

WHAT TOILET PAPER SHORTAGES SAY ABOUT HUMAN BEHAVIOR – AND BUSINESS REALITIES

Why is toilet paper so sought after during a crisis? You can't eat or drink it or use it for shelter, so it sits lower on Maslow's hierarchy of needs than practically anything else in the store.

Looking at that question through three lenses – human behavior, retailers' available responses, and manufacturers' constraints – sheds some light on panic buying that may enable businesses to better prepare for the next crisis, whether caused by an epidemic, a natural disaster, or climate change.

1**HUMAN BEHAVIOR****2****RETAILERS' AVAILABLE RESPONSES****3****MANUFACTURERS' CONSTRAINTS**

First, though, let's consider why toilet paper is the 'poster child' for hoarding – and stockouts. Like paper towels, it features a unique combination of five characteristics:

- 1 INEXPENSIVE**
Consumers can buy peace of mind for comparatively little cost.
- 2 BULKY**
Retailers can't stock large volumes of it on the shelf or in the storeroom without taking space from potentially more profitable goods.
- 3 NECESSARY**
Nearly every household uses toilet paper.
- 4 UNIQUE**
Whereas multiple products can feed or clothe a person, almost no other product can do the job for which toilet paper is designed.
- 5 IMPERISHABLE**
Toilet paper doesn't spoil so there's little downside to stocking or overstocking it.

LOWEST PRICE PER FT³

Our analysis of those first two factors shows that toilet paper has the lowest price per cubic foot of any consumer product except for paper towels. According to AlixPartners' analysis, a 12-roll pack averages just under \$7 and occupies 0.54 cubic feet, which comes to about \$12/ft³. By contrast, breakfast cereal is priced at roughly \$29/ft³, peanut butter at nearly \$38/ft³, and crackers at about \$59/ft³.

Those calculations reveal a flashpoint for panic buying: the opposing perspectives of consumers and retailers over this product category. For consumers, toilet paper is clearly low cost, easy to buy, and easy to store. But for retailers, its comparative bulk takes up valuable real estate on store shelves.

HUMAN BEHAVIOR DOESN'T CHANGE

Let's look, then, at how humans behave in times of shortage

Several psychological drivers are at play:

PANIC BUYING AND FEAR OF MISSING OUT

Even if we aren't worried about a prolonged shortage ourselves, seeing others panic is enough to cause a run on products such as toilet paper.

'VACANCY' FEAR

Because toilet paper is highly visible on store shelves, its absence looks more obvious than that of other goods.

'ZERO-RISK BIAS'

We tend to eliminate one type of possibly superficial risk rather than take a few actions that would do more to reduce our total risk.

HOARDING INSTINCT

We share many of the same traits as animals that stock up for winter, typically a time of comparative shortage.

To be fair, the COVID-19 pandemic has contributed to actual changes in domestic supply and demand for toilet paper. Although everyone uses roughly the same amount every day, the location of use has changed as workplaces and other venues have closed. With millions now staying home, more toilet paper is used there – so more is being replenished by consumers rather than businesses. The pandemic has had such a rapid impact that supply chains have not yet caught up.

RETAILERS CAN'T DO MUCH TO CALM THE PANIC

The sharp shift from at-work to at-home usage of toilet paper has benefited retailers with sales soaring recently. The increased foot traffic boosts sales in other categories, too. This pattern is the same online: consumers regularly fill their carts with multiple items, if only to minimize any shipping expenses.

That said, retailers have little room to maneuver in their attempts to curb panic buying. Allocating more shelf space to toilet paper is a poor business proposition given its low price per cubic foot. End-aisle and free-standing displays can provide more on-floor stock after warehouse shipments come in. Setting purchase limits is already common practice but can add to shoppers' worries about scarcity.

Raising prices can ease demand, with obvious bottom-line benefits. But it has a dangerous downside, especially in times like these: retailers that start charging more for a needed commodity could soon be 'called out' on social media – with significant reputational damage. Besides, retailers are tightly constrained by the anti-price-gouging laws in 34 states. For example, New Jersey and several other states cap pricing at a 10% premium during declared **emergencies**.

Further, it's impractical to think that retailers can simply replenish more frequently by sending heightened demand signals to manufacturers. As we'll see below, it's not simply a question of the factories expanding production. In short, retailers have few options for easing shoppers' concerns about shortages of toilet paper.

FACTORIES CAN'T MAKE MORE PRODUCT OVERNIGHT

Solving for shortages of toilet paper isn't just a question of ramping up factories. The product is a fixed commodity, manufactured by a few mills that operate around the clock. High utilization rates are core to the business model, and production levels are typically set months in advance. Adding capacity at the mill level would require massive capital investments and significant time to implement.

Nor is it simply a logistics question. Yes, the manufacturers have increased truck shipments during the pandemic, but they can't turn on a dime to handle the sudden wholesale shift from corporate to domestic demand. The reality is that commercial-grade toilet paper is lower quality, thinner, with more recycled fiber than typical consumer grades, and manufacturers can't simply adjust their raw materials supply orders, production setups, and distribution patterns as quickly as one might think.

Panic buying of staple products will happen again. Indeed, given the many uncertainties that societies face today, it makes good business sense to proactively plan for times when crises are far more common. Corporate agility, close end-to-end supply-chain collaboration, and long-term planning will be needed more than ever.

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These are the moments when everything is on the line – a sudden shift in the market, an unexpected performance decline, a time-sensitive deal, a fork-in-the-road decision. But it's not what we do that makes a difference, it's how we do it.

Tackling situations when time is of the essence is part of our DNA – so we adopt an action-oriented approach at all times. We work in small, highly qualified teams with specific industry and functional expertise, and we operate at pace, moving quickly from analysis to implementation. We stand shoulder to shoulder with our clients until the job is done, and only measure our success in terms of the results we deliver.

Our approach enables us to help our clients confront and overcome truly future-defining challenges. We partner with you to make the right decisions and take the right actions. And we are right by your side. When it really matters.

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