

AUGUST 17, 2020



## The Alpha Edison Perspective

### AE Consumer Impact Index Update

## PERSPECTIVES

#### ISSUE 7

### Lifestyle Changes Creating Long-Term Opportunities

#### AN AE SERIES

*As we enter the fifth month of widespread changes to our daily lives brought upon by the COVID-19 pandemic, it may seem as if we've undergone five - or even fifty - years of disruption and transformation. While some consumer behaviors will inevitably revert to the status quo once businesses reopen, we focus here on several COVID-motivated choices that will have cascading effects in the future by locking consumers into ongoing economic or psychological commitments.*

*Using the lens of the AE Consumer Impact Index introduced in a previous edition of this newsletter, we have observed consistent changes in consumer spending in the domestic realm. Specifically, our data show a continued increase in investment by consumers in home improvement and pets. We apply behavioral change models to identify downstream needs--the second and third-order impacts--that will arise from choices made during the pandemic, and discuss opportunities to accommodate these emerging needs.*

In April, we introduced the AE Consumer Impact Index to track changes in consumer spending throughout the public health crisis and its aftermath. Here, we revisit the indices to highlight behaviors that are still far from the pre-COVID norm, focusing on home improvement and pet adoption. Within this "domestic" realm, we expect long-term consequences of consumer decisions induced by the pandemic: home improvements will require maintenance and detract from the appeal of returning to a more formal office setting even once it is possible to do so; Similarly, newly added pets will still demand care and attention once their owners have renewed flexibility to socialize and travel. These downstream effects present opportunities for building new businesses to satisfy consumer needs and preferences that have undergone exceptional pressure during COVID-19 and may remain permanently altered as a result.

#### A REFRESHER

*The [AE Consumer Impact Index](#) compares current consumer spending with expected historical levels and growth trends before the COVID-19 crisis, taking into account volatility and seasonality. It is defined for a time window (i.e. 2 weeks) and confidence interval (i.e. 95%). A score of 50 indicates that on 50% of days in the window, spending in that category was above the expected value at the confidence interval. A negative score indicates spending below historical predictions.*

# Selected Consumer Spend Categories

Data as of August 1, 2020

	Consumer Spend Category	AE Consumer Impact Index (2 week window, 95% confidence)
Home	Home Supply Warehouse Stores	93
	Furniture, Home Furnishings, and Equipment Stores	50
Pets	Pet Shops, Pet Food, and Supplies	64
	Veterinary Services	50

## HOME IMPROVEMENT

As consumers have been spending more time at home for both work and leisure, many have invested in improving their immediate surroundings. Indeed, our data shows that during the COVID-19 period thus far, consumers have increased spending on home furnishings and other household improvements. As an example, pool installers have seen a dramatic increase in sales this summer, with some companies experiencing 75% [increase in sales](#) for the month of June.

Despite a suffering economy and increasing unemployment, the cash influx of stimulus checks and an inability or unwillingness to spend on in-person services (i.e. restaurants and salons) and entertainment (i.e. movies and air travel) have led consumers to exercise their spending power in other sectors like durable goods. Given the economic and public health uncertainty permeating the public consciousness, consumers seem restrained on spending superfluously, but eager to spend much more than usual -- in terms of both time and money -- on practical improvements to home and garden.

It is important to note that even within strong consumer sectors, not all products are seeing equal growth. For example, furniture sales have been remarkably uneven across subcategories. Using a sample of web browsing data<sup>1</sup>, we are able to track consumer interest (i.e. time spent on the site) as well as actual spend on furniture sold on Amazon. Compared to 2019, consumer interest in office furniture grew most strongly through July 2020, by over 36%, with interest in home office desks increasing 2.7x and in office chairs increasing 3.7x-- necessities as many shift to remote work. Other products like beds (1.3x), sofas (2.0x), and tables (2.1x)

have also grown, possibly a result of individuals moving in with [extended families](#) for support during the quarantine. In comparison, interest in accent furniture has declined to half of what it was since the start of COVID-19, perhaps another instance of consumer interest in necessities over indulgences.

## FURRY COMPANIONSHIP

In addition to making their homes more comfortable, consumers have been making them more entertaining and supportive with the addition of pets. Animal shelters have emptied out during the COVID-19 crisis as socially isolated adults seek companionship for themselves and their homebound children. During the three-month period following the initial impact of [COVID-19](#), 5% of adults in the US adopted a dog and 4% adopted a cat. By the end of 2020, 71M American households (56% of all households) are expected to own a pet. This trend is evidenced by the strong growth in veterinary care and pet supplies within our AE Consumer Impact Index.

This more recent surge in pet ownership continues the growth in pet-related services seen in recent years. We have [written in the past](#) about this growth for millennials, who are delaying family formation due to a number of social and economic factors and relying more on companionship from pets. A furry friend is increasingly central to the emotional life of unmarried people under 35; a 2018 TD Ameritrade survey found that the average millennial dog owner spends \$1,215 per year on their pet and as a group, they spend \$67 billion annually. Taken as a whole, pet care is both emblematic and symptomatic of shifting millennial household dynamics that were accelerated by the COVID-19 crisis, but will persist far into the future.

1 Consumer web browsing data was sourced from DISQO, Inc. DISQO owns and maintains a 100% opt-in 1st party audience, and has built technology that tracks and structures digital behaviors.

# Behavioral Analysis

In our [sixth](#) Perspectives piece, we introduced behavioral models that help to explain changes in behavior occurring during the COVID-19 pandemic, as well as identify opportunities for investment based on shifts in consumer needs and preferences. Here we apply these models to the increasing “domesticity” highlighted by the Consumer Impact Index values for spending on home improvements and pets.

First and foremost, both of these behaviors relate to **habits**, the disruption of old habits and the potential formation of new habits. As many people have ceased commuting to an office Monday through Friday, they instead have developed routines around household maintenance and caring for pets. These are both habituating since they entail taking rote actions in response to regular cues about your work and family needs, or the demands of your pet, respectively. We should not expect things to return to the way they were before unless there are forces at play to disrupt new habits that have formed, but rather for future choices to accommodate these new habits. For example, caring for a new dog might take precedence over returning to a gym routine, spending long hours at work, or enjoying time with friends. As a result, new pet-owners may be receptive to ways to enhance their pet’s health and wellbeing, as well as their own productivity and options to socialize or travel with a pet in tow.

In addition, each of these domestic behaviors may have entailed overcoming **switching costs**, meaning that they will be “stickier” if those costs (in terms of money, time, or effort) posed the main barrier to adoption. For DIY projects around one’s home, setup costs may include buying materials / tools or learning new skills. For pets, the literal barriers to “adoption” relate to finding a vet, acquiring pet supplies, and training the pet. Because of social distancing, people have been willing to try a range of new behaviors that they might not have otherwise, and in some cases, have found that these new alternatives are preferable to their previous way of doing things; one’s home may simply be a more pleasant place to spend time once it has been redesigned to accommodate both work and leisure. If so, people may be receptive to bringing additional activities into the home, such as virtually browsing a museum exhibit with an online date or receiving telemedicine.

In other cases, even when COVID-19-induced investments in domesticity were perhaps too hasty and likely to be incompatible with post-COVID life, the related concept of **escalation of commitment** comes into play. Switching costs are sometimes “sunk” costs that have

already been incurred in the past, and from a utility maximization perspective ought to be ignored in future decisions. However, individuals often seek justification for – and even double-down on – their previous choices, thus throwing good money (or time) after bad. To take an extreme example, raising hens in one’s backyard may have seemed like a great idea to avoid grocery shopping for eggs while working flexibly from home, but will ultimately become a burden that requires re-investment simply to maintain. The reluctance to admit past mistakes and change course (i.e., sell the coop) will have the effect of psychologically locking people into some of the home-related changes that they’ve made during the pandemic. This suggests investment potential in businesses that can ease the burdens consumers have assumed, such as tools that facilitate work-life balance or continuous advancement in hobbyist pursuits.

Whereas habit formation, switching costs, and escalation of commitment each perpetuate new domestic behaviors, **risk preferences** and **variety-seeking** may serve as countervailing forces. While the risk of contracting COVID-19 has been highly salient in recent months, that will surely dissipate over time once the actual risk subsides (e.g., through development of an effective vaccine) and activities outside the home reopen in safer ways. Domestic behaviors may become relatively less appealing compared to the many businesses and attractions that will aim to lure consumers back out and about. Indeed, the risk of confining oneself to home-related responsibilities may reemerge in prominence as a limitation on spontaneity and freedom. We expect an emerging opportunity to provide safe ways for consumers to interact in public and to enjoy more variety in food and entertainment at home.

The **signaling** and **network effects** models predict different motivations around domesticity for different groups of consumers. If one group’s social norms deem it necessary to continue distancing, they are apt to use home projects as a signaling mechanism. Conversely, if a social group of like-minded individuals believes we should return to business as usual, they may engage in overt public gatherings. Further, given the uncertainty caused by the pandemic, individuals may be especially reliant on social norms within their own networks to deduce the appropriate level of interpersonal contact, leading to false beliefs that there is broad consensus. There may be some circles of friends who all cooperate in abiding by strict safety precautions, while others explicitly flout such recommendations. This suggests a business opportunity to build trust with consumers and help navigate diverse opinions and abundant, often conflicting information in an increasingly complex news and media environment.

*We should not expect things to return to the way they were before unless there are forces at play to disrupt new habits that have formed, but rather for future choices to accommodate these new habits.*

## Looking Forward

*Regardless of how consumer attitudes continue to evolve, some people have already made big investments in homes and pets, each of which require ongoing maintenance and have established psychological commitment. Thus, the increase in domesticity we observe creates an opportunity not only for companies to introduce new goods and services for consumption at home or in the realm of pet care, but also to fulfill rebounding desires for variety and social status. This may mean diversifying at-home options for hobbyists and pet owners, as well as enabling more flexible options for public recreation that take into account consumers' new obligations. At the same time, we are well positioned to capture value from emerging technologies that are now receiving a boost in consumer interest that will catalyze more widespread trial by mainstream audiences.*