



MARKETING STRATEGY

Growth Opportunities for Brands During the COVID-19 Crisis

Small and midtier brands have unique opportunities to provide value in the new consumer environment.

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COVID-19 has already had an enormous impact on consumers and brands. The stay-at-home directives, radical shifts in demand for certain product categories, undersupplied distribution channels, and supply chain difficulties for certain companies have disrupted habitual behaviors and required customers to shop in new ways.

This is significant for brands, especially market leaders in their categories, because humans are cognitive misers, meaning that we use mental shortcuts to guide our judgments and decisions. In terms of purchasing behavior, once a routine in a certain store or preference for particular brand is established, it becomes habitual and is difficult to change. In normal times, gaining consumers' attention and moving the needle on key consumer-behavior metrics was a costly endeavor and often beyond the budgets and marketing capabilities of many small and midtier brands.

The current environment offers an unprecedented opportunity for these smaller companies to compete against their more established rivals for exposure, mindshare, product trials, and market share with a new and broader base of potential customers. In this article, we share the findings of our research into what percentage of consumer

purchases is vulnerable to substitution and the ways brands can rethink their value propositions to customers in uncertain times.

A Shock to the System

Our research, conducted in late March, two weeks after stay-at-home directives were issued in much of the U.S. (see “The Research”), identified many new patterns in consumer shopping behavior and mindset. Aggregating the findings from our study with top-line observations from other research fielded in the same time period reveals some key findings.

The Research

- The author team administered a national survey of 1,233 U.S. adults over two days in late March 2020 (approximately two weeks after major stay-at-home restrictions were imposed in much of the U.S.).
- Consumers in our survey reported on their shopping activities relative to their purchasing behavior a few weeks earlier, prior to the COVID-19 crisis.
- The survey included questions about their store choices, the timing of their shopping trips, the purchase of new brands, and reasons for selecting new brands.
- Our analysis included only respondents who personally shopped in physical stores and/or online for themselves or for household consumption and excluded a small percentage of the sample who reported shopping for another household.

Broad shifts in consumer behavior:

- The location and timing of shopping (whether in person or online).
- The composition of the basket of products purchased (emergency preparedness supplies, health care products, and cleaning items).
- A reduction in shopping frequency and an increase in the average basket size.
- Stocking up on nonperishables and hard-to-find items.
- Increased readiness to try direct-to-consumer offerings or to shop online at stores that offer home delivery.

Shifts in consumer mindset and attitudes:

- Focus on function (that is, purchase behavior driven by category availability and type of benefit more than by brand preference).
- Growth of interest in brands that combine functional performance with pro-social behavior by their parent companies.
- Loss of interest in status-driven purchases that have strong components of conspicuous consumption (that is, items that are consumed/displayed publicly).
- Interest in how the companies behind the brands are treating their employees.

Looking at the results from our national survey, fully 85% of respondents reported that they have shopped in person at a “physical store that was new to them” since mid-March, while 76% had shopped online at a new store/website. In terms of timing, 80% of respondents reported physical in-store shopping “at a time of day that was new to them.” The timing of online shopping also changed significantly, with almost half (48%) of respondents saying the timing of their online purchases differed from before the crisis.

More than half of our respondents (54%) reported they had made purchases from “brands that were new to them” and that new brands accounted for more than 30% of their shopping carts at checkout. The most frequently cited reasons for purchasing from a new brand included “favorite brand was out of stock” (32%) and “willingness to try new brands” (32%). The product category with the highest trial rate for new brands was packaged goods and beverages (24%), followed by household care products (20%), fresh and organic foods (13%), and personal care products (13%). These categories are home to some of the best-known brands from major consumer goods companies such as Procter & Gamble, Unilever, Kraft Heinz, PepsiCo, and Colgate-Palmolive.

Changes in where and when consumers are shopping, together with changes in product availability, necessitate their heightened attentiveness as they browse stores with unfamiliar layouts, shop for items not normally on their lists, and/or increase the proportion of their purchases made online. Increased demand for specific items during the pandemic has caused consumers to focus more closely on a product’s features (for example, whether vinegar-based cleaners are effective against the coronavirus), while product shortages have caused them to consider alternatives to the brands they would previously have purchased without thinking about it.

Loyalty or Just Habit?

Repeat purchase rate has long been a key metric that brand owners monitor because of the enormous impact that retention plays in determining a customer's lifetime value. A company with a 5% attrition rate will still have 77% of its original customers after five years, but one with a 15% attrition rate will have lost well over half of them.

The gold standard for measuring customer loyalty is whether consumers would delay a purchase if their preferred brand were not available, or if they would be willing to accept a substitute brand. This question is typically conducted through hypothetical scenarios, given that few companies are prepared or willing to test their customers' loyalty in practice by deliberately causing real-world out-of-stock conditions for them.

In this regard, COVID-19 has set the stage for the ultimate experiment and has taken marketers into uncharted territory. There is no precedent for this global crisis and its impact on shopping behavior, and brands are now discovering the difference between true loyalty and habitual purchasing.

How Should Small and Midtier Brands Respond?

Effective marketing focuses on how to conceive, communicate, and deliver customer value — and this has never been more relevant than in the current crisis. The key to success for small and midtier brand owners is to identify what value means to customers as they establish new purchasing routines.

This requires going back to the fundamentals and identifying how additional value might be offered across each of the traditional four P's of marketing (product, price, promotion, and place) and taking a fresh and broader approach to each.

Think solution, not just product. During this pandemic, marketers must understand that there is no ideal product but only a solution that fits the customer's needs and desired outcome. Many incumbent leading brands continue to define their appeal based on how they are differentiated from competitors. However, the current opportunity lies in how brands can be differentiated for customers. Throughout this crisis, the brands that prove to be relevant to customers' concerns about safety, security, and assurance will find competitive footing.

Consider Pomchies: For nearly 20 years, the company has made fashion headbands, scrunchies, and water bottle carriers that are popular among young consumers.

Realizing the current shift in consumers' needs, it has introduced new product lines like nonmedical face masks. While this is a major shift from its norm, Pomchies is delivering solutions to meet the changed needs of traditional customers and gaining attention and revenue from new ones.

Similarly, Hyundai, a midtier brand in its category, acted decisively as the pandemic spread and quickly pivoted to a COVID-19-related version of its Hyundai Assurance program (previously offered in 2009 during the financial crisis). This revised program provides the solution of deferred payments for new purchasers and for recent buyers who suffer a job loss and/or are temporarily unable to work because they are caring for themselves or a member of their household.

Beaverton Toyota, a family-owned and -operated Toyota dealership in Oregon, offers another example of providing customer-centric solutions during social distancing, with its new process for a contactless experience. With its "no touch" repair service in place, customers can now reserve a time to have their cars serviced, leave their keys in a drop box, and call or text to speak to a technician. For almost 50 years, this business has played an active role in its community, and this solution demonstrates its commitment to continuing that stewardship.

In the online environment, smaller brands should ensure that, if appropriate, their products are tagged with the attributes used by consumers to search in their category — such as "antibacterial" or "disinfecting" for cleaning products, and "non-GMO," "healthy," "low fat," or "zero carb" for food products — even mentioning these terms ahead of their own brand names (something that the leading brands would never do). This could ensure that their products will rank higher in the search results of consumers who have no strong brand preference in the category.

Think access, not just place. Product shortages and empty store shelves have dominated the headlines and social media, so many companies are retooling their supply chains and distribution capabilities to respond to demand. While getting products to market will remain a core marketing function, a broader, more long-term view of "place" requires marketers to consider an omnichannel perspective that includes all potential outlets and points of distribution where consumers can be exposed to, can evaluate, and can purchase an offering.

The Polish Vending Association responded to the recent demand for face masks, gloves and sanitizers by installing new vending machines on the streets of Warsaw and Krakow. This quick, organized effort helped improve consumer access to these

products ahead of the requirement issued the following week by the health ministry that all citizens cover their mouth and nose in public.

The restaurant industry has been innovative in creating value through access for customers in the midst of forced closures of dine-in businesses. Panera Bread has recently leveraged its own supply chain to benefit its customers by allowing them to add basic essentials (such as milk, bread, eggs, and produce) to their orders of regular menu items for pickup or delivery. Other local providers have pivoted quickly to provide takeout only, along with highly efficient and safe curbside pickup services.

Looking ahead, the savvy marketer needs to be prepared to follow and engage customers — whether new or long-standing, and whether they establish new habits or return to precrisis shopping routines — by increasing the use of new digital and nondigital touch points that fully leverage anywhere, anytime availability for purchasing.

Think value, not just price. Consumers are experiencing severe financial uncertainty and will likely continue to do so for the foreseeable future. This new economic environment will likely be problematic for many leading brands, whose cost structures rely on their ability to command a price premium. Simply put, buying name brands has lost some of its appeal in this time of category purchasing versus brand purchasing.

In many ways, COVID-19 has leveled the competitive landscape for smaller brands. In the restaurant industry, many businesses have sensed the need for frugality and trimmed their takeout menu options to the essentials, slashing their prices in the process. Durable goods manufacturers that are reluctant to reduce headline prices are instead increasing value through deferred payment terms, extended warranties, and “100% satisfaction or your money back” guarantees.

Think education, not just promotion. Some companies are signaling that they will maintain their precrisis ad spending and communication activities in response to COVID-19, but they may be in the minority. Recent industry surveys indicate that most brands intend to cut their media budgets, and some will even go quiet until the crisis abates.

Companies that choose to maintain or even increase their communication spending will need to strike the right balance in their messaging. The example of Beaverton Toyota’s solution-oriented outreach delivers a strong value-add message both by

educating customers about appropriate behavior during the crisis and communicating how the business and the brand understand and support their current needs.

Sadly, self-promotion has been a prominent element of the response to the crisis by many major consumer brands. Redrawing the company logo to illustrate social distancing (a strategy employed by McDonald's, Coca-Cola, Audi, and VW); broadcasting bland emails expressing empathy (together with an exhortation to visit their online stores or to upgrade to product protection plans that customers have rejected many times before); and information-light public service announcements are all examples of communication tactics that have been poorly received by customers.

If companies cannot deliver value in new and relevant ways on the first three P's of marketing outlined here, it is unlikely that they will contribute positively to the national narrative about COVID-19 with their communication activities.

Taking Stock and Looking Ahead

Large consumer brands should be embarrassed that a luxury goods company, LVMH, was the first to innovate in "product" by pivoting from producing perfume to making hand sanitizer, a lead that was swiftly followed by many small distilleries. Likewise, the major consumer goods manufacturers should take note that it was a small Danish supermarket that innovated in "pricing" by using the same algorithm that applied discounts to multiple purchases of the same product (to facilitate "buy one, get one X% off" promotions) to charge a massive premium to shoppers attempting to hoard items in short supply.

This lackluster response by the major brands in the face of a crisis creates real opportunity for small and midtier brands. Our research shows that consumers are rethinking, shifting, and adapting their habitual shopping routines. Brands that take the time to understand the changes to consumer behavior and attitudes will create an opportunity for innovating how new value can be created and delivered.

For small and midtier companies, the time to act is now. You have a golden moment to gain attention, convince new customers of your value, and turn nascent purchasing patterns for your brands into sustained postcrisis buying behavior. By being innovative and taking new approaches to the four fundamental dimensions of marketing, many small and midtier brands will find their businesses in a stronger position to compete and win against their larger rivals after the pandemic abates.

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Tags:

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