POINT OF VIEW

Advancing in the Next Normal
How the FMCG industry can prepare for lasting changes

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Advancing in the Next Normal
INTRODUCTION

As the devastating effects of the coronavirus (COVID-19) pandemic spread across the globe, everything from the way we work to the way we shop has been turned on its head. In just eight weeks, social distancing, panic buying, major staff shortages and stretched supply chains have all placed FMCG manufacturers and retailers under pressure.

This experience represents the biggest shift for retail in decades, with the emergence of new needs that will drive a fundamental change in the industry and require a new response. The next normal presents a great retail reset which will see almost everything about the industry needing to change and adapt. As we begin to emerge from lockdown and start returning to work, shoppers, retailers and suppliers will need to consider everything in a new light.

The wider measures that have been put in place to mitigate the virus are expected to lead to a sharp fall in GDP in Q2 2020, with PWC forecasting this could reach 16%. That’s far larger than the 6% downturn between Q1 2008-2009 following the financial crisis.

Yet, this recession will be significantly different to 2008, in terms of drivers, the people it affects and the industry’s ability to respond. The speed of change for households has been rapid and will have a long-lasting and momentous impact, heavily influenced by the experience of COVID-19.

Record high unemployment with no clear view of a recovery timeline has triggered coping mechanisms across society that will change traditional shopping missions, purchases and overall basket values. For those working, with more time spent at home affecting snacks and food-to-go, we see scratch cooking and baking habits emerging in many households across the country. Even when restaurants and cafes reopen, people are likely to eat out less for both health and wealth reasons, leading to a complete shift in menu planning and consumer spending going forward.

Lifestyle changes will also be far reaching as record numbers forgo international travel to holiday in the UK. Many of us will have found and continue to seek new past-times which see us spending increased amounts of time on outdoor activities, all of which will impact the broader picture of the way we live.

This will lead to some notable implications for the FMCG sector in the next normal. There will be a need to look at the way forward differently. The scale of these unprecedented changes leads to an increased need to understand, connect with and deliver solutions for shoppers and consumers at an individual level - a ‘bottom up’ approach, rather than one size fits all.
Despite there being no blueprint for this, we must now prepare for the next normal - an entirely new approach to the industry beyond the lockdown. This whitepaper outlines six key implications that will impact the consumer and retail landscape that have emerged during the crisis. We believe each of these will persist in the aftermath of the pandemic, potentially for years to come.

The insights in this report are based on analysis of IRI’s retailer shopper assets, market and category data. At the time of writing, we are partnering with many of the most successful FMCG brands and retailers to determine the trends emerging from rapidly changing consumer behaviour. We are currently working with a broad spectrum of clients ranging from marketers, sales directors, supply chain leaders and retail trading directors, as well as advertising publishers to guide them towards a better understanding of how to navigate through to the future. These six pillars represent areas of focus for retailers, manufacturers and the wider FMCG industry in order to advance in the next normal.
There was already a sense of uncertainty in the market as a result of Brexit, with many consumers feeling apprehensive about their economic futures. COVID-19 has only heightened these feelings, with consumers growing ever more economically sensitive, they’ll be looking more closely at price, promotions and value across all retailers. This has led to three main areas of focus around value:

**Shoppers are reassessing what and where they buy**
With continued uncertainty, both manufacturers and retailers will look to maintain their share of wallet in the next normal as shoppers start to reassess where to shop and what to buy. It will be essential to ensure that brands are in the right place, in the right pack, at the right price.

Throughout the lockdown period, consumers have moved from shopping across multiple retailers to picking up all their goods in a trip to one store. While transaction numbers are down by almost 50%, items and spend per trip metrics are up by more than two thirds since lockdown. As shoppers look to potentially return to visiting more than one retailer or their favoured retailer in order to seek out value, it will be essential to understand the shopper in order to retain that spend.

The recession of 2008 saw many consumers reaching for private label products as they looked to manage budgets. During the pandemic, the opposite was true, as branded goods increased share by four percentage points, largely driven by availability. Post COVID-19, as stock levels return to normal, brands will have to work hard to maintain share as shoppers are likely to again turn to private label products to manage budgets.

It will be important to monitor the performance of private label goods and the price index between private label and branded products in light of this increasingly price-sensitive shopper. Manufacturers may need to review their pack price architecture to enable attractive promotions, bigger and better value products, a lower entry point or round pound pricing.

**Agility is key to winning**
The speed of response from retailers and manufacturers to adapt their offer to the next normal is critical. Retailers that can connect and communicate with the changing needs of their shopper at pace will be the winners. For suppliers, this is all about re-establishing the right value messaging and proposition rather than reverting to previous promotional strategies.

The industry has a short window of opportunity to reassess if their offer meets the needs of both the shopper and the retailer moving forward. It will be imperative to understand changing consumer needs across all channels as retailers look to maintain supply and simplify their offer for the shopper while also providing value for both the budget-sensitive and the less price-conscious shopper.
A need to re-establish value
The pandemic has touched all households. As a result, everyone is re-evaluating their circumstances and identifying necessary changes to their lifestyles. As with the 2008 recession, household spending is likely to come under scrutiny and as such retailers and brand owners must provide an offer that delivers value for all.

The subject of value is nuanced and will look very different across households. Budget-bound shoppers will be seeking low pack pricing, while the comparatively more affluent shopper may seek the value of large pack sizes.

This could lead to a shift in promotional mechanics with an increased focus on personalisation, which may manifest in bundle deals that feature a whole basket reduction, for example, or through ladder deals such as X number of items for Y price.

A review of pack-price architecture is a likely outcome, with manufacturers looking to simplify ranges to enable a new promotional strategy that delivers value for shoppers as well as providing a solution across channels and formats.

Retailers and suppliers must work together to strike a balance between offering value and choice for the shopper.

### THE SIX PILLARS OF THE NEXT NORMAL

**THE INCREASED NEED FOR VALUE**

#### WHAT THIS MEANS FOR SUPPLIERS

- A review and reset of promotional strategy
- The need to adapt pack mix and focus to meet consumer need and manage margins
- Increased focus on the role of e-commerce vs. in-store promotional strategies

#### WHAT THIS MEANS FOR RETAILERS

- Readjustment of e-commerce vs. in-store promotional strategies
- Putting greater focus on private label ranges
- Rationalising range and promotions to increase ease for shopper

#### WHAT THIS MEANS FOR SHOPPERS

- Increased use of online shopping providers to best track and manage spend
- Trading to private label products in their basket
- Foregoing discretionary categories such as convenience and impulse ranges or health and beauty goods
THE ROLE OF PRODUCT INNOVATION

The level of product innovation has fallen during the pandemic while the industry understandably prioritises getting products onto shelves. In the short term we expect this to continue as retailers look to simplify range and suppliers delay or permanently cancel new product development (NPD) in favour of optimising core ranges, while consumers focus on managing spend.

Beyond the short term, we anticipate the rate of innovation will return to pre-COVID-19 levels as retailers and suppliers alike look to maintain share of spend through differentiation. They must deliver against emerging shopper needs as well as offer a continued flow of new and exciting products that cater to existing trends. However, the innovation launch model and criteria for success will need to change. With shoppers reluctant to spend time browsing aisles in store, innovation must meet a clear need and be compelling to grab attention.

There are clear spaces for innovation in the next normal. Consumers have new and emerging needs that they will look to brands and retailers to meet, such as an increased focus on immunity, which offers opportunities in the health and wellness area. Shoppers are also looking to alleviate the monotony of buying the same things throughout their extended period at home, so products that bring the out-of-home experience indoors, such as ‘fakeaways’, - currently at an all-time high on Google searches - point to growth in this area.

WHAT THIS MEANS FOR SUPPLIERS

- Cancelling or putting innovation on hold
- Reliance on the core range to work harder to deliver targets
- Re-evaluation of the innovation pipeline for one-to-three years
- Understand the retail success criteria for innovation and anticipate an even greater need for high impact activity in store

WHAT THIS MEANS FOR RETAILERS

- Reliance on core products to work harder to deliver against consumer need
- Seizing potential opportunity for private label innovation
- Encouraging trade-up and discretionary spend will likely be inappropriate

WHAT THIS MEANS FOR SHOPPERS

- Improved ability to manage budget through simplified product ranges
- The potential for new ranges and products to meet the consumer need for immunity and in-home experiences
THE EVOLUTION OF RANGE AND SPACE

As we see customer behaviour changing, for example buying less food-to-go vs. increased dinner for tonight, there is an opportunity for retailers to re-configure their traditional discretionary space in store. In convenience stores this could play out in the reduction of macro space for impulse products in front of store in favour of products that meet the meal for tonight mission.

Meanwhile, promotional space is unlikely to change but the number of products on gondola ends may decrease to maintain availability and reduce the need for replenishment throughout the day. This clearly has potential implications for manufacturers and retailers alike. For example, discretionary space accounts for more than 20% of promotional deals in-store. A change in allocation of this space could be worth a significant level of spend. It is therefore important that any changes made are led by insights responding to shopper needs.

Looking at particular categories, retailers will look to rationalise product ranges in order to simplify their offer to consumers and maximise availability of higher-demand brands. For shoppers, specific categories have fallen in priority in-store driven by alternative purchasing options, for example coffee and pet food are two categories that have shifted to direct-to-home purchasing, and won’t need the same range as consumer habits change. Similarly, off-shelf space will remain prioritised for high-demand categories – toilet rolls, household cleaning products and beer, wine and spirits to reduce footfall in the aisles around busy times.

Lastly, given the increased demand for out-of-home experiences in the home, there are opportunities in-store for potential partnerships for direct-to-consumer solutions. This could see bricks and mortar retail stores acting as a channel for branded experiences, with in-store space utilised for take-home meals by household restaurant brands, as already seen across various retailers.

WHAT THIS MEANS FOR SUPPLIERS

• A growing need to understand the dynamics across the total store
• The need to build a defence case for both category macro space and brand
• Optimisation of pack mix to deliver revenue targets across a smaller range

WHAT THIS MEANS FOR RETAILERS

• The need to understand total store performance and identify revenue opportunity from adjusting macro space
• Developing an off-shelf plan to balance high demand category needs and reducing footfall
• Increased differentiation of range in-store vs. online
• The need to better understand shoppers and emerging missions in order to offer shopper-led ranges

WHAT THIS MEANS FOR SHOPPERS

• Possible need to find alternatives to niche brands
• Practically, there will be increased focus on improving the ease of the in-store shopping experience
CHANNEL SHIFTING

One of the most striking changes in behaviour as a result of COVID-19 restrictions has been a seismic shift in shopping patterns, with people no longer visiting two or three stores and instead buying everything from one. Since the lockdown, transaction numbers have declined by almost 50%, whereas items and spend per trip are up by more than two thirds.

Demand for online grocery shopping has grown exponentially compared to previous years as consumers look to limit their time out of the house or have been unable to visit a store. As a result, the online grocery market share has increased from 6% to 10% during lockdown as retailers respond to demand and increase capacity for delivery slots and click and collect but this must expand even further to capture demand which is unlikely to stem post-lockdown.

We are seeing this shift in five main areas:

Convenience stores as main shopping destinations

Convenience stores are by their very nature convenient, because they are local and require limited travel. Location has always been a key factor in store choice but during lockdown it has become even more so.

The convenience channel has seen footfall increase and has benefited from share growth of +1.1% in the 12 weeks to 19th April 2020 as a result. We anticipate a sustained increase in convenience footfall and bigger basket missions as shoppers take the opportunity to stock up on more essentials while in their local store; which now plays a broader role than just top up shops. This is likely to lead to a change in range, store layout and increased promotions in these stores to meet this change in consumer demand.

Direct-to-consumer

Lockdown has driven an unprecedented need to deliver goods direct to homes. Established online grocery delivery services have had to rapidly respond to the increased demand from not only regular shoppers, but also light users and people who previously preferred to shop in-store, particularly the elderly and vulnerable needing to self-isolate.

Other direct-to-consumer services including meal deliveries such as Gousto, Hello Fresh and Mindful Chef have seen a surge in demand. Mindful Chef in particular usually acquires 150 customers a day but hit 2,500 on 22nd March 2020 (Giles Humphries, co-founder of Mindful Chef).

Brands have also recognised an opportunity to partner with these more established providers as an alternative route to consumers, for example, brands such as Charlie Bigham's and Gü Puds are now available through Gousto.

Likewise, retailers have also recognised this opportunity with stores such as Marks and Spencer, Co-Op and BP partnering with Deliveroo so consumers can order essential items such as milk and bread for same day delivery. Brands and wholesalers have also quickly established new capabilities in this area in order to stay relevant and maintain a presence. We would expect these businesses to build on these learnings to move forward into the next normal.
Return of the big shop
Adhering to lockdown measures, along with concerns about the in-store environment, means that many shoppers have reverted to one big weekly shop. This is reflected in the average number of basket items increasing by 65% during lockdown. While all grocers and convenience stores have benefited from the heightened need for in-home consumption, the discount channel has lost share during lockdown with factors such as store location potentially playing a part. However, as we enter recession and move into the next normal, the need for value will become more important and the discount channel is likely to see the share of growth return.

Proliferation of suppliers
Unlike in the previous recession, there are far greater options available to shoppers for direct to home deliveries. Since 2008, the improved capability of e-commerce has led to a proliferation of online providers and competition for share of wallet has and continues to grow. COVID-19 has highlighted the need for those without an online offering to accelerate plans or join forces with an established partner. We have also seen the emergence of solutions catering to the needs of specific groups or occasions, such as the Morrisons food boxes.

Food service faces an uncertain future
With restaurants and cafes currently closed and looking unlikely to open in the near future, the sector is at a standstill, with some estimates suggesting food service may lose up to 20% of capacity post-lockdown.

Sales to date have shown that the grocery sector will not replace the lost value from the out-of-home channel, driven in part by the large differential in price. Suppliers with a high proportion of sales in the out-of-home channel will need to establish alternative routes to market to recoup losses. Similarly, food service and licensed operators and wholesalers are already seeking out innovative solutions to this challenge, such as direct-to-consumer or take-home services.

**WHAT THIS MEANS FOR SUPPLIERS**
- The need to revisit channel strategy with increased importance of less established routes to market
- Understand the wholesale channel as a new route-to-market

**WHAT THIS MEANS FOR RETAILERS**
- Expand online delivery capacity, with a more sophisticated approach across consumer groups, such as vulnerable and elderly shoppers
- Increased focus on click and collect services and incentives

**WHAT THIS MEANS FOR SHOPPERS**
- Continuing shifts in buying behaviour
- Managing spend by shopping in multiple locations across categories
Whatever we thought we knew about customer behaviour has arguably been brought into question as a result of our experiences in 2020.

The COVID-19 lockdown restrictions have led many of us to visit different retailers due to proximity or ease of access. A similar dilution of brand loyalty has happened with products as customers look to purchase whatever is available, therefore brands will need to reconnect with consumers as we enter the reset phase of the COVID-19 response. Media communications will become an important focus for brands and retailers alike as they look to bolster their connections with consumers.

Since lockdown measures were introduced, TV viewing has seen a sustained increase - up 18% year-on-year in the post-Easter week. A number of UK supermarkets reacted quickly, with TV advertising focusing on their COVID-19 response.

In IRI's Advertising Consideration Matrix, we highlighted key areas for brand owners to review before deciding their next step. In it, we anticipate that spend on TV and digital advertising will increase as brands attempt to reach consumers spending more time at home over the next 12 months.

Behavioural marketing to drive strong shopper loyalty will become increasingly important in the next normal. Trust and confidence - the cornerstones of customer loyalty - are being stretched during this challenging period. Confidence in supply chains and brands is low and this may continue beyond COVID-19.

The goal for all retailers should be to focus on supporting customers and investing in other shoppers to rebuild loyalty. By putting customer needs first, brands can stand out above competitors. Embracing data allows them to take proactive steps to understand evolving shopper behaviour and communicate in an authentic way at the right time for them.

Segmentation to present shoppers with offers that are affordable and meet their needs at the right time will be key to unlocking this puzzle. We must continue to re-run the algorithms regularly to segment customers into the right cluster based on where they sit on their own personal change curve.

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**WHAT THIS MEANS FOR SUPPLIERS**

- Likely to see a reallocation of media budget, moving spend from in-store to above the line
- Increased need for always-on media performance understanding as the situation evolves
- Must revisit the impact and suitability of marketing campaigns post COVID-19
- Understanding behaviours and missions in order to adapt to their needs is critical to a more personalised approach to retailing

**WHAT THIS MEANS FOR RETAILERS**

- Reduction of in-store media spend
- Increased competition for consumers post COVID-19 will drive a need for increased media and refocus on developing a loyal shopper base
- Increased focus on online and click and collect services will change the balance of media consumption across fascias

**WHAT THIS MEANS FOR SHOPPERS**

- Increased media messaging focused on value over next year
### THE NEED FOR A RESILIENT SUPPLY CHAIN

In the next normal, a resilient supply chain will be necessary to meet retailer expectations and respond quickly to change in consumer needs. We’ve seen the demand for certain products fluctuate dramatically during the pandemic and an agile supply chain will be necessary for the industry to successfully respond.

As a result, it should be anticipated that the supply chain will increase in importance and be a consideration in trading discussions going forward. Retailers will need to feel confident in an reliable supply chain in order to maintain product availability. By way of example, one implication could be a move from national to more localised distribution networks to deliver greater agility and speed across the supply chain.

An increasingly fragmented channel landscape will also demand efficiency in the more established channels. This is needed to unlock opportunities elsewhere as multiple routes to market will need to be considered. Moving forward, it will also become increasingly important to strike a balance between reducing complexity to ensure supply and maintaining shopper choice and value.

Finally, existing pressure to reduce the environmental impact of the retail supply chain now has an added dimension of complexity due to closed borders and reduced movement of people and transport in the ability to supply goods.

### WHAT THIS MEANS FOR SUPPLIERS

- Revision of price pack architecture, from a supply chain, pricing and promotional and shopper need perspective
- Source raw materials and packaging capability within UK

### WHAT THIS MEANS FOR RETAILERS

- Increased focus on private label ranges
- Range optimisation and simplification
- Increased focus on major brands in each category
- SKU rationalisation projects across key categories with potential for smaller brands to be delisted

### WHAT THIS MEANS FOR SHOPPERS

- Reduced range options
- Increased clarity of pricing and promotions messages
- Greater ability to manage spend

### CONCLUSION

The speed of change resulting from COVID-19 has been rapid, but the impact will be long lasting, with every household affected to some extent.

We are witnessing the greatest change to retail in decades as a result of the emergence of new needs and a fundamental shift in how the industry will be required and able to respond. For retailers and brand owners, studying data insights into their customer base will help them identify emerging patterns and inform their response, as we all adapt to the next normal.

In summary, the industry must be prepared for the next normal. By acting now to embrace the six pillars addressed in this whitepaper, brands and retailers will be able to grow stronger, build resilience and navigate uncertain times as they take on the great retail reset.