

CONSUMER EXPERIENCE

SENTIMENT REPORT

 **MERKLE**



EXECUTIVE SUMMARY

Consumer behaviors and needs are evolving on a day-by-day, minute-by-minute basis. In addition to that rapid rate of change, the COVID-19 pandemic and other social and economic events of the past year created several fundamental pivots in terms of how consumers interact with brands.

Last year, Merkle conducted research for the first edition of the Consumer Experience Sentiment Report, with the goal of better understanding how consumers feel about their relationships with brands and the experiences those brands are delivering to them. We will continue to produce this report annually to track key experience indicators and identify how sentiment and expectations are changing as the market and world evolve. As such, we dive into topics that are particularly relevant to the moment in time in which the research is conducted.

The 2021 edition of this report features responses from more than 1,300 consumers to a survey conducted in March of 2021. With the pandemic still impacting consumers' everyday lives and brands adjusting after a year unlike any they had seen before, themes that are especially prevalent in the secondary research include consumers' online engagement, the desire for personalized experiences, and brands' abilities to engage on an emotional level.

Key Findings

A major focal point of this year's study was in understanding feelings around data privacy as it relates to offering personalized experiences and the role that these experience have taken on in terms of both impacting consumer decisions and engendering loyalty.

The Merkle Research and Strategy team learned that not only are consumers becoming more comfortable with personalized experiences, but brands that can execute these experiences well, without feeling invasive, are being rewarded with loyalty. To this point, we found that:

Only 23% of respondents

oppose sharing personal information regardless of benefit — down 5% from 2020 — while the feeling that personalization makes it easier to find products that interest them rose to 49%.

Brand reputation,

personalization, and brand loyalty have all increased in importance from 2020 to 2021.

88% of consumers

view a brand's products as having higher quality if they feel like the brand is listening to their needs. Similarly, **91%** are slightly or significantly likely to make a repeat purchase if they feel listened to.

48% of people

increased the amount they spent shopping online this year compared to this time last year.

Introduction

When the first Consumer Experience Sentiment Report was conducted, the world was a few months into a global pandemic and the everyday way of life for brands and consumers was turned on its head. This year, the adjustments made by brands and consumers now feel like normal and there is a perception that better days are ahead. But just because the world may start to look as it did in 2019 — brick-and-mortar stores opening back up and people gathering more in person — it doesn't mean consumer behaviors will revert back to that point in time.

The purpose of this report is to help brands understand these changes in perception and behavior that are taking place and identify avenues through which to better acquire, engage, and retain their customers.



Personalized Marketing

Two forces have long been competing at the heart of marketing and the brand-consumer relationship. On one side is the concern around data collection and privacy. Although data privacy laws like the California Consumer Privacy Act (CCPA) and Europe's General Data Protection Regulation (GDPR) have added rules and restrictions that give more control over data collection and use, there is still the fear that some brands are reaching an intrusive and "creepy" level of personalization.

On the other side is the need to stand out. Brands are looking for ways to get noticed in a sea of competition, while consumers want brands that understand them and don't waste their time trying to push products or services they don't need. The way to accomplish this is through the all-important first-party data, in addition to customer-provided zero-party data. For these two sides to meet in the middle, there has to be an exchange of value. Consumers will provide data, but they must receive something in return.

So, where are consumers falling on this spectrum? It's widespread, as is expected, and much of it has to do with age demographics. Half of consumers still believe that brands know too much information about them, however, the

The number of consumers who feel brands know either slightly or far too much about them when it comes to marketing and advertising has slightly risen over the past year.



Middle-aged and older consumers still lean more toward valuing privacy over personalization, though millennials and younger buyers are willing to provide information in exchange for more tailored experiences.

Still, as a whole, consumers are becoming more willing to give their information in order to receive more personalized experiences. In 2020, 71% of consumers we surveyed said they would take a brief survey upon visiting a website for the first time in order to have a more personalized experience. That number has grown to 76% in 2021, with respondents revealing they are more comfortable giving out their behavioral data to allow brands to enhance their experiences.

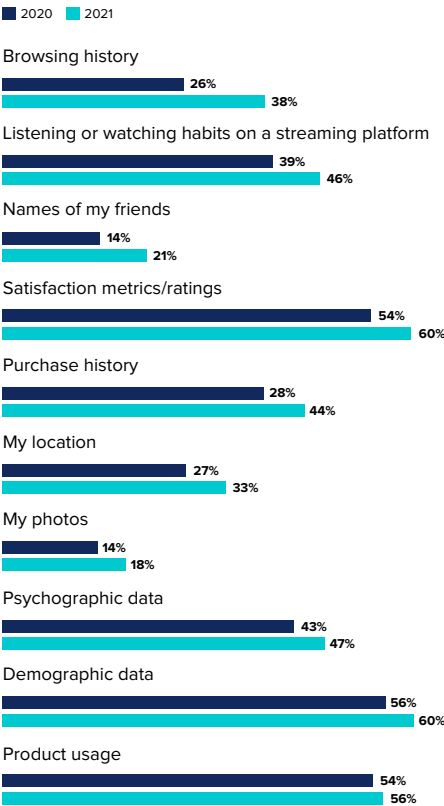
Maintaining the popularity of the information-for-experience transaction is not the final takeaway. A greater point is at play and it leads into the next discussion around the customer experience.

Respondents shared their feelings regarding brands using their data in marketing and advertising.



Consumers 45+ are more likely to value their privacy and not want to share information, while those 30-44 are more likely to value a personalized experience.

Comfort levels are increasing with respect to consumers providing their data in exchange for more personalized experiences.



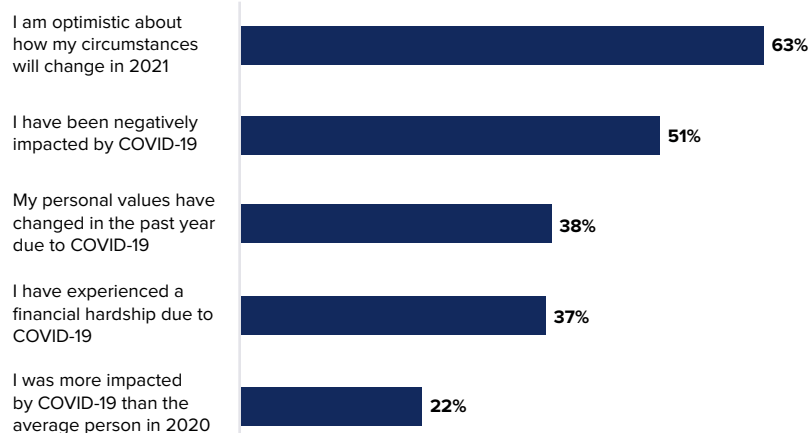


The Customer Experience Evolution in 2020

As mentioned in the Executive Summary, the majority of consumers have seen their world turned upside down in one way or another over the past year. This naturally has an effect on the way they shop and engage with brands, whether we're talking about their budgets to purchase products or their comfort level in shopping through various channels.

Among consumers we surveyed, 51% claimed to have been negatively impacted by COVID-19, with 37% experiencing financial hardship. This has led to a shift in values; 38% say their personal values have changed in the past year and 63% of consumers are optimistic about what 2021 will bring. The result of both of these last two points (values and optimism) are reflected in the brand-engagement evolution we've witnessed in the past year.

The number of respondents who agreed with the following statements shows the difficulties placed on consumers during the pandemic, though many believe better times are ahead.



After the seismic jumps to online activities in 2020 — both out of safety precautions and a lack of in-person options — people are beginning to feel more comfortable going back to physical locations for certain activities. This is especially true for those activities that are more conducive to in-person interaction, such as visiting the doctor taking a class.

Still, whether it is taking a class or buying groceries online, people are not completely reverting back to the ways in which they once engaged. The 10-14% decrease in online activity this year still means consumers are buying groceries, attending a religious ceremony, and visiting the doctor online 30%, 31%, and 49% more than in 2019, respectively. Many have realized the convenience and simplicity that come with online shopping, and brands have adjusted to provide these benefits, expanding their distribution and ordering models to let consumers buy from any device and pick up from the convenience of their car.

While the percentage of activities performed online has slightly decreased this year, lifts in online engagement are still clearly up from pre-pandemic levels.

	2019-2020		2020-2021
Seeing a medical professional	62% ↑	Taking a class	14% ↓
Attending a religious ceremony	41% ↑	Seeing a medical professional	13% ↓
Buying groceries	40% ↑	Buying makeup / skincare	11% ↓
Performing your job	30% ↑	Buying groceries	10% ↓
Buying furniture	29% ↑	Shopping for clothing	10% ↓
Making decisions regarding personal finances	27% ↑	Attending a religious ceremony	10% ↓

The result was a booming year in e-commerce and a growth in online's presence within the buying experience. Digital Commerce 360 estimates that US consumers spent 44% more online in 2020 compared to 2019, which is a growth rate nearly 30% higher than that of 2019 (15.1%).¹ As our earlier chart shows, online engagement rose dramatically across the board. Still, consumers gravitated to certain types of products and services while stuck at home.

48%

Increased spending on **online shopping**

45%

Increased spending on **food/cooking**

33%

Increased spending on **streaming services/subscriptions**

Andrew Lipsman, eMarketer Insider Intelligence principal analyst, articulates these changes well, stating, "We've seen e-commerce accelerate in ways that didn't seem possible last spring, given the extent of the economic crisis. While much of the shift has been led by essential categories like grocery, there has been surprising strength in discretionary categories like consumer electronics and home furnishings that benefited from pandemic-driven lifestyle needs."²

Our research has aligned to this belief. With cities shut down, restaurants and stores closed, and many people working from home, the focus of consumers' spending turned to how to get their goods, food, and entertainment without leaving their house. When asked the areas in which their spending habits changed over the past year, the top three were all elements conducive to spending most of their time at home.

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— Andrew Lipsman, eMarketer Insider Intelligence principal analyst

¹ "US ecommerce grows 44% in 2020," Digital Commerce 360, January 29, 2021. Accessed April 5, 2021.

² "US Ecommerce Growth Jumps to More than 30%, Accelerating Online Shopping Shift by Nearly 2 Years," eMarketer Insider Intelligence, October 12, 2020. Accessed April 5, 2021.

The dramatic nature of this increase is not likely sustainable. We are beginning to see this with the slight drops in percentage from 2020 to 2021. Yet, consumers' comfort level and willingness to engage online for a number of products and services, which, before COVID, rarely happened without face-to-face interaction, is not something that will disappear when pre-pandemic life resumes.

The pandemic has quickened the rate of acceleration for e-commerce, propelling a habit of turning to devices and apps that consumers were already moving toward. E-commerce's share of total retail sales has been on the rise for years, but whereas it rose from 14.3% to 15.8% from 2018 to 2019, in 2020 it reached 21.3%, eclipsing 20% for the first time.³ Consumers were likely going to reach a point in the next three to five years, regardless of a pandemic, where the convenience and benefits of online shopping took hold for more than just clothing or household products. COVID simply sped it up.



³US ecommerce grows 44% in 2020. Digital Commerce 360.

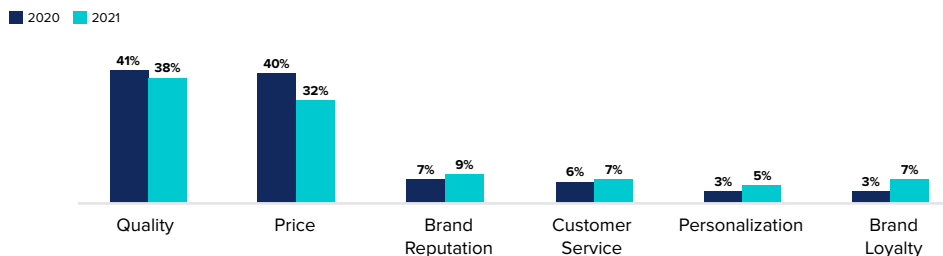


Experience's Impact on Behavior

The quality of the products we buy, or at least the perception of quality, continues to be at the heart of consumer decision making. And that perception of quality is most often association with price. Half of the consumers we surveyed are usually or almost always willing to pay more for a product with significant higher quality, and that number grows to 85% when including those that are at least sometimes willing to pay more. There's a reason why. Nearly three-fourths (70%) of our respondents perceive the product they buy to be of higher quality when they pay more for it.

Quality and price have long been the two main pillars influencing purchase decisions. This is still true, but their stronghold of influence is shrinking slightly. In 2020, when asking consumers what brand aspects are most important to them when making a purchase, 41% and 40% said the top choice was quality and price, respectively. Those percentages are down to 38% and 32% in 2021 in favor of aspects that we will bucket under experience: brand reputation, customer service, personalization, and brand loyalty.

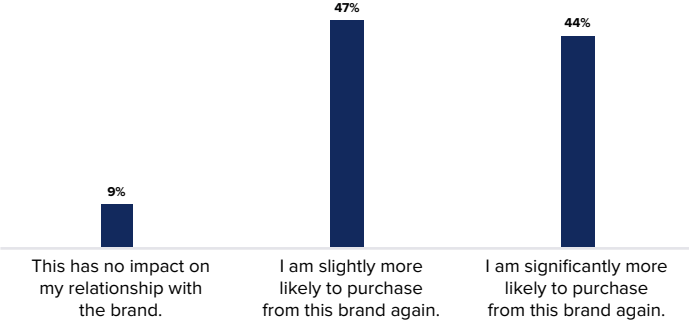
More consumers are ranking brand reputation, customer service, personalization, and brand loyalty as their most important quality, compared to a year ago.



To that point, nearly as many consumers (62%) also associated higher-quality products with brands that make them feel positive emotions. This is where the point we referenced earlier about the greater impact of experience comes into play. Delving a bit deeper into the idea of positive emotions, three specific reactions have influenced not only the perception of quality, but also buyers' willingness to pay more and to purchase again.

The first is when consumers feel that brands are listening to their needs. This goes back to the information-for-experience transaction.

Loyalty increases when brands make consumers feel like their needs are being heard.



Fifty-nine percent of consumers believe it's extremely important that brands make their needs heard. The tradeoff for brands working to understand these needs is a positive business impact in terms of higher consumer spending per transaction, more repeat purchases, and more positive brand recognition.

Of course, demographics still play a factor. Consumers over 60 are less likely to be influenced to pay more or repeat their purchases due to the feeling of being listened to, yet the generations doing the majority of spending are increasingly wanting better understanding from brands.

The second reaction that is driving increased engagement and loyalty is the feeling that the brands consumers engage with represent their personal values. Especially in consumers under the age of 45, shared values more closely tie to a perception of quality. As a whole, 85% of the people we surveyed believe brands that align to their values seem slightly or significantly better in quality.

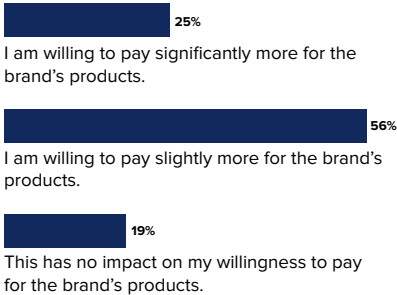
Much like the result of feeling heard, consumers and brands sharing similar values is more likely to have a stronger impact on repeat purchases.

Surprisingly, given the findings in the personalized marketing section about consumers embracing the benefits of personalization, only 36% said the ability of brands to remember their previous interactions and create a personalized experience is extremely important to them. That is the lowest percentage of the three reactions.

Given the responses to these three reactions, it is easy to see how the customer experience broadly is playing a larger role in driving behaviors and purchase decisions. With the amount of brand options at consumers' fingertips — from established brands to rising direct-to-consumer brands — price alone is not enough. Consumers still shop at least partially with their hearts, and the ability to show understanding and authenticity on the part of the brand will help it stand out in a sea of noise.

Similar to loyalty, consumers are also more willing to pay more for products if they feel their needs are being heard.

The feeling that brands are doing a good job of personalizing experiences also results in a willingness to pay more.



Conclusion

Millennials and Gen Z now make up a large swath of the buying public, and they are being upfront and forthright about their demands to not just have a transactional relationship with the brands with which they engage, but rather a deeper relationship where brands understand their needs and can provide what they want, when they need it, and within the channels in which the consumer is present.

In year two of this report, we have witnessed a growing comfort with personalized experiences in exchange for personal data, as well as young consumers' increasing devotion to this exchange by rewarding brands with more engagement and longer brand-customer relationships. And as Gen Z takes on even more of the consumer share, there is no evidence that this will slow down or reverse course.

For brands, delivering these experiences is not simple. The collection of data and activation of always-on, holistic messages across channels takes an investment in technology, creative, and strategy. But the payoff is valuable. Marketers are well aware of how much more it costs to acquire new customers than to retain current customers. And with an increase in demands comes a decrease in patience on the part of consumers. If brands cannot meet their needs, they have no hesitation in going to a competitor that can. As we have seen, these efforts to truly understand consumers' needs and connect on a deeper level drive increased conversion revenue and loyalty. Given the events of 2020, with tighter budgets and more limited channels of engagement, anything brands can do to engage and retain current customers will benefit the bottom line.

If you are ready to get a better idea of your customers' needs and how they feel about your brand, reach out to marketing@merkleinc.com to receive a detailed customer readout in as little as four weeks.

Research Methodology

The research and resulting report provide insights on an annual basis with the goal of displaying the changes in customer preferences and perceptions over time as they pertain to the customer experience. Each wave of the study will also delve into a different topic based on current events and market changes. This wave focused on customer perceptions of data privacy and personalization, as well as trends regarding consumers' online engagement.

Completed by	Region	Age	Gender
Merkle DX Research and Brand Strategy	Midwest: 323	18-29: 276	Male: 605
Hosted on	Northeast: 277	30-44: 416	Female: 738
Qualtrics using a paid panel	South: 441	45-60: 415	
Sample size: 1,348	West: 307	60+: 241	
Dates surveyed: March 1-19, 2021			

About Merkle

Merkle is a leading data-driven customer experience management (CXM) company that specializes in the delivery of unique, personalized customer experiences across platforms and devices. For more than 30 years, Fortune 1000 companies and leading nonprofit organizations have partnered with Merkle to maximize the value of their customer portfolios. The company's heritage in data, technology, and analytics forms the foundation for its unmatched skills in understanding consumer insights that drive hyper-personalized marketing strategies. Its combined strengths in performance media, customer experience, customer relationship management, loyalty, and enterprise marketing technology drive improved marketing results and competitive advantage. With 12,000 employees, Merkle is headquartered in Columbia, Maryland, with 50+ additional offices throughout the Americas, EMEA, and APAC. Merkle is a dentsu company. For more information, contact Merkle at 1-877-9-Merkle or visit www.merkleinc.com.

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