



COVID-19 in Grocery

Initial perspectives based on global grocery observatory

13 MARCH 2020

Executive Summary - COVID-19 impact in grocery

Early observations from affected Asian and European markets

Grocery retailers may expect 10-15% sustained lift over multiple weeks - two main drivers observed

- Customers stock piling essential goods with focus on health/hygiene, cleaning and traditional stockpile categories
- People limiting dining out at restaurant/cafes and spending more time at home

Significant category and channel shift: e-commerce up 40-100%

- Hygiene, Consumer Health, and packaged foods up ~15-40% in Europe, select products higher (e.g. sanitizer)
- Fresh and non essential goods may decline - customers seek to minimize time and high touch activities in store
- Huge shift to online - probably capacity constrained - and within online from store pickup to home delivery

Even in high impact/ lock down areas (e.g. China, Northern Italy) stores have maintained hours and operations. Grocers have taken measurable steps including:

- Communicating business as usual to employees, support stores with people from center, active comms to customers
- Collaboration with third parties (governments, suppliers) to manage spikes in demand and mitigate risk
- Increasing inventory held at stores & daily forecasts of top items to mitigate risk of DC shutdown

Grocery retailers must plan for three phases of Covid-19 crisis and resulting impacts, including:

- Immediate (Hysteria - 2-3 weeks): huge lift driven by stock up of health, cleaning, frozen, and traditional stockpile products, need to ensure product is available on shop floor and ensure availability
- Short-term (Restriction/Adaptation - 4-12 weeks): still some sales lift driven by food at home vs restaurant, less focus on stockpile and customer back to buying prepared food and fresh
- Medium-term (New normal - 3+ months): permanent change to customer behavior or S-curve acceleration of some trends (e.g. shift to home delivery, prepared foods)

Crisis will drive sales up significantly

- 10-15% lift for several weeks in every impacted country
- Early signs visible in the US
- Key to be ready to support your customers and staff

Online will skyrocket

- Up to 100% growth of e-commerce in other countries
- Driven by home delivery even more than store pick up
- Might accelerate online penetration in short & medium term

Stores will stay open and operate regularly

- Several other business may close, grocery stores will stay open
- Even in lockdown areas, grocery stores remain up and running
- Must reinforce comms and support from center and regions

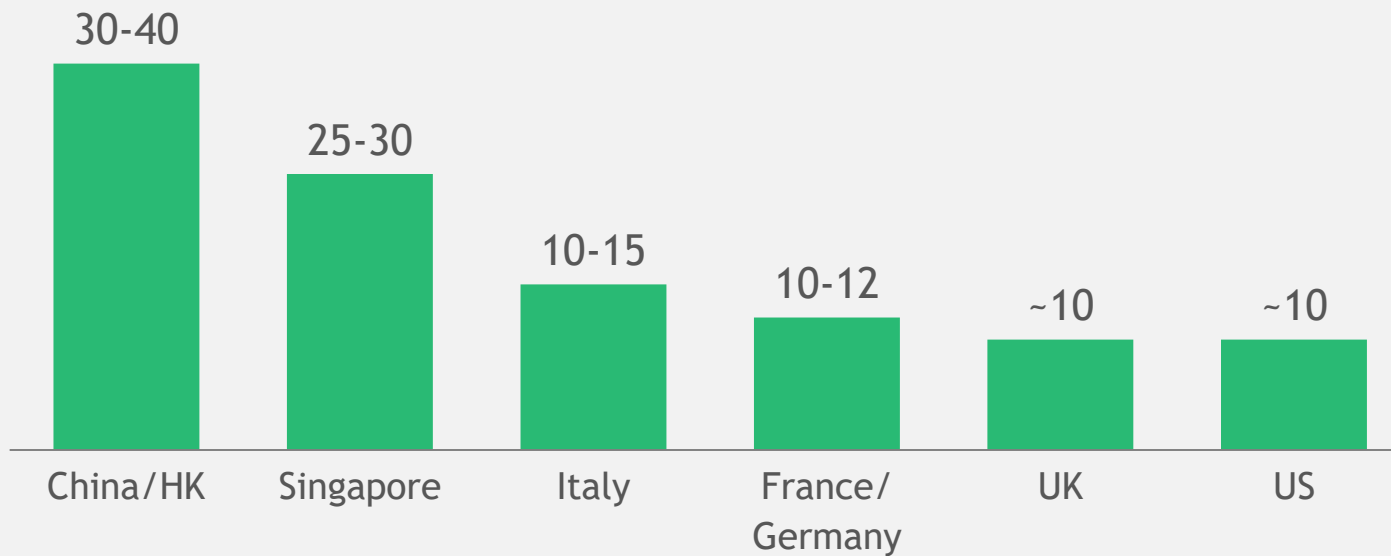
Crisis will not finish soon; expect long term change

- 3 different phases: hysteria, restriction, and new norm
- Key to plan ahead tactical action for each of 3 phases

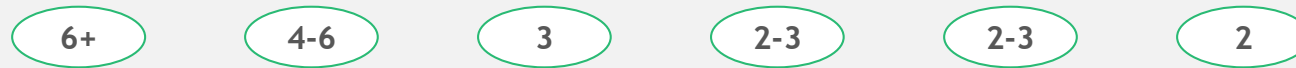
Sales uplift of 10-15% on average; sustained over multi-week period

Estimated sustained sales lift %

Directional



Lift duration
(Weeks)



Covid outbreak

Significant Significant Significant Moderate Limited Limited

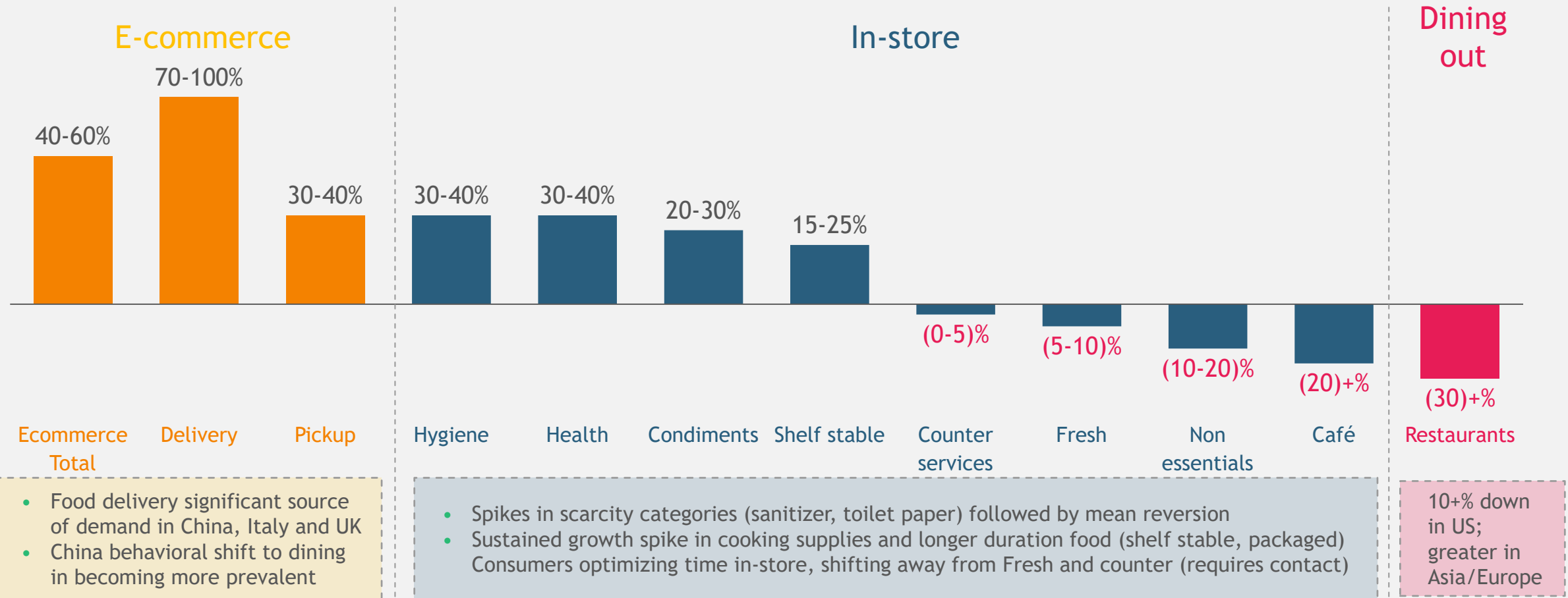
- Seeing 10-15% lift in sustained sales, greater lift in China and more heavily impacted regions
- De-averaging the trend, 100+% spikes experienced upon outbreak due to panic buying, demand smooths out over following weeks
- Sales expected to remain elevated post surge; duration of elevated growth driven by duration and magnitude of restrictions on movement (e.g work from home / restaurants hours)

Note: sustained lift interpreted as year over year increase in demand beyond initial surge from stock piling
Source: BCG project experience, desk research

Sales vary by category and channel; demand spike experienced followed by sustained trend for 3+ weeks

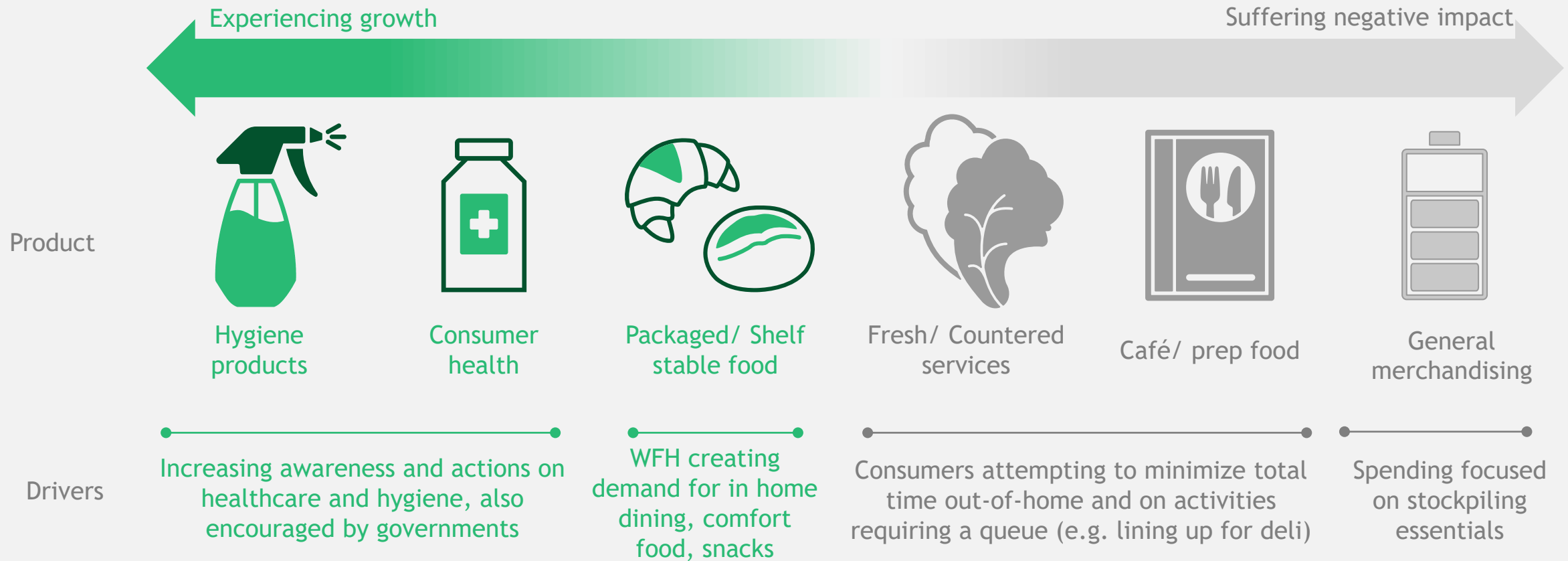
Sustained sales lift%

Directional



Note: Ranges are directional; growth varies by region and level of Covid-19 impact; sustained lift interpreted as year over year increase in demand beyond initial surge from stock piling
 Source: BCG project experience, desk research

Backup | Hygiene, Consumer Health, and Packaged Foods spiking; deli and non-food items down



Even in high impact/ lock down areas stores have maintained hours and operations

Function	Impact (current and expected)	Responses to ensure smooth operations
Sourcing and distribution	<ul style="list-style-type: none"> Stock outs and sourcing issues significant in Italy as suppliers have begun to short orders; sporadic and less impactful in UK (so far) If positive case found at DC - major disruption to regional distribution 	<ul style="list-style-type: none"> Creating flexibility for distribution centers by increasing stocks (when possible) at store level and working closely with suppliers Game planning for DC/Store testing for positive case; leveraging a strike playbook Implementing in-store quarantine protocols (e.g. daily fever checks, mandatory mask wearing) Encouraging workers to maintain BAU, increase productivity while offering overtime pay Holding additional stock in-store (as possible) Moving to daily forecasts and inventory roll calls for top items Splitting "vital" teams into multiple locations Encouraging/mandating WFH for nonessential roles Sending corp./regional employees to assist stores Working w/ govt. (UK); expanding delivery hours Implementing purchase limits on essential goods
Store operations	<ul style="list-style-type: none"> Some grocers in Italy experiencing up to 25% increase in absenteeism If positive case found, store closed for 2-3 days 	
Demand forecasting	<ul style="list-style-type: none"> Forecasting and replenishment being disrupted by spikes in staples and decline in non e-commerce 	
Corporate	<ul style="list-style-type: none"> Minor impact (dependent on role taken offline) as individuals in corporate function would have to undergo quarantine 	
E-commerce	<ul style="list-style-type: none"> Unable to keep up with e-commerce demand Stock outs of essential health items due to stockpiling 	

Grocers leveraging signage and comms to reinforce 'business as usual' message to customers & employees

Grocers focused on building trust with both customers and employees with comms and signage

Some grocers responding by promoting e-commerce; reinforcing in-store safety

To customers



Signage outside stores reinforcing hours of operations (all markets)

To employees



Stick to BAU with limited restrictions (e.g. no meetings in confined spaces)



Encourage customer not to stockpile; limited risk of long term shortages (UK and Italy)



New hygiene signage placed in employee restrooms and breakrooms



Maintain 1m distance from others, carts mandated for entry at some stores (Italy)



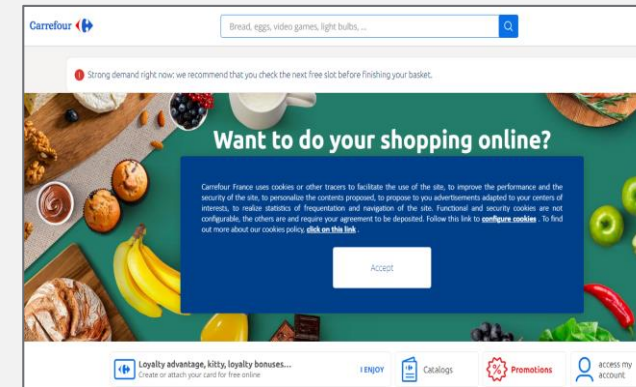
Encourage showing up for overtime; increase productivity to offset absenteeism



New hygiene and handwashing signage being placed in public restrooms

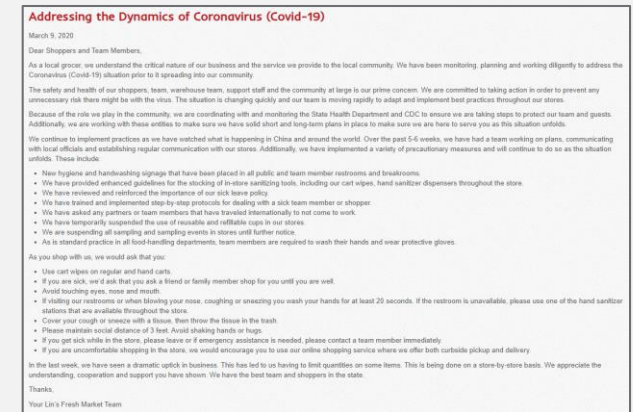


Corporate employees in non-essential roles encouraged to WFH



Landing page of French grocer encouraging online shopping

Grocer in US prominently displaying safety standards for customers and labor



Grocers should plan for three phases of Covid-19 crisis

Case Study | Opportunity to extract learnings from grocery client operating in China

	Immediate (Hysteria)	Short term (Restriction/Adaption)	Medium term (New Normal)
Duration Post outbreak	Weeks 0-3	Weeks 4-12	Months 3-18
Description	<ul style="list-style-type: none"> Panicked stock piling of durables, health items, dining in options 	<ul style="list-style-type: none"> Restrictions on movement, dining out, and gatherings Residual fear of Covid 	<ul style="list-style-type: none"> Consumers adapting to new behaviors; continued usage of ecommerce, dining-in
Expected changes/ activities	<ul style="list-style-type: none"> Initial spike in specific goods due to stock piling Panicked behavior 	<ul style="list-style-type: none"> Demand for ecommerce subsiding but remains elevated vs history Consumers staying in at home due to travel restrictions, WFH policies, restaurant restrictions 	<ul style="list-style-type: none"> Long term shift to omnichannel delivery accelerated by ~24mths Purchases of in-home gaming and dining goods (alcohol, condiments and spices, frozen food) remain elevated
Decisions made Learnings	<p style="text-align: center;">⏴</p> <ul style="list-style-type: none"> Build trust - ensure availability Pallet drops on core items Limit purchase on select items Communicate availability and online Invest in delivery capacity (FTEs, rent vans in high density areas, partnerships...) 	<p style="text-align: center;">⏴</p> <ul style="list-style-type: none"> Adjust space to new demand mix Continue to ensure supply Targeted promotions, leverage loyalty Offer addl services (meal plans & advice, more delivery options) Continue to drive e-commerce 	<p style="text-align: center;">⏴</p> <ul style="list-style-type: none"> Understand new trends Invest in accelerating ecommerce capabilities Accelerate focus on prepared foods Pilot stores to testing new concepts

Hysteria & restriction phase | Next steps example

What we've seen in impact markets

Key actions to manage the crisis

Protect your people



>110k infected, >4k deaths, across 110+ countries and still spreading

Stock-outs due to supplier disruptions

Consumer panic buying

Shift to delivery and ecommerce purchases

Up to 25% of staff absent or ill as a result of disease

Nervous financial markets

Situation evolves faster than grocers can plan



Protect your people:

- Mitigate risk of contraction (e.g. WFH, travel restrictions, meeting postponements, store protocol checks)

Build trust with consumers - communicate

- Increase signage indicating store hours; no need to hoard

Keep stock outs at minimum

- Identify categories at risk; manage inventory (daily)
- Improve placement (pallets), bundling of critical items, increase space devoted to pick ups to enable quick trips
- Ramp-up online offering, hours, and devoted resources
- Rent vans to keep up with delivery needs
- Be flexible with FTEs, reallocate corporate/ regional to stores in need



Define contingencies for store operations (labor + hours)



Reassess budgets and manage for cash



Develop financial plan with multiple scenarios

Protect your business



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