AlixPartners

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# FOOD FOR THOUGHT – DELIVERING THROUGH DISRUPTION

Why European food and beverage retailers and manufacturers must think differently and act fast to respond to trends accelerated by COVID-19

The Food & Beverage industry has been battling to keep pace with dramatic shifts in consumer behaviour over the past decade. For example, we have witnessed the rise of the self-centric consumer and seen an increasing focus on "eating well", as consumer interest rises in the healthiness of foods, the sustainability of supply chains and whether or not ingredients are locally sourced.

COVID-19 has caused further significant disruption to every part of the industry. Across the world, consumer habits changed almost overnight, as stay-at-home orders and other social distancing measures were enforced.

But how do the trends, threats and opportunities differ across European countries? Is e-commerce enhancement the most pressing issue across those territories? Or will more traditional markets prioritise improvements to the in-store experience to build market share, over and above the levels of digital investment that other regions are racing to implement?

In this report, AlixPartners presents a series of regional perspectives from our team of in-market Food & Beverage experts, including the UK, France, Germany and Italy.

# THE VIEW FROM THE UK: POLARITY GROWS BETWEEN VALUE AND PREMIUM, WELLNESS AND HOME COMFORTS

**RECESSION, RESTAURANTS AND READY MEALS**
With recession in the UK expected to continue into next Spring and the Food and Drink Federation warning that the Chancellor has not done enough to help the sector, food retailers and consumers are facing continued economic uncertainty.

As price continues to play a major role in purchase decisions, a growing polarity between the haves and have-nots will see the value and premium businesses in the food and beverage market hold up well. However, those in the middle may face an uncertain future as consumers with reduced disposable income hunt for value. Retailers must respond with pricing strategies to hold market share and avoid a mass migration to discounters.

In the early stages of the pandemic, supermarkets halted promotions, average prices rose as the shift to private label accelerated. The ready meals market, in particular, benefited from the population spending more time at home, boosting businesses such as M&S supplier 2 Sisters, which is adding 200 employees to its ready meals factory in Carlisle to meet COVID demand.

"Mask-wearing orders in stores are dampening food-on-the-go purchases too, hitting the snacking and grazing corner of the market."

Many restaurants are also connecting directly with at-home diners in a bid to supplement their dwindling covers. Appealing to the new wave of home cooks that lockdown has inspired, restaurants such as London Mexican brand TACA and Scottish restaurant Mac and Wild launched DIY meal-kits during lockdown, riding the meal-kit delivery sector wave that is forecast to hit $20bn globally by 2027. An increase in restaurant delivery services is here to stay.

**BRAND LOYALTY PUT TO THE TEST UNDER NEW SHOPPING CONDITIONS**
Continuing changes in consumer habits will have a major impact on F&B businesses in the UK. While some consumer brand loyalties will be hard to break, the act of shopping for groceries has itself changed from an everyday "experience" to a weekly adventure in person.

Along with the sharp rise in online grocery shopping – where customers are more likely to choose the same items each week – even those venturing into stores are

doing so with a strict list that reduces the likelihood of impulse buying. Mask-wearing orders in stores are dampening food-on-the-go purchases too, hitting the snacking and grazing corner of the market.

A preference for packaging has boomeranged, as consumers who had previously turned to low-environmental-impact products are, for now, more likely to trust more heavily packaged products, perceived as more hygienic.

**WILL EATING WELL WIN OUT OVER FOOD COMFORTS AT HOME?**
With more time spent at home during the pandemic and the virus perhaps attuning consumers to a keener sense of their own mortality, the desire for more health and wellness products – already increasing prior to COVID-19 – continues to expand.

Back in May, Holland & Barrett, the UK's leading health food retailer, instigated a cap on supplement purchases because of overwhelming demand. Organic food and drink sales also rose sharply during lockdown, with Nielsen reporting an 18.7% increase in organic sales in the 12 weeks to the end of May – which included 10 weeks of lockdown – and the Soil Association has reported that the sector is likely to hit £2.6bn by the end of the year, exceeding a projected £2.5bn.

With warnings that obesity and diabetes can impact COVID-19 survival rates, eating well may remain a priority for consumers. In contrast though, comfort-eating and excessive drinking have increased during lockdown and this trend may roll on as the UK braces itself for a harsh winter and tough financial start to 2021.

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## ABOUT US

For nearly forty years, AlixPartners has helped businesses around the world respond quickly and decisively to their most critical challenges – circumstances as diverse as urgent performance improvement, accelerated transformation, complex restructuring and risk mitigation.
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.