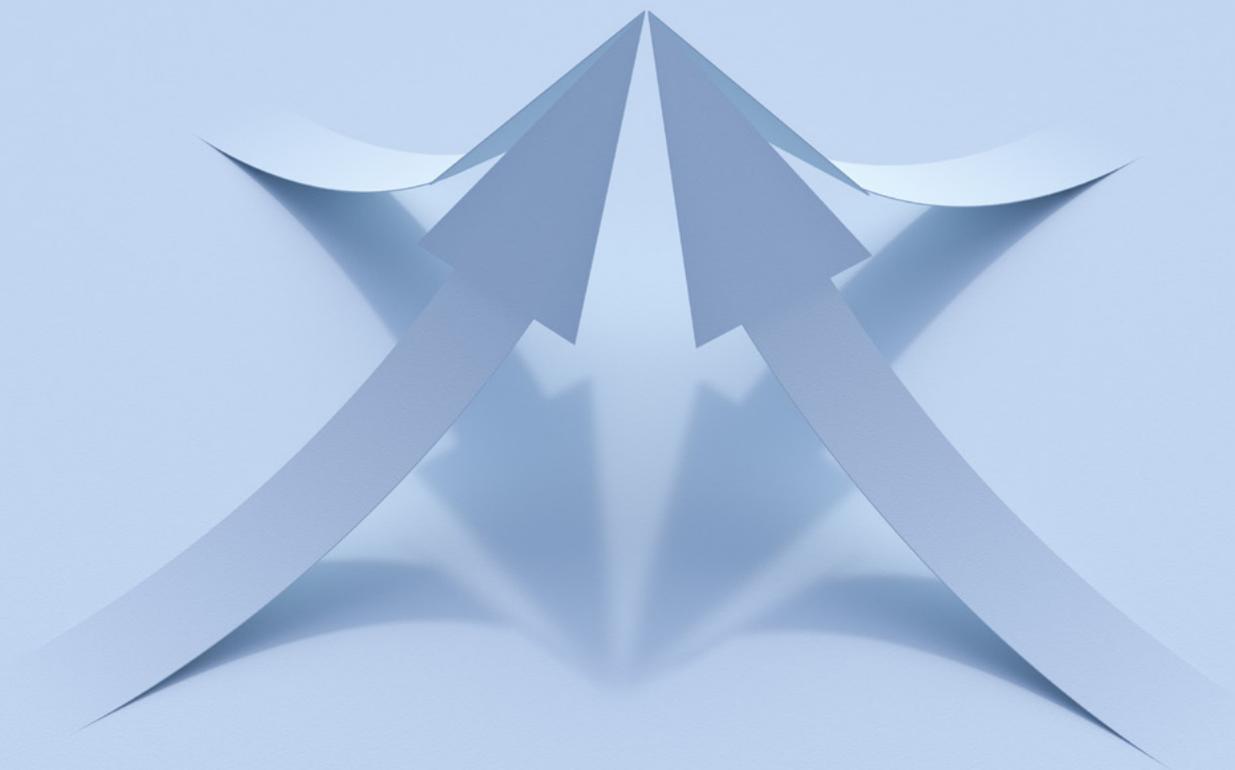


Marketing & Sales Practice

How marketing leaders can both manage the coronavirus crisis and plan for the future

In the economic recovery from the pandemic, marketing—the link between businesses and their customers—will play a pivotal role. Planning starts now.

by Julien Boudet, Jonathan Gordon, Brian Gregg, Jesko Perrey, and Kelsey Robinson



The COVID-19 crisis is unprecedented. The speed with which it has spread and its effects on families and daily life have led to a deep sense of fear, anxiety, and confusion. The human toll has devastated many of us and continues to drive home the reality that the coronavirus is a tragedy that is upending lives around the world.

Even as US companies try to get their arms around the human costs as the pandemic continues to spread, they are also struggling to understand the impact on their business and how to react. Marketers—many working remotely from home—are faced with an entirely new situation: How should we be talking to our customers? Where should we be spending marketing dollars and where shouldn't we? How should we be working with our teams and our colleagues across the business? How are we going to stay in business? And all this on top of how can we support our family, friends, communities and planet?

There is much uncertainty about the future. That said, we are likely in the midst of a generation-defining event that will influence how consumers behave for years to come. This means that marketers—as the advocates for the consumer in every business—have a critical role to play as companies shape their response. Marketers will need to be fast and pragmatic to manage the crisis, while also being strategic on how to weather the downturn.

Some facts and hypotheses are emerging that we share in this article. We hope these can help marketing leaders determine what actions they can take and how they can start to prepare for a post-COVID-19 world.

Consumer sentiment and behavior

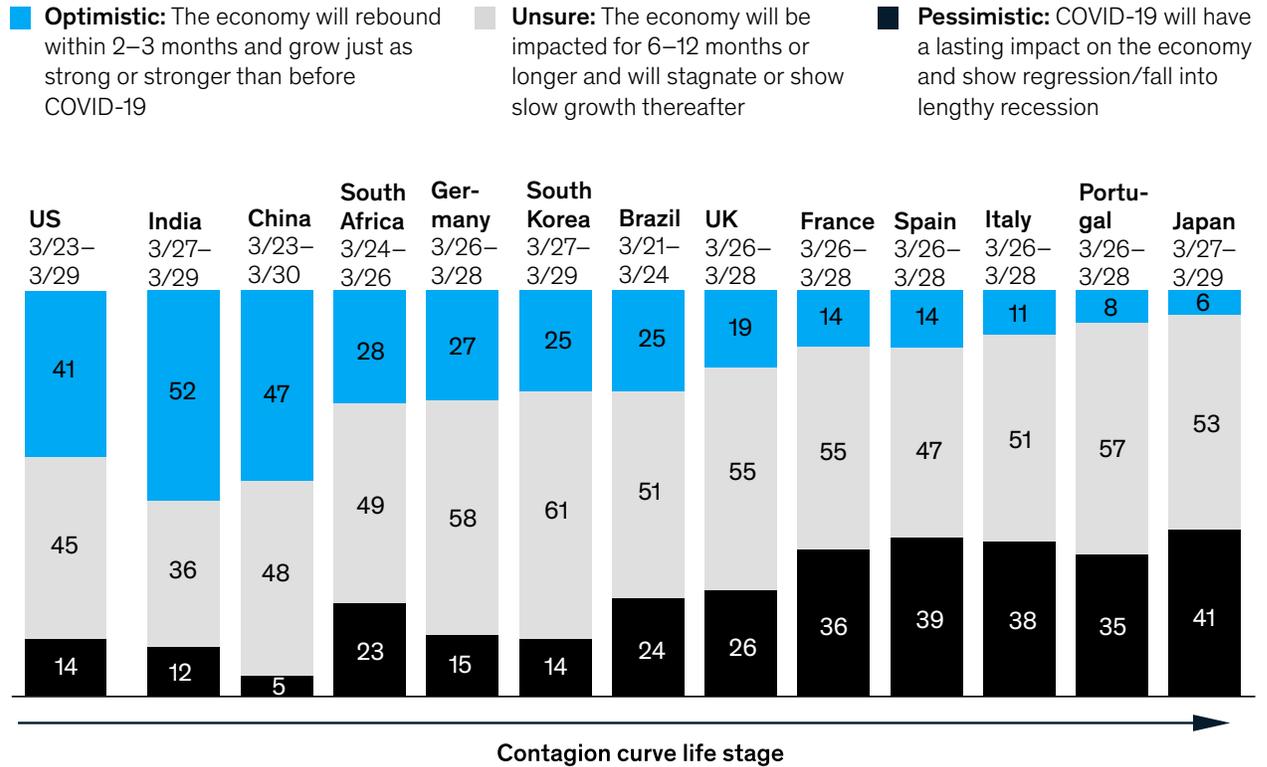
Consumer behavior and sentiment have fundamentally changed in a number of key ways:

- **Adjusting to new realities.** US consumer optimism in the economy is declining as the effects of the coronavirus pandemic escalate (Exhibit 1). As of April 1, however, some 75 percent of US consumers believe their finances will be impacted for more than two months by the pandemic, up from 69 percent two weeks before week, and uncertainty about the economy is preventing them from spending, according to McKinsey's consumer-sentiment survey.
- **Spend patterns are unsurprising—but stark, nonetheless.** A short-term boost in spending has been unevenly distributed, with consumers rushing to get must-have-now items while virtually shutting off other categories. Grocery, household products, and home entertainment were the first categories to see consistent increases, while travel, out-of-home entertainment, food service, and even discretionary categories like apparel have cratered (Exhibit 2).
- **Shift to online shopping.** Online is becoming the channel of choice as consumers spend more time at home and there's reason to believe that this behavior shift will endure at some level. Looking at China, which has endured the effects of COVID-19 for longer than the US, consumers have indicated that the rapid changes in shopping habits are likely to stick (eg, more than 55 percent of Chinese consumers are likely to permanently buy more groceries online). Despite the significant shift to digital channels, however, the surge in buying online has not come close to offsetting losses offline, where about 80 percent of shopping traditionally happened.
- **New reality for media usage and advertising.** With more consumers at home, media consumption is changing, too. We are seeing growth in at-home media consumption, with live news and movies or shows topping the list. But the increase in time spent on media is not necessarily driving higher ROI for digital media spend; Google and Facebook are seeing changes, some negative, to their business already.

Exhibit 1

Consumer optimism varies by country but is typically higher at the start and end life stages of contagion curve.

Confidence in own country's economic recovery after COVID-19,¹ % of respondents by country



¹ Q: How is your overall confidence level on economic conditions after the COVID-19 situation? Rated from 1 "very optimistic" to 6 "very pessimistic"
 Source: McKinsey & Company COVID-19 Consumer Pulse, China n = 1,048 including Hubei province, South Korea n = 600, Japan n = 600, India n = 582, US n=1,119, Brazil n = 1,311, UK n = 1,000, Germany n = 1,002, France n = 1,003, Spain n = 1,003, Italy n = 1,005, Portugal n = 601; South Africa n = 535

What marketing leaders can do

Marketing as we know it has changed. With retail shut down, sports at a standstill, and upfronts effectively cancelled, many of the channels companies have traditionally relied on are out of commission. Clearly, shopping channels will reopen eventually. But marketers need to adjust to a very different environment in the short term.

This will require putting in place dedicated crisis response teams who are focused on the most important revenue-related activities. Operating in agile ways—and remotely—they will need to

focus on short-term business health priorities (eg, cash flow, "run-the-business" revenue targets) but at the same time put the business in a position to address longer-term realities and opportunities. Given the high degree of uncertainty for the foreseeable future, the success of these teams will depend on how effectively they can test, learn, and adapt.

A company's playbook will vary depending on its demand situation and sector. Consumer categories with high-demand products, such as cleaning materials or shelf- stable food,

Exhibit 2

Decreased spending expectations continue across most categories.

Expected spend per category over the next 2 weeks compared to usual,¹ net intent²

■ Increase
 ■ Stay the same
 ■ Decrease
 ▲ Net intent decline by >5 vs March 16/17

Groceries	+15	Entertainment at home	+6
Snacks	0	Books/magazines/newspaper	-19
Tobacco products	-14	Consumer electronics	-50
Take out/delivery	-13	Out of home entertainment	-72
Alcohol	-25	Petcare services	-49
Quick service restaurant	-45	Fitness & wellness	-57
Restaurant	-74	Personal care services	-63
Footwear	-58	Gasoline	-57
Apparel	-64	Vehicle purchases	-50
Jewelry	-68	Short-term home rentals	-61
Accessories	-64	Travel by car	-68
Non-food child products	-27	Cruises	-62
Household supplies	+2	Adventures & tours	-61
Personal care products	-15	International flights	-69
Skincare & makeup	-44	Hotel/resort stays	-79
Furnishing & appliances	-59	Domestic flights	-76

¹ 1Q: Over the next 2 weeks, do you expect that you will spend more, about the same, or less money on these categories than usual?

² Net intent is calculated by subtracting the % of respondents stating they expect to decrease time spent from the % of respondents stating to increase time spent.

Source: McKinsey & Company COVID-19 US Consumer Pulse 3/23–3/29/2020 n = 1,119 matched and weighted to US general population 18+ years based on American Community Survey 2016 of the US Census Bureau

will need to act differently than big-ticket-item categories, where demand has dampened for now. Broadly, we believe marketing leaders will need to act across three stages:

1. Resolve and resilience: manage the now

The playbook for reacting to the current crisis is anchored on four actions:

- **Support employees, customers, suppliers.**
Given the scale of the humanitarian crisis we are facing, the number-one priority should be immediately changing ways of working to focus on employee wellness and health.

— **Empathize and understand customers.**

Marketers need to get an immediate handle on customer motivations and behavior. While many companies believe they have a well-developed sense of their customers, circumstances are now so radically different that marketers should be questioning everything they previously believed to be true. It is crucial that this insight be understood not just by marketers but by the CEO, C-suite, board, and entire company. It will help them immediately recalibrate their messaging to address their customers' new reality and engage with them more thoughtfully and authentically.

- **Build up cash reserves.** While the full implications of the crisis are not yet clear, marketers should act decisively to manage costs and increase productivity. Marketers need to do an immediate reevaluation of media performance to identify inefficiencies and optimize programs by channel, improve efficiency in how work is done, eliminate agency overlap, and get a clear picture of where the money is actually going.
- **Drive revenue response.** Consumer are spending less, making it critical for marketers to narrow their focus to a number of use cases and segments with the best demand-generation profiles. With clarity on targets, marketers can commit to a number do-now actions, including:

- **Adjust mix to where the consumer is now.** Marketers will need to adopt an investor mindset¹ to aggressively adjust marketing spend and continually track performance in order to reallocate it quickly. With stores shut or shutting, a shift to online is inevitable, and companies will need to be both committed and creative about how to use digital channels. For example, on February 13, the mayor of Sanya, a coastal town in southern China's Hainan province, appeared on Taobao Live to promote his city's mangoes. The video drew more than 25,000 views—and 30,000 kilograms of fruit sold out in less than two minutes.

Companies with stores that are open should work to enable customers—especially their most loyal—to shift to ecommerce delivery or BOPUS (buy online, pick up in store). Messaging that communicates how the business is trying to make shopping safer and more convenient. Incentives might include guided tutorials for those who aren't used to using such channels and temporary rewards for those who are using them even more.

- **Refocus your brand to connect with and be relevant to consumers.** Consumers are likely to remember brands whose behavior is particularly responsive to this crisis. Marketers

should tap into the elements of their brands that are relevant to the current situation and can make a difference with their customer base and the world beyond. Holiday ads or overly optimistic messages, for example, may well come across as tone deaf right now. Lululemon, on the other hand, sent an email message saying, "The community carries on," and ways to tune in for at-home-yoga videos on their mobile app, through their Instagram ambassadors, and on Facebook..

Some companies have been truly inspiring—and inspired—in their response to the coronavirus crisis. Among many examples, Unilever has pledged more than \$100 million in cleaning products for charities and almost \$550 million in cash-flow relief for suppliers. Molson Coors has pledged \$1 million to the Bartender Emergency Assistance Program. By stepping forward to help society in general, they have not only done the right thing but have also raised awareness about their brands and created beneficial connections with current and potential customers.

- **Prioritize the most relevant product categories.** Marketers need to emphasize those that best fit online channels and are relevant to today's situation. That means taking resources from less relevant categories and quickly moving them to those where there is active or potential demand.
- **Go all-in on agile.** Agile marketing has established two-week sprints as the standard working speed, but that may be too slow for the world as it is now. Successful marketers, in these times, will be those who adjust their operations to deliver on-message campaigns in a matter of days, if not hours. Moreover, because so much of today's situation is unprecedented, rapid testing needs to be the norm so that companies can quickly learn what works and adjust in almost real time.

¹ Kabir Ahuja, Biljana Cvetanovski, Jesko Perrey, and Liz Hilton Segel, "Building an engine for growth that funds itself," May 2018, McKinsey.com.

2. Return: Plan for the recovery

In a crisis, it's natural to focus only on near-term business results and adopt a pure survival strategy. But that could mean winning the battle but losing the war. We don't know what the recovery will look like or when it will come, but there will be a bottom to this crisis, and consumer demand will start to climb back up. Companies that thrived after past recessions,² we have learned, were those that kept communicating with consumers through the downturn, took a more active posture, focused on through-cycle interventions, and acted with urgency. Marketing leaders should consider how to re-architect their current marketing models, approaches, and tools to get ready for the turnaround.

- **Rethinking strategies and media plans.** Since consumer behaviors and attitudes will continue to change, marketing strategies and media plans should follow suit. That means essentially starting from scratch on strategies and plans because marketers are facing such a divergent market dynamic that previous assumptions and accepted truths may no longer apply. That discipline is needed so marketing leaders can rethink their companies' value proposition to consumers, reassess which products and services can best deliver on that value proposition, and re-architect how they're delivered to each geography.

This start-from-scratch mentality should carry over to developing media mixes to maximize the impact of marketing dollars. To help drive those decisions, marketers will need to develop new demand models since most current marketing models are based on historical data—promotions, assortment, growth maps, MROI, etc.—that will be less relevant in tomorrow's marketplace.

- **Winning the battle for brand awareness.** Our analysis of consumer decision-journey behaviors showed that 87 percent of consumers shopped around:³ they were willing to consider

other brands. We believe that behavior could be even more drastic given the scale and nature of this disruption. China again offers an indicator. Our latest McKinsey survey shows that about 33 percent of Chinese consumers have switched brands based on convenience and promotions—and 20 percent of that group intend to stick with the new brands they've tried. Marketers should begin revisiting what their brand means to customers. Agile marketing practices—typically focused on performance marketing—will need to be adopted at the brand-building level, with communications managed rapidly in test, learn, and refine cycles of continuous improvement.

- **Redefining loyalty.** The program benefits, promotions, and other incentives that drove loyalty last year are unlikely to apply going forward. It will be important to get the input of your loyal consumers to understand what they expect to see from brands and companies, since what they value may have changed. Positive brand impressions driven by how companies handle their customers and themselves throughout the crisis. Creative acts of generosity to help the larger society and how they have treated their employees, as well as actions taken to support their customers, could have significant impact on loyalty given the severity of the pandemic. Continuing to invest in personalization techniques and technologies can help to drive more relevant interactions—offers, benefits, promotions—that can build loyalty with new customers and fortify it with existing ones.

3. Reimagination: Get ahead of the 'next normal'

When we finally reemerge from the COVID-19 crisis, we are likely to find ourselves in a "next normal" world. It is too early to tell what that will look like—what behaviors will stick, what attitudes will have shifted permanently, and what technologies will have firmly taken root

²Martin Hirt, Kevin Laczowski, and Mihir Mysore, "Bubbles pop, downturns stop," *McKinsey Quarterly*, May 2019, McKinsey.com.

³David Court, Dave Elzinga, Bo Finnerman, and Jesko Perrey, "The new battleground for marketing-led growth," *McKinsey Quarterly*, February 2017, McKinsey.com.

in people's lives. For example: Will household inventory levels stay elevated? Will video conferencing permanently replace some interactions previously conducted in-person? Will digital ordering displace shopping previously conducted in-store? Beyond more obvious effects such as these, we are quite likely to see some changes in consumer psyche, and these are the things that will truly define the next normal. How will attitudes change regarding healthcare, or carbon usage, or investments, or institutions, for example? Companies shouldn't wait for a completely clear picture of the future to emerge—and this is an area where marketing leaders can help the CEO and the business as a whole to start reimagining the future.

- ***Develop deeper insight and seek foresight.*** Going forward, it will be crucial for marketers to take a much broader view of their consumers. This means gaining insights from beyond their industries and beyond their shores. New attitudes and behaviors might first appear in China or Iran. New buying behaviors and habits might solidify in categories that have undergone the most significant change during the crisis. Beyond trend spotting, marketers can find foresight with well-designed research. Techniques like market structure or consumer decision-journey mapping can uncover newly emerging unmet needs, and when these are used in agile sprints, marketers can get insights in two to three weeks.

- ***Start ideating now.*** It's possible that entirely new businesses and business models will emerge from the crisis. Virtual-based revenue streams such as app-based services may have more promise, and new ecosystems and marketplaces are likely to appear. With uncertainty likely to be the norm for the foreseeable future, it will be important to develop a portfolio approach to launching initiatives, tracking, and reallocating resources based on how each performs. Marketers should act as a catalyst for action by bringing their insights and ideas to the rest of the organization to begin this discussion. This doesn't mean accepting long cycle times, however. One retail business was able to launch an entirely new e-commerce business in just 13 weeks. To support these new businesses and models, companies will need to consider which capabilities to develop, from AI to machine learning, as well as using cash reserves to acquire companies for talent and capabilities to accelerate their moves into new markets.

Traditionally, marketing has been the business function that best understands the customer. How well marketing leaders can continue to be relevant as their customers change will play a large role in determining how businesses will weather the COVID-19 crisis and meet the needs of tomorrow's consumers.

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