# Consumer Corner
## COVID-19 and emerging consumer behaviour

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# COVID-19 and emerging consumer behaviour

Directly or indirectly, COVID-19 is driving change in consumer behaviour. These changes are influencing consumers' food buying patterns. There are reasons to believe that certain fundamental shifts in consumer behaviour will have long–lasting effects and may have implications for the agri-food sector.

The impact of the pandemic has varied across countries and regions. However, some emerging themes of behaviours are clearly visible among consumers worldwide. These include:

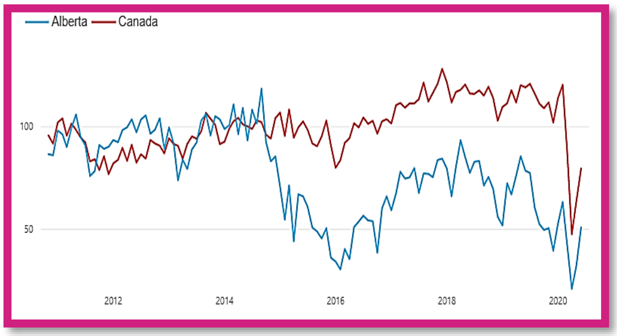
1. Shifting to value-based products and essentials
2. Shopping on-line and using omnichannels
3. Focusing more on health, quality, safety and the 'caring' economy
4. Decreasing brand loyalty
5. Homebody economy

## Shifting to value based products and essentials

As illustrated in Figure 1, consumer confidence in Canada and Alberta hit an all time low in April 2020. Despite sentiments around labour and economic conditions strengthening toward the end of the year, the vast majority of Canadians have a recessionary mindset regarding the next year. At the same time, the Canada and Alberta overall food price index data shows that food prices have increased. From June 2019 to June 2020, the food price index in Canada and Alberta increased by 3 percent[1]. As these economic pressures linger, consumers are shifting to value based products and essentials.

Retail sales data shows that consumers have started to shop at stores with discount based formats and they are purchasing more private label brands.[2]

**Figure 1**: Index of consumer confidence (2014=100)




Source: The Conference Board of Canada

In addition, the top and bottom sales categories of Canadian grocery sales provide evidence that consumers are focusing on buying essentials when purchasing groceries (Figure 2).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*The views and opinions expressed in this article are those of the Economics and Competitiveness Branch and do not necessarily reflect the official policy or position of the Ministry of Agriculture and Forestry or the Government of Alberta. Analysis performed within this article is based on limited and open source information. Assumptions made within the analysis are not reflective of the position of the Ministry of Agriculture and Forestry nor the Government of Alberta.*

[1] Statistics Canada

[2] Nielsen, COVID-19 Weekly Updates, week ending July 1, 2020



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**Figure 2**: Evolving consumer grocery purchasing pattern with growth percentage.

| | 4 WKS TO MAR 28/20 | +30 | 4 WKS TO MAY 2/20 | +14 | 4 WKS TO MAY 30/20 | +16 | 4 WKS TO JUNE 27/20 | +11 | 2 WKS TO JULY 11/20 | +12 |
|---|---|---|---|---|---|---|---|---|---|---|
| TOP 5 | PAPER | +87 | BAKING NEEDS | +67 | ALCOHOL | +64 | BAKING NEEDS | +33 | BAKING NEEDS | +30 |
| | PREPARED FOODS | +77 | CONDIMENTS | +35 | SEAFOOD | +59 | ALCOHOL | +30 | ALCOHOL | +27 |
| | BAKING NEEDS | +67 | FROZEN FOODS | +34 | BAKING NEEDS | +38 | SEAFOOD | +28 | SEAFOOD | +26 |
| | HOUSEHOLD | +56 | ALCOHOL | +32 | PROCESSED MEAT | +30 | FROZEN FOODS | +24 | PROCESSED MEAT | +19 |
| | FROZEN FOODS | +43 | PAPER PRODUCTS | +31 | FROZEN FOODS | +29 | HOUSEHOLD | +19 | CONDIMENTS | +19 |
| BOTTOM 5 | DELI MEAT | +3 | CONFECTIONERY | -11 | OTC | -5 | BABY CARE | -4 | BAKED DESSERTS | 0 |
| | BAKED DESSERTS | +3 | BAKED DESSERTS | -17 | BAKED DESSERTS | -9 | BAKED DESSERTS | -8 | HMR* | -2 |
| | HMR* | +2 | DELI MEAT | -23 | HMR* | -13 | ORAL HYGIENE | -8 | BABY CARE | -3 |
| | SHAVING | 0 | HMR* | -24 | COSMETICS | -16 | DELI MEAT | -12 | COSMETICS | -6 |
| | COSMETICS | -22 | COSMETICS | -31 | DELI MEAT | -18 | COSMETICS | -12 | DELI MEAT | -7 |

*HMR – Home Meal Replacement
Source: Nielsen MarketTrack & IQVIA, National All Channels –Total Tracked Sales including Random Weight Fresh – Rank based on 32 Departments

## Shopping on-line and using omnichannels

The dramatic rise in the adoption of e-commerce and omnichannel[3] services sees no sign of abating. According to Statistics Canada, retail e-commerce sales reached a record $3.9 billion in May, a 2.3 percent increase over April and a 99.3 percent increase over February ($2billion). Year over year, e-commerce sales have more than doubled—with a 110.8 percent increase compared with May 2019 (Figure 3).

Among retail subsectors, from February to April, only the food and beverage subsector recorded an increase in in-store sales. Food and beverage in-store sales increased by 3.3 percent while e-commerce sales surged 107 percent (Figure 4).

The latest retail grocery sales data shows that online shopping in Canada increased 44 percent in quarter one 2020 compared to quarter one 2019[4]. In addition to e-commerce, other digital and contactless services—including curbside pickup, delivery, and drive-through service—are also seeing much higher adoption rates. While some of these habits are seen as a work-around to the crisis, many of these at-home solutions to regular activities will likely be adopted for the long-term.

[3] Omnichannel retail (meaning "all" channels) revolves around the customer and creates a single customer experience across your brand by unifying sales and marketing that accounts for the spillover between channels
[4] Nielsen, COVID-19 Weekly Updates, week ending July 1, 2020


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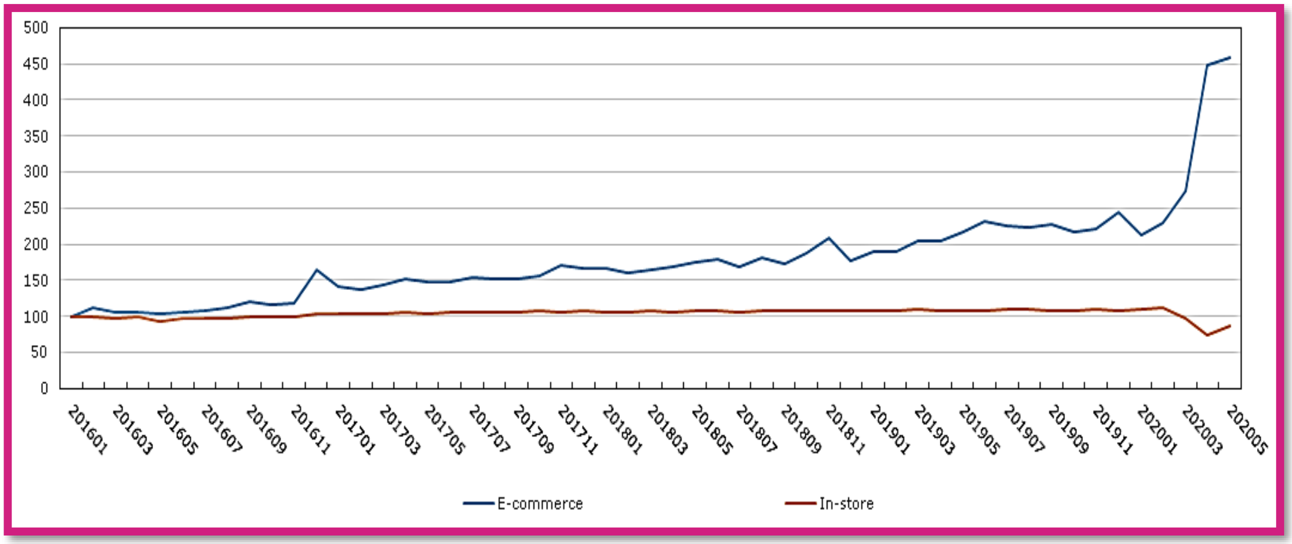
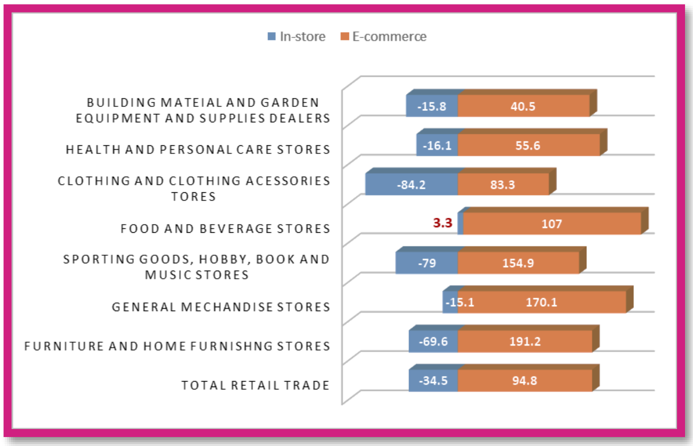
**Figure 3**: Indexed monthly total retail sales, including non-food: e-commerce vs. in-store
Index (Jan 2016=100)




Source: Statistics Canada

**Figure 4**: Changes in in-store and e-commerce sales during COVID-19 for selected subsectors, February to April 2020.




Source: Statistics Canada

Mandated business closures that prevented retailers from making traditional in-store sales resulted in a greater shift toward e-commerce. Meanwhile, food and beverage stores—essential services that were allowed to remain open— reported a record level of sales during the COVID-19 lockdown.

For the food and beverage subsector, the importance of in-store sales is evident since e-commerce was not the only method of sale that was available during the pandemic, unlike that for certain non-essential retailers.

The huge investment by big-box retailers on e-commerce and distribution centers, and partnerships with third party delivery companies provide evidence that on-line shopping and omnichannel use among consumers are here to stay for the long term.

## Focusing more on health, quality, safety and 'caring' economy

Healthy eating has been one of the prominent consumer trends in the past decade. COVID-19 concerns have prompted consumers to armour themselves for the future by spending more on healthy, safe and immunity building food and beverages.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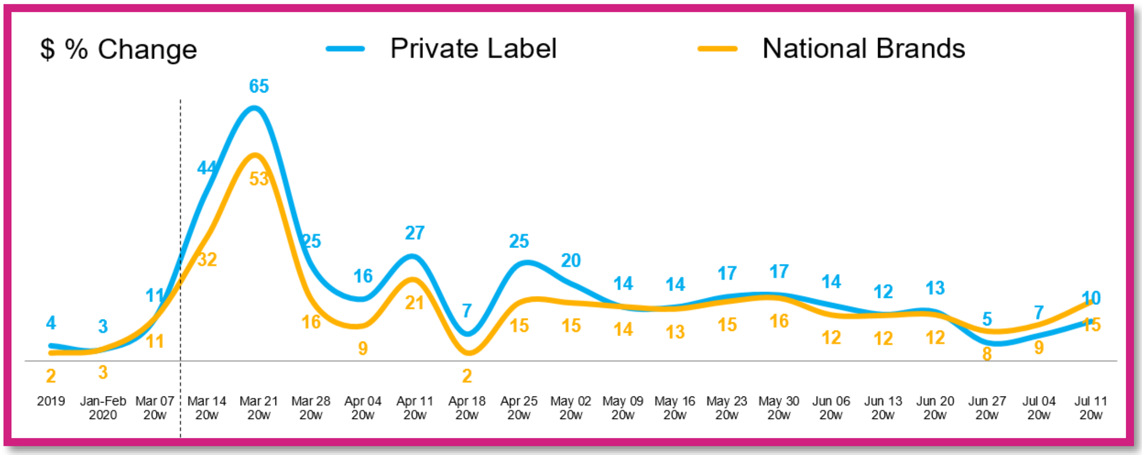
According to Mintel research[5], there has been a spike in interest for immune-boosting ingredients due to the COVID-19 pandemic. Some surveys[6] have found that across countries, when deciding where to shop, consumers are looking for retailers with visible safety measures such as enhanced cleaning and physical barriers. In addition, they buy more from companies and brands that have healthy and hygienic packaging and demonstrate care and concern for employees.

## Decreasing brand loyalty

For certain products and brands, COVID-19 caused supply-chain disruptions. In addition, when consumers could not find their preferred product at their preferred retailer, they changed their shopping behavior: many consumers have tried a different brand or shopped at a different retailer during the crisis.

**Figure 5**: Percentage of sale values of private label and national brand grocery products.




Source: Total sales: Nielsen MarketTrack, National All Channels, Period ending July 11, 2020
Total Tracked Sales including Fresh Random Weight

As illustrated in Figure 5, Nielsen data indicates that private label or store brand product sales grew faster than other branded products from early March to mid-June 2020. Drivers of this trend include availability of private label products on the shelf that provided a good alternative in terms of value and quality.

Increasing food price is one of the main reasons why consumers may be willing to let go of in terms of branding, sustainability and nifty packaging. As long as private label alternatives can deliver on the core needs of the consumer, there is a tendency to decrease brand loyalty.

Consumers have also shown an affinity to cut out the intermediaries and buy directly from brands themselves. A study from the U.S.[7] shows that 39 percent of consumers would prefer to shop directly on a brand's website rather than at a marketplace website.

[5] Mintel. 2020. COVID-9 boosts demand for immune-health products
[6] McKinsey &Company. 2020. Consumer sentiment and behavior continue to reflect the uncertainty of the COVID-19 crisis
[7] Shifting U.S. consumer behavior in the face of COVID-19 https://www.digitalcommerce360.com/2020/06/24/shifting-u-s-consumer-behavior-in-the-face-of-covid-19/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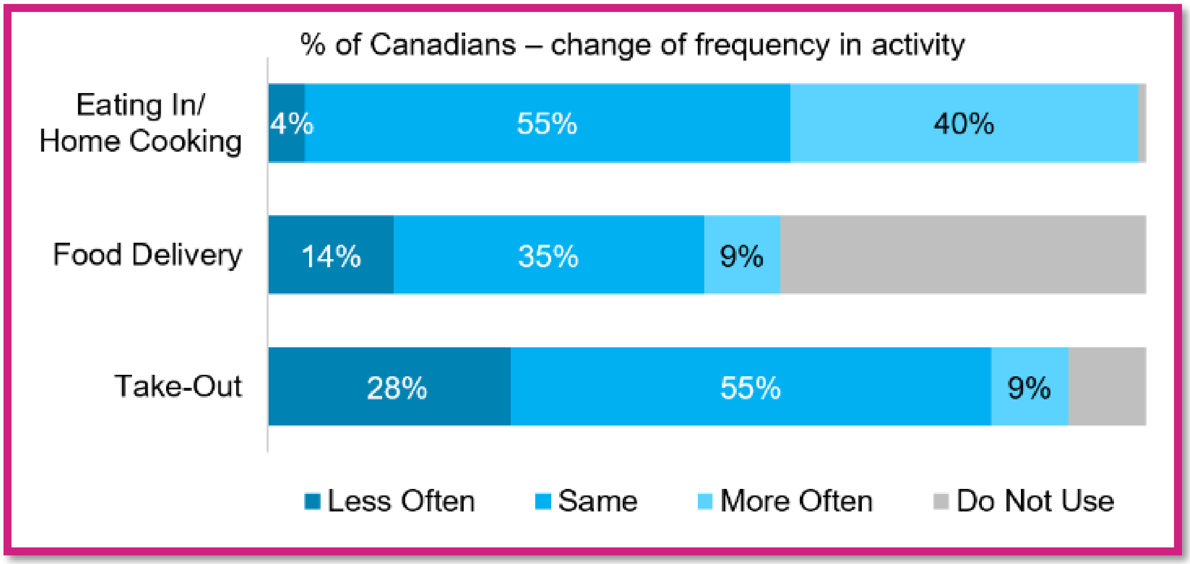
In general, Canadians view store brands more positively than others around the globe do. That's because Canada has strong consumer protection laws and a grocery sector that has enough quality chains that Canadians trust. This may also influence brand loyalty and has implications for small and medium food manufacturers.

## Homebody economy

Many Canadian consumers have settled into home-confinement habits and have adjusted their behaviour accordingly. A recent survey[8] revealed that as consumes adjust to social distancing; Canadians are cooking more at home.

**Figure 6**: Canadian's change of frequency in activities




Source: Nielsen Survey: Impact of COVID-19 on Consumers - April 17-30, 2020 - Canada

Increasing sales of baking needs and decreasing sales of Home Meal Replacements (HMR) even after easing of restrictions provide evidence that consumers are changing their behaviour (see Figure 2).

In-home usage and behaviours will continue to drive most food and beverage category sales due to limited out-of-home options and an ongoing threat of a second wave of COVID-19.

[8] Nielsen Survey: Impact of COVID-19 on Consumers - April 17-30, 2020 - Canada



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## Key takeaways

Consumers are living, shopping and probably thinking differently than ever before. Changing consumer food purchasing patterns have implications for agri-food business. Understanding the key themes of behaviours may help industry solve issues it is facing today, plan for tomorrow and prepare for the future.

- As consumers are seeking value and focusing more on purchasing essentials, the agri-food industry may have to re-align its production and marketing strategies. Streamlining of product portfolios and re-aligning base prices and promotion may be necessary to be competitive in the industry. Since consumers' shopping frequency has declined, offering larger package sizes for lower prices would be one strategy. In addition, both small restaurants and retailers could adapt by increasing promotional activities, offering temporary price reductions and adjusting their product mix or menus to focus on high-value items.

- There is a dramatic rise in the adoption of e-commerce among consumers. Therefore, small businesses will have to increasingly turn to e-commerce platforms while efficiently running their brick and mortar stores and use omnichanel platforms in innovative ways. The degree to which Canadians continue to choose e-commerce purchasing options or return to traditional purchasing methods has the potential to change the structure of the food and beverage retail industry in Canada.

- COVID-19 has pushed health and wellness concerns to the forefront of consumers' minds. This is likely to linger post-pandemic, and retailers should expect consumer demand for health and wellness products to rise and expand into the area of mental wellness as well.

- During the pandemic, many consumers have been forced to look outside their preferred brands based on what is available at their regional grocers or due to price concerns. For the agri-food industry, a constant eye on the evolving situation and the ability to remain flexible are key. Food marketers can use experiential marketing tactics and goodwill to engage with customers and build relationships that will continue to be valuable beyond the pandemic. Focusing on how to foster a brand community digitally will be crucial as social distancing rules continue to prevent in-person gatherings. Having a loyal online community will be a key ingredient to fuel continued brand success.

- With cooking and meal planning fatigue settled in, there is an opportunity to provide quick and convenient meal solutions and recipes across all eating occasions (3 meals + snacking)


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