



BEYOND THE
BARCODE

Q4
Update

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Update

Emerging from Covid-19

- After 6+ months of consumer behavior changes due to Covid-19 concerns and repercussions from various stages of lockdown, companies are wondering how to best transition to a “new normal”.
- This Impact Group update addresses the following topics and recommendations for the future:
 - Economic indicators and current status
 - Channel and foot traffic impacts
 - Radical disruption-new consumer segmentation emerges
 - Unemployment divides into insulated and constrained consumers
 - Private label considerations
 - Social Distancing reduces display space
 - Winter holidays 2020
 - Planning for 2021

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Covid Recovery Economic Indicators and Standard of Living Trends

- The economy and standard of living indicators are starting to recover since the beginning of the pandemic as businesses move through phased opening schedules.
- Unemployment claims are less than half of what they were at the height of the pandemic and household spending is recovering from the April low of -20% vs Jan 2020.
- Air travel is still hurting at only 37% of normal as both corporate and personal travel remains restricted due to fears of exposure and infection. Many companies plan to severely limit travel until widespread vaccination has occurred which could mean these trends will continue well into 2021. Recovery from this could mean higher flight prices and less flight options impacting air travel for years to come.



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Household Spending Declines for Restaurants and Hotels is leading to continued higher spending on household goods and groceries

- Grocery household spending increases have stabilized since April 2020 around 6-7% growth versus Jan 2020 rates even as restaurant declines have slowed from -55% in April to -18% in August. Over the next 12 months restaurants will become an increased part of the spend, but grocery sales are expected to stay higher than pre-pandemic.
- When forecasting it's important to remember that March/April had spikes that aren't expected in 2021 and that the "new normal" higher rate of grocery consumption will be anniversaried beginning in May and over time will decline back to pre-Covid levels showing negative growth versus year ago for back half of 2021.



Household spending was **down 18%** (Restaurants & Hotels) Since January 2020



Household spending was **up 6.4%** (Groceries) from January 2020.



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Channel Sales Impacts

- Home Improvement, Online, Liquor, and Dollar have seen the largest sales growth indices in the past few weeks. Pet has seen dramatic growth in the past few weeks, which isn't surprising since many people have chosen to add pets to their household while spending more time at home.
- Beauty is starting to make a comeback and has seen growth since the first week of the pandemic for week ending 9/20/20.

Retail Sales Index 2020 vs. 2019 Sales by Channel



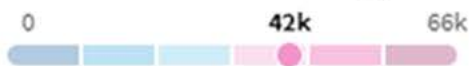
Week	Week Ending	Total	Beauty	Bodega	Club	Dollar	Drug	Food	Gas & Convenience	Liquor	Mass	Military	Online	Pet	Electronics	Home Improvement	Office	QSR
23	6/7/20	119	58	83	117	134	103	121	81	120	112	90	163	100	45	171	82	85
24	6/14/20	113	52	125	112	129	99	113	80	110	109	82	153	109	41	170	107	86
25	6/21/20	121	63	112	116	131	110	123	83	123	118	104	166	98	88	171	160	89
26	6/28/20	113	68	103	113	118	105	111	84	110	110	70	151	97	83	151	83	83
27	7/5/20	112	81	109	109	109	101	114	82	107	105	95	163	98	69	141	52	85
28	7/12/20	111	82	95	111	116	114	112	77	111	107	87	147	96	110	139	76	84
29	7/19/20	104	99	99	118	124	114	114	77	121	107	95	88	115	74	145	85	85
30	7/26/20	115	82	126	120	121	99	115	80	127	106	88	179	102	89	137	74	84
31	8/2/20	110	84	90	111	115	98	109	81	128	100	78	169	99	92	157	66	86
32	8/9/20	113	90	87	115	122	93	110	82	123	106	83	170	112	108	146	64	89
33	8/16/20	114	100	91	112	119	96	112	84	131	104	62	172	98	99	146	75	90
34	8/23/20	113	90	120	111	115	96	110	85	128	107	61	167	105	77	149	82	90
35	8/30/20	106	79	70	98	106	95	101	82	114	101	54	168	94	70	114	93	87
36	9/6/20	122	83	112	126	128	107	118	100	147	115	88	167	109	97	133	127	98
37	9/13/20	121	95	99	115	121	100	121	90	128	121	83	158	124	94	155	82	96
EARLY READ																		
38	9/20/20	116	103	78	113	123	108	115	86	128	117	69	145	128	94	153	117	91

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Foot Traffic Trends

- As Covid-19 cases continue to increase many states are moving in and out of phases with various levels of restrictions driving foot traffic trends. With gyms and restaurants still closed or restricted in many states, it is no surprise that Fitness and Dining traffic are down the most. Grocery foot traffic is still down 3.6% vs a year ago, but many shoppers are stocking up with larger baskets on each trip.

New COVID-19 Cases
7-day Moving Avg.



New COVID-19 Deaths
7-day Moving Avg.



Source: <https://usafacts.org/covid-recovery-hub>



Foot Traffic Trends week
of 9/21/20 vs YA

All Categories	-14.93%
Apparel	-21.95%
Dining	-29.66%
Electronics	-12.58%
Fitness	-42.50%
Groceries	-3.60%
Home Improvement	11.79%
Hotel/Casinos	-27.81%
Medical & Health	-12.42%
Shop & Service	-10.00%
Shopping Centers	-27.19%
Superstores	-6.06%

* Data reflects the foot-traffic change in % from the week starting Monday 9/21/2020, compared to the same week last year
Source: <https://www.placer.ai/the-square/industry-trends/>

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Covid-19 Has Radically Disrupted the CPG Industry:

- The consumer goods industry has been profoundly impacted by Covid-19, according to Accenture's Seven Waves of Consumer Research. The effects may be everlasting. The ways in which people live and work are different. How and what people buy is different. Consumers themselves have dramatically evolved.
- Covid-19 has redefined and raised the stakes for what being healthy means. Consumers want more holistic health and wellness solutions that help the whole person and aren't just a one-off. CPG companies can partner across the ecosystem (technology, health and CPG companies) to develop products and services that address a variety of health and wellness needs, rather than following a one-off trend.
- Home is the new "battleground," challenging CPGs to serve new social and creative occasions, i.e., offerings that recreate the experience of going out.

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Consumer Priorities Have Changed:

- Consumer segmentation is important because it allows for the effective allocation of marketing resources and enables deep personalization and relevance for brands.
- Accenture just published their seventh Covid-19 research study and highlights that "prior consumer segments-and the insights they're built on-will need to be redefined to reflect new behaviors and preferences. CPG companies should get reacquainted with new and evolving consumer segments to understand the changes people have undergone and the values they now hold."
- As you can see below, the spectrum of attitudes about health, exposure, and finances are drivers of the segmentation. Framing consumers from this view allows better targeting and personalized messages and product.



On the Edge 19%

Extremely worried about health, finances and going out in public

Most worried about health, the economy and job security.

44% will **cut back** on future spending, **62%** are exploring **new sources of income**.

Least comfortable visiting public places in the next 6 months.



Stubbornly Seeking Normal 29%

Looking forward to balance and eager to return to some level of normality

45% are shopping more cost-consciously, making them least likely to do so.

39% will not change spending patterns post-outbreak.

Most likely to think restrictions are being lifted too slowly, and **least likely** to comply with them.



Tentative Returner 36%

Cautious about re-entering society and returning to normal routines

Cutting back or moderating future spending.

Will avoid non-trusted or non-essential places (e.g. bars/clubs, sporting events, public transport).

Fearful for the health system and economy.



Me. Reinvented 16%

Seizing the opportunity to transform themselves for the better

82% are making more sustainable purchases and **83%** are more health conscious.

Most comfortable visiting public places and traveling.

More likely to be buying products online through digital channels.

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Covid-19 Related Unemployment is Dividing Consumers

- Nielsen's research shows that future socio-economic consequences will weigh much heavier on spending decisions and the impact across consumer groups isn't equal. Nielsen splits these consumers into two groups: Constrained spenders and Insulated spenders.
- Constrained spenders will be restrained in their spending habits due to unemployment, furloughing, or other Covid-19 related challenges. Insulated spenders are those who have maintained employment and remained shielded from day-to-day economic impact.
- These two groups span all income groups and are the results of the high unemployment rates as businesses and places of employment were shut down for extended periods of time.
- Implications: The polarization of spending is expected to drive new considerations for retailers and brands as they urgently examine the range of products being offered and the pricing dynamics within.

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Constrained Spenders and Insulated Spenders



Constrained
Spenders

- Spend to survive
- Even as economy opens will spend less on eating out and personal services
- Buy more personal service home kits to pamper at home
- Buy at lower prices and buy less overall
- Buy more affordable indulgences and treats
- Don't buy in advance and use at home stock
- More Private Label and less national brands
- Shop more at discounters
- Spend more on deal/promo



Insulated
Spenders

- May adjust spending situationally especially where health concerns exist
- Will increase spending out of the home for those with lower concerns about virus risk
- Buy Premium Brands
- Buy in bulk when on promo and buy large packs
- Shop at more premium/convenient retailers.
- More freedom to buy what they want and need
- May trade up in certain categories to replace the "out of home" experiences that have been limited due to restrictions

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Private Label Appeal Continues to Grow

- As constrained spenders of all income groups re-evaluate their purchase habits, private label will no doubt be a consideration. According to Nielsen, this group has \$190 billion in spending power.
- While private label offerings were once less varied and not exactly comparable to their name-brand counterparts, today's private label products have the assortment and quality that shoppers are looking for. Private label sales have been growing throughout the pandemic, which isn't surprising considering their rise during and after the last recession.
- Spins compared growth rates of categories and their correlating organic private label and the trend is clear: organic private label is winning with consumers. Even in categories that are showing strong growth from March through June, organic private label is moving at a significantly stronger pace. Spins is showing that organic private label growth is outpacing many category trends.
- As private label continues to offer more options and maintain its quality, expect shoppers to explore them, especially if the price points are lower.

Source: Nielsen, Spins, IRI 2020

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Private Label Appeal Continues to Grow

- IRI has created a framework to assess branded manufacturers' opportunities versus the threat of private label. As retailers overhaul shelf assortment, manufacturers should assess their items across a variety of factors to ensure uniqueness and differentiation.

IRI's Framework to Assess Branded Opportunities Versus Private Label Threat Key Factors to Consider



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Social Distancing Impacts Display Space

Social distancing emerged as a virus mitigation measure in late March which impacted the in-store experience significantly. Less display space is available and optimization of the display space that does still exist is critical for both retailers and manufacturers. IRI's analysis of in-store merchandising effectiveness in the grocery channel summarizes how retailers and manufacturers can best partner on display strategy.

IMPLICATIONS FOR MANUFACTURERS



As display space shrinks and categories such as cleaning take center stage, CPG manufacturers must work with retailers to drive more incremental opportunity via displays while balancing the need to highlight high-demand items.



Understand the shifting role of display and determine the display metrics that matter to help drive performance and maximize ROI of trade and merchandising labor investments.



Partner with retailers to identify relative lift of key categories on display to determine optimal focus areas as shopping patterns shift.



Explore opportunities to increase variety on display to determine optimal focus areas as shopping patterns shift.



Temporary Price Reduction and Feature remain important activities, but to continue to move merchandising up the "lift ladder." **Shift TPR to display, and ensure display compliance to features.**

IMPLICATIONS FOR RETAILERS



Social distancing measures are creating new pressures on sales and profit per square foot. Driving productivity of remaining display locations and space will be key moving forward.



Allocate display holding power to categories and items that can maintain supply and drive incremental sales.



With declining feature-only lifts, ensuring adequate display allocation on feature items is a priority. Checking store compliance on display during feature weeks will be critical.



Consider extra drive period execution of traditional snack and beverage categories to maximize display productivity overall.

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Looking Ahead:

- IRI recommends that as display space remains challenged, retailers and manufacturers will continue to refine merchandising strategies to maximize lift by aligning the metrics that matter across display product mix, size, location, and number with new shopping patterns.
- Continual evaluation will be required to ensure the “right” categories get display space – merchandising strategies that worked during peak stockpiling of mid-March and subsequent stock-up periods may no longer work as behavior evolves.
- Ensuring all off-shelf merchandising efforts are in sync with weekly feature ad support will continue to be both a key goal and challenge.



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Many Are Worried This Holiday Season

- This holiday season not only has the stress of the typical holiday planning and shopping, but the additional worry of getting family members sick, not being able to celebrate as desired and financial concerns.
- In IRI's September Consumer Survey, 74% of consumers were worried or had negative feelings toward the upcoming end of year holidays. 33% of those surveyed were looking forward to the celebrations or feeling optimistic that things would be back to normal while 19% hadn't really thought about it.
- Anything retailers and manufacturers can do to bring a little joy to this worrisome time will be appreciated by consumers. In Brazil, food brand Yoki delivered free kits containing popular foods to help people celebrate an important holiday. It was supported by digital tools that helped people plan parties at home with a calculator to help consumers determine the right amount of food required. The campaign also included a platform where people could enjoy traditional games together virtually while maintaining social distancing.

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Many Are Worried This Holiday Season

STATE OF MIND ABOUT NOVEMBER/DECEMBER HOLIDAY SEASON

Worried that celebrations will cause a spike in COVID-19 cases



Not looking forward to the holiday the way I usually would, since I won't be able to celebrate with others as much as usual due to COVID-19



Worried about whether I'll be able to afford the type of celebration I usually have



Looking forward to having something to celebrate after a stressful year



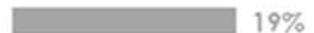
Feeling about the same as last year, not expecting the holidays to be any different this year



Feeling optimistic that things will be back to normal by then



I have not thought about it yet



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Holiday Celebrations Will Be Drastically Different:

- IRI's September 2020 Consumer Survey shows how different Americans expect the holiday season to be different this year.
- For Thanksgiving only 29% expect to host or attend a meal with extended family who do not live with them. This is down from 48% who did this last year.
- Friendsgiving and traveling out of state are also more unlikely this year as Americans are most likely to stay home and celebrate in much smaller gatherings with immediate family. 1 in 4 of those who usually celebrate Thanksgiving are expecting to spend less this year due to hosting fewer or no guests or having to prepare a meal on a tighter budget.



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Holiday Celebrations Will Be Drastically Different:

- Early indications for December holiday celebrations and grocery spending suggest a similar impact as Thanksgiving and even more are planning to cut back on groceries to save money.
- Among those who typically buy gifts, 25% plan to spend less. This will be somewhat offset by the 13% who plan to spend more on gifts to make the holidays special.
- Shoppers plan to spend less on groceries, gifts and decorations across grocery, mass, club, dollar, and especially drugstores and local small businesses. Online-only retailers are estimated to grow slightly.
- While some are looking forward to holiday celebrations after a stressful year, many are not due to the impact of Covid-19 or concerns about celebrations causing an increase in Covid cases.
- 11% overall are worried about being able to afford their usual type of celebration, including 26% of those currently furloughed or laid off.



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How Does the Covid Recession Compare/Contrast to Past Recessions?



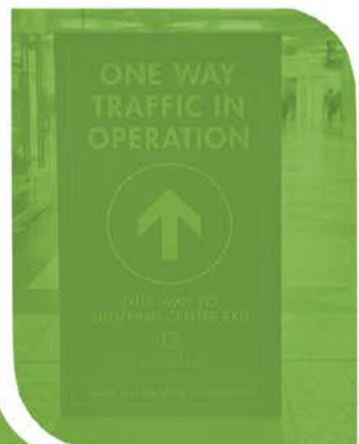
Past Recession Patterns Re-emerging

- Increased need for value
- Channel shifting
- The role of product innovation
- Interest in private label and lower priced brands
- Connecting and retaining customers
- More affordable "at home" personal care and meals
- Less splurging on entertainment and travel



What's New With the Covid-19 Crisis

- Keeping safe and healthy
- Digital usage among all ages and household incomes
- Great gap between the "haves and have nots"
- Supply chain agility and transparency is a must
- Mobility revolution has accelerated grocery e-commerce
- Eating more at home than ever before
- Recovery timeline not based solely on economic factors; vaccine and treatment timelines are drivers



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Planning for 2021...

- CPG demand in Grocery has leveled off at ~6-7% total store growth versus pre-pandemic and is expected to continue for 6-12 months. Thanksgiving and Christmas holidays will most likely see smaller spikes than traditional years as family gatherings will be smaller and less frequent.
- When forecasting the front half of 2021, current trends will continue until early March when 2021 will trail 2020 for 6-8 weeks. Sales will then settle into the similar pattern as today 6-7% growth since start of the pandemic), but these will be same rates as prior year showing little to no growth compared to a year ago.
- Unemployment rates have recovered to half of what they were at the peak and are expected to decrease over time. Consumers who remain unemployed or underemployed will be constrained spenders and it will be important for manufacturers to have a variety of pack sizes, price points and brand tiers to appeal to both these constrained spenders along with the insulated spenders who haven't been financially impacted, but may still change purchase habits based off of health concerns.



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Planning for 2021...

- Covid's radical disruption offers retailers and brands the chance to rethink and reset their direction moving forward. Brands will need to truly differentiate with a focus on the consumers' new priorities and understanding what product claims are most important to consumers across different categories. This will allow brands to identify attributes consumers are willing to pay a premium for. Retailers will have the opportunity to optimize assortment on shelf and the overall space in-store to support new buying behaviors.

