COVID-19 Effect on Packaged Food

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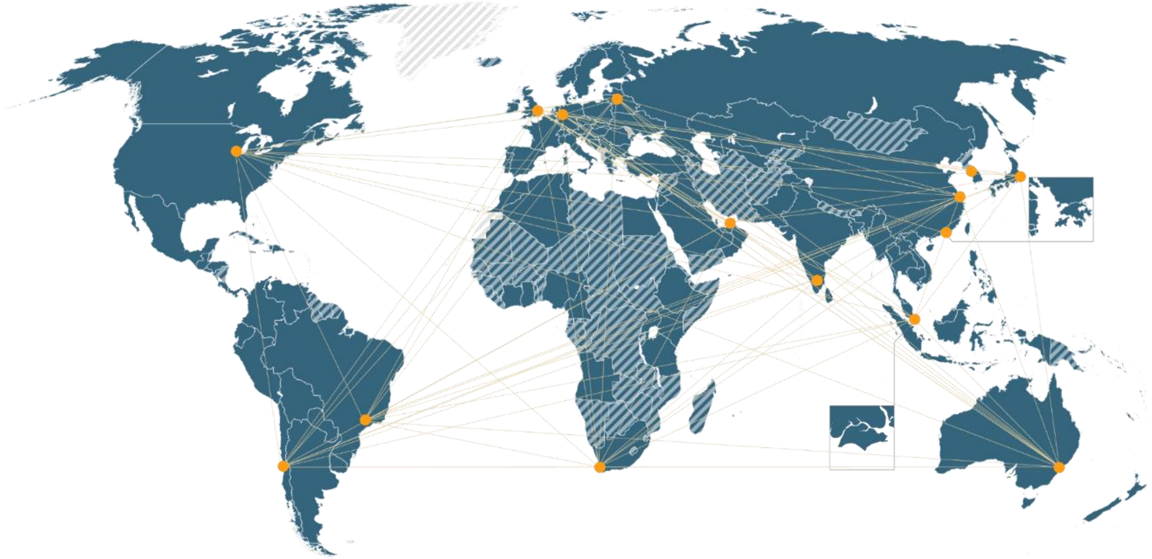

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OVERVIEW

Introduction

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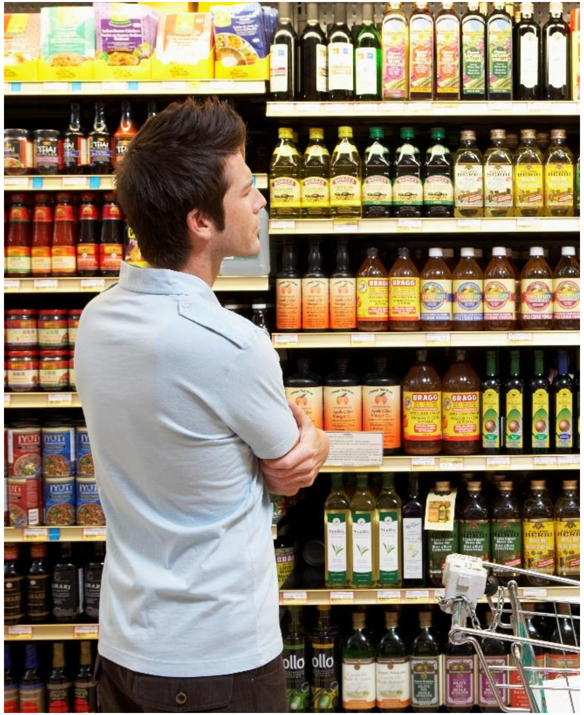

The emergence of coronavirus (COVID-19) has impacted multiple industries, causing some to come to a complete standstill and businesses to fall into administration. However, the packaged food industry is one of the few areas to experience a surge in demand as a direct result of the pandemic.

Although the full impact of the global health crisis is yet to be felt, restrictions on movement coupled with closures in foodservice providers have resulted in consumers increasing purchases and even stockpiling groceries when they can. In addition to the spread of the virus itself, what, where and how consumers buy groceries has significantly changed since the beginning of 2020.

This white paper examines the short term-term impact COVID-19 has had on three key areas within packaged food (home eating, snacks and dairy), global supply chains and trends within packaged food which are expected to remain post pandemic.

Consumer Impact from COVID-19

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Four key lifestyles changes

Preventative Health

Health and wellness supplements along with general immune-boosting products have been in higher demand since COVID-19, in addition to hygiene products, such as hand sanitisers and masks.

Channel Shifts

Restaurants, fast-food outlets and international travel has come to a halt across countries, affecting the way consumers interact and live. Some cities are seeing early signs of restrictions being lifted.

Stockpiling

Sales in staple foods have surged both online and offline. Higher demand for these goods combined with supply issues have led to forms of rationing, down to 1-3 purchases per item in some countries.

Home Seclusion

Professional and personal spaces have merged into one, making virtual living the new reality for many consumers. Traditionally, this has been more familiar to younger generations, but the COVID-19 pandemic has forced other consumers to rely on technology for everyday routines.

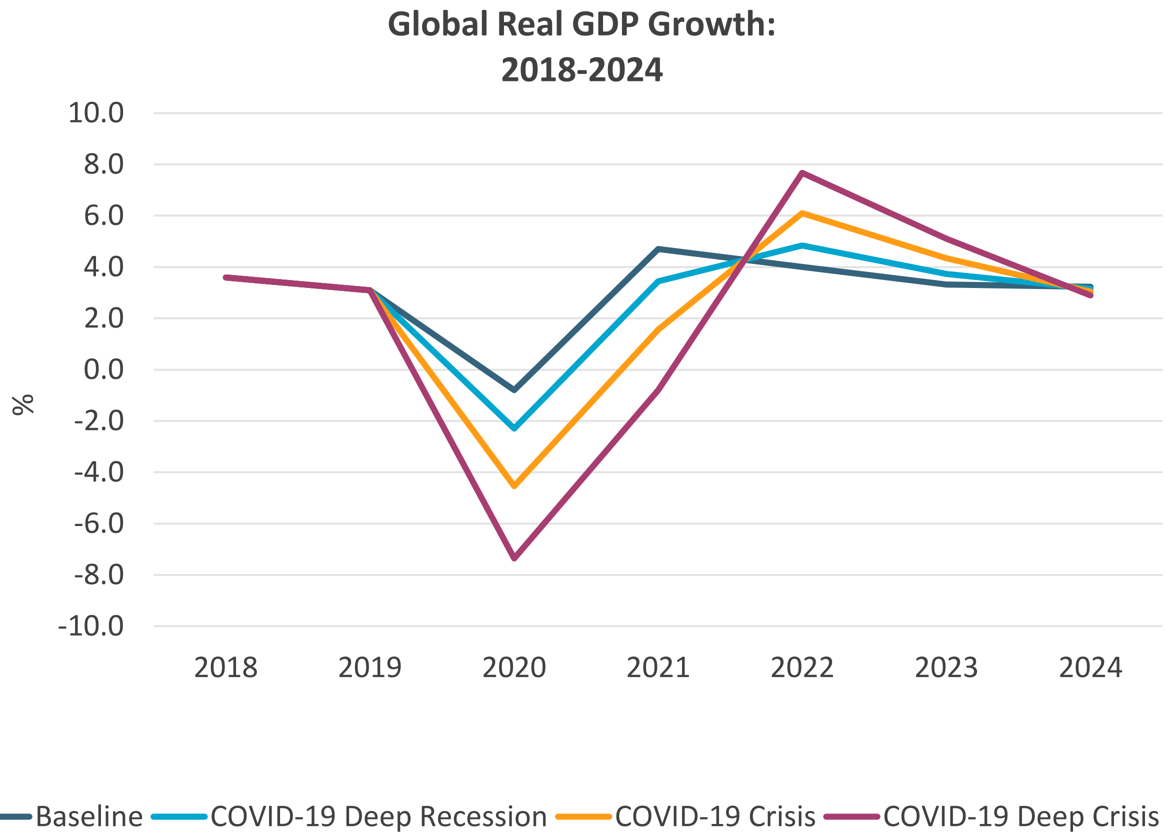
Industry Impact

Always eating in is the new normal

With most restaurants and institutions serving food closed, household culinary skills and available ingredients are the main factors which shape what consumers eat. Food delivery and apps like Deliveroo and Uber Eats still remain open for business, but uncertainty around how COVID-19 can be transmitted has placed more scrutiny on safety and hygiene concerns when other people prepare food. Combined with the global shift of moving all food occasions into the home has acted as a catalyst for consumers to prepare more of their own meals from scratch.

Euromonitor International's 2020 Lifestyle Survey showed 24% of young adults are less confident in their cooking skills, making ready-to-eat products and meal kits popular substitutes. However, prolonged closures and extended quarantine periods will result in more reluctant cooks embracing at home cooking that requires more preparation.

Staples like pasta and canned foods are some of the fastest moving products across online and in-person outlets in the short-term. Looking ahead, COVID-19 should prompt consumers to be more health conscious and incorporate more nutritional eating into their diets. Products which claim health benefits like immune-boosting yoghurts have already become popular in Japan. However, financial uncertainty will also see shoppers cut back on premium lines, trading down to discounters and private-label brands.



Source: Euromonitor International

GDP / Capita will drop significantly in 2020

COVID-19 is causing multiple sectors of the economy to shut down in their entirety, creating high unemployment levels and financial uncertainty within the self-employed category. The pandemic's duration will dictate future economic outcomes. For example, under a Deep Crisis scenario (a pandemic duration of 2-6 quarters, global infection rates of 20-50% and a mortality rate of 1.5-3.5%), there would be a drop of nearly -5.5% to -9.0% in global GDP / capita in 2020.

Snackification trend shifts

Depending on how long periods of quarantine and closures of foodservice providers last, the 'snackification' trend may be affected. This is the blurring of traditional mealtimes, eating on-the-go (or at work) and snack consumption replacing traditional meals in people's everyday routines. Urbanisation and busy lifestyles have become the norm and snackification represents how consumers are adapting to change.

That said, snacks are benefitting from family units (including children) being restricted to staying indoors, creating new opportunities for providers - particularly in the e-commerce space. Producers can expand their reach and offer more diversified and indulgent options using online channels.

Looking further ahead, tough economic times will negatively affect foodservice (even as restaurants and others re-open) as consumers will continue having meals at home to cut costs. In this context, ready meals and staple foods will be better positioned than snacks.

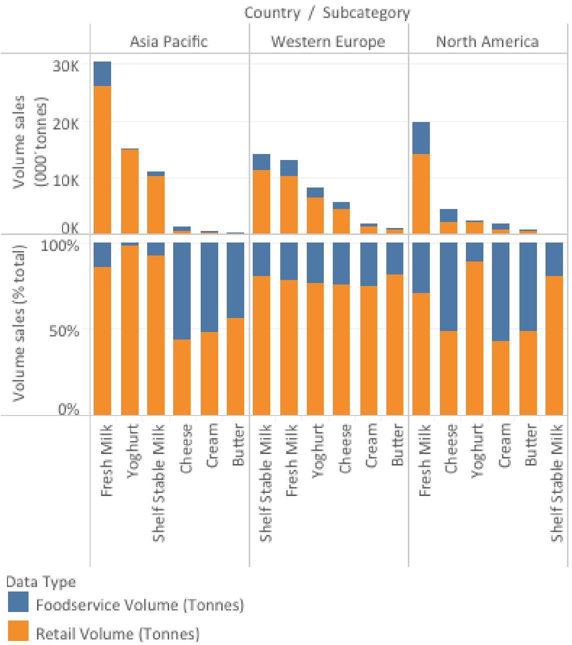
But categories, such as confectionery, will not necessarily suffer too badly under a recession; as shown during the 2008 global financial crisis. Affordable treats can still survive and thrive under economic instability, as people look for small ways to alleviate the depression of a more straitened existence.

Case study: Disruption in dairy

Asia Pacific, Western Europe and North America are the most affected regions from COVID-19 so far and as a result of closed foodservice outlets and consumers stockpiling-friendly goods, dairy supply chains have come under immense pressure. While countries like Italy and Spain already consumed more shelf-stable than fresh milk, the UK and US have traditionally done the opposite. Fresh milk accounted for 95% and 99% of total milk retail sales in 2019 respectively. However, the global demand for shelf-stable milk has increased since the pandemic.

Quarantined lifestyles are affecting how often consumers indulge in baking and cooking, resulting in higher retail sales in cheese, cream and butter. But foodservice providers account for over 50% of total sales of these categories in Asia Pacific and North America. The decline in demand and sales will be difficult to compensate by relying on consumer sales for the rest of the year, creating more uncertainty in dairy.

Dairy: Retail and Foodservice Volume Sales by Region (2019)



Source: Euromonitor International

Supply Chains

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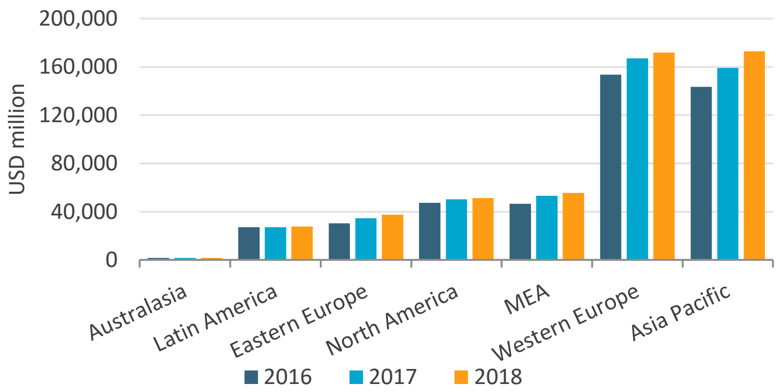
Impact on supply chains

Although food retail is a crucial service during the pandemic, COVID-19 highlighted key weaknesses and difficulties in existing supply chains on a global scale. Restocking and maintaining the inflow of goods has become more difficult with a limited work force (through infection and quarantine), border closures and the general increase in food demand. As a result, some grocery retailers are rationing supplies.

The UK's Country Land and Business Association warned travel restrictions and potential infections could create a shortage of 80,000 agricultural workers. France forecasted a shortage of around 200,000 farmers for their peak harvest season and producers across the world expressed similar concerns. Subsequently, governments have been forced to create exceptions to their lock down rules in order to combat further complications. In Germany, for example, strict border closures had to be lifted for more freedom of movement for workers.

Value of Agricultural Imports by Region, 2016-2018



Source: Euromonitor International

Food supply chains are likely to be fundamentally altered in the future. Localism is likely to gain prominence as the 'need' for produce from around the world comes into question, given COVID-19's demonstration of how interlinked and vulnerable different markets are.

E-commerce surges after 21% CAGR between 2014-19

From a channel point of view, e-commerce grocery has received a huge boost, with operators reporting massive increases in demand. Governments have encouraged its use and consumers have used it to get food while maintaining social distancing – and to simply ensure they get the food they want instead of facing empty shelves. The surge has meant that in many markets demand has been greater than supply. While there will certainly be people using e-commerce for the first time, allowing operators to grow their customer base, the experience may be frustrating for shoppers being unable to register, book delivery slots or face ‘out of stock’ notifications from an over-subscribed service.

Retailers expect the switch to online to continue to some extent once restrictions are lifted, driven by social distancing being part of the new normal and consumers sticking to the convenience of online grocery shopping. In the US, for example, Amazon is adding 100,000 new positions to its delivery network (including across Amazon Fresh and Whole Foods).

Future of Packaged Food

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Signposts from APAC

- Potentially retained habit changes
- Localism and increased use of smaller, local stores
- More online shopping
- Use of delivery for (previously unavailable) foodservice
- Greater purchase of immunity-boosting food

APAC's response to COVID-19 helped other regions prepare contingency plans and as China begins to see positive signs, consumers are entering some new forms of normality. For example, the pandemic helped online grocery retailing gain momentum (especially as the first two weeks of the outbreak coincided with the Spring Festival). This benefited platforms like Dingdong Maicai, Hema and Missfresh as online only accounted for 6% of fresh food value sales in 2019. Manufactures also initiated online services to reach consumers directly in their homes. Chinese dairy giants Yili and Megniu set up WeChat groups and official accounts for order placing and delivery services, particularly for consumers in Wuhan.

Beyond the online shift, as larger supermarkets like Walmart, Lotte Mart and E-Mart became more saturated, consumers turned to smaller convenient stores like CU and GS25 in South Korea. Also during the pandemic, immunity-boosting products like probiotic fortified yoghurt gained popularity (particularly in Japan) with brands seeing significant sales increases.

What can we expect?

Short-term impact (Q1-2)

Closures in foodservice providers have moved meal occasions into the home and consumers increase purchases across grocery retailing. Online shopping will become more common; however, supply chains will come under pressure as borders close across the world and the workforce is reduced through infection, self-isolation and travel restrictions. Numerous countries warn of a shortage of agricultural workers, either from home or abroad.

Medium-term impact (Q3-4)

The surge in e-commerce grocery shopping will hold up, as social distancing continues. Even as foodservice starts to return, the shift to eating at home is likely to stay in place to some extent as a result of financial uncertainties and pressures. Buying food for cooking and ready-made meals at home will continue to be prioritised.

Long-term impact (2021 onwards)

Post COVID-19 will see reduced consumer spending power and food choices will be characterised by budget friendly options, discounters being key beneficiaries. Consumers will spend less money on eating out even when foodservice outlets return, and affordable treats will remain popular as consumers compromise on other luxuries. The move towards online grocery shopping will have been jumpstarted and plenty will shop this way, but some consumers will have had poor e-commerce experiences at a time when demand was more than some providers could cope with.

Conclusion

Looking ahead

- As foodservice and institutions reopen, eating occasions that shifted into the home will shift back, but only to some degree as consumers will look for ways to save money due to the negative economic consequences of the pandemic.
- Online grocery shopping will be used more as consumers retain the habit forced upon them, and grocers will have increased capacity and services. However, not all online users will be retained, as they will have found the experience difficult thanks to massive oversubscription in some markets.
- Some categories and types of food will see a longer-term boost as consumers seek to 'be prepared'. Preferences in ingredients and meals may shift as more consumers cook (not necessarily through choice).
- Localism will return and the question of food security vs. access to produce from around the world will be a hot topic, especially in the context of changes to how people expect to be able to travel around the world.
- The trend towards clean-label is likely to shift somewhat, as the value of certain additions is increasingly appreciated (i.e. claimed immunity-boosting ingredients and preservatives).
- As in previous times of economic hardship, food that offers an affordable treat (e.g. confectionery) will likely prosper as consumers are forced to cut back on luxuries they can no longer afford.

Thank You

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