COVID-19 Impact on Tobacco

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IRI Liquor & Tobacco

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Tobacco is a very powerful and distinctive category compared to many others in the wider FMCG landscape. As a category it is likely to experience unique impacts due to Covid-19.

This piece is not designed to provide all the answers, it is more about provoking discussion and consideration regarding a wide number of influences that the current global Covid-19 pandemic may have on tobacco consumption and purchasing behaviour. In many instances, a potential impact to behaviour can be met with an equally plausible counter argument and as such, it attempts to highlight potential behavioural shifts from multiple angles.

As relevant scan and shopper data becomes available over the coming weeks and months, your IRI team will aim to validate these hypotheses where possible. We encourage you to consider the perspectives put forward in this piece and open discussions within your own business where you see fit.

Provoking thought in unchartered waters
TURBULENT Q1 in AUSTRALIA:

JANUARY

Loss of income; relocation & health costs; reduced consumer confidence; destruction and cost of lost assets, environmental costs. Panic buying; supply chain disruption, quarantines and fear of public spaces.

FEBRUARY

MARCH
Tobacco dollar growth rates have been relatively consistent compared to massive spikes in total grocery in the Australian market driven by panic buying.
NZ Market shows significant drop in growth rates following initial panic buying with Tobacco the only category in growth in the latest week.

Paper Products, Household, Personal Care delivered slower growth than the last two weeks. Tobacco the only department to improve this week
US Market: Non-Foods Stock-Up Eases After Initial Spike During the Week of March 8, But Consumers Are Still Buying More than They Did Pre-COVID-19

After spiking mid-March, growth rates decelerated for health, home and beauty in the latest week, suggesting some slowing of non-foods stock-up; frozen drove food gains as both beverage alcohol and tobacco surged.
Why has panic buying or stockpiling not been so dramatic within Tobacco in Australia?

1. **Tobacco products** are stored behind the counter with stock **not visible to the customer.** Does this temper **visual cues** (e.g. seeing barren or near empty shelves) that lead to further panic buying?

2. The **high cost price** of single packets let alone cartons would be a **prohibitive factor** for stockpiling compared with packaged grocery categories (e.g. Canned fish, pasta, rice etc.) **during a period** where many households are **experiencing financial uncertainty.**

3. With incomes reduced, many **smokers may** consider a **switch to illegally imported tobacco or locally grown ‘chop-chop’** to save money. If this is occurring it will clearly reduce the visibility of volume increases in the scan data.
The physical and mental toll of Covid-19 could have significant impacts on smoking behaviour

Mental Health

• Pressure of job losses or reduced hours on households leading to:
  ➢ Consumers to smoke more as a form of relaxation;
  ➢ Down trading to cheaper brands (or illicit) to stretch $ further;
  ➢ Switching to RYO or E-cigarettes as a cheaper alternative.

Physical Health

• There has been significant media coverage on smokers being at higher risk and Health departments encouraging people to quit to build up their defenses against Covid-19. Is this causing smokers to reduce consumption or further the rhetoric to give up all together?
• Noticeable trends on social media to clean eating, juice cleanses and home workout routines. Will this focus on health give people more time and motivation to focus on quitting smoking?

[Graph showing Australian Employment rate last 25 years]
Work & Home: Boundaries Blurred

- May this lead to increased smoking as it is easier to step out to the balcony or backyard than to take the lift down from level 20 of an office tower?
- Alternatively, with children no longer in care or home-schooling are parents less likely to smoke whilst trying to set a good example in the home?
- Everybody under one roof continuously is a new phenomenon for many with the potential of causing friction amongst inhabitants. Could these stresses lead to people smoking more as a tactic for “me-time” or just for relaxation?

Socialising

- With bars, restaurants and social gatherings of more than 2 people off limits will this lead to less social smoking (i.e. Consumers who don’t regularly smoke but do in social settings?)
- With social distancing and lockdown restrictions the rise of ‘House Party’, ‘Skype Sips’ and ‘Zoom Drinks’ don’t particularly align with any changes in smoking behaviour particularly as Australia approaches winter and people remain indoors more on these platforms.
- Lack of socialising is likely to result in a decrease in ‘light shoppers’ who smoke for social status not regular consumption
The impact of social distancing and lockdown restrictions on retail channels

Supermarkets

• With many people now working from home as well as the closure of gyms, bars and restaurants, the main point of human contact for many people, not including their immediate household, is the local supermarket. With social distancing being heavily enforced this places supermarkets as a potentially risky place for exposure to Covid-19.

  ➢ This may result in the number of shop visits per week being reduced to lessen exposure? This behaviour would counter the recent trend of more frequent, smaller shops
  ➢ Consumers may also target larger supermarket stores to get all of their weekly supplies at once, limiting the number of stores they visit and the number of trips. This could impact the frequency of purchase of tobacco but see any increase in weight of purchase

• Alternatively, could restrictions on the number of customers in supermarkets, causing queues outside, drive people to convenience stores with easier access or potentially drive bulk purchase to “make the most” of the wait time endured to get into store.
The impact of social distancing and lockdown restrictions on retail channels

**Tobacconists & Specialty Retail**

- In an attempt to avoid crowds will this lead to people purchasing more from tobacconists?
- Will tobacconists be allowed to remain open if restrictions are tightened (e.g. Level 4)? If not this will shift the volume into Supermarkets and Convenience as they will still be deemed “essential services”.
- Tobacconist stores are typically smaller in terms of floor area and will be heavily impacted by distancing regulation and max numbers in store if (when) the government initiates these restrictions.

**Petrol & Convenience**

- People isolating at home, no longer commuting and not allowed to travel will significantly impact “on-the-go” purchases. This is likely to result in impacts to the performance of the Convenience channel, in particular top-up purchases.
- Alternatively, shoppers may choose to visit a convenience store for tobacco purchases to avoid lining up and crowds at supermarkets.
- Level 4 Watch-out: may convenience stores at petrol station sites be forced to close doors, utilizing “night pay” windows like what has happened in NZ during their lockdown? Refer to next slide for impact.
Evidence of channel switching in NZ due to much tighter restrictions than in Australia on Petrol and Convenience retail

P&C remains open as an essential service but channel switching is evident. Will we see comfort, indulgence, safer experience, ease-of-access drive spend back?

**DEMAND CONCERNS**
- **Commuting down**
  - Less frequent refuelling
- **Foodservice closed**
  - Food-to-go offerings (hot food, hot coffee) are not essential and therefore not operating
- **Stockpiling mission**
  - The week of 22/03/2020 shoppers were occupied with large shops
- **Shopping experience**
  - Entry into the store is restricted impacting impulse, on-the-spot purchasing = smaller basket sizes

An Update from Mike Bennetts, Z CEO

*Today, as a country we are making the final plans to move to Alert Level 4 in our fight against COVID-19. During this time, our stations will be open to deliver an essential service. However, we’ll be locking the doors with any required interactions undertaken through our night pay window, for the safety of yourself and our staff.*

% Growth by Dollars vs. YA
Total Pre-Packaged Grocery & Total Petrol & Convenience Retail
Weekly Growth Change

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BAT and PML both involved in the race for a Vaccine

• BAT and PML are both exploring partnerships with government agencies to bring experimental vaccines to clinical studies.
• BAT said while the unit is a commercial business, its work on a Covid-19 vaccine will be on a not-for-profit basis.

Coronavirus Vaccine Race Gets Unlikely Partner: Big Tobacco

By Corinne Gretler
1 April 2020 9:08 PM  Updated on 1 April 2020 10:05 PM

► BAT, Philip Morris working with biotech firms in U.S., Canada
► Tobacco leaves are being studied for antigen production
Thoughts to consider

- Will we see consumers smoking more (stress, boredom) or less (health concerns, financial restraints)?

- Will we see continued and more apparent trading into cheaper brands or RYO as consumers look to stretch dollars further?

- Will we see noticeable switching to E-Cigarettes as a cheaper and arguably healthier alternative?

- Will we see significant switching of volume amongst channels due to changes in consumer behaviour or further government restrictions?

- Will shop visits become larger and less frequent going against recent trends?
We are here to help and look forward to riding with you into these unchartered waters as we all make sense of the rapidly changing environment around us.
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