COVID-19 and Navigating the Path Ahead

CHARTING THE COURSE FOR CONTINUED CENTER STORE GROWTH

June 26, 2020
COVID-19 and Navigating the Path Ahead – Center Store Food & Beverage

- **COVID-19** has been a catalyst for Center Store growth, achieving 22% during peak weeks of March.
- **New and reacquired lapsed buyers** present an opportunity to identify and communicate to drive long-term value.
- Center Store has the ability to continue to drive strong growth for the near team, particularly in **baking, dinner and breakfast**.
- Center store occasions have positive momentum as restrictions ease across the U.S.; **snacking and beverages** are realizing strong growth.
- Test and learn approaches should be leveraged to evolve **meal offerings** from essential to entertaining.
- 35% of consumers proactively take care of their physical and emotional health, increasing demand for functional benefits in ingredients, as well as messaging on packaging and online search terms.
- **Interest in sustainability** remains strong; online and in-store promotions as well as packaging should be leveraged to demonstrate commitment.
- **Potential baby boom** presents opportunities to expand presence to expanding households.
- With reduced trips, customers will look for value through multipacks and **large pack** sizes, but small households and those that are cash-strapped will look for **small pack** sizes.
- Random switching behavior is occurring in some categories; **innovation and portfolio assortment** should map to hierarchical attributes of purchasing behavior.
- **Retail Brands** are realizing strong growth. Growing the aisle with the **right mix** is a triple win for manufacturers, retailers and shoppers.
- **Channel strategies** are required to attract and retain those shopping a variety of retailers for different essential requirements.
- **Pressures on supply chain and inventory** – from sourcing to consumption – require agility and open communications.
This Issue of IRI’s COVID-19 Report Explores Charting the Course for Continued Center Store Growth

To Create This Report, IRI Leveraged Data and Analytics From Various Proprietary Retail, Market, Consumer and Shopper Assets, Including:

- IRI Point of Sale Data, including Label Insight attributes
- IRI E-Market Insights®
- Shopper Basket Analysis from IRI Consumer Network™ Panel and Weekly Consumer Panel Solutions
- IRI Weekly Pulse Surveys
- IRI Multi Outlet, Total Store Fresh Model

Visit IRI’s COVID-19 Insights Portal and COVID-19 Dashboard for more reports and updates.
Center Store Roles and Shopper Transformation
Center Store plays several roles for consumers and they continue to evolve as we work through COVID-19. Occasions across the day typically consume Center Store Food & Beverage. Shoppers are making fewer trips but to a repertoire of retailers. They are purchasing foods that align with their personal needs more now than ever before.

Transformation of Retail
Retailers have several actions underway that leverage lessons learned from COVID-19, so they can maximize future growth.

Innovation Success Model
More competition from restaurant delivery across eating occasions is increasing the need for innovation to evolve offerings. Since some service areas now have to package up offerings, center store should bolster a fresher perception through innovation, including product, packaging and/or messaging. There are many areas for functional benefits, so find ones that align with your brand and/or new innovation.
Center Store Roles and Shopper Transformation
Center of Store Trips Increased Twice as Much as Total Store During the COVID-19 Period

Trips per Buyer

<table>
<thead>
<tr>
<th></th>
<th>Total Store</th>
<th>Food &amp; Bev</th>
<th>Center of Store</th>
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<tbody>
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<td>% Change vs. Year Ago</td>
<td>5.2%</td>
<td>6.2%</td>
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Basket Size

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<th>Center of Store</th>
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<tr>
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<td>19.9%</td>
<td>23.3%</td>
<td>22.1%</td>
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Center Store Occasions Have Positive Momentum as Restrictions Ease Across the U.S.; However a Couple Have Recently Realized Dollar Sales Softness

During COVID-19  Path Ahead To-Date

<table>
<thead>
<tr>
<th>Category</th>
<th>During COVID-19</th>
<th>Path Ahead To-Date</th>
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<td>Baking</td>
<td>60%</td>
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<tr>
<td>Dinner Focused</td>
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<td>Breakfast</td>
<td>41%</td>
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<td>Snacking</td>
<td>12%</td>
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<tr>
<td>Beverages</td>
<td>10%</td>
<td>9%</td>
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<tr>
<td>Kid Focused</td>
<td>8%</td>
<td>4%</td>
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<tr>
<td>Lunch Focused</td>
<td>6%</td>
<td>-4%</td>
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<tr>
<td>Baby</td>
<td>7%</td>
<td>-4%</td>
</tr>
</tbody>
</table>

Source: IRI TSV – COVID-19 Period 3/8-4/26/20 & Path Forward = 5/3-6/7/20; Focused based on select group of UPCs with occasion in name of product
Brands Across Categories Have Acquired New and Reacquired Lapsed Buyers During the Peak Periods in March

**4MM**  
New Buyers Gained by National Frozen Entrée Brand

**6.7MM**  
New Buyers Gained by Dominant Soup Brand

**20MM**  
New Buyers Acquired by Iconic Boxed Pasta Company

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*Based on IRI benchmarks, reaching new buyers through advertising within 4 weeks of their initial purchase results in an average of 12.6% of those trial buyers becoming repeaters.

Source: IRI Loyalty database, IRI Consumer Panel. 12 weeks ending April 12, 2020

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Holistic Health & Well-Being

35% of consumers proactively take care of their PHYSICAL and EMOTIONAL health now vs. before COVID-19

31%* Focus more on my health as a result of this pandemic

22% Change my eating habits to be healthier as a result of this pandemic

Source: IRI Weekly Surveys among IRI Consumer Network™ Panel representing Total U.S. Primary Grocery Shoppers - Average of waves 2-8 (3/20 – 5/3) & "Wave 8(5/1-5/3)"
Chronic Illnesses Like High Blood Pressure, Obesity and Diabetes (Beyond Age) Are the Biggest Risk Factors for Illness and Death From COVID-19

Center Store F&B Products That Provide:

- Diabetes support grew 9x
- Obesity Support grew 11x more in $ sales within the 8 weeks vs. 2019, and went from negative unit sales to positive
- Hypertension support COS F&B did 22% of 2019 dollar sales in 15% of the weeks

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COVID-19 Brought on Higher Levels of Stress, Anxiety and Shoppers Turned to Center F&B for Help

Center Store F&B products that provide a good source of **Magnesium** grew **12X** in $ sales within the 8 weeks vs. 2019, and went from negative unit sales to positive.

**BIG Opportunity**

Only 26 tracked F&B products make an anxiety assistance claim, and they are experiencing strong growth.


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Shoppers During COVID-19 Have Demonstrated Increased Interest in Finding Foods That Support Immunity and Mental Health Applications

From February to March

Vitamin C searches increased **74X**

Magnesium searches increased **26X**

Vitamin D searches increased **18X**

Searches related to immunity increased **7.5×**

Searches related to immunity increased **6.3×**

In 2019, Center Store Products with Immunity Claims Grew **19%** in Dollar Sales and **Almost Doubled** 2019 Growth During the 8-Week COVID-19 Period

There’s Been an Uptick in Center Store Products That Tout Sustainability Practices and Consumers Demonstrate Self-Sustaining Practices

Products That Touted Sustainable Messaging Grew More Dollar Sales vs. All of 2019

- **RECYCLABLE**: 7× the Growth
- **ETHICAL**: 12× the Growth
- **RECYCLED PACKAGING**: 22× the Growth
- **HUMANE**: 4× the Growth


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Other Shopper Situations That Will Be Part of the Transformation

**Prediction:** Great Lockdown Baby Boom late this year and early 2021, therefore manufacturers and retailers should prepare.

Sales of pregnancy kits are up:

<table>
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<th>% Change</th>
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<tr>
<td>-4.6%</td>
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<tr>
<td>1/1/20 to 4/12</td>
<td></td>
</tr>
<tr>
<td>4/19/20 to 4/26</td>
<td>9.3%</td>
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<tr>
<td>4/19/20 to 4/26</td>
<td>8.4%</td>
</tr>
<tr>
<td>4/30/20 to 5/3/20</td>
<td>7.0%</td>
</tr>
<tr>
<td>5/10/20 to 5/17</td>
<td>7.9%</td>
</tr>
<tr>
<td>5/17/20 to 5/24</td>
<td>8.4%</td>
</tr>
<tr>
<td>5/24/20 to 5/31</td>
<td>9.3%</td>
</tr>
<tr>
<td>5/31/20 to 6/7</td>
<td>11.7%</td>
</tr>
<tr>
<td>6/7/20</td>
<td>13.6%</td>
</tr>
<tr>
<td>6/10/20</td>
<td>8.0%</td>
</tr>
</tbody>
</table>

Source: % Change - IRI TSV
Demand / Roles / Needs-Based
Engage via Targeting
Educate and/or Inform
Purchase Cycle
Experiential
New Product Alerts

Shift away from mass print media to personalized, addressable marketing

Now, More Than Ever, It Is Critical to DEEPEN Connections With Consumers for Success
Adapting Center Store Products and Messaging Will Be a Growth Driver for the Foreseeable Future

70% of consumers rarely or never worked from home before coronavirus...

to... 40% Likely Work at Home

- 18% 5 or more days per week
- 4% 4 days per week
- 6% 3 days per week
- 7% 2 days per week
- 5% 1 day per week

Source: OH&S online (Occupational Health & Safety); Source: The Wall Street Journal – May 16-17, 2020; IRI Weekly Surveys among IRI Consumer Network™ Panel representing Total U.S. Primary Grocery Shoppers - Average of wave 8 (5/1-5/3)
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Transformation of Retail
Consumer Behavior Accelerates Retail Transformation

• Consumers are more comfortable with omnichannel experiences
• As online adoption accelerates, consumers are comparing prices more rigorously
• Assortments need to balance supply chain efficiencies versus shoppers’ increased craving for variety and convenience
• With retailer brands increasing in sales, find a win / win to grow the aisle with the right mix
• Online search needs to catch up with consumer demands
Convenience Retailers Provided Fill-In Trips When Possible and Have Several Actions Underway to Maximize Future Growth

- SKU rationalization by some retailers looking at the bottom 20% to augment their offerings in certain areas
- Some evaluating pack sizes in comparison to changes in trip frequency
- Mid- to smaller-tier chains found new sources for items like toilet paper causing OOS and long wait times
- Retailers smaller than 1,500 locations are struggling with center store items so looking for new ways to succeed

Increasing staycations and regional vacationing present opportunities for C-Store to engage with more consumers
E-Commerce Trends Higher Than Brick & Mortar Across All COVID-19 Time Periods, and Sales Continued to Realize Strong Growth into June

Dollar % Change

Source: $ % Change - IRI TSV & eMarket Insights COS

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However, Not All Experiences Online Were Positive for Consumers, and Retailers Were Battling Challenges to Keep Up With Demand

Plethora of Challenges for Click & Collect

**Grocery**
- **Staffing and Infrastructure** - Prep space, staffing and training expertise to collect groceries, efficiency in collection
- **Delivery Windows** - Managing and ensuring that there was inventory and tackling out-of-stock situations
- **Fulfillment** – Some retailers pushed pickup dates to 3-5 days to better manage fulfillment.
- **Service Void** - Several did not have Click & Collect and wished they did

**Mass**
- Channel had online services already up and running, but they still had to manage the high demand and incurred OOS

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62% of consumers stated some items they wanted were not available to order online

48% stated items ordered were not delivered due to availability changes

21% couldn’t get a delivery time that was convenient

Source: IRI Weekly Surveys among IRI Consumer Network™ Panel representing Total U.S. Primary Grocery Shoppers – 4/24-26; IRI Analysis
Retailers Have Advancements in Process or Planned to Handle Anticipated Ongoing Demand

- Click & Collect expansions and/or implementation accelerating for some retailers
- Adjustments to capabilities and resources for processing online orders in existing stores
- Enhanced partnerships with delivery companies
- Micro-warehouses within store; some leverage marginally performing stores for fulfillment
- Drive-up areas being added or expanded
- Some are leveraging their FSP to gain visibility to localized store inventory in real time to digitally target customers
- Eventually new stores could allocate more space for online fulfillment, especially in densely populated, affluent, urban areas

Source: IRI Analysis
When Shoppers Face Out of Stocks, There Are a Variety of Actions They Take

- **34%** went elsewhere
- **18%** went back to that same retail location later to buy it when it was back in stock
- **16%** bought a different brand or variety instead, from the same retailer location
- **25%** went to a different physical store and bought the item I wanted
- **14%** went online to order the item I wanted from an online retailer
- **50%** None of the above, didn’t buy it or wasn’t able to find it elsewhere

Source: IRI Survey 2020, among IRI Consumer Network™ Panel representing Total U.S. Primary Grocery Shoppers, IRI COVID-19 Survey May 15-17, 2020
All Channels Are Closely Monitoring Inventory Management

Planning / forecasting currently is all hands on deck; holiday planning is challenging due to fewer gatherings, especially if COVID-19 springs up again in the fall.

Transportation from warehouse to store is being reviewed and enhanced when possible.

Omnichannel fulfillment strategies are being refined (e.g., online vs. in-store).

In-Store SKU rationalization is occurring; however, tactics will be different across retailers from rankings to loyalty data and shopper propensity to pre-COVID-19 underperforming items that spiked to see if repeat has occurred.

Source: IRI Analysis.
Price Increases of Center Store Products Averaged 6.5% per Unit During COVID-19 and Shoppers Noticed; Some Migrated to Private Label

Q. Consumers who agree with statement: I have seen prices increase because of the coronavirus.


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“Saving Money” or “Preferred Brand Not Available” Were the Primary Drivers for the Significant Growth Across All Retailers’ Brand Tiers During COVID-19

Even in Recent Weeks, These Tiers Have Continued to See Strong Dollar Growth

Note: Private Label Tiers based on the retailer’s positioning of their store brands: Premium Tier: ultra premium ingredients and flavors, Natural/Organic Tier: clean and/or organic ingredients often with related certifications, Mainstream Tier: designed for the mass market and often carry the banner name, Value Tier: designed for the tightest family budgets.

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Although Grocery Still Sees Strong Growth for Mainstream Private Labels, Value Tier Trends Have Slowed Mainly Due to Competition From Dollar Stores

Food – U.S. Total $ Change vs. YA

Note: Private Label Tiers based on the retailer’s positioning of their store brands: Premium Tier: ultra premium ingredients and flavors, Natural/Organic Tier: clean and/or organic ingredients often with related certifications, Mainstream Tier: designed for the mass market and often carry the banner name, Value Tier: designed for the tightest family budgets.

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Natural and Organic

Given the Nutrient-Dense Nature of Natural and Organic Products, Increasing Numbers of Consumers Became Engaged with Private Label Options During COVID-19

48% penetration increased 10 points vs. YA

48% of the buyers are NEW


Note: Private Label Tiers based on the retailer’s positioning of their store brands: Premium Tier: ultra premium ingredients and flavors. Natural/Organic Tier: clean and/or organic ingredients often with related certifications. Mainstream Tier: designed for the mass market and often carry the banner name. Value Tier: designed for the tightest family budgets.
Shoppers Are Exploring Resources and Venues

Engage and Entice These Shoppers With a Similar or Better Experience

Interest in buying from manufacturer sites is about the same as for general online grocery retailer

16% of Consumers have bought from a local farmer at their farm (almost all plan to repeat), and 41% are interested in doing this in the future

12% say they’ve bought from a restaurant wholesaler (most plan to repeat), 19% of others are interested in trying it


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Innovation Success Model
COVID-19 Has Overturned Predictive Switching Behavior in Several Center-Store Categories, Pointing Toward the Need for Innovative Messaging to Communicate Benefits and/or Innovating Products With Clear Distinction

Predictive consumer switching behavior is maintained

Predictive consumer switching is still evident, but eroding

Once predictive, random switching behavior occurring
Additional Ways Are Visible to Chart Innovation
Success to Drive Continued Growth

- To win the race for meals, retailers and center store manufacturers should leverage test and learn approaches, including AI, to evolve offerings, communications, in-store and online experiences and move from essential to entertaining

- **Bolster a fresher perception through innovation**, including product, packaging and/or messaging

- With reduced trips, customers will look for value through **multipacks and larger pack sizes**, but don’t forget about small households and cash-strapped consumers who will look for small packs

- Innovation with **well-being features and benefits**

Source: IRI Analysis
There Are Many Areas for Functional Benefits – Find Ones That Align With Your Brand and/or New Innovation

• Innovative messaging for current products with well-being features and benefits like stress, sleep, anxiety, and mood support

• New product innovation needs to include functional benefits and note via claims and/or highlight nutrients and ingredients tied to immunity support and mental health support

• Collaborate with retailers to syndicate these benefits to their e-commerce product pages

• Retailers can create planogram sections or faceted search for immunity support and mental health support
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Insights and Strategic Guidance for Better Decisions

IRI’s Online Resources Include Real-Time Updates and Weekly Reports That Track the Impact of the Virus on CPG and Retail

The IRI COVID-19 Impact
Includes COVID-19 impact analyses, dashboards and the latest thought leadership on supply chain, consumer behavior, channel shifts for the U.S. AND international markets

IRI CPG Economic Indicators Including the IRI CPG Demand Index™, IRI CPG Supply Index™ and IRI CPG Inflation Tracker™
Accessible through the insights portal to track the daily impact of COVID-19. This includes top selling and out-of-stock categories across the country and consumer sentiment on social media
The Latest COVID-19 Reports and Insights from IRI (click to see full report)
The IRI CPG Demand Index™ provides a standard metric for tracking changes in spending on consumer packaged goods. It measures weekly changes in consumer purchases, by dollar sales, against the year-ago period across departments including fixed and random weight products, grocery aisles and retail formats. The IRI CPG Demand Index™ is available for eight U.S. regions and all U.S. states.
The IRI CPG Inflation Tracker™ provides the well-known price per unit metric for tracking changes in pricing of consumer packaged goods. It provides weekly changes in consumer prices, price per unit against the year-ago period across departments including fixed and random weight products, grocery aisles and retail formats. The IRI CPG Inflation Tracker™ is available for eight U.S. regions and all U.S. states.
The IRI CPG Supply Index™ provides a standard metric for tracking changes in product availability (i.e., in-stock rates) in stores for consumer packaged goods. It measures weekly changes in product availability against the baseline across departments and retail formats. The IRI CPG Supply Index™ is available for eight U.S. regions and all U.S. states.
Want to Be the First to Know?

Registered Users Get New Thought Leadership from IRI’s Research, Data & Analytics Experts

Appendix
Attribute-Based Insights for Manufacturers and Retailers

**Market & Shopper Data**
A leading provider of big data, predictive analytics and forward-looking insights that help brands and merchants grow their businesses. IRI is the largest repository of purchase, media, social, causal, and loyalty data.

**Product Attribute Data**
A data refinery for granular product information that powers transparency between brands, retailers, and consumers. Provides the industry’s most complete and thoroughly derived product attributes: high order attributes.

**Attributes That Matter**
The data you need to identify what matters most to your consumers and shoppers.
The Label Insight Partnership Adds Value Across IRI Products and Solutions

- **POS Data**
  - Market Advantage

- **Shopper Intelligence**
  - CSIA
  - ShopperSights
  - Shopper Loyalty

- **Strategic Analytics and Consulting**
  - Assortment
  - Price Elasticity
  - Trend Spotter

- **Media and Innovation**
  - Audiences
  - Market Structures
  - CDTs

500+ Individual Product Attributes
15 Attribute Segments
Coding Across Edible & Nonedible Categories
Stay On Top of Market Trends With 500+ Attributes That Matter

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<th>Attribute Count</th>
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