COVID-19 Impact in Europe

RESHAPING THE FMCG DEMAND CURVE

MAY 5, 2020
Executive Summary: Adjusting to the New Normal

COVID-19 presents an unprecedented situation: global pandemic with similar patterns in terms of consumption despite varying approaches to national management of the crisis. In Europe, Italy is leading the way and all countries are learning from it.

Lockdowns generated panic stockpiling of essential groceries: historic sales of pasta, flour and yeast, as well as sanitary products, such as gloves, alcohol and wipes. The main opportunity for food manufacturers and retailers is the shift from out-of-home to at-home.

High demand and supply chain chaos favour the growth of private label. As consumers are starting to struggle economically, the private label options will remain strong.

Safety and social distancing remain the main factors of consumers’ concern impacting their behaviour:

- Less frequent shopping trips – twice a month is the good option – but with bigger baskets when they shop.
- Acceleration of already growing Online purchases with Click & Collect leading the way. This more economic solution for both retailers and consumers will remain strong after the new normal time.

continued…
Anticipate the Future

Post-COVID-19 new consumer behaviours to anticipate:
- Acute awareness of cleaning and personal hygiene
- Health and food quality
- Emphasis on home cooking will continue
- Social distancing habits will ease, but continue; expectation for contactless shopping and payment

While COVID-19 is unique, we can learn from shopper behaviour during the 2008-2009 recession:
- Slow resumption of dining out; both personal health and economic factors
- Slow adoption of out-of-home services, including hair and nail care
- Cash-strapped consumers will be looking for deals, cutting coupons

Retailers’ and manufacturers’ opportunities as quarantining eases:
- Reset the supply chain to more local purveyors
- Personal safety and health will extend to the products that are purchased, e.g. packages, attributes
- Private label pressure on national brands. Brands need to continue to connect with consumers
- Bring the out-of-home eating experience into the home
- Invest further in Click & Collect
- Range rationalisation will call for innovations and strong marketing
- Work to retain the loyalty of consumers who have shopped in new stores and adopted new brands during the pandemic
COVID-19 in Europe – Topics covered in this report

1. Grocery Retail on the Front Line
2. Shopper Behaviours During Tough Times
3. What Will Happen in the New Normal?
Grocery retail on the front line
In context: global and local reaction to COVID-19

A strong impact on economic and social activity in 2020
- 2.7Bn workers worldwide affected by COVID-19; 1.25Bn jobs at risk
- -3.0% global GDP in 2020
- Consumers, students, workers on lockdown; social distancing enforced; cultural and social institutions closed.

While COVID-19 has created a global situation, individual European countries face unique challenges and are making local decisions:

Example: automotive
1.1M workers in Europe now laid off of which 0.5M in Germany alone.

Limited EU actions
- Travel restrictions (external borders)
- European funds for vaccine and treatment research
- Co-ordination on PPE sourcing
- €15.6Bn for aid to global partners in need

Example: in France and Spain, workers cannot be fired during COVID-19. One in four French private-sector workers are considered partially unemployed and are receiving an allowance.
Countries are at different points in the crisis, with Italy about ~3 weeks ahead and France and Spain ~2 weeks ahead of the rest of Europe

*Daily new confirmed deaths per million, rolling 7 day average*

Source: European CDC daily situation update worldwide
Same pattern across Europe: stockpiling and peak ‘panic’ week then sales begin to ease, but sales levels remain higher than previous year

Week ending February 9 – April 5, 2020
Local currency sales % change versus year ago

Source: IRI POS Data Ending April 5, 2020
As the food consumption shifts from out-of-home to at-home, a massive opportunity exists for food manufacturers and retailers to capture greater share of stomach.

Estimates for France for a 6-week lockdown period starting March 16.

Source: IRI 360°
Capturing the out-of-home euro is a sizeable opportunity even when viewed through different lenses

34.3% of all food occasions were out-of-home in 2019

80% = €6.7B lost by 260k bars & restaurants in March-April

NOTE SOME RESTAURANTS OFFERING HOME DELIVERY

Conversion into home consumption = €2.2B additional expenditure is in Supermarkets or so = +10/15% potential growth impact

Net value lost = €-4.5B in March/April (6.7B -2.2B)

Assumption: meals and breakfast at home prices = 1/3 of Horeca prices

Source: IRI estimates based on Gira FoodServices Italian Horeca Report
Shopper behaviours during tough times
Safety and convenience are the top reasons for changing channel and for reducing the frequency of shopping trips during the panic/crisis phase

#1 Minimise human contact
Do my shopping quickly
83%

#2 Normal store too far away or store closed
50%

Decreased frequency
28% shoppers go twice a month for grocery shopping versus 9% before, while 19% go every other day or four to five days a week versus 42% before

Increased average basket size in Supermarkets from €45 to €76

Sources: IRI France Shopper Survey and IRI Italy Shopper Survey
Social distancing has accelerated existing growth of Convenience and Online; increased adoption of e-commerce post-COVID-19; people will prefer proximity of local shops

Retail channel trends during the COVID-19 crisis period versus prior year, in France

Source: IRI France POS Data
And Click & Collect is simpler than developing the infrastructure for home delivery

Italian Online sales show dramatic growth

Home Delivery: +73%  
Click & Collect: +183%  
Four weeks ending March 15, 2020, Italy

Source: IRI E-commerce Panel, week ending March 15, 2020. Sales change in % versus previous year. FMCG in Italy.
Sizing the Online opportunity – pre-COVID-19 and boosted by the crisis – Online is only a small share of grocery even in UK/NL/FR; tiny elsewhere

Pre-COVID outbreak 2019 estimates and forecast for 2020

<table>
<thead>
<tr>
<th>Country</th>
<th>Online % share of grocery 2019</th>
<th>IRI forecast % share by end 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>France</td>
<td>5.5%</td>
<td>8.1%</td>
</tr>
<tr>
<td>Germany</td>
<td>1.1%*</td>
<td>1.5%</td>
</tr>
<tr>
<td>Greece</td>
<td>1.0%*</td>
<td>1.8%</td>
</tr>
<tr>
<td>Italy</td>
<td>1.1%</td>
<td>1.8%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>3.4%*</td>
<td>4.0%</td>
</tr>
<tr>
<td>Spain</td>
<td>1.2%*</td>
<td>2.0%</td>
</tr>
<tr>
<td>UK</td>
<td>6.0%*</td>
<td>8.0%</td>
</tr>
</tbody>
</table>

Source: IRI and IGD* estimates for 2019. IRI forecast
Online shoppers in France are willing to pay delivery charges

What amount are you prepared to pay for home delivery charges for Online shopping?

€6.2 for home delivery of small orders

€7.8 for home delivery of a full shop

As economic challenges increase, retailers can anticipate more consumer push-back on fees. Click & Collect is the more economic solution for both retailers and consumers. Successful French retailers have already invested and are positioned for ongoing success.

Source: IRI France Shopper Survey
Historic records broken in demand for “essentials”

In France

+22% for FMCG

Revenue growth*

Two historic sales days in France:
Friday March 13: +84%
Monday March 16: +237%

Revenue growth*

+20-40% growth on essential categories in Italy**

Eggs, Milk, Canned Tuna, Cheese, Pasta, Frozen Food, Coffee, Tomato Sauce

+113% for Pasta in France

Revenue change*

Long life protein
Vegetables +80%,
Canned meat +72% in Italy**

Revenue growth

*cumulative four weeks from 24th February to 22nd March 2020, all channels excluding Hard Discounters

** Since 23rd February, all channels

Source: IRI POS Data
More time at home has positively impacted the sales of some categories such as home baking.

Yeast: +150.3%
Flour: +130.2%
Pizza Preparation: +102.5%

Source: IRI Panel, total Italy, value sales % change versus year ago, 6 weeks ending 16.04.20
Consumers in most countries are shifting to steady-state purchasing after major stockpiling

% change most recent week versus year ago, based on local currency

<table>
<thead>
<tr>
<th>Category</th>
<th>Total Store</th>
<th>Total Nonedible</th>
<th>Total Edible</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>6.7%</td>
<td>-11.5%</td>
<td>10.8%</td>
</tr>
<tr>
<td></td>
<td>27.6%</td>
<td>24.8%</td>
<td>28.7%</td>
</tr>
<tr>
<td></td>
<td>5.0%</td>
<td>-5.5%</td>
<td>6.9%</td>
</tr>
<tr>
<td></td>
<td>14.0%</td>
<td>4.5%</td>
<td>16.7%</td>
</tr>
<tr>
<td></td>
<td>11.0%</td>
<td>12.8%</td>
<td>10.7%</td>
</tr>
<tr>
<td></td>
<td>1.9%</td>
<td>-11.6%</td>
<td>5.7%</td>
</tr>
<tr>
<td></td>
<td>8.5%</td>
<td>-25.0%</td>
<td>17.4%</td>
</tr>
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</table>

**TOTAL STORE**

**NONEDIBLE**

<table>
<thead>
<tr>
<th>Category</th>
<th>50%+</th>
<th>20% to 50%</th>
<th>10% to 20%</th>
<th>5% to 10%</th>
<th>0% to 5%</th>
<th>-20% to 0%</th>
<th>&lt;-20%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Paper Products</td>
<td>2.7%</td>
<td>13.8%</td>
<td>3.0%</td>
<td>18.1%</td>
<td>3.2%</td>
<td>25.5%</td>
<td>5.0%</td>
</tr>
<tr>
<td>Home Care</td>
<td>10.4%</td>
<td>25.9%</td>
<td>2.0%</td>
<td>10.0%</td>
<td>15.8%</td>
<td>8.7%</td>
<td>2.9%</td>
</tr>
<tr>
<td>OTC Healthcare</td>
<td>19.2%</td>
<td>46.8%</td>
<td>-11.2%</td>
<td>0.3%</td>
<td>-13.5%</td>
<td>-1.6%</td>
<td>-35.2%</td>
</tr>
<tr>
<td>Personal Care</td>
<td>-14.2%</td>
<td>18.3%</td>
<td>-10.9%</td>
<td>-8.8%</td>
<td>23.9%</td>
<td>0.6%</td>
<td>-37.3%</td>
</tr>
<tr>
<td>Pet Food + Care</td>
<td>-0.4%</td>
<td>12.4%</td>
<td>-5.2%</td>
<td>-0.5%</td>
<td>-0.9%</td>
<td>-11.9%</td>
<td>-2.0%</td>
</tr>
<tr>
<td>Gen Merchandise</td>
<td>-41.3%</td>
<td>28.2%</td>
<td>32.2%</td>
<td>19.1%</td>
<td>-32.4%</td>
<td>17.5%</td>
<td></td>
</tr>
<tr>
<td>Cosmetics</td>
<td>-1.5%</td>
<td>1.0%</td>
<td>-56.5%</td>
<td>14.7%</td>
<td>47.7%</td>
<td>-33.0%</td>
<td>-52.6%</td>
</tr>
</tbody>
</table>

**EDIBLE**

<table>
<thead>
<tr>
<th>Category</th>
<th>50%+</th>
<th>20% to 50%</th>
<th>10% to 20%</th>
<th>5% to 10%</th>
<th>0% to 5%</th>
<th>-20% to 0%</th>
<th>&lt;-20%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beverage</td>
<td>-0.4%</td>
<td>21.9%</td>
<td>-7.1%</td>
<td>4.8%</td>
<td>5.1%</td>
<td>-2.7%</td>
<td>5.1%</td>
</tr>
<tr>
<td>Packaged Food</td>
<td>17.1%</td>
<td>33.1%</td>
<td>12.8%</td>
<td>30.5%</td>
<td>15.2%</td>
<td>14.0%</td>
<td>17.8%</td>
</tr>
<tr>
<td>Alcohol</td>
<td>17.1%</td>
<td>23.9%</td>
<td>-7.3%</td>
<td>1.0%</td>
<td>9.3%</td>
<td>15.9%</td>
<td>30.8%</td>
</tr>
<tr>
<td>Baby Food + Care</td>
<td>0.5%</td>
<td>-9.2%</td>
<td>-21.4%</td>
<td>-29.0%</td>
<td>-19.5%</td>
<td>-24.7%</td>
<td>-37.8%</td>
</tr>
<tr>
<td>Dairy</td>
<td>20.8%</td>
<td>27.3%</td>
<td>16.9%</td>
<td>13.8%</td>
<td>10.1%</td>
<td>14.3%</td>
<td>13.7%</td>
</tr>
<tr>
<td>Frozen Foods</td>
<td>26.6%</td>
<td>32.7%</td>
<td>24.8%</td>
<td>25.7%</td>
<td>10.5%</td>
<td>17.1%</td>
<td>13.0%</td>
</tr>
<tr>
<td>Fresh Foods</td>
<td>2.5%</td>
<td>45.5%</td>
<td>4.7%</td>
<td>24.2%</td>
<td>5.0%</td>
<td>-2.2%</td>
<td>22.5%</td>
</tr>
</tbody>
</table>

**Source:** IRI POS data week ending April 5, 2020 versus year ago. Note: exact product categorisation varies slightly by country
High demand and supply chain chaos favoured the growth of private label; consumers starting to struggle economically are also turning to private label options.

Value share change versus year ago in Italy

Revenue market share gap versus year ago, cumulative 4 weeks (February 24 - March 22, 2020) in France

Source: IRI Weekly Panel Italy - Hypermarkets, Supermarkets, Self Service

Source: IRI France for FMCG total in France
What will happen when in the new normal?
As the crisis peaks and then eases we expect to see new consumer behaviours emerge.

Implications for retailers and manufacturers: a new shopper experience will include the need to assure shoppers of safety in the store, trust in products and a good assortment of convenient/easy-to-cook options and online shopping. The challenge for both retailers and brands will be retaining the loyalty of consumers who have shopped in new stores and adopted new brands during the pandemic.

- Cleaning and personal hygiene products: higher demand
- Health matters more than ever: interest in food quality
- Home cooking will settle at a higher level than before
- Keep social distance: Online purchases, contactless delivery and payment
Retailer and manufacturer leaders across the world predict recessionary waves going into 2021

- **U Shape Recession**
  - 56.6%
  - Recession will hit also 2021

- **V Shape Recession**
  - 28.5%
  - Six months of recession and then start recovering

- **L Shape Recession**
  - 14.6%
  - Very strong recession impacting at least three years

D1) As consequence of COVID-19, what kind of recession will face your country? (Respondents: 562 from 31 countries)
While COVID-19 is unique, we can learn from shopper behaviour during the 2008-2009 recession.

Many shoppers had **LESS** money

- Spend less on eating out
  - Buy more affordable treats
  - More food-to-go

- Spend less on personal services
  - Buy more home kits

- Buy less stuff
  - Buy smaller packs
  - No advance buying/use stocks

- Buy at lower prices
  - More private label less national brands
  - Shop more at Discounters
  - Deeper promos/more volume on deal

Some shoppers had **SAME or MORE** money

- Buy premium brands
  - Buy in bulk on promo/big packs
  - Shop at premium retailers
Apply lessons from the 2008 recession: promotions in the “new normal”

- Discounters use few promos and will be a bigger part of market
- Online promotions will be more important

<table>
<thead>
<tr>
<th>Money-off promos will grow</th>
<th>Immediate trigger price points will be key</th>
<th>End of month pricing and promo is key</th>
</tr>
</thead>
<tbody>
<tr>
<td>During last recession, people were motivated to shop around. In this recession, people will still be looking to get as much of their needs met in one store visit.</td>
<td>End of month pricing and promo is key</td>
<td>End of month pricing and promo is key</td>
</tr>
<tr>
<td>Multibuys will decline</td>
<td>Loyalty discounts (and future benefits) will be less important</td>
<td>Online price checking even more important than ever</td>
</tr>
<tr>
<td>BUT</td>
<td>BUT</td>
<td>BUT</td>
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<tr>
<td>BUT</td>
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</tbody>
</table>

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In the near future, global retailer and manufacturer leaders expect a greater impact on their business based on Online purchase/home delivery and limited out-of-home consumption.

2) What is the most likely trend that may occur in the New Normal? (Respondents: 639)

3) What is most impacting trend on your business in the New Normal? (Respondents: 610)
Anticipated retail changes and implications

1. Retail opportunity
   - Build loyalty through safety of one-stop shop
   - Bring the out-of-home eating experience into the home

2. Online demand grows massively
   - Online will increase faster everywhere but share is still small. Delivery complexity and profitability constrains growth, which is dependent on retail investment
   - Retailers will reallocate space and resources to solidify Click & Collect infrastructure

3. Potential range rationalisation following enforced line simplification
   - Pressure on brands to innovate and to invest in marketing

4. Retailers will have to reintroduce new value propositions
   - Private label growth
   - More and deeper price-off promotions expected
   - Smaller packs and fewer multipacks; nonedibles will shift to multi-use products, especially for home care

5. Omni-channel investments
   - Retailers will optimise balance of convenience; respond to broader range of shopper behaviours across channels; investments in E-commerce and Online engagement

6. Supply chain reset
   - Retailers partner with more local purveyors
   - More direct channels from producers to consumers
   - Local marketing may benefit as international trade is reduced
Anticipated manufacturer opportunities

<table>
<thead>
<tr>
<th></th>
<th>Anticipated manufacturer opportunities</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Range rationalisation in large stores and the continued growth of Convenience stores will benefit big, supported brands at the expense of challenger and unsupported brands.</td>
</tr>
<tr>
<td>2</td>
<td>Reliance on social and digital channels will be a lasting legacy of COVID-19 quarantines. Brands should continue to invest in digital channels to connect with consumers.</td>
</tr>
<tr>
<td>3</td>
<td>As we emerge from COVID-19, consumers will continue to prepare the majority of their meals at home. Brands should work to support this positive tradition for the long term.</td>
</tr>
<tr>
<td>4</td>
<td>But consumers will also be facing economic hardship, so delivering affordable meals and small indulgences will be opportunities.</td>
</tr>
<tr>
<td>5</td>
<td>Consumers’ heightened awareness of personal safety and health will extend to the products they are purchasing. Attributes and packaging that demonstrate support will resonate with shoppers.</td>
</tr>
<tr>
<td>6</td>
<td>Demand for private label will remain significant (fair price and quality enhanced over the past years). Retailers will keep the pressure on national brands.</td>
</tr>
</tbody>
</table>
The IRI COVID-19 Info Portal

Includes COVID-19 impact analyses, dashboards and the latest thought leadership on supply chain, consumer behaviour and channel shifts for the international and local markets.

All reports and insights available in IRI’s COVID-19 portal:

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