FMCG IN THE ‘COVID-QUARTER’ & PREPARING FOR RECESSION PART 2

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This report combines multiple sources of data and research inputs to provide a comprehensive view of the behaviour and perceptions of Australian FMCG shoppers from February to May. It therefore captures changes during an unprecedented timeframe: the ‘COVID-quarter’

We think it is a crucial time to monitor consumers constantly changing perspectives. Much of the analysis includes the results of two waves of dedicated COVID-19 themed surveys put to IRI’s Shopper Panel. Wave 1 included 5,799 respondents surveyed between 1st and 15th April. Wave 2 included 5,566 respondents between 19th and 24th May

Also included is select retail POS data across channels, and ongoing data collected from our shopper panellists who have been recording their elevated purchase levels throughout. Because of the mixed sources of data, the specific timeframes vary but are clearly stated on each slide.
This is a comprehensive 5 part report, covering 3 themes

THEME 1
A headline view of COVID-19

PART 1
COVID-19 Sentiment Update

THEME 2
Situational analysis across the FMCG channels in the ‘COVID-quarter’

PART 2
Quarterly Grocery Update

PART 3
Quarterly ‘Rest of FMCG’ Update

THEME 3
Recessionary macro-economics and dealing with a ‘recessionary mindset’

PART 4
A ‘Recessionary Mindset’ & Looming Recession

PART 5
What To Do To Survive & Win In A Recession

This document includes Parts 4 & 5
FMCG IN THE ‘COVID-QUARTER’

COVID-19 Sentiment Update
Australians remain cautious as we unlock the lockdown

1. **Australia has had success in curbing COVID-19 infections**, which has helped to quell rising anxiety and restore faith in the government’s leadership. Even as Australians express slightly less anxiety about COVID-19 (compared to March and early April at least), concerns remain pervasive amid ongoing socio-economic consequences evidenced throughout this report.

2. **Australians have moved into a ‘readjustment’ phase** (in the COVID-19 lifecycle) as lockdown eases, recovery cases surge upwards, and citizens slowly begin to derive newfound enjoyment and appreciation from simple pleasures previously taken for granted (but unobtainable in lockdown). An unprecedented magnitude of change has occurred throughout the quarter as lifestyle norms (both work and leisure) continually adjust and become ‘new norms’ for the foreseeable future.

3. **Prevention, hygiene and immunity are all very much front-of-mind**. Anxiety towards the avoidance of germs and other contaminants is driving forceful demand for a safer shopping environment. Elevated expectations of safeguarding measures will drive up operating costs at a time when frugal consumers will become more price conscious. This could be a tension point for the industry.
Global COVID-19 infections have now surpassed 6.6M impacted citizens.

Global cases: 6,600,692
Countries impacted: 188
Global deaths: 389,620

<table>
<thead>
<tr>
<th>Country</th>
<th>Infections</th>
<th>Deaths</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 US</td>
<td>1,872,528</td>
<td>108,120</td>
</tr>
<tr>
<td>2 Brazil</td>
<td>584,016</td>
<td>32,548</td>
</tr>
<tr>
<td>3 Russia</td>
<td>440,538</td>
<td>5,376</td>
</tr>
<tr>
<td>4 UK</td>
<td>283,079</td>
<td>39,987</td>
</tr>
<tr>
<td>5 Spain</td>
<td>240,660</td>
<td>27,133</td>
</tr>
<tr>
<td>6 Italy</td>
<td>234,013</td>
<td>33,689</td>
</tr>
<tr>
<td>7 India</td>
<td>226,713</td>
<td>6,369</td>
</tr>
<tr>
<td>8 France</td>
<td>189,569</td>
<td>29,068</td>
</tr>
<tr>
<td>9 Germany</td>
<td>184,472</td>
<td>8,635</td>
</tr>
<tr>
<td>10 Peru</td>
<td>183,198</td>
<td>5,031</td>
</tr>
<tr>
<td>64 Australia</td>
<td>7,247</td>
<td>102</td>
</tr>
</tbody>
</table>

Australia’s global ranking in the COVID-19 case count has dropped significantly since March when it was ranked #20 according to Johns Hopkins University data as of 31/03/2020, 09:39am.
Australia has had comparative success in curbing COVID-19 infections...

COVID-19 cases by state:

- 592 (Feb)
- 440 (Mar)
- 3,110 (Apr)
- 1,681 (May)
- 228 (May)
- 1,060 (May)
- 29 (May)

COVID-19 recoveries:

6,681

"We're on track, and we're making progress far sooner than we could have ever imagined several months ago when National Cabinet was first formed***

The rate of new infections has declined significantly

Early signs indicate easing of restrictions has not created major outbreak risks

Source: IRI analysis; Johns Hopkins University; Data as of 05/06/2020, 10:33am AEST
* PM Scott Morrison, speaking w/c 25th May
…with eased restrictions likely adding to the **positivity re: the local response**

The sentiment among IRI’s panellists that the level of response has been apt aligns with other research* indicating a clear majority of Australians rating the government’s response to the COVID-19 outbreak as ‘good’

Regardless of political affiliations, it could be argued that the successful suppression of the first wave of the pandemic is a source of national pride.

Source: IRI analysis; COVID-19 Shopper Survey, April 2020, n = 5,799; May 2020, n = 5,566; health.gov.au
Question: How would you rate the current overall response in the Australia to the Coronavirus? (Select one)

* Essential Report, essentialvision.com.au
Success in curbing infection has coincided with a lower perceived risk.

At no point has a majority share of Australians deemed it likely that they would develop COVID-19. Fear of infection peaked in late March and subsided throughout most of April. Sentiment is stable in the latest 4 wks., which is indicative of a cautious optimism/hope.

Perceived likeliness of developing Covid-19 among Australians

- **Likely**
  - 22-Mar: 58%
  - 29-Mar: 73%
  - 6-Apr: 74%
  - 13-Apr: 73%
  - 20-Apr: 74%
  - 27-Apr: 74%
  - 4-May: 26%
  - 11-May: 27%
  - 18-May: 27%
  - 25-May: 27%

- **Unlikely**

Source: IRI analysis of the Essential Report, essentialvision.com.au

Question: How likely do you think it is, that you will develop Covid-19?
Australians have moved into a ‘readjustment’ phase as lockdown eases

<table>
<thead>
<tr>
<th>Build-up</th>
<th>Survivalism</th>
<th>Lockdown</th>
<th>Readjustment</th>
<th>Revival</th>
</tr>
</thead>
<tbody>
<tr>
<td>Calm before the storm</td>
<td>Distancing widespread</td>
<td>Cocooning/isolating</td>
<td>Exploring options</td>
<td>Adjusted rejuvenation</td>
</tr>
<tr>
<td>Someone else’s problem</td>
<td>Denial/shock/fear/anxiety</td>
<td>Coping/adjusting/solidarity</td>
<td>Embracing old pleasures</td>
<td>Navigate old &amp; new world</td>
</tr>
<tr>
<td>Environmental crisis</td>
<td>Health crisis</td>
<td>Health &amp; economic crisis</td>
<td>Recessionary wary</td>
<td>Recession</td>
</tr>
<tr>
<td>Some travel impediments</td>
<td>Isolation (or imminent)</td>
<td>Isolation &amp; leisure collapse</td>
<td>Unlocking lockdown</td>
<td>Travel restrictions lift</td>
</tr>
<tr>
<td>Cases linked to source</td>
<td>Unknown source</td>
<td>Cases peaking/flat-lining</td>
<td>Fewer cases /new systems</td>
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</tr>
<tr>
<td>Normal consumption (remain)</td>
<td>Extreme stockpiling (react)</td>
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</tr>
</tbody>
</table>

The ‘China virus’
Sporadic clusters

Global pandemic
Uncontrolled case surge

Enforced containment
Flattening case curve

Deceleration of cases
Relaxed enforcement

Late epidemic
Mitigating resurgence

Source: IRI analysis
Overall COVID-19 concerns have eased, but remain pronounced

A majority are still ‘extremely concerned’. Concerns have diminished vs. March and April, but have remained consistent in May.

Feelings towards coronavirus (COVID-19)

- Have not heard about this: 26%
- Not at all concerned: 42%
- Somewhat concerned: 71%
- Extremely concerned: 53%

Change in concern about (COVID-19) in the past week

<table>
<thead>
<tr>
<th>Wave 1 April</th>
<th>Wave 2 May</th>
</tr>
</thead>
<tbody>
<tr>
<td>More concerned</td>
<td>Less concerned</td>
</tr>
<tr>
<td>39%</td>
<td>5%</td>
</tr>
<tr>
<td>No change</td>
<td>65%</td>
</tr>
<tr>
<td>57%</td>
<td>22%</td>
</tr>
</tbody>
</table>
### Lifestyle choices & shopping habits continue to adjust

COVID-19 is causing Australians to adjust their behaviour in fundamental and perhaps permanent ways. Previous preferences and loyalties cultivated by prior lifestyle habits have been highly disrupted.

<table>
<thead>
<tr>
<th>Have your shopping choices changed recently because of the Coronavirus? (Please select all that apply among 11 listed changes)</th>
<th>Wave 1 April</th>
<th>Wave 2 May</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of respondents answering ‘none of the above’ (and thus indicating no change)</td>
<td>18%</td>
<td>26%</td>
</tr>
</tbody>
</table>

74% still indicating a change of habits

<table>
<thead>
<tr>
<th>Have you been doing anything differently during the past week to bring some joy into your day or reduce stress? (Please select all that apply among 15 listed changes)</th>
<th>Wave 1 April</th>
<th>Wave 2 May</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of respondents answering ‘haven’t made any changes’ (and thus indicating no change)</td>
<td>13%</td>
<td>16%</td>
</tr>
</tbody>
</table>

84% still indicating a change of habits

Source: IRI analysis; COVID-19 Shopper Survey, April 2020, n = 5,799; May 2020, n = 5,566

Questions as stated above
Ongoing concern has elevated expectations of safeguarding measures

### Importance of measures to choose where to shop (top 5): % saying ‘very important’

<table>
<thead>
<tr>
<th>Measure</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hand sanitiser &amp; wipes available upon store entry</td>
<td>59%</td>
</tr>
<tr>
<td>Limiting the number of shoppers in store</td>
<td>38%</td>
</tr>
<tr>
<td>Contact-less credit card option for payment</td>
<td>31%</td>
</tr>
<tr>
<td>Presence of plexiglass dividers for cashier</td>
<td>29%</td>
</tr>
<tr>
<td>Require customers to bag their own groceries if using a re-usable bag</td>
<td>25%</td>
</tr>
</tbody>
</table>

Anxious/wary consumers will value retailers & products that support their heightened need for safety, cleanliness and trust

Source: IRI analysis; COVID-19 Shopper Survey; May 2020, n = 5,566

Question: Thinking ahead to your shopping plans in the next month, how important are the below in determining your level of comfort in returning to normal store shopping habits? (Please select one answer for each attribute)
A ‘Recessionary Mindset’ & Looming Recession
COVID-19 has propelled Australia onto a recessionary track

Plan for a major downward impact on the global & local economy.
The spate of bad news, especially around joblessness and speed of economic contraction, is driving household confidence downwards to record lows. Economically sensitive Australians will be looking more closely at price, promotions and value across all retailers. Shoppers will be eliminating, postponing, decreasing, or substituting purchases. Keep close tabs on how the economic impact is affecting specific consumer segments. It will not have an equal impact across all cohorts.

We see a reduced WTP*, and conditions conducive for private label.
Some consumers will still seek premium products during a recession, but we have seen a reduced WTP* a price premium for better quality in 2020 compared to any of the last 5 years. And additional frugality will propel the embracement of private label; over half of shoppers have already chosen store brand/private label items more often in the last month to save money, or because of brand availability issues.

In-home consumption will remain elevated, even as COVID-19 recedes.
The FMCG industry faces a true recession for the first time since the early 1990s, and an entrenched recessionary mindset for the first time since the GFC. But we can only learn so much from those events. The COVID-19 recession will illustrate the bifurcation between the hardest hit – around 10% of (eventual) Australians filing for unemployment – and the gainfully employed who are shifting purchases to remain comfortable in their homes (many with the enviable ‘double-win’ of more time and money).

Source: IRI analysis; *Willingness-to-pay

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The 5th and final ‘revival phase’ will be defined by a recession

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Global pandemic: Uncontrolled case surge
Enforced containment: Flattening case curve
Deceleration of cases: Relaxed enforcement
Late epidemic: Mitigating resurgence

The ‘China virus’ Sporadic clusters
Calm before the storm
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Normal consumption
Extreme stockpiling (react)
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Restricted shopping (recalibrate)

Source: IRI analysis
A large economic contraction is coming. The forecast GDP contraction will end Australia’s run of 28 consecutive years of economic growth.

Health intervention aimed at mitigating COVID-19 has come at a heavy economic cost. A public health crisis and has now morphed into a financial pandemic – what could become the ‘Great Crash of 2020’

Fitch Ratings has already revised Australia’s Outlook to ‘Negative’ (from ‘Stable’) due to COVID-19’s impact on the economy and public finances.

“We're entering a recession that's not going to be like other recessions we've had before”
Coles CEO, Steven Cain – April 2020
In April, a **near majority** of Australians **felt financially worse off** than YA

<table>
<thead>
<tr>
<th>Financial situation versus YA, by demographic cohort</th>
<th>Pre Family</th>
<th>Young Family</th>
<th>Middle Family</th>
<th>Older Family</th>
<th>Mature Single</th>
<th>Empty Nesters</th>
<th>Retired Couples</th>
</tr>
</thead>
<tbody>
<tr>
<td>Better off</td>
<td>15%</td>
<td>16%</td>
<td>12%</td>
<td>12%</td>
<td>10%</td>
<td>10%</td>
<td>8%</td>
</tr>
<tr>
<td>Worse off</td>
<td>46%</td>
<td>47%</td>
<td>50%</td>
<td>52%</td>
<td>45%</td>
<td>50%</td>
<td>47%</td>
</tr>
</tbody>
</table>

**64% of Gen Z** respondents felt worse off  
**39% of retirees & seniors** felt worse off

**Source:** IRI analysis; IRI Shopper Panel Econolink Segmentation Surveys; n for 2019 = 4,331, n for 2020 = 5,796

**Question:** How would you describe your current financial situation vs. a year ago?
And fewer than 1-in-5 were optimistic about next year…

…but pessimists outnumbered optimists across all cohorts about the future

![Financial expectations for next year, by demographic cohort](image)

<table>
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</thead>
<tbody>
<tr>
<td>27%</td>
<td>25%</td>
<td>23%</td>
<td>22%</td>
<td>13%</td>
<td>18%</td>
<td>12%</td>
</tr>
</tbody>
</table>

Optimism diminishes from Gen Z to Retirees

<table>
<thead>
<tr>
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<th>Young Family</th>
<th>Middle Family</th>
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<th>Empty Nesters</th>
<th>Retired Couples</th>
</tr>
</thead>
<tbody>
<tr>
<td>34%</td>
<td>38%</td>
<td>37%</td>
<td>44%</td>
<td>45%</td>
<td>43%</td>
<td>49%</td>
</tr>
</tbody>
</table>

Reflects the future consumption challenges likely to impact the economy at large. After all, economic and consumption growth is anchored by our confidence in our future optimism
Pronounced pessimism existed in NSW, the country’s largest state economy.
The economic ramifications of COVID-19 will be unrivalled

The outlook is dire. We expect global economic activity to decline on a scale we have not seen since the Great Depression. This year 170 countries will see income per capita go down—only months ago we were projecting 160 economies to register positive per capita income growth.

The question now is not whether there will be a global recession but how deep it will be—and how quickly countries can overcome the health crisis and pave the way for economic recovery.

Australian GDP was expected to contract by around 10% over the first half of 2020. Most of the contraction was expected to occur in the June quarter…an economic contraction of such speed and magnitude would be unprecedented in the 60-year history of Australia’s quarterly national accounts.

Source: IRI analysis; imf.org; worldbank.org; rba.gov.au
The economy & unemployment have topped our COVID-19 concerns

Sentiment reflects the sharp rise is unemployment and gloomy economic predictions

<table>
<thead>
<tr>
<th>Total concerned (very/somewhat)</th>
<th>27/04</th>
<th>20/04</th>
<th>13/04</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Australian economy as a whole</td>
<td>85%</td>
<td>87%</td>
<td>85%</td>
</tr>
<tr>
<td>General unemployment if companies are forced out of business</td>
<td>83%</td>
<td>83%</td>
<td>79%</td>
</tr>
<tr>
<td>The physical health of close family members</td>
<td>69%</td>
<td>74%</td>
<td>73%</td>
</tr>
<tr>
<td>The impact on my superannuation, savings or investments</td>
<td>63%</td>
<td>67%</td>
<td>63%</td>
</tr>
<tr>
<td>My close family members’ mental health</td>
<td>60%</td>
<td>64%</td>
<td>61%</td>
</tr>
<tr>
<td>My physical health and catching the virus</td>
<td>59%</td>
<td>64%</td>
<td>62%</td>
</tr>
<tr>
<td>My economic situation if I lose my job or have less work</td>
<td>57%</td>
<td>59%</td>
<td>58%</td>
</tr>
<tr>
<td>Children’s development by missing out on school</td>
<td>52%</td>
<td>56%</td>
<td>52%</td>
</tr>
<tr>
<td>My ability to buy food and essential items if stores run out</td>
<td>50%</td>
<td>58%</td>
<td>58%</td>
</tr>
<tr>
<td>My mental health as a result of social distancing</td>
<td>47%</td>
<td>50%</td>
<td>47%</td>
</tr>
</tbody>
</table>

May
Recorded a strong recovery in consumer confidence in May
Optimism from virus containment and relaxed restrictions
Sentiment indexes remain weak by historical standards**

Sentiment indexes remain weak by historical standards**

Source: IRI analysis; *Essential Report, essentialvision.com.au; ** Westpac-Melbourne Institute Index of Consumer Sentiment
Question: To what extent are you concerned about these possible impacts of the Covid-19?
Most Australians are still bracing for over a year of economic impacts

Three months into the pandemic, Australians remain mindful that the COVID-19 pandemic poses an unprecedented long-term risk, especially to the local and global economy. It is for this very reason that the RBA anticipates “fiscal and monetary support will be required for some time.” And the speed and magnitude of the economic contraction heighten the sense of personal financial vulnerability for longer.
Australians have lost income, and see little hope of a wage rise

The above reflects expectations in early-to-mid April of a sizeable loss of income in the next six months. And few expect improved wages growth for the foreseeable future (following prolonged wage growth lows)

Source: IRI analysis; COVID-19 Shopper Survey, April 2020; n = 5,796
Question 1: We would like to learn more about how your household’s situation may have been impacted by the Coronavirus. If you agree with the statement on the left more, indicate how much by selecting one of the two boxes at the left. If you agree with the statement on the right, indicate how much by selecting one of the two boxes at the right.

“Essential Report, essentialvision.com.au

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Families were feeling the most susceptible to income loss in April...

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<th>Empty Nesters</th>
<th>Retired Couples</th>
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</thead>
<tbody>
<tr>
<td>53%</td>
<td>52%</td>
<td>52%</td>
<td>55%</td>
<td>27%</td>
<td>47%</td>
<td>28%</td>
</tr>
</tbody>
</table>

“My household’s income is at risk because of restrictions created to curb the coronavirus”

Total with kids: 53%
Total without kids: 37%

Source: IRI analysis; COVID-19 Shopper Survey, April 2020; n = 5,796
Question 1: We would like to learn more about how your household’s situation may have been impacted by the Coronavirus. If you agree with the statement on the left more, indicate how much by selecting one of the two boxes at the left. If you agree with the statement on the right more, indicate how much by selecting one of the two boxes at the right.
...and also report the **most difficulty with grocery affordability**

<table>
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</thead>
<tbody>
<tr>
<td>38%</td>
<td>38%</td>
<td>40%</td>
<td>42%</td>
<td>28%</td>
<td>30%</td>
<td>20%</td>
</tr>
</tbody>
</table>

“*My household is having difficulty affording needed groceries*”

**Total with kids**

- 40%

**Total without kids**

- 29%

Source: IRI analysis; COVID-19 Shopper Survey, April 2020; n = 5,796

Question 1: We would like to learn more about how your household’s situation may have been impacted by the Coronavirus. If you agree with the statement on the left more, indicate how much by selecting one of the two boxes at the left. If you agree with the statement on the right more, indicate how much by selecting one of the two boxes at the right.
But, as an aside, **families are at least feeling closer** following lockdown

Feel more distant to those outside household, but closer to immediate family members at home

<table>
<thead>
<tr>
<th>Feel closer, by age</th>
<th>Total</th>
<th>18-34</th>
<th>35-54</th>
<th>55+</th>
</tr>
</thead>
<tbody>
<tr>
<td>Partner</td>
<td>36%</td>
<td>49%</td>
<td>36%</td>
<td>24%</td>
</tr>
<tr>
<td>Children</td>
<td>35%</td>
<td>50%</td>
<td>41%</td>
<td>22%</td>
</tr>
<tr>
<td>Extended family</td>
<td>18%</td>
<td>24%</td>
<td>19%</td>
<td>13%</td>
</tr>
<tr>
<td>Neighbours</td>
<td>13%</td>
<td>15%</td>
<td>13%</td>
<td>12%</td>
</tr>
<tr>
<td>Friends</td>
<td>13%</td>
<td>19%</td>
<td>11%</td>
<td>11%</td>
</tr>
<tr>
<td>Workmates</td>
<td>11%</td>
<td>13%</td>
<td>11%</td>
<td>8%</td>
</tr>
</tbody>
</table>

Older aged Australians aged 55+ are materially less likely to feel closer to family members

Source: IRI analysis; *Essential Report, essentialvision.com.au; ** Westpac-Melbourne Institute Index of Consumer Sentiment

Question: Since the start of the lockdown restrictions, do you feel closer or more distant from each of the following people in your life?
Differing interpretations aside, the unemployment situation is grim

The speed and scale with which the crisis has resulted in job losses is unprecedented

Unemployment rose to 6.2% in April (up from 5.2%), a record one month rise amid job losses amounting to 600K. The treasury anticipates peak unemployment to reach 10%, and say it would be 15% of not for $130bn jobkeeper payments. On that note, the RBA is concerned that fiscal support may be withdrawn too early.

Estimate 2.16M (15.3%) unemployed and 3.48M (24.7%) either unemployed or under-employed. That’s 439,000 fewer than the 3.92 million unemployed or under-employed (27.4% of the workforce) during the last two weeks of March.

Unemployment Expectations Index 136.9 +13.2% vs. YA -13.4% vs. prior month

Source: IRI analysis; abs.gov.au; roymorgan.com; Westpac-Melbourne Institute Index of Consumer Sentiment
The steep decline in hours worked cuts through definitional ambiguities.

April Hours Worked

-9.2% vs. prior period

-9.4% vs. YA

Total monthly hours worked per capita, July 1978-May 2020

These are challenging times where jobs have been lost, hours significantly reduced.

The ABS recorded 5.6M Aussie workers lost hours during April.
Less work done per head of the population than ever recorded.
This despite fewer women working in the past, and fewer retirees.
Lone parents with young or dependent children have been particularly hard hit.

Source: IRI analysis; abs.gov.au; theguardian.com
Around 55% of employed Aussies have been impacted by COVID-19

Work schedule change influenced by COVID-19

- Working more hours: 13.5%
- Hours haven’t changed: 41.8%
- Working fewer hours, but currently employed: 22.1%
- Temporary stood down / furloughed: 11.3%
- Been laid-off / lost my job: 5.2%
- Stopped working/am working less recently, but not due to COVID-19: 4.9%
- Have a new job or am working more, but not due to COVID-19: 1.3%

Source: IRI analysis; COVID-19 Shopper Survey, April 2020, n = 5,799; May 2020, n = 3,374 – those already in employment only
Question: Has your work schedule changed recently because of the Coronavirus? (Select one)
Nearly half of recently unemployed Aussies fear a long-term struggle

<table>
<thead>
<tr>
<th>Employment outlook among those new to joblessness</th>
<th>Total</th>
<th>Male</th>
<th>Female</th>
<th>18-34</th>
<th>35+</th>
</tr>
</thead>
<tbody>
<tr>
<td>I don’t think I’ll be back straight away but I’m confident I’ll find paid work fairly quickly</td>
<td>36%</td>
<td>44%</td>
<td>28%</td>
<td>40%</td>
<td>32%</td>
</tr>
<tr>
<td>I think it will take a long time for me to find paid work</td>
<td>36%</td>
<td>35%</td>
<td>36%</td>
<td>31%</td>
<td>40%</td>
</tr>
<tr>
<td>I’ll be back in paid work straight away</td>
<td>18%</td>
<td>12%</td>
<td>24%</td>
<td>21%</td>
<td>15%</td>
</tr>
<tr>
<td>I don’t think I’ll find paid work again</td>
<td>10%</td>
<td>9%</td>
<td>10%</td>
<td>8%</td>
<td>11%</td>
</tr>
<tr>
<td>I won’t be looking for paid work</td>
<td>1%</td>
<td>0%</td>
<td>2%</td>
<td>0%</td>
<td>2%</td>
</tr>
</tbody>
</table>

Source: IRI analysis; *Essential Report, essentialvision.com.au; theguardian.com
Question: Once the Covid-19 outbreak is over and restrictions are eased, how long do you think it will be before you are back in paid work?
Australian wealth will likely be impacted by falling house prices

HSBC forecast:
-2% to -12%
but with greater correction in Sydney & Melbourne

CBA forecast:
-11% base case
-34% worst case

ANZ forecast:
-10%
peak to trough declines until late 2021 rebound

Interest rates are at sustained record lows, and will remain that way
Weak correlation between joblessness and lower home values
Limited panic selling expected in the short-term
Stalled migration/population growth
Rising unemployment/underutilisation
Sellers withdrawing properties from market
City’s like Sydney turning into a renter’s market

Source: IRI analysis; abc.net.au; propertyobserver.com.au; news.com.au; businessinsider.com.au
Record high **household debt** is a leading ‘recession vulnerability’

A longstanding house price boom has left many Australians shackled by costly mortgages. Rising unemployment could trigger a surge in mortgage defaults.

The RBA’s rate of **household debt to income** is nearing 200% (i.e. almost double disposable income), one of the highest levels in the developed world. High household debt therefore amplifies the impact of other recession inducing factors.

---

Source: IRI analysis; rba.gov.au
Highly indebted HHs are expected to heavily cut back on spending

Australian household consumption growth (%), 1995-2019

PreCOVID-19 household consumption growth (+1.2%) was the lowest in a decade. But the forecast decline puts it in unheralded negative territory, with the RBA already noting that household spending has already “weakened very considerably”

RBA’s H1 2020 forecast: -12%

Self-reported spending, April & May*

Australians only expect to spend more* across in 2 of 30 consumer market categories for H2 of May

Mid-April to Mid-May

44% reduced spending
21% increased spending

Groceries
Entertainment at home

Source: IRI analysis; rba.gov.au; abc.net.au; *mckinsey.com, compared to usual
…especially with consumer confidence having plunged beyond GFC lows

The COVID-19 induced confidence surpassed the lows seen during the GFC

Source: IRI analysis ANZ-Roy Morgan and Westpac-Melbourne Institute Consumer Confidence Indexes
Income loss aligns with a reduced WTP* a price premium for better quality

What underpins a premium proposition?
Technical, functional, and emotional benefits meaning the ‘what’, ‘how’ and ‘who’ product cues matter

Technical
- Best ingredients
- Best processes
- Upscale design

Emotional
- Status
- Esteem
- Experience

Functional
- Superior performance
- Ethical ethos
- Sensory appeal

WHAT?
Ingredients

HOW?
Technique

WHO?
Human touch

“I am willing to pay a premium price for better quality”

Source: IRI analysis; IRI Shopper Panel Psychographic Survey, 2017-2020; latest year fieldwork: 05 March – 25 March

*Willingness-to-pay

2017 59%
2018 55%
2019 55%
2020 49%

Trending down as Australians set stricter priorities and reduce their spending, but still nearly half of shoppers
And additional frugality will propel the **embracement of private label**…

<table>
<thead>
<tr>
<th>Agree completely</th>
<th>Agree somewhat</th>
<th>Do not agree</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>15%</strong></td>
<td><strong>46%</strong></td>
<td><strong>39%</strong></td>
</tr>
</tbody>
</table>

“**Chosen store brand/private label items more often in the past month because the name brand I usually buy was unavailable**”*

“**Chosen store brand/private label items more often instead of name brands in the past month to save money**”*

“**Retailers/stores own label products are a good alternative to branded products**”**

**58%**  
**61%**

The **impending slowdown of the economy** will not only impact the performance of various categories, but it is also **likely to encourage greater consumption of private label offerings**. The convergence of several factors—including increasingly **value-conscious consumers, retailer differentiation and profit-optimization objectives, and enhanced producer operating capabilities**—will all play a role in propelling the private brand market.

Source: IRI analysis; "COVID-19 Shopper Survey: May 2020, n = 5,566

Question: How much do you agree or disagree with each of the following statements? (Please select one answer for each row)

IRI Shopper Panel Psychographic Survey, 2017-2020; latest year fieldwork: 08 March – 25 March
…with **conditions ripe for further private label share gains**

If a brand goes away tomorrow, would people even care?*

<table>
<thead>
<tr>
<th>YES</th>
<th>NO</th>
</tr>
</thead>
<tbody>
<tr>
<td>23%</td>
<td>77%</td>
</tr>
</tbody>
</table>

**Private label risk to brands is high when differentiation and loyalty are low, and when the financial incentive is strong**

*Source: IRI analysis; *Havas/brandt.com.au*

**IRI Shopper Panel Psychographic Survey, 2017-2020; latest year fieldwork: 05 March – 25 March**
A majority of shoppers are deal seeking regardless of brand affinity

“Because of coronavirus, I’m only buying brands that I know and trust”

“My household looks for the best deal, regardless of brand name”

While we have recorded a slight decrease in deal-seeking mentality among our panellists in May vs. April (possibly reflecting the fact that signs that hours worked stabilised in early May), the expressed sentiment reflects spending coming under scrutiny among the majority of Australian households. It is also validation of the prior slide indicating a high degree of brand indifference exists at a topline level. Again, it is a mindset that is highly conducive for the advancement of private label, especially with the inevitable ‘retailer push’

Source: IRI analysis; COVID-19 Shopper Survey, April 2020; n = 5,796; May 2020, n = 5,566
Question: We would like to learn more about how your household’s situation may have been impacted by the Coronavirus. If you agree with the statement on the left more, indicate how much by selecting one of the two boxes at the left. If you agree with the statement on the right more, indicate how much by selecting one of the two boxes at the right.
We anticipate most own label gains to be in already developed areas.

We observed this trend in Australia in 2019. And it was a characteristic of the last recession in the US.

Top 20 private label $ sales gain contribution*, Q2 2011 vs. 2008 – All Outlets

Source: IRI Archived POS Data, FDMx refers to Food-Drug-Mass (excluding Walmart) and Consumer Network Panel 2008-Q2 2011 (includes Walmart, Club and Dollar channels)
Note: Top 20 categories based on contribution to total F&B PL Dollar sales gain

Source: IRI MarketEdge, Total Supermarkets Weighted MAT To 09/07/19
Just 3 brief economic contractions in 30 years for comparative reference

There is a reason the phrase “worst since 2008” keeps coming up. The proximity, (global) severity, and the legacy of the GFC is the best comparative reference.

Latest GDP figures show the economy **shrank by -0.3% in the three months to March**, but that also factors in the devastating bushfires interrupting activity.
So, what can we learn from prior recessions and consumer intent?

Reflecting on circumstantial differences:
This recession will be significantly different to 2008, in terms of drivers, the people it affects and the industry’s ability to respond. The GFC induced downturn was driven by fundamental financial market instability, the COVID-19 induced recession is primarily a healthcare crisis with deep economic ramifications.

3 takeaways from the GFC:

- FMCG spend is less discretionary and thus more recessionary resistant.
- The industry was partially insulated by a commodity price boom amid the GFC.
- Recession can be a dangerous precedent to an industry overtly fixated on value eroding price one-upmanship.

Source: IRI analysis
Food retail growth outpaced total retail in the 90s and most recently…

Australian retail growth, food vs. total (%), 1990-2019

Source: IRI analysis; abs.gov.au
And IRI US data presents evidence of FMCG ‘recession resilience’

Unlike in Australia, the ‘Great Recession’ of 2007–2009 was one of the most sustained recessions in US history, and the impact was felt across the retail and CPG industry. In aggregate, the dollar sales growth rate for U.S. retail fell from 4.2% to negative 4.3% – a decline of 8.5%

...which was also evident in IRI* grocery scan data during the GFC

Unlike the US, where the FMCG demand curve was immediately impacted by the GFC (including negative sales growth), Australian FMCG demand remained largely buoyant in 2008-09. In the same way the resources boom was propelled by 2008 a commodity price surge, so too was FMCG retail.

What about the 1990s? Well, the Australian retail landscape, and consumer mindset more generally, has shifted dramatically since the last technical recession of the early 1990s.

An extract from Aztec* Australia ‘What’s Hot’ Q4 2011

Historic Value Growth Trend vs. YA | 20 Qtrs to 01/01/12

- During the economic uncertainty of the GFC, Total Food showed strong growth, driving markedly stronger performance in Total Grocery compared to the more economically stable periods before and after where Total Food and Non Food show similar growth.
- The latest 3 Qtrs are showing a similar divergence between Food & Non Food growth.

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Source: Aztec Australia What’s Hot Q4 2011; *IRI formerly Aztec Australia
The GFC is a longer-term cautionary tale for the grocery industry...

LONG TERM GROCERY GROWTH HAS SLOWED TO LOWEST IN OVER A DECADE

The GFC proved to be a catalyst in sustained price deflation in the aftermath as supermarket retailing arguably became anchored in a ‘race to the bottom’ in a game of price one-upmanship. Packaged grocery growth subsided from high single-digits to <1% in 2016.

A marker of this cautionary tale was Woolworths erroneously pivoting from its established “fresh food people” position with an unsuccessful “cheap, cheap” campaign, which was a poorly executed reactive approach to being outmanoeuvred by both Coles and Aldi.

Frequent promotions can erode the reference price shoppers use when evaluating value. And it can lead to an undesirable price war.
Changes to eating habits will persist as the lockdown abates

While the global economy will likely take longer to recover fully from the coronavirus induced shock than initially expected (in Feb), FMCG has proven to be less recession-prone than a lot of other industries.

Consumer demand for products essential to daily living is less elastic, and thus retail stores carrying these essential products (like supermarkets) typically fare better during times of economic contractions. Furthermore, the lifestyle implications of this unique health and financial crisis will continue to drive elevated at-home product demand more so than previous downturns.

Source: IRI analysis; COVID-19 Shopper Survey; May 2020, n = 5,566
Question: You mentioned you have been creating meals from scratch (from basic ingredients) more often recently due to the Coronavirus. After the stay-at-home restrictions are over, how do you anticipate your meal preparation to change? (Select one, if you’re not sure please select your best estimate)

Anticipated meal preparation change after coronavirus

- Will continue to create meals from scratch more 66%
- Will return to my usual meal preparation at home 24%
- Will switch from creating meals to dining at restaurants more 6%
- Will switch from creating meals to getting more take-out 4%

An intent that represents a genuine bright-spot for the industry’s future in recessionary times.
Claimed future intent also suggests additional non-food occasions

‘Sanitised Society’: 3 of the top 4 anticipated changes of future habits relate to non-food product usage

COVID-19 will usher in unique behavioural changes, including heightened awareness of personal health and safety. Furthermore, categories related to health and cleanliness should remain relatively insulated from recessionary pressures

Source: IRI analysis; COVID-19 Shopper Survey; May 2020, n = 5,566
Question: You mentioned you have been creating meals from scratch (from basic ingredients) more often recently due to the Coronavirus. After the stay-at-home restrictions are over, how do you anticipate your meal preparation to change? (Select one, if you’re not sure please select your best estimate)
This stated intent, and existing growth segments, provide initial guidance

| Fresh Cooking Ingredients (e.g., Meat, Cheese) | Non-Perishable Cooking Ingredients (e.g., Spices/Seasonings, Shelf Stable Veg.) | Premium At-Home Meals (e.g., Fz. Meals) | Versatile components (e.g., cheese, smallgoods, eggs) |
| Comfort Foods (e.g., Salty Snacks) | Affordable Indulgences (e.g., Cookies, Ice Cream) | Alcoholic Beverages (e.g., Beer, Wine, Spirits) | Nurturing Dependents (e.g., Dog Food, Baby Formula) |
| Immune Boosting (e.g., Vitamins) | Household Functionality (e.g., Soap, Paper Towel) | Pro Quality Beauty (e.g., Hair Coloring) | Clean Living Space (e.g., Cleaning Spray) |

Attractive demand spaces in light of COVID-19 induced recession

Reason for attractiveness:
- Support premium at-home indulgence
- Lack of private label encroachment
- Align with ‘sanitised society’ fixation
- Aligned with self-care/holistic health

Understanding and anticipating recessionary risk for both categories and brands is the critical first step in preparing for growth during a recession. And it is the recessionary response to which analysis now focuses on in Part 5
What To Do To Survive & Win In A Recession
The need to move quickly...

Much of the existing research and advice around recessionary responses leads with the importance of being prepared and ready to anticipate, rather than having to react hastily when a crisis has manifest. However, the speed and magnitude of the COVID-19 pandemic has propelled a recessionary track in record time.

Not only is the lack of recessionary preparation a challenge. Managing brands in a recession typically requires decision makers to do the opposite of what their instincts urge (withdraw & hunker down). During this recession successful businesses must take counter-intuitive moves decisively.

Source: IRI analysis; IRI Growth Consulting
Eradicate superfluous costs to survive, and boldly invest to spur growth

While most executives will instinctively want to retreat and protect cash, the leading growth companies will take thoughtful, but bold action. They will:

- Avoid indiscriminate financial streamlining aimed at cutting costs faster and deeper
- Make targeted, well informed investments that support brands when others withdraw
- Shrewdly advertise to boost ESOV* when other companies cut media budgets
- Cultivate positive messages in a show of solidarity and helpfulness when others go silent
- Double-down on innovation when other companies postpone launches and cut R&D budgets
- Redefine and defend value propositions when other companies panic and drop prices
- Be braced to respond to demand fluctuations & the fact that no economic downturns are alike
- Streamline product portfolios to reduce excessive complexity and support priority investment
- Invest to understand how COVID-19 has redefined consumer values, needs and motivations

Decisive actions to position for revenue, operating, and/or shareholder growth. Survive the recession, get on the front foot during the recovery, and be primed to win when consumer confidence is restored

Source: IRI analysis; IRI Growth Consulting; “Excess Share of Voice” (ESOV) is the principle that when a brand grows its Share of Voice (SOV) relative to its Share of Market (SOM), its ‘market share’ grows

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Brands that grew during the US recession in 2008-09, and rebounded strongly, had a number of things in common. Most importantly, they used the recession as an opportunity to double down on advertising and innovation.
Focus on 4 pillars for cultivating growth in a recessionary period

- **Eradicate superfluous costs to survive, and boldly invest to propel growth**
  - Use pricing to maintain & strengthen brands
  - Invest in marketing to bolster ‘mental availability’
  - Use data & research to make high quality decisions
  - Sustain R&D/NPD efforts, and streamline range

- **Measure price sensitivity to allow for pricing optimisation**
- **Leverage ways of boosting value beyond price cuts**
- **Use IRI’s analytics expertise to take control of your pricing strategy**
- **Use our 5-point framework to assess threat of private label**

- **Use IRI’s ‘Advertising Consideration Matrix’ to guide decisions**
- **Advertise authentic attempts to be ‘part of the solution’**
- **Use marketing investments to help win price perception**
- **Advertise to enhance permissibility of (premium) indulgences**

- **Limit the depth of assortment and focus on higher velocity SKUs**
- **Commit investment to innovation in attractive demand spaces. Make big-bets on trend/country/category firsts**
- **Seek opportunistic acquisitions to bolster brand portfolios**

- **Segment and target shoppers by the degree of recessionary stress**
- **Determine how shoppers prioritise consumption followed by an assessment of risk**
- **Adopt a shopper-led total store view to holistically understand customers**

*Source: IRI analysis*
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- **Use data & research to make high quality decisions**
  - Source: IRI analysis

Source: IRI analysis
Use **pricing** to help maintain and **strengthen** brands

**CONTEXTUAL INSIGHTS**

- Pricing is a core part of a brand’s fundamental proposition or positioning
- There will be a material contraction in shoppers’ wallets in 2020-21, and a deeper fixation on price
- With varying levels of price sensitivity, not every brand will (or should) see true pricing pressure
- A recession impacts each retail aisle, and the categories and brands within it, differently
- Many FMCG in-store fixtures will prove more or less durable to recessionary belt tightening
- The subject of value is nuanced and will look very different across households
- Total value perception includes key benefits sought, not just pricing and discounting

**SO WHAT, NOW WHAT?**

- Avoid a broad brushed approach to cutting price during a recession. It will weaken a long-term recovery
- Account for inherent brand equity and the ability to maintain pricing levels where possible
- Segment portfolio by level of elasticity (IRI can help measure this) in order to determine where to focus pricing investments & retailer dialogue
- Expand price range architecture focused on value: e.g. smaller affordable packs; larger packs focused on cost per serving; paycheck cycle promotions
- Measure the changes in the importance attached to features and benefits sought from products
- Do not assume shoppers amplified pursuit of seeking value means that they spend less, or buy less

Source: IRI analysis; IRI Growth Consulting
Measure price sensitivity to better enable pricing optimisation...

Example of historical price sensitivity measurements among select US grocery food

The first step in maintaining retail price discipline is to segment portfolio by level of elasticity, and then calculate the impact to the supplier and retailer from cutting price in each segment.

Source: IRI analysis; IRI Growth Consulting

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...as Australians also respond differently to promos across categories

Category Base Price Elasticity Comparison, 2017-2019
For every 1% change in shelf price, sales will change by...

<table>
<thead>
<tr>
<th>Category</th>
<th>Elasticity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inelastic</td>
<td>0 to -1</td>
</tr>
<tr>
<td>Elastic</td>
<td>-1 to -2</td>
</tr>
<tr>
<td>Highly Elastic</td>
<td>-2 &amp; Below</td>
</tr>
</tbody>
</table>

Category Promotional Elasticity, 2017-2019
For every 1% depth of promotion, sales will increase by...

<table>
<thead>
<tr>
<th>Category</th>
<th>Elasticity</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>&gt; 7</td>
</tr>
<tr>
<td>Medium</td>
<td>4 to 7</td>
</tr>
<tr>
<td>Low</td>
<td>&lt; 4</td>
</tr>
</tbody>
</table>

Source: IRI analysis; IRI Growth Consulting
A high level strategy across your portfolio should guide you initially

**Drive Margin**
**Hi-Lo Strategy:**
Enhance margin via base price and drive share by leveraging promotional effectiveness through deeper promoted price points.

**Price Protect**
**Niche/Premium Strategy:**
Conserve trade dollars and margin to enhance brand equity through appropriate marketing communications & NPD strategy.

**Quality Frequency**
**Hybrid Strategy:**
Need to strike a balance between maintaining an attractive shelf/base price positioning, while driving share through promotional discounting.

**Shelf price**
**EDLP Strategy:**
Consumers are more focused on shelf price than on promotions, adopt an EDLP positioning with appropriate value-oriented proposition.

Source: IRI analysis; IRI Growth Consulting
Leverage ways of boosting value beyond price cuts…

After determining what products are not truly sensitive to pricing, the next step is to determine the trade-offs shoppers will make among those that are.

Positioning is a powerful and cost-effective innovation strategy. Investigate potential product & positioning opportunities to reduce price elasticity. Compare the benefit and effort of these positioning opportunities against potential cost reduction opportunities.

Weave pricing assessments into early phases of product development and category management:

1. Identify potential gaps in category offerings
2. Short-list which features / sizes / claims will fill those gaps, channel by channel
3. Quantify willingness to pay for each of those features, specific to brand and competition
4. Prioritise features with higher willingness consumers will pay for brand to avoid competitor’s simply copying
5. Ensure strong margins by comparing willingness to pay vs. cost to include
6. Finalise product design and acceptable price range based on meeting overall financial goals
7. Test final product at different price ranges, along with different messaging, pack size, and copy
8. Build out full package (price, messaging, etc.) based on business case impact across choices
9. Secure retailer support

Source: IRI analysis; IRI Growth Consulting
In the UK, quick meal provider Batchelors is targeting an ever-expanding cohort of at-home gamers with an on-pack promotion with gaming-themed prizes across 24 SKUs. The May 2020 launch reflects the brand “working collaboratively with the Tesco Group on a shared goal of creating great value for shoppers.”

While consumers may not pay a premium for mass market quick meals, the themed packaging here aptly taps into target consumer passion points, and provides a positioning platform that can negate the need to reduce prices. And gaming enthusiasts are an expanding cohort in Australia; there has been a minimum 5 percentage point increase in Australians playing game across consoles, tablets and PCs* since the early phases of the pandemic.

Create an emotional attachment by aligning with:
- Consumers’ personal lives/values
- Their broader world; or
- The world at large

Synergies between brand and consumers’ values should strengthen a consumers’ WTP*

* Source: IRI analysis; *Toluna/Harris Interactive Global Barometer: Consumer Reactions to COVID-19 Wave 4; *willingness-to-pay
Use IRI’s **analytics expertise** to **take control of** your **pricing** strategy

**Answers key price & promo questions:**
- **How responsive are our products** and brands to shelf price changes?
- **To which products will we lose volume to** if we increase our price?
- **Can we increase our price** without endangering our sales, profit or retailer’s margin?
- If we increase base price, **what adjustments** do we need to make to our promotional strategy?
- **EDLP or Hi-Lo?** Are my products suitable? If so, what price point?
- **Which promotional mechanics** and depths are most effective and efficient?
- Is there **any significant cannibalization** in my portfolio?
- How responsive are my brands to **competitor price and promotion activity**?

**IRI PRICE AND PROMOTION**
- Ensure the most efficient use of their spend to maximise profitability, whilst driving volume and value share
- Use evidence-based insights to lead proactive pricing conversations with retailers
- Harness IRI’s advanced price and promo modelling to determine granular, retailer specific impacts

Source: IRI analysis; iriworldwide.com.au
Private Label holds potential for retailers who want to reach consumers across the economic spectrum, both as a **trip-driver and loyalty builder**, and is an increasingly competitive threat to national brands.

A higher level of private label presence in a category will **generally exert downward pressure on pricing decisions**

**Use our 5-point framework to assess threat of private label**

**Factors Driving High Private Label Risk in Categories**

1. **Comparability**
   - Side-by-side comparisons are simple; little perceived difference in attributes or claims
   - Price difference is evident, as private label options are directly comparable in size and count

2. **Pricing**
   - Price gap is large between private label and national brands, providing consumers additional incentive
   - Smaller craft brands are popular, allowing private label to mimic their cache without a large premium

3. **Distribution**
   - Fewer national brands and products available per store to meet diverse shopper needs
   - Brands are highly regionalized, limiting widespread recognition and loyalty for national brands

4. **Loyalty**
   - Retailers drive trust & brand recognition in their private label (e.g. Whole Foods, 365, Kirkland)
   - Demand is highly fragmented with lower levels of brand loyalty, showing a willingness to cross-shop

5. **Margin Appeal**
   - Category is traditionally lower margin for the retailer, driving them to push for stronger profits
   - Private label moves beyond value pricing to higher margin Mainstream and Premium tiers

Source: IRI analysis; IRI Growth Consulting
Focus on 4 pillars for cultivating growth in a recessionary period

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- Use pricing to maintain & strengthen brands
- Sustain R&D/NPD efforts, and streamline range
- Invest in marketing to bolster ‘mental availability’

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- Adopt a shopper-led total store view to holistically understand customers

- Use data & research to make high quality decisions
- Use IRI’s ‘Advertising Consideration Matrix’ to guide decisions
- Advertise authentic attempts to be ‘part of the solution’
- Use marketing investments to help win price perception
- Advertise to enhance permissibility of (premium) indulgences

Source: IRI analysis
Invest in marketing to bolster ‘mental availability’

CONTEXTUAL INSIGHTS

• Decision makers are often (wrongly) compelled to cut marketing spend in the face of recession when it is actually more important to remind why a brand matters

• Media tends to be cheaper during recessions, and people are at home more often (especially in COVID-times), so it is an apt time to reach consumers

• Whether through stock outs or desire for alternatives, Australians have adopted many products for the first time (or in a long time) since the pandemic. Marketing investment can help drive loyalty and attachment

• A crisis is not a time for inertia or inaction, and it can be a catalyst for great culturally relevant marketing. Both good and poor responses become more impactful & memorable in times of a crisis

• Overall consumption of media has grown during COVID-19. Working from home will become more frequent, which will lead to amplified/new media use

SO WHAT, NOW WHAT?

• Avoid going dark. Building & maintaining trusted brands with the right marketing support is a key risk mitigation strategy. As others withdraw, make more noise!

• Rather than defaulting to price cuts, use marketing investment (incl. less expensive media!) to reset the value proposition to reduce price elasticity – i.e. support pricing that maintains and strengthens brands

• Target the new/lapsed HHs entering categories /embracing brands with targeted media to assist in converting to long-time repeat buyers

• Be empathic, supportive, considerate, helpful, calm. Build goodwill by providing a tone and stance that exudes reassurance, solidarity and empathy

• Mix it up with positive, optimistic messaging that provide much needed moments of light relief

• Increase messaging focused on value, and winning price perception, over the next year

Source: IRI analysis; IRI Growth Consulting
Use IRI’s ‘Advertising Consideration Matrix’ to guide decisions

IRI’s ‘Advertising Consideration Matrix’ suggests some key considerations to take into account before making any decision regarding advertising.

For further details around the application of the decision making matrix, go to: https://www.iriworldwide.com/en-GB/Insights/Publications/To-advertise-or-not-to-advertise

Source: IRI analysis; IRI Growth Consulting; “Excess Share of Voice” (ESOV) is the principle that when a brand grows its Share of Voice (SOV) relative to its Share of Market (SOM), it’s ‘market share’ grows.

Six key questions:

- What is the demand for our products?
- Are the cycles of product purchase impacted?
- What is the ability of supply to meet demand?
- Have our retail channels changed or shifted?
- Are we ready to advertise on demand?
- What is our current ESOV*?
Advertise authentic attempts to be ‘part of the solution’

<table>
<thead>
<tr>
<th>Expectation</th>
<th>Affiliation</th>
<th>Purchase intent</th>
<th>Avoidance</th>
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<tbody>
<tr>
<td>8-in-10</td>
<td>78%</td>
<td>70%</td>
<td>66%</td>
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</tbody>
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- **Expectation**: 8-in-10 think that **brands have an important role to play in supporting people** through the crisis (just behind NGOs).
- **Affiliation**: 78% think they will have a **stronger affiliation to brands and businesses who go ‘above and beyond’**.
- **Purchase intent**: 70% think a brand’s **response top to the pandemic will have an impact on my likelihood of buying** that brand in the future.
- **Avoidance**: 66% think they **would abandon brands and businesses that only act in their own self-interest** in the current climate.

*Source: Havas Media Group; Nature/The Lab*
Be cognisant of the merits & watchouts of marketing in a crisis

**CASE FOR MARKETING INVESTMENT**
- Media is cheaper during recessions
- A great time to bring fresh messaging
- Many consumers stay home more during recessions
- Bolster share of voice when overall noise levels are lower
- Brand reinforcement now can enable longer term growth
- Long-running evidence proving strategic effectiveness
- Recessionary consumers receptive to messages that focus on product benefits and solution orientation

**NOTABLE WATCHOUTS IN COVID-19**
- Inauthentic pretence to care ("we’re here for you")
- Melancholic music
- Seeming self-interested
- Me-too generic inspiration
- Gimmicky/trivial gestures
- Not connected to enduring brand values
- Not connected to salient brand benefits

Source: IRI analysis; IRI Growth Consulting
Use marketing investments to help win price perception…

ALDI has launched a new marketing campaign reassuring Australians its low prices will remain. The campaign will run across TV, outdoor, in store, digital, social and in catalogues. Aldi’s ads, which often utilise tongue in cheek humour (in this case mocking the ubiquity of the term ‘unprecedented’), promises that ‘precedented’ (low) prices will continue through these ‘unprecedented times.’ With Australia entering a recession, the German discounter will no doubt ramp up marketing comms calling out the permanency of its lower prices.

Coles’ promise to help lower the cost of breakfast, lunch and dinner was an aptly timed initiative given that it rolled out in late 2019. Investments were made to enable lower prices, with a specific focus on big value packs and own brand innovation. These are likely to be prominent themes in a recessionary landscape. Importantly, the “Coles value campaign is about more than just price,” and reflects ongoing efforts to ensure the “Good things. Great value” promise is matched with solutions helping Australians lower the cost of living.
...just as Sainsbury’s did successfully in the last recession

UK retailer Sainsbury’s successfully adapted its ‘Try something new today’ slogan and developed ‘Feed your family for £5 a day.’ It resonated with UK shoppers who were belt tightening in a challenging economic climate during the ‘credit crunch’ (more commonly referred as the GFC in Australia). Overall brand sentiment increased as did the sales of the featured ingredients. It serves a compelling example of using marketing investments to showcase how a brand (or retailer) can be part of the solution in challenging times. It helped shift perception of Sainsbury’s as ‘nice but expensive’ to a brand delivering ‘inspiring value for money’

Source: IRI analysis; marketingsociety.com
Advertise to enhance permissibility of (premium) indulgences...

L'Oréal delivered a COVID-19 themed spin on the brand's long-running "Because you're worth it" tagline. It also communicates the brand with a ‘human authenticity,’ which is more important in times of crisis.

First of its kind commercial featuring L'Oréal Paris spokesperson Eva Longoria

Longoria "directs" herself in an ad for its Excellence Crème hair range

Champions the idea that self-care is self-worth and more than ever, “we are all worth it”

Shows the importance of creating ads that reflect the reality of what people are going through in a crisis.

Source: IRI analysis; adage.com; harpersbazaar.com
…or, put another way, that you cannot/should not live without it

Everyday treats/indulgences like ice-cream, cookies, alcohol, coffee and savoury snacks can exist as ‘antidotes to reality’ at a time of a crisis/recession.

Regardless of the overall economic climate, premium and super-premium iterations of these products remain more permissible vs. other higher ticket prices associated with, by way of example, consumer durables.

Marketing communications should dial up the permissible indulgence provided by these affordable and necessary luxuries.
Use (social) marketing as a source of inspiration & enablement

More than ever, consumers will be seeking inspiration in their meals prepared and consumed at home. Their taste for culinary adventure will arguably heighten as they have immediate access to their kitchens. With the increase in meals made and eaten at home it is likely that meal-making and clean-up fatigue will set in. Food providers are incentivised to provide recipe ideas and curation like Barilla’s #AtHomeWithBarilla activity, and to create/showcase meal solutions that provide relief for those who might be growing fatigued of time spent in the kitchen.

Source: IRI analysis; thegrocer.co.uk; facebook.com/BarillaUK

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  - Use data & research to make high quality decisions
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Source: IRI analysis
Use data & research to make high quality recessionary decisions

CONTEXTUAL INSIGHTS

• In deciding which marketing tactics to employ, it is a crucial time to monitor consumers' changing perspectives. While the unique backdrop of a pandemic might not be reflective of their true ‘status quo’ beliefs and attitudes, the magnitude and pace of change makes it all important times to be keeping tabs on consumers’ changing attitudes and behaviours.

• And while the crisis level characterising the health pandemic is subsiding, the economic pandemic is gathering momentum. In downturns most consumers re-evaluate and modify their consumption priorities.

• Data platforms, and the power of real-time analytic insights, can help managing the impact of a recession. IRI platforms improves speed to insights, allowing teams to be more nimble, react quickly to changing market conditions, and drive productivity and growth.

SO WHAT, NOW WHAT?

• Invest in market research to track how Australians are reassessing priorities, reallocating budgets, switching between brands and product categories, and redefining what represents ‘good value’.

• Harness technology and analytics to make better strategic and day-to-day decisions by understanding what shoppers are buying now and will likely buy next. Arm decision makers with the right information to optimise growth opportunities and mitigate threats.

• Identify and reclaim loyal buyers who are at risk due to forced trial of a competitor brand. Use research to rethink offerings and to help refocus on targeting heavy/best customers.

• Pressure-test the attributes your products currently have against the products that are selling well in order to provide direction for innovation. Understand different buyers group to cater to their different requirements.

Source: IRI analysis; IRI Growth Consulting
Segment shoppers by the degree of recessionary stress

A key step in responding to a recessionary environment is to understand the new and evolving customer segments that emerge. IRI’s EconoLink segmentation views six groups of consumers to understand the varying attitudes and beliefs through an economic/financial lens. The segmentation enables businesses to better respond to the economic needs of shoppers, providing a method of identifying key shopper segments and tracking behaviour over time.

Financial situations are markedly worse vs. YA, and their response is to try and cut back on everything

- **DOWNTRODDEN**

Financial situations are markedly worse vs. YA, and hold little hope for things to get better

- **CAUTIOUS & WORRIED**

Financial situations are largely the same, but focused on cutting back, but with positive future outlook

- **START-UPS**

Financial situations are better vs. YAG, and they are optimistic about their financial future

- **OPTIMISTICS**

Financial situations are improving vs. YA, but they still look for value beyond lowest price

- **SAVvy SHOPPERS**

Financial situations stable and willing to splurge on Premium items. Brand preference is key driver

- **CAREFREE**

Opportunities and threat during the downturn will be shaped by which of the six segments a brand’s core customers belong to.

**MINDSET = CAUTIOUS/NEGATIVE**

Economically fragile & cautious/negative

**MINDSET = POSITIVE/OPTIMISTIC**

Economically stable & positive

Source: IRI analysis; IRI Growth Consulting
Recessionary consumers more actively reevaluate their consumption priorities. Research that sorts products into four buckets (see below) can help determine how shoppers prioritise consumption of categories and brands. IRI also recommend an assessment of category and brand risk (see right):

- **Essentials**: indispensable necessities for survival, or perceived as central to day-to-day wellbeing
- **Permissible treats**: justifiable indulgences validated by either a functional or emotional hook
- **Postponables**: moving from ‘needs’ to ‘wants’; desired items but can be justifiably put off/delayed
- **Expendables**: perceived as unnecessary or unjustifiable

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**Category risk factors**
- Percent of current consumers with high economic stress exposure
- Percent category sales comprised of discretionary vs. planned purchases
- Size of premium segment balanced with size of the value segment
- Percent share held by private label
- Category promotional dependency

**Brand risk factors**
- Brand share and concentration held by non-private label competitors
- Brand share of economically impacted segments (i.e., premium, value)
- Brand pricing power
- Unique brand claims (functional, emotive, social impact)
Adopt a **shopper-led total store view** to holistically understand customers

Downturns elevate the importance of obtaining an understanding of the dynamics across the total store – i.e. **seeing the store in the same holistic and/or mission specific way shoppers do**

IRI’s shopper panel data provides a proven way of **tracking category and brand sales across all outlets** and specific classes of trade. At a time when some FMCG retailers are limiting supplier access to data beyond their own categories, it is a cost-effective and accessible way of obtaining that all-important total store view.
Use our COVID-19 content hub for ongoing data-led insights


All reports and insights available in IRI’s COVID-19 portal:
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Source: IRI analysis
Prepare to rationalise product ranges (by choice or coercion)...

CONTEXTUAL INSIGHTS

• Recessionary times amplify the importance of having an optimised assortment: the right brands in the right pack sizes at the right prices

• Many flavour and size extensions erode core brands. Cutting back on the SKU's drives supply chain efficiencies and aids efforts get stock on the shelves for consumers (important if second wave)

• Recessions are an opportune time to curate the overall assortment to mitigate a plethora of extensions and niche brands that do not create incremental growth, and which can take up needed trade/marketing spend

• Lightening the product/brand portfolio, and allowing marketers and the sales team to focus on the higher-potential brands, should pay dividends post-recession

SO WHAT, NOW WHAT?

• Rationalise ranges and maximise availability of higher-demand brands. Prepare to rely on the core range/higher velocity SKUs to work (even) harder. Ensure that SKU efficiency measures are built into reporting

• Identify candidates for potential divestiture by segmenting brands on two dimensions: (1) category attractiveness; and (2) brand strength. Optimise brand portfolio to focus on the strongest brands in the most attractive categories

• Limit depth of assortment to larger, multi-use sizes, as well as smaller, lower-priced packs for economically pinched consumers

• As consumers and retailers adjust to limited assortment, suppliers will face greater hurdles getting new items and new varieties into stores

Source: IRI analysis; IRI Growth Consulting

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…and **invest in innovation through periods of market decline**

**CONTEXTUAL INSIGHTS**

- Overall we are likely to see many suppliers delay, or permanently cancel, new product development (NPD) in favour of optimising core ranges. But during a recession, new products have a vital role.
- Because new product activity typically slows in recessions, well-executed NPDs have a higher chance of gaining visibility (and ultimately paying off) as competitors streamline the NPD funnel.
- More buoyant consumer segments (and there are some with more time and cash rich due to COVID-19) will appreciate the novelty and experiential qualities of affordable luxuries. In fact, many Australians will want to alleviate the monotony of buying the same things throughout their extended period at home.
- The rapid pace of change associated with COVID-19 induced lifestyle and behavioural change creates impetus to ‘pivot-at-pace’.

**SO WHAT, NOW WHAT?**

- Use extra trade dollars to support innovation and take advantage of less well-capitalized companies that are forced to hunker down during recessions.
- The continued backing of innovations will help propel these products both during as well as post-recession.
- Identify short-term innovation opportunities to take advantage of categories that perform particularly well in times of economic contraction.
- Explore opportunities to rethink processes, product applications and develop innovate solutions (e.g. emergence of quick-fire DTC responses from suppliers across the globe).
- Dissect the unique needs of specific consumer segments to focus innovation (e.g. flavours to align with an occasion, larger pack size for heavy buyers, new ingredients for health conscious buyers/health focused occasions).

Source: IRI analysis; IRI Growth Consulting
Streamlining range will **support responsive to ongoing demand shocks**

We have observed the **demand for certain products fluctuate dramatically** during the pandemic and **an agile supply chain is thus ever more important**. Retailers will need to feel confident in a reliable supply chain in order to maintain product availability. By **reducing the number of SKUs** being produced, manufacturers can **ensure improved productivity in their supply lines** in the event that a scenario akin to this emerged.

**Likely Scenarios for CPG Measured Channel Growth**

- **Virus Effectively Contained**
  - Significant stockpiling drawdown in Q2; potential reversion to new normal consumption trends by Q4

- **Another Virus Spike in the Fall**
  - Stockpiling drawdown in the Summer before another major stockpiling run in the Fall

Source: IRI analysis; IRI Growth Consulting
Recessionary times can be ripe for trend/country/category firsts

Maintain commitment to innovations underpinned by enduring trends

In our two waves of COVID-19 shopper research, we have NOT seen COVID-19 taper Australians’ expressed concerns about climate change. Sustainability themed innovation is especially important in Australia given the environmental (bushfire) crisis that preceded the health crisis. Nestle rolled out paper-based packaging globally for Nesquik this year, and will launch paper packs for Yes!, Smarties and Milo brands

Prioritise ‘big bets’: pursue category and country firsts

In the UK, Müller has expanded its iconic Corner yoghurt portfolio with its first-ever skyr product – a format/style that has been trending in the market for some time. Elsewhere, US alcoholic low-calorie sparkling water brand White Claw, major driver of liquor sales for well over a year, is coming to Australia in H2. It is an example of aptly investing in the growth potential of consumer & attribute trends around lower-calorie and lower-sugar alcoholic beverages products

Source: IRI analysis; COVID-19 Shopper Survey, April 2020, n = 5,799; May 2020, n = 5,566
Question: Which of the following best describes how you feel about the following?
Consider the merits of a ‘fighter/flanker’ brand

Bring affordable personal indulgence to economically stressed consumer segments

**Otherside Brewing Co.** recognised that paying the premium for craft is hard to justify. In response, the Australian brewer created a craft brew “at a price as reasonable as we could possibly make it”. It was made available from Liquor Barons stores across WA in mid-April.

**Vosges Chocolate**, a premium confectionery company in the US, used the last recession as an opportunity to introduce a lower-priced fighter brand chocolate, called Wild Ophelia, for the mass channel. Vosges invested a significant amount in discrete choice research to gather more economically impacted consumers’ perceptions of functional and emotive features and willingness to pay.
Dial up ‘value attributes’ likely to have elevated recessionary appeal

- Proven
- Durable
- Efficacious
- Larger value pack
- Used by xx trusted pro
- Long lasting

Source: IRI analysis; IRI Store Visits; insidefmcg.com.au
Seek opportunistic acquisitions to bolster brand portfolios

A recession, especially one as unpredicted and deep as the COVID-19 recession, provides opportunities for longer-term growth supporting acquisitions. Many insurgent brands will run into capital issues as investors get cold feet and debt covenants are blown.

This recession could be a perfect opportunity for larger, well-secured companies to consider making acquisitions of the insurgent brands that have been nipping at their heels for years.

Source: IRI analysis; IRI Growth Consulting
# Please refer to the other parts of this overarching report

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Source: IRI analysis

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