SCS

NAVIGATING 2021

EXTREME INNVOVATION IN THE COVID ERA

INTRODUCTION

After a little more than a year into the pandemic, consumers have entered into a new tempo of living that revolves around digital content and experience. From entertainment and social activities to shopping and even – with Peloton – exercise, the Internet has become even more central to the way we live as lockdowns, restrictions and restrictions, which vary state by state, lead people to spend more time at home.

While the pandemic continues to spread, now surpassing 300,000 daily new cases in the US, most states now have businesses remaining mostly open, though mask mandates are widespread and consumers, for the most part, are remaining cautious.



For businesses, this is a time that requires radical innovation. The shift to ecommerce and other digital service delivery has been necessary for survival, and even as the vaccine rolls out, many believe that some shifts in digital behavior are here to stay. For example, while Zoom fatigue is very real and people are yearning to get back to face-to-face interaction, Bill Gates predicts that 50% of business travel will disappear, and the CEO of Southwest Airlines believes that it could take a decade for business travel to bounce back.¹

¹ https://www.cnbc.com/2020/12/17/will-business-travel-return-with-covid-vaccine-executives-are-split.html



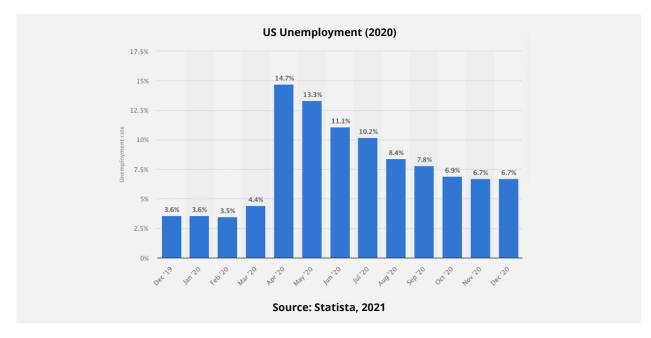
These shifts in behavior are disruptive to industries across the board. Adapting to the new reality by reimagining your value offering and digital experience should be a priority for every business.

The good news is that projections for economic recovery are positive. The stock market has hit record highs. Goldman Sachs projects 3.9% GDP growth for the US in 2021, enough to erase the losses of 2020. Further, BlackRock projects that the cumulative economic losses will "prove to be a fraction of those seen in the wake of the global financial crisis."²

				Rea	al GDP Gro	wth Forecasts	(% YoY)					
	United States			Eurozone			United Kingdom			Global		
Period	ISG	GIR	Consensus	ISG	GIR	Consensus	ISG	GIR	Consensus	ISG	GIR	Consensu
2020	-3.5	-3.4	-3.5	-7.5	-7.2	-7.4	-11.3	-11.2	-11.3	-4.1	-3.6	-4.4
2021	5.4	6.4	3.9	4.6	5.5	4.6	5.2	7.0	5.3	5.3	6.4	5.2
2020-21 Combined	1.7	2.3	0.3	-3.2	-2.1	-3.1	-6.7	-5.0	-6.6	1.0	2.6	0.6

Source: Investment Strategy Group, Goldman Sachs Global Investment Research, Bloomberg, 2021

Unemployment, which peaked at 14.7%, is gradually coming down as well, holding steady at just below 7%. Jeff Korzenik, Chief Investment Strategist for Fifth Third Bank, predicts that unemployment will remain higher than pre-pandemic levels for some time, with high rates particularly in the service sectors such as hospitality, food service and retail.³



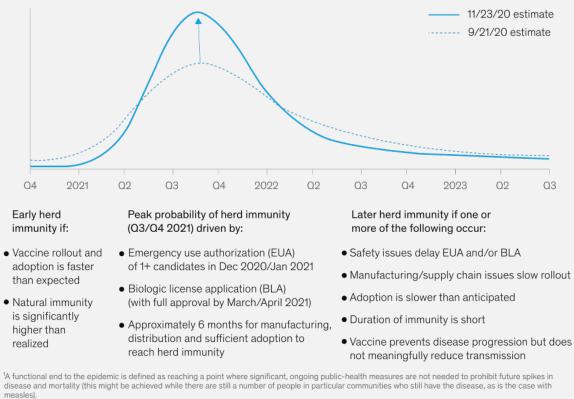
Beyond economic recovery, vaccine distribution is expected to pick up pace after a rocky start, with the incoming government administration setting a goal of 100 million vaccine doses delivered in 100 days. Dr Anthony Fauci, America's lead epidemiologist, believes that if vaccine delivery can become more efficient and reach 75%-80% of the population, that we can approach "very much some degree of normality that is close to where we were before."⁴

² https://www.blackrock.com/us/individual/insights/blackrock-investment-institute/outlook

³ https://mibiz.com/sections/economic-development/experts-forecast-sustained-growth-for-the-u-s-economy-in-2021 ⁴ https://news.harvard.edu/gazette/story/2020/12/anthony-fauci-offers-a-timeline-for-ending-covid-19-pandemic/



Main effect of recent news is to increase confidence in Q3–Q4 2021 as most likely timeline to achieve herd immunity.



Probability of functional end¹ to COVID-19 pandemic in US² by quarter (illustrative)

²Timeline to functional end is likely to vary somewhat based on geography.

Source: Information compiled from a variety of public statements and sources (ie, Atlantic; CDC; Cell [June 2020]; FDA; MedRxiv; Nature; Nature Reviews [August 2020, July 2020]; NY Magazine; Oxford Academic; PNAS; Science; Science Advances; Science Immunology [June 2020]; WHO); interviews with relevant experts; and surveys conducted by McKinsey and others

McKinsey & Company

Source: McKinsey 2020

One hurdle to this is that only 60% of Americans planned to take the vaccine in a November 2020 Pew poll, though that number was up from 51% in September. The challenge highlights the need for a coordinated national vaccination campaign to shift perceptions enough that herd immunity can be reached.

Despite a healthy stock market and improvements in unemployment and vaccine distribution, consumer sentiment remains rocky, with the primary driver of change appearing to be the change in administrations. While the overall average remains relatively stable, if low, Democrats and Republicans have each shifted their level of confidence, with Republicans becoming more pessimistic, and Democrats becoming more optimistic.

Shifting tides of consumer sentiment by party

Consumers of different political parties have had vastly different views on the economy under the Trump administration. Since the election, Democrats have grown more optimistic than Republicans. It is a near mirror image of what happened four years ago when Trump won the White House.



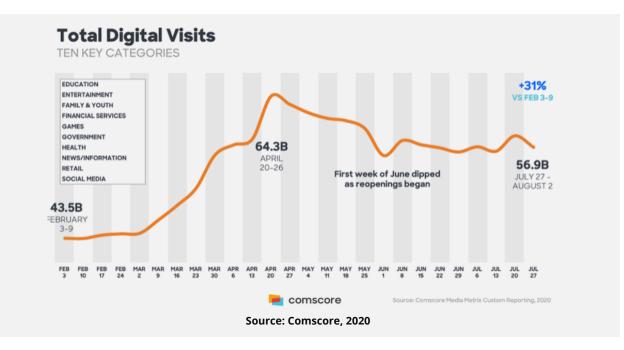
Note: Monthly survey by party affiliation began February 2017; Shaded area is the coronavirus pandemic and recession Source: University of Michigan Surveys of Consumers

Source: University of Michigan, 2021

KEY TRENDS IN SHIFTING CONSUMER BEHAVIOR

ACCELERATED DIGITAL ADOPTION

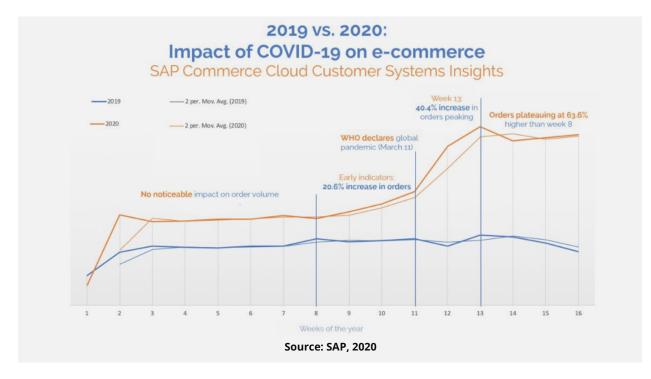
Adapting to consumer demand and competing in the increasingly digital-first economy requires extreme innovation. Internet usage has radically increased during the pandemic, and this shift is paving the way for deeper investments into digital platforms, increasing the level of competition and driving heightened consumer expectations.



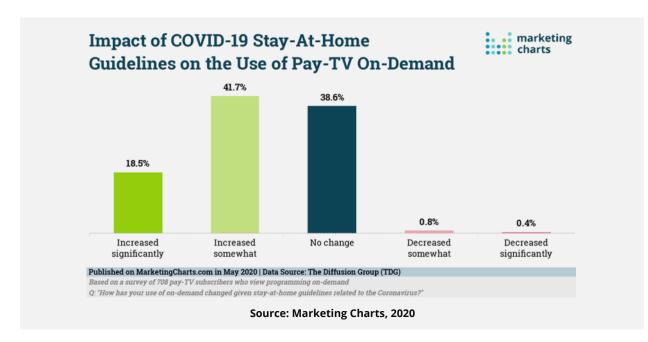
Across the board there has been a dramatic spike in ecommerce, video streaming, remote working technologies, gaming usage, and more. In the case of ecommerce, increased demand has plateaued at an increase in sales volume of 63.6% YoY, according to SAP.⁵ In a recent Deloitte study, 24% of consumers declared that they would even buy their next vehicle online if available through that channel.⁶

⁵ https://www.the-future-of-commerce.com/2020/05/13/covid-19-e-commerce-data/ ⁶ https://www2.deloitte.com/us/en/insights/industry/retail-distribution/consumer-behavior-trends-state-of-the-consumer-tracker.html





Usage of streaming services has also seen a dramatic increase as consumers spend more time at home, with newer entrants like Disney+ and discovery+ providing viewers with multiple new options for quality content. News in particular is seeing a dramatic increase, with a 215% rise in digital news consumption in the US, YoY from March 2019 to 2020, according to Nielsen, while overall video content consumption has seen a 60% increase globally.⁷



⁷ https://www.nielsen.com/us/en/insights/article/2020/covid-19-tracking-the-impact-on-media-consumption/



RISE OF REMOTE WORKING CULTURE

Zoom has become the great winner of the pandemic as those who can work from home do so around the world. Parents are learning to juggle managing children's at-home learning with work, and pets are frequent guests on work calls. The situation has led to a great experiment in work culture, and while many miss the camaraderie and workplace socialization, the majority expect this trend to continue.

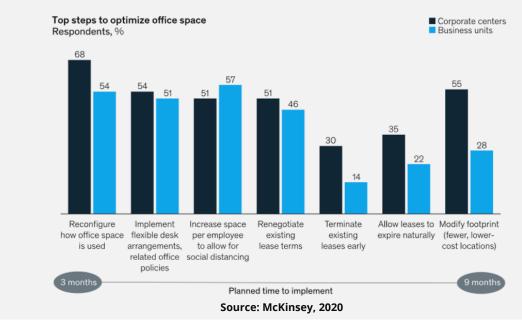
A survey by Willis Towers Watson of 200 employers found that 59% planned on maintaining their work from home policies after the end of the pandemic, and 49% planned to continue flexible working arrangements.⁸

Some companies, like Microsoft, have made the change permanent. Regardless, the need to work from home for most will remain through much of 2021.

Working from home during the pandemic is not all rosebuds, however, with 64% of employers expecting to face higher than normal levels of stress and anxiety over the next six months, and 60% planning on managing employee resiliency.

To counteract this, employers are dramatically increasing their level of communication with employees, with 84% providing tips on working from home and 76% providing guidance on managing a remote workforce. The feeling amongst respondents is that managers are stepping up to the challenge, with 89% declaring that managers have been working harder to support employees during what is a difficult time for all.⁹

The shift to remote work at an institutional level can be seen in measures being taken by respondents in a McKinsey survey of businesses regarding changes in their management of physical office spaces.



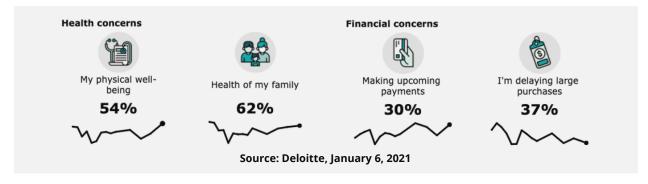
Corporate centers are planning a more radical optimization of office space.

A full 30% plan on terminating existing leases early, and even more, at 35%, are planning on allowing them to expire once they come to their natural conclusion, painting a picture of a corporate world where the office is no longer the center of productivity.

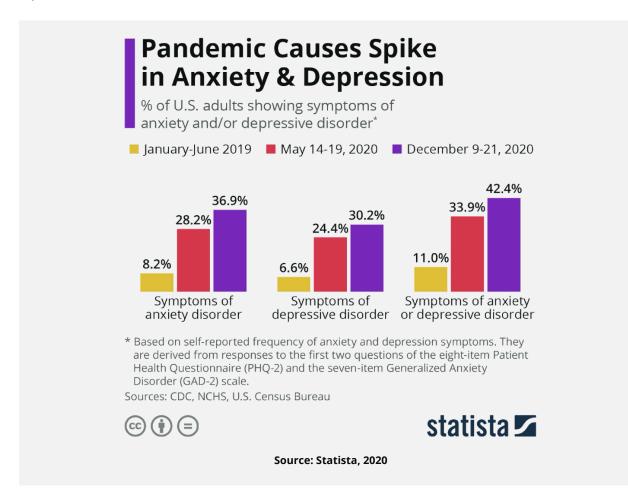
⁸ https://www.worldatwork.org/workspan/articles/remote-work-policies-expected-to-remain-in-place-beyond-covid-19 9 https://www.worldatwork.org/workspan/articles/remote-work-policies-expected-to-remain-in-place-beyond-covid-19

LIVING WITH INCREASED ANXIETY

As the pandemic surpasses over 400,000 US lives taken, with many more becoming extremely ill, most consumers are concerned about the physical well-being of themselves and their families. Economic concerns are also pressing, with nearly a third of Americans worrying about making upcoming bill payments.



While the Deloitte Net Anxiety Score is down 6% for American's on January 6, 2021, a measure that asks if consumers are more anxious than they were last week, mental health remains a concern. As the pandemic continues, rates of anxiety and depression continue to rise.



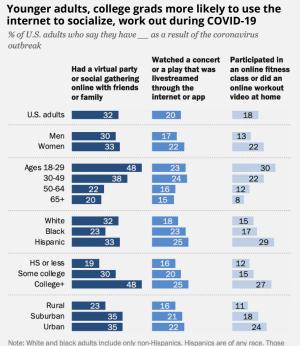
GREATER FOCUS ON HEALTH

"As soon as the lockdowns took effect, the home-fitness business took off like wildfire," said Matt Powell, vice president and senior industry adviser for the NPD Group, as sales of health and fitness equipment more than doubled in the period from March to October 2020, soaring to \$2.3 billion. In particular, sales of treadmills lifted 135% and stationary bike sales nearly tripled. Peloton was the big winner in this shift to home fitness, seeing a 232% lift in sales YoY.¹⁰

This shift in behavior has caused membership at many gyms to dry up, causing the bankruptcies of Gold's Gym, 24 Hour Fitness and Town Sports International, amongst others.

The gyms who survived partly did so due to adapting to the shift to digital, with Equinox and Planet Fitness launching workout apps quickly during the early days of the pandemic. Overall, fitness and health apps saw a 47% jump from January to November 2020, with a total of 2.5 billion downloads.

According to PEW, 18% of US adults turned to online fitness classes last year, with younger adults participating even more heavily at nearly one-third.



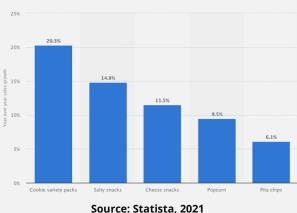
Note: White and black adults include only non-Hispanics. Hispanics are of any race. Thos who did not give an answer are not shown. Source: Survey of U.S. adults conducted April 7-12, 2020.

PEW Research, 2020

¹⁰ https://www.washingtonpost.com/road-to-recovery/2021/01/07/home-fitness-boom/ ¹¹ https://www.muhealth.org/our-stories/pandemic-weight-gain-its-thing

SEEKING COMFORT AND THE COVID-15

While there has been a spike in those looking to maintain health, there has also been an increase in sales of comfort foods, as many consumers look to familiar favorites to sooth themselves and provide their families with meals they love. According to research conducted by MU Health, 68% are snacking more, 54% are exercising less, and 54% declare that they've gained weight.¹¹



Sales Growth of Comfort Food and Snacks Due to Coronavirus Pandemic in US (2019-2020)

Sean Greenwood, a spokesman for the Ben & Jerry's says, "Fans are leaning on communities, comforts, and something they can control – including going to their favorite brands and foods for a sense of familiarity. That's where we fit into this 'new normal."

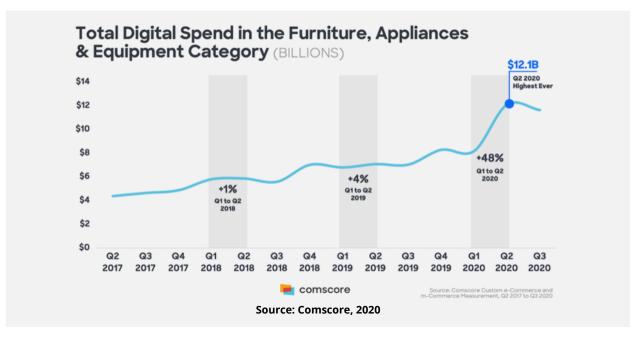
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RISE OF DIY

Consumers continue to spend more time and money on arts and crafts, hobbies and more as they look for projects to complete around the home. Home renovation and auto projects are two notable areas where this has seen a lift.

In a Bank of America poll, more than 70% reported deciding to undertake a home improvement project in 2020, with even more planning on it for 2021. The lift in projects isn't limited to inside the home, with gardens winning over the summer as they consume 40% more Miracle-Gro soils and 30% more plant food.¹²

According to Comscore, 15.8 million planned to buy a new home in the second half of 2020, another driver of home improvement. Further, online sales of home furnishings have reached record levels, reaching \$12.1 billion in Q2 of 2020 and tapering off only slightly after the peak. Of the 108 million consumers who purchased home goods online before August 2020 during the pandemic, 1 in 3 purchased an item on sale that they wouldn't have otherwise bought.¹³



Major renovations go beyond DIY, with projects like transforming garages into workspaces or workout studios also picking up. Home-improvement site Houzz reports a 58% increase in requests for services from summer 2019 to 2020.¹⁴

The automotive aftermarket has also seen a lift, albeit a gentle one, as consumers spend more time at home on car care, delivering a 14% lift in April through June 2020 YoY.

The fastest growing categories were:15

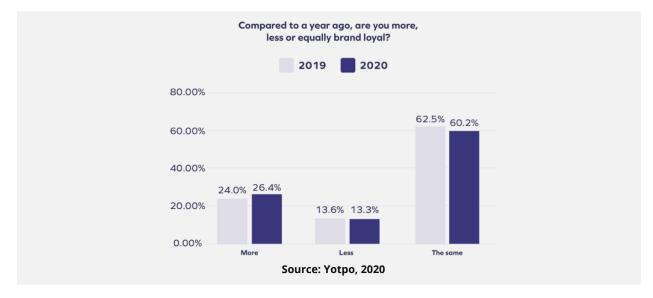
- Paint (+33%)
- Body repair (+27)
- Light duty shop equipment (+24%)
- Appearance accessories (+19%)
- Chemicals including waxes and finishes (+16%)

¹² https://www.marketwatch.com/story/home-improvement-projects-are-underway-during-covid-19-with-millennials-spending-the-most-says-bank-of-america-2020-06-24 ¹³ https://www.comscore.com/Insights/Blog/As-millions-stay-home-home-furnishing-sites-see-record-spend-and-visitation ¹⁴ https://www.nytimes.com/2020/08/14/realestate/coronavirus-home-improvement.html ¹⁵ https://www.retailcustomerexperience.com/news/diy-efforts-recreation-activity-driving-auto-product-sales/

REEMERGENCE OF BRAND LOYALTY

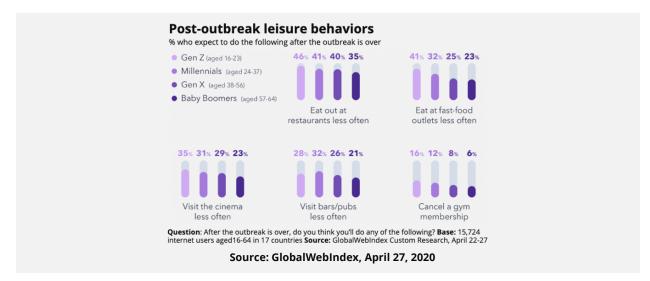
In the early days of the pandemic, as new economic challenges were presented to millions, many consumers shifted away from their normal purchase behaviors, both for accessibility, due to runs on stores, and financial reasons, with 50% of consumers changing brands for some of their needs, and nearly 25% buying more generic store products. Consumers expected brands to adapt to the current economic climate with empathy, with 49% expecting brands to provide discounts on products.¹⁶

But in the longer view, consumers have become just slightly more loyal to brands than they were last year, perhaps driven by the reassurance of relationships they have with the brands they love.¹⁷



TRANSFORMATION OF LEISURE ACTIVITIES

Research by GlobalWebIndex indicates that 66% of consumers plan to reduce their leisure activities following the pandemic, spelling additional difficulty for restaurants, cinemas, bars and gyms reopening now. Notably, Gen Z is the most reluctant to pursue a return to normal.



¹⁶ https://www.mediapost.com/publications/article/351033/high-anxiety-83-of-americans-feel-stressed-and.html
¹⁷ https://www.yotpo.com/blog/the-state-of-brand-loyalty-2021-global-consumer-survey/

MARKETING APPROACHES

BE AGILE

While most states are generally open for business, the past year has shown us that new waves of the epidemic are difficult to predict and can result in more lockdown measures in new states and regions.

Cases will inevitably increase with states opening up and social distancing rules continuing to be eased, and this will lead to localized changes in rules around each hot spot as it emerges, compounding the effect of already complex rules around business operations market by market.

While it's important to strategize at the national level, your brand will need to develop a system that can rapidly adapt to local regulations and reclosures, as well as communicate actions you're taking if one of your locations is hit with an outbreak. Messaging that's appropriate for one market may fall on deaf ears in another, as different locations will be impacted differently depending on the level of openness in each state. Consumers are looking for reliability and convenience as the we get to the "new normal"

Ensuring that consumers know which locations are open is table stakes, and you should ensure that your website is continuously updated with local hours information to reduce consumer confusion.

DELIVER A SENSE OF SAFETY

Anxiety is one of the top challenges facing your customers and communicating the measures you're taking will be key in bringing them back to physical locations. Focus on these measures in social media, email and advertising to help reassure them that it's safe to make a visit. Overall consumer plans to visit physical spaces after reopening remains low, as the chart below illustrates.

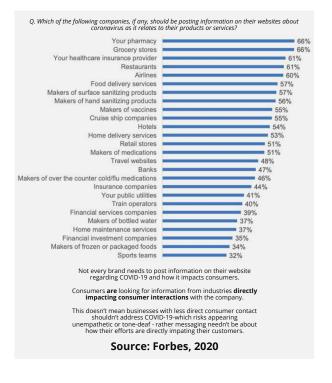


One clear guideline is to operate at reduced capacity, for example, allowing in only 25% of the number of customers you normally would. Reduced capacity allows for greater social distancing. Wherever possible, plexiglass barriers should be installed to increase distance between staff and customers, and social distancing markers should be placed on floors in appropriate locations at entrances and check-out to help customers keep a safe distance from one another. An increased and more intensive cleaning tempo should be adopted, and contactless payment should be encouraged. Depending on your business, appointment setting for customers may be an ideal solution to help limit the number of customers in-store at one time.

Some physical locations are implementing touchless temperature checks with infrared cameras and no-con-tact thermometers, something your brand may want to consider to add an extra layer of safety. While there was originally much debate around the wearing of masks, healthcare workers donning them had a 50%-80% reduction in contracting novel coronaviruses, including COVID-19.¹⁸

Not all businesses require the same level of safety and topical communication as one another.

For example, Pharmacies and grocery stores have, obviously, far higher levels of consumer expectation around COVID communication than CPG's and sports teams.



¹⁸ https://www.fastcompany.com/90501603/masks-prevent-the-spread-of-covid-19-landmark-analysis-of-64-studies-finds



ENHANCE YOUR DIGITAL CAPABILITIES

Online research and transaction is projected to continue at higher levels, even with states reopening physical locations for business, as continued anxiety will keep customers at home as much as possible. In research by McKinsey, 40 to 60% of consumers plan to maintain their newly adopted digital behaviors.¹⁹

Digital may be the only fully reliable channel available for your business for some time. If you do not have an ecommerce platform, now is the time to invest in one. If you do, continued expansion of features and improvements to the experience will help you be more competitive and increase sales. Curbside pickup will continue to be very attractive to customers, an ecommerce feature that many brands currently lack as it requires a more complex integration with global inventory and each retail location. Other enhancements like dynamic personalization can improve your conversion rates and meet customer expectations for one-to-one experiences.

Your core digital presence isn't limited to your ecommerce platform. If you haven't already done so, consider investing in:

- Social Listening & Analytics: Gain insights into your consumer's state of mind and perception of your brand
- Content Management System (CMS) with Marketing Automation: Better manage your marketing assets and editorial calendar to streamline your customer engagement processes
- Search Engine Optimization (SEO) and Analytics: The key tool for inbound marketers in attracting the right audience.
- Live or AI Chat: Customers are demanding immediate answers to their questions in the buying process, and these tools are rapidly becoming the expectation.

EXPLORE EVOLUTIONARY DIGITAL EXPERIENCES

Consumers are in a state of high experimentation with new digital experiences and physical experiential marketing will be nearly impossible to execute until a vaccine is developed or the pandemic is fully under control. It will be critical to explore new ways to engage with customers through digital channels that go beyond business as usual.

As consumers spent more time at home, the Fall 2020 launch of Facebook's Oculus Quest 2 VR system, which requires no computer and retails at \$299 US, saw the device selling out repeatedly. The device saw 5X the sales as its predecessor during the launch period, bringing titles like Jurassic Park and Star Wars to a new VR audience, as well as social experiences like BigScreen, which allows consumers to enjoy movies and television together in a social theater, as well as staples like Netflix and Amazon Prime theaters, which offer 3D environments to stream content through.

The online game Fortnite has become an unexpected hit in the virtual experiential space, hosting virtual concerts for musicians like Deadmau5 and Steve Aoki, with rapper Travis Scott seeing 12.3 million people tune into his concert on one night, and millions more joining for replay experiences. Explore how you can pivot your virtual event plans to digital with virtual experiences, which might take the form of webinars, online conferences – or even virtual spaces. States are open, but travel will continue to be limited, so this is especially important for B2B marketers who rely on events for communications with customers and suppliers.

Shopstreaming, an emerging trend in Asia that generated 3.5 billion in sales in 2018, is the social media-era spin on infomercials.25 Brands like The Bay in Canada have been experimenting with this channel through social media formats like Facebook Video. Notably, Amazon's Live Streaming app allows individuals and brands to create live video content integrated with the platform with live chat for consumers to respond with questions.

For brands with showrooms like premium appliance manufacturers, watercraft and car dealerships, this might mean a digitalization of that space through 360 video or 3D rendering that allows them to explore products and a branded space in more detail. Customers can make a virtual visit that might be coupled with live chat with sales representatives.

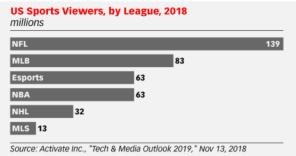
¹⁹ https://www.clickz.com/the-role-of-marketers-in-a-post-covid-19-world/261475/



Augmented Reality is an increasingly powerful and available tool for marketers to deliver compelling experiences. Seven of the top ten mobile applications leverage AR to some degree. Mobile Web AR, now available on most smartphones, also allows for the delivery of augmented moments without the need for a consumer to download an app, and the experience can be built directly into your mobile webpage. Applications of this technology include allowing consumers to see products in 3D in situ in your home, as well as a wide range of branded entertainment experiences that can be delivered to create social content.

EMBRACE THE WORLD OF GAMING

Over 2.2 billion consumers around the world consider themselves gamers in some form or another. Continued time at home means that the gaming industry is booming; US online play is up 75%. Even though NASCAR kicked the tires again on May 17th, 2020, and announcements have been made NHL, MLB and NFL will be coming in the late summer, eSports might still capitalize on the change in the culture and the concern of attending live sporting events. It's impossible to ignore that eSports is picking up steam. NASCAR's iRacing successfully took advantage of the change in the landscape, and for some time, the total US viewership numbers have been on par with the NBA.²⁰





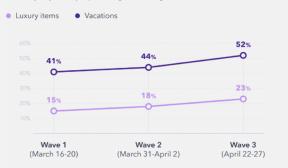
Opportunities for eSports activations are broad, ranging from team and match sponsorships to around game advertising on the primary channel for this content, Amazon's Twitch.tv. If integrating in and around other games doesn't fit your model or you're looking to deliver compelling content, branded games can play a role in more deeply engaging your customers with your messaging and offer memorable brand experiences as they seek out entertaining content online with more frequency. Every brand has a story to tell, and an interactive narrative might be the best way to tell yours.

LEVERAGE PROMOTIONS TO DRIVE SALES

GlobalWebIndex research indicates that 80% of consumers plan to delay big purchases, and 40% will cut back on their typical day-to-day expenditures. For consumers who have delayed these purchases already with technology devices, they are twice as likely to wait for a promotional offer to buy, and four times as likely to wait for a promotion rather than switch to a cheaper alternative from another brand. This delay in purchase is increasing as the pandemic erodes consumer sentiment over time.

Delay to purchases: trended data





Question: Have you delayed purchasing any of the following, as a result of the coronavirus/COVID-19 outbreak? Luxury items (e.g. designer clothes, shoes, fragrances, etc)/vacations or trips Base: 12,845, 12,246 and 12,426 internet users aged 16-64 in the 13 countries included in all 3 waves Source: GlobalWebIndex Custom Research, March 16-20, March 31-Aoril 2, and April 22-27

Source: GlobalWebIndex, April 27, 2020

For seasonal promotions, like Back to School and Black Friday, consider how you can eventize these campaigns with enhanced digital experiences as shoppers will be continuing to spend more time online, and physical retail promotions will have reduced impact. Installment plans can provide an added incentive to buy for big ticket items, with 80% of customers looking to brands for this to help make funding their purchase easier.

²⁰ https://www.thedrum.com/news/2020/05/04/esports-prepared-the-coming-influx-freed-up-marketing-spend



ENSURE YOU'RE IN COMPLIANCE

Consumers, employees and businesses have been filing lawsuits across the US in areas related to the Coronavirus on a range of issues including price-gouging, business interruption insurance, impact on workers and more. In particular for employers is ensuring that employees are adequately protected to protect against preventable outbreaks in the workplace.

The current crisis is driving governments around the world to make rapid regulatory changes. In the last major global event, the 2008-2009 financial crisis, Rice University estimates that the Dodd-Frank Act doubled the number of regulations for American banks, increasing their compliance expenditures by over \$50 billion annually. As new health guidelines begin to be put in place, it's critical that your company ensures that it's in compliance.

The Coronavirus will create a host of new challenges around regulations around employee health and safety, and others that are not specifically linked to regulations, but liability. Early examples include the pilots' union of American Airlines suing to stop serving China, and the city of Costa Mesa, California suing the US government to prevent the transfer of cruise passengers to a state-owned facility.

Businesses like hospitals, restaurants, day cares, nursing homes, hotels and retailers could potentially face claims around the argument that they didn't take adequate preventative measures to protect customers and employees.²¹

Ensure that your legal team reviews and updates its insurance to ensure that you're protected, and that your business is taking all reasonable measures to comply with regulations and best practices in preventing transmission.

²¹ https://fortune.com/2020/03/04/coronavirus-global-businesses-wave-lawsuits/

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