

COVID19: Impact
on CPG



In a matter of just a few weeks, the COVID-19 threat has escalated to an unprecedented global health crisis. As of March 17th, there are over 180,000 people infected across the world and over 4,000 in the US. Containing this global threat, governments are taking extraordinary measures, unseen in modern history - closing borders, putting communities, cities, and countries under the lockdown, and effectively shutting down entire industries.

Along with the escalating health crisis, there are also skyrocketing economic implications and uncertainties about the impact of COVID-19. While travel, entertainment, hospitality, and restaurants came to screeching halt, business leaders across other industries are trying to assess what COVID -19 will mean to their business

Impact on Consumer Goods companies is likely to be nuanced, involving both the demand and supply sides of the equation. And unlike other industries, a shift in consumer behaviors is leading to the growing demand for many food, beverage, and home care categories, as well as to changing brand preferences. At the same time, manufacturers need to assess how to best address likely supply chain disruptions and capacity limitations that may prevent them from meeting changing consumer needs.

Below are some emerging insights on how pandemic worries are changing consumer behavior

Changing consumer behaviors:

- **Hunkering down at home:** with accelerating mass shutdowns and the looming possibility of a lockdown, consumers are huddling at home and minimizing all social contacts; discouraging travel, parties/social gatherings; eating out comes to a screeching halt as multiple states mandating restaurants/bars closures
- **Stockpiling:** sales a broad array of items from cleaning/disinfecting and preventative health products to food staples. While some of this is pantry-loading, much is likely to have significant incrementality
- **Turning to comfort foods and comfort brands:** during times of stress, consumers tend to turn towards their comfort foods and old favorites,
- **Back to trusted brands:** preference switches switching back to trusted national brands and away from natural/organic and Private Label, particularly in cleaning, disinfecting, health products,
- **Ecommerce acceleration:** ordering online to avoid extra trips,
- **Eating all meals at home - all week:** with all kids and adults huddled at home 24/7, all meals will be consumed at home,
- **More time:** more cooking from scratch, more baking – “projects” to occupy kids,
- **More snacking:** stress, Netflix, boredom, proximity to the pantry – all these are likely to drive snacking, at least temporarily,
- **Providence awareness:** avoidance of products from impacted regions,
- **Food safety worries:** concerns about produce and fresh products that may have had exposure to the virus.



Anticipated impact on demand by category type:

CATEGORY	BEHAVIOR INSIGHTS	Sales week ending March 14th	ANTICIPATED NET IMPACT - 3-6 months
Preventive Essentials: sanitizer, wipes, Antibacterial cleaners, etc.	<ul style="list-style-type: none"> Immediate: Stockpiling and panic buying Ongoing: significantly higher usage for the duration of the epidemic 	Aerosol disinfectants: +519%	↑↑↑↑↑
Emergency home basics: bathroom tissue, paper towels	<ul style="list-style-type: none"> Immediate: Stockpiling and panic buying Ongoing: higher usage for paper towels - more sanitizing, more cleaning as family and kids at home all the time 	Backroom tissue +212% Paper towels: +154%	↑↑ - Net impact, since very high Immediate pantry loading will be followed by a dip
Shelf stable food staples: rice, canned food, boxed mixes, pasta, sauces, shelf-stable plant milk	<ul style="list-style-type: none"> Immediate: Stockpiling, increased penetration for many products Ongoing: higher usage for the duration of the epidemic – due all meals shifting to in-home; some products may go unused/expire 	Dried beans: +230% Rice: +166% Soup: +126% Tuna: +142% Oat milk: +476%	↑↑ Net impact is positive, but initial high lift can be followed by temporary dip due to pantry loading
Snacks: crackers, cookies, pretzels, chips, popcorn, fruit snacks	<ul style="list-style-type: none"> Immediate: some pantry-loading Ongoing: higher usage for the duration of the epidemic due to staying at home + likely increase in snacking (stress eating, Netflix, boredom) 	Pretzels: +47% Potato Chips: +30% Chocolate: +19% Popcorn: +10%	↑↑↑ Pantry loading+ likely higher ongoing consumption
Frozen foods: proteins, veggies, RTE meals & snacks, frozen breakfast; ice cream	<ul style="list-style-type: none"> Immediate: freezer-loading, but likely less lift than shelf-stable (less freezer space) Ongoing: higher usage due to staying at home; particularly for people with low cooking skills 		↑↑↑ Some freezer loading in the initial weeks may lead to a dip
Perimeter foods (non-produce): milk, eggs, chilled breakfast, dairy, breakfast, juices	<ul style="list-style-type: none"> Fridge loading is constrained by shelf life; ongoing higher usage due to staying at home 	Milk: +32% Eggs: +44%	↑↑
Baking: flour, sugar, mixes	<ul style="list-style-type: none"> Immediate pantry loading, ongoing: higher usage – more time, baking for fun, entertaining kids 		↑↑↑↑ High incrementality
Produce	<ul style="list-style-type: none"> More home occasions will be negatively offset by concerns about consuming raw fruit, berries and veggies that can be contaminated; Citrus will benefit (vitamin C, protected by skin) 	Bananas: +16%	Mixed ↑↑ - Citrus ↑ - bananas, veggies that are cooked
Beverages –on-alcohol	<ul style="list-style-type: none"> Initial sharp increase in retail sales due to pantry loading, significantly increased consumption while confined at home with kids and stocked pantry; all on-premise shifts to home; Longer term - If recession ensues, bottled water will likely be hit by substituting with free tap water 	Sot drinks: +26% Water: +99%	↑↑ Immediate pantry stocking ↑ while confined to home ↓ mid-term due to economic decline
Alcohol	<ul style="list-style-type: none"> Volume consumption is likely to increase short term due to stress and being confined to home. However, it is likely that consumers will be switching to less expensive products. Cheap beer and liquor surged in previous periods of distress (recessions, 9/11) 		↑ - Beer ↑ - Liquor ↓ - Wine

Supply chain issues and concerns:

- **Product availability and capacity constraints** – particularly in key stockpiled categories such as hand sanitizer, branded high efficacy cleaning products – demand exponentially exceeds available supply,



- **Lack of clarity about future demand** – traditional forecasting models, will not be accurate for the next 6 -12 until things at least marginally go back to normal,
- **Potential long-terms import gaps for products made in impacted countries and regions** – as well as transportation and shipping disruptions,
- **Risks of domestic supply chain disruptions** – reduced manufacturing capacity and shipping constraints, shortage of workers if lockdown is implemented, or areas of the country are cordoned off.

Implications to CPG firms:

Most firms are now in the Crisis Management mode: ensuring employees and consumer safety and scrambling to keep critical goods on the shelf. Beyond this, issues that need to be addressed are:

- a) **Assessing and modeling impact on demand:** what will the next 1, 3, 6 12 months look like? Forecast models need to be retooled to reflect consumer behavior as it progresses through the situation and to pick up a field signal rapidly.
- b) **Optimizing manufacturing:** balancing diminished capacity due to employee safety and lockdowns with increased demand
- c) **Optimizing delivery logistics:** increased volume will require higher transportation capacity; however, flexibility is needed to meet the volatility of demand as the situation progresses.
- d) **Evaluating pricing and trade investments:** normal price sensitivities no longer apply. Moreover, subtleties will be highly dynamic, changing as we progress from pantry-loading to home confinement stage, and as the economy likely deteriorates.
- e) **Accelerating e-commerce and DTC sales:** product shortages, shifting to the online and more vigilant consumers with more time on their hands can create an opportunity to drive traffic to your website and start selling directly to the consumer.
- f) **Re-assessing marketing investments:** advertising investment, messaging, channels.
- g) **Addressing longer-term supply chain implications:** target safety stock and inventory levels, supplier diversification.



To add a historic perspective, we compared how COVID19 is impacting consumer behavior vs. another major shock: 2008 recession

	2008 GREAT RECESSION	2020 COVID19
CONSUMER ATTITUDES	<ul style="list-style-type: none"> •Economic fear and uncertainty •Anxiousness 	<ul style="list-style-type: none"> •Health safety fear, extreme and escalating uncertainty, worry about recession, lost wages •Anxiousness and confusion
CONSUMER BEHAVIOR	<ul style="list-style-type: none"> •“Cocooning” to save money: staying in, eating out less, cutting traveling and entertainment spend •Carpooling to work •Cooking more from scratch, with eating out less, replacing takeouts with RTE when strapped for time •Trading down to Private Label, substituting for less expensive 	<ul style="list-style-type: none"> •Social distancing to the point of isolation, huddling down at home, complete disruption of all routines and plans •Working from home, while taking care of kids •Stockpiling on multiple categories and building up a pantry to ride out epidemic •Trading up to trusted national brands
MACROECONOMIC BACKDROP	<ul style="list-style-type: none"> •Highly negative – unemployment, falling RE prices, foreclosures , high inflation and gas prices •Low Consumer Confidence 	<ul style="list-style-type: none"> •Rapidly deteriorating outlook, complete shutdown of many industries, high probability of recession, crushing financial markets •Rapidly falling Consumer Confidence
HIGHER DEMAND: PRODUCTS GETTING A LIFT	<p>Categories :</p> <ul style="list-style-type: none"> •Consumer Staples: flour, oil, sugar, eggs, milk.. •RTE meals •Beer, lower priced alcoholic bev • Less expensive proteins •Brands: PL and value brands across all categories 	<p>Categories :</p> <p>Increase in demand across majority of grocery and home staples categories, especially:</p> <ul style="list-style-type: none"> • sanitizer, antibacterial cleaning products , towels, bathroom tissue, OTC, remedies, – up to 1000% jump • Food staples: shelf-stable food staples, canned goods, water, flour, snacks • Baby care: diapers, formula, wipes <p>Brands: Trusted leading brands as consumers went for proven effectiveness and safety</p>
LOWER DEMAND PRODUCTS	<ul style="list-style-type: none"> •Most discretionary food categories, higher priced spirits and wines •Categories – bottled water switch to tap, ect •Premium products in all categories - Organics, Naturals, artisanal, pricier proteins 	<ul style="list-style-type: none"> •Natural and PL cleaning products -- perceived lower effectiveness •Fresh produce - perceived exposure to virus •Products from impacted countries