UPDATES: CPG AND RETAIL IMPACT OF COVID-19

March 6, 2020
What’s Happening Across Key CPG and Retail Areas

• COVID-19 Updates
• Consumer Perceptions and Behavior
• CPG Products
• Retail
• Market Implications
• Supply Chain
Current Observations and Implications

• Out-of-home food consumption is likely to take a big hit as travel comes to halt. More people will be working from home as virus spreads across the U.S.
• In-home food and beverage will increase significantly, resulting in both increased consumption and pantry stocking.
• Out of stocks are likely across high demand categories.
• Stockable items continue to be popular (besides obvious ones like wipes), e.g., shelf-stable and frozen food items, sports drinks, water, toilet paper, etc.
• Cocoon-stocking will reflect household makeup, with indulgent items, such as DVDs, confections, salty snacks, alcohol sales increasing; however, holiday shopping may take a hit.
• In-home entertainment will flourish, and some marketers should re-consider their media spending (e.g., less out of home, fliers, etc.)
• Some manufacturers can potentially spend less in terms of advertising and trade if they have virus tailwinds in their back, opportunistically driving some savings.
• Food delivery, Click & Collect, online shopping and home delivery will increase as consumers avoid going to areas where there are large gatherings.
• Preventive healthcare products, such as vitamin C, are trending higher than symptomatic products.
Threat of COVID-19 Remains Well Below Standard Influenza

• The incidence of COVID-19 in the U.S. is extremely low, 0.14% of the total incidence of the virus. The deaths that have occurred in the U.S. comprise 0.24% of total deaths, and those who succumbed were reported to have had compromised immune systems.

• Fatality rates for COVID-19 are significantly lower than SARS (10%) or MERS (34%).

• U.S. cases of influenza in a given year, as defined by the Centers for Disease Control and Prevention, number between 9 million and 45 million illnesses; with between 140,000 and 810,000 hospitalizations; and between 12,000 – 61,000 deaths annually since 2010.

On March 3, China reported 129 new cases, the lowest number since January 20.

Alleviating Market Panic

- G7 countries are vowing to combat economic pain from COVID-19, but they have stopped short of specifics.

- The U.S. Federal Reserve on Tuesday, March 3, lowered interest rates by half a percentage point to 1.25% in order to combat the economic slow-down resulting from the COVID-19 outbreak.

- Goldman Investment Research (GIR) expects real GDP growth to slow from 0.9% in Q1 to 0.0% in Q2 before accelerating to 1.0% in Q3 and 2.25% in Q4.

Other GIR findings:

- Elevated U.S. inventories provide a buffer to near-term supply chain disruptions.
- A survey of analysts covering 857 companies found that 66% expected a modest 0-2.5% sales drag from the virus on their companies while only 19% expected a larger 2.5-5.0% drag.¹
Consumers Are Concerned About COVID-19

65% of U.S. survey respondents are very/somewhat concerned; 27% are very concerned

How concerned are you about Coronavirus? Respondents could only choose a single response
Base: 11,800+ U.S. 18+ adults

- Very concerned: 27.4%
- Somewhat concerned: 38%
- Not very concerned: 24.1%
- Not at all concerned: 9.8%
- Not aware of Coronavirus: 0.7%
What People Are Saying

There is a high degree of misunderstanding among consumers about COVID-19, which is impacting consumer behavior; social media chatter includes mis-information and more negative sentiment than positive.

Social Media Chatter Around Face Masks has Fluctuated

Social volume around COVID-19 and face masks had a spike at the end of January and a smaller spike during the week ending February 29. Sentiment has gone both positive and negative, with some consumer fear as well as discussion on proper protections and protocols.

Social Media Chatter Around Hand Sanitizer and COVID-19 Abounds

Social volume around hand sanitizer was very low until last week of February. Sentiment has been negative during high volume days, mostly because people aren’t able to buy it.

Color of word/phrase indicates average sentiment during its use in posts

Hand Sanitizer In Stock, Then Not

Hand Sanitizer – Daily In Stock* Trend

Source: IRI March 2, 2020
*East Coast retailer, masked
And People Are Sharing

Online Grocery Sales, Food Delivery Up

- eMarketer reports that housebound consumers in China are turning to online groceries for their daily supply of food.
- French retailer Carrefour reported vegetable deliveries increased by 600% year over year during the Lunar New Year period.
- Chinese online retailer JD.com reported that its online grocery sales grew 215% year over year to 15,000 tons during a 10-day period between late January and early February.
- Concerns about food delivery due to possible food contamination have spurred recent innovation in contactless pickup and delivery services.
- Companies like McDonald’s and Starbucks are increasing delivery services that limit human-to-human contact, and orders are packaged to keep them free of contamination.

Source: eMarketer, Feb. 26, 2020
Double Whammy: COVID-19 Sparks Stock Market Plunge

Consumers have economic incentive to hunker down at home to avoid spending on entertainment, leisure travel and other unnecessary expenditures.

U.S. stocks lost nearly 12% and $3.5 trillion was erased for U.S.-listed stocks for week ending Feb. 28, 2020. The market is expected to recover some of the loss with Congressional agreement to provide to $8 billion in COVID-19 emergency funds.

Indicators of a Recession:

- Rising unemployment
- Rises in bankruptcies, defaults, or foreclosures
- Falling interest rates
- Lower consumer spending and consumer confidence
- Falling asset prices, including the cost of homes and dips in the stock market

Source: MasterClass
Impact on Consumer Behavior

On the business side, many companies in the U.S, France and Italy are enacting travel restrictions and encouraging work-from-home.

**HOW CORONAVIRUS INFECTED**

38% OF CONSUMER TRAFFIC TO AIRPORTS

In early January the first COVID-19 death was reported. Two weeks later, we found a 38% drop in visits to top U.S. airports.*

- **38%***
  - airport decline was observed through GPS tracking on panelists’ smartphones
  - * vs. Year Ago; U.S.

- **72%**
  - of panelists expected the concern of Coronavirus to last more than two months

- **86%**
  - planned to limit social interactions, or visits to public places, as a preventive step

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Consumer, Workplace Reactions

- Companies are enacting travel restrictions and encouraging work-from-home.
- Schools and Universities in Italy are closed until March 16.
- Crowded locations may be avoided (movies, malls, concerts, mass transit).
- More in-home food consumption.
- Increased use of eCommerce.

Strategies adopted in China will likely migrate to other regions:

- Platforms are offering online consultations with doctors for people who want to avoid hospitals (where most people in China would go for ordinary care).
- Online platforms are delivering exercise classes to people’s homes.
- Online work collaboration tools are booming as people work remotely.
## Coronavirus Panic Buying

### % Change vs Year Ago
**Week Ending 02-23-2020**

<table>
<thead>
<tr>
<th>PRODUCT</th>
<th>MULO + C&lt;sup&gt;1&lt;/sup&gt;</th>
<th>DRUG&lt;sup&gt;2&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Dollar Sales</td>
<td>Unit Sales</td>
</tr>
<tr>
<td>Total Store</td>
<td>2.1%</td>
<td>0.5%</td>
</tr>
<tr>
<td>Personal Thermometers</td>
<td>24.6%</td>
<td>10.8%</td>
</tr>
<tr>
<td>Hand Sanitizers</td>
<td>57.9%</td>
<td>51.0%</td>
</tr>
<tr>
<td>Spray Disinfectant</td>
<td>18.9%</td>
<td>15.1%</td>
</tr>
<tr>
<td>Cloth All Purpose Cleaner</td>
<td>12.5%</td>
<td>17.5%</td>
</tr>
<tr>
<td>Bottled Water</td>
<td>6.7%</td>
<td>4.8%</td>
</tr>
<tr>
<td>Sports Drinks</td>
<td>13.5%</td>
<td>9.9%</td>
</tr>
<tr>
<td>Baby Electrolytes (RTD)</td>
<td>14.7%</td>
<td>13.0%</td>
</tr>
<tr>
<td>Facial Tissue</td>
<td>0.0%</td>
<td>-8.2%</td>
</tr>
<tr>
<td>Toilet Tissue</td>
<td>0.5%</td>
<td>-4.0%</td>
</tr>
<tr>
<td>Pizza (FZ)</td>
<td>0.9%</td>
<td>-0.1%</td>
</tr>
<tr>
<td>Pasta</td>
<td>3.3%</td>
<td>5.6%</td>
</tr>
</tbody>
</table>

<sup>1</sup> Source: IRI Total U.S. - Multi Outlet + Convenience, Feb. 23, 2020

<sup>2</sup> Source: IRI Total U.S. - Drug Channel, Feb. 23, 2020
Outbreak Areas See Dramatic Rush to Stock Up

Multi Outlet + Convenience Week Ending 02-23-20

Seattle/Tacoma
- Personal Thermometers 60.6%
- Pasta 6.5%

Sacramento
- Cloth All Purpose Cleaner 12.4%
- Baby Electrolytes 28.7%

San Francisco/Oakland
- Hand Sanitizers 166.4%
- Spray Disinfectant 43.2%

Los Angeles
- Hand Sanitizers 134.1%
- Bottled Water 8.7%
- Sports Drinks 29.7%

San Diego
- Personal Thermometers 37.5%
- Hand Sanitizers 104.3%

Spokane
- Cloth All Purpose Cleaner 12.2%
- Baby Electrolytes 33.1%

Minneapolis*
- Personal Thermometers 79.1%
- Baby Electrolytes 39.1%

*As of March 5, 2020, no cases of COVID-19 were reported in Minn.

Covid-19 New Zealand Announcement Week

Protection, hygiene and pantry essentials underpin the top 10 fastest % growth categories


Top 10 % Dollar Growth Categories
Total Pre-Packaged Goods
1wk to 03.01.20 vs. 1wk to 03.03.19
Categories valued over $1M in the last 52 weeks (169 categories)

- DISINFECTANTS +154.5%
- CANNED MEALS +132.6%
- RUBBER GLOVES +69.4%
- RICE +63.1%
- CANNED SOUP +59.8%
- CANNED BEANS/SPAG +58.7%
- BLEACH +56.9%
- CANNED VEGETABLES +55.6%
- HOUSEHOLD CLEANING +52.5%
- FLOUR / MIXES +52.4%

127 of the 169 one million dollar categories delivered over 5% growth

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Potential Supply Needs

- In the United States, with the exception of hand sanitizer and medical face masks, general supplies of CPG products are good, but the impact of shuttered facilities in China as well as logistics bottlenecks will likely become an issue.

- Supply chain challenges are just starting to emerge, with industry insiders acknowledging the weekend of February 28 – March 1 to be the tipping point in the CPG industry, particularly on the West Coast, where outbreaks were more prevalent.

- If Washington State is an indication, areas that have a high percentage of aging populations to be the most in need of support and solutions, including Florida (19%), Maine (18.2%), West Virginia (17.8%), Vermont (17%), Pennsylvania (16.7%), Montana (16.6%), Delaware, (16.4%), Hawaii (16%), Oregon (16%), Arizona (15.9%).

- Nursing homes are also considered high risk.
Early Action Recommendations: From Wuhan IGA Executive

Zhe Zeng, IGA deputy representative to China offers tips.

- Ensure good cash flow and create a substantial reserve.
- Use IGA resources to educate staff about the virus and protocols, promote readiness, and share experiences.
- Conduct onsite drills to estimate labor and material requirements under different scenarios.
- Talk to local authorities and congressional representatives about how to keep the store and supply chains open, even if a state of emergency or lock down is enforced.
- Closely track employees’ health conditions and ensure they know not to come to work if they are sick.
- Look into using popular social networking apps (WeChat was used in China) to receive and sort online orders based on locations and publish information about offers.
- Use your Facebook page, website, and online and print ads to reach out to customers to promote products and peace of mind.
- In the event of a quarantine, it’s important to find alternative purchase sources. Talk with local restaurant owners and negotiate to buy their raw-material stock if restaurants close, and investigate working directly with local farmers.
- Talk to your wholesaler and fellow retailers to share information on sourcing, compliance issues, and best practices.

Source: IGA.com
Support for Economically Stressed Consumers

CPG Strategies

In the case of a recession taking hold and as more people are encouraged to stay home to stay healthy, lean into tactics to mitigate the impact

- Work with value channels (Dollar, Club, Mass) to ensure a presence, as consumers seek lower cost options.

- Consider messaging to promote at-home indulgence, time with friends and family, and the joy of at-home cooking as possible themes. Make use of end-caps and front-of-store for bundled merchandising, if available.

- Work with retailers on strategic pricing and promotional tactics to win with Private Label.

- Promote at the beginning of the month when cash flow is the highest.
Additional Support for Scared Consumers

Retailer Strategies

• Retailers should use signage and visible workers to demonstrate they are keeping things sanitary by wiping carts, doors, cases, etc.

• Provide liquid sanitizing lotion stations.

• Retailers and manufacturers can participate in community programs; spread good will.

• Steer people to the Mythbusters page of The World Health Organization to help combat misinformation.

World Health Organization promotes its Myth Busters website
Good Corporate Citizenship

Retailers

• Your business is part of a community(ies) and should practice good corporate citizenship.
• Retailers: how can you further support the local community?
• Demonstrate you’re a safe place to shop: have sanitizing wipes for carts and baskets and dispensers of hand sanitizers; have store personnel visibly cleaning fixtures and cases.
• Share factual information and offer moral support.
• Re-think delivery fees for those who are unable to get out of their home to purchase groceries.
• Avoid raising prices; it’s bad corporate behavior and will damage reputations and weaken loyalty.

In China, Alibaba is leveraging its retail, logistics and finance divisions to support online merchants and food chains, and is offering free telemedicine consultations to Hubei residents, according to JWT Intelligence.

Source: https://www.jwtintelligence.com
Good Corporate Citizenship

CPGs

• Manage supply chain for allocation, especially of products deemed critical, such as electrolytes, disinfectants, hand sanitizer.
• Where possible, provide additional services, such as transportation, or personnel to support community efforts.
• Keep retailer partners notified of product availability, shipments and anticipated demands.
• Avoid marketing messages the prey on consumer fears.

Online advertising has been impacted too. On Google, brands are now restricted from buying keywords sensitive events, including disease. So, for now, there's no promoted search results appearing atop vital news services reporting on COVID-19, reports The Drum.
In China, Brands Are Stepping Up

But brands don’t want to be viewed as cashing in on COVID-1

- In Wuhan, food delivery app Meituan is giving away 1,000 takeout meals every day to medical staff at hospitals.
- The bike rental arm of the company offers free monthly passes to all residents, medical staff, and city sanitation workers in Hubei Province, reports JWT Intelligence.

Source: https://www.jwtintelligence.com
U.K. Retail

- Bath and soap shop Lush invited the U.K. public to wash their hands in stores for free.
- The retailer does not mention COVID-19 or coronavirus in marketing.

Vodka Isn’t a Disinfectant

When fans of Tito’s vodka couldn’t find hand sanitizer, they promoting their use of Tito’s vodka as a sanitizer on social media. The company quickly pointed out that it’s spirit (40% alcohol) doesn’t contain enough alcohol to kill germs (60% alcohol), per CDC guidelines.

Price Gouging is real... but mostly third-party players
Manufacturers Have Their Own Fears

Which of the following do you consider the current biggest risk to your supply chain?

- **Tariffs and Trade Barriers**: 26%
- **Cyberattacks**: 11%
- **Natural Disasters**: 12%
- **COVID-19 Outbreak**: 40%
- **Other**: 11%

Note: No base of respondents included

Source: Supply Chain Dive, Opinion Poll, March 3, 2020
Supply Chain

• While many are concerned with supply issues emanating from China, other global markets are vulnerable. Even where manufacturing hasn’t been interrupted, the market is not prepared for the run on certain goods and the unpredictability of where breakouts will occur.

• Retailers and their supplier partners will need to coordinate allocations of products. While there are certain pockets where there’s been a run on products, it can’t be predicted with certainty where the next hot spots will be.

• The West Coast, with the highest incidence of COVID-19, has experienced the highest run on CPG products to date. The East Coast is experiencing its first reports of illness.

• Retailers will be relying on their highest performing suppliers for purchase orders, which could be viewed as a reward for dependability. Manufacturers that have a poor record of timely response to purchase orders will lose out.
Allocation Considerations

• As manufacturers see which products are being snapped up in high-concentration areas, they'll have to consider how they allocate their inventory. Do they meet expectations of West Coast retailers who are selling out, or do they hold product for markets that have yet to peak?

• IRI Supply Chain experts refer to the “bullwhip” effect of products such as spray disinfectant vs. frozen pizza. The former will be snatched up, although not used until needed, and likely not used up in the near future. Pizzas, on the other hand, will be consumed and then re-purchased in short order.
Supply Chain Implications

- Transportation is a challenge not only in China, but through other areas that are being hit with the virus. In the United States, ports in Los Angeles have capacity but once China resumes shipments, ports will experience congestion.

- Thought should be given to expanding current suppliers from varying geographies to shore up the supply chain. While market costs will vary, consistency is vital to overall business strength.

COVID-19 is starting to impact supplies of essential drugs, as drug makers source raw ingredients for common antibiotics and vitamins from now-shuttered Chinese factories. The disruption is being felt most acutely in India, where authorities on March 2 ordered the country’s vast pharmaceutical industry to stop exporting 26 drugs and drug ingredients, most of them antibiotics, without explicit government permission.

Source: New York Times https://www.nytimes.com/2020/03/03/business/coronavirus-india-drugs.html?fbclid=IwAR2z6fyldeu-Ph0myEAqQGQVdeNPyeZ3dQ0gcLTQQmxOR1UscXGWm3RPE5c
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