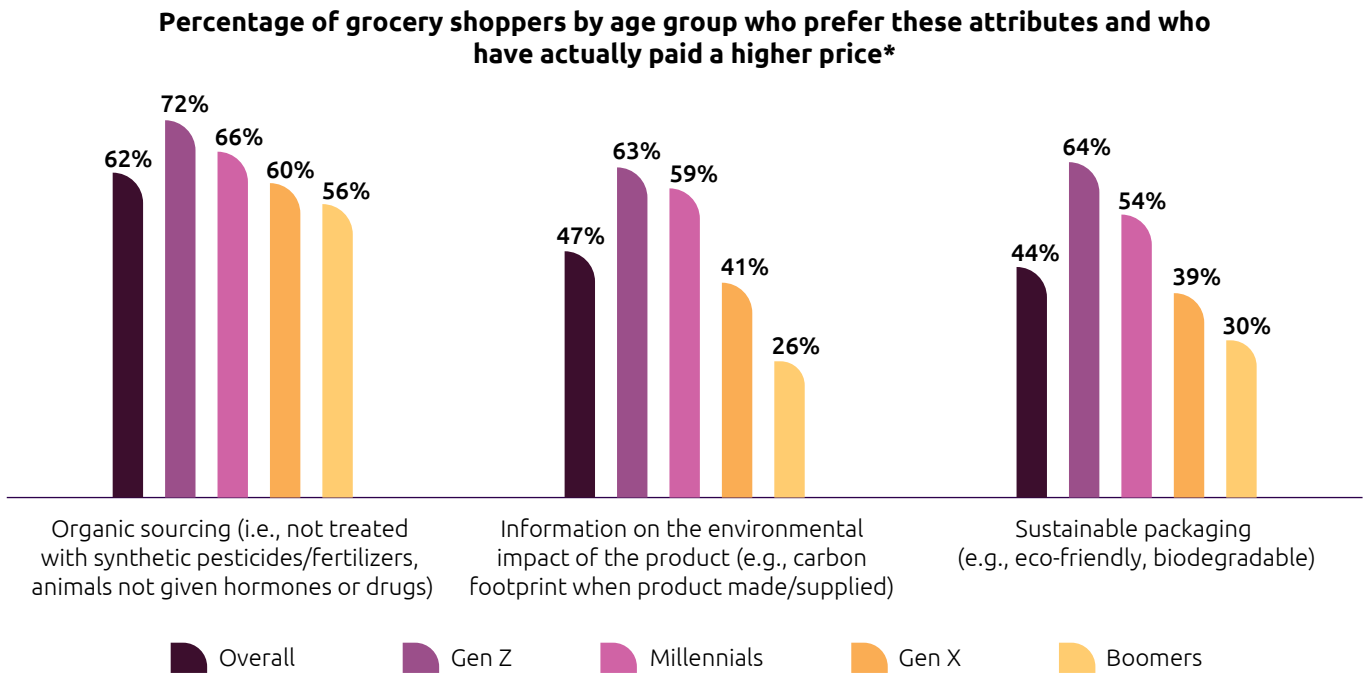
- 74% of shoppers with children in their households say they will be more cautious about personal health compared to 67% of shoppers without children. Moreover, 65% also say that sustainability will be even more important to them versus 57% for shoppers without children.
- 64% of urban shoppers say that sustainability will be even more important to them versus 57% for rural shoppers. And 68% say they will be more conscientious in conservation of natural resources compared to 62% of rural shoppers.

Consumers are willing to pay a premium for products they perceive to be sustainable

Consumers are pivoting towards more sustainable products and many are willing to pay a premium for them. Gen Z and Millennials lead all other age groups in this respect. When shopping for groceries, 72% of Gen Z and 66% of Millennials say they are willing to pay more for organic foods and in fact did so the last time they were grocery shopping, compared

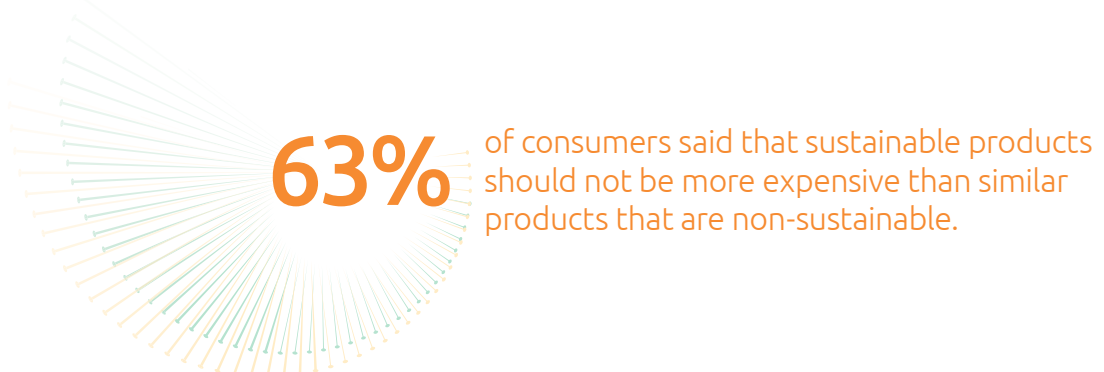
to 56% of Boomers. Similarly, 64% of Gen Z and 54% of Millennials are willing and have paid more for groceries in sustainable packaging versus only 30% of Boomers (see Figure 15). Eelco Smit, senior director sustainability at Dutch multinational Philips says: *“There is definitely a change that has taken place in the world. Specifically, the younger generations – such as Gen Z – are really starting to take decisions based on sustainability. Millennials are also sustainability oriented, but they still struggle sometimes to act upon that. But I think Gen Z is much more likely to actually change their behaviors.”*²⁷

► Figure 15. The younger generations are most conscious of sustainability



Source: Capgemini Research Institute, consumer demand survey, October-November 2021, N=2,347 shoppers willing to pay a higher price for organic sourcing; N=915 shoppers willing to pay a higher price for information on the environmental impact; N=1,483 shoppers willing to pay a higher price for sustainable packaging.

*Shoppers paid a higher price the last time they were shopping for groceries.



Consumers do not expect sustainable products to come at a premium in the long term

Many shoppers have paid a premium for the products and brands they perceive as sustainable. However, they do not expect sustainability to come at a high price indefinitely.

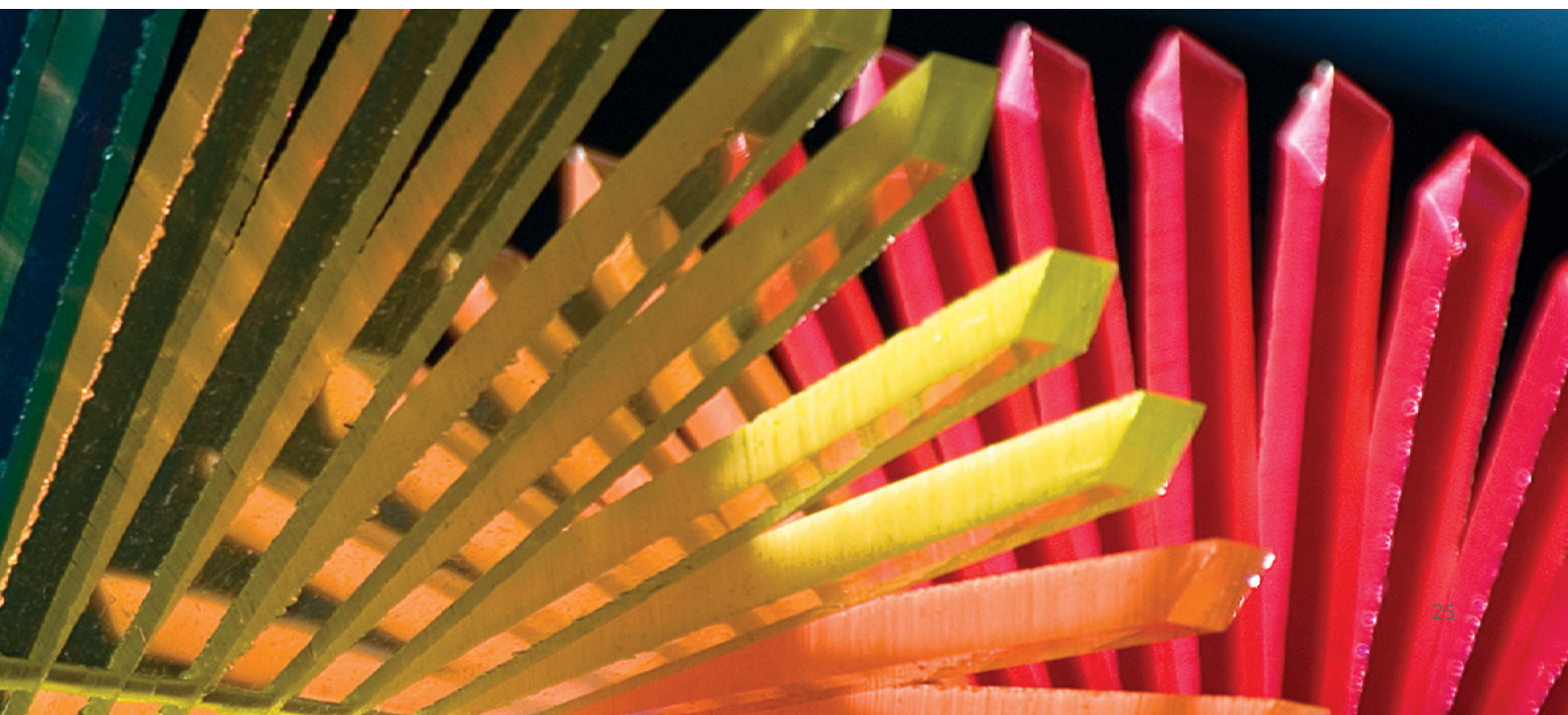
Currently, perhaps, they feel they have no other option than to pay the inflated price in order to align their purchase with their ethical values. In June 2020, we found that 63% of consumers said that sustainable products should not be more expensive than similar products that are non-sustainable. This percentage increased to 72% in our current research (see Figure 16). Given a choice, shoppers would shift to a more economical, sustainable product at a lower price point.

► Figure 16. Most shoppers want to see a cap on the price of sustainable products

Percentage of shoppers who say that sustainable products do not need to be more expensive than the non-sustainable equivalents



Source: Capgemini Research Institute, consumer demand follow-up survey, November 2021, N=979 consumers; Capgemini Research Institute, Consumer products and retail: How sustainability is fundamentally changing consumer preferences, July 2020.

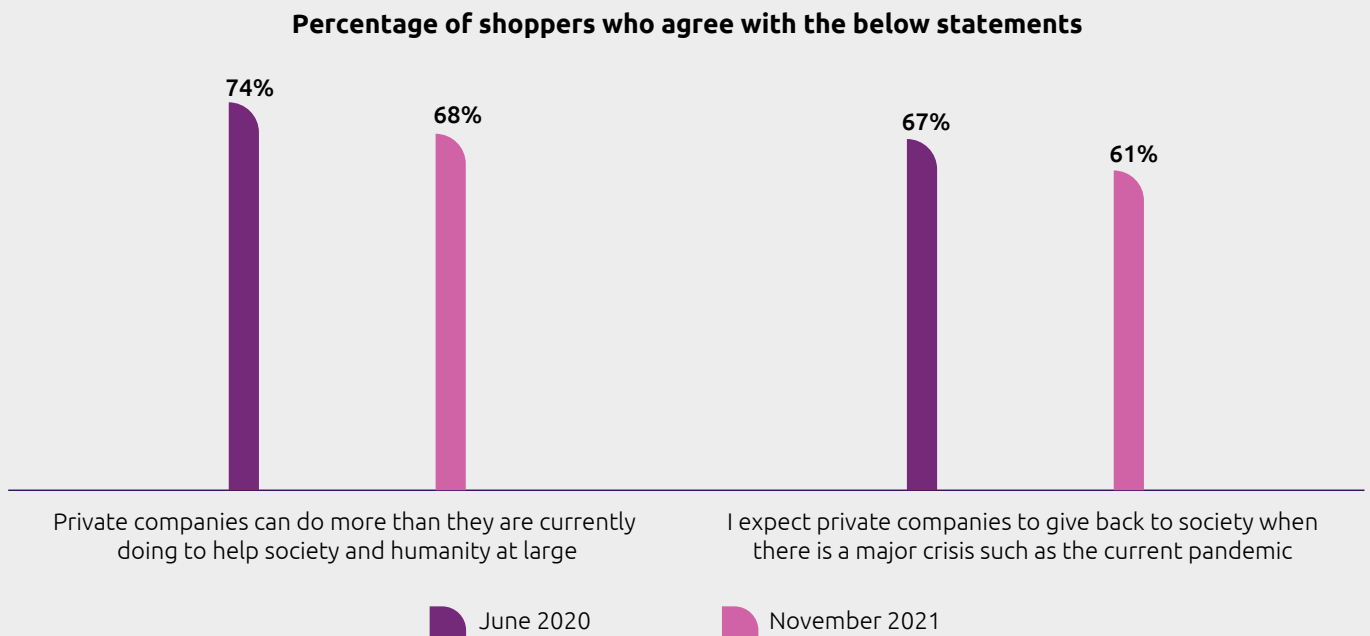


Pressure to be purposeful

Consumers increasingly want to hold companies to their commitments, from taking a stand on climate change to driving workforce diversity. Our research suggests that consumers want companies not only to demonstrate a sense of wider social purpose (i.e., acting beyond their own self-interest), they want to see positive action today in terms of contributing to social well-being.

In our June 2020 research, nearly three-quarters (74%) of consumers agreed that private organizations can do more to help society. This share has remained constant, with 68% of shoppers agreeing in our November 2021 research. In June 2020, 67% of consumers said they expect private companies to give back to society when there is a major crisis (such as the COVID-19 pandemic) and again, in November 2021, the vast majority of shoppers agreed (61%) (see Figure 17).

► Figure 17. Consumers want to see companies contributing to society



Source: Capgemini Research Institute, consumer demand survey, October-November 2021, N=10,179 consumers; Capgemini Research Institute, Why purpose-led organizations are winning consumers' hearts, June 2020.

The influencing power of the youngest generation and the world's largest demographic



Gen Z (those born after 1995) represents **32%** of the global population or **2.47 billion** people.¹



They are more **racially and ethnically diverse**, are on track to be the most **well-educated** generation yet and are true **digital natives**.¹



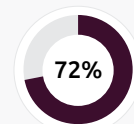
Gen Z has the fastest-growing aggregate income level of any demographic, set to hit **\$33 trillion** by 2030 and surpassing Millennials' spending power by 2031.²

More Gen Z shoppers have paid a premium for products espousing healthy, clean, sustainable attributes than any other generation

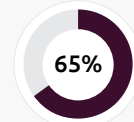


Grocery

Organic sourcing (i.e., not treated with synthetic pesticides /fertilizers, animals not given hormones or drugs)

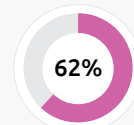


High nutritional value

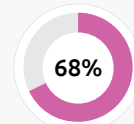


Household and toiletries

Clean and natural ingredients (i.e., no synthetic ingredients or chemicals)

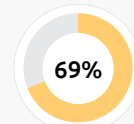


Label containing information on the environmental impact of the product (e.g., carbon footprint when product made/supplied)

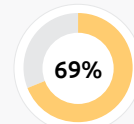


Health and beauty

Opinion of online influencers



Clean and natural ingredients (i.e., no synthetic ingredients or chemicals)



Source: Capgemini Research Institute, consumer demand survey, October-November 2021, N=1,014 Gen Z shoppers.

Percentage represent the share of Gen Z shoppers who prefer these factors and have actually paid more in the past

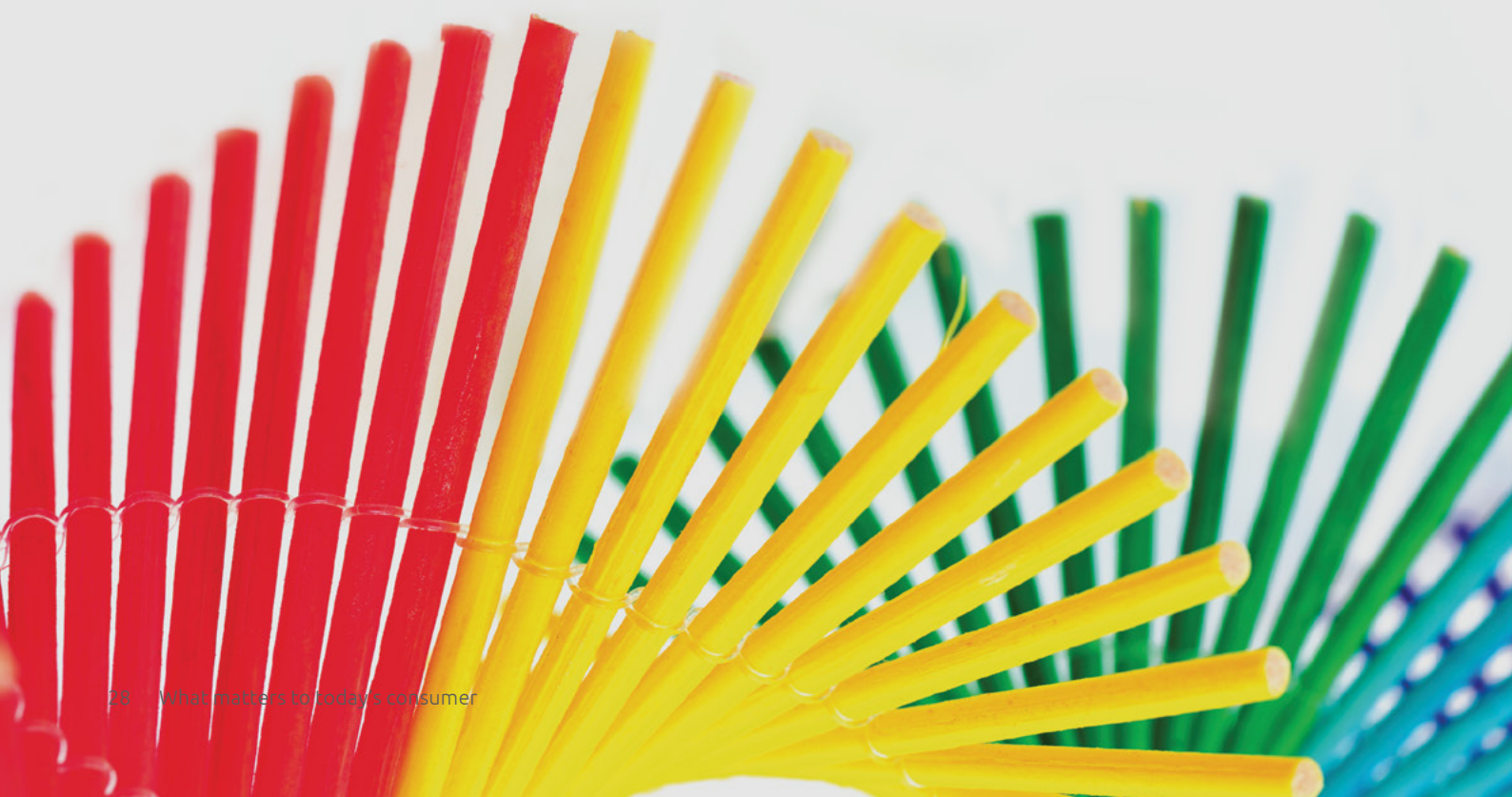
¹Pew Research Center, "On the cusp of adulthood and facing an uncertain future: What we know about Gen Z so far," May 2020.

²Business Insider, "Gen Z's surging economic power will permanently change the investing landscape over the next decade," November 2020. *Percentage represents the share of Gen Z shoppers who prefer these factors and have actually paid more in the past.

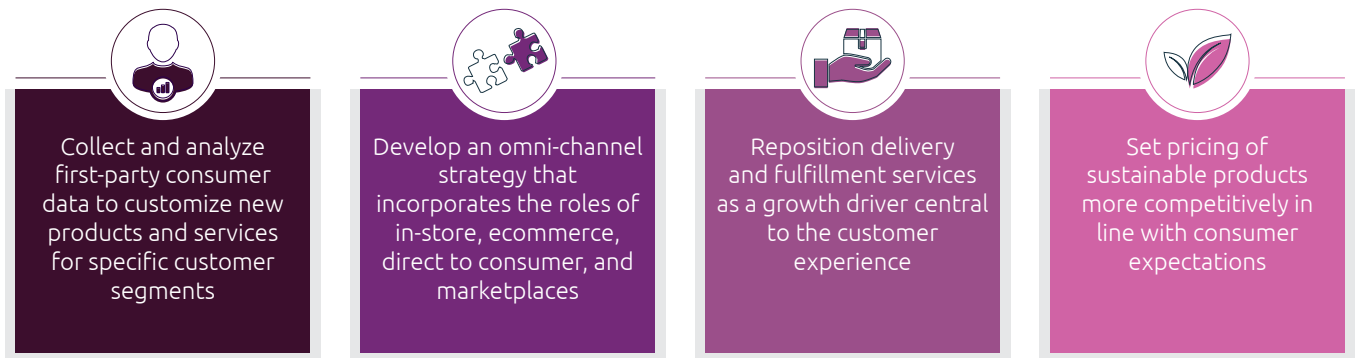
5

HOW BRANDS AND RETAILERS CAN CAPITALIZE ON EVOLVING CONSUMER TASTES

Based on our research, we have identified four key actions that brands and retailers need to take in order to meet the evolving needs of today's omnichannel consumer (see Figure 18).



► **Figure 18. Four key actions for brands and retailers**



Source: Capgemini Research Institute analysis.

Collect and analyze first-party consumer data to customize new products and services for specific customer segments

Retailers have always had access to a wealth of consumer data. With the help of emerging technologies such as AI and machine vision, retailers now have the opportunity to derive deep, actionable insights from this data. For example, retailers can use machine vision to track shopper movement in store and, from this, ascertain “hotspots” for optimum product placement. Moreover, our research shows that most shoppers are willing to share data with brands; almost half (45%) of shoppers in our survey are willing to share data with brands on how they consume or use products via surveys, interviews, or online forms.

Organizations need to embed sophisticated data practices as part of a data-powered culture to extract the full potential value from this data. Making data-driven decisions begins with a commitment from the C-suite; leadership must sensitize all teams to the new methods and processes for extracting actionable insight from data. From there, brands and retailers will be better positioned to tailor products to target a particular customer segment. As this research demonstrates, different shopper segments have different needs, preferences, and desires. For example, the preferences of Gen Z shoppers look very different to those of Boomer shoppers, as do the preferences of urban versus rural shoppers. Brands and retailers should regularly discern and measure the preferences of each of the shopper segments most important to their business, and use those patterns to create a template for their products and services. The challenge for businesses will be to ensure that each function has the data they need, when they need it, as the process moves forwards.

There are companies that are already doing this effectively. AB InBev, the drink and brewing company headquartered in Belgium, has used its consumer-data platform to create unified, commercially coherent consumer segments from disparate consumer-profile data collected by different brands. This has improved their ad-target efficiency by 30%.²⁸ Consumer products company, Nestlé Brazil, has created 11 new strategic data assets and an internal analytics center of excellence. This center enables real-time data analysis, allowing Nestlé to improve products through a process of iteration and bring solutions to market more quickly. The impact was not just cultural; it brought \$5.5 million in new revenue within months of launch.²⁹

Develop an omnichannel strategy that incorporates the roles of in-store, ecommerce, direct to consumer, and marketplaces

Today’s consumer shops in multiple ways and transitions seamlessly between online and offline channels. More and more often, she does not differentiate between these two channels; she has come to expect the same quality of service and customer experience from both. She may begin her shopping journey online searching for products, make an online purchase, travel to the store for pick-up, and complete a return in-store. Conversely, she might shop in store for the bulk of her items each week and then order one-off products online that she either forgot or did not realize she needed. Given the parallel physical and virtual activity of today’s consumer, brands and retailers must adapt to serve customers who are shopping in multiple ways. They must be able to develop their in-store and online channels symbiotically, rather than in silos. Moreover, in the case of brands, they must consider direct to consumer, online marketplaces, and retailers as part of their multi-channel strategy. In order to accomplish this, brands and retailers should:

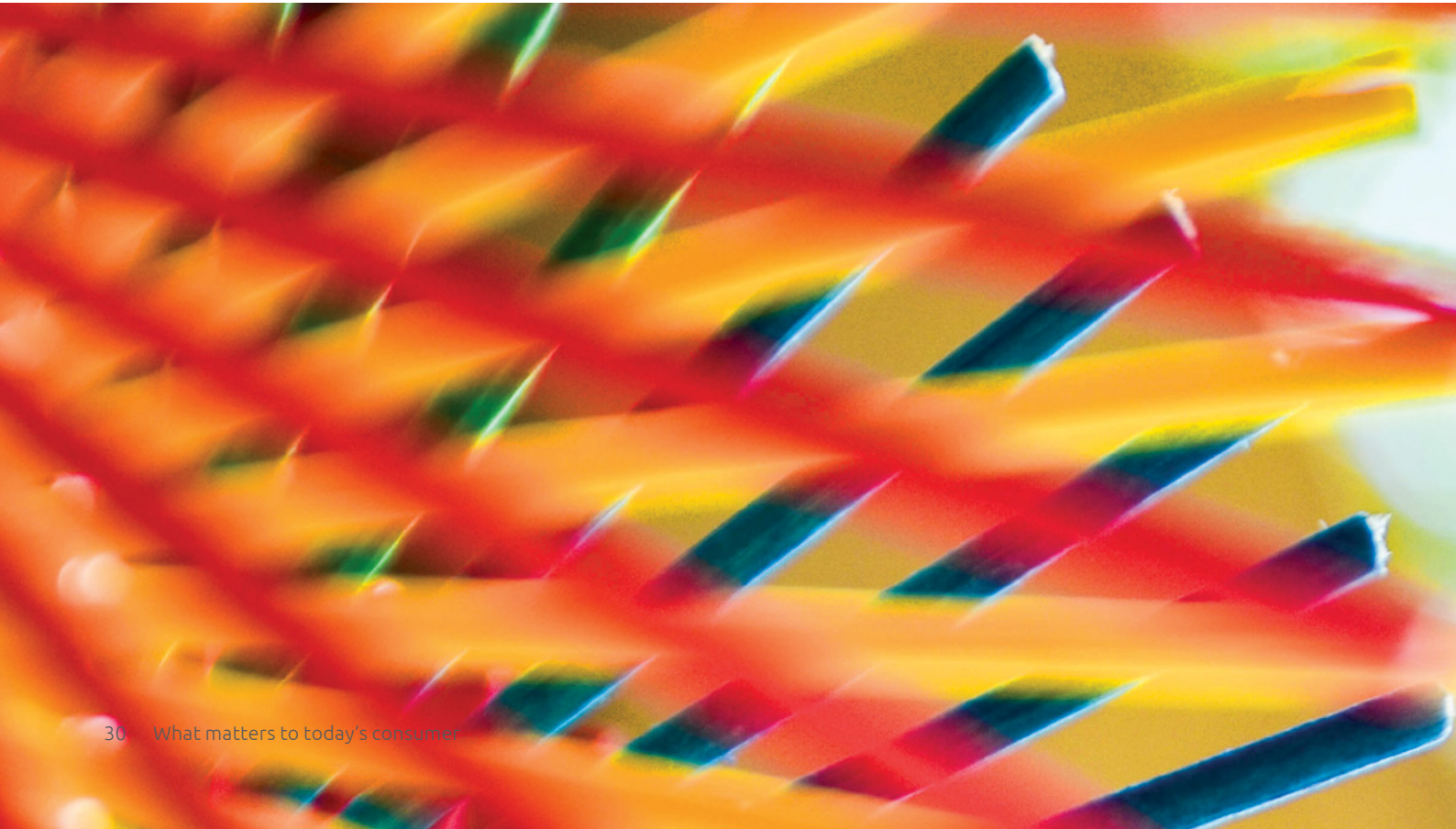
- **Reimagine the store as a center for micro-fulfillment, data collection, and customer engagement**

Shoppers view stores as an essential part of the traditional shopping experience and, as we see in our research, in-store interactions are likely to reach an even higher level in the future than before the pandemic, but without interactions with online channels falling away. Brands and retailers need to take these new consumer expectations and use them as a guide to reimagine the store of the future. As consumer behavior evolves, storefronts can use their formidable physical presence to mirror consumer-led trends and meet consumer expectations in granular detail. For instance, as the BOPIS (buy online, pick up in store) trend gathers pace, Meijer, the US supercenter chain, has launched a micro-fulfillment center to improve the efficiency of online order fulfillment, with the added benefit of allowing it to maximize space in its stores.³⁰

Technology can also enable storefronts to engage more deeply with customers. Using customer data creatively can help brands offer differentiated services built around their products. Technology-driven customer engagement also presents opportunities to offer a seamless omnichannel experience. Sephora, for example, makes

extensive use of smartphones to augment its online and offline experiences. While emerging technologies such as augmented reality (AR) and virtual reality (VR) allow customers to virtually “try on” products, mobile apps can help find and recommend products based on individual features and personalized customer tastes when at the storefront.³¹

For retailers, the focus has been on marketing and customer service. The availability of granular data and the ability to work on this data with AI and ML present a golden opportunity to treat storefronts as centers of data collection. The treasure trove of available data – from granular consumer preferences across multiple product categories to information regarding stock levels and customer sensitivity to price – can allow storefronts to make data-driven decisions. US supermarket chain and general retailer, Kroger, for example, uses EDGE (Enhanced Display for Grocery Environment) – a smart shelf-display system that uses facial recognition – to enable personalized offers and show nutritional information based on previous purchases and preferences of approaching customers.³²



- **Position the store as a driver of sustainability**

Consumers want to incorporate more sustainable practices into their behavior and expect the brands they favor to do the same. Our previous research on the circular economy shows that a majority of consumers today are aware that around one-third of food produced each year is wasted and that 85% of textiles end up in landfill.³³ While consumers want more sustainable products and services, they don't want to sacrifice convenience in obtaining them. The same research shows that a lack of convenient recycling facilities was a top challenge for consumers.³⁴ Given their evident visibility to shoppers and the fact that consumers are returning in numbers to in-store shopping, storefronts constitute an ideal venue in which to showcase sustainable practices. British retailer, Asda, is rolling out "refill zones" in stores to encourage shoppers to refill containers they have brought from home, thereby reducing packaging waste.³⁵ Another British retailer, Tesco, is offering products in reusable packaging that can be returned to the retailer to be refilled, resealed, and sold again.³⁶

These storefront practices are also an excellent way to demonstrate alignment with consumer demand for more sustainable consumption. US consumer electronics retailer, Best Buy, uses a combination of methods to minimize the cost of returns, including selling "open-box" items (goods that have been returned to store by customers, checked, and then resold at a discount) on its website and hosting a sales event for open-box merchandise right after Christmas. The retailer also has a small number of Best Buy outlets where open-box and slightly damaged major appliances can be purchased.³⁷

- **Build a marketplace strategy that employs a direct-to-consumer "look and feel"**

In our research, we have seen an increasing proportion of shoppers buying grocery, health and beauty, and household products directly from brands. Many of these shoppers believe they receive a better buying experience this way. However, when a consumer buys from an online marketplace, they are likely not associating that purchase with the brand that produced it, but rather the retailer from which they are purchasing it. With 74% of online shoppers in our survey having ordered from an online marketplace, brands need to capitalize on the level of customer intimacy created in direct-to-consumer platforms and strive to emulate the brand experience. However, brands need to be cautious as they do tend to lose some control over their own presence and of how their products are showcased and marketed on marketplaces. When working with marketplaces, brands need to ensure that their product retains strong brand recognition. Building strategic relationships with marketplaces is an essential part of using this selling channel to ensure brands develop a customized presence that aligns closely with their brand promise and image. Our research reveals that most shoppers prefer to use marketplaces when purchasing something for the first time. This preference is even more widespread when making a repeat purchase. Given the sheer volume of shoppers using marketplaces in the current consumer environment, they have become an attractive avenue through which brands can acquire new customers and raise awareness.



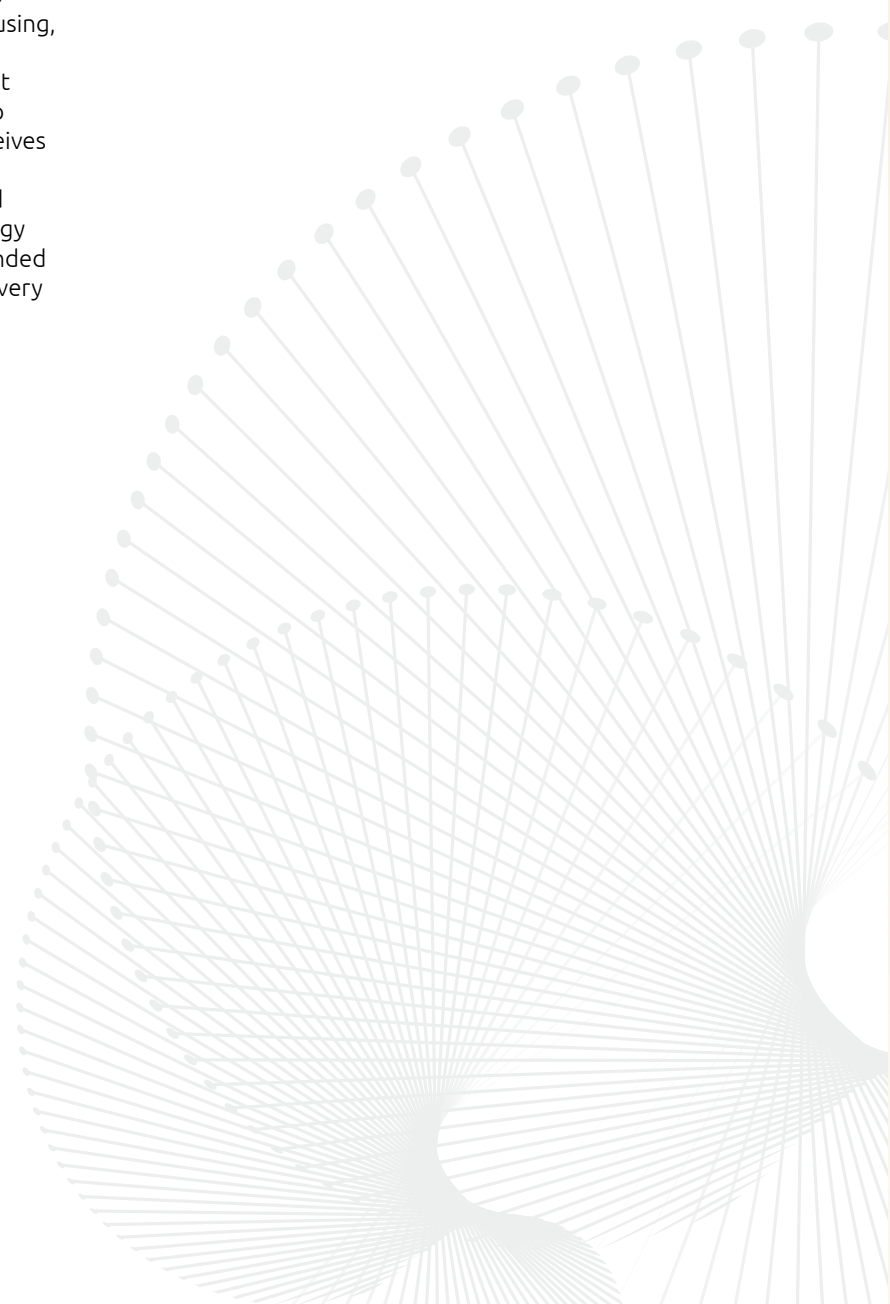
Position delivery and fulfillment services as a growth driver

Our survey shows that shoppers regard high-quality, efficient delivery and fulfillment of their orders as an integral part of the shopping requirement; for retailers, it is equally significant as a consumer touchpoint. As shown in our research, grocery and health, and beauty shoppers across demographics rate delivery and fulfillment services as more important than in-store experiences.

As lines between online and offline shopping disappear, shoppers have come to expect cutting-edge delivery services across all channels. Our study reveals that a desire for convenience of delivery is a major factor that can push shoppers to try new and emerging models of shopping. We found that slightly less than half (47%) of consumers who have purchased products via subscription services do so for the convenience of home delivery. Brands and retailers should continue to invest in digital technologies around fulfillment and services, including automation, warehousing, traceability, and data. They should also aim to embrace technology as part of their service offerings and not just regard it as a back-office tool; they should use it both to drive the business and to ensure that the customer receives an integrated, consistent experience over both online and offline channels. Kroger has embraced delivery and fulfillment services as a key part of its innovation strategy within the fresh foods segment. It has developed expanded partnerships with “ghost kitchens” (restaurants for delivery and take-out only) to offer customers freshly prepared, on-demand restaurant food.³⁸

Set more competitive prices for sustainable products

Our research reveals that many shoppers are willing to, and indeed, have paid a higher price for sustainable products; however, most consumers do not believe that sustainability should come at a higher price point indefinitely. Brands and retailers should consider how to reposition products that consumers perceive to be sustainable. They should consider whether they are set at a premium price because they are more expensive to produce, or merely because they are considered sustainable. Brands and retailers should not attempt to drive margins purely through the sustainability label only. They should educate customers on the benefits of sustainability and how they are helping to make an impact with their purchases. Being very clear and transparent in promotions and communications on the activities brands and retailers are doing to drive sustainability will help customers accept a higher price in the shorter term.

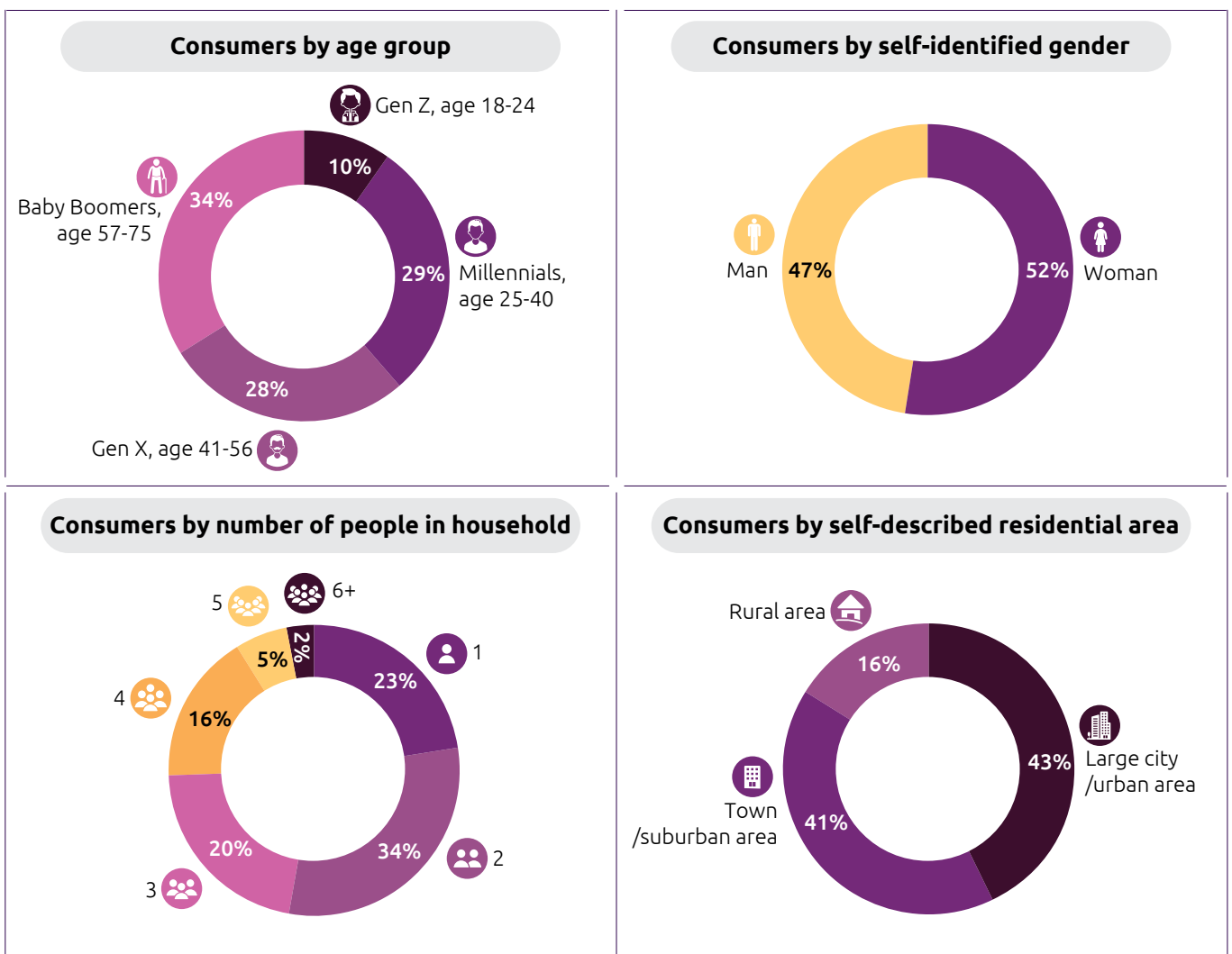


CONCLUSION

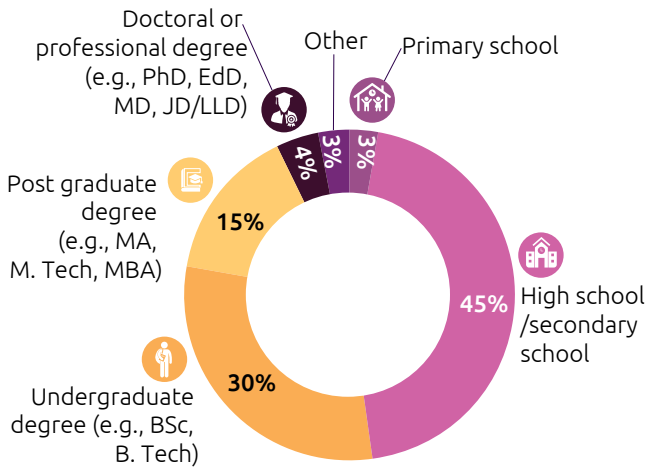
Retail is undergoing an incredible shift, driven by changing consumer behaviors and expectations. Brands and retailers have to respond to ever-changing patterns of customer demand, shifting economic situations, global supply-chain pressures and, of course, the COVID-19 pandemic. In addition, digital transformation is further accelerating; technologies such as 5G, AI, robotic process automation (RPA), and AR will provide further opportunities for retailers and brands to improve the customer experience. Today's consumer is shopping in multiple channels, and their expectations of the in-store experience have evolved. They seek convenience as a non-negotiable standard, with a smooth delivery and fulfillment experience being a top priority. From our survey of over 10,000 consumers around the world, it is also clear that shoppers deem sustainability, purpose, and contributing positively to society important, and these trends will be here for the long term. Brands and retailers have a responsibility to act sustainably and to ensure their activities do not directly or indirectly negatively affect economic, social, and environmental aspects.

RESEARCH METHODOLOGY

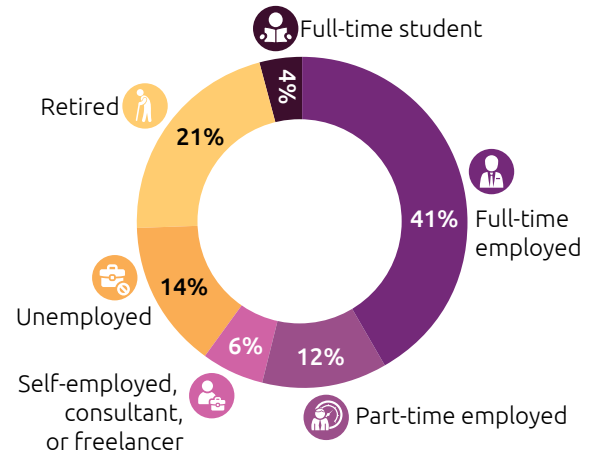
We surveyed 10,179 consumers over the age of 18 in 10 countries across North America, Europe, and Pacific. The global survey took place in October and November 2021. We also conducted a short follow-up survey of 979 of our original respondents in December 2021 to explore additional questions related to online and in-store shopping and spending patterns. The demographic details of consumers are below.



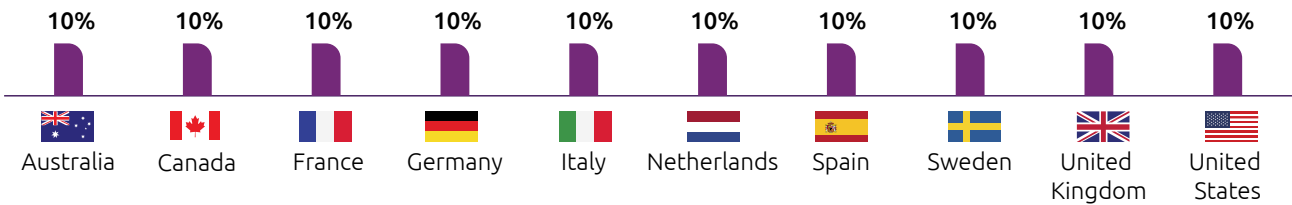
Consumers by education



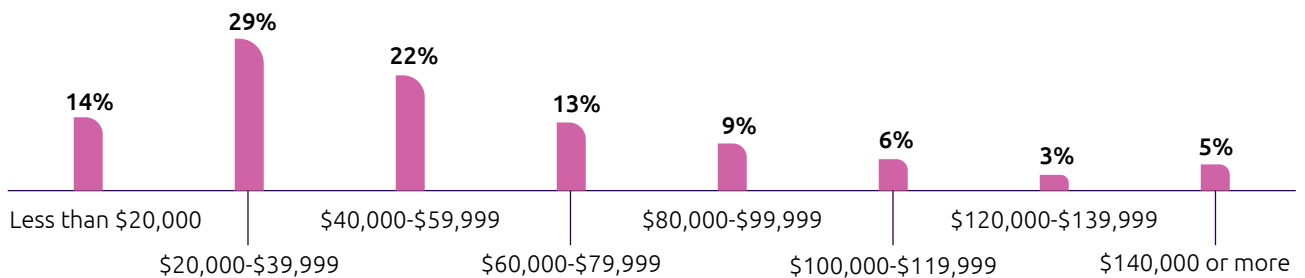
Consumers by employment



Consumers by country of residence



Consumers by annual household income



Source: Capgemini Research Institute, consumer demand survey, October–November 2021, N=10,179 consumers.

*The study findings reflect the views of the people who responded to our online questionnaire for this research and are aimed at providing directional guidance. Please refer to the methodology for details of respondents and get in touch with a Capgemini expert to understand specific implications.

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About the Capgemini Research Institute

The Capgemini Research Institute is Capgemini's in-house think-tank on all things digital. The Institute publishes research on the impact of digital technologies on large traditional businesses. The team draws on the worldwide network of Capgemini experts and works closely with academic and technology partners. The Institute has dedicated research centers in India, Singapore, the UK, and the US. It was recently ranked number one in the world by independent analysts for the quality of its research.

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Welcome to the new era of Connected Commerce

Consumers' purchasing decisions are based on a multitude of factors: loyalty, trust, health, safety, sustainability and purpose. But above all they expect convenience and immediacy – meaning that brands and retailers must be able to deliver any product, at any time, in any place, to any person.

Unprecedented levels of data are being generated by everyday interactions and transactions. This data can be connected to unlock and anticipate demand, streamline supply, and even improve the lives of shoppers.

This is the new era of connected commerce, personalized and powered by data.

Capgemini helps consumer product companies and retailers adapt at speed and scale to compete in the new era of connected commerce in the following areas:

For Consumer Product Companies:



Everywhere Commerce

Leveraging strategic investments and new business models to maximize consumer choice, enhance the experience, and drive sustainability.

- Capgemini recognizes the fundamental shift CP brands are facing – from a traditional one-way B2B model to a multichannel strategy that blends physical and digital, B2B and B2C, partner and owned channels.
- Our team of industry experts help CP brands enable the capabilities and business models that will provide them with direct access to consumers—drawing out consumer insights that will help them **refine operations, develop new products and create an enhanced experience.**



Intelligent Supply & Fulfillment Networks

Orchestrating the end-to-end supply ecosystem to meet consumer demand through agile, flexible fulfillment channels.

- Capgemini recognizes the supply chain and fulfillment network as a **strategic differentiator**. We help CP brands **strengthen the digital maturity**, infusing operations with data, analytics and AI, to enable more adaptability and flexibility within the supply chain.
- We help organizations leverage **data, analytics and AI** to enable new, predictive models to anticipate volatile demand, especially those created by differing trade models and retailer types.



Sustainable Futures

Embedding sustainability, trust, and ethicality throughout the product lifecycle, including material sourcing, supply and fulfillment.

- Our strategic consulting team and sustainability experts help organizations identify and articulate their purpose, as well as craft actionable, measurable and practical commitments related to issues like **fair trade, the circular economy, net zero emissions and waste reduction.**
- We take a “**Customer First**” mindset, building trust and intimacy with our clients to realize complex, long-term agenda items related to purpose and sustainability.

For Retailers:



Everywhere Commerce

Competing in an increasingly channel-less world where the point of fulfilment is not always in the store.

- Capgemini recognizes the industry-wide need to create a **new commerce experience** – one that connects all channels through a **comprehensive, holistic strategy & a cohesive, consistent CX**.
- Our breadth and depth of capabilities across strategy, CX, data/tech and supply chain, coupled with our deep experience within the retail industry, allows us to act as a **true end-to-end transformation partner** for our clients.



Intelligent Supply & Fulfilment Networks

Building the responsive, consumer-centric supply and fulfillment network of the future.

- Capgemini recognizes the supply chain and fulfilment channels as **strategic differentiators** that can enhance the CX by enabling more choice, convenience and customization.
- We help organizations **strengthen supply chain digital maturity**, infusing operations w/ data, analytics and AI to enable more adaptability and flexibility within the supply chain through demand sensing, hyper-local fulfillment, & local suppliers.



Sustainable Futures

Reframing sustainability as a driver of competitive advantage

- Capgemini has been at the very forefront of the purpose and sustainability movement, helping our retail clients frame sustainability as a catalyst for change and an opportunity to create a competitive advantage.
- Our deep sector and functional expertise, as well as our unique combination of design, technology, and data science capabilities, empower sustainable, data-led operations with a focus on supply chain, smart planning, and industrial procurement.



Personalization

Experience retail like never before.

- Capgemini paved the way to hyper-personalization in the retail world, working with marquee fashion brands to give consumers the option to personalize products like shoes and clothes. Today we are at the forefront of realizing this trend in the food and grocery arena.
- We work with our clients to create meaningful, timely, relevant insights that will help them understand what is important to their customers – and how to adjust the business in light of these needs and preferences.

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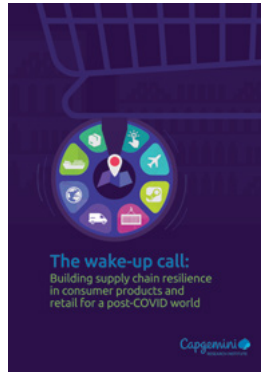
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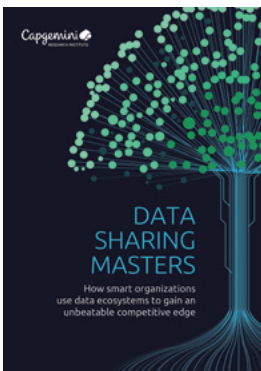
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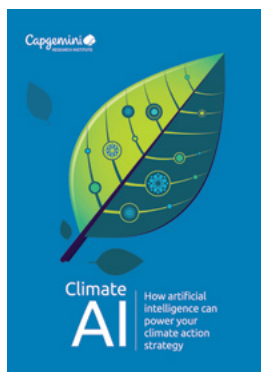
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The fluid workforce revolution



About Capgemini

Capgemini is a global leader in partnering with companies to transform and manage their business by harnessing the power of technology. The Group is guided everyday by its purpose of unleashing human energy through technology for an inclusive and sustainable future. It is a responsible and diverse organization of over 300,000 team members in nearly 50 countries. With its strong 50-year heritage and deep industry expertise, Capgemini is trusted by its clients to address the entire breadth of their business needs, from strategy and design to operations, fueled by the fast evolving and innovative world of cloud, data, AI, connectivity, software, digital engineering and platforms. The Group reported in 2020 global revenues of €16 billion.

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