



MASTERCARD RECOVERY INSIGHTS

The Shift to Digital





According to Mastercard SpendingPulse™, U.S. **e-commerce sales made up roughly 11% of total retail sales in 2019**

...during April and May, that doubled, with e-commerce making up **22% of all retail sales**

33%

During April and May 2020, **e-commerce as a share of total retail sales reached 33%** in the United Kingdom – an unprecedented high (ex. auto, petrol, and restaurants)

The COVID-19 outbreak has accelerated the digitization of how we work, live and shop.

But, how will today's habits shape how people shop in the long run?

That's what we aim to find out in this Recovery Insights report series. We have all seen work, school, exercise, doctors, entertainment, legal services and retail shift more online. With mobility restrictions still in place in many areas, shops have been quick to bolster their digital presence in order to maintain some level of sales. While the digital need has been immediate, we examine the recent digital shift resulting from the global pandemic and the trends which are likely to continue in a post-COVID-19 world.

It's worth noting that the shift to digital has not been universal or consistent – Not by geography, as a large component of digital commerce has rested on the readiness and robustness of existing digital infrastructure. Not by environment, as the rural versus urban divide is a factor. Not by household, as not everyone has the same ability to work and school from home.

And, also, not by sector.

A few sector specific trends struck us. This is according to an analysis of Mastercard SpendingPulse, which measures overall retail sales across all payment types including cash and check.

First, beyond the clear surge in groceries, spending on interior furnishing has seen the most profound shift to digital as consumers stay indoors and rethink how they spend more time in their homes. Second, restaurants have experienced a rapid digitalization, accelerating an already existing secular shift. Third, with shelves missing toilet paper, paper towels and in some cases food, consumers have opted to stock up at e-commerce discount stores.

While some sectors are deep in contraction territory, globally, we have seen some redistribution of sales away from brick and mortar into e-commerce after the onset of the outbreak.

That said, the shift to digital ways of shopping has been undeniable.

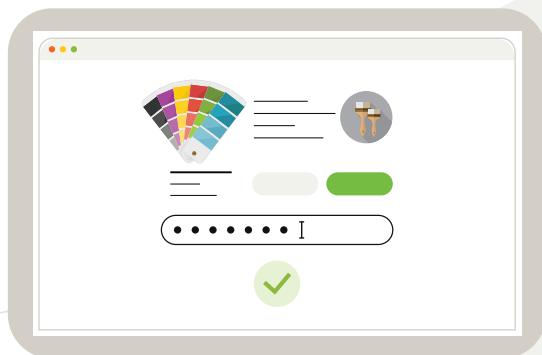


A Global Digital Shift

Analysis based on Mastercard SpendingPulse, which reports on national retail sales across all payment types in select markets around the world. This includes Brazil, Canada, the U.K. and the U.S. The findings are based on aggregate sales activity in the Mastercard payments network, coupled with survey-based estimates for certain other payment forms, such as cash and check.

Virtually every sector has seen a greater shift into digital channels – from interior furnishings to sporting goods, toys and hardware, people have adapted to a new reality by looking to the world wide web to acquire goods and services, according to Mastercard SpendingPulse.

The implications of this digital shift are broad. Companies that can rapidly adapt their supply chains to match the new digital demand will likely settle into the reality that (at least for the foreseeable future) there will be less face time and more screen time. For those who don't have the luxury of rapid adaptation, getting creative with how to reach consumers is necessary, be it through last mile delivery or reskilling, among other innovations. Moreover, consumers are developing a baseline expectation for an omni-channel shopping experience.



\$53B

According to Mastercard SpendingPulse, between April and May, more than **\$53 billion of incremental spending** occurred on e-commerce channels in the U.S. This comparison is based on the typical e-commerce growth rate and e-commerce sales for the same period in 2019.

\$9B

...of this, roughly **\$9 billion came from spending on home improvement** - most of which occurred after stimulus funds were dispersed

93%

In the full month of May, U.S. e-commerce spending **grew by 93% year over year**

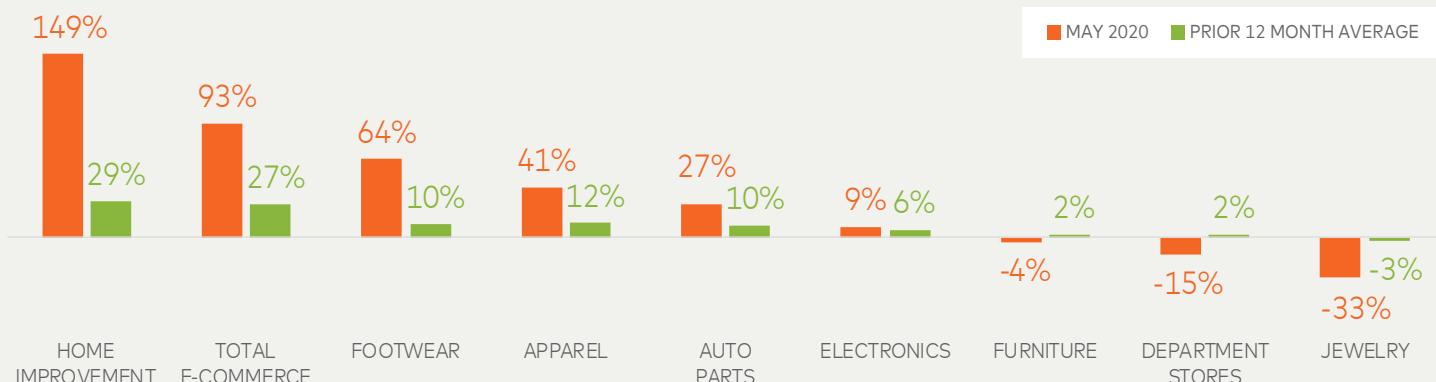
Source: Mastercard SpendingPulse.



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According to Mastercard SpendingPulse, **more money was spent online in the U.S. between April and May than the last 12 Cyber Mondays combined.**

U.S. E-Commerce Sales Growth in May



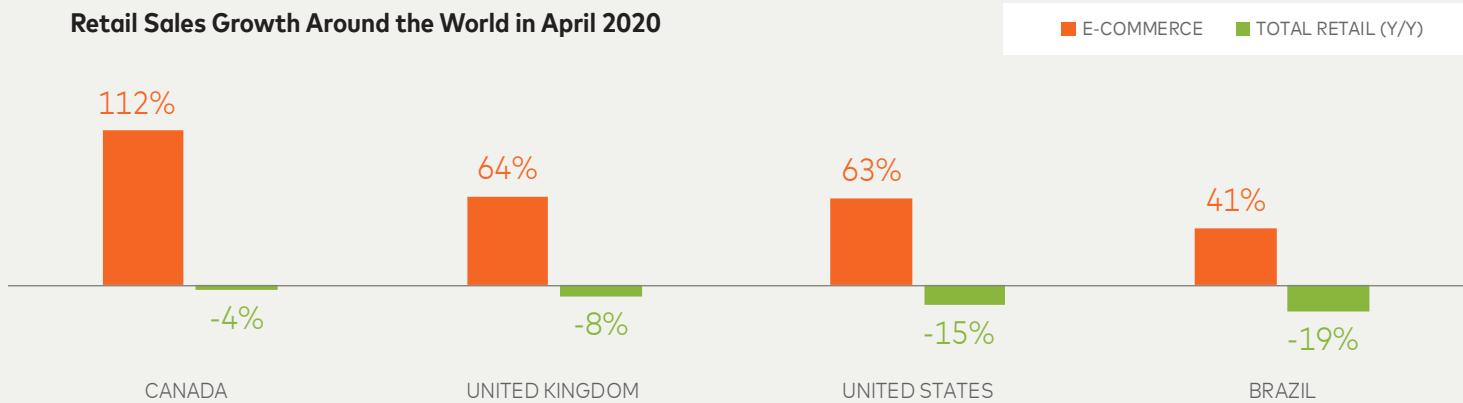
Source: Mastercard SpendingPulse

According to SpendingPulse during the week of April 18, home improvement e-commerce spending posted its greatest weekly increase on record of **\$476 million**, pushing the y/y growth rate to a record 88%.

Rapid e-commerce growth

Globally, we are seeing a great divide of in-person spending channels relative to the impressive strength of e-commerce spending.

Retail Sales Growth Around the World in April 2020



Source: Mastercard SpendingPulse

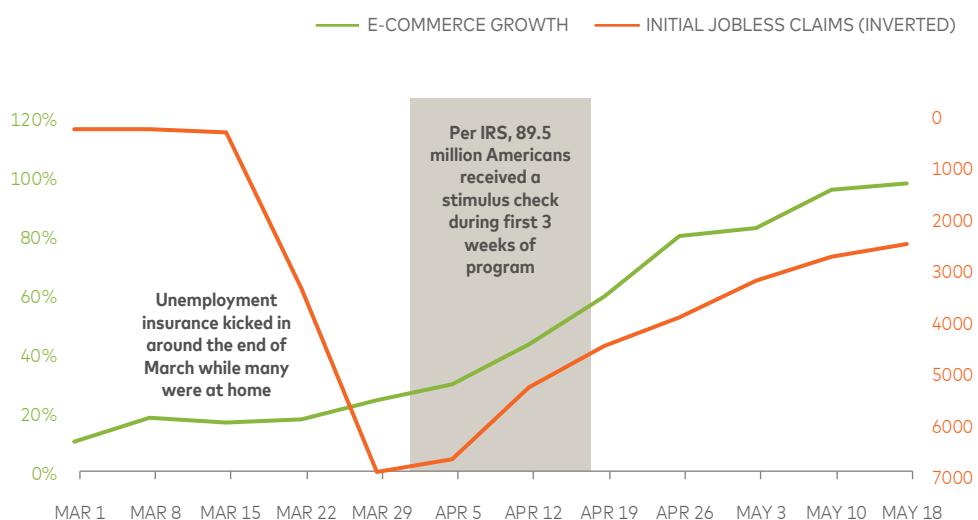
Note: Sectors may vary country-by-country based on national statistical reporting agencies' categorizations. For example, the U.S. measure of total retail includes food services & drinking places; Brazil excludes autos, building materials, restaurants and home furnishing stores; and the U.K. excludes autos, petrol and restaurants.



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In the United States, our SpendingPulse weekly report indicates total retail spending through e-commerce channels accelerated for eight continuous weeks between March 21 through May 9 – an unprecedented climb nearing 100% growth year-over-year.

While stay at home orders created a greater demand for digital commerce, we note spending growth was also bolstered through the distribution of stimulus and unemployment insurance.

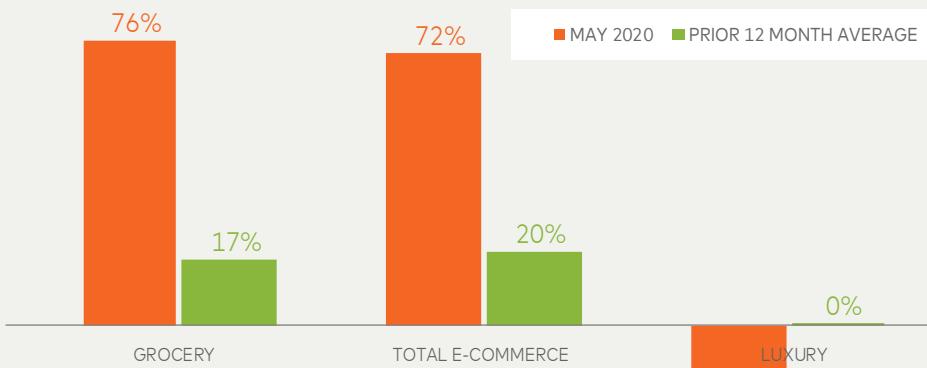


Source: Mastercard SpendingPulse, Department of Labor, IRS

Needs versus wants

Unsurprisingly, consumers are focusing more on staples versus spending on luxury, highlighted in our U.K. SpendingPulse retail sales estimates for May, where e-commerce spending on groceries increased by 76% year-on-year. By comparison, e-commerce luxury decreased -14% year-on-year, reflecting an emphasis over needs versus wants.

U.K. E-commerce Spending Growth



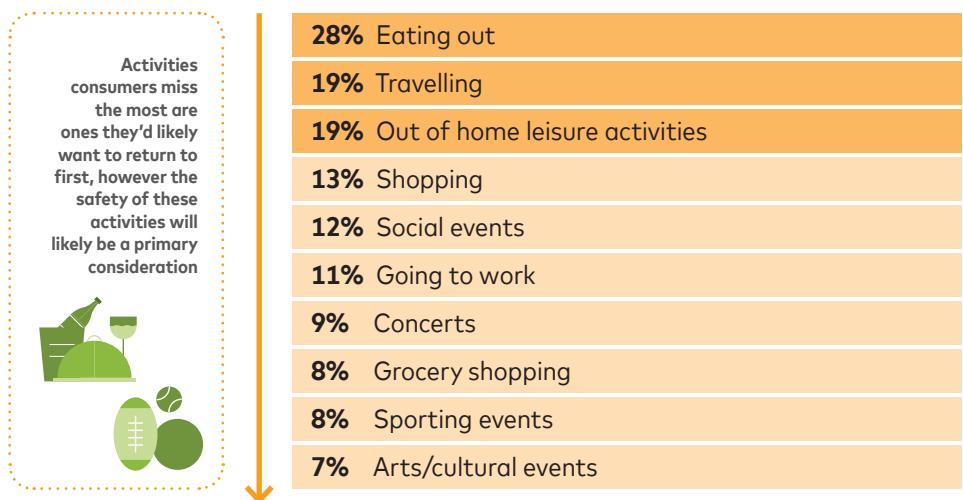
Source: Mastercard SpendingPulse



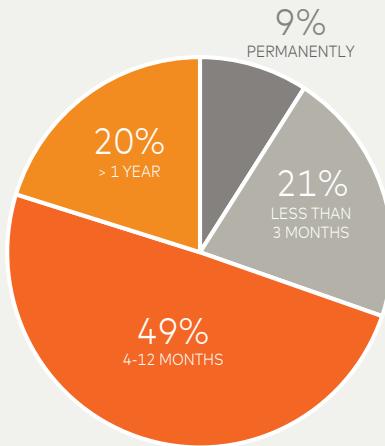
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In parallel, Mastercard survey data¹ indicates that consumers miss eating out, traveling and out of home leisure activities the most.

Out of Home Activities Missed Most



How long will COVID Impact Life



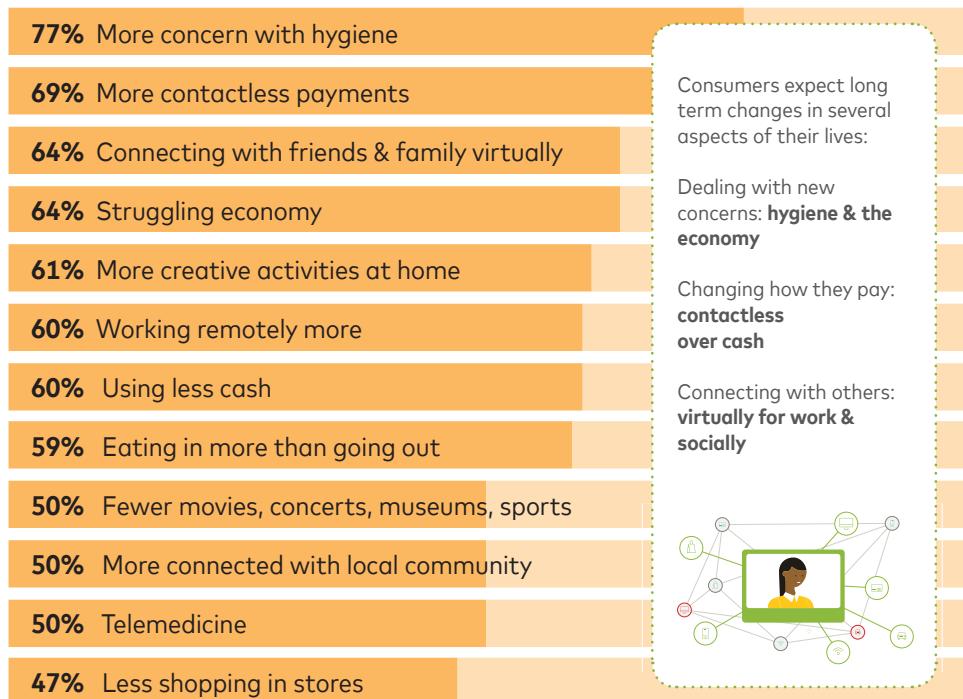
Source: Mastercard Survey

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The survey also indicates that while consumers miss these out of home activities, they are not jumping back into their pre-COVID habits immediately with 20% of respondents suggesting COVID-19 will impact life for more than 1 year, and another 49% who believe the impact will last between 4-12 months.

What now? Consumers expect to continue focusing more on their hygiene, using more forms of contactless payments and connecting more with friends and family virtually.

What Changes Are Here to Stay (definitely/probably)



¹ Mastercard proprietary survey. Australia, Brazil, Colombia, China, France, Germany, India, Italy, Japan, Mexico, Spain, Russia, UAE, USA, UK. N=150/country. May 11 2020-May 17 2020

Consumers are also expecting to work remotely more often. This has interesting implications from a work-life perspective. With greater flexibility around where to work, rural migration from coastal cities is more relevant than ever. The internet serves as the glue keeping the U.S. together when physically apart and serves as the mechanism to enable digital commerce.

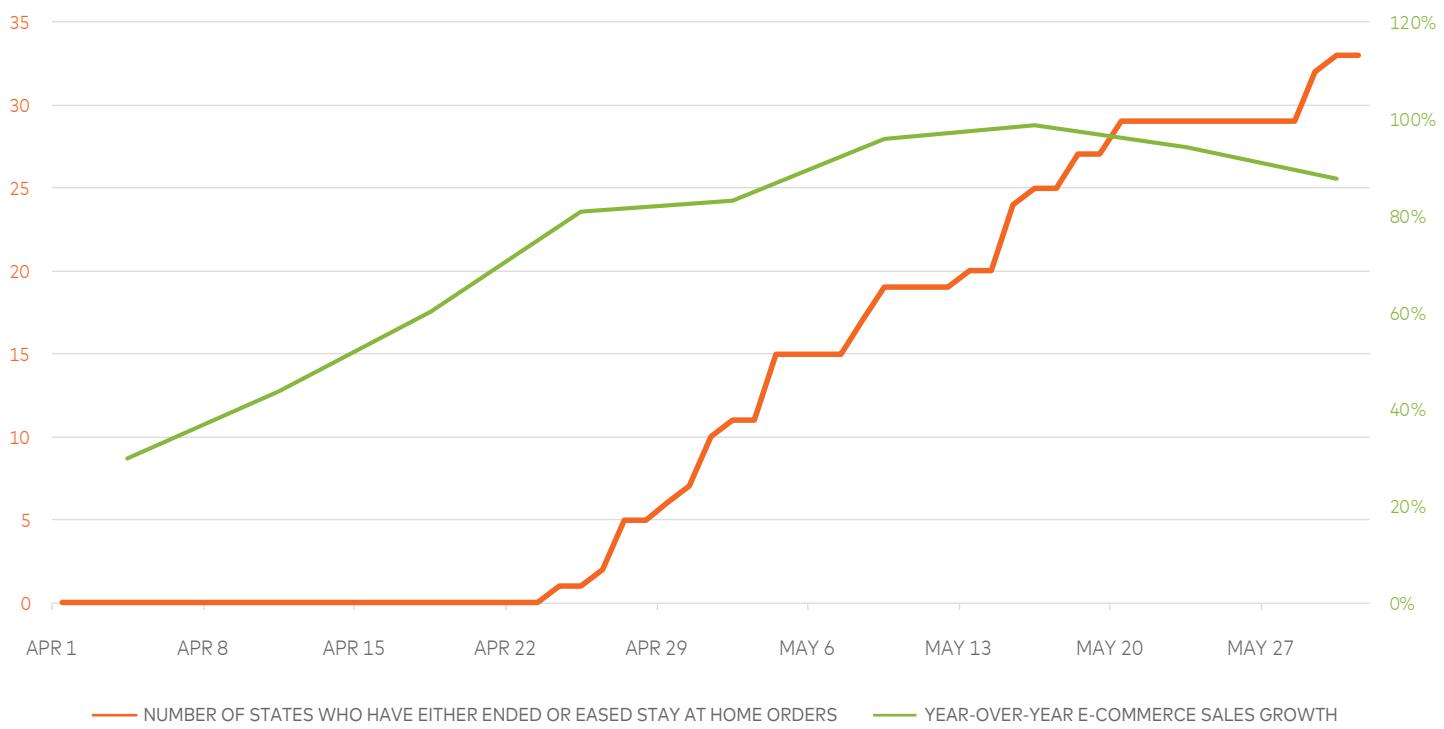
In addition, forms of local and digital entertainment are likely to provide an offset. From a digital commerce perspective, this lays the foundation for a greater push into streaming services (video, gaming), and at-home food and grocery delivery, all contributing to an accelerated increase of e-commerce market share.

Trends to watch

In-Store Shopping Remains a Draw: E-commerce Spending Decelerates as Economies Open Back Up

As of May 30, 19 U.S. states eased stay-at-home orders with 14 fully ending these measures. While we are in the early innings, we are seeing corresponding week-over-week deceleration in e-commerce growth for three consecutive weeks contemporaneous to the easing of restrictions. Similarly, as restaurant restrictions begin to ease across the country, restaurant spending has correspondingly increased.

Year-Over-Year E-commerce Spending Growth Across States that Have Ended or Eased Stay-at-Home Orders



Source: Mastercard SpendingPulse, Mastercard Economics Institute



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Shifting to a Home-Centered Retail Radius

For people around the world, "home" has taken on a new meaning or – should we say – new meanings. Workplace, favorite coffee shop (or least favorite), shopping mall, barber. In the past, a retail radius was defined by distance from other retail stores. Today and in the future, it may be centered on the shopper's home and span out from there, as personal movement and comfort levels pick up.

The individual retail radius has most clearly manifested in the rise of e-commerce, which has taken a bigger portion of retail sales than ever before, as the consumer shops from the safety of home. It's also reflected in a heightened focus on neighborhood shopping. We recently worked with HEMA, which operates more than 750 variety stores in three continents, to help steer their response to the pandemic. Using our "test and learn" experimentation platform, we focused on the big question: What is the most efficient way to serve the most people across stores? Conventional wisdom pointed to focusing on fewer, larger stores. Interestingly, and contrary to expectations, the data-driven insights showed that smaller stores, not the larger ones, were doing well – leading them to keep these stores open. A deep dive into the results revealed that sales were shifting to smaller stores, which are located in more residential areas, as people chose to stay home and shop more locally.

This shift inward has also led to an opportunity. While small businesses traditionally lagged behind larger ones in omnichannel presence, the trends of both shopping local and shopping from home converged to ignite a need for them to go online – and fast.

For Candy Smith, a fashion designer in South Africa, a quick pivot has kept her business afloat. Not only did she quickly transition her team to manufacture masks, but she set up an online shop using Standard Bank's small business platform powered by Mastercard Payment Gateway Services. In early March, she was selling more than 200 masks a day. Now, it's more than 1,500 masks a day for individual sales as well as corporate orders of 10,000 masks at a time.

The Convenience of Curbside Commerce

Before Covid, one of the chief tenets of retail was to drive the consumer to a physical retail location—not just to

the door, but deep into the heart of the sales floor where they'd be exposed to the maximum number of SKUs, each strategically arranged for consumers to 'shop with their eyes'.

But the idea of leisurely browsing in person doesn't apply in a quarantine world. Customers are getting in and out as quickly as possible. Many larger restaurants and retailers are taking some of the stress out of the system by having consumers order online, by phone or mobile app and then offering curbside delivery at the nearest point of retail. It will be interesting to see if this behavior, meant to be temporary, becomes permanent as consumers become more comfortable with this new means of engagement—and convenience. If that's the case, does 'place' become less experiential and more delivery channel?

One way to combine form and function: AI. Last year, Mastercard announced a partnership with ZIVELO, a leader in self-service kiosk technology, to enhance the drive-in and drive-through ordering experience for quick service restaurants (QSRs) with a first-of-its-kind AI-powered voice assistant and personalized dynamic menu. Sonic Drive-In was the first partner to pilot the new experience at selected Sonic locations in the U.S.

Personal Growth Becomes the New Covetable Experience

After the Great Recession, Mastercard economists began noticing a major trend: consumers were prioritizing experiences over things. According to Mastercard SpendingPulse, luxury spending was down, while travel and restaurant sales were up. This was only reinforced in the following years as the rise of social media made FOMO a household word and left consumers everywhere coveting the perfect sunset snapshot. But under quarantine, many experiences have been off limits.

As a result, experiences may become more about meaning and connection. We're watching for continued growth in personal wellness and self-investment. This has previously been seen in the rise of athleisure as exercise has gone mainstream. Another indicator has been what we're searching online. According to Google Trends, there has been a jump in searches for recipes, exercise and meditation, and more than double the normal searches for gardening. In addition, our recent virtual Priceless Experience with chef Bryan Voltaggio was among the most well attended virtual Priceless Experiences, boasting one of the highest levels of engagement.



No Touch is the New High Touch

From High Street to Rodeo Drive, more time, more attention and more "touch" lavished on high-priority customers has meant a higher quality experience—and, ideally, higher sales for the business.

Enter Covid, and the model has been turned on its head. Now fewer attendants, less interaction and NO touch wherever possible signifies quality. Having someone see you pull up and scurrying out with product in hand, whether shoes or steak, and delivering it to you with gloved hands through the window is the new standard in 'white glove' treatment.

For brands' loyalty programs, that also means a shift to digital engagement and carving our unique niches that help you stand out—from the blurry screen.

One leading CPG brand selected SessionM, a Mastercard company, as their loyalty provider of choice to launch their first-ever, personalized at-home hair color in 2019. The program offers virtual consultations and personalized recommendations. With no access to hair salons during COVID-19, at-home hair care is more relevant than ever and the program saw bumps in adoption, signs ups and engagement beyond forecasted numbers.

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For more information, please visit
go.mastercardservices.com/recovery-insights

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