

COVID-19 DISRUPTS BRAND LOYALTIES

US consumer survey

The COVID-19 crisis has created major dislocations across the consumer product landscape, straining companies' ability to safely source, manufacture, and distribute their products to consumers. These stresses come as demand across most product categories has spiked and purchasing behavior has accelerated online.

Largely driven by stock availability in the wake of shelter-in-place orders, social distancing, and the closure of nonessential businesses, many companies in this industry have a significantly different set of consumers today than they did prior to the current crisis. Those companies that have been able to maintain service levels across the available channels despite the myriad of disruptions are seeing the largest uptick in new consumers.

In order to understand how enduring these changes to consumer behavior are likely to be, AlixPartners conducted a survey of 1,006 representative US households from March 27 to 31. We looked at 15 consumer product categories including perishable proteins, food staples, nonalcoholic beverages, household goods, personal care products, and cosmetics.

THREE KEY FINDINGS WERE EVIDENT FROM THIS CONSUMER SURVEY:

1

Approximately 2 in 3 consumers have tried new products over the last month, with lack of availability driving 80% of that trial. More than 1 in 4 consumers who tried new products plan to stick with them post-crisis.

2

Should we enter a recession, changes to consumer behavior will likely be sustained.

3

The COVID-19 crisis will accelerate adoption of online grocery—both click and collect and home delivery—across age demographics.

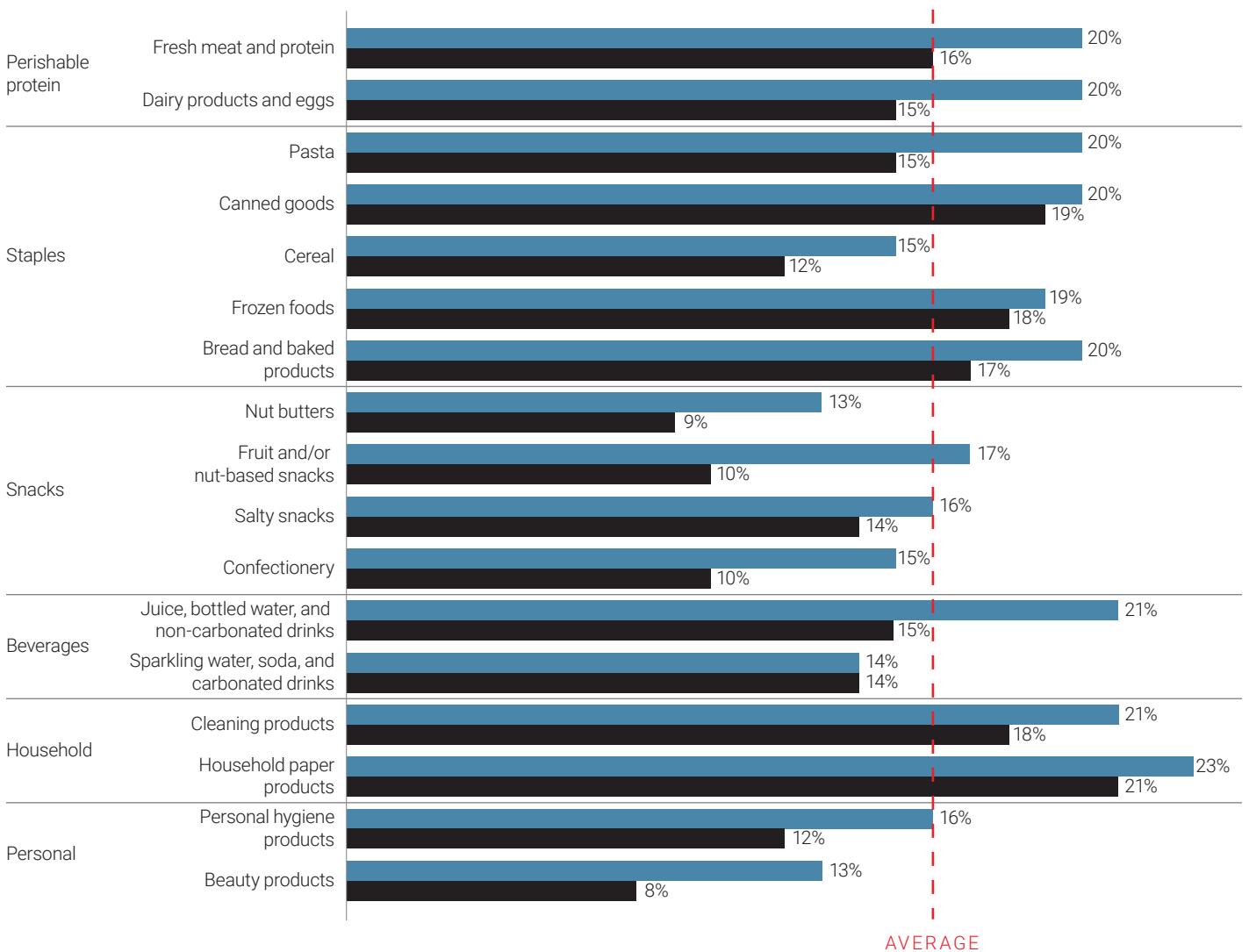
BRAND LOYALTIES CHALLENGED

Based on our survey, about 65% of US consumers have tried a new brand or private label in at least one consumer product category.

For national brands, those responses were highest in canned goods, frozen foods, and cleaning and household products. New private-label brands were sampled even more highly across the board (figure 1).

FIGURE 1: 65% OF US CONSUMERS HAVE TRIED A NEW BRAND OR PRIVATE LABEL IN AT LEAST ONE CATEGORY

After the COVID-19 (coronavirus) outbreak, have you stuck with your favorite brands and products or have you had to substitute different brands and products?



■ Tried different private-label brands ■ Tried different national brands

N=1006. Responses' total may be more than 100% as respondents could choose more than one answer.

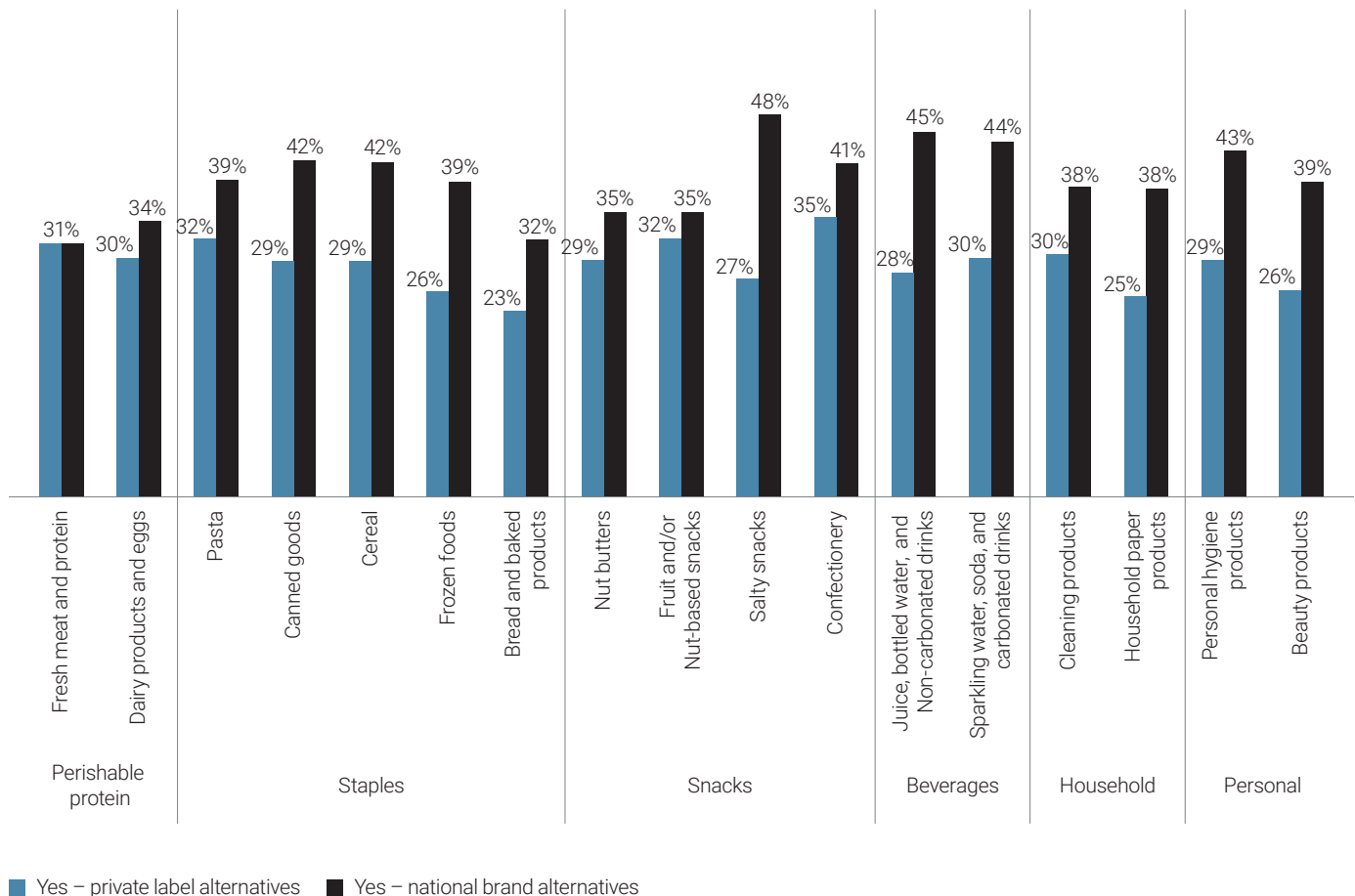
Source: AlixPartners survey of US consumers, March 27-31, 2020

Most consumers (79%) who tried new products did so because their usual brands were out of stock, and some 30% of consumers included cost as a factor. However, while availability may have been the primary reason they originally switched, we found that 25% of respondents who tried new brands expect to stick with them after the current crisis is over (figure 2). Those companies in consumer categories surveyed that were able to deliver operational performance and service levels throughout this crisis are well positioned to improve share. Those companies in categories we surveyed who were not able to maintain in-stock positions may face longer-term challenges.

While many of the current stresses may be new, the crisis is likely to accelerate trends that were in place well before COVID-19 emerged. Those companies that are more mature in the digital transformation of their businesses, have resilient logistic and supply chain capabilities, and can consistently deliver their products across multiple channels will be best positioned for the eventual recovery. Brand loyalty may have been fragmenting for some time, but the ability to maintain operational excellence in an unstable environment binds consumers to brands. Conversely, the failure to maintain operational excellence opens the door to competitors.

FIGURE 2: OVER 25% OF CONSUMERS WHO HAVE TRIED NEW BRANDS OR PRIVATE LABEL PRODUCTS EXPECT TO STICK WITH THEM

Since you have purchased different brands and products than usual, will you be sticking with those brands?



Source: AlixPartners survey of US consumers, March 27-31, 2020

A RECESSION MAY PROLONG MANY CHANGES TO CONSUMER BEHAVIORS

Consistent with most reporting on the subject, we found that respondents to our survey have increased their stock of most consumer products by 30 to 40% since the coronavirus outbreak. Staples—like pasta and canned and frozen foods—and household products—like cleaning supplies and paper products—are the categories that people have stocked up the most.

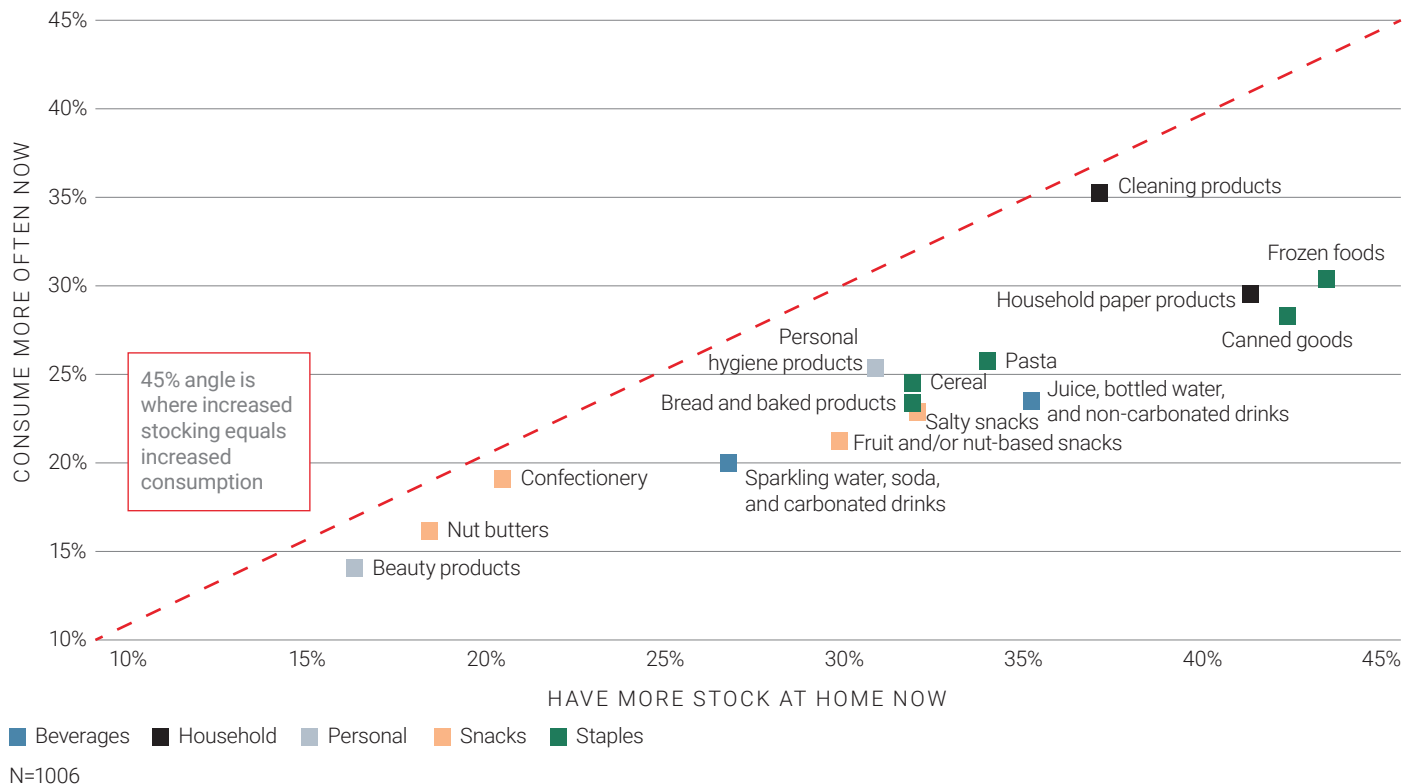
People aren't just stocking up—they're consuming more. Likely reflecting sheltering-at-home practices, we found that 20 to 30% of most products are being consumed more often now than they were before the crisis. Staples and household products again lead the way, trailed closely by personal hygiene products.

However, stocks are still rising faster than this increased consumption, suggesting some of the demand spike will recede for several categories of products, including paper products, canned goods, and frozen food (figure 3). Some other categories, like cleaning products, appear to have much closer alignment to purchasing and actual consumption, pointing to less stockpiling.

People aren't just stocking up—they're consuming more.

FIGURE 3: STOCKS ARE RISING FASTER THAN CONSUMPTION, SUGGESTING SOME OF THE DEMAND SPIKE WILL RECEDE

Compared to before the COVID-19 (coronavirus) outbreak: (1) how much more or less supply do you now have in your pantry, refrigerator and freezer in each of these categories? (2) how much more or less often is your household consuming products in the following categories?



Source: AlixPartners survey of US consumers, March 27-31, 2020

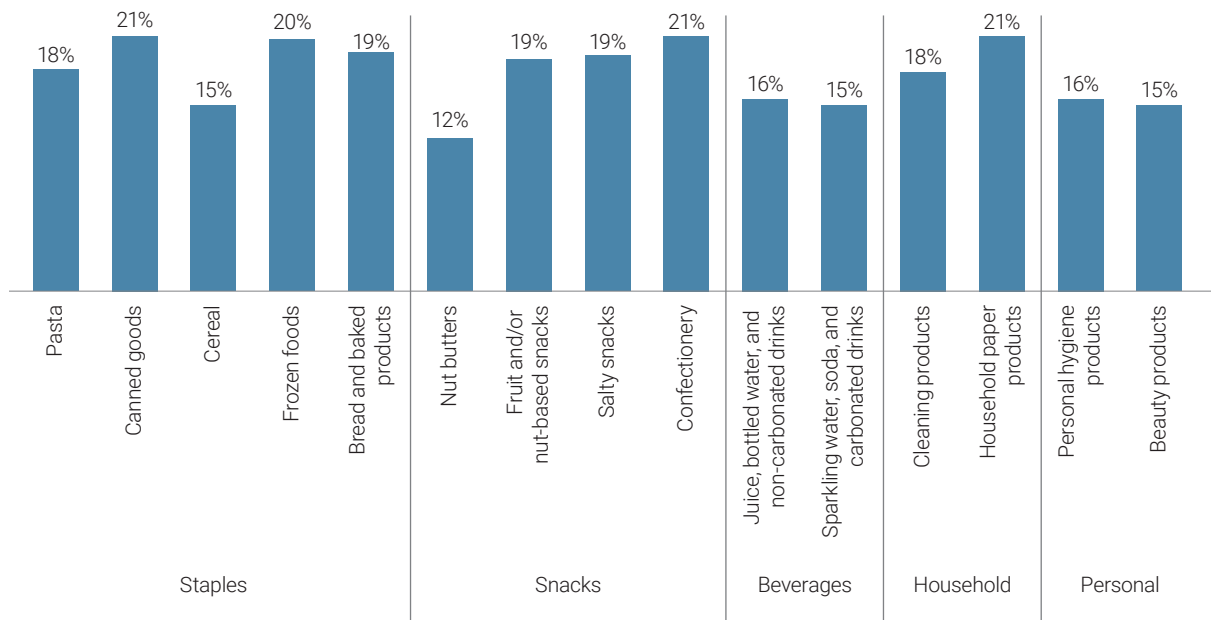
Over the longer term, losses in household income are likely to have the most lasting impact to demand. In our sample, 40% of households had suffered losses of income. This number will undoubtedly go higher as the impacts of the COVID-19 crisis reverberate through the economy.

To this point, higher income households have increased their stocks relative to their consumption materially more than lower income households. Indeed, lower income households appear to be running down their stocks in most categories, increasing their consumption of food staples and reducing discretionary products (figure 4). These facts combine to suggest that trends toward food at home and lower-priced options are likely to continue for some time, depending on the pace of the economic recovery.

FIGURE 4: LOWER INCOME HOUSEHOLDS APPEAR TO BE RUNNING DOWN THEIR STOCKS OF MANY PRODUCTS

Compared to before the COVID-19 (coronavirus) outbreak, how much more or less supply do you now have in your pantry, refrigerator, and freezer in each of these categories?

Percentage of those who answered “Less”



■ Household income is less than \$50,000 (N=371)

Seven respondents chose “Prefer not to answer” for household income.

Overall, we expect that makers of canned goods, frozen foods, non-carbonated beverages, and household paper products are most likely to face dips in demand where increased stocking has significantly outpaced increased consumption. However, we expect this drop to be temporary and that the recessionary impacts are likely to sustain increased demand (albeit below current peaks) for some time to come.

Manufacturers of these products will need to be flexible in terms of production levels until these trends become clearer.

Source: AlixPartners survey of US consumers, March 27-31, 2020

ONLINE GROCERY SHOPPING WILL CONTINUE TO ACCELERATE

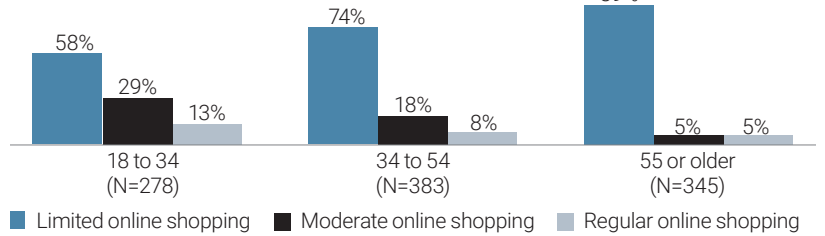
As widely reported in the press, there have been significant increases in online shopping since the COVID-19 pandemic. While online shopping is still heavily weighted to the 18-to-34-year-old age group, our survey shows that there have been increases across all ages (figure 5).

Delivery delays and stock unavailability may have tainted the experiences of some who have increased their online shopping, but our expectation is that online penetration will stabilize at higher levels than before the crisis and that this crisis has accelerated the online penetration curve. Most consumers are understanding of the severity of the crisis impacting service levels even as they become increasingly comfortable with online ordering, grocery pick-up, and grocery home delivery.

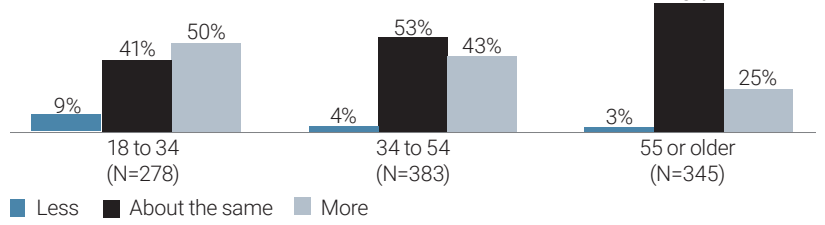
For consumer products companies, ensuring that they can deliver and market appropriately across these online platforms will be critical.

FIGURE 5: THERE HAVE BEEN MATERIAL INCREASES IN ONLINE SHOPPING

Before the COVID-19 outbreak, how much of your grocery shopping did you do online?



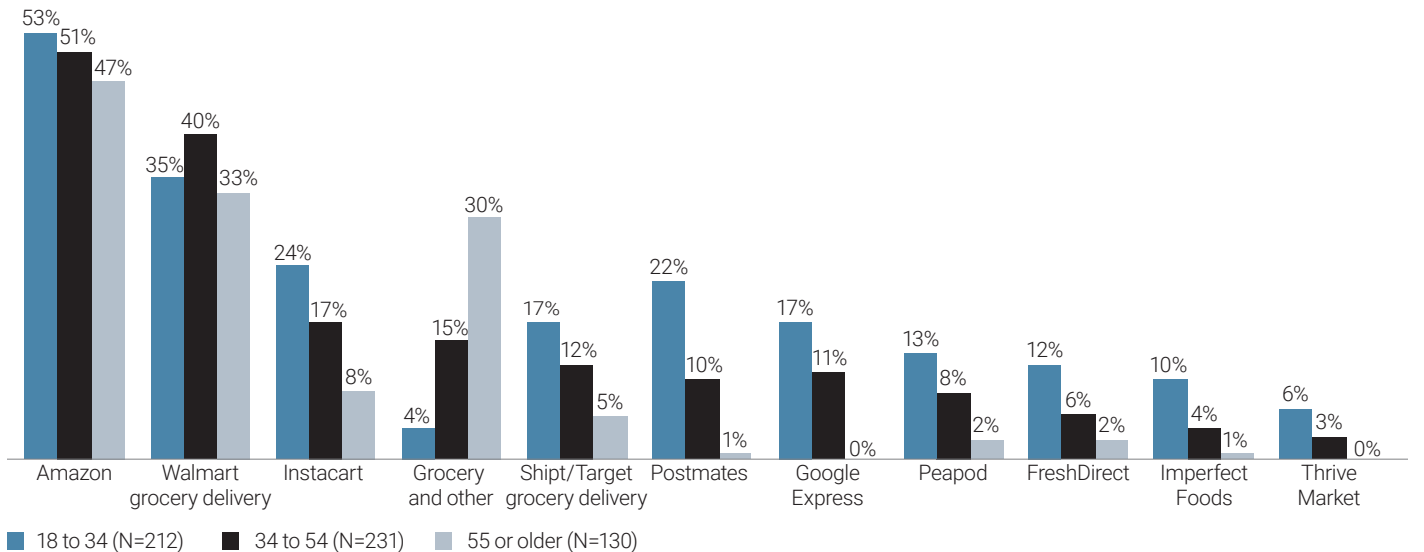
How has your online grocery shopping changed since the outbreak of the COVID-19?



N=1006

FIGURE 6: AMAZON AND WALMART ARE THE PREFERRED PROVIDER ACROSS ALL AGE GROUPS WITH 30% OF 55 AND OLDER AGE GROUP USING 'GROCERY AND OTHER'

Which of the following online grocery delivery services have you used?



N=573. Responses' total may be more than 100% as respondents could choose more than one answer.

Source: AlixPartners survey of US consumers, March 27-31, 2020

Companies in all surveyed segments are facing tremendous challenges and opportunities as a result of COVID-19.

We would highlight 4 immediate needs:

1

UNDERSTAND CONSUMER SHIFTS

There has been tremendous trial and brand switching. The gain in new, and the loss of existing, consumers has been unprecedented. This is not “marketing as usual.” Moreover, large segments of your consumers will change buying behavior due to the new economic realities they’re now facing. Profiling your new consumer base and developing strategies to hold on to new consumers and recapture defectors, while proactively adjusting product portfolio and commercial strategies, will be essential.

2

ACCELERATE PLANS TO COMPETE ONLINE

COVID-19 has accelerated the adoption of online shopping. Larger firms will need to expand and accelerate efforts underway. Many smaller firms that have been more focused on bricks and mortar and capturing retail shelf space at the expense of larger players (based on differentiators such as “local,” “authentic,” “craft,” or “clean”) will need to develop strategies to catch up. Online requires very different capabilities involving high start-up costs and different and often challenging financial models.

3

GAUGE THE NATURE OF THE DEMAND SPIKE

The COVID-19 demand surge will not be sustained as households run down stocks and shelter-in-place restrictions are lifted. However, the recession will drive demand for several of the profiled categories higher than before the economic downturn in retail. Companies will need careful forecasting and demand and supply planning to determine production levels and product and channel mix over the next several months.

4

PRIORITIZE OPERATIONAL EXCELLENCE TO MAINTAIN STOCK AVAILABILITY

The survey underlines that stock-outs are not simply a lost sale but, more importantly, also a lost consumer. Stock-outs lead to trials of competitor brands and stated intentions to defect. In challenging financial times, juggling the demands of preserving working capital in the form of lower inventories and avoiding stock-outs require particularly strong end-to-end supply chain management.

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ABOUT US

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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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